NEPAL: Bridges Improvement and Maintenance Program

Integrated Fiduciary Assessment

South Asia Region (SAR)

June 27, 2012
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**NEPAL BRIDGES IMPROVEMENT AND MAINTENANCE PROGRAM (BIMP)**

**Integrated Fiduciary Assessment**

*June 27, 2012*

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### ACRONYMS

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<tr>
<td>ARMP</td>
<td>Annual Road Maintenance Plan</td>
<td>MoF</td>
<td>Ministry of Finance</td>
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<td>BMS</td>
<td>Bridge Management System</td>
<td>MoPPWTM</td>
<td>Ministry of Physical Planning, Works and Transport Management</td>
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<td>CIAA</td>
<td>Commission for the Investigation of the Abuse of Authority</td>
<td>MIS</td>
<td>Management Information System</td>
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<td>CMS</td>
<td>Contract Management System</td>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
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<td>Deputy Director General</td>
<td>OAG</td>
<td>Office of the Auditor General</td>
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<td>Disbursement Linked Indicator</td>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>DOR</td>
<td>Department of Roads</td>
<td>PFM</td>
<td>Public Financial Management</td>
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<td>District Treasury Controller Office</td>
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<td>LRN</td>
<td>Local Roads Network</td>
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<td>Monitoring and Evaluation</td>
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1 EXECUTIVE SUMMARY AND BACKGROUND

1. The World Bank is partnering with the Government of Nepal (GON) to support the Department of Roads’ (DOR) program of investment in bridges along the Strategic Roads Network (hereafter referred to as the SRN Bridge Program or the Program). This operation will use the Program-for-Results (PforR) financing instrument. As part of program preparation, and in accordance with OP/BP 9.00, the Bank carried out an Integrated Fiduciary Assessment (IFA) to assess the fiduciary systems that pertain to the Program’s implementation. The objective of the IFA was to determine whether the Program’s fiduciary systems provide reasonable assurance that Program expenditures will be used appropriately to achieve their intended purposes. The IFA draws on inputs from separate assessments relating to the Program’s procurement, financial management, and governance systems. The Program Action Plan (included in the Program Appraisal Document (PAD) reflects findings from the IFA and includes measures to address the fiduciary risks gaps identified. The IFA concludes that the SRN Bridge Program’s overall fiduciary framework is adequate to support the Program and to achieve the intended results.

2. The IFA is structured under the following four sections that each cover a different aspect of the Program as summarized below:

   i. **Budgeting and expenditure framework** including assessments of: (i) the planning and budgeting framework, (ii) GON’s medium term resource planning; and (ii) the budget execution processes and the Program’s expenditure management systems;

   ii. **Program fiduciary and implementation framework** including assessments of: (i) the systems and practices of procurement, and financial management; (ii) DOR’s systems and practices for monitoring and oversight of fiduciary processes; and (iii) specific gaps/risks in the Program’s financial management and procurement systems and their mitigation measures.

   iii. **Institutional arrangements for mitigating fraud and corruption** risks which includes assessments of (i) the relevant legislative and institutional framework in place for mitigating fraud and corruption; (ii) program-specific measures to supplement the existing institutional framework for risk mitigation of fraud and corruption risks; and

   iv. **Program management and governance framework** which includes assessments of: (i) Program reporting, auditing, oversight, and grievance redressal systems.

1.1 BACKGROUND TO THE INTEGRATED FIDUCIARY ASSESSMENT

3. The Program Technical Assessment, which was also conducted alongside the fiduciary assessment, provides a detailed background of the SRN Bridge Program’s scope and envisaged activities. Key points include:

   i. **DOR’s department-wide fiduciary systems underpin the Program**: The SRN Bridge Program is a part of DOR’s integrated approach to investing in Nepal’s road and bridge infrastructure. As such, it relies primarily on DOR’s institutional systems rather than program-specific systems.

   ii. **The Program is geographically widespread and decentralized**: The SRN Bridge Program concerns many relatively small bridges scattered throughout Nepal. The large number of assets and the difficulty of traveling throughout Nepal compel the Department of Roads to rely heavily on its 25 divisional offices and 5 regional directorates for implementation.

   iii. **Broadly applied systems and processes matter most to program results**: Overall needs in the bridge sector are large in aggregate (US$ 327m) but individual investments are small. In general SRN bridges are relatively simple structures with an average span of 43 meters. Most investments in SRN bridges are relatively inexpensive. For example, 71%
of SRN bridges requiring major maintenance interventions the costs will be less than US$ 250,000. Similarly, 85% of new bridges that the SRN Bridge Program may build are likely to cost less than US$ 1m per bridge.

