

## FINANCIAL MANAGEMENT ASSESSMENT REPORT

### A. Executive Summary

1. A financial management assessment (FMA) has been conducted for the Ministry of National Health Services, Regulations and Coordination (MONHSR&C), the executing and implementing agency of the project funded by the Asian Development Bank (ADB), and the Federal Expanded Programme on Immunization (EPI), the implementing agency, which also includes the inventory management of Provincial EPI, in accordance with ADB's Guidelines for the Financial Management Assessment and Analysis of Projects and ADB's Financial Due Diligence: A Methodology Note and Asia-Pacific Vaccine Access Facility (APVAX) Operations Guidance Note<sup>1</sup> for the purpose of Pakistan COVID-19 Vaccine Support under the APVAX.<sup>2</sup> The FMA focuses on vaccination plan, funds flow, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring, and internal and external audit. The purpose of this FMA is to ensure that adequate financial management arrangements are in place for the proposed project.

2. A supplementary assessment on the financial management systems has also been conducted as a requirement of the rapid response component (RRC) that will focus on the critical diagnostic and analytical work to prepare for vaccinations, procurement of vaccines, procurement of vaccines, and logistics for bringing vaccines from the place of purchase to the developing member country (DMC). As part of the assessment, the inventory management system was included in the evaluation, including review of Covid-19 Vaccine Inventory Management Systems (COVIM) reports (Appendix 1-7).

3. Financial management assessment concluded that the overall pre-mitigated financial management risk of the project is **Substantial** due to the risk associated with internal control system, inventory management and controls and lack of EA/ IA experience in the financial management of ADB projects. To address these risks, the following mitigation measures were agreed with the MONHSR&C and Federal EPI: (i) financial management specialist (FMS) with prior ADB or World Bank experience will be engaged to support MONHSR&C and Federal EPI for the project who will be jointly funded by ADB and WB; (ii) training will be provided by ADB to MONHSR&C and Federal EPI staff on ADB financial management and disbursement policies, procedures and guidelines; (iii) quarterly reconciliation of accounting records from same expenditure funded by other development partners; (iv) ADB funds shall be maintained and utilized through a separate bank account, to be opened by the EA/IA for the project; (v) on time submission of quarterly financial management progress reports; (vi) inclusion of the project in the annual audit program of the internal auditor of MONHSR&C and Federal EPI; and (vii) independent external auditors will be appointed to conduct project performance audit.

### B. Introduction

4. The Government of the Islamic Republic of Pakistan (GOP) through the Ministry of Economic Affairs, Economic Affairs Division (EAD) submitted a formal letter to ADB, requesting for a financing of \$500 million for procurement of COVID-19 vaccines. The project will support the coronavirus disease (COVID-19) vaccination roll-out in Pakistan. The requested loan not exceeding \$500 million will be from ADB's concessional ordinary capital resources (COL). ADB

<sup>1</sup> ADB. 2015. Financial Management Assessment Technical Guidance Note. Manila; and ADB. 2009. Financial Due Diligence: A Methodology Note. Manila; ADB. 2020. Asia-Pacific Vaccine Access Facility Operations Guidance Note for one ADB team members.

<sup>2</sup> COVID-19 is the abbreviated form of "the coronavirus disease".

will finance the expenditures in relation to COVID-19 vaccine procurement and delivery to designated points and vaccine program capacity strengthening. The project will support the implementation of the National Deployment and Vaccination Plan (NDVP) in 2021 for COVID-19 Vaccines in line with ADB's Strategy 2030. The government provided assurance to cover any shortfall in the finances required. The government will contribute \$81 million to cover taxes and duties through exemption, and counterpart staff, and financial charges during implementation, as agreed with the government.

5. The financial management assessment conducted a thorough review and evaluation of NDVP, a national plan for COVID-19 vaccination in Pakistan under the Federal Expanded Program on Immunization (EPI) of the MONHSR&C, various sector level governance assessments, and interviews with project management unit and other relevant government staff such as MNHSRC's Programs/Health System unit, Federal EPI's financial management team and review of the COVIM reports.

### C. Project Background

6. The project will provide the Government of Pakistan with immediate and flexible financing for COVID-19 vaccine procurement and logistics, and capacity-strengthening activities through the Asia Pacific Vaccine Access Facility (APVAX). APVAX has two components, the rapid response component (RRC), primarily intended for the procurement of COVID-19 vaccines and its ancillary goods and services, and the project implementation component (PIC) to support institutional capacity for vaccine delivery, administration and inventory management control and monitoring. RRC under APVAX will be used for the procurement of the COVID-19 vaccines and international transport costs and custom's clearance of these vaccines. The PIC under the APVAX will be utilized for all other costs. The project will support the implementation of the National Plan for COVID-19 Vaccination in Pakistan. The proposed project is part of an integral package of development partner support and will further help the government's emergency efforts to mitigate the significant health, social, and economic impacts of the COVID-19 pandemic

7. There are two outputs under this project:

- **Output 1: COVID-19 vaccines procured and delivered to designated points.**

The project will provide financing to procure vaccines. The government may procure them through direct contracting with manufacturers and/or via the COVAX Facility and/or directly engaging UNICEF. An estimated 39.83 million doses for COVID-19 vaccines will be delivered to provincial EPI warehouses.<sup>3</sup> The expenditure items will include: (i) under the rapid response component, vaccines that meet any of the eligibility requirements in the APVAX policy<sup>4</sup>, including advance payments, and international logistics and related services required for the transportation of vaccines from the place of purchase to the warehouse of federal EPI; and, (ii) under the project investment component, safety boxes, syringes, and other items required for the administration of the vaccines, and national logistics and related services required for the transportation of vaccines from the warehouse of federal EPI to designated delivery points in Pakistan.

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<sup>3</sup> Based on assumptions of a unit price of \$11 per dose for COVID-19 vaccines and two doses per patient.

<sup>4</sup> Asian Development Bank (ADB). 2020. [ADB's Support to Enhance COVID-19 Vaccine Access](#). Manila; and ADB. 2021. [Proposed Amendment to ADB's Support to Enhance COVID-19 Vaccine Access](#). Manila (together, the APVAX policy).

- **Output 2: Vaccine program implementation capacity strengthened.** Under the project investment component, the project will strengthen the capacity of the MONHSR&C and Federal EPI through a project management unit (PMU) to help them implement the COVID-19 vaccine program effectively and efficiently. The PMU will receive essential support from consultants funded by the project, covering project management and coordination; procurement and supply chain management, including distribution; gender mainstreaming; monitoring and evaluation; performance audits; and waste management. Additional international expertise may be organized through existing technical assistance.

#### **D. Summary of Results of Existing Country Financial Management Systems Assessments**

8. According to ADB's Country Partnership Strategy (CPS 2021 - 2025)<sup>5</sup> key objectives are to support Pakistan's efforts to lift growth, build resilience, and foster competitiveness. A focus in these areas will help the country mitigate the impact of the COVID-19 pandemic and tackle structural problems to reduce poverty and vulnerability and create jobs. These broad areas allow for exercising a certain amount of flexibility in determining operational sectors given Pakistan's position as a large borrower, and in view of the given COVID-19 pandemic-related uncertainty, the need to remain responsive to changing country needs and expectations. Sector flexibility is also important because an individual operation can relate to multiple sectors and themes. Within these parameters, however, ADB's assistance will remain selective and focused, built on a prudent choice of subsectors, and carefully prioritized specific projects and programs within ADB's finite resource envelope. Explicit recognition of ADB's comparative advantages and the division of labour between development partners will be key guiding principles.

9. The country operations business plan (COBP) for Pakistan, 2020-2022 of the Asian Development Bank (ADB) is aligned with ADB's country partnership strategy for Pakistan, 2021-2025, which supports the Government of Pakistan's objective of sustained and inclusive economic growth. The COBP is also consistent with the priorities set out in ADB's Strategy 2030 and is aligned with the government's development agenda and the economic and social development plans of provincial governments.<sup>6</sup>

10. Pakistan has extensive legislative and institutional structures for public financial management (PFM). However, effective, and efficient implementation of these structures is challenged by a decentralized service delivery system while the PFM remains highly centralized. While there has been significant progress in reforming the PFM systems with implementation of financial accounting and budgeting system (FABS), introduction of mid-term budgetary framework and output-based budgeting, yet budget credibility and execution remain a key area of weakness. In a relatively recent timeframe, supported by key development partners including ADB and the World Bank, the Government of Pakistan has embarked upon a six pillar PFM Reforms Strategy (2018-2027) to address the risks and system inefficiencies. A robust monitoring and course correction mechanism is needed to ensure that envisaged benefits from recent initiatives for PFM reforms are achieved in a timely and effective manner.

