

Integrated Fiduciary Systems Assessment

India: Tamil Nadu Health System Reform Program (P166373)

The World Bank



November 19, 2018

Section 1: Conclusions

1.1 Reasonable Assurance

1. As part of Program preparation, the World Bank carried out an Integrated Fiduciary System Assessment (IFSA) of all implementing agencies i.e. five Directorates and two societies of DoHFW, and procurement agencies involved in the Program implementation, to determine whether the fiduciary systems provide reasonable assurance that funds will be used for the intended purposes. The conclusion of the IFSA is that the capacity and performance of the fiduciary systems of all implementing agencies are adequate to provide reasonable assurance that the Program funds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

2. Based on the IFSA, fiduciary risk of the Program is assessed as **Moderate**. To strengthen the existing systems of the implementing agencies and to mitigate fiduciary risk, various action items are recommended as part of DLIs and PAP.

1.2 Risk Assessment

3. The following are the residual risks that will be addressed during Program implementation;

- (i) **Low bidder participation.** It is observed that there is a low bidder participation in the tenders published by the three procurement agencies. However, it may be noted that it is a general trend in GoTN and a function of supplier preferences observed in the market. From the historical tender data received from the procurement agencies, it is observed that 31 percent of the tenders at TNMSC; and 30 percent of the tenders at ELCOT; and, 93 percent of the tenders at TNPWD, have received two or fewer bids. It may be noted that involvement of TNPWD under the Program will be limited to minor civil work activity i.e. towards maintenance of health and wellness centers of health facilities and therefore the impact of high percentage of low bids on the program is very limited.
- (ii) **Strengthen procurement capacity at TNHSP Society.** It has a finance team headed by a Financial Advisor and Chief Accounts Officer (FA&CAO) from the Treasury and Accounts of the GoTN and has rich experience in handling government FM matters. However, it does not have a procurement unit of its own. It is recommended to strengthen the procurement capacity at TNHSP considering that it will be directly involved in small value procurement and will also be responsible to monitor several procurement activities of other implementing agencies under the Program.
- (iii) **Low FM capacity at NHM Society.** Based on the discussions with finance staff and review of audit reports, it is observed that FM capacity of NHM Society in the area of accounting, bookkeeping and financial reporting is weak at the lower levels of PHC and Sub-center units. The World Bank will provide technical support using Program funds allocated for training activities to develop and implement good practices to strengthen the FM systems.
- (iv) **Transparency.** None of the three procurement agencies (ELCOT, TNMSC, and TNPWD) currently disclose information on contract awards. It is recommended that all contract awards of value more than INR 20 million (approximately US\$285,720) shall be publicly disclosed through the website. Similarly, it is noted that annual audit reports and financial

statements of the two procurement agencies (ELCOT and TNMSC), and NHM Society are not disclosed in the official website. To enhance transparency, the team has recommended that the audit reports and financial statements shall be disclosed in the official website.

1.3 Procurement Exclusions

4. **The Program is not expected to procure any large contracts valued at or above Operational Procurement Review Committee (OPRC) thresholds** (US\$115 million for works, US\$75 million for goods and non-consulting services, and US\$30 million for consultant services), which are based on a “moderate” risk rating. This conclusion is drawn based on procurement data analysis of three procurement agencies in last two years. The Program is not expected to include any large value contracts based on the inherent definition of the Program boundaries. The implementing units and the procurement agencies shall report to the World Bank if any large contract may appear throughout project implementation. In addition, the World Bank team will analyze and monitor the semi-annual and annual Program budget execution reports, as well as the Financial Monitoring Reports and contract management reports of the three procurement agencies, and identify if any large value contract may appear throughout the project implementation.

Section 2: Scope

2.1 Brief Description of the Scope of the IFSA

1. The Program will be implemented by five directorates and two societies of Department of Health and Family Welfare (DoHFW); namely, (a) DPH (for primary care services); (b) DMRHS (for secondary care services), (c) DME (for tertiary care services), (d) TNFSDA (for food safety and monitoring quality of drugs); (e) DIMH (AYUSH - promoting and research); (f) TNHSP Society, formed by GoTN in 2005 under the previous World Bank assisted health project; and, (g) NHM Society with units at district and block level, formed by Union Government in 2005 to implement the National Rural and Urban health care programs.

