

# Pakistan National Social Protection Program-for-Results

FIDUCIARY SYSTEMS ASSESSMENT

WORLD BANK

## FIDUCIARY SYSTEMS ASSESSMENT

### A. Introduction

1. **The proposed operation requires an assessment of the Government program's fiduciary arrangements in accordance with the World Bank's OP/BP 9.0 to determine suitability of the application of the Program for Results (PforR) instrument and to mitigate fiduciary risks of the proposed Program.** This document contains summary findings on the Financial Management Assessment. In accordance with "PforR Financing Interim Guidance Notes" a Fiduciary Systems Assessment (FSA) was carried out that evaluated the fiduciary systems pertaining to the Program to determine whether they provide reasonable assurance that the Program funds will be used for their intended purpose.

2. **The FSA concluded that, subject to the implementation of the Program Action Plan to mitigate the identified risks, the overall fiduciary framework is adequate to support Program implementation and to achieve the desired results.** The FSA comprised an assessment of the fiduciary risks relating to: (i) procurement; (ii) financial management; and (iii) governance (including fraud and corruption risks) relevant to the Program. The objective of the FSA is to provide a reference that can be used to monitor fiduciary systems performance during the Program implementation and identify actions, as needed, to enhance those systems.

3. **The Benazir Income Support Programme (BISP) is the implementing entity for the Program.** The organization has been engaged with the World Bank since 2009 for carrying out various procurement activities for Goods and Services under Social Safety Nets Technical Assistance (SSN TA) and Social Safety Nets Project (SSNP). The level of overall fiduciary risk and performance in terms of capacity, processes, and implementation has fluctuated during the life of the current SSN project. BISP was a new organization when the Bank engaged for preparing technical assistance. The Bank team conducted a detailed assessment of financial management and procurement risk as a result of which improvement in financial management systems were introduced in the newly formed organization. At the time of preparation there was a strong buy in for all the proposed mitigation measures proposed by the Bank team for building capacity, developing efficient processes for ensuring timely performance, and oversight mechanisms for implementation. However the true implementation of some proposed measures took a longer time than expected. It was evident from the performance of the initial Bank TA that processes were smooth and efficient. For instance, services for National Poverty Card Survey – a major contract of approximately US\$ 25 million – were procured within a remarkable time. Similarly under the TA, contracts for spot checks and impact evaluations were signed with great efficiency.

4. **Currently BISP is executing following Donor Funded Projects:**

- a. Social Safety Net Technical Assistance Project – IDA – US \$ 60.00 Million since 2009
- b. Pakistan Social Safety Net Project – IDA – US \$ 150 Million since 2011
- c. Social Protection Development Project – ADB – US \$ 430 million since 2013

5. **The objective of the proposed World Bank operation is to strengthen the national social safety net systems to promote human capital development and access to complementary services for the poor.** The proposed Program would be a US\$100 million credit from the International Development Association using a PforR lending instrument, and would be implemented over a period of four years (2017-2021). The disbursement of funds under the PforR modality will be linked to DLIs (US\$90 million) tied to two result areas: Institutional and Systems Development, and Income Support for Human Development and Access to Complementary Services. At the request of the government, a Technical

Assistance component (US\$10 million) using Investment Project Financing (IPF) will also be built in the Program to help augment the technical, fiduciary, and monitoring and evaluation capacity essential for meeting the Program objectives. This component would use a traditional IPF disbursement modality based on six monthly forecast of expenditures on the agreed activities. The Expenditure Framework for the program supported by proposed operation is given below.

