



Kingdom of Cambodia

Ketsana Emergency Reconstruction and Rehabilitation Project

Redacted Report

March 2018

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Executive Summary

This report provides the findings of an administrative inquiry by the World Bank Group Integrity Vice Presidency (INT) into allegations that five companies—Company A, Company B, Company C, Company D, and Company E (collectively, the Companies)—may have engaged in misconduct in connection with the Ketsana Emergency Reconstruction and Rehabilitation Project (the Project) in Cambodia.

Evidence indicates that the Companies may have submitted false documents in their bids for a Project contract.

The World Bank imposed the sanction of debarment with conditional release on Company A, Company B, Company D, and Company E, which extends to any legal entity that is directly or indirectly controlled by Company A, Company B, Company D, or Company E.

INT did not seek sanctions against Company C because INT was unable to obtain sufficient evidence to prove that Company C knowingly submitted false documents in its bid for the Contract.

Background

The International Development Association (IDA)¹ and the Kingdom of Cambodia signed the Financing Agreement for the Ketsana Emergency Reconstruction and Rehabilitation Project (the Project). The Project, which became effective in December 2010, and closed in July 2014, aimed to restore the service levels of transport and water and sanitation to the affected people in the Project Provinces and to strengthen the capacity of the Kingdom of Cambodia in disaster preparedness and management.

In 2012, the Independent Procurement Agent (IPA) for and on behalf of the Kingdom of Cambodia published the Invitation for Bids (IFB) for a contract under the Project (the Contract). After the publication of the IFB and the International Competitive Bidding Documents (ICB Documents), several bidders submitted their bid documents.

The ICB Documents required all bidders to submit audited financial statements for certain years in order to demonstrate their financial soundness. The ICB Documents also required all bidders submit documentary evidence of general and specific experience as contractor, subcontractor, or management contractor. The ICB Documents further required all bidders to demonstrate “access to, or availability of, financial resources” amounting to a monetary value.

Allegations

The World Bank requested that IPA conduct due diligence on the relevant entities before concluding bid evaluation and submitting the results to the Bank for its no objection. Based on its due diligence, IPA concluded that five bidders had submitted false documents with their bids. This information was referred to the World Bank Group Integrity Vice Presidency (INT).

Methodology

INT’s investigation consisted of, among other steps, a review of Project documents, and documents and statements obtained from the relevant companies.

Findings

1. Evidence indicates that Company A submitted a bid which included false financial statements.

In its bid for the Contract, Company A submitted audited financial statements as evidence of its financial soundness. The financial statements were purported to have been audited and certified by Auditor A. Following the submission of the bid, IPA contacted Auditor A to verify the validity of the audited financial statements. In response to IPA’s inquiry, Auditor A denied auditing those financial statements. In response to INT’s subsequent inquiry, Auditor A stated that Company A had requested Auditor A to revise the financial

¹ IDA is one of the five institutions comprising the World Bank Group. The International Bank for Reconstruction and Development (IBRD) and IDA constitute the World Bank. IDA and the World Bank are used interchangeably throughout this Report.

statement to make it consistent with what Company A had submitted to IPA. Auditor A further stated that Auditor A declined Company A's request.

In response to INT's inquiry, Company A admitted that the audited financial statements submitted with its bid were, in fact, false. In addition, Company A admitted that the revenues declared in the audited financial statements were falsified in order to meet the minimum required financial threshold. Company A claimed that this was committed by its employee, who was authorized to prepare the bid documents and to collect the necessary supporting documentation. According to Company A, this employee has since absconded with the company funds that were supposed to have been paid to Auditor A to revise and audit the financial statements.

2. Evidence indicates that Company B submitted a bid which contained false financial statements.

In its bid for the Contract, Company B submitted financial statements, which were purportedly audited and certified by Auditor B. Following the submission of the bid, IPA contacted Auditor B to verify the validity of the audited financial statements. Auditor B responded that it had audited Company B's financial statements for Year 1 and Year 2, but the information contained in the financial statements submitted by Company B in its bid for the Contract differed from those actually prepared by Auditor B. Furthermore, Auditor B informed IPA that it had not audited the financial statements for Year 3.

INT's review of the relevant Bid Evaluation Report and supporting documents from Auditor B indicates that Company B falsified the information contained within the audited financial statements for Year 1 and Year 2 and fabricated the audited financial statements for Year 3 in order to meet the minimum financial requirements.

In response to INT's inquiry, Company B denied that it had submitted false documents with its bid. Company B told INT that its financial statements reflect true and fair business transactions. Specifically, it argued that after reviewing the audited financial statements for Year 1 and Year 2, it realized that some transactions were not disclosed to Auditor B at the time of the audit. As a result, Company B's internal accountant revised the financial statements and unsuccessfully attempted to have Auditor B amend the audited financial statements. Company B claimed that Auditor B was not available to make the amendments prior to the bid submission deadline, so it submitted the financial statements revised by its accountant with its bid. In addition, Company B claimed that the Year 3 audited financial statement submitted with its bid was a draft prepared by its accountant and was submitted as such because of Auditor B's unavailability prior to the bid submission deadline.