2. Based on the activities identified in the Program boundary, the main procurable items are, (a) medical equipment and medical/laboratory supplies and consumables; (b) professional services, including consulting services for programmatic technical and professional inputs, outsourcing services, communication campaigns, advertisements, and so on; (c) information technology (IT) and enabled services, computers, laptops, and accessories; and (d) minor civil works for repair, renovation, enhancement, and upgrading of existing health facilities. As per the existing set-up of GoTN, the health directorates and societies rely on the technical expertise of three procurement agencies to fulfill their procurement needs. These procurement agencies are Tamil Nadu Medical Services Corporation (TNMSC); Electronics Corporation of Tamil Nadu Limited (ELCOT); and, Tamil Nadu Public Works Department (TNPWD). TNMSC would act as procurement agency for acquisition of medical equipment and supplies. ELCOT would act as procurement agency for purchase of IT related equipment and services. TNPWD would act as procurement agency for minor civil work activities of existing health facilities. Some small value and routine office requirements would be directly procured by the implementing agencies. In the Program, major portion of the total procurable items shall be tendered by the three procurement agencies. Therefore, these three procurement agencies are taken as representative sample for procurement assessment.

3. An assessment of the implementing agencies in FM and procurement systems, regulatory aspects, and operational practices were carried out as part of IFSA. The performance of the systems was carried out based on discussions with the operational staff, review of budget and financial data, review of audit reports and sample review of procurements undertaken, and contracts awarded in last two years.

The World Bank's experience in the implementation of other projects in the State and previous TNHSP project was also used to arrive at the conclusions made in this report.

4. TNHSP Society was the main implementing agency to implement the previous Investment Project Financing (IPF) operation (P075058) from FY2005 to FY2015. It has significant experience of working with World Bank. It is presently implementing a JICA funded Program and several other schemes on Health insurance, emergency ambulance and mortuary services for GoTN.

5. TNMSC is a well-established public entity set up by the GoTN in 1994–95 with an objective to provide procurement of medical drugs, equipment, and services on time to the government medical institutions in Tamil Nadu. The organization has two separate divisions: one for drugs procurement; and another one for goods (equipment) and services procurement. The staff strength is adequate in the organization. The TNMSC was one of the implementing partners for TNHSP-I and carried out procurement of various medical equipment as per the World Bank's procurement guidelines. The agency has extensive experience of procuring drugs and equipment for government medical institutions and adequate infrastructure both at state and district level. The TNMSC has sound FM systems, accounting procedures, and oversight audit mechanisms to account and report on expenditures.

6. ELCOT is a public entity established by the GoTN in 1977 with an objective to provide procurement services to government departments for IT equipment and IT enabled services. ELCOT was one of the implementing partners for TNHSP-I and carried out/ implemented procurement activities of IT equipment and services as per the World Bank's procurement guidelines. The agency has extensive experience of carrying out IT procurement. It has good FM systems, accounting procedures, and oversight audit mechanisms in place to account and report on expenditures.

7. TNPWD was established in the year 1858. It is the parent department for all engineering departments in the state. The Tamil Nadu PWD was one of the implementing partners for TNHSP-I and carried out/ implemented procurement activities of civil works as per the World Bank's procurement guidelines. The agency has extensive experience of carrying out procurement of civil works for various government medical institutions in the state. It maintains accounting records and contract documents/ledgers as per the accounting procedures and manuals prescribed by the government and uses the treasury systems of GoTN to process contract payments. It may be noted that the PWD will have a limited role in the Program as major works are not included in the Program boundary.