2 PROGRAM BUDGETING AND EXPENDITURE FRAMEWORK

4. All funding for the SRN Bridge Program will flow through GON’s annual budget. IDA funds will flow directly into the GON Treasury and, along with the GON budgetary allocations for the Program, will be disbursed to DOR’s implementing units through the GON treasury systems. The Ministry of Finance (MoF) will track and report the source of funds in its budget (as required by law and national financial management rules). However, the Department of Roads will see no difference between GON funding and IDA’s support at the level of the SRN Bridge Program’s implementation. Annual budget allocations to the SRN Bridge Program will be published in Nepal’s annual budget (known as the “Red Book”) which is publicly available information.

5. At present, the SRN Bridge Program’s budget allocations are commingled with other DOR programs that support investments in bridges on urban roads and the Local Roads Network (LRN). This is a major gap in the fiduciary framework that compromises the Program’s ability to credibly plan and commit resources to support a coherent investment approach. There are strong incentives for political actors to divert funding toward localized bridge projects at the expense of the Strategic Roads Network bridges. To mitigate against this risk, the Program Action Plan includes an agreement that the Ministry of Finance will create separate budget heads for the SRN Bridge Program.

6. The Government of Nepal has a well-developed budget processes along with a Medium Term Expenditure Framework (MTEF) and sectoral business plans. However, there are weaknesses in their implementation. To address the fiduciary risks arising out of these weaknesses, the Ministry of Finance will provide an indicative resource envelope for three years at a time for the SRN Bridge Program against which annual plans would be prepared. The Ministry will also inform Department of Roads of the annual allocations of budgetary resources well in advance at the start of the fiscal year so that the divisional offices can prepare the annual operating plans based on a firm assurance of resource availability. The proposed SRN Bridge Program is classified as a priority ("P1") program, which gives it first claim to Government resources. Therefore, the risk linked to the non-availability of financial resources to meet the program's operational requirements is low. The PforR instrument also allows for a 25% advance of the total credit amount to ensure that money is available for supporting the Program’s annual cash flow needs. An initial advance will be available as soon as the Financing Agreement is declared effective. Advances will be paid on annual rolling basis against the achievement of agreed Disbursement Linked Indicators.

7. Many risks associated with the SRN Bridge Program’s planning and budgeting process relate to systemic gaps in Nepal’s Public Financial Management (PFM) systems and its working. The Government is currently addressing these through its Public Financial Management Reform Program. The Bank is currently managing a multi-donor trust fund to strengthen PFM systems through the following activities: (i) supporting implementation of a treasury single account system to allow MIS-based real time budget checks; (ii) strengthening the auditing systems and practices through capacity building of the Office of the Auditor General; and (iii) supporting the capacity building of Nepal’s Public Expenditure and Financial Accountability (PEFA) Secretariat. Reforms to Nepal’s national PFM framework will enhance the effectiveness of public expenditures and help to mitigate fiduciary risks within GON agencies, including the Department of Roads, over the medium term. It is expected that the SRN Bridge Program will benefit from the results of the ongoing initiatives for strengthening PFM systems and practices.

8. Measures undertaken at the level of individual bridge projects will also help to improve the SRN Bridge Program’s planning and budgeting efforts. Specifically, the SRN Bridge Program will use DOR’s
new Bridge Management System (BMS) as an asset management, monitoring, and planning tool. The Bridge Management System will include clear guidelines for prioritizing expenditures and will provide a rigorous basis for deciding which SRN bridge projects receive funding. Historically, investments in SRN bridges have not followed any codified planning or prioritization process. Often maintenance investments have been ad-hoc (i.e. in response to full or partial bridge failures) and new construction has followed political preferences. The Bridge Management System will significantly improve the rigor of planning investments in addition to the SRN Bridge Program’s budgeting capabilities. Planning and forecasting aggregated Program budgets will improve significantly as the Bridge Management System is made fully functional.

3 PROGRAM FIDUCIARY AND IMPLEMENTATION FRAMEWORK

9. The Department of Roads will implement the SRN Bridge Program through its Kathmandu-based “Bridge Project” unit and its 25 geographically dispersed divisional offices. Divisional offices will undertake the majority of bridge interventions (by number and financial volume) while the Bridge Project will be responsible for a small number of relatively complex bridge related investments. The Bridge Project will also have a technical oversight role over divisional office led investments. Regardless of the implementing entity, DOR’s institutional fiduciary systems and processes will govern all SRN Bridge Program activities. These sit within Nepal’s broader legal and regulatory framework that provides a sound basis for the Program’s fiduciary systems. The Program will also include specific measures to ensure compliance with the laws and regulations pertaining to its fiduciary systems.