However, there is no indication that the audited financial statement for Year 3 included in Company B's bid is a draft prepared by its accountant because it was printed on Auditor B's letterhead and was purportedly signed by Auditor B. Similarly, both of the Year 1 and Year 2 audited financial statements submitted with its bid, which Company B claimed had been revised by its internal accountant, were also printed on Auditor B's letterhead and were both purportedly signed by Auditor B.

Furthermore, a review of Company B's financial statements actually audited by Auditor B and submitted to INT indicates major discrepancies between the information found in the financial statements submitted with the bid.

3. INT did not find sufficient evidence to prove that Company C knowingly submitted false financial statements in its bid for the Contract.

In its bid for the Contract, Company C submitted financial statements for certain years that were purportedly audited by Auditor C. Following the submission of the bid, IPA attempted to contact Auditor C to verify the validity of the audited financial statements. However, evidence indicates that the email address and phone numbers found on Auditor C's letterhead were not valid, and IPA could not obtain the verification. IPA then contacted Company C and requested that it provide valid contact information for Auditor C, but Company C did not respond. Numerous unsuccessful attempts were also made by INT to locate Auditor C.

In response to INT's inquiry, Company C claimed that it was not aware of the requirement in the ICB Documents that the financial statements be either audited or certified. Company C further claimed that Auditor C was not a registered business, and that "defects" in its audited financial statements occurred due to its not knowing the accounting skills of Auditor C. According to Company C, it discovered that the financial statements purportedly audited by Auditor C were not done properly, which prompted Company C to retain another accounting firm (Accounting Firm A) to revise the financial statements. Company C claimed that it then learned that Accounting Firm A was also not a registered business, and then retained the services of yet another accounting firm (Accounting Firm B) to audit the financial statements.

Company C submitted to INT copies of financial statements that were purportedly audited by Accounting Firm A and Accounting Firm B. These financial statements contained different information on Company C's net income for certain years.

Although INT found evidence indicating that Company C may have submitted false financial statements, INT was unable to prove that Company C knowingly submitted those statements with an improper intent.

4. Evidence indicates that Company D submitted a bid that contained false representations of its past experience.

In its bid for the Contract, Company D claimed to have executed two contracts with a government agency (the Government Agency) and a contract with Company F. Following the submission of the bid, IPA contacted the Government Agency and Company F to verify the validity of the three contracts claimed by Company D. Both the Government Agency and Company F informed IPA that Company D was not involved in those contracts. The Government Agency also confirmed to INT that the signatures on the contracts claimed by Company D were fake.

In response to INT's inquiry, Company D stated that the employee in charge of organizing the Company Profile had falsified the documents. Company D's Director explained that, due to health problems, s/he had failed to properly check the work of the employees and assured INT that the employee who was authorized to prepare the bidding documents had been discharged. Furthermore, Company D's Director assured INT that s/he did not sign the forged documents.

5. Evidence indicates that Company E submitted a bid that included a false Bank Confirmation Letter.

In its bid for the Contract, Company E submitted a Bank Confirmation Letter, purportedly issued by Bank A (First Bank Confirmation Letter). Following the submission of the bid, IPA contacted Bank A to verify the validity of the First Bank Confirmation Letter. Bank A informed IPA that it had not issued the First Bank Confirmation Letter. IPA then requested clarification from Company E. In response, IPA received another Bank Confirmation Letter that was purportedly issued by Bank A (Second Bank Confirmation Letter), with no further explanation.

INT contacted Bank A to verify the validity of both Bank Confirmation Letters. In response, Bank A informed INT that Bank A issued the Second Bank Confirmation Letter, but not the First Bank Confirmation Letter.

In response to INT's inquiry, Company E admitted that the First Bank Confirmation Letter was falsified. It stated that Company E authorized its employee to prepare the bid and that the employee falsified the First Bank Confirmation Letter. It further stated that Company E became aware of the falsification upon receiving the clarification request from IPA, at which point, it submitted the Second Bank Confirmation Letter. Finally, Company E stated that the employee who falsified the First Bank Confirmation Letter was terminated.

Follow-Up Action by the World Bank

The World Bank imposed the sanction of debarment with conditional release on Company A, Company B, Company D, and Company E, which extends to any legal entity that is directly or indirectly controlled by Company A, Company B, Company D, or Company E.

INT did not seek sanctions against Company C because INT was unable to obtain sufficient evidence to prove that Company C knowingly submitted false documents in its bid for the Contract.