8. NHM Society was established as separate directorate of DoHFW (Project Director, Reproductive Child Health Project) to implement several central schemes on Health for GoI. It has a governing body consisting of senior bureaucrats of the GoTN and a Management Committee headed by a Managing Director (senior IAS official of the GoTN) for day-to-day administration. The agency receives funds from Central Govt (MoH&FW) and GoTN to implement the schemes and has FM systems to account and report on expenditures. It relies on TNMSC, ELCOT and PWD to fulfill its procurement needs.

Section 3: Review of Public Financial Management Cycle

3.1 Planning and Budgeting

9. The GoTN has an established budget preparation process, that is guided by Budget Manual. It follows a six-tier budget classification system that allows expenditure tracking by Major Head, Sub-Major Head, Minor Head, Sub Head (based on Programs), and Sub-Detailed Head (based on economic classification). The budget instructions are issued by the Finance (Budget General - I) Department in the

month of August, each year to all administrative/service delivery departments. The Administrative Department prepares a Medium-Term Fiscal Plan that includes the budget estimate (BE) for the current year and advance estimate for the next two fiscal years¹ and these detailed budget proposals, are submitted to the Budget Division in the Finance Department. The revised estimate for the ongoing fiscal year is also submitted along with the BE of the ensuing year. The proposals are thoroughly examined by the Finance Department in decentralized budget meetings held in October with officials of administrative departments to ensure that budget allocations are adequate and expenditure commitments are within the fiscal targets set in the Tamil Nadu Fiscal Responsibility Act. The final agreed budget allocations are presented in the state annual budget and are approved by the Assembly in February/March.

10. The GoTN under a recent policy initiative has developed an end to end computerized Budget and Accounting software application—an Integrated Human Resources and Financial Management System for robust management of State finances. It will take care of activities of the Finance Department to a large extent by bringing the Department of Treasuries and Accounts and administrative departments online and ensuring real-time updating of financial transactions. The system will also take care of human resource payments, that include pension management, by digitizing the service records of government employees, making the entire process paper less and thus reducing the workload. The system is nearing completion and it is presently piloted in a few locations for user acceptance. It is expected that the BE, payment, and accounting for FY2019–20 and onward will be done using this software application.

11. The Program boundary of US\$5,278M (over a period of 5 years) has been defined based on the technical discussions held with the officials of DoHFW. Due consideration has been given to the risks relating to procurement and FM areas while defining the Program boundary. The Program funds of USD 4868M will be budgeted in five health directorates and two societies through the existing budget lines of DoHFW (broken down to sub-detailed level by economic classification). A separate budget line for Externally Aided Project (EAP) will be created by GoTN under each of the five health directorates and two societies to provide for additional budget of USD 410M for the Program. The Annual Work Plan of the Program boundary will be prepared by Head of Department of the respective directorates, and it will be budgeted by the Finance Department in the state health budget, as per due procedures set out in the Budget Manual. The annual budget will be approved by the state following the budget calendar of the GoTN. TNHSP will provide monitoring and an oversight role, to ensure that activities planned and included in the budget are linked to the achievement of results as agreed in Program.

Table 1: Program Budget by Source of Financing

Source	Amount (USD, millions)	% of Total
Government financing*	4,990.75	94.56
PforR IBRD financing	287	5.44
Other development partners	0	0
Total Program Costs	5,277.75	100.0

*Including an expected increase of USD 123m over 5 years

¹ Separate proposals with detailed working sheets are submitted for items that exceed INR 200 million.

Table 2. Program Budget Composition by Directorate/Society and Expenditure Categories

Budget Details		Directorates and Societies (USD, million)							Amount in USD, millions
Detailed Budget Head	Category of Expenditure	DMRHS	DME	DPHPM	TNFSAD	DIMH	NHM Society	TNHSP Society	Total 1 year (FY2018-19)
1	Salaries	138	288	255	10	30	-	0	722
8	Advertising & Publicity	0	0	0	0	0	-	-	1
17	Minor Works	-	-	-	-	-	-	-	-
18	Maintenance	4	5	4	0	0	-	-	13
19	Machinery & Equipment	0	11	0	0	0	-	0	11
24	Materials & Supplies	-	0	16	0	0	-	-	17
33	Payment for Professional & Special Services	10	24	3	0	0	-	0	37
72	Training	0	0	0	0	-	-	-	0
76	Computer & Accessories	0	0	0	0	0	-	0	0
9	Grant in Aid	-	-	-	-	-	160	12	172
	Total 1 year* (US\$, millions)	152	329	279	11	30	160	12	974
	Total 5 years** (US\$, millions)	824	1,785	1,514	58	165	865	67	5,278