3.1 PROCUREMENT AND CONTRACT MANAGEMENT

10. The Public Procurement Act (PPA of 2007) and Public Procurement Regulations (PPR of 2007) will govern the procurement of all SRN Bridge Program investments. The Public Procurement Act is based on the UNCITRAL model law. Provisions within the Act require open competitive bidding and provide procedures for reviewing any complaints before and after the signing of contracts. The Public Procurement Act establishes Nepal’s Public Procurement Monitoring Office (PPMO) that issues procurement guidelines and manuals, prepares standard bidding documents, collects statistics of procurement proceedings, advises procuring entities, and undertakes other procurement-related functions. The Public Procurement Monitoring Office has issued standard bidding documents (SBDs) for large and small civil works contracts which will be used by the Program. PPMO’s standard documents provide adequate guidance for applying the Public Procurement Act effectively. The Department of Roads has also developed and successfully deployed an e-bidding system. E-bidding has significantly increased competition and has proven to be effective for reducing collusion among bidders.

11. It is important to note that the Department of Roads has capacity constraints relating to skills and competencies required for efficient and transparent procurement. This is especially true at the divisional office level. Most divisional office staff are qualified engineers with adequate technical skills, but with little formal training in procurement or contract management. Addressing this gap is particularly important for the SRN Bridge Program because of: (i) its heavy reliance on divisional offices for contract procurement and supervision; and (ii) the large number of small contracts envisaged for major maintenance interventions. The Program Action Plan includes an agreement that the department will produce annual training plans and implement them throughout the PforR operation. A significant portion of the SRN Bridge Program’s training activities will focus on contract management and procurement.

12. There are several other areas for improving the Program’s existing systems for procurement and contract management. In order to plan procurement, the Department of Roads estimates contract sizes using unit rates and quantity estimates for bridge projects. The Public Procurement Act and the Public Procurement Regulations mandate this approach and provide for rate fixation committees in every district to regularly set values that feed into cost estimates. However, there are no uniform standards for project
costing and this inhibits cost comparison across projects. While the Public Procurement Regulations clearly lays out procedures for contract administration (including the timelines for contract supervision and oversight) there also exists opportunities for improving the accuracy of estimates produced. Poor cost estimates and ineffective monitoring of project cost/schedule overruns result in many projects remaining incomplete for long periods of time on account of insufficient funds or contractual disputes.

13. There are also gaps in the established system for procurement record keeping and filing. The Public Procurement Act specifies that the records must be maintained throughout the procurement cycle. However, portions of these records often reside in several different locations, which reduces their utility. The lack of availability of complete information relating to any procurement impedes both progress and compliance monitoring. Contract management records are also not well kept. Most notably, the Department of Roads does not maintain a centralized claim register and typically files claims in a project’s general procurement file. In most instances claims relate to the extension of time for reasons beyond contractors control. ‘Force majeure’ is a particularly common justification for delays (e.g. general strikes, floods, or delays due to unforeseeable events). Based on field visits to different offices, it does not appear that the Department maintains records of interruptions, disruptions or delays caused by either contractual parity. Neither does it appear that contractors provide adequate forewarning of such events. The granting of extension of time is mostly on an ad hoc basis and sometimes reflects political intervention in the contract management process. Insufficient allocation of resources for project preparation activities (including feasibility studies, preparation of realistic cost estimates) also has a negative impact on the quality of project implementation.

14. Addressing these issues will require sustained efforts to strengthen capacity within the Department of Roads for procurement and contract management (especially within divisional offices). The Government has recognized this as important and is willing to commit Program resources in support of improved performance. The Program Action Plan includes an agreement to allocate at least 5% of the SRN Bridge Program’s civil works budget towards feasibility studies, design, cost estimates, quality control, supervision, training, and environmental and social impact management. Over the next five years this will amount to approximately US$7.4 million which is adequate to meet the requirements for effective project preparation and implementation. The Department of Roads is preparing to use additional resources for engaging private-sector consultancy firms with bridge-specific expertise in design, procurement planning, construction oversight, and contract management. In addition, Department of Roads is currently developing a web-based Contract Management System (CMS) that will help to address gaps in record keeping and information management. The SRN Bridge Program will deploy CMS once the Department makes it fully operational in the near term future.

15. Lastly, agreed Disbursement Linked Indicators will also give the Department of Roads a strong incentive to improve the SRN Bridge Program’s contract management functions. Specifically, DLI 4 (elaborated in the Project Appraisal Document) will reward effective contract management as evidenced by completion of the bridge works according to schedule.

3.2 FINANCIAL MANAGEMENT

16. Nepal’s Financial Procedures Act (1998) and Financial Procedures Rules (2007) provide a solid framework for the SRN Bridge Program’s financial management systems. The Financial Comptroller General’s Office, Office of the Auditor General, and Ministry of Finance have important roles in applying this framework and generally discharge their functions adequately to support the Program. Specifically, Financial Comptroller General’s Office monitors compliance of all public spending with the Financial Procedures Rules. The Office of the Auditor General serves as the Government’s supreme audit institution and carries out the annual independent external audit of all Government activities. While this national framework is sound, the Integrated Fiduciary Assessment identified several areas where the SRN
Bridge Program will deploy program-specific mitigation measures to manage fiduciary risks more effectively.

