

PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

A. Information Sources

1. The Additional Skill Acquisition Program (ASAP) has been designed by the Department of Higher Education (DOHE) and the Department of General Education, Government of Kerala to complement post-basic education—higher secondary (grades 11 and 12) and undergraduate college—with market-driven vocational training and career counseling to make it more employment-oriented. The proposed Asian Development Bank (ADB) loan will help strengthen and scale up ASAP.

2. DOHE is the executing agency. The ASAP secretariat has been constituted as the implementing agency under DOHE by Government Order [GO (Ms) No. 271/2012/HEdn] dated 7 July 2012. A State Level Empowered Committee (SLEC), headed by the chief secretary, Government of Kerala, guides the implementation of ASAP. The additional chief secretary, DOHE is the convener of SLEC and overall in charge of ASAP. The implementation of ASAP is supervised by the additional secretary, DOHE, who also functions as the head of the ASAP secretariat. This has been in operation since July 2012 and has divisions focusing on strategic design, technical, finance, quality control, training and program management, communication, research and documentation, and lifelong learning. As of 1 July 2014, ASAP is being piloted in 437 secondary schools and colleges (government and government-aided) covering 15,899 students. Over the duration of the proposed results-based lending (RBL) program, ASAP expects to train 233,058 students at a cost of \$147 million, of which ADB will finance 68% (\$100 million) and the state government 32%. Procurement under the program will exclude activities involving high-value contracts (i.e., where the estimated value exceeds the monetary amounts specified in ADB's RBL policy) and activities classified as category A for safeguards.

3. This assessment of ASAP's financial management, procurement, and anticorruption systems examined the capacity of DOHE, the ASAP secretariat, and relevant state departments to manage fiduciary risks and provide reasonable assurance that program funds will be used appropriately, i.e., in line with sound procurement principles of competition, economy and efficiency, transparency, and fairness. This fiduciary assessment is based on (i) earlier country and sector assessments,¹ (ii) ADB's experience in supporting technical and vocational education in India, (iii) recent analysis and field-based assessments conducted as part of the due diligence following RBL staff guidance,² and (iv) other relevant guidelines and tools of ADB.

4. A detailed financial management assessment was conducted during April–June 2014 with reference to ADB's Guidelines for the Financial Management and Analysis of Projects and Financial Due Diligence: A Methodology Note.³ As required by the policy paper on Piloting Results-Based Lending for Programs, the financial management assessment focused on accountability and transparency and covers (i) internal controls, (ii) funds flow arrangements, (iii) accounting and financial reporting, and (iv) independent audit. It began with a broad review of the Government of India's policies and procedures, and then focused specifically on the state government's public financial management (PFM) system. Consultations were held with the

¹ (i) National Institute of Public Finance and Policy. 2010. *Public Expenditure and Financial Accountability, Public Financial Management, Performance Assessment Report*; (ii) International Bank for Reconstruction and Development. 2013. *Project Appraisal Document for Kerala State Transport Project II*; and (iii) Comptroller and Auditor General India. 2014. *Report of the Comptroller and Auditor General on Kerala State Finances (for the year ended 31 March 2013)*.

² ADB. 2013. *Staff Guidance for Piloting Results-Based Lending for Programs*. Manila.

³ Financial Management Assessment (accessible from the list of linked documents in Appendix 2).

Accountant and Auditor General's office, DOHE, and the ASAP secretariat; and relevant documents and government orders were reviewed. The procurement capacity assessment focused on the transparency and fairness of the state's procurement practices.⁴ Under the proposed RBL, country PFM systems will be used.