**BISP - Budget Estimates from FY 2015-16 to FY 2020-21, US \$ in million**

	Head of Accounts	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	Program Estimated Expenditure 2017/18-2020/21
		Approved Budget	Estimates based on the Medium Term Budget Framework				Linear Projection Estimates	
1	Basic income support (transfers)	901.6	1,003.5	1,078.8	1,159.7	1,252.5	1,330.8	4,821.8
2	WeT (transfers)	26.7	35.8	38.5	41.4	44.7	47.5	172.1
3	Systems and operational improvements	2.8	12.4	42.1	21.1	0.2	0.2	63.6
4	Other Program related expenses	30.2	39.8	2.8	46.0	49.7	52.8	151.3
5	Administrative expenses	19.5	26.6	28.6	30.7	33.2	35.3	127.8
<b>Total Budget</b>		<b>980.7</b>	<b>1,118.1</b>	<b>1,230.8</b>	<b>1,299.0</b>	<b>1,380.2</b>	<b>1,466.6</b>	<b>5,376.6</b>

Notes

- For Budget estimates till FY 2018-19 for cash transfers, see the Medium Term Budget Estimates for Service Delivery 2016-2019, p. 117 (Government of Pakistan, Finance Division, Islamabad, 2016).
- Budget estimates for FY 2019-20, FY 2020-21 are based on historical trend.
- System and operational improvements include the estimated cost of updating of the National Socio-Economic Registry, as well as costs related to systems for improving access to complementary services.
- Other Program related expenses includes, Service charges, research & consultancy, Awareness Campaign expenses.
- Administrative expenses includes salaries, assets and other operating expenses. Salaries comprise 83 percent of Administrative Expense.
- Exchange rate of PKR 104 = US \$ 1 is used for conversation of figures

## B. Objectives of the Assessment and Scope of Work

6. **The overall objective of the assessment is to ascertain whether the program systems provide reasonable assurance that the financing proceeds will be used for intended purposes**, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability and whether the systems are adequate to achieve its expected objectives and results within their specific areas. The financial management systems were assessed as to the degree to which the relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting, and auditing arrangements provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets. Procurement systems, procedures and policies were reviewed in detail to cover each step of the procurement cycle – planning, tendering, evaluation, and award and contract management.

## C. Legal Framework

7. **BISP is a body corporate having perpetual succession and common seal with the power to acquire and hold property, established under BISP Act 2010.** The Chief Patron and Executive Patron of the program are the President and Prime Minister of Pakistan. The BISP Board has 11 members representing government, non-government organizations and technical experts. The members are appointed for a term of three years. The Secretary of the Board is appointed by the Federal Government and is also the Principal Accounting Officer. The Chairperson of the Board provides strategic guidance to the program and ensures implementation of the program in accordance with the decisions of the Board. The Secretary is responsible for the preparation of budget estimates each year, in accordance with the financial procedures approved by the Board and submits the budget for approval of the Board. BISP maintains accounts as prescribed by the Auditor General of Pakistan. According to the BISP Act, the Internal Auditor should report to the Board.

8. **Procurement is carried out at the BISP using Public Procurement Rules for Government funded activities, and Bank's Procurement Guidelines for activities funded by the Bank under the current and past projects.** The Bank also supported BISP to prepare a detailed Procurement Manual to streamline processes. The manual is one of the mitigation measure proposed by the Bank for the SSN project. The Bank team has witnessed many instances where the Procurement Manual is not being adhered to. For example, several instance of payment delays, in some cases payment pending for more than four years, indicate that the mechanism and timelines for payments mentioned in the manual are not being fully followed. In last 6 years the average time taken for payment is 72 days, more than double the length of time stipulated in contracts (30 days).

#### **D. Assessment of Program Financial Management Systems**

##### **(i) Staffing Arrangements**

9. **Financial Management.** BISP has a dedicated financial management department which is adequately staffed with qualified and experienced staff. The department is headed by Director General (DG) Finance and Accounts (F&A). The DG F&A is assisted by two Directors and two Deputy Directors each supported by an Accounts Officer, Assistant Accounts Officers and support staff. To assist with the financial management of the existing World Bank Project, two professionally qualified Financial Management Specialists have been hired. These are assisted by an Analyst, four Accounts Payable Assistants and an Assistant. Employees have developed job descriptions. Clear roles and responsibilities ensures segregation of duties. Employees have experience of working with the World Bank and possess enough knowledge of World Banks disbursement methods and Financial Management requirements.