17. Under the SRN Bridge Program, divisional offices will incur expenditures in accordance with investment plans for individual projects that they have responsibility for implementing. These expenses will be charged against the concerned budget and accounting codes. Contract payments will flow via checks drawn against DOR accounts maintained in the local treasury. Divisional offices will prepare and submit monthly financial reports and trimester performance and financial reports to their controlling offices (as per current practice). There are currently weak internal controls associated with these processes and a corresponding risk to transparent and efficient financial management at the divisional office level. The present arrangements for internal audit (carried out by the District Treasury Controller Office) are not performing adequately and need strengthening. Monitoring of audit findings generally is weak, and there is little evidence that audit observations lead to remedial actions.

18. In order to address these issues, the covenanted Program Action Plan includes an agreement that the Department of Roads will: (i) establish an audit committee, meeting the requirements of the Office of the Auditor General, to address and resolve all outstanding audit observations from FY 2009/2010 and those in subsequent years; and (ii) ensure that all outstanding audit observations from FY 2009/2010 are addressed according to a time bound action plan acceptable to the Office of the Auditor General and the Bank. The Department of Roads will also review existing control procedures, how they function in practice, and what additional strengthening measures are necessary. The Department of Roads is already developing new software-based Financial Management System (FMS) to help improve real-time expenditure tracking and management. The SRN Bridge Program will deploy the Financial Management System once the Department has made it fully operational. As an additional measure, the SRN Bridge Project will include financial management procedures within its Bridge Operations Toolkit. This toolkit will provide a user-friendly reference for all DOR units involved in the SRN Bridge Program. In addition to the existing internal audit carried out by the District Treasury Comptroller Offices, the SRN Bridge Program will also carry out annual internal reviews using the services of an external audit firm to check expenditures against budgets and overall compliance with the Financial Procedures Rules. These internal reviews will significantly improve the ability of the Department of Roads to maintain financial control over divisional office expenditures for the Program.

3.3 IMPROVING THE PROGRAM IMPLEMENTATION FRAMEWORK

19. Planning and implementing capital investment in a systematic and rigorous manner is fundamentally important to improving the SRN Bridge Program’s effectiveness and addressing many of the fiduciary gaps identified in this assessment. Current practice is neither sustainable nor effective and sometimes involves preparing projects without realistic resource envelopes, time schedules, funding availability, or a sound approach to contract management. The Program Action Plan includes an agreement that the Department of Roads will instead prepare prioritized annual capital investment plans that will link together the annual budget, medium term resource envelope, procurement activities, and technical plans. Realistic cost estimates for individual projects will be critical for preparing such plans. The Bridge Project and its externally engaged advisors will consult with divisional offices to prepare realistic standard cost estimates for use when estimating the cost of Program bridges. Training and technical assistance will help to keep these estimates up to date. Outputs from the Bridge Management System will provide a technical basis for all planning functions.

20. The Bridge Project will review and approve capital investment plans to ensure their technical and financial acceptability. Plans for individual projects will feed into aggregate annual plans for the SRN Bridge Program that will be discussed and agreed with the National Planning Commission (NPC) and the Ministry of Finance before the start of the fiscal year. To strengthen the accountability for project
implementation, the covenanted Program Action Plan includes agreement that the Department of Roads will constitute adequately staffed and trained project teams for the needs of individual bridge investments. All projects over US$125,000 equivalent (roughly NPR10 million) will have project management teams that include technical and social and environmental personnel. Considering the relatively small size of individual Program investments, Project management teams will be able to manage multiple contracts concurrently depending on operational requirements.

21. The Department of Roads will also appoint and maintain a procurement unit chief in each procuring entity (e.g. a divisional office) as agreed in the Program Action Plan. These focal points will have clear job descriptions and will receive adequate training on procurement procedures. Procurement focal points will coordinate capacity building activities and will provide necessary advice to the project teams as appropriate.

22. Nepal has a Public Works Directives (PWD) which covers Government sponsored civil works at a general level. However, the SRN Bridge Program does not have codified operational procedures that articulate the roles and responsibilities of different DOR units involved in Program implementation. This makes it difficult to hold different units accountable to any standard for implementing fiduciary systems. The Department of Roads will address this gap by codifying roles and responsibilities within the Bridge Operations Toolkit. The SRN Bridge Program’s framework of audits will include an annual ‘integrated technical audit’ throughout the Program support period. This audit will assess procurement, technical, and social and environmental performance against standards in the Bridge Operations Toolkit.