5. A study by the National Institute of Public Finance and Policy (NIPFP)⁵ rates the fiduciary risk at the national level as moderate. Since the risk at the subnational level is assumed to be higher, the state government's overall fiduciary risk is rated substantial. The Report of the Comptroller and Auditor General on Kerala State Finance, 2013 notes some generic weakness in (i) budget credibility; (ii) lack of predictability and control in budget execution; (iii) delayed accounting, recording, and reporting; (iv) lack of accountability of officers for poor plan spending;⁶ and (v) lack of an integrated management information system (MIS).⁷

6. However, DOHE and the ASAP secretariat have mitigated many of these potential risks. First, SLEC has been constituted under the chairmanship of the state government's chief secretary to guide the implementation of ASAP. The additional chief secretary, DOHE is the convener of SLEC. He is also the overall in charge of ASAP. The ASAP secretariat has a separate finance unit headed by an officer from the state Finance Department. He is assisted by four staff. This indicates a strong commitment and sound tone at the top supported by a dedicated team. Second, the fiduciary assessment confirms that state government's rules and procedures pertaining to financial management, procurement, and anticorruption are in line with commonly accepted good practice principles. The Kerala Financial Code (KFC), 2008 prescribes the unified rules on general financial principles and rules of procedure with respect to financial matters common to all government departments. It also provides guidelines on procurement of goods and works, and specifies the chain of authority for carrying out these activities. The Stores Purchase Manual (SPM), 2013 provides detailed procurement guidelines. Accordingly, internal controls and financial accounting procedures appear to be adequate.⁸ Third, with effect from 1 August 2014, the ASAP secretariat has put into place a computerized financial MIS that is also linked to the accounting system. Fourth, an internal audit unit has been established. The Institute of Public Auditors has been appointed as the internal auditors for the program. Fifth, it has been agreed that, in view of the rapid scaling up of ASAP under the proposed loan, one experienced chartered accountant and one procurement specialist will be recruited by end-October 2014 to strengthen the fiduciary function. This will help the secretariat to further strengthen its budgeting and monitoring systems, internal controls, procurement, and financial reporting. Sixth, the Accountants General (Audit) office of Kerala has agreed to undertake timely annual audits of ASAP, and has indicated that it will also review the extent of ASAP's adherence to loan agreement covenants. The first set of program financial statements for FY2013 is expected by October 2014. The state Accountants General's office has a separate unit focusing on externally-assisted projects. Seventh, the state government has significant experience in implementing externally-funded projects, and has implemented six

⁴ Procurement Capacity Assessment (accessible from the list of linked documents in Appendix 2)

⁵ NIPFP is an autonomous body with a governing body comprising representatives from the Ministry of Finance, Planning Commission, and Reserve Bank of India. At the request of the World Bank, NIPFP undertook a national Public Expenditure and Financial Accountability-based PFM assessment in 2010. While several government officials were interviewed and a large number participated in a launch workshop, the Public Expenditure and Financial Accountability, 2010 was not formally accepted or endorsed by the central government.

⁶ Government of Kerala, Kerala Public Expenditure Committee. 2013. *Second Report of the Kerala Public Expenditure Committee (Third Committee) 2011–2012*. Thiruvananthapuram (submitted December 2013).

⁷ Report of the Comptroller and Auditor General on Kerala State Finances (for the year ended 31 March 2013 laid on the table of the State Legislature Assembly on 6 February 2014).

⁸ The audited financial statements for fiscal year 2012 and 2013 are expected to be received by October 2014. The first year of ASAP operations was not subject to audit due to the low level of expenditure.

World Bank and two ADB projects to date, plus several bilaterally-funded projects. No fiduciary issues were noted in these projects as confirmed by the Accountants General (Audit) office.

7. A procurement consultant has been working with the ASAP secretariat since March 2014 to strengthen the state's bidding documents for consultant recruitment and civil works contracting drawing on international best practice. The ASAP secretariat has now agreed to follow quality- and cost-based recruitment where relevant, as against its earlier practice of selecting the least-cost bidder from among those that were technically qualified. The formats for receiving expressions of interest and requests for proposals have been improved. Additional capacity development support will be provided by ADB to improve fiduciary arrangements for ASAP as required, in particular if any areas of concern are raised in the auditors' report for FY2012 or FY2013. The following sections summarize the findings of the assessments of financial management, procurement, and anticorruption systems.

