

ADDENDUM: FIDUCIARY SYSTEM ASSESSMENT (FSA)— CRISP- Additional Financing (P181558)

This Addendum to the FSA focuses on the existing fiduciary performance of the program. It documents (a) progress on implementation of the proposed mitigation actions included in the original FSA; and (b) other significant changes in the fiduciary environment impacting the AF of USD 400 million.

Sr. #	Main Heads of Account	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	Total Estimates for the program (US\$ million)
		Actual Expenditure (US\$ million)			Approved Budget (US\$ million)	Medium-Term Budget Estimates (US\$ million)			
1	Unconditional cash transfer	1,058	1,082.74	1,320.41	1,291.07	1,420.18	1,562.20	1,718.42	9,453.11
2	Conditional cash transfer and related initiatives	36	141.69	242.88	313.18	344.50	378.95	416.85	1,874.48
3	Systems enhancement/NSER project	20.18	12.26	6.55	8.07	8.88	9.77	10.74	76.46
4	Other program related costs	78.85	59.51	50.62	51.96	39.95	43.95	48.34	373.19
5	Employees related and general operating expenses	20.03	19.30	14.75	20.30	22.33	24.56	27.01	148.26
TOTAL		1,213.06	1,315.50	1,635.21	1,684.58	1,835.84	2,019.43	2,221.36	11,925.50

The Government intends to spend an estimated US\$ 11,925 million under the updated Program Expenditure Framework. The updated expenditure framework reflects the actual expenditure incurred under the program for FYs 2020-21, 2021-22 and 2022-23. Since effectiveness of the parent Program, the budget utilization rate for FYs 2020-21, 2021-22 and 2022-23 is 100%. AF funding will be channeled through the normal budget cycle of the Federal Government. Overall, original PforR financing and AF is 8% of the updated Program Expenditure Framework.

Executive Summary (Original FSA)

BISP follows the accounting system prescribed by the Federal Government and Financial Management and Procurement systems are found to adequate and reasonably advanced, based on ongoing experience under NSPP. BISP has taken significant steps to adopt International Public Sector Accounting Standards accrual basis of accounting. Some of the areas for further improvement include: development and institutionalization of Reporting templates; more precise capturing of the SP expenditure in the national accounting system; improved inhouse capacity for information system audits; development of an interface with the banks to detect and rectify improper payments due to fraud or errors must be implemented. Monitoring needs to be further strengthened to prevent, detect, and rectify improprieties. Although BISP is subjected to external audit by the Auditor General of Pakistan, reports need to be made public on BISP's website. The follow-up with external audit recommendations needs to be streamlined. Delays in awarding contracts due to high staff turnover rates will be addressed by ensuring

institutionalization of the processes. Perceptions of delayed payments which may lead to limited participation of bidders in procurement opportunities will be addressed by delegating financial powers for more efficient contract payment.

Past experience with procurement under NSPP has been positive. Sufficient capacity to manage procurement has been built. Contract management could be improved but BISP has made considerable improvements through internal strengthening. The Procurement Manual has been periodically revised. BISP also maintains an online complaint management system for procurement related complaints.

Pakistan has a legal framework and agencies to deal with abuse of authority and is also a signatory to the UN Convention against Corruption, and is committed to the Ehsaas Governance and Integrity Policy, BISP's Whistleblowing Policy, Conflict of Interest Policy, and WB's Anti Corruption Guidelines.

Fiduciary Systems Performance of the Original Program (CRISP P174484)

There have been no changes to the Fiduciary Systems original assessment which will impact the AF of the Program. Residual risk is assessed as 'Moderate'. Mitigation measures are being implemented effectively and will remain relevant under the AF phase.

Financial Management: BISP has moved to IPSAS accrual-based accounting which improves the reporting of program's assets and liabilities. Annual Financial Statements up to FY 2022-23 were prepared by BISP and audited by a firm of Chartered Accountants – the audit report with an 'unqualified' opinion was submitted to BISP's Board in December 2023. The practice of medium-term planning and budgeting is now institutionalized after the enactment of PFM Act 2019. BISP's performance report is now part of the federal government's performance monitoring report that is reviewed by the Parliament¹. BISP's budget execution reports and Auditor-General's Audit Report are publicly available². A Budget Scrutiny Committee reviews budget to narrow variations between planned and actual spending and increase the credibility of budgeting. BISP maintains an updated audit log and follows-up on the Auditor-General's recommendation for resolution at DAC level. Internal audit function has become more assertive which is reflected in the quarterly meeting of Audit Committee and the rigorous follow-up on audit recommendations. BISP has now interfaces with banks that show withdrawal of funds by beneficiaries immediately. The accounting system is integrated with IFMIS, thus allowing BISP expenditure to be reflected as part of national accounting system. Beneficiary payment risk is largely mitigated due to payment verification system complemented with additional data analytics to prevent or detect unauthorized payments. The complaints related to payment systems are logged in and action on the complaints is followed up timely for resolutions.