*FY 2018-19 budget

**Including an expected increase of USD410m over 5 years

Table 3: Sub-detailed budget head that form part of Program Boundary

Directorates (Head of Department)	Detailed Budget Heads (by economic classification)	Program Budget (in US\$ millions) – over a period of 5 years	Procurement Agency	Fund Flow and Payment Mechanism
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	1 Salaries	3,608	Procurement function is not involved.	Payment is made by Treasury on submission of monthly salary bills by Directorates.
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	8 Advertising & publicity	4	Directorate	Payment is made by Treasury on submission of bills by Directorates.
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	17 Minor works	0	PWD	Payment is made by Treasury on submission of bills by PWD.

Directorates (Head of Department)	Detailed Budget Heads (by economic classification)		Program Budget (in US\$ millions) – over a period of 5 years	Procurement Agency	Fund Flow and Payment Mechanism
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	18	Maintenance	66	PWD	Payment is made by Treasury on submission of bills by PWD.
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	19	Machinery & Equipment	57	TNMSC	Funds are transferred from Treasury into the Bank account of TNMSC based on approved Government order. Payments are made by TNMSC on delivery of equipment by supplier. On completion of activity, TNMSC submits utilization certificate to the Directorate.
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	24	Materials & Supplies (Lab chemicals and Reagents)	85	TNMSC	TNMSC does the procurement and finalize the rate contract with supplier. The items are ordered by directorate and payment is made by Treasury on submission of supplier bills by Directorates.
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	33	Payment for Professional & Special Services	186	Directorate and TNMSC	(a) Hiring of professional services (such as consulting activities, contractual health staff services) is done by directorate and payment is made by treasury on submission of bills by directorate. (b) For special services (such as Housekeeping of health facilities), TNMSC does the procurement and finalize the rate contract with service agency. The services are obtained by directorate and payment is made by Treasury on submission of bills by Directorates.
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	72	Training	0	Directorate	Payment is made by Treasury on submission of bills by Directorates.

Directorates (Head of Department)	Detailed Budget Heads (by economic classification)		Program Budget (in US\$ millions) – over a period of 5 years	Procurement Agency	Fund Flow and Payment Mechanism
1902, 1903, 1904, 1906, 1907, 1910 (Five Directorates and TNHSP Society)	76	Computer & Accessories	2	Directorate and ELCOT	<p>(a) In cases, where procurement is carried out by Directorate, the bills are submitted by Directorate to Treasury on delivery of IT services and payment is made by treasury to the supplier.</p> <p>(b) In cases, where procurement is done by ELCOT, the funds are transferred from Treasury into the Bank account of ELCOT based on approved Government order. Payments are made by ELCOT on delivery of IT services. On completion of activity, ELCOT submits utilization certificate to the Directorate.</p>
1910 (TNHSP Society) - for 108 Ambulance services	9	Grant in Aid	62	TNHSP	Funds are drawn from Treasury into the Bank account of TNHSP. Payment is made by TNHSP to the supplier on submission of bills by service provider.
1909 (NHM Society)	9	Grant in Aid	798	NHM Society. However, for activities relating to procurement of medical equipment, IT solutions and civil work construction, NHM Society will rely on TNMSC, ELCOT and PWD.	Funds are transferred from Treasury into the Bank account of NHM Society based on approved Government order. For activities relating to procurement of equipment, IT solutions and civil work construction, funds are provided to TNMSC, ELCOT and PWD. Utilization certificates are submitted at the completion of activity.
Projected increases in financing by GoTN	Separate EAP budget line will be created in each of the 5		123	The existing budget and treasury system of GoTN (for directorates, TNHSP and PWD) and payment and accounting system of agencies	