11. Accounting and auditing are federal mandates which are performed by offices of Auditor General of Pakistan (AGP) and Controller General of Accounts (CGA), respectively, while budgeting and expenditure management is performed by provincial governments. The constitutionally independent office of AGP conducts external audits of public funds. Pakistan has

<sup>5</sup> ADB. 2021. *Country Partnership Strategy: Pakistan, 2021-2025*. Manila.

<sup>6</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

adopted a unified PFM system, which is provisioned under the Constitution of Pakistan, setting out the management of federal consolidated fund and public account.

12. In June 2019, the federal parliament approved Financial Management Act, 2019. The act deals with federal consolidated fund and public account of the federation, and other matters of the federal government. The PFM Act 2019 focuses on implementation of a Treasury Single Account; publication of tax expenditure and contingent liabilities in budget document; submission of mid-year budget performance review to the parliament and sharing of the reports with the public; establishment of Chief Finance and Accounts Officers in the ministries and implementation of Internal Audit Function. Budget execution is provisioned under Article 99 of the Constitution and is regulated through General Financial Regulations (GFRs), Delegation of Financial Power Rules and FTR.

13. The PFM process starts with the budget preparation. MOF compiles the budget in accordance with budget calendar. The budget is debated by the national assembly during review and approval. Drawing and Disbursing Officers (DDO), nominated officers in the spending units, submit expenditure bills to the account's offices for payment. The accounts offices at the district, provincial and federal level process payment claims while exercising budgetary controls and compliance checks. The CGA maintains the accounts of financial transactions and prepares periodic and annual financial reports, for the federal government, provinces, and districts.

14. Public Expenditure and Financial Accountability (PEFA) Assessment. The overall ratings of the PEFA assessment conducted in 2012 indicate a satisfactory assessment for Government of Pakistan (GOP).<sup>7</sup> Of the 31 items rated, five (16.1%) were rated A; eight were rated B or B+ (25.8%); ten were rated C or C+ (32.2%); and six were rated D or D+ (19.4%). The last federal level PEFA assessment was performed in 2012. PEFA on Federal level indicated strong performance by the federal government in terms of comprehensiveness (performance indicators 5-6), transparency (performance indicators 8 and 10), policy-based budgeting (performance indicators 11-12), moderate performance in revenue administration (performance indicators 13-15) and budget execution, and cash/debt management (performance indicators 16-17). Performance in the areas of credibility of budget (performance indicators 1-4) is improving. Weak areas included overall internal control (performance indicators 18-21); accounting, recording, and reporting (performance indicators 22-25); and external scrutiny and audit (performance indicators 27-28).

**Table 1: Public Expenditure and Financial Accountability Assessment**

Indicators	Dimension	PEFA Score	Risk Rating
	<b>A. BUDGET CREDIBILITY</b>		
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	Moderate
PI-2	Composition of expenditure out-turn compared to original approved budget	C+	Substantial
PI-3	Aggregate revenue out-turn compared to original approved budget	B	Moderate
PI-4	Stock and monitoring of expenditure payment arrears	NA	
	<b>B. COMPREHENSIVENESS AND TRANSPARENCY</b>		

<sup>7</sup> PEFA Secretariat. 2013. *Pakistan 2012 Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report*. Washington, D.C: World Bank.

Indicators	Dimension	PEFA Score	Risk Rating
PI-5	Classification of the budget	A	Low
PI-6	Comprehensiveness of information included in budget documentation	A	Low
PI-7	Extent of unreported government operations	C+	Substantial
PI-8	Transparency of inter-governmental fiscal relations	A	Low
PI-9	Oversight of aggregate fiscal risk from other public-sector entities.	C+	Substantial
PI-10	Public access to key fiscal information	B	Moderate
	<b>C. POLICY-BASED BUDGETING</b>		
PI-11	Orderliness and participation in the annual budget process	A	Low
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	Moderate
	<b>D. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION</b>		
PI-13	Transparency of taxpayer obligations and liabilities	B	Moderate
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+	Substantial
PI-15	Effectiveness in collection of tax payments	D+	High
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	Substantial
PI-17	Recording and management of cash balances, debt and guarantees	B+	Moderate
PI-18	Effectiveness of payroll controls	B+	Moderate
PI-19	Transparency, competition, and complaints mechanisms in procurement	D+	High
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	Substantial
PI-21	Effectiveness of internal audit	D	High
	<b>E. ACCOUNTING, RECORDING AND REPORTING</b>		
PI-22	Timeliness and regularity of accounts reconciliation	D+	High
PI-23	Availability of information on resources received by service delivery units	NA	
PI-24	Quality and timeliness of in-year budget reports	C+	Substantial
PI-25	Quality and timeliness of annual financial statements	C+	Substantial
	<b>F. EXTERNAL SCRUTINY AND AUDIT</b>		
PI-26	Scope, nature, and follow-up of external audit	B	Moderate
PI-27	Legislative scrutiny of the annual budget law	C+	Substantial
PI-28	Legislative scrutiny of external audit reports	D+	High
	<b>G. Donor Practices</b>		
D-1	Predictability of Direct Budget Support	A	Low
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	Substantial
D-3	Proportion of aid that is managed by use of national procedures	D	High

Source: Pakistan 2012 Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report.

## **E. Vaccination Plan Financial Management Systems Assessment and Identified Risk**

15. Planning for NDVP has been executed under the world bank funded project “Pandemic Response Effective in Pakistan (PREP). ADB will provide retroactive financing from the loan funds that may be used for reimbursement of eligible expenditures incurred in connection with national consultants, logistics and transportation related to delivery of vaccines to designated points, subject to a maximum amount equivalent to 30% of the loan amount, provided that expenditures are incurred after the declaration of the COVID-19 emergency or allocation of resources therefor, but not earlier than 12 months before the date of the loan agreement, and provided that disbursement conditions are met.

16. The NDVP includes section on (i) planning and coordination; (ii) costing and funding; (iii) logistics requirements; and (iii) monitoring and reporting; and (iv) oversight. NDVP objectives are to (i) protect vulnerable groups, including registered and unregistered refugees, internally displaced persons, and marginalized groups, (ii) interrupt transmission of COVID-19, (iii) protect critical social and routine health services, (iv) create and maintain effective stakeholder communication during planning and vaccine administration process, and (v) ensure high level of awareness of population and regular monitoring of the process

17. The financial management assessment focuses on MONHSR&C and federal EPI’s financial management activities. In addition, inventories of vaccines and ancillary items are being transported and handled by provincial EPIs, which operate under respective provincial governments. The inventory management system is also evaluated focusing on controls being placed to mitigate the risk of misappropriation, theft, wastage, and unallocated vaccines to proper group, among others.

18. National Command Operation Center (NCOC) has been established for Country COVID19 Coordination Platform/Mechanism, which is representing all four provinces, federal government, and military department to deal with the COVID-19 pandemic. The plan has been agreed by all organizations that will support its implementation. To mitigate hesitance of population to receive the vaccines, informational campaigns are carried out throughout the country via television and other mediums of communication. In addition to this, area-wise campaigns are also being conducted through camps, hoardings, banners, announcements from mosques, and distribution of pamphlets.

19. Economic Coordination Committee (ECC) of the Cabinet has approved the implementation of the allocation of funds for emergency procurement of vaccine to National Disaster Management Authority (NDMA) last 31 May 2021. On a meeting with EAD together with ADB and WB last 03 June 2021, it was agreed that (i) For the WB and ADB financing arrangements that are already in place or at advanced stage, MONHSR&C may continue to act as executing agency for the procurement of vaccine and with equal representation from NDMA and possibility of joint-signing of vaccine procurement contracts, given NDMA involvement in vaccine procurement negotiations process. It is also confirmed that the NDMA will not be part of the project governance structure and projects decision making processes will be with the EA/IAs, who would be fully responsible and accountable.<sup>8</sup>

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<sup>8</sup> ADB's financing arrangement for Pakistan's COVID-19 vaccine support is already in an advanced stage and the assessment as to the governance structure and decision making was only up to the reference note of meeting with AED dated 03 June 2021.

20. **Budget.** COVID-19 vaccine program is part of Pakistan's development budget in which almost all the budgets has been secured. Currently, the NDVP (24 June) indicates \$723 million from which will be coming from ADB – \$500 million, World Bank – \$153 million and IsDB – \$70 million<sup>9</sup>.

