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THE WORLD BANK

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**BRIEFING FOR
MR. WOLFENSOHN**

**COUNTRY AUDITS OF
PROJECT PROCUREMENT
AND EXECUTION**

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Archives

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President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Material
Graham Joseelyne - International Auditor - Country Audits of Project Procurement

Archive Management for the President's Office

Document Log

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A. CLASSIFICATION

- ☒ Meeting Material
- ☐ Trips
- ☐ Speeches

- ☐ Annual Meetings
- ☐ Corporate Management
- ☐ Communications with Staff

- ☐ Phone Logs
- ☐ Calendar
- ☐ Press Clippings/Photos

- ☐ JDW Transcripts
- ☐ Social Events
- ☐ Other

B. SUBJECT: MEETING: GRAHAM JOSCELYNE (INTERNAL AUDITOR) (B) (N) // VENUE: E1227 (OFFICE) // CONTACT: EVELYN MANUEL @ 85412 // IN ATTENDANCE: JDW & JOSCELYNE // (B) BY JOSCELYNE // DUE: FRIDAY, JUNE 7 // 5/8 - CFMD. BY EMAIL // EXC: JOSIE

DATE: 06/12/96

C. VPU

Corporate

- ☐ CTR
- ☐ EXT
- ☐ LEG
- ☐ MPS
- ☐ OED
- ☐ SEC/Board
- ☐ TRE

Regional

- ☐ AFR
- ☐ EAP
- ☐ ECA
- ☐ LAC
- ☐ MNA
- ☐ SAS

Central

- ☐ CFS
- ☐ DEC
- ☐ ESD
- ☐ FPD
- ☐ FPR
- ☐ HRO

Affiliates

- ☐ GEF
- ☐ ICSID
- ☐ IFC
- ☐ Inspection Panel
- ☐ Kennedy Center
- ☐ MIGA

D. EXTERNAL PARTNER

- ☐ IMF
- ☐ UN
- ☐ MDB/Other IO
- ☐ NGO
- ☐ Private Sector

- ☐ Part I
- ☐ Part II
- ☐ Other

E. COMMENTS:

File Location

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09/18/97

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BRIEFING FOR MR. WOLFENSOHN

***COUNTRY AUDITS OF PROJECT PROCUREMENT AND
EXECUTION***

June 7, 1996
Myrna Alexander, OPR

COUNTRY AUDITS OF PROJECT PROCUREMENT AND EXECUTION

Introduction

As part of a more concerted effort to address issues of corruption in the context of Bank-financed operations, we propose to engage an independent party to conduct audits of procurement activities in ongoing projects.

Purpose

These audits are intended to:

- act as a wake-up call for the Bank's management, staff and borrowers
- create a deterrent for those involved in procurement decision-making and oversight
- stimulate corrective actions.

Target Countries and Projects

The countries to be audited are being selected from the list of major borrowers (those with at least \$ 1 billion in outstanding commitments and/or at least 20 active projects--see attached list). The intention is to cover all regions--with one or two countries audited in each region.

To start, we have selected three countries--**Poland, Pakistan and Kenya**. For each country, we have selected at random a number of projects to be audited. The list is attached. The auditors will select the contracts to be examined.

Approach

The approach being taken is patterned after a similar exercise which was done on national procurement under Bank-financed projects in Indonesia. The audits will:

- be a surprise to staff and borrowers
- cover all aspects and types of procurement, including those matters under the Bank's responsibility
- focus on a sample of about 15 percent of the ongoing projects in the selected countries
- include price comparisons and physical inspections of completed works/equipment.

Work Program

The auditor's work has been divided into three phases, as set out in the terms of reference (see attached). Most of the work will be done in the field, at the level of the project implementation agency.

Timing

Each country audit is expected to take about three months, followed by report preparation. The three audits being done first will be staggered: we expect the initial audit findings for Kenya and Poland to be ready by mid-September and the audit findings for Pakistan by early-November (see attached schedule).

The Auditor

We have selected the company *Societe Generale de Surveillance* (SGS) to undertake the first three audits. This is a Swiss company with an excellent reputation for such audits; it did the audit in Indonesia; and it has an active business in pre-shipment inspection. It was selected on a sole-source basis.

Costs

We will complete negotiation of the contract with SGS this week. The work for the three audits is estimated to cost about \$ 845,000.