BISP needs to finalize reconfiguration of its accounting software on priority to allow automatic generation of accrual-based reports. Currently, this is being done manually. BISP also need to secure necessary approvals from the Government to maintain its accounting system on accrual basis without cash-basis accounting system going in parallel (PAP Action).

Procurement. BISP's Procurement Wing has been strengthened with additional permanent staffing positions (1 Deputy Directors & 2 Assistant Directors supported by two assistants). Currently the physical procurement record management has improved as office space has been provided for this purpose. A complaint management system—as envisaged under the Public Procurement Rules (PPRs) is now functional. For procurements under the government own resources, BISP is adopting e-Pak Acquisition &

¹ https://www.finance.gov.pk/budget/Budget_2023_24/Medium_Term_Performance_Based_Budget.pdf
https://www.finance.gov.pk/budget/Budget_2023_24/Performance_Monitoring_2021_22.pdf

² <https://fabs.gov.pk/citizendata.html>

Disposal System (EPADS) under the implementation of federal government’s e-procurement agenda³. Once BISP transitions to EPADS in next few months, procurement records will then be digitally available, and the bidders will be also able to file complaints at any stage of procurement using EPADS. However, the EPADS implementation will take time as it is currently in pilot stage. Moreover, an alternate remedy of filing an Appeal against the decision of the Grievance Redressal Committees (GRCs) is now functional at PPRA, providing relatively speedy relief to the aggrieved bidders / parties compared to the time taken in courts in complaints resolution. These changes enhance transparency and accountability under public procurements at BISP. EY Fords Rhodes—that completed a fiduciary review of procurements at BISP on 29th December 2023 did not report any significant weakness or issues in its report. No high-value procurement contracts are likely to be financed under the AF as the entire funding is meant for the Unconditional Cash Transfers (UCTs) under Results Area 1. The US \$5 million TA component of the original Program (**CRISP P174484**) continue to follow the world bank procurement regulations and the AF operation continues to include this existing TA that includes very low value and low risk procurement activities.

Procurement planning: Annual procurement plans are being developed that determine the procurements to be done and are prepared by the concerned wings within the BISP based on priorities. These plans are consolidated by the procurement section for approvals and budgeting. All the procurements to be covered in the annual procurement are then decided based on priorities, budget allocation, and availability of funds.

Procurement profile and capacity assessment: From the broad outline of Program expenditure related to procurement, it is noted that there will be negligible procurements in the Program as majority of the funds are being used for the cash transfer. The recent Procurement assessment of the original program (**CRISP P174484**) record satisfactory performance with “Low” procurement risk due to negligible procurement profile under the Program. BISP procurement capacity is adequate to handle the procurement requirements under the Program.

Procurement exclusions: The Program is not expected to procure any large contracts valued at or above the OPRC thresholds (US\$115 million for works, US\$75 million for goods and non-consulting services, and US\$30 million for consultant services), which are based on a Moderate risk rating. This conclusion is based on analyzing procurement data under BISP for procurement. BISP shall report to the World Bank if any large contracts appear during Program implementation. In addition, the World Bank team will analyze and monitor the Program budget execution reports, the Program performance of fiduciary systems, and contract management reports to identify any large- value contracts that may appear throughout the Program implementation.

Governance and Anti-Corruption.

Pakistan has a comprehensive anti-corruption legal framework, but enforcement remains limited, and the country consistently performs poorly on measures of corruption. Pakistan ratified the United Nations Convention against Corruption in 2007 and has two dedicated anti-corruption laws including the Prevention of Corruption Act (1947) and the National Accountability Bureau Ordinance (1999) along with a range of ancillary laws including the Right of Access to Information Act (2017), the Whistleblower Protection and Vigilance Commission Ordinance (2019), and the Benami Transactions (Prohibition) Act (2017). Provinces likewise have right to information laws.

Pakistan has dedicated anti-corruption agencies, but enforcement is weak amid accusations of the politicization of anti-corruption efforts. The National Accountability Bureau leads anti-corruption efforts with a mandate to investigate public sector corruption and private sector financial misconduct but

³ <https://ppra.org.pk/epads/index.asp>

struggles with case backlogs and a low rate of successful convictions. Anti-corruption efforts are supported by the anti-corruption wing of the Federal Investigation Agency and provincial Anti-Corruption Establishments. Pakistan has a well-regarded and independent Auditor-General (AGP), but limited consequences have emanated from audit findings and are rarely prosecuted.