B. Financial Management System

8. **Program financial management profile.** The proposed RBL program will use the government's financial management systems, including budgeting, accounting, reporting, monitoring, and auditing arrangements. According to the NIPFP report, India scores very high on the PFM dimension of "comprehensiveness and transparency," but low on "policy-based budgeting." It scores fairly high on other dimensions such as "predictability and control in budget execution;" "accounting, recording, and reporting;" and "external scrutiny and audit." The state government is taking steps to improve its PFM systems by introducing outcome budgets in at least four departments (Water Resources, Public Works Department [PWD], Agriculture, and Forest) from 2015 to 2016. It has also taken steps to transform the Finance Department into a paperless office. The treasury management system has been linked to the budget system and all the sub-treasuries. The state government has issued orders to resolve non-reconciled balances and suspense accounts.

9. **Budget.** According to the Kerala Budget Manual (first published in 1977), the Finance Department is responsible for preparing the annual budget by obtaining estimates from various departments. The departmental estimates of receipts and expenditure are prepared by the department heads and relevant officers on a bottom-up basis and submitted to the Finance Department by prescribed dates. The Finance Department consolidates the estimates and prepares detailed estimates called "demands for grants". While preparing the budget, the aim is to achieve as close an approximation to the actuals as possible. This requires the use of well-supported budgetary assumptions, both to anticipate revenue and to estimate expenditure. The ASAP program itself is supported by detailed expenditure estimates by year and by category.

10. A review of the budgets of various Kerala state departments shows that, while many fail to utilize their budget allocations, some exceed them. Such deficiencies in the budget exercise could lead to unavailability of funds for a program or inability to absorb funds, constituting, in either case, a substantial risk. However, the ASAP is a flagship program of DOHE and the state. Since the state government is funding only 32% of the requirement, no difficulty is foreseen in the allocation of funds. The ASAP program is also a fairly small component of the overall DOHE budget, about 3%. There is a greater risk of ASAP not being able to absorb and effectively use the allocated funds.⁹ To mitigate this risk, ASAP will ensure that the budget is linked to physical targets and supported by detailed activities with milestones. It will closely monitor program

⁹ The requirement to provide unaudited interim financial reports, supporting that adequate expenditure has incurred prior to release of funds, mitigates the risk that funds will be disbursed to but not spent by ASAP.

implementation and update the budget requests accordingly. The financial MIS will support analysis of financial and physical data. The ASAP secretariat will also engage with the industry to ensure that its trainees get opportunities for internships and placements. Viable public-private partnerships will be designed so that the industry recognizes the benefits of participating in ASAP. Finally, withdrawal applications will be accompanied by interim financial reports supporting that adequate expenditure has been incurred.

11. **Funds flow.** The funds for the proposed loan will flow from ADB to the Special Account maintained by the Controller of Aids, Account, and Audit of the Government of India. This will be then transferred to the Finance Department of the Government of Kerala, which will allocate it to DOHE based on the budget approved by the State Legislature. DOHE will in turn provide funds to the ASAP secretariat to cover various expenditures that have been cleared by SLEC. The ASAP secretariat will submit a proof of expenditure and achievement of the disbursement-linked indicators, and unaudited interim financial reports along with the disbursement claim to ADB.

12. **Accounting, financial reporting, and auditing.** Being part of DOHE, the ASAP secretariat also follows the Kerala Account Code, Kerala Budget Manual, KFC (2008), SPM (2013), and Kerala Treasury Code. In line with the state's accounting system, a cash basis of accounting is currently in place. As noted in para. 6, the finance unit of the secretariat will be strengthened through the recruitment of a chartered accountant. The program action plan emphasizes the need for regular internal and external audit, preparation of a financial management manual, and training of relevant staff in the use of the financial MIS. Relevant staff will participate in financial management and related capacity building workshops organized by ADB to learn how to prepare program financial statements in line with the sound accounting standards.¹⁰ This will also include preparation of a statement of budget versus actual and a statement of expenditure by output categories to progressively link financial expenditure and physical targets.