4 Mitigating Fraud and Corruption Risks

23. Nepal has a fairly strong legislative framework to deal with corruption as evidenced by the Commission for the Investigation of Abuse of Authority Act (1991), Prevention of Corruption Act (2002), the Public Procurement Act (2007) and the Good Governance Act (2008). However, there are some gaps in the Program’s current implementation of the framework. Nepal’s transitional issues and political instability have overshadowed the drive against corruption. At the same time there are some positive trends emerging that could help to partially mitigate risks arising from such an environment. Nepal’s Right to Information Act and recent ratification of the United Nations Convention Against Corruption have brought about increased public awareness regarding the menace of corruption. Nepal’s judiciary has taken a strong stance in cases involving political and bureaucratic corruption and has given strong sentences to convicted offenders. This will help in deterring future fraud and corruption.

24. The SRN Bridge Program has a significant, but manageable, exposure to potential fraud and corruption on account of weaknesses in the following areas: (i) implementation of procurement and contract administration procedures; (ii) internal control systems and processes; (iii) monitoring and oversight of project preparation and implementation; and (iv) the transparency and accountability regime. As part of improving the transparency of the SRN Bridge Program, the Department of Roads will publish and share all relevant information (e.g. annual investment plans, audit reports, procurement plans) with the public using feasible media outlets (e.g. DOR’s website). Also it is a normal practice to place signboards on project sites for all but minor works. A key element of the SRN Bridge Program’s anti-corruption strategy (encapsulated within DLI-6), is the development of a grievance redressal mechanism that coordinates other departments and offices, develops a formal tracking system for complaints, and generates reports on the status of complaints. The SRN Bridge Program also falls within the remit of the Prime Minister’s office grievance and redress mechanism (called “Hello Government”). Lastly, the Department of Roads is also planning to set up a hotline with the Public Procurement Monitoring Office and to provide a space on DOR’s website for receiving complaints.

25. The Department of Roads will refer all credible allegations/complaints regarding corrupt practices to Ministry of Physical Planning, Works and Transport Management. If specific instances of fraud and
corruption are identified, investigations will be conducted through the Commission for the Investigation of Abuse of Authority (CIAA) in accordance with Nepal's laws and regulations. The Commission is the GON’s constitutionally designated entity for investigating fraud and corruption allegations.

26. The Government has agreed to implement the Program in accordance with the Anti-Corruption Guidelines applicable to PforR operations and will provide the Bank with reports detailing the status of complaints/actions taken on fraud and corruption; will not use contractors and consultants debarred by the Bank; and will extend the right for the Bank to investigate fraud and corruption complaints within the Government's laws and regulations. However, since the Bank will not have direct access to third parties' (e.g. contractors and consultants) books and accounts, nor the right to audit such documents under the Program, alternative arrangements have been made in lieu of the Bank's direct access to such documents and audit right as required by the Anti-Corruption Guidelines. For fraud and corruption cases, the Bank can request an investigation by the Government and the Government will refer such cases to the Commission for the Investigation of Abuse of Authority. The Bank and the Government/the Commission for the Investigation of the Abuse of Authority will agree on the investigation methodology but the investigation will be undertaken by the Commission for the Investigation of Abuse of Authority with the findings shared with the Bank in accordance with Nepal's existing laws and regulations. The Commission acts on all complaints received.

27. Also, as part of the implementation of United Nations Convention Against Corruption (UNCAC), which was ratified by the Government, draft legislation to allow joint investigations with external agencies is pending parliamentary approval.

5 PROGRAM MANAGEMENT AND GOVERNANCE FRAMEWORK

28. The Department of Roads will manage the SRN Bridge Program under the overall supervision of the Ministry of Physical Planning, Works and Transport Management. The Director General of DOR is responsible for overall program coordination and management. The DOR’s Bridge Project unit handles day-to-day Program management which includes arrangements for the implementation and monitoring of financial management, procurement, and governance aspects. The Bridge Project will coordinate with the Ministry of Finance and the Ministry of Physical Planning, Works and Transport Management on the timely release of Program funds to divisional offices. The Finance and Administration unit of the Department of Roads will be responsible for compiling Program financial statements from the reports submitted by the divisional offices. The Finance and Administration unit will also provide guidance to divisional offices on complying with internal control procedures for the Program as described in the Bridge Operations Toolkit.