The Program’s main implementing agency, the Benazir Income Support Programme (BISP), has made significant efforts to improve the integrity of the payment mechanism. In the past, BISP faced challenges with errors due to its paper-based systems, but digitization and verification efforts since 2020 have significantly improved the integrity and monitoring of the system. BISP had adopted a range of measures to safeguard against fraud and corruption including verification against the National Socio-Economic Registry (a database of poor households), the introduction of biometric verification systems, independent monitoring of payments, and third-party evaluations of the program. The Auditor General’s Audit Report on The Accounts of Social Safety Nets (Federal Government) Audit Year 2022-23, however, found several irregularities in its audit of BISP, including irregular cash transfers to government employees/pensioners and their spouses in FY2021/22.

The AGP has adopted Audit Management Information System (AMIS) and improved its Audit Quality Management Framework (AQMF). The AMIS allows PAC to review and track compliance with its recommendations more effectively. The AQMF requires senior management sitting in head offices to apply quality control and quality assurance checks to audits—thereby making audit process more transparent and accountable while also pushing field auditors to improve compliance with auditing standards. This will improve the quality of public sector auditing—which will positively affect BISP also. Audit reports are discussed in front of the media. Citizens portals are operational now allowing citizens to file complaints against any office/officers. The right to information (RTI) legislation requiring government to make public their laws, policies, regulation, budget, performance reports, audit reports etc. is now operational across the country. The RTI laws impose penalty for willful act of not responding to citizens’ request. The RTI Commissions are actively working to support the cause of transparency. No incidence of fraud and corruption reported to the World Bank against CRISP to the date of finalizing this addendum.

Additional Mitigation Measures: Although no corruption allegations have been raised related to the ongoing CRISP Program, there are risks associated with the nature of cash transfer programs. This includes potential for fraud and corruption in payments. BISP’s verification systems and ongoing scrutiny by the AGP, however, supports the mitigation of these risks. Further mitigation measures proposed include: i) adherence to ACG guidelines of the World Bank, including timely reporting of fraud and corruption cases related to the PforR; ii) generating and publishing regular verification reports on receipts of transfers; iii) establishing a functional grievance redressal mechanism to address corruption risks associated with the program, preferably using technology; iv) designating a focal point for monitoring corruption and fraud risks; v) timely resolution of complaints and sharing of reports.

The World Bank’s Guidelines on Preventing and Combating Fraud and Corruption in Program for Results Financing applies to the Program. If required, the Bank should have access to any information related to contracts under this Program (even if held by third parties/contractors) and the Bank should have the right to investigate any allegations of fraud and corruption within the Program. The Borrower’s commitment to follow the Guidelines will be formally evidenced in a letter addressed to the World Bank to be submitted prior to Program negotiations. The CAG has a statutory mandate to audit all government finances irrespective of their source.

The AF would need to be implemented in accordance with the World Bank’s Anti-Corruption Guideline (ACGs) for PforR operations dated February 1, 2012, and revised on July 10, 2015. Requirements under these guidelines include, but are not limited to:

- a) Sharing of information on fraud and corruption allegations: The Borrower shall be responsible for sharing with the World Bank any information on allegations of corruption received from both the public and its own investigation every six months.
- b) Use of World Bank sanctions and debarment list of firms and individuals for the Program: The Borrower shall be responsible for sharing with the procuring entities the World Bank’s debarment or suspended list and ensure that these firms or individuals are not allowed to bid for contracts or benefit from a contract under the operation during the period of debarment or suspension. Additionally, all contracts need to include a clause that vendors will follow the World Bank’s ACGs. The implementing entity would need to check compliance and report to the World Bank every six months as part of the reporting requirement of the operation.
- c) Investigation of Fraud and Corruption Allegations: The World Bank’s Institutional Integrity Vice Presidency (INT) retains the right to conduct administrative inquiries on allegations made against the Program. All allegations of fraud and corruption will be investigated by the ACC.

New PAP Actions

Action Description	Source	Responsibility	Timing	Completion Measurement
Finalize reconfiguration of its accounting software to allow automatic generation of accrual based reports	Fiduciary Systems	BISP	30-Jun-2025	Functional accounting system that can generate interim reports based on accrual based accounting. Draft interim reports prepared
Secure necessary approvals from the government to maintain its accounting system on accrual basis without cash-basis accounting system running in parallel	Fiduciary Systems	BISP	02-Mar-2026	Government's notification that allows BISP to maintain a singular accounting system on accrual-basis.
Use of World Bank sanctions and debarment list of firms and individuals for the Program	Fiduciary Systems	BISP	Every 6 months	BISP to share a report of awarded contracts and make sure that the World Bank’s debarment or suspended list has been checked prior to contract awards to ensure that

				debarred firms or individuals are not allowed to bid for contracts or benefit from a contracts under the operation during the period of debarment or suspension.
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