13. **Internal controls.** The SPM, KFC, and Kerala Treasury Code provide detailed guidelines and procurement rules relating to financial transactions of government, custody, and disbursement of government money, as well as receipts and remittances of government funds. Based on these regulations, the ASAP secretariat has adopted internal practices such as: (i) adequate segregation of duties; (ii) the requirement to reconcile bank balances on a monthly basis; (iii) permitting cash transactions for miscellaneous expenditures only; and (iv) ensuring that payments to secretariat staff, course facilitators, institutions, and third-party service providers are made via bank accounts. All payments under the program, such as honoraria to principals of participating schools and colleges, and trainers' fees are centralized at the secretariat. Under Indian law, beneficiary contributions, if any, need to be deposited into the Consolidated Fund and cannot be utilized by ASAP. When beneficiary contributions start to flow in, these will be captured in the MIS to allow the state government to possibly offset them against its counterpart contributions. These contributions are expected to be quite nominal.

14. **Internal audit.** ASAP's internal audit framework requires strengthening. After about 2 years since its formation, ASAP has only recently appointed the Institute of Public Auditors, Thiruvananthapuram as the internal auditor. It is expected that the internal auditor will have an independent reporting line with SLEC and will perform the audit in accordance with international best practices.

¹⁰ Accounting standards refer to the Indian Government Accounting Standards formulated and recommended by the Government Accounting Standards Advisory Board in India as well as relevant principles of Cash Basis International Public Sector Accounting Standards.

15. **External audit.** The external audit framework requires strengthening because no audit of ASAP has been done by the Comptroller and Auditor General to date. However, as noted in para. 6, the Accountants General (Audit) office of Kerala has agreed to undertake timely annual audits of ASAP and has committed to completing the audit for the current fiscal year within 6 months thereof.

16. The overall risk summary is given in the table below.

Financial Management Internal Control and Risk Assessment

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
Inherent Risk			
1. Country-specific risks (India)	<p>In some states, there have been instances of delay in release of counterpart funds by state governments.</p> <p>Public and private sector auditing standards and capacity in India are sound. India has a relatively strong accounting profession, although most levels of government still use a cash basis of accounting.</p>	M	<p>GOK's proposal for accessing ADB funding for ASAP was reviewed and cleared by the Department of Expenditure, Ministry of Finance, Government of India, after an assessment of its fiscal situation (including borrowing headroom) and ability to provide counterpart funds. Since ASAP is a flagship program, and an integral part of the Kerala State Skill Development Project, GOK has already made a separate provision for it in its budget for 2012–2018.</p> <p>This is an RBL program where disbursements are linked to achievement of specific results. GOK will have to undertake expenditures and fulfill results before it gets reimbursed by ADB. Since GOK's share in the total RBL is 32%, no problem is envisaged in terms of timely release of counterpart funding.</p>
2. Sector and program-specific risks	<p>The ASAP secretariat, which has been constituted under DOHE, is a relatively new entity (2 years old). It will be implementing an EAP for the first time.</p> <p>The capacity of ASAP's finance accounting staff to handle the budgeting, accounting, internal controls, and reporting functions needs to be strengthened.</p>	S	<p>While the ASAP secretariat is relatively new, it has been established under DOHE by government order, and therefore follows the government's rules and regulations.</p> <p>GOK has implemented six World Bank projects and two ADB-funded projects to date. Some of the GOK staff who worked on the first ADB project, Modernizing Governance and Fiscal Reform in Kerala, are also members of the ASAP secretariat. They are aware of ADB's fiduciary procedures.</p> <p>The ASAP secretariat has agreed to recruit a full-time chartered accountant and a procurement specialist by end-October 2014 (prior result) to strengthen its finance and accounts function in view of the scaling up of ASAP implementation.</p> <p>The financial MIS was made fully operational on 1 August 2014. All payments and receipts are being</p>