Future Developments

Depending on how successful the first three audits are, we expect to continue the program and cover at least three other countries in FY 97. Based on these experiences, we may decide to make such audits a regular feature of the Bank's internal audit program.

Element of Surprise

Thus far, (i) the fact that the audits will take place; (ii) the selection of the countries and the projects to be audited; and (iii) the work plan are known to only central staff in charge of procurement and related legal matters and staff of SGS.

Senior managers and staff involved in the projects to be audited will be informed at the start of the auditors work about June 17th. You could make a more general announcement at that point. We are presently working with Mark Malloch Brown on the announcement.

Country Notification

The Bank has the right of access to information and to inspect projects sites, without restriction. Therefore, there is no substantive objection that a country could make to the conduct of the audit.

Nevertheless, we should expect some country resistance and questions from staff. This may be in the form of delays in gaining access to procurement documents which could slow down the work of the auditors.

Moreover, the actual selection of the countries may give the appearance of *a priori suspicion of corruption*. That was not one of the criteria for selecting the countries. However, in the case of Kenya, there are allegations of corruption generally in the country and specifically in one of the projects.

We will need to allay these country concerns and to reiterate that the audit is a new process of accountability that the Bank has adopted in order to assure itself of the integrity and effectiveness of our procurement processes.

This will be done by communications from the Managing Directors to the respective borrowers and Executive Directors about one week prior to the start of the field work in the respective countries.

M.Alexander
June 7, 1996

Attachments

- 1. List of FY95 Large Borrowers*
- 2. List of Projects Selected for Country Audits*
- 3. Auditors' Terms of Reference*
- 4. List of Possible Questions*
- 5. Auditors' Work Program*

FY95

LARGE BORROWERS*

	<u>No. of Projects</u>	<u>Commitments</u> (US\$m)
China	107	17,208
India	92	16,185
Mexico	41	10,190
Brazil	65	7,791
Pakistan	47	5,200
Russia	19	4,616
Argentina	23	4,392
Turkey	27	3,390
Poland	20	3,378
Philippines	29	3,268
Nigeria	35	2,713
Morocco	28	2,660
Algeria	24	2,591
Bangladesh	28	2,408
Colombia	22	2,114
Ghana	41	1,683
Tunisia	24	1,550
Uganda	28	1,343
Mozambique	24	1,193
Kenya	24	1,075

*> \$1 billion in commitments
or> 20 loans

COUNTRY AUDITS

Name of Project	Loan/Credit No.	Project Code
KENYA		
• Population III	C1904	1302
• Population IV	C2110	1312
• 3rd Nairobi Water Supply	C2060	1340
• Mombasa Water II Eng.		
PAKISTAN		
• Private Sector Energy	L-2982	10313
• Transmission Extension and Reinforcement Project	L3147	10345
• Rural Electrification	C2078/L3148	10344
• Domestic Energy Resources Dev. Project	L3500	10401
• Punjab Middle Schooling Project	C2354	10394
• Social Action Program	C2593	10456
• Third Primary Education Project	C1821	10280
POLAND		
• Telcoms	L3319	8574
• Heat Supply Restruct. *	L3377, L3378, L3379, L3381, L3382, L3383	8576
• Forestry Development	L3641	8610
• Katowice Heat Supply	L3809	8614
• Roads	L35640	8599

* Two of six districts to be selected.

List of Possible Questions

1. Did the procurement correspond to a specified category in the project description and schedule of disbursements in the Loan Agreement?
2. If the value of the procurement was below the prior review threshold specified in the LA, were the applicable procedures followed?
3. If the value of the procurement exceeded the prior review threshold specified in the LA, were the bidding documents and proposal for award reviewed by the Bank's 'a priori'?
4. Was the award of contract made to the lowest evaluated bid? If not, why? Was the Bank consulted in the case prior review contract? Were the reasons properly recorded in the case of ex-post review contracts.
5. Did the borrower hold a pre-bid conference with prior notification to the Bank? What were the purposes and were the minutes forwarded to the Bank, prior to request for no objection?
6. Did the Borrower negotiate the lowest evaluated bid down or change the scope of services/supply? Why? Did the Borrower follow the procedure in para. 2.61 of the Guidelines? Was the bid price negotiated "up"? Why?
7. Was the contract text in accordance with that approved by the Bank? Were any amendments as suggested or required by the Bank, introduced in the final document? Were items delivered/performed the same as those contracted for? Were any clauses introduced which had not been approved by the Bank, e.g. pertaining to requirements to use/buy/maximize local components/materials?
8. In the bidding documents, were foreign firms required to associate/join/venture/subcontract with/to local firms? Were such procedures explicitly or implicitly approved by the Bank?
9. Was the final price paid to the supplier/contractor within the contract price? Was it within the percentage stipulated in the loan/credit agreement, referred to in para. 3 of Appendix 1 of the Guidelines? If the above percentage was exceeded, did the Bank approve the relevant modification to the contract?
10. Was the bidding period in line with good business practices?
11. Did the Borrower carry out the evaluation of bids and arrive at the final conclusion, promptly? If not, were there good reasons for the delay at each stage or each layer of approval?
12. Was the time required for processing the contract within the Bank (all steps) reasonable and business like?
13. Was there effective competition? Were there any bidder retractions noted? Reasons given?
14. In cases of "shopping", were quotes obtained from a competitive spread of sources? Were the prices competitive?

