

**RISK ASSESSMENT AND RISK MANAGEMENT PLAN**

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<p><b>A. Governance</b>  <b>1. Financial Management</b></p>		
<p>Internal control for non-salary expenditure is less effective.</p>	<p>High</p>	<p>Capacity building is essential to improve internal control.</p>
<p>Internal audit is weak and not effective in all dimensions. There is lack of use of professional audit methods and compliance with ISPPIA or any other national / international standards.</p>		
<p>Accounts reconciliation is weak in all dimensions.</p>	<p>Medium</p>	<p>A PMO will be established to ring-fence the implementation of the project applying international standards on accounting, reporting, and auditing.</p>
<p>Quality and timeliness of in-year budget reports is weak due to non-recording of expenditure at commitment level.</p>		<p>Training on financial reporting and auditing should be provided by ADB staff consultant.<sup>a</sup></p>
<p>Overall quality and timeliness of annual FSs was weak, as annual cash based FS of Federal Government provide insufficient information on financial assets and liabilities in accordance with NAM, and without consolidated financial information of independent departments. The FSs are not yet fully compliant with cash basis IPSAS or NAM.</p>		<p>Regular review of external audit reports and management letter should be used to update financial management action plan as required.</p>
<p>AGP is empowered to audit the accounts of the federation and of the provinces and of anybody or authority established by the federation or a province. INTOSAI auditing standards are adopted but some aspects are only partially implemented.</p>	<p>Medium</p>	<p>Capacity building on auditing should be provided by ADB staff consultant.</p>

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Both legislative scrutiny of the annual budget law and external audit reports are weak.		
Lack of capacity for the PMO to manage ADB funds.	Medium	<p>Staff may not be experienced in implementing ADB-financed projects. The government agrees that accounting staff will be recruited to strengthen PMO / PIO capacity.</p> <p>Training on disbursement policies and procedures, and consultant support should be provided to strengthen PMO / PIO staff knowledge and capacity to implement the project.</p>
The fund flow risks concerns the delays of payments to contractors, which will delay project implementation activities.	Medium	Funds for the project will be under the control of the PMO to avoid delays.
PMO accountants may prepare project FSs not fully compliant with cash basis IPSAS or NAM.	Medium	ADB staff consultant will provide training for PMO to prepare project FS following cash basis IPSAS.
Internal control environment in PMO and PIO needs strengthening.	High	Establishing a well-staffed and resourced internal control system is recommended.
There would be moderate risk in conducting audits by AGP on project FS prepared by PMO, as INTOSAI auditing standards are adopted but some aspects are only partially implemented.	Medium	ADB staff consultant will help build capacity for AGP.
<b>2. Procurement</b>		
There is no mandatory accredited training program on public procurement in the province. Absence of such training creates capacity issues of the concerned staff undertaking procurement in public sector.	Medium	KP-PPRA/Provincial Regulatory Authorities need to devise a program for training in public procurement rules, regulations, and practices and make it a mandatory part of the concerned line agency annual training programs. This will help a great deal in enhancing the capacity of respective government officials and staff tasked with the execution of procurement interventions. The staff may be given training in ADB's Procurement Guidelines at the start of the Project. The EA/IA staff will be provided training in ADB's Procurement Guidelines by ADB's individual procurement consultant in collaboration with the procurement team of ADB's Pakistan Resident Mission.

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Lack of experience of the agency in ICB contracts.	High	Capacity building and enhancement through hiring of project implementation consultant to assist the agency in timely, efficient and transparent procurement. The staff may also be given training in ADB's Procurement Guidelines at the start of the project by a procurement expert (consultant) in collaboration with ADB's Pakistan Resident Mission's procurement team.
<b>B. Project Management</b> The EA's less competent staff may not manage project implementation timely and appropriately.	Low	ADB will finance implementation support through consulting services to meet M&E and reporting requirements. The EA will engage an officer in the PMO for proper M&E and his/her tasks will be supported by an M&E expert under consulting services. ADB's periodic missions will facilitate the PMO's timely implementation of the project, identify potential implementation risk, and suggest remedial actions. Further, the project steering committee to be established will provide strategic guidance to the EA and the PMO.
<b>C. Sustainability</b> Insufficient available funds for system O&M may threaten sustainability of the irrigation systems to be extended under the project.	Medium	The project was designed to minimize O&M requirement. The project command areas were carefully chosen and the pressure pipeline and canal capacity were carefully designed so that the irrigation water can be supplied with gravity. However, the government's assurance was required to provide sufficient O&M budget after the construction of target irrigation system.
<b>Overall</b>	<b>Medium</b>	Overall, the risks appear manageable and if mitigation measures are implemented effectively, the project's benefits are expected to outweigh the potential risks.

ADB = Asian Development Bank, AGP = Auditor General of Pakistan, EA = executing agency, FS = financial statement, ICB = international competitive bidding, INTOSAI = International Organization of Supreme Audit Institutions, IPSAS = International Public Sector Accounting Standards, ISPPA = International Standards for the Professional Practice in Internal Audit, KP-PPRA = Khyber Pakhtunkhwa Public Procurement Regulatory Authority, M&E = monitoring and evaluation, NAM = new accounting model, O&M = operation and maintenance, PIO = project implementation office, PMO = project implementation office, RETA = regional technical assistance.

<sup>a</sup> An ADB staff consultant currently stationed in the Pakistan Resident Mission to support the project's financial management capacity will be available.

Source: Asian Development Bank.