29. Table 5.A summarizes audit arrangements for the SRN Bridge Program. This framework includes three types of standard Government audits along with two audits that will be an incremental addition of the PforR operation. The SRN Bridge Program’s standard GON audits include: (i) Office of the Auditor General financial audit to review the accuracy of Program financial statements; (ii) OAG’s performance audit to assess achievement against intended results and the Program’s overall value-for-money; and (iii) Financial Comptroller General’s Office/District Treasury Controller Office internal audits to assess compliance with Program budgets and Government’s Financial Procedures Rules. Additional audits associated with the PforR operation include: (i) National Vigilance Centre’s integrated technical audit which will assess key processes and their performance rather than simple compliance; and (ii) internal reviews by external consultants which will assist DOR’s management to maintain financial control over Program expenditures.
Table 5.A  Program Audit/Review Arrangements

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<th>RESPONSIBLE AGENCY</th>
<th>MODE OF EXECUTION</th>
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<tr>
<td>• Program Financial statements</td>
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<td>Independent audit by OAG</td>
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<td><strong>Performance audit</strong></td>
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<td>• Program performance in terms of achievement</td>
<td>OAG</td>
<td>Independent audit by OAG</td>
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<td>of results against targets</td>
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<td>• Value-for-money</td>
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<td><strong>Integrated technical audit</strong></td>
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<td>• Technical (design, quality etc.)</td>
<td>NVC</td>
<td>Through externally hired consultants</td>
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<td>• Procurement performance</td>
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<td>• Social and environmental performance</td>
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<td>• Transactions and expenditures under the</td>
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<td>Program against budgets and financial rules.</td>
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<td><strong>Internal Review</strong></td>
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<td>Program against budgets and financial rules.</td>
<td>by DOR for internal reviews</td>
<td>DOR to report the findings to the</td>
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<td></td>
<td>of the transactions.</td>
<td>DOR management</td>
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30. The Bridge Management System is a critical part of improving governance under the SRN Bridge Program. The Bridge Management System is a web-based tool that contains a detailed inventory and condition assessment for each SRN bridge. It also contains information on gaps in the strategic road network and details of bridges under construction. All BMS entries are geo-referenced and include available histories of work previously undertaken on each bridge, any design documentation, and photographs. Because the Bridge Management System is web-based, each of the Department of Roads’ 25 divisional offices will be able to access and update data for bridges within their respective jurisdictions. The SRN Bridge Program will use BMS data to develop priority investment plans, which will be available on the Department’s external website. The Department of Roads has plans to develop an interface between Bridge Management System, the Contract Management System and the Financial Management System. This will help with reconciling technical, contractual, and financial information. It is important to note that DLIs 1, 2, and 3 (see the Project Appraisal Document for details) relating to bridge-meters maintained or constructed will only disburse against bridge projects taken up according to BMS-prioritised investment plans. As of May 2012, the Bridge Management System is functional and contains updated condition data from DOR’s 2012 SRN bridge asset survey. Throughout the next one or two years the Department of Roads will be operationalizing the Bridge Management System in its headquarters and field offices. The Bridge Project has manually calculated a list of priority bridges using BMS data to guide the Program’s activities during these early years so that any delay in deploying the Bridge Management System does not impact Program implementation adversely.

31. The Bank’s task team includes experienced technical, financial management, procurement, and governance specialists based in Kathmandu who will monitor Program performance and help advise the Department of Roads management on fiduciary issues. Implementation support missions will be organized at frequent intervals during the early years of the Program to make sure that fiduciary systems supporting the Program are working as planned. The Bank-supported Road Sector Development Project will provide financial support (estimated at approximately US$ 2.6 million) to further strengthen DOR’s capacity for managing the SRN Bridge Program. The Bank’s team will review all relevant reports and audits to assess Program performance and arrange follow up actions in consultation with client counterparts.
## ANNEX 1: SUMMARY OF FIDUCIARY RISKS AND MITIGATIONS