21. Development Partners have committed to support Pakistan in National Plan for COVID-19 vaccination. Table 2 are the current commitments by Pakistan's development partners:

**Table 2. Commitments by Development Partners, GOP and other donors for 2021**

Partner	Amount in million USD	Type of Support
COVAX	\$1,048.30	Vaccines Cold Chains Technical Assistance Technical Assistance
World Bank	\$153.00	Vaccines Cold Chains equipment Additional vaccinators and supervisors Vaccine delivery Technical assistance
ADB	\$500.00	Vaccines Delivery to regional or provincial centers Capacity strengthening for MONHSR&C
Islamic Development Bank	\$70.00	Vaccines Transportation & Distribution Risk Communication Training
GOP	\$161.81	Vaccine Procurement Operation costs
People's Republic of China	\$17.0	In-kind donation of vaccines
<b>Total</b>	<b>\$1,950.11</b>	

ADB = Asian Development Bank, COVAX = COVID-19 Vaccines Global Access, MONHSR&C = Ministry of National Health Services, Regulation & Coordination, TA = technical assistance.

Source: Pakistan's Federal Expanded Program on Immunization.

22. Various development partners will be supporting the NDVP with a single PMU. Each development partner will have its own dedicated project advance to be opened in commercial bank, and transactions will be invoiced separately.

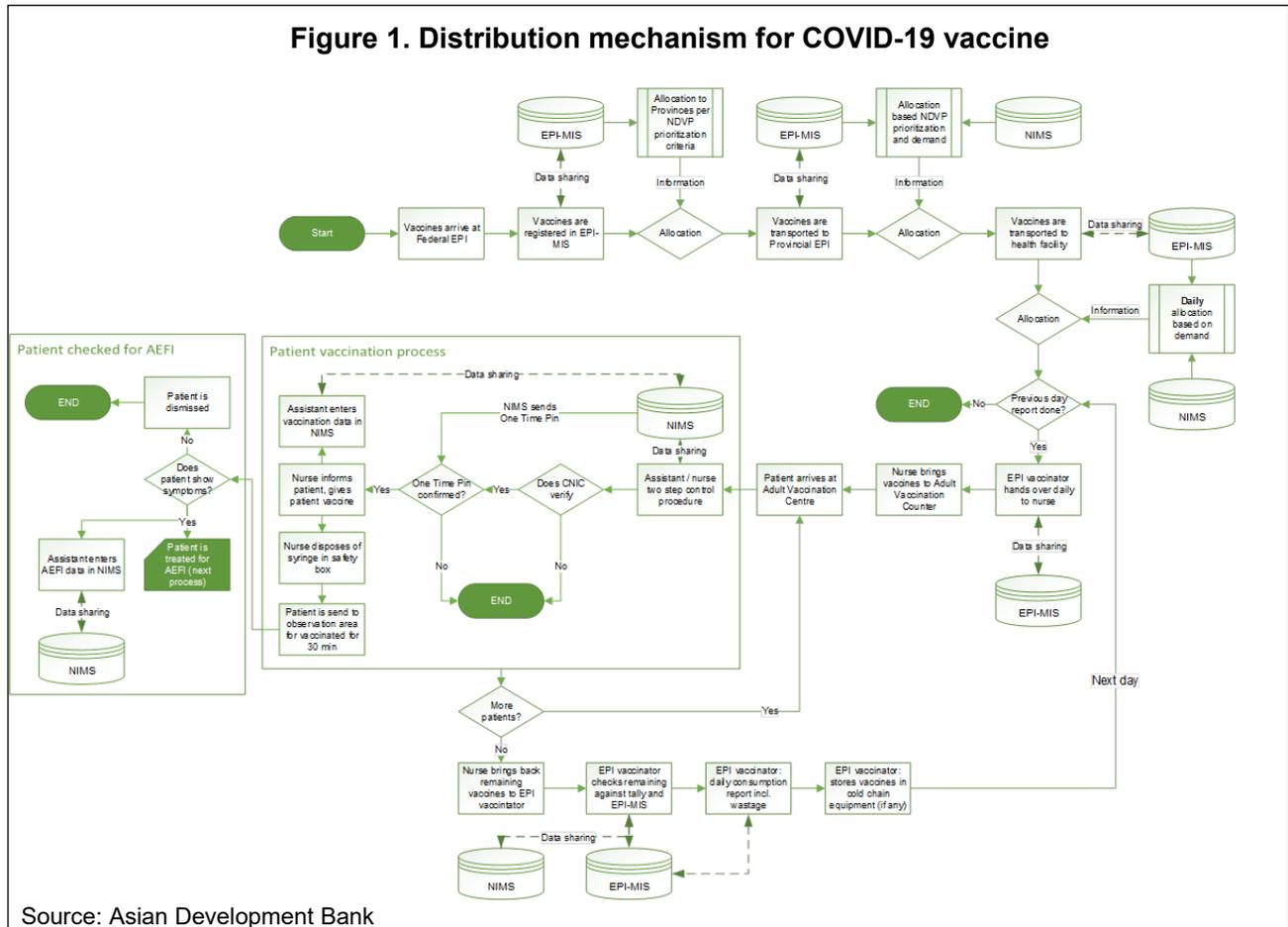
23. MONHSR&C's forecasted funds allocation for FY2022 and FY2025 is calculated based on domestic cost escalation rate of Pakistan<sup>10</sup>. Fund sources allocation from the Government would decrease to 88% and donor share contribution would increase to 12% mainly due to increased focus on development of health care system.

24. The MONHSR&C's incremental recurrent cost analysis indicates that the project is financially sustainable. The national budget of the government does not heavily rely on the support from its developing partners and allocations to health care system are sustainable and However, the overall MONHSR&C health care budget as a % of the national budget is still very low ranging from 0.57% to 1.92% in the last five years.

<sup>9</sup> PC-1 is a proposed One Planning Commission (PC-1) project would combine the three institutions' COVID-19 vaccine procurement projects and thus ensure that all efforts complement each other.

<sup>10</sup> April 2020 Domestic Cost Escalation Factors 2020-2024 forecasts for 2022 to be 7%, and 2023 and 2024 - 6%

25. **Supply Chain.**<sup>11</sup> To achieve sustainable improved systems and greater data visibility throughout the country's health supply chains, the USAID Project<sup>12</sup> has supported the GOP in implementing the supply chain strengthening interventions, including the formation of EPI Logistics Manual. This manual is being used for MONHSR&C's expanded program on immunization, and will also be applied for COVID-19 vaccines and supply logistics.



a. **Transportation and stock taking.** The Deployment of vaccine up to health facility level would be executed through EPI Supply Chain Management System.

- **National level.** Federal EPI would be designated as consignee for shipments Vaccine and logistics. The Vaccine shipments would be cleared at Islamabad International Airport and logistics shipments would be cleared at dry ports. There will be an authorized clearing agent to clear the shipments through customs immediately after arrival. Federal EPI would also manage necessary regulatory approvals from Drug Regulatory Authority of Pakistan (DRAP) for vaccine shipments. Invoice, packing list, lot release certificate for the country of origin, vaccine arrival report (VAR) and other shipping documents are required

<sup>11</sup> No test of controls was conducted during the financial due diligence, hence, the effectiveness of Pakistan's logistic management system and compliance of SOPs will also be covered under monitoring and evaluation activities.

<sup>12</sup> [USAID Deliver Project Pakistan](#). 2016.

together with the shipments received. Store officer will appoint a person who will deliver the shipment documents for the pre-appointed clearing agent. Given that GOP does not have capacity to barcode each vial of vaccine, a combined automated and manual controls are placed, where an officer-in-charge at the Federal EPI Warehouse must ensure that for each shipment, a separate checklist is filled out for reporting and record keeping. The stock received report will then be encoded in COVIM. Additionally, different manual forms that will be compiled on daily basis, such as data forms, tally form, observer checklist, adverse effects form, daily report forms were introduced.