10. **Procurement.** The Procurement unit is headed by a Procurement Director (a Government staff posted on deputation), and supported by two Procurement Specialists (Goods and Works) who were hired as consultants from open market competition. The wing also has two support staff for helping the Director and Procurement Specialists run the procurement function of BISP. Although the two Procurement Specialists (Consultants) have been with BISP for some time, previously there was frequent changes in consultants. The BISP Headquarter is located in its own building with all required resources such as computers, printers, office space, office furniture, air conditioners, communications etc. The building has separate offices for the procurement wing. The wing handles the procurement activities for both Government and Bank funded activities except for activities funded by Government funds through Request for Quotations (RFQ) which are managed by the BISP Administrative wing through a Procurement Committee duly represented by the Procurement Specialist (Goods).

11. However, there is no mechanism for imparting training to build procurement capacity among staff. There are three tiers of the employees i) BISP staff ii) Staff on deputation hired from other

government departments, and iii) consultants/technical staff hired out of donor funds. Almost 90 % of the tactical staff is employed on deputation basis. Presently the organization has about 60 directors and 13 DGs, all of whom are on deputation. They come from different departments/organizations with varied backgrounds and stay in the organization for a specific period. When they leave BISP, they take with them all their expertise and gained over a period of time, leaving the organization short of experienced staff. Similarly, when consultants leave after project completion, a vacuum is created.

## **(ii) Planning & Budgeting**

12. **The risk of Planning and Budgeting is assessed as Moderate which can be lowered to Low upon implementation of risk mitigation measures recommended in this report.** After approval by the Parliament, the Ministry of Finance communicates a one line budget to BISP in the month of June which ensures flexibility for the organization to allocate resources according to program priorities. Once the budget is allocated, BISP prepares a detailed budget which ensures the availability of required resources for executing initiatives. The annual budget is prepared as per the Government budget rules and procedures. Once approved by the Board, the budget is communicated to the departments concerned who are required to comply with the budgetary allocations during the financial year. Budget estimates approved by the parliament comprise of foreign receipts and Government of Pakistan (GoP) share, which are shown separately. The annual budget book prepared by the Ministry of Finance also show separate receipts from the GoP and foreign financial institutions. Budget system can be further improved by adopting Budget Estimates for Service Delivery on medium term on the format prescribed by Ministry of Finance.

13. **Currently, budget comparison and analysis reports are not prepared by the finance department for monitoring performance and analyzing utilization of funds.** It is recommended that the budget comparison and analysis reports are prepared on at least quarterly basis which will improve upon utilization and timely corrective action where warranted.

14. **The budget process has been assessed as adequate.** Annual budgets were revised during the financial year. BISP's annual budgets have included the amount expected to be received from the Bank based on achieving Disbursement Linked Indicators (DLIs) and carrying out the related technical assistance activities. The federal government has adopted a Medium Term Output Based Budget. It is recommended that budget should better align to the plans of BISP through the use of Output Based Budget approach.

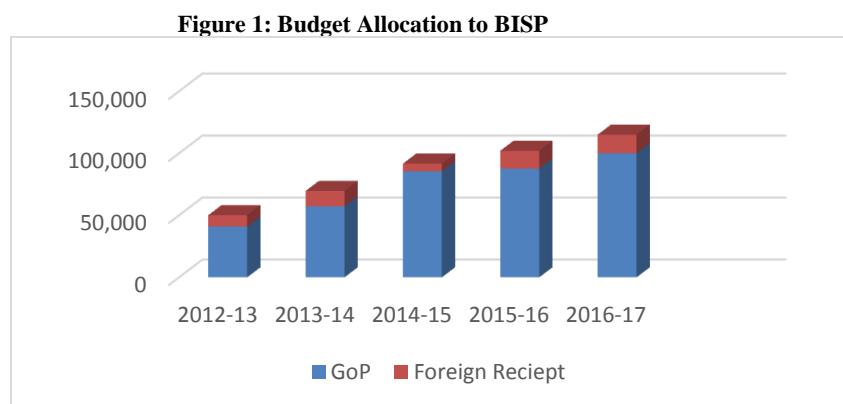
15. **Procurement Planning.** The Procurement Wing leads the procurement planning process in consultation with the technical wings. For all Bank funded procurement activities there is a more organized procurement plan which is prepared on an annual basis and is updated regularly in an automated system Caliper. The plan is revised on a quarterly basis and reviewed during every mission for new activities. However, despite the presence of an automated system and close monitoring, there are several delays compared to the actual and planned timelines. In FY 2014 there was a complete standstill and no procurement activity was initiated or contract signed due to lack of coordination between the technical and procurement wings. The variance in the estimated and actual cost is also significant indicating weak market analysis while preparing cost estimates. Under the Program, procurement planning needs to be taken seriously by all concerned wings at BISP. Procurement plans need to be realistic with adequate market analysis involving all wings for achieving timely results under the Program. The plan needs to be closely monitored and there should close oversight from BISP top management. The monitoring, oversight and supervision of procurement plan is a very critical activity for the success of the Program. If not properly done, there is a high chance of missing timelines and slippage of the operational plan.