Directorates (Head of Department)	Detailed Budget Heads (by economic classification)	Program Budget (in US\$ millions) – over a period of 5 years	Procurement Agency	Fund Flow and Payment Mechanism
IBRD Financing	directorates and 2 societies.	287	(NHM Society, TNMSC, ELCOT) will be used for Program implementation. It satisfies the accounting and reporting requirement of the Program.	
Program Budget		5,278		
1902: Directorate of Medical and Rural Health Services 1903: Directorate of Medical Education 1904: Directorate of Public Health and Preventive Medicine 1906: Tamil Nadu Food Safety and Drug Administration Department 1907: Directorate of Indian Medicine and Homeopathy 1909: Project Director, Reproductive Child Health Project (NHM) 1910: Tamil Nadu Health Systems Project (TNHSP)				

3.1.1 Adequacy of Budget

12. Overall funding to the health sector in GoTN has shown an increase from INR 84.7 billion (US\$1.2 billion) for FY2015–16 to INR 113.3 billion (US\$1.6 billion) for FY2018–19. This is equivalent to an annual increase of over 10 percent on average in nominal terms, while the average annual inflation at the national level during the same time period was about 5% per year, showing GoTN’s commitment to ensure significant real increases in the health budget. The actual health sector budget execution for the most recent three years shows an actual budget outturn of within 5% of the originally approved budget for two of the three years (Table 4), thus corresponding to a best Public Expenditure and Financial Accountability (PEFA) Performance Indicator PI-1 rating of “A”.

13. The budget outturn for the Program budget line for FY 2016-17 is 99% (actual variance is lower than 1%). It is primarily because the composition of program budget line is more weighed towards salary and non-procurable items that are better estimated by DoHFW in the budget.

Table 4: Original Health Budget vis-à-vis Actual Expenditures, 2015-18

	FY 15-16	FY 16-17	FY 17-18
Actual Expenditure (million Rs)	84,680	84,310	105,820
Original Budget (million Rs)	82,450	90,720	101,570
Budget Outturn	103%	93%	104%

Note: The actual amounts for FY 17-18 are not yet audited. The average yearly USD/Rs exchange rates for the past 3 fiscal years (FY 2015-18) were: 61.14; 65.47; and 67.07, respectively (Source: Reserve Bank of India).

3.1.2 Procurement Planning and Management

14. In year 1998, GoTN established the Tamil Nadu Transparency in Tenders Act. The Act has clearly defined Tender Rules which are updated from time to time. The key principles and provisions of Tamil Nadu Transparency in Tenders Act 1998 and Rules 2000 meets international good practices for an efficient, economic, fair, and transparent public procurement system and management. For effective management of the process, the act makes the following provisions: (a) the Government or the procuring

entity, may, by order, appoint an officer under its control as the Tender Inviting Authority for carrying out the functions assigned to it under the Tender Act; (b) the government or the procuring entity, may, by order, appoint an officer or a committee consisting such number of officers as may be prescribed as the Tender Accepting Authority for carrying out the functions assigned to it under this act; and (c) any tenderer aggrieved by the order passed by the Tender Accepting Authority under section 10 may appeal to the Government within ten days from the date of receipt of order and the Government shall dispose the appeal within fifteen days from the date of receipt. All procurement agencies have clear accountability system which identifies the Tender Inviting Authority and Tender Accepting authority depending on the value of the procurement. However, there are no procurement complaint redressal system in place. Establishment of a centralized complaint redressal system is recommended as a PAP action item.

15. **Procurement planning process at the TNMSC.** At the TNMSC, separate procurement planning processes are followed for each of its two divisions (drugs and equipment & services). For drug procurement, the agency receives requirements for new drugs, sutures, and surgical items to be included for the next year in the list of Essential Drugs and Specialists from the DME, DMS, and DPH. This is reviewed by the drug committee chaired by MD, TNMSC. A consolidated statement is reviewed to ensure specifications are complete and the quantities for new drugs are as per the original requirements. The procurement of drugs, surgical, and sutures items is done as per the purchase policy Directorates. Specifications for the equipment are informed by the user department. To ensure more competition, the TNMSC ensures that technical specifications are not tilted in favor of any particular supplier and makes it generic or asks for equivalents for branded items. Trade-in of existing expired/old equipment is considered as part of a new procurement process. The TNMSC has documented the procedures for assessment of new suppliers.