- **Regional and Provincial.** After arrival of vaccine, the vaccine and supplies would be transported to the Provinces as per their share according to target population. Another stock report is issued from federal vaccine store to regional/provincial store.
  - **Health Facility Level.** The Deployment of vaccine up to health facility level would be executed through EPI Supply Chain Management System. From provinces it will be further distributed to the districts and health facility level according to the strategy for vaccine administration.
- b. **Storage.** An ongoing assessment to check the sufficiency of cold chain capacity available to accommodate the COVID-19 vaccines is being done. Pakistan has submitted cold-chain equipment (CCE) application to Gavi's COVAX Facility in January 2021. Additional delivery of CCE is planned for the next 3 years through Cold Chain Equipment Optimization Platform (CCEOP).<sup>13</sup> With the additional requirement of cold rooms and freezer rooms at National, Provincial, divisional and districts levels, the Federal EPI with the support of UNICEF and in consultation with provinces have developed a Non CCEOP deployment through which 89 Walk in Cold Rooms and Walk in freezer rooms would be procured through UNICEF and installed in selected sites in 2021. The Government is expediting the whole process to be able to receive equipment well before the vaccine arrives in Pakistan.
- c. The existing cold chain system in Pakistan at a national, regional and provincial level can store up to +2° C and +8° C if the vaccine administration would be implemented through fixed sites without being overlapped with any other immunization campaign. The country can also store up to -20°C for about 3% to 7% of the population. The cold chain capacity of the National and Provincial stores has been enhanced through installation of cold rooms and freezer rooms provided through New Vaccine Introduction Grants by Gavi during the last five years. The risk of lack of storage facilities will be minimized by maintaining normal national requirement of all immunization vaccines which can be stored at federal level for three months' and one-month buffer at provincial level. Supply of vaccines, above which any unprecedented storage requirements such as requirements of Covid-19 (2°C- 8°C) related vaccines of 17-20% of population provided if no other supply is required to be handled than this storage is enough to suffice the needs storage requirements. Moreover, selection of vial also plays a critical role in storage capacity, as single dose vial will take more space as compared to vial having 5 doses in total.

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<sup>13</sup> Partnership project between Pakistan and GAVI

- d. **Security.** Security of vaccine during storage, transportation and at the distribution points are being applied through accountability and transparency by the storekeeper at the national level. At the provincial level, storekeeper has control measures to ensure that vaccines are not misused, damaged, destroyed, or lost during the transportation through documents and quantity checks. EPI Warehouses have safety and security protocols which was documented in a checklist that will be submitted on a weekly basis by the storekeeper under the supervision of store officer and assistant store officer.
- e. **Data Management.** GOP's National Database & Registration Authority (NADRA) has developed the National Immunization Management System (NIMS) linked with EPI's Management Information System (EPI-MIS) that will be used for COVID-19 vaccine program. NIMS has the visibility up to the health facility level for which the system has been scaled up. EPI-MIS can adequately provide the information required to support monitoring and reporting of the Plan. All the critical components of information that will need to be sent up and down the information channels in order to monitor deployment activities and provide information to decision makers been determined via the internet for proper reception, storage, and distribution. The NIMS is also linked with EPI-MIS to exactly map availability of vaccine in the HF to direct the population toward each HF based upon vaccine availability. With the support of UNICEF and WHO, data-quality audit for EPI-MIS has been carried out in the last two years. Also, Pakistan mentioned by UNICEF in its case study as one of the four countries with robust experience implementing real-time monitoring activities technologies for immunization campaigns, where measles and typhoid vaccination campaigns yielded many good real-time monitoring practices.<sup>14</sup>

26. A draft UNICEF's Effective Vaccine Management Assessment (EVM) report for 2019 concluded that there has been significant improvement in the immunization supply chain system, however, some areas still need urgent attention such as intervention in expanding the dry and cold storage capacities in Punjab and Sindh, expansion of dry storage capacities in 69% of the district's stores, institutionalized effective supportive supervision mechanism, update data collection and monitoring tools to include key particularly at districts and lower levels, and develop a strong maintenance structure to sustain the massive investment in cold chain and other supply chain infrastructure in the country.

27. **Inventory Management System and Control**<sup>15</sup>. There is an existing vaccine logistics management information system being by Federal EPI, however, this system only does report, data quality and stocks availability only up to district levels. For COVID-19 immunization which requires faster flow of information from health facility and additional features on inventory information, Federal EPI has developed an additional module under EPI-MIS. COVID-19 Inventory Management System (COVIM) is a computerized system and has all the controls and checks that are available at provincial, district and health facility level where users are segregated as per their roles assigned. COVIM has the ability to provide COVID-19 stock report, issued voucher list report, cumulative consumption report and stock position at health facility level. The data are being updated real-time. COVIM is also integrated with an Android app at the health

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<sup>14</sup> [The Use of Digital Technologies and Approaches for Real-Time Monitoring of Supplementary Immunization Activities.](#)

<sup>15</sup> SOPs and sample of documents were derived from [Logistic Management Information System](#) and COVIM manual. No data validation performed but actual data validation will be during the project review mission.

facility level where vaccinator record the receipt of vaccines. Daily information can be submitted by that vaccinator through android application or computer and a report per day can be generated.

28. The controls are in place starting from inventory taking to delivery from Islamabad airport to administration to the population. All vaccines are being insured as part of the procurement agreement. COVID-19 vaccines will be purchased from international sources, where warehouse must receive a pre-alert shipment intimation and documentation will be received 10 days prior to arrival which includes copy of shipping information, airway bill, packing list, invoice, and release certificate. This pre-alert shipment will give way to the storekeeper to plan the coordination, readiness, and transportation. Upon arrival, inspection of the shipment will take place to reconcile information on the invoice, packing list, lot release and VAR with completeness and quality of the shipments. VAR is maintained for any damage claims within 48-72 hours of receipt of the consignment. For bilateral procurement, an inspection committee inspects the shipment and ensures data recording into COVIM. Received shipment checklist is being prepared with information as to the date, purpose, antigen, batch no., manufacturer and received from. Information from the shipment checklist will then be encoded in COVIM. On a daily basis, the storekeeper shall ensure that all receipts and dispatched transactions are recorded in COVIM. No transactions shall be recorded in COVIM without the stock transfer voucher. Stock received voucher are also being generated for each warehouse transfer. The storekeeper, under the supervision of store officer and assistant store officer, has the responsibility to ensure that the system is running smoothly, reporting of records and information in the system reconciles with the stock registers and physical stocks.

29. As per experience of WHO and WB, the logistics and routine immunization's inventory management system is in place and functional.<sup>16</sup>

30. **Human Resource.** MONHSR&C and Federal EPI have identified their human resource needs, prepared a training plan, decided on training modalities, and plan for supportive supervision Identified HR has been trained in the context of COVID-19 vaccination. The training was based on data entry into the system, the type of vaccine, equipment uses, targeted population, counselling and overcoming perceptions/myths of the community. There is also a COVID-19 Vaccination Team (CVT) that will include a qualified nurse, vaccinator, and a team assistant/data entry person.

31. **Accounting and Reporting.** All accounting record is maintained at federal level, which is subject to annual audit from Auditor General of Pakistan (AGP) and transaction that are subject to payments are duly maintained and approved according to Federal rules. The MOF has made arrangement for budgeting, accountability mechanisms and performance monitoring frameworks. The Federal EPI and provincial EPI offices are the budget holders. The budget holders are able to effectively receive, manage and account for public resources to serve preparedness functions. Financial Management of Federal EPI are being done as per normal accounting procedure of the government of Pakistan. All four provinces through their Accountant General (AG) are also following the same accounting system due to uniform procedure established through Controller General of Pakistan (CGA). Since all four AGs are representatives of CGA, therefore, uniform accounting system is in practice in Pakistan. There is strong governance and accountability framework in place.

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<sup>16</sup> [WB's National Immunization Support Project's, Implementation Status & Results Report](#) component on percentage of districts in each province with at least 80% timeliness and completeness reporting on vLMIS achieved targeted percentage except for Sindh province.

32. At the project level, all financial transactions are conducted through manual accounting procedure apart from the support of MS Office. Since these transactions are done through public/government accounting system, therefore, they are gone through SAP system being maintained by Accounts Department of the government (AGPR). The disbursement transactions are done through online system of the donors, i.e. Client Connection of the World Bank.