Risk Moderate	Impact	Mitigation
Federal Government prepares three years budget estimates which are printed in the Budget Estimates for Service Delivery, but BISP prepares budget on annual basis.	Plans and programs are not aligned with budget estimates	BISP to move towards multi-year output based budget. (Budget Estimates for Service Delivery).
Budgets are not aligned with procurement plans.	Delays in budget execution	BISP should prepare annual procurement plan and make it a basis for preparing the budget estimates.
Prepare Budget Comparison and Analysis report on monthly basis	Weak controls on budget execution	Monthly budget execution reports with analysis of variation should be prepared

(iii) **Funds Flow**

16. **For the purpose of the proposed operation, the risk in terms of funds flow is low.** The existing arrangements under the financing agreement of the SSN project envisions immediate transfer of DLI disbursement to a BISP designated account. Designated accounts are opened in National Banks for receipts of funds from financial institutions. In case of the Program, BISP will not receive separate government and foreign funds. The foreign loan will be disbursed upon achievement of the agreed set of DLIs. The equivalent PKR cover of foreign fund will be deposited in the Federal Government Account I. It is important that quarterly payments from the GoP to BISP are executed without delays. Bank reconciliations of all bank accounts are prepared on monthly basis by the finance officer, reviewed by FMS and approved by DG, F&A. The Accounts Officer and Assistant Accounts Officer are the joint signatory of Assignment Accounts.

17. **The size of the budget allocated to BISP by the federal government has consistently increased, despite a change of government in 2013.** The year wise budget allocated to BISP is given below.



18. **From the allocation it can be seen that since FY 2012-13, the allocation of BISP has doubled from PKR fifty billion to PKR hundred and fifteen billion in FY 2016-17.** Two significant facts can be ascertained from the budget trend which is reassuring for Program. First, despite the name of the implementing entity, which is associated with the opposition political party, the funding for the agency increased from PKR 50 billion in 2012-13 to PKR Hundred and fifteen billion in 2016-17. This continuity of policy after change of a government is a rare phenomenon. Second, as compared to foreign funds, significant increase in GoP share took place. In terms of proportion of foreign aided funds, in 2012-13 out of the total budget allocated to BISP, 18 percent was donor funded and in 2015-16 this has reduced to 14 percent of the total budget. Funds allocated to safety nets is much higher than the Program allocation of US\$ 100 million for four years.

Risk Low	Impact	Mitigation
BISP budget is characterized as non-PSDP development budget.	Sustainability of BISP as a program may be questioned	The term Non-PSDP development budget for BISP allocation may be reviewed.

**(iv) Accounting and Financial Reporting**

19. **Accounting and Reporting are assessed as Moderate.** BISP is using cash basis of accounting to record all financial transactions. All expenditures were recorded in the BISP accounts using the Chart of Accounts under the New Accounting Model and the expenditures are recorded at the time of payment for goods/services. BISP is using Quick Books Pro for accounting and reporting. Regular backups accounting data are maintained by the finance staff. BISP data should be integrated with country wide IFMIS.