15. Were there any complaint from other bidders? Were these complaints properly investigated and responded to?
16. Was any commission paid to a local agent? Was this disclosed in the bid? Was the commission commensurate with the nature of services to be provided by the local agent?
17. In the case of ICB and NCB, were bidding documents freely issued to all applicants without applying a screening.
18. Compared to the number of potential bidders who purchased bidding documents, what percentage submitted bids? Can you draw any conclusion?
19. Was the price of the tender documents reasonable and in accordance with the principles in para. 2.11 of the Guidelines?

cd\wd6\quest\mh
4/18/96

Country / Time	J U N E				J U L Y				A U G U S					S E P T				O C T O				N O V E M				D E		
Week	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50
Kenya			1					2					3		4	4												
Poland			1				2						3		4	4												
Pakistan															1			2		3		4						

Week 23 : Starts on Monday, June 3, 1996

Country Audits of Project Execution by Third Party

WBG ARCHIVES

Terms of ReferenceObjective

The purpose of the country audit of project execution by an external third party is to:

- act as a wake-up call for the Bank's management, staff and borrowers to the seriousness of their respective fiduciary responsibilities on procurement and execution;
- create a deterrent for those involved in procurement decision-making and oversight to ensure that corrupt practices are eliminated or brought to light; and
- stimulate corrective actions by the responsible parties.

Approach

The general approach is that the audits would

- be done without prior knowledge by the concerned country and Bank staff until such time as the work is to start; and
- cover all types of contracts, including those subject to prior review by Bank staff and including consulting contracts.

Selection of Countries and Projects

Three countries to be audited have been selected by the Bank. In each case, the Bank has also selected the projects to be audited (see Annex 1).

Tender/Contract-- Number and Selection

On the basis of information to be provided by the Bank and other sources, the auditor is responsible for the selection of the individual tenders or contracts to be audited. Since the audit is primarily intended to act as a wake-up call and to have a demonstration effect on behavior, the level of effort--especially the number of tenders or contracts to be reviewed--need not necessarily lead to any statistically significant findings. At the same time, the exercise needs to be sufficiently visible and material to create the incentives for improved performance and to act as a deterrent.

The target population of tenders or contracts be those which were approved at least 2-3 years ago for services and for goods and equipment and at least 3-4 years ago for works.

In the case of consultant contracts and technical assistance, contracts may be ongoing or completed. This would permit a reasonable physical inspection. It is expected that there would be physical inspection of about one-third of contracts

In addition, the tenders or contracts selected for review ought to be stratified to get a cross-section of types (services, goods, equipment, supplies, and works), nature of the procured goods/services (eg pharmaceuticals, telecommunications equipment), geographic location within the country, procurement procedure (ICB, NCB, LIB, shopping, direct, etc.), degree of complexity of the contract, the Bank's no-objection (prior, post) and disbursement procedure (SOE, or reimbursement/direct payment).

Special treatment may be given contracts for local staff and individual consultants engaged as part of the project management units or local executing agencies. In these cases, it may be possible to group these contracts for audit purposes to count as *one* contract.

Typically there are a large number of individual small contracts which are very similar and all that needs to be checked is the person's CV, salary, job description, and assignment.

Using these criteria, the auditor will select for each project about 10 contracts or tenders (based upon which groups of "like" contracts were let), for a total number of contracts per country in the range of 30 to 100 contracts depending on the number of projects selected.