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<thead>
<tr>
<th>Risk/Gap</th>
<th>Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financing and expenditure framework</strong></td>
<td></td>
</tr>
<tr>
<td>Current budget framework intermingles LRN and SRN bridge expenditures which blurs priorities and institutional responsibility</td>
<td>MoF will create separate budget headings for SRN and LRN bridges.</td>
</tr>
<tr>
<td>Insufficient GON funds made available for SRN Bridge Program</td>
<td>Bridge Program is priority “P1” program therefore has a ‘first claim’ on GON resources.</td>
</tr>
<tr>
<td>Timing of funds release/authorization to spend for capital budgets</td>
<td>Design of the Bank’s operation allows for a 25 percent advance of total credit to ensure money available. The advance will be paid as soon as pre-conditions are met and the project is declared effective. Advances will be paid on annual rolling basis.</td>
</tr>
<tr>
<td>DOR does not have a credible medium term resource envelope for the SRN Bridge Program which leads to ad-hoc work plans, political prioritization of works, late commitments to start of works and hence rushed and poor implementation</td>
<td>DLIs 1, 2, and 3 will only disburse if prioritization is according to BMS and part of a defined work plan agreed during the budget cycle and implemented as defined in a procurement plan.</td>
</tr>
<tr>
<td>DLI 4 will reward effective contract management and timely completion of the bridge works.</td>
<td>MoF will provide indicative three year resource envelopes to assist with planning SRN Bridge Program investments</td>
</tr>
<tr>
<td><strong>Implementation Framework</strong></td>
<td></td>
</tr>
<tr>
<td>The main procurement and contract implementation risks relate to:</td>
<td></td>
</tr>
<tr>
<td>- Weak linkages between the budget and procurement plans</td>
<td></td>
</tr>
<tr>
<td>- Contract management and administration</td>
<td></td>
</tr>
<tr>
<td>- Record keeping and filing</td>
<td></td>
</tr>
<tr>
<td>- Quality management and materials testing</td>
<td></td>
</tr>
<tr>
<td>- Procurement reporting and oversight (incl. cost estimation and extensions of time)</td>
<td>Increased funding (at least 5 percent of civil works budgets) for feasibility study, design and supervision which will allow better planning, cost estimation and quality management (on Action Plan)</td>
</tr>
<tr>
<td>The Bridge Operations Toolkit will define administrative procedures for record keeping and internal controls</td>
<td></td>
</tr>
<tr>
<td>DOR will designate a focal person in each of the divisional offices as a procurement unit chief for coordinating procurement processes and trainings and for providing procurement guidance to project teams. Training will be arranged for these focal persons on procurement in order to facilitate their roles</td>
<td></td>
</tr>
<tr>
<td>Implementation of quality assurance plans will be enhanced as well as necessary material testing (on Action Plan)</td>
<td></td>
</tr>
<tr>
<td>The main FM risks relate to:</td>
<td></td>
</tr>
<tr>
<td>- Weak Internal controls</td>
<td></td>
</tr>
<tr>
<td>- Weak Internal audit</td>
<td></td>
</tr>
<tr>
<td>- Delayed follow up on outstanding audit observations</td>
<td>The SRN Bridge Program will include a framework of audits (see Table 5.A) to guard against financial management risks and detect any irregularities</td>
</tr>
<tr>
<td>The Bridge Operations Toolkit will include administrative procedures and internal controls applicable to the Program. The Internal Review using the audit firm will provide feedback to DOR management on the implementation of control procedures</td>
<td></td>
</tr>
<tr>
<td>DOR will set up an Audit committee to review the audit observations and develop remedial actions</td>
<td></td>
</tr>
</tbody>
</table>
Nepal Bridges Improvement and Maintenance Program  
Integrated Fiduciary Assessment  

### Risk/Gap

<table>
<thead>
<tr>
<th>Risk/Gap</th>
<th>Mitigation Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate capacity in all aspects of program implementation could</td>
<td>• Funding from the RSDP will provide capacity building consultants to support on all aspects of the DOR program and the various agencies of government responsible for audit functions and oversights</td>
</tr>
<tr>
<td>adversely affect the ability of DOR to meet the development objectives</td>
<td>• DOR will implement a comprehensive training plan over the five year period to build capacity of its staff (included in Program Action Plan)</td>
</tr>
<tr>
<td>Fraud and Corruption</td>
<td></td>
</tr>
<tr>
<td>When allegations of fraud and corruption are identified there is no</td>
<td>• DLI-5 under the project will disburse once the formal GRM is in place and regular reports are made available detailing status of complaints and any actions taken where fraud and corruption has been confirmed.</td>
</tr>
<tr>
<td>formal system for tracking and addressing these complaints; and the</td>
<td>• DOR will assign an existing unit dedicated to dealing with complaints. DOR will disclose all relevant information on the Program and its performance (e.g. annual budget allocation, program implementation and financial progress, list of major contracts) to the public using feasible media outlets (e.g. DOR website with a dedicated page for the Program)</td>
</tr>
<tr>
<td>public has insufficient information on the Program to determine whether</td>
<td>• The system will be capable of handling complaints received from the Prime Minister’s Office, CIAA, NVC, PPMO, MoPPWTM and any other relevant agency (e.g., Chief District Officer).</td>
</tr>
<tr>
<td>wrong-doing is likely to have taken place.</td>
<td>• A system of third party monitoring will be put in place</td>
</tr>
<tr>
<td>The PforR Anti-Corruption Guidelines may not be implemented</td>
<td></td>
</tr>
<tr>
<td>adequately.</td>
<td>• DOR will disseminate the PforR Anti-Corruption Guidelines through the DOR website.</td>
</tr>
<tr>
<td></td>
<td>• The Bank’s debarment list will be circulated to all Program implementing entities every six months. The annual technical audit will verify that implementing entities have complied with IDA’s debarment list.</td>
</tr>
<tr>
<td></td>
<td>• DOR will provide reports on the status of fraud and corruption complaints and actions taken annually, or more frequently on occasion should it be requested by the Bank. Likewise, the Bank will report to GON on similar allegations.</td>
</tr>
<tr>
<td></td>
<td>• GON has agreed to extend the right for the Bank to investigate fraud and corruption complaints within the Government’s laws and regulations. However, since the Bank will not have direct access to third parties’ (contractors and consultants) books and accounts, nor the right to audit such documents under the Program, alternative arrangements have been made. For fraud and corruption cases, the Bank can request an investigation by GON, and GON will refer such cases to CIAA. The Bank and GON/CIAA will agree on the investigation methodology but the investigation will be undertaken by CIAA with the findings shared with the Bank in accordance with Nepal’s existing laws and regulations. As a signatory to the UNCAC, GON has drafted legislation to allow joint investigations with external agencies which is awaiting parliamentary approval. The ability to carry-out joint investigations will allow the Bank access to third party information.</td>
</tr>
<tr>
<td>RISK/GAP</td>
<td>MITIGATION MEASURE</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Program Management</td>
<td>▪ DOR will develop a Bridge Operations Toolkit. It will provide user friendly guidance (that already exists in different manuals, guidelines in DOR) on different aspects of the SRN Bridge Program (including planning/programming, procurement, contract management, and M&amp;E). This toolkit will guide users through the various manuals already in place including the Public Works Directives manuals, financial management manuals, quality management manuals etc. (as included in the Program Action Plan)</td>
</tr>
<tr>
<td>The current regulations governing the program do not provide sufficient guidance to DOR staff on all aspects of program implementation</td>
<td>▪ The SRN Bridge Program will include a framework of audits (see Table 5.A) which includes an integrated technical audit to address all aspects of program implementation including procurement, and technical considerations. The integrated technical audit will be undertaken by independent consultants hired by NVC.</td>
</tr>
<tr>
<td></td>
<td>▪ DOR will procure the services of a private firm/individual consultants to carry out internal reviews of financial transactions and compliance with procedures.</td>
</tr>
</tbody>
</table>
### ANNEX 2: RECOMMENDED INDICATORS – FINANCIAL MANAGEMENT