20. **Books of account are up to date and reconciled.** Accounting and Finance Manual, which have been developed and approved by the BISP Board, provide guidance on all aspects of financial management, including accounting and reporting. The guidelines are currently under improvement. BISP maintains the following books of account: Cash Book, Cheque Book Register, Cheque Register, Invoice Register, Stock Register, Contracts Register, Budget Control Register, Disbursement Register and Register of Staff Advances.

21. **Fixed Assets Register is up-to-date and maintained by administration department.** Management conducts physical verification of assets at regular intervals. Assets were properly tagged. Finance function has started preparing monthly financial reports for onward submission to higher management.

22. **Audited financial statements of the Bank funded project for the year ending June 30, 2015 were received by the Bank within due date and acceptable to the bank.** BISP is required to prepare financial statements on IPSAS Cash Basis.

Risk Moderate	Impact	Mitigation
BISP is required to adopt IPSAS cash bases of accounting but this is not implemented.	Credibility of financial reports may be questioned.	Adopt IPSAS Cash basis of accounting
Country wide IFMIS is not fully integrated in BISP	Fully integrated FM Systems are not used.	BISP should prepare annual procurement plan and make it a basis for preparing the budget estimates.

**(v) Internal Controls**

23. **Internal Control Risk is assessed as Moderate.** An Accounting and Finance manual defines the existing control environment of the organization. There are adequate segregation of functions between Payment authorization, Accounts Section, Procurement and administrative functions. Job descriptions are notified for these functions. Staff is sufficiently qualified. However, despite clear job description, there remains an overlap between service delivery, procurement and payment authorization functions which in some cases unnecessarily delays payment. Similarly, scope of pre-audit is also documented but there are instances in which sections do not follow the scope limitation. Success of P4R, depends on seamless functioning of government system. Therefore, payment authorization function is high risk, unless mitigation measures are implemented, which includes, setting time limits for processing of payments and clear segregation of functions between Service Delivery, Procurement and Payment Authorization function.

24. **The BISP Internal Audit department is headed by a DG who reports to the Board.** DG Internal Audit is assisted by adequate staff members to conduct internal audit exercise. An annual audit plan, covering all the departments of BISP, is prepared by the Internal Audit unit and submitted to Board for approval.

25. **The TORs/scope of internal audit will be subject to review by the Bank.** The results of the regular internal audits will form the basis for management action. Action taken by the management will be reviewed by the Bank during regular Program supervision. Internal audit reports are not reviewed by the Board on regular basis. The Internal Audit unit should also give sufficient time in the work plan for sample verification of BISP beneficiaries. The unit should also provide independent assurance on financial probity, economy, efficiency and effectiveness of operations and expenditure. There appears to be confusion over functions between Internal Audit and pre-audit undertaken by the Finance Department. As a result, despite a clear documented scope of the pre-audit, payments are subject to extended scrutiny.

26. **In procurement, currently also risk is Moderate.** There are certain obligations defined in the procurement manual and the SOP for each relevant officer/wing to accomplish the task within the specified timelines but there is no accountability of an officer/concerned wing in case of delay in completion of the task. Internal audit can play an important role to generate red flags in all such cases to caution the management taking corrective measures. Some of the observations of the internal audit show that they lack basic understanding of procedures and policies. The role of external auditors also raised observations which reflects the need for improvement. The staff of external audit is deputed for a short period to conduct audit but their orientation is not adequate to analyze the intricacies of social safety net design and its implementation mechanism. In the context of procurement they have a very limited knowledge of different modes of procurement being pursued under the guidelines of different donors' agencies. There are the instances where external auditors conduct audit based on their understanding of public procurement while they do not have exposure of donors guidelines which result in undue observations in their audit reports. Auditors lack of command on donors guidelines/systems lead to fiduciary risks.