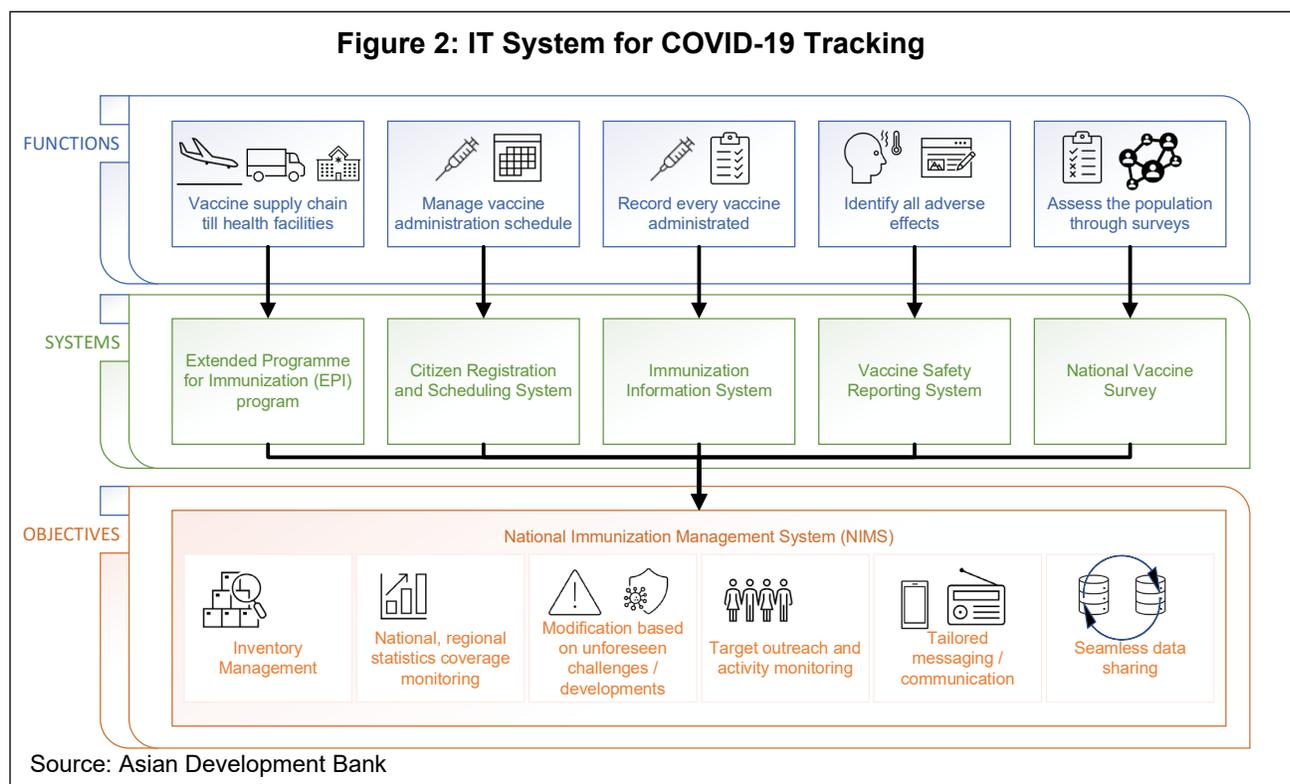
33. **Oversight.** A National Coordination Committee has been constituted to supervise and oversee the COVID-19 vaccine deployment and to take all the necessary decisions related to administration and management under the direct guidance from the Prime Minister. To support the national decision-making and deployment through consensus, a National Command and Operation Center (NCOC) has been established to spearhead the overall COVID-19 response, taking immediate decisions including vaccine roll-out. These meetings are attended by the Minister of MONHSR&C, Secretary, Director General (DG) of MONHSR&C, Federal EPI, and representatives from Ministry of Foreign Affairs (MOFA), Ministry of Finance (MOF), Ministry of Information and Broadcasting, Drug Regulatory Authority of Pakistan (DRAP), and NADRA collectively participates in the decision-making process at the national level. The national decision making is also supported by provincial officials, health ministers, chief secretaries, secretary health, provincial DGs, and provincial EPI teams

34. **Verification.** Since the system is so new, there has been no verification activities done. There will be a survey to check if the plan is being implemented. There are several mechanisms in place to conduct the internal audit of the vaccination plan processes and systems and to monitor the adequacy of the internal control procedures.

35. **Audit.** MONHSR&C's is subject to annual audit by the AGP. AGP is the supreme audit institution of the country bestowed with powers given by Constitution of Pakistan to conduct audit of government. AGP will carry out the audit of the project in accordance with International Standards of Supreme Audit Institution (ISSAI). AGP will provide annual audit reports and the management letters highlighting any weaknesses in the financial reporting system and the overall systems of internal control

36. **IT system for tracking COVID 19 vaccination.** Systems have been developed at national level and are accessible at provincial and district level. Integration of systems takes place at the federal level (Federal EPI). Systems integration and functionality is currently being tested through the registration of healthcare workers, registration of their vaccination, and follow up (e.g., second dose) before it will be rolled to the public. NADRA has also developed NIMS to enroll the eligible/prioritized population and send SMS alerts for possible vaccine administration site to the population. NIMS is fully integrated with COVIM. NIMS and COVIM are functional systems for monitoring and reporting of the execution of the Vaccination plan. However, a review for each health establishment has been carried out and found a need to integrate inventory management system (IMS) of all health departments with COVIM of Federal EPI.

37. The 1166 Help line is being used by the callers to get insight into their possible vaccination site and process to be adopted for vaccination. Private sector is also allowed to complete the verification process through NIMS with CNIC. The NIMS is linked with EPI MIS to exactly map availability of vaccine. In this regard, each eligible person will receive a unique One Time Password (OTP) upon entering his/her CNIC that will be shown at the AVC to verify the individual before receiving the vaccine. The nurse will enter the data of the recipient of the vaccine in the NIMS to track for the second dose. Data collection, recording and reporting Tools uploaded onto Digital system will be used to help with several monitoring aspects of COVID-19 vaccine introduction in Pakistan.



## F. Project Financial Management Systems Assessment and identified risk

38. **Strengths.** The following strengths in financial management assessment of the EA and IA have been identified and need to be addressed.

39. There is a robust institutional link between planning and budgeting processes, which includes the use of physical targets where relevant.

40. COVIM Inventory Management System is fully integrated with NIMS:

- a. COVIM Inventory Management System is fully integrated with NIMS.
- b. The GOP's accounting system and policies are well-developed. MONHSR&C's and Federal EPI accounting procedures appear to be effective and function well (including as regards segregation of duties, payment processing, cash, and bank arrangements, and safeguarding of assets).
- c. Financial reporting and monitoring follow the legislative requirements and are done on regular and timely basis.
- d. The GOP's external audit framework appears well-developed and adequately operationalized, and external audit of the EA, IA and the project accounts helps to promote accountability by reviewing and correcting systems and practices.

41. **Weaknesses.** The following weaknesses in financial management assessment of the EA and IA have been identified and needs to be addressed:

- a. The MONHSR&C and Federal EPI have not previously worked on any ADB financed project and their existing finance staff have no prior experience working on ADB projects.  
MONHSR&C's and Federal EPI manual accounting and information systems are not well-functioning which can result in inaccurate and incomplete financial information due to spreadsheet monitoring for project along with leading to delay in overall reporting and monitoring.

42. **Executing Agency.** The project will be executed by MONHSR&C. Although, MONHSR&C has not worked with ADB before but has worked with similar IFIs/Organization like (i) World Bank; (ii) Islamic Development Bank; (iii) Japan International Cooperation Agency (JICA); (iv) Bill & Melinda Gates Foundation; and (v) GAVI. Therefore, they have an extensive experience of working with both loans and grants.

43. **Implementing Agency (IA).** Federal EPI is running as development project having complete administrative and financial powers delegated by MONHSR&C. The regulatory or supervisory agency of Federal EPI is Federal Ministry of National Health Services Regulation and Coordination. The governing body for the project is National Steering Committee under the chairmanship of Federal Health Minister/ Secretary with members composed from development partners and provincial Health Departments.

44. **Personnel.** The Head of the Department and Accounts Officers are responsible for the financial management of projects. The project will have a dedicated finance manager who will be responsible for managing the financial aspects of the project. He will be reporting to National Program Manager (NPM) EPI. The ministry's budget wing will be providing additional support at the discretion of the Secretary. Thus, they will be providing liaison and interface with relevant line ministries, for example the aforementioned provided support for moving the program files to Ministry of Finance for approval to open a dedicated account. New staff will be recruited, while the budget section of the Ministry will support the project. There are different persons who are performing the functions of authorization, recording, assets management and reconciliation of accounts.

45. At federal EPI level, a National Program Manager (NPM) together with two Deputy National Program Managers, Deputy Directors from all areas of administration, operation, procurement, training, and M&E is working for the projects. Under development/ foreign aided budget, Financial Management Specialist and Procurement Specialist are doing their jobs under direct supervision of National Program Manager. The Federal EPI accounting department is adequately staffed and fully functional with strong financial controls for all transactions and reporting. However, with additional work coming from the new ADB project, there is a need to hire one finance officer dealing with the operational matters of ADB Project and this is also proposed by the IA. Financial Management Specialist (FMS) is performing his functions at optimal level. Two finance officers and some staff are supporting the Financial Management Specialist. He is also coordinating and supervising the functions of provincial Financial Management Specialists. The current FMS of Federal EPI has prior experience in implementing ADB projects.

46. **Disbursement Arrangement.** Disbursement arrangement proposed for the project. The disbursement from the loan would be made using direct payment, advance funds procedures against full documentation and statements of expenditure (SOE) and retroactive financing. ADB Loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (LDH)

2017<sup>17</sup>, as amended from time to time, and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available<sup>18</sup>. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control. The FMA confirmed that Federal EPI has adequate financial management capacity and financial record storage systems in place to manage special disbursement arrangements, such as advance account and SOE.