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
	<p>There are some sector-specific challenges: ensuring that the skills training providers are imparting good quality training as per national standards, and that students are actually attending the courses regularly and benefiting from them.</p>		<p>routed through it.</p> <p>ADB will provide the required capacity development support in the areas of financial management, accounting, and reporting. The RBL modality lowers financial risk, as disbursements will be made on targets being achieved, and any delayed achievement of targets will correspondingly delay disbursement.</p> <p>The comprehensive ASAP MIS is capable of tracking project activities and providing sex-disaggregated data on the output and results indicators. In addition, through the accompanying CDTA, ADB will assist the secretariat in undertaking surveys and tracer studies to assess the employability and employment outcomes of ASAP. DOHE and the ASAP secretariat have also agreed to engage an independent firm for undertaking third-party validation of its performance.</p>
Overall Inherent Risk		M	
Control Risk			
1. Internal controls	<p>KFC, 2008 (7th edition; 1st edition was in 1963) lays down unified rules on general financial principles and rules of procedure with respect to financial matters common to all departments under GOK.¹¹ This includes DOHE and the ASAP secretariat, which are the executing and implementing agencies for the proposed project.</p> <p>Hence, GOK's policies and procedures also apply fully to ASAP in all areas, including general administration, procurement, and financial management.</p> <p>While approval of all procurement is centralized at the ASAP secretariat, some of the procurement activities are delegated to the field heads. The heads of the units at each of these locations are expected to be fully responsible for their actions and also for maintaining appropriate records for all transactions conducted by them. However, there is currently no policy of conducting periodic audits relating to their administrative actions.</p>	M	<p>The ASAP secretariat has a separate finance unit, which is headed by an officer from the state Finance Department, who has a staff of four. However, since the secretariat was in the process of conceptualizing ASAP and getting the program off the ground, some of the Finance Department staff also had to help out with other functions such as costing of training courses and evaluating training service providers. It has now been agreed that the finance unit staff will focus only on financial management and internal controls. This will also be in keeping with commonly accepted good practice principles. Further, with the financial MIS now fully operational, and recruitment of a dedicated chartered accountant and procurement staff by end-Oct 2014, the secretariat will be fully equipped to handle all financial management, procurement, and control functions effectively. The finance unit should be part of the procurement process to ensure adherence to procurement norms and</p>

¹¹ The SPM, 2013 provides detailed guidelines for all procurement activities pertaining to all government departments and autonomous bodies. The KFC, 2008 and the SPM, 2013 draw on each other and are internally consistent. They are amended periodically to keep them up-to-date and relevant.

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
	This presents a substantial risk to the organization in areas relating to procurement of fixed assets and their safeguard and the maintenance of records relating to them.		budget provision. ASAP has agreed to consolidate information on procurement and safeguard of all fixed assets at the head office.
2. Funds flow	Funds flows are transparent. ADB funds will be received by GOK through CAAA (central government). They will then be allocated to ASAP (along with its own contribution) through the state budget. ASAP will be able to withdraw these resources from the State Treasury and utilize the same through the program bank account.	L	Budget allocations to ASAP to be monitored as part of regular performance reporting.
3. Accounting and financial reporting	ASAP uses the cash-based system of accounting in line with the government system. ASAP prepares an annual budget for submission to the state government based on the business plan for the next year. Periodical review of achievements is also undertaken. However, there is a clear need to link physical progress with financial progress and to review the same for midcourse correction.	M	ASAP has recently computerized its accounting system and has operationalized the financial MIS. All payments and receipts are being routed through it. Budget monitoring tools like variance analysis of budget vs. actuals, both for financial and physical targets, will form part of program monitoring. Capacity development workshops to ensure that ASAP program financial statements are prepared in accordance with relevant accounting standards The ASAP MIS can track project implementation, including activities of the training providers, and provide sex-disaggregated data on various output and results indicators.
5. Internal audit	The entity has just appointed an internal auditor to audit its operations.	S	ASAP has appointed the Institute of Public Auditors as the internal auditor, and the exercise is under way. The scope of work, however, needs streamlining in accordance with best practices. An ADB consultant is assisting the secretariat in this regard.
6. External audit	CAG (central government) is to audit ASAP's financial statements. However, ASAP's financial statement for the fiscal years ending March 2013 and March 2014 are yet to be audited.	S	ASAP was formed in July 2012. Its first annual expenditure statement (annual accounts) was for the year ending March 2013. ASAP's annual expenditure statement (annual accounts) for years ending March 2013 and March 2014 are yet to be audited by CAG. The Accountants General (Audit) office has assured that ASAP's accounts will be audited by end-October 2014. ASAP needs to ensure the future audits of its accounts within 6 months of the closure of the financial year, as required by ADB.
Overall Control Risk		S	

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
Overall Risk		S	

H = high, S = substantial, M = moderate, L = low.