<b>Risk Moderate</b>	<b>Impact</b>	<b>Mitigation</b>
Internal Audit Committee does not meet regularly to review the audit reports	Weak implementation of audit recommendations.	Regular meetings of Internal Audit Committee may be ensured.
Weak follow-up of audit recommendations	Timely corrective actions may not be taken	Regular reports on actions taken on recommendation of audit report should be submitted to the Audit Committee
No time limit of payment authorization.	Delayed payments	There should be time limit on payment authorization functions and roles and responsibilities should be clearly adhered to
Internal Audit does not regularly conduct IT audit of beneficiary data and physical verification of beneficiary existence.	Existence of qualified beneficiaries may not be detected on timely basis	Internal Audit department should conduct regular verification of BISP data.

**(vi) Procurement process**

27. **Bidding document and Request for Proposals (RFPs).** Currently BISP is using the Bank's RFPs and Bidding Document for the Bank's funded activities; however, for the new Program (as Bank's procurement guidelines are not applicable in PforR) BISP needs to work on in preparing their own detailed bidding documents/ RFPs for ensuring an efficient, economic and transparent procurement process. Although there are some bidding documents available under Public Procurement Rules, work needs to be done by BISP for proper documents. The bidding documents/ RFPs prepared by BISP will



have to be reviewed and accepted by the Bank. Bidding documents are prepared by the Procurement Wing after receiving the TORs/ Specifications of activity. On average the time taken for preparation of bidding document is 10 days.

28. **Evaluation process and Award.** Procurement evaluation committees are constituted depending upon the thresholds of a procurement activity. Separate committees both for Quotation and NCB/ICB are in place for the stated purpose duly represented by coopted technical members. The Composition of the Committee is as follows:

- a. Director General (Cash Transfer) : Chairman
- b. Director General (F&A) : Member
- c. Director (Donor Coord.) : Member
- d. Rep. of End-user Wing/Dept. : Member
- e. Director (Procurement) : Member/Secretary
- f. Technical Experts : Coopted Members (Within or outside BISP)

29. Although a detailed evaluation process is mentioned in the procurement manual, but still there are delays in finalizing the procurement processes and concluding the activities on time. The Secretary BISP, in capacity of the Principal Accounting Officer, approves the recommendations of the Procurement Committee. Generally the approval is granted by the Secretary in 2-3 days. There are few instances where the contract award is delayed, no proper reasons were given for the delay in contract award. Generally the evaluation process is completed within the proposal / bid validity period, however there are few instances where extensions are requested due to delays in technical evaluations. On average the evaluation time period is 45 days. The average Procurement cycle time for hiring of services is 95 days. For Goods the average time for processing procurement is 60 days.

30. **Disclosure of Information.** All Invitation for Bids and Request for Expression for procurement funded by the Bank and Government are published in the newspapers, UNDB (incase of international) and BISP website. Summary for contract awards, procurement plans and complaint management system is also posted on their website.

31. **Complaint Redressal Mechanism.** The Bank under its projects proposed to have an effective and efficient complaint redressal mechanism. BISP created an online complaint redressal mechanism and posted it on their website. The complainant can submit complaints through website. There is also a detailed section in the Procurement Manual to satisfactorily resolve the complaints. It is noted during a mission by the Bank team that the online system for complaint was not available. Upon Bank's observation the system was online again. As per the information shared with the Bank there are very few complaints on procurement processes. Generally the complaints are for delayed payments, which BISP addressed satisfactorily except a few.

32. **Bidder Participation.** Although every procurement is advertised widely, there are activities where there is a limited number of firms (3-4) in the competitive process. The reasons for low participation could be that there are only few firms specialized in the area, however, BISP can do a detailed market analysis for improving the competition while planning the activity. There could be more firms in the market who can deliver a quality product, however, they may be are unaware of the opportunities floated by BISP. Along with the detailed market analysis, BISP can find more ways to attract firms such as publishing opportunities in international technical journals, and looking for advertisement platforms which have large reach. For hiring of services the average firm participation is given below:

Step	Number of firms
EoI submitted by firms	32
Firms shortlisted	3

33. **Contract Management.** As per the Procurement Manual, Procurement Wing is responsible for overseeing the contract management process. However technical wings are required to accept the quality of deliverable for processing the payments. There have been serious delays in payment to the firms. The Bank has repeatedly raised this as a concern and conducted various sessions with the responsible staff at BISP to resolve this issue. However, there are still payments which have been pending for a long time. The Post Procurement Review conducted by M/s Ernst and Young (EY), the Bank’s consultant, also highlighted this as a serious issue but progress is yet to be seen. The delays are generally in the part of review and acceptance of deliverable by the Technical Wings at BISP. BISP audit queries have also delayed payments, however, as per the PPR report of M/s EY the audit observations were not very relevant to the case.

