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This Report was prepared by the World Bank Group’s (Bank’s) Integrity Vice Presidency (INT). It provides the findings of an INT administrative inquiry (the investigation) into allegations of corrupt, fraudulent, collusive, and/or coercive practices, as defined by the Bank for the purposes of its own policies, rules and procedures (the Bank’s framework regarding anti-corruption), in relation to one or more Bank-supported activities.

The purpose of the investigation underlying this Report is to allow the Bank to determine if its own rules have been violated. This Report is being shared to ensure that its recipients are aware of the results of the INT investigation. However, in view of the specific and limited purpose of the investigation underlying this Report, this Report should not be used as the sole basis for initiating any administrative, criminal, or civil proceedings. For the same reason, this Report should not be cited to in the course of any investigation, in any investigation reports, or in any administrative, civil, or criminal proceedings.

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Background

The Cambodia Provincial and Rural Infrastructure Project (the Project) sought to enhance the livelihood of the residents in several provinces in Cambodia by providing sustainable access to markets and essential services, through, among other things, the institution of a road construction program. The Project, which became effective in March 2004, was initially expected to be completed by September 2007, and has now been extended to close December 31, 2010.

In 2004, the Project’s implementing agency (the Agency) issued bidding documents for two construction contracts (Contract 1 and 2) under the Project.

Company X bid for, and won, Contract 1 and Contract 2.

Allegations

In January 2005, the Bank’s Integrity Vice Presidency (INT) received information alleging various fraudulent, corrupt, collusive and coercive practices in the procurement and execution of various contracts under the Project, including those awarded to Company X. INT conducted an administrative inquiry (the investigation) into these allegations.

Findings

Evidence indicates that Company X’s bids included falsified financial statements.

The Instructions to Bidders issued by the Agency required bidders to submit various financial data demonstrating their financial capacity to undertake the contracts. The requested information included: (i) the total monetary value of construction work performed by the bidder annually for a certain number of years; (ii) the financial standing of each bidder; and (iii) the adequacy of the bidder’s working capital for the contracts.

In 2004, Company X submitted bids signed by Employee A, for both Contract 1 and Contract 2. To meet the financial capacity requirements, Company X included in its bids a five-year financial report (the Financial Report), which included audit reports of Company X’s financial statements for each of the five years and the accompanying report of Company X’s Board of Directors for each of those financial statements. The audit reports bore the letterhead of a Cambodian auditing firm and indicated that the financial documents had been prepared by the auditing firm.

INT reviewed Company X’s bids and determined that the financial statements included in Company X’s bids were not those that were prepared by the auditing firm. INT investigators met with representatives from the auditing firm who provided INT investigators with a set of certified original financial statements that the auditing firm had prepared for Company X for the periods of the financial statements. INT compared the certified set of financial statements with the ones contained in the bids submitted by Company X and noted substantial differences in the revenues, balance sheet and cash flow figures in the two sets of financial statements. Notably, each of these changes was derived from an increase in the annual assets and equity amounts by a uniform figure. Similarly, the value of the current assets in the financial statements that were included in Company X’s bids were uniformly higher for four of the five reporting years than those contained in the certified financial statements.

INT also noted other irregularities in the Financial Reports included in both of Company X’s bids:
• Although the five financial statements included in the Financial Report covered a different year of the company’s financial condition, they were all dated four days before the bids for both contract packages were submitted.

• The accompanying Directors Report for each of those financial statements also bore the same date as on the Financial Report.

• Similarly, the audit reports of financial statements for the five years issued by the audit firm were all signed on the same date – also before the bids were submitted.

To explain the discrepancies, Company X stated that the company did not keep cash in the Bank and only deposited funds when needed, so the auditors did not fully account for revenue, personal property and other assets in their reports. Company X’s representatives added that the business had been run as a family enterprise before its registration and they had combined what they earned since its registration. They also admitted to INT investigators that they were wrong, but claimed that it was because of their limited knowledge in preparing the bid documents.

As a result of sanctions proceedings initiated by INT against Company X and its director, both were debarred by the World Bank’s Sanctions Board from being awarded any Bank-financed contracts or otherwise participating in the preparation or implementation of Bank-financed projects for a period of two years.