47. **Advance Account.** Upon ADB loan effectiveness, the advance accounts will be established by the Federal EPI at a commercial bank. The advance account will be managed by the Federal EPI. The currency of the advance accounts shall be the US dollars (USD). The advance account is to be used exclusively for ADB's share of eligible expenditures. The Federal EPI will be accountable and responsible for proper use of the advance account. The advance accounts will be managed, replenished, and liquidated in accordance with ADB's LDH. The total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months for PIC component and for the forthcoming 6 months or 50% of the RRC component, whichever is lower. The Federal EPI may request initial and additional advances to the advance account based on an Estimate of Expenditure Sheet<sup>19</sup> setting out the estimated expenditures for the forthcoming six months. Supporting documents should be submitted to ADB and originals are retained by the Federal EPI in accordance with LDH when liquidating and replenishing the advance account.

48. The statement of expenditure procedure (SOE)<sup>20</sup> may be used by Federal EPI for replenishment of advance account for eligible expenditures or liquidation of advances to the advance account and for reimbursement disbursement arrangements. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent financial and performance audits.

49. **Direct Payment.** Payments for vaccine and ancillary goods contracts, purchase of cold chain equipment (other than office equipment), and payment to consultants will be made under the direct payment procedures set out in the LDH.

50. **Reimbursement.** The project will provide for 30% of retroactive financing of eligible vaccine and ancillary goods procurement costs, if met ADB eligibility requirements, and reimbursement disbursement procedures will be used for retroactive financing, as defined in the LDH.

51. Before the submission of the first withdrawal application (WA), the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per WA is stipulated in the LDH. Individual payments below such amount should be paid through the advance account procedure, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before

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<sup>17</sup> [ADB's Loan Disbursement Handbook](http://www.adb.org/documents/loan-disbursement-handbook). The handbook is available electronically from the ADB website. (<http://www.adb.org/documents/loan-disbursement-handbook>)

<sup>18</sup> [Disbursement eLearning](http://wpqr4.adb.org/disbursement_elearning). ([http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning))

<sup>19</sup> Available in Appendix 8A of ADB's Loan Disbursement Handbook (2017, as amended from time to time).

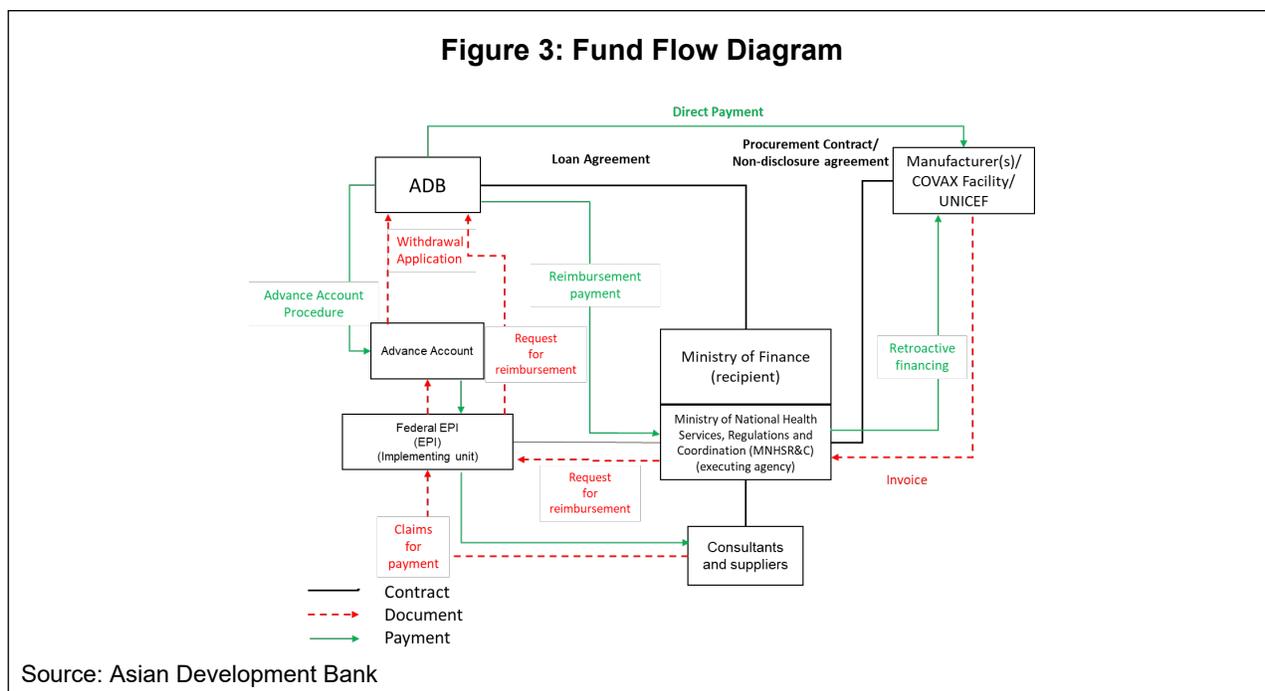
<sup>20</sup> SOE forms are available in Appendix 7B and 7D of ADB's Loan Disbursement Handbook (2017, as amended from time to time).

requesting disbursements. Use of ADB's Client Portal for Disbursements (CPD)<sup>21</sup> system is encouraged for submission of withdrawal applications to ADB.

52. **Counterpart Funds.** The government will provide (i) exemptions of taxes and duties on vaccines and ancillary goods and services and cold chain procurement; (ii) exemption of taxes for consultants, project management costs, training and workshops, performance audit, office furniture and office equipment; (iii) in-kind contribution of office support, and (iv) financing interest during implementation, collectively estimated at \$63.5 million equivalent. The Federal EPI will be accountable and responsible for proper use of counterpart funds.

53. **Funds Flow.** Federal EPI has adequate capacity at present to manage advance fund procedures. The funds flow under government budget is started from Ministry of Finance and become part of records of Accountant General of Pakistan Revenue (AGPR). Similarly, funds flow from donors routed through State Bank of Pakistan (SBP) are parked in Assignment account for utilization with cheque signatories authorized by Ministry of Finance. These expenditures are duly reconciled with AGPR against budgetary allocation and DDO Codes/ cost centres. The advance account will be established at the National Bank of Pakistan (NBP) which is capable of (i) executing foreign and local currency transactions; (ii) issuing and administering letters of credit (LC); (iii) handling a large volume of transaction; and (iv) issuing detailed monthly bank statements promptly. The Federal EPI will manage funds from ADB which will be paid directly into separate project account. EPI will manage the funds and acquit expenditure, report directly to ADB. The advance account will be created by EPI (i) which can execute foreign and local currency transactions; and (ii) it can handle large volume transactions and issue detailed monthly bank statements promptly.

54.



55. **Accounting policy and procedures.** The Federal EPI follows International Public Sector Accounting Standards - cash basis of accounting in accordance with the national accounting law.

<sup>21</sup> The CPD facilitates online submission of WA to ADB, resulting in faster disbursement. The forms to be completed by the Borrower are available online at <https://www.adb.org/documents/client-portal-disbursements-guide>.

Federal EPI's accounting system covers project management functions, and all transactions under the project will be booked and the original accounting documents and approval certificates will be retained. The General ledger and Subsidiary ledgers are reconciled on a daily basis. Federal EPI maintains a separate records of all project-related expenditures incurred following cash-based accounting. AGPR may check the detail of payment and control procedure adopted therewith. The Federal EPI maintains record of Debit entries on manual basis whereas AGPR makes its entry in SAP at every month-end. After closing of month, reconciliation is also carried on with AGPR and the Bank concerned as well. Federal EPI will prepare project financial statements in accordance with the national accounting laws and regulations which are consistent with international accounting principles and practices. All retained accounting and supporting documents are permanently kept in the archive rooms. There is two years retention policy for all documentation which is within the standard ADB requirement of five years retention period. Only authorized users are allowed to get access to the system.

56. **Payments, Cash management, and Assets management.** Sufficient safeguards exist for the approval of expenditure against the allocated budget as well as procedures for the approval of variation from allocated budget. There is also a quarterly reporting and explanations for variance of actuals versus budget. The authorized signatories are; (i) Accounts Officer; and (ii) Deputy Director (Administration). They themselves keep their password and other online detail intact. Federal EPI maintains an adequate, up-to-date cashbook, recording receipts and payments. Proper controls exist for the collection, timely deposit and recording of receipts at each collection location and the bank transaction system is automatically recording. The bank and cash are reconciled on a monthly basis. Federal EPI has presented its capacity to establish independent procedures to avoid misuse of funds through its approval and reporting process. The Federal EPI always notify its staff, beneficiaries, and other recipients to report in a timely manner if they suspect fraud, wastage, or misuse of project resources and property.