34. **Record Keeping.** The record is properly maintained in files however the security and safety needs to be improved. Currently there is no dedicated room or space for record keeping. There is a chance of information leakage or damage. Adequate storage with proper security and safety measures in place.

Risk Moderate	Impact	Mitigation
Need to maintain experienced and qualified procurement staff on full time basis	Procurement performance may suffer.	Regular and well experienced and qualified procurement staff should be in place throughout the life of the program
Insufficient capacity building activities to support better procurement performance	Procurement performance may suffer	A capacity building plan should be prepared for each year after a detailed Training Need Analysis. The Bank team can support in the preparation of the plan
Need for updating of Procurement Manual and ensuring adherence to the requirements of procurement manual.	Delayed payments, missing timelines, slippage of project operations objectives and weak procurement process.	Procurement Manual (covering the complete procurement cycle – planning, tendering, evaluation, award and contract management with clear roles, responsibilities and timelines for each step or process) can be revisited for further improvement. The manual should include roles, responsibilities of every staff involved (technical/procurement) in complete procurement and contract management cycle. The timelines should also be mentioned for each step for performance benchmarking purpose. A detailed discussion and action plan is required with BISP Management on how to successfully institutionalize the manual prior to launching of program
Weak oversight of procurement function at the top management level.	Instances of mis-procurement may not be detected or prevented	Oversight of Procurement function needs to be strengthened at the BISP top management level. Procurement Manual should have a specific section for Oversight mechanism and periodic update of progress to top management.
Weak complaint mechanism	Weak procurement performance and management over-ride may not be detected or prevented.	Complaint Mechanism needs to be strengthened for more efficiency with proper dissemination. A second tier appeal system should also be ensured for any complaints not satisfactory resolved by the complaint redressal committee.
Regular third party procurement performance is not undertaken.	Weak detection or prevention	There should be an annual third party procurement performance review (on a 20% random sample basis) for ensuring the required level of performance and compliance to the manuals, policies, rules and SOPs. TORs for this review will be mutually discussed and agreed by the Bank and BISP teams to review

		the over fiduciary capacity and performance along with mitigation measures for any gaps identified
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**(vii) External Auditing**

35. **External Audit is assessed as Moderate Risk.** External Audit of the Program will be conducted by the Federal Audit Office of Auditor General of Pakistan. Audited financial statements of the Program, as per past practice, will be submitted to the bank within six months of the close of financial year. In past years, audited financial statements for the project were submitted within six months of the close of financial year. There were some delays in holding of Departmental Accounts Committee (DAC) meetings as a result of which verification of compliance of audit observations was delayed in some instances. Going forward DAC meetings should be held on regular basis. The Program can be better served if Auditor General of Pakistan has capacity to undertake performance audits.

Risk Moderate	Impact	Mitigation
Audit recommendations are not discussed by Departmental Accounts Committee on regular basis	Timely corrective actions may not be taken	Regular meetings of Departmental Accounts Committee may be ensured.
Requires improved capacity to undertake performance audit	Independent assurance by AGP on P4R performance may not be available	Capacity building of AGP in performance audit