<table>
<thead>
<tr>
<th>#</th>
<th>FIDUCIARY RISK</th>
<th>PERFORMANCE INDICATOR</th>
<th>BASELINE</th>
<th>RECOMMENDED STANDARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Budget allocation and authorization to spend for SRN</td>
<td>Annual budget allocations for the Bridge Program made in accordance with agreed work plans and authorization to spend given in a timely manner</td>
<td>Authorization to spend does not follow any time schedule</td>
<td>Authorization to spend against approved budget allocations given by end of the first trimester of the financial year</td>
</tr>
<tr>
<td></td>
<td>bridge investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Compliance of internal control procedures</td>
<td>All observations in the reports of the Program internal audit addressed in an effective and efficient manner</td>
<td>Inconsistent follow-up of internal audit observations</td>
<td>Response to audit observation within 35 days after the receipt of draft audit report</td>
</tr>
<tr>
<td>3</td>
<td>Timely external audits</td>
<td>Program external audits carried out in a timely manner</td>
<td>9 months</td>
<td>SRN Bridge Program audit reports available within 6 months after the close of the financial year</td>
</tr>
<tr>
<td>4</td>
<td>Audit follow up</td>
<td>Audit observations addressed expeditiously</td>
<td>Audit observations are not resolved in a time-bound manner</td>
<td>All audit observations are monitored and satisfactorily resolved to the extent possible</td>
</tr>
<tr>
<td>5</td>
<td>Timely Program Financial reporting (unaudited)</td>
<td>Program financial statements are prepared on time</td>
<td>5 months</td>
<td>Program financial statements prepared within three months after the close of the financial year</td>
</tr>
</tbody>
</table>
### ANNEX 3: RECOMMENDED INDICATORS – PROCUREMENT

<table>
<thead>
<tr>
<th>#</th>
<th>PROCESS INDICATOR</th>
<th>PERFORMANCE INDICATOR</th>
<th>BASELINE</th>
<th>RECOMMENDED STANDARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Procurement plan</td>
<td>Percentage of implementing units that prepare procurement plans</td>
<td>15 percent</td>
<td>100 percent by end of year 1 of Program implementation</td>
</tr>
<tr>
<td>2</td>
<td>Contract packaging</td>
<td>Consolidate or bundle contracts where possible and commercially advantageous</td>
<td>One bridge, irrespective of size and location, is procured under one contract</td>
<td>SRN Bridge Program procurement reflects efforts to bundle contracts efficiently (esp. for maintenance works).</td>
</tr>
<tr>
<td>3</td>
<td>Liquidated damages</td>
<td>Enforcement of contractual provisions in particular for liquidated damages imposed for delay in completion</td>
<td>Nominal</td>
<td>Year 1: Devise standard procedures for time extension at DOR; Year 2 and thereafter: implementation of the agreed procedures.</td>
</tr>
</tbody>
</table>