57. **Safeguard of assets.** Federal EPI has a set policy for asset management. The relevant departments have their own Policy and Procedure Manuals to administer assets maintained in their custody. The fixed assets register is updated regularly and on a timely basis and recording of all assets in accordance with the policy. Subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts by a dedicated staff. Periodic inventory of assets is being conducted and appropriately labelled. The disposal of assets is carried out using the mechanism approved by Management and the disposal is approved by Tender Committee, witnessed and signed off by the Internal Audit Team. Disposal of assets that are above 10 years old are being offered through auction.

58. **Budgeting systems.** Budgets are being prepared by MONHSR&C while the oversight/monitoring is done by MONHSR&C and AGPR. Budgets are prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance. The budget process is started from 6 months earlier of the next budget. The process specifically highlights project activities, collection of information of different components and department. Budget estimates are prepared after seeking plan of activities from professional concerned. The EPI accounting department prepares the budget after which MOH reviews them in detail for approval from MOF. The actual expenditures are quarterly compared to the budget, and reasonable explanations and prior approval by MOF is required for budget change. Advance approval from the MOF is required for all variations but the principal accounting officer can approve up to 15% of the approved budget without the prior approval. Due to a single database, printing of Budget Execution Report of any province can be judged/ accessed by authorized persons.

59. **Financial reporting systems, including use of information technology.** The accounting division of the Federal EPI uses manual system by maintaining spreadsheet to record all transactions, however reports and periodic financial statements are generated from SAP at ministry level. It is capable of facilitating invoice payments, payroll, bank reconciliations, budgeting & Financial Reporting. The Financial Statements are prepared for the implementing agency (IA) on yearly basis and six-monthly basis. Also, financial reporting is done every month in which all reports are used by the management for their review. The financial statements are prepared for the entity in accordance by GOP accounting standards which are consistent with International standards in all aspects. There is one online accounting system used by GOP which is SAP operated by federal and provincial Accountant Generals (AG). All AGs apply their access to online system linked with all concerned. As such, they execute their budget and get print of their Budget Execution Report on periodical basis as well as annual. The annual report is duly signed by the AG concerned. The Federal EPI is maintaining its accounting system manually. However, financial statements are being generated from SAP system which is maintained by Auditor General of Pakistan Revenue (AGPR) which is an accounting body of GOP responsible for federal accounts. Similarly, for seeking disbursement form the World Bank, client connection system is being used. There is STEP online software of the world bank which is also used for procurement purpose. Overall, partially online system is being used for operation of this office. Financial reports are also generated from SAP system for all accounting transactions and reporting. The financial management reports are used by management in the process of planning, budgeting and for decision making. In order to minimize human error, the IA must use another a suitable accounting information system for the new ADB project operations. EPI will also prepare and submit to ADB quarterly progress reports which will include (i) a narrative description of progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. EPI will submit quarterly progress reports to it in a timely, accurate and informative manner.

60. **Experience with other donors.** EPI as an implementing agency has no experience in implementing ADB development partner-financed projects. However, currently it is already working with GAVI Funded project of EPI and the World Bank funded project 'National Immunization Support Project' along with support of MDTF Grant.

61. **Public disclosure.** At present Federal EPI prepares annual reports and six-monthly reports in accordance with the relevant requirements of the Information Disclosure Management Measures, discloses them through the official website. Such practice improves the transparency of our information disclosure. Furthermore, ADB shall disclose the annual audited financial statements for the project and the opinion of the auditors on the financial statements no later than 14 calendar days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter will not be disclosed.

62. **Internal audit.** There is a fully functional internal audit department (IAD). At ministry level, the head of IAD reports to the Principal Accounting Officer while at federal level, the head of IAD reports to the Head of Department and Financial Management Specialist. All IAD staff members are Certified Accountants (CAs). The IAD follow International Internal Auditing standards. Internal audit program approves by the Principal Accounting Officer at ministry level while National Program Manager at the federal level with quarterly review on the progress. Correction measures are taken immediately. The internal audit department regularly supervises and facilitates the corrective actions based on internal audit findings.<sup>22</sup> The ADB project will be included in the scope of internal audit and covered in the annual audit plan.

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<sup>22</sup> Internal audit staffing scope and sample reports were not obtained during financial due diligence.

63. **External audit.** A high-quality external audit is an essential requirement for creating transparency in the use of funds. External financial audits of Federal EPI are conducted annually. Currently the external auditor of Federal EPI is Auditor General of Pakistan (AGP). All types of audits are done by Auditor General of Pakistan as per constitution of Pakistan. The audits are conducted according to the international auditing standards. After closing of year, an independent audit is also conducted by Auditor General of Pakistan enjoying constitutional powers of audit for all government' budgets. There were no major accountability issues brought out in the audit report of the past three years.<sup>23</sup> In addition to the external audit to be done by AGP a performance auditor will be engaged to assess the economy, efficiency, and effectiveness of the vaccination program. Terms of reference will set out in Project Administration Manual.

## G. Risk Description and Rating

64. The FMA considered inherent risks and control risks. The key risks identified are presented in the table below:

**Table 3: Risk Assessment and Mitigating Action Plan**

Risk	Risk Assessment	Risk Description	Mitigating Measures or Action Plans
<b>Inherent Risks</b>			
Country-specific risks	Substantial	Insufficient authority is given to internal financial control and audit units within line ministries, departments and agencies, and inadequate capacity could reduce their effectiveness in financial management, control of expenditures, and accountability, raising the risk of misuse of funds.	ADB will make provisions for financial management and audit, including assistance for capacity development, in ADB projects.
	Substantial	Weak internal control framework with focus on financial compliance instead of systemic issues and internal controls.	The MOF Internal Audit Department supports capacity building of internal audit units in line ministries including drafting of an audit charter, manuals, and guidelines.
	Substantial	The gap between projected revenues and expenditures and actual realizations, lead to in- year expenditure cuts and to unpredictability of allocations for development programs.	The government is gradually improving its systems for project design, implementation, and monitoring. ADB is discussing technical assistance on monitoring and evaluation with the Planning Commission, which approves the allocation for public sector development program.
	Substantial	The scope for political interference and delays in the appointment of key officials in integrity institutions may reduce their effectiveness, raising the risk of inappropriate use of public funds.	Several partners are providing support for legal and judicial reforms. All ADB projects will be effectively insulated from corruption risks in accordance with ADB's Anticorruption Policy.
Executing Entity-specific risks	Substantial	MONHSR&C has no previous experience with Asian Development Bank (ADB) in implementing financial management and audit requirements for projects. However, the ministry has worked	New FM staff/Consultant with prior ADB or World Bank project experience will be recruited for the project. And training will be provided by ADB to MONHSR&C staff on ADB financial management and disbursement guidelines and policies.

<sup>23</sup> Previous audit report was not obtained during financial due diligence.

		on several external donor financed projects.	
Overall inherent risk: Substantial			
Control Risk			
Implementing entity	Substantial	Federal EPI has no previous experience with Asian Development Bank (ADB) in implementing financial management and audit requirements for projects.  However, the current FMS has previously worked for ADB project in another organization with some knowledge about ADB financial management and disbursement guidelines and policies.	Finance management specialist will be engaged, in coordination with WB to support Federal EPI.  Training will be provided by ADB to Federal EPI accounting staff on ADB financial management and disbursement guidelines and policies.
	High	NDMA assessment as to the governance structure and decision making of the approved structure was only based on the meeting note last 03 Jun 2021. Governance risks over the decision making and potential unalignment with government's procurement arrangement.	NDMA's role shall be limited to procurement participation and signing but accountability for implementation will be with EA/VIAs and NDMA will not be part of the project governance structure beyond the Project Steering committee
Funds Flow	Substantial	The federal EPI has not implemented any ADB project in the past and have no experience and knowledge	ADB will work closely with Federal EPI to implement the project as per guidelines and requirements of ADB. Training will be provided by ADB to Federal EPI accounting staff on ADB financial management and disbursement guidelines and policies.
	Moderate	Misappropriation of funds	Allocation of budget to already approved PC-I document is maintained, and not a single rupee can be spent out of the purview of approved PC-I. Due to audit threat, every custodian avoids misappropriation of funds.
	Substantial	Double payment of expenditure related to transportation and operating expenses with other financiers	Federal EPI to provide additional reconciliation document from other donors whom ADB shared the same expenditures.  Regular coordination meeting on the project progress
	Substantial	Risk of sharing or merging of funds with another financier	Separate bank account will be opened for each financier
Staffing	Substantial	Current staff may be overburdened due to additional project activities related to vaccine. The MONHSR&C and Federal EPI has adequate capacity to support financial management and procurement at present. However, to manage ADB project there is a need to hire an additional finance resource.	New FM staff/Consultant with prior ADB or World Bank project experience will be recruited, trained on ADB financial management requirements to ensure sufficient resources for project financial reporting and compliance with ADB financial management policies and procedures.