**(viii) Detection Risk**

36. **Detection Risk is assessed as Substantial.** For an organization of the scale of BISP, detection risk will continue to be a challenge. The objective of cash transfer programs is whether the right people are being paid the right amount at the right time. Some level of error, fraud, or corruption is inevitable because of the scale and distribution of cash transfer programs. This may be due to a number of factors which includes: a) the provision or input of incomplete or inaccurate personal/household data at the point of application; b) the failure of beneficiaries to notify the program of a change in their circumstances or the failure of the program to act on this information; c) one influential person receiving more than one payment. Whether these irregularities constitute error, fraud, or corruption depends on the perpetrator and the degree of intent. It is important that appropriate controls are in place that prevents or detects irregular payments either due to error, corruption or fraud. In this regards a number of controls are in place in BISP. Beneficiaries are identified on the basis of poverty score card survey, beneficiary details are obtained from the database of National Database and Registration Authority, criterion for eligible beneficiaries are approved by the Secretary BISP, and upon approval, Directorate of Management Information Systems (MIS) runs the system and creates a list of beneficiaries. Once the list is approved and communicated to Finance and Accounts Section, the database is independently run on the same parameters and exceptions if any are identified before authorizing payment. Each beneficiary has unique card and payment is transferred electronically to the bank accounts. However due to remoteness of beneficiaries, lack of education or information, there is always a risk of error, fraud or corruption.

37. **International evidence shows that safety nets are more effective when both beneficiaries and non-beneficiaries are able to hold decision-makers and front-line implementers to account.** Well-functioning complaints and grievance mechanisms have proven to be effective for promoting this demand-side accountability.<sup>1</sup>

<sup>1</sup> Community Based Targeting Mechanism for Social Safety Net by Jonathan Conning, Micheal Kevane; SP Discussion Paper No 002.

## E. Fiduciary Risk Assessment

38. **Review of overall Procurement Risk Level:** Based on the following points the Procurement risk of the overall project is rated as “Moderate”

- a. TA component size subject to Procurement Guidelines is small compared to overall project size
- b. No Operations Procurement Review Committee level large contracts are identified yet in the project.
- c. Consistent implementation of risk mitigation measures proposed during life of project
- d. Current capacity and structure of Procurement is expected to be in place during the project

39. **The overall Fiduciary Risk (Procurement and Financial Management) is Moderate.**

40. **The country risk level concerning Financial Management is Significant.** The initial Program level risk, before mitigation, is assessed as Substantial. The Program FM risk level is expected to reduce to moderate after the mitigation actions have been undertaken.

Risk	Initial FM Risk	Mitigation Measure
<b>Country level</b>	<b>Substantial</b>	
Budgeting	Low	Adopt Multi-year planning Align Budget with procurement plans Prepare Budget Comparison and Analysis report on monthly basis
Fund flow	Low	Government of Pakistan share of expenditure on Social Safety net has consistently improved in terms of size of budget as well in proportion to donor funds.
Accounting	Moderate	Adopt IPSAS Cash basis Integrate with PIFRA IFMIS
Internal Control	Moderate	Ensure regular meetings of Internal Audit Committee Track actions on recommendations of Internal Audit Notify time limits for payment authorization. Ensure implementation of job description for procurement and payment authorization functions. Conduct regular verification audit of beneficiary existence. Capacity building program to be developed to build capacity in financial management, and procurement should be developed during Program preparation.
Procurement	Moderate	Regular and well experienced and qualified procurement staff should be maintained during the life of the program Capacity building plan to be developed to deliver workshops should be held frequently to equip/update staff about new emerging trends/techniques in the field of Procurement and Contract Management. Procurement Manual (covering the complete procurement cycle – planning, tendering, evaluation, award and contract management with clear roles, responsibilities and timelines for each step or process) can be revisited for further improvement. A detailed discussion and action plan is required with BISP Management on how to successfully institutionalize the manual prior to launching of program Oversight of Procurement function needs to be strengthened at the BISP top management level Complaint Mechanism needs to be strengthened for more efficiency with proper dissemination There should be an annual third party procurement performance

		review (on a 20% random sample basis) for ensuring the required level of performance and compliance to the manuals, policies, rules and SOPs. TORs for this review will be mutually discussed and agreed by the Bank and BISP teams.
Financial Reporting	Moderate	Regular training of FM staff
Audit	Moderate	Audit for Bank Funded Program is carried out by the Auditor General of Pakistan. DAC meetings should be done on timely basis
Detection Risk	Substantial	Internal Audit Unit should perform regular audit of beneficiary existence. Annual System audit of IT resources.
Overall Risk	Moderate	