During the course of the work, the auditor will have the flexibility to select, substitute or drop particular contract(s) if an alternative line of investigation is judged more effective in terms of generating conclusions.

Audit Scope

In carrying out the audit of , the contractor will cover the following aspects:

- efficiency and quality of procurement processes, documentation and decision-making processes, including the role of Bank staff and project management
- compliance of bidding, evaluation and award processes with Bank policies and legal agreements
- conformity of final contract with bidding document
- clarity and transparency of selection criteria and their application to contract award
- validity of change orders and other modifications to contracts during execution
- verification of physical execution of works and/or delivery of goods and services and their conformity with contract requirements
- whenever realistic, assessment of price/value for money

There would be four phases to the work as follows:

Phase I--Preplanning

Preliminary work would include: consult with OPR/Regional Procurement Advisers and review of available information in the Bank on sample bidding documents and the country/local situation (status of national procurement laws, latest procurement assessment report); and desk review available information in Washington, including procurement plans (where available), disbursements and project implementation. At this stage, the auditor will make the preliminary selection of contracts and review the Bank's review and approval process for contract award, based on available documentation on those contracts. The Chief Procurement Adviser will provide and/or otherwise facilitate access to this documentation.

Phase II--In-Country and Field/Site Inspections

The bulk of the work would take place in the field, with project execution agencies, local procurement bodies, central tender boards, project implementation units, etc., as well as the Bank's field office (more or less depending on its role in project supervision and implementation). The audit would involve: review of procurement process and documentation on selected contracts, verification of physical works/site visits and physical observations; review of quality/testing/inspection procedures (as practicable) and implementation results (to the extent available and practicable); survey of international/local prices and private sector /other public sector comparators; interviews with local businesses. A list of possible questions for the auditors to address is attached.

Phase III--Follow-up in Washington

Based upon the results of the in-country reviews, there would be follow-up in Washington. This would be primarily to audit Bank processes and decision-making on prior review contracts as well as to cross-check and verify data obtained in the country.

Phase IV--Reporting

This would include a presentation of preliminary findings to OPR, the Legal Department and other members of senior management (as appropriate), followed by submission of a final report outlining the audit findings for each country. These findings should include observations about the regularity and compliance of procurement processes and identification of any material project and/or country specific as well as generic areas in which procurement was weak. Finding should also include any evidence of collusion and corruption, and/or lack of due diligence on the part of local authorities and/or the Bank. The audit may also make recommendations for specific follow-up action, including further in depth investigations and/or procedural and organizational changes. The final report for

each country should contain the audit findings with annexes to substantiate these findings but without a detailed description of what transpired during the audit.

Costs

Based on the country and the number of projects/sectors, and the expected number of contracts to be reviewed (that is, ten per project), the auditor will provide the Bank with the total estimated costs and the indicative breakdown of that estimate (including persons months, travel and other expenses).

Time Frame

Each audit would take 3 months to complete and the three audits may be staggered in time, according to the auditor's preliminary work plan (see Annex 2). The presentation of preliminary findings in each case should be made within that timeframe with the final report to follow in one month's time.

Project Management

The auditor should provide the Bank for its review and comment the names, qualifications and background of the persons who will lead the assignment and be chiefly responsible for the field work.

Reporting Responsibilities and Relationship with the Auditor

Oversight of the audits will be the joint responsibility of the Legal Department and OPR. This entails selection of countries and projects for audit, contacts with the auditor, providing core information from Washington, facilitating work in the three countries and responding to interim presentation and final reports by the auditor.

For Phase I of the assignment, the auditor would work with OPR to obtain available information. This would entail: country procurement reports, latest supervision reports/Form 590s on the status of project implementation, legal documents, listings of prior review contracts, information on disbursement made under statement of expenditures, and contracts between the threshold for prior review and SOE disbursement procedures. At the initiation of this work, the respective staff and management directly involved in the country and projects would not yet be informed.

The responsibility for announcing the audit to government officials and facilitating the in-country work rests with OPR with the support of senior and regional management and field representatives. It is expected that the announcement to country officials would be made about one week prior to the arrival of the audit team to the country.

The Resident Representative, in those locations with Bank offices, will be the key interlocutor for the audit team with the authorities and project entities during in-country phase. The Representative will be briefed by OPR prior to the arrival of the audit team.

M Alexander

June 7, 1996