Accounting policies and procedures	Low	MONHSR&C and Federal EPI uses "International Public Sector Accounting Standards - Cash and International Financial Reporting Standards for recording all transactions and reporting.	MONHSR&C and Federal EPI will use cash basis IPSAS for all financial reporting of the project accounts.
Internal audit	Substantial	Exclusion of ADB projects in the internal audit plan of the ministry.	The internal audit unit will be obligated to audit the ADB funds and the detailed scope of this audit will be agreed with MONHSR&C and Federal EPI to consider various aspects of ADB funds and audit all project accounts.
External audit	Moderate	Delay in External Audit for ADB project accounts to ensure the financial and performance Audit and outstanding audit observations not resolved will continue exposing EPI to significant risks in terms financial records.	External financial audits of Federal EPI are conducted annually by Auditor General of Pakistan.
Reporting and monitoring	Moderate	Financial statements are being generated from SAP system maintained by Auditor General of Pakistan Revenue (AGPR) along with regular financial reports. However, MONHSR&C and Federal EPI is maintaining its accounting system manually. Inaccurate and incomplete financial information due to spreadsheet monitoring for project which will also lead to delay in overall reporting and monitoring.	A computerized accounting software for the project will be considered for Federal EPI to ensure timely reporting of financial information and to reduce errors  Prepare quarterly reports for the ADB project with financial and disbursement information, as well as variance analysis of physical and financial progress. The report should include the status of the financial management action plan.
Information systems	Moderate		
Vaccination program performance	Substantial	Funding for ineligible vaccines.	No withdrawal request is made from the Loan Account in relation to a COVID-19 vaccine until ADB has received a letter from the Borrower confirming which of the Eligibility Criteria has been satisfied in respect of such vaccine
	Substantial	Allocation are not being implemented in accordance with the plan.	Monitoring and evaluation (M&E) and a performance auditor to assess the economy, efficiency, and effectiveness of the vaccination program.
	Substantial	Inventory system risks on the gaps on combined manual and automated controls.	An M&E specialist will provide monitoring and evaluation on the inventory and supply chain management.
	Moderate	Inventory received at the warehouse, which is damaged, incomplete, or incorrect items received	Storekeeper performs reconciliation between documents, physical items, and information in COVIM as well as on the quality of items received.
	Moderate	Vaccine theft and misappropriation during transit and at storage facilities.	The issuance and receipt are recorded through COVIM. All four provinces come with their own staff to receive the vaccines.
	Moderate	Late replenishment, theft, damaged and incorrect items received at storage facilities.	SOP for storekeepers and vaccinators with established accountability and transparency framework.  Security and guards are in place.

	Moderate	Inventories being used/ administered to incorrect recipient.	Training is given whenever new vaccine is introduced with repeated refresher course for vaccinators. SOPs and guidelines are developed.
	Moderate	Inaccurate reports and data.	Computerized and online inventory system is in place where is adequately provide accurate information.
	Moderate	Lack of storage facilities	An on-going assessment of cold chain facility and calculation for the requirement are being done .
OVERALL CONTROL RISK: SUBSTANTIAL			
OVERALL FM: SUBSTANTIAL			

## H. Proposed Time-Bound Financial Management Action Plan

65. To mitigate the above risks, the following actions are discussed and agreed with the government:

**Table 4: Time-Bound Financial Management Action Plan**

<b>Weakness</b>	<b>Mitigation Action</b>	<b>Responsibility</b>	<b>Target Date</b>
Staffing	In coordination with WB, MONHSR&C will recruit new finance management specialist (FMS) with prior ADB or World Bank work experience for the project to manage more volume of work.  As the workload of Federal EPI will also increase, there is a need to fill the Financial Management Officer/consultant position to support the financial management activities of EPI for the project.	ADB WB MONHSR&C Federal EPI	1 month before loan effectiveness
	MONHSR&C and Federal EPI's existing and new staff will be given training on ADB's Loan Disbursement procedures including Client's Portal for Disbursement (CPD) to the present and new staff.	ADB MONHSR&C Federal EPI	1 month before loan effectiveness
Governance risks in procurement	NDMA's role shall be limited to procurement participation and signing but accountability for implementation will be with EA/IAs and NDMA will not be part of the project governance structure beyond the Project Steering committee	MONHSR&C Federal EPI	Upon loan effectiveness
Funds Flow	The FMS to provide quarterly reconciliation document from other financiers whom ADB shared the same expenditures.  Regular coordination meeting on the project progress	ADB World Bank MONHSR&C Federal EPI	Every quarter
	A separate bank account shall be created for ADB project	MOF MONHSR&C	Before loan effectiveness

Periodic financial management report	Prepare quarterly reports for the ADB project with financial and disbursement information, as well as variance analysis of physical and financial progress. The report should include the status of the financial management action plan.	MONHSR&C Federal EPI	Every quarter
Internal Audit	MONHSR&C and Federal EPI will ensure all project financial management activities and project accounts will be covered by the internal auditor of MONHSR&C and Federal EPI which is fully functional and effective at present and also report their findings to MOF.	ADB MONHSR&C Federal EPI	2 months after loan effectiveness
Financial and Performance Audit	AGP will conduct the annual audit of project financial reporting in accordance with International Standards of Supreme Audit Institution (ISSAI) and performance audit using ADB reviewed terms of reference.	ADB MONHSR&C Federal EPI	At the end of each covered fiscal year
Vaccination Program Performance	ADB will recruit a performance auditor to assess the implementation of the vaccine program.	ADB MONHSR&C Federal EPI	2 months after loan effectiveness
	An M&E specialist will provide monitoring and evaluation on the inventory and supply chain management.	ADB MONHSR&C Federal EPI	2 months after loan effectiveness

ADB = Asian Development Bank, MOF = Ministry of Finance, MONHSR&C = Ministry of National Health Services, Regulation and Coordination, EPI = Expanded Program on Immunization.

## I. Suggested FM Covenants and/or Conditions to disbursement/effectiveness

66. ADB and the government will jointly undertake reviews of the project at least twice a year. These reviews will include a review of the disbursement progress and status of the financial management plan. A capacity development plan shall be executed by ADB on (i) financial management and reporting requirements, (ii) ADB loan disbursement procedures, (iii) anticorruption training, and (iv) training on ADB procedures. Financial management experts will be engaged and funded jointly by WB and ADB to monitor the project. In addition to annual project financial statements audit, an annual performance audit shall be carried out by independent auditor.

67. The government shall ensure that (i) adequate financial management systems to manage, control, account, report, and audit expenditures for vaccination of the priority population in line with the Vaccination Allocation Plan are maintained throughout project implementation; and (ii) the Financial Management Action Plan, which sets out specific time-bound actions, as summarized in the PAM, is implemented in accordance with its terms.

68. To ensure the promotion of economical, effective, and efficient governance under the project, the government, through MONHSR&C, shall ensure that an independent auditor is engaged to undertake a special performance audit, focusing on project economy, efficiency, and effectiveness and shall cause the MONHSR&C to provide the necessary reports and information that may be required for such audit. Such audit shall be carried out annually, and the report on such audit shall be submitted to ADB through MONHSR&C within 6 months after fiscal year end.

69. To ensure that no eligible vaccine will be funded, no withdrawal request is made from the Loan Account in relation to a COVID-19 vaccine until ADB has received a letter from the Borrower confirming which of the Eligibility Criteria has been satisfied in respect of such vaccine.

## **J. Conclusion**

70. The assessment concludes that there are substantial financial management and internal control risks in MONHSR&C and EPI. Consequently, the project has proposed a series of targeted mitigation measures to manage and monitor these risks, especially to ensure transparency and accountability in project financial management and adherence to the government and ADB standards for financial management. It is expected that with the implementation of the proposed timebound Financial management action plan detailing risk mitigating measures, the MONHSR&C and EPI financial management capacity will be further strengthened. Notwithstanding the identified weaknesses, MONHSR&C and EPI has a sound record in implementing externally funded projects and programs and has a considerable experience in implementing international donor projects. The FMA confirmed that MONHSR&C and Federal EPI have adequate financial management capacity and financial record storage systems in place to manage special disbursement arrangements, such as advance account procedure, SOE, and retroactive financing. Federal EPI will manage the disbursement arrangement, collect, and retain documents and send withdrawal application to ADB.