ADB = Asian Development Bank, ASAP = Additional Skill Acquisition Program, CAAA = Controller of Aid, Accounts, and Audit, CAG = Comptroller and Auditor General, CDTA = capacity development technical assistance, DOHE = Department of Higher Education, EAP = externally aided project, GOK = Government of Kerala, KFC = Kerala Financial Code, MIS = management information system, RBL = results-based lending.

Source: Asian Development Bank.

C. Procurement Systems

17. A detailed procurement assessment was carried out during March–July 2014. It included a review of national and state procurement systems and practices, and the capacity of DOHE and the ASAP secretariat to implement these effectively. The assessment followed the standard methodology, questionnaires, and tools prescribed in ADB’s procurement capacity assessment (PCA) and procurement review for effective implementation.¹²

18. At the national level, (i) the central PWD has issued the Manual and Guidelines on Works, 2012 (amended from time to time); (ii) the Ministry of Finance has issued the Manual of Policies and Procurement of Employment of Consultants (amended from time to time); and (iii) the Department of Economic Affairs, Ministry of Finance has issued the General Financial Rules, 2005 (amended from time to time). The state government also has a good public procurement system. There are comprehensive state procurement guidelines for civil works and guidelines on the selection and employment of consultants.

19. Procurement under ASAP will involve (i) engagement of vocational training providers (firms), (ii) engagement of skill development executives and program managers (individuals), and (iii) purchase of goods and equipment for the civil works pertaining to the construction of community skills parks (CSPs) and renovation of skill development centers. All procurement will be done according to the state’s procurement guidelines, manuals, and standard bidding documents (SBDs). The PCA and procurement review for effective implementation confirm that Kerala’s (and therefore, ASAP’s) procurement rules and regulations are in line with the principles of open competition, economy and efficiency, transparency, and fairness.

20. Three to four ASAP staff undertake the procurement functions. The proposals are discussed internally, and then reviewed and approved by the additional secretary and team leader of ASAP. A retired chief engineer from the state PWD has been appointed to the ASAP secretariat to supervise procurement for the construction of CSPs and renovation of skill development centers. An e-procurement web portal developed by the Kerala State Information Technology Mission is being used by ASAP to procure goods and consultants.

21. **Key risks.** The procurement assessment determined the following key risks:

- (i) absence of a dedicated procurement unit staffed with experienced professionals to focus on procurement-related issues, especially for recruitment of consultants and training providers;

¹² Procurement Capacity Assessment and Procurement Review for Effective Implementation (accessible from the list of linked documents in Appendix 2).

- (ii) no defined selection methods and SBDs for engaging firms to provide training or for undertaking capacity development;
- (iii) difference in payment terms between government and private consulting or training firms; and
- (iv) absence of well-structured capacity development programs covering different aspects of procurement, consultant recruitment, and contract management.

22. **Key mitigating measures.** The ASAP secretariat will take the following mitigating measures:

- (i) To handle the increased volume of procurement that will take place soon after the approval of the proposed loan, the ASAP secretariat will recruit a procurement specialist before the end of October 2014 (prior result).¹³ It will also establish a dedicated procurement unit and recruit or post additional staff to focus solely on procurement so that any potential conflict of interest is avoided.
- (ii) The secretariat will follow the improved SBDs for recruiting consultants and training service providers, and undertaking procurement for civil works. These documents strengthen the state government's own bidding documents and procedures by drawing on international best practice. For example, the ASAP secretariat has agreed to follow quality- and cost-based recruitment (as applicable) for recruiting training providers (in contrast to its earlier practice of selecting the least-cost bidder from among those who were technically qualified). The quality- and cost-based method is more objective and will enable ASAP to select better service providers in a transparent manner. ADB's standard expression of interest and request for proposal formats has been customized to ASAP's need. The state PWD's bidding documents and guidelines have been compared with ADB's SBD for Works and Goods, and strengthened as appropriate.
- (iii) ADB will assist the secretariat to strengthen the procurement system for single-source selection when engaging public institutions that offer specialized training (including equipment and qualified instructors) that is not or cannot be provided by any private provider. Since these public institutions do not participate in competitive bidding, it becomes important to consider single-source selection. During preparation of documents, key deliverables and payment terms will be discussed to eliminate the difference with private training providers.
- (iv) Relevant ASAP staff will participate in the capacity development workshops organized by the ADB India Resident Mission from time to time, and the ADB procurement consultant will continue to help the secretariat as required, so that a strong foundation can be laid for implementing the proposed loan.

23. The civil works, consulting services, and equipment or software or consumables will be procured through national competitive bidding. Open competitive bidding is mandatory for all contracts over Rs6 million (around \$100,000) for goods and works. Evaluation of bids for each

¹³ ADB has helped the secretariat prepare the terms of reference and prescribe the required qualifications.

procurement order is conducted by a technical evaluation committee comprising at least two members, i.e., one subject specialist and one representative from ASAP or DOHE. The committee's evaluation report is reviewed and approved by the SLEC, which has administrative and financial powers over all procurement proposals. It approves the procurement proposals along with the technical specifications before inviting bids. The composition of the procurement committee and the applicable thresholds are well defined in the KFC, 2012. Similar procedures and the aforementioned guidelines apply in the case of consultant recruitment and engagement of training providers too. Very small-scale procurement items valued up to Rs6 million (\$100,000) will follow shopping procedures by inviting at least three sealed quotations. Some specialized consulting services may be procured using quality- and cost-based selection under international competitive bidding procedures, as required. It has been agreed that any procurement involving high-value contracts, i.e., where the estimated value exceeds the monetary amounts specified in ADB's policy on RBL, will be excluded. Also, procurement will not be undertaken from any non-ADB developing member country.

24. Two standard designs for construction of CSPs have been finalized with the help of ADB consultants. The ASAP secretariat will engage a design and supervision consulting firm through a competitive process to prepare site-specific architectural and structural designs (based on the specific dimensions of the shortlisted 35 sites), bills of quantity, and detailed bidding documents. The civil works will be bundled and packaged district-wise and/or regionally to improve efficiency and economy. The bidding documents will be cleared by the PWD since it is the competent authority. Similarly, procurement of furniture and training equipment will be suitably packaged to enhance competition and improve overall efficiency and economy. Recruitment of training providers and consultants for the whole program will be managed centrally at the ASAP secretariat's head office in Thiruvananthapuram.

D. Anticorruption System

25. Corruption risks are proportionate to opportunities for corruption. Opportunities for corruption arise when there is much room for making arbitrary decisions. The major corruption risk is in procurement. As explained in the PCA, ASAP has a good procurement system in operation. It follows a system of paying all its constituents (staff, program managers, skill development executives, institutions) through bank transfers, with cash payments limited to minor miscellaneous expenditures. This minimizes the scope for any irregularities. The SPM has provision for blacklisting firms that indulge in corrupt practices. Business dealings with a firm may be suspended or banned in the public interest by the competent authority in accordance with the provisions in the Standardized Code of Blacklisting prescribed by the central government, which is adopted on a reciprocal basis by the state government. Through its built-in mechanisms of linking results to disbursement, ASAP provides an opportunity for ADB to ensure that funds are used appropriately for their intended purpose. ADB's anticorruption policy has been communicated to ASAP. This includes blacklisting of corrupt service providers and the monitoring role of ADB's Office of Anticorruption and Integrity.¹⁴

¹⁴ ADB. 2013. *Staff Guidance for Piloting Results-Based Lending for Programs*. (Appendix 7). Manila.