16. In general, the agency TNMSC establishes one-year rate contracts (similar to Framework Agreements) at the beginning of every financial year for various types of drugs procured perennially. Whereas in the case of equipment, the agency generally tenders the requirement when these are received from the user department. Of late, even the equipment wing has started the process of establishing a rate contract for some of the most frequently procured equipment.

17. The agency has a clear system of accountability with respect to the procurement decision making process. The Managing Director is the Tender Accepting Authority for tenders of value less than INR 10 Million (approximately US\$142,860) and the Board of Director (of TNMSC) is the Tender Accepting Authority for tenders of value more than INR 10 Million (approximately US\$142,860). The agency has standard bidding documents for procurement of drugs and equipment. Use of the electronic mode is limited to only e-publishing. Bids are received in paper form. The TNMSC charges a service fee of 5 percent plus Goods and Service Tax (GST) for providing procurement services.

18. **Procurement planning process at the TNPWD.** All activities of the TNPWD are governed by provisions of (a) the Tamil Nadu Transparency in Tender Act 1998 and Rules 2000; (b) Tamil Nadu PWD Code; (c) Tamil Nadu Financial Codes (d) Bureau of Indian Standards (BIS) Codes; and (e) Government Orders, Circulars, Rules, and Regulations. The agency has a clear system of accountability with respect to decision making in the procurement process. The agency has standard bidding documents for civil works. Works and associated sites are identified by the user and requirement is informed to the PWD. The PWD prepares the preliminary design in consultation with the user and provides a rough cost estimate as per the applicable plinth area rates. This cost estimate is sent to the Government for administrative sanction (financial sanction). Once administrative sanction is accorded by the Government, a detailed estimate is prepared based on the latest Schedule of Rates (SOR). Then technical sanction is requested from the

appropriate authority based on delegation of power. All tenders above INR 10 million (approximately US\$142,860) are technically sanctioned by the chief engineer. A tender schedule is prepared based on quantities approved under the technical sanction. Funds are included in the budget estimation under the concerned head of account. Land acquisition/possession is a pre-condition for releasing the tenders.

19. The SOR is fixed on a yearly basis by the Government and the latest SOR made available for review was dated June 2018. The SOR consists of rates for material, labor, works, conveyance, and so on. The SOR is adopted in the standard data for preparation of the detailed estimate at an itemized level. Similarly, plinth area rates are also issued by the PWD on a yearly basis. Plinth area rates consist of the unit rate for residential and non-residential building with provision such as water supply, internal and external electrification, and so on.

20. **Procurement planning process at ELCOT.** Upon receipt of user department request, ELCOT submits a procurement estimate. Technical specifications are prepared by the user department and they are assisted by ELCOT during this process. Tenders are floated once necessary sanctions are received and funds are transferred to ELCOT. Possible attempts are made to consolidate requirements from different user departments. For recurring procurement of similar items, trade-in of the expired/old hardware and equipment is considered as the most preferred way of disposing the e-waste

21. ELCOT has experience of conducting national as well as international competitive biddings. For frequently used items, rate contracts are established for one to two years and in some cases for even more years. If a user department is not willing to procure through the existing rate contracts, fresh tenders are called to source the specific requirement. ELCOT maintains a blacklist of vendors. No procurement plans are prepared. ELCOT charges a service fee of 2.5 percent plus GST for its procurement services.

3.1.3 Procurement Profile of the Program

22. The Program shall fund procurement of medical supplies, medical equipment, IT hardware, professional services, outsourced manpower services, consultancy services, minor construction (building renovation and maintenance) works, and so on. There is no major construction activity envisaged within the Program boundary. Total procurable component in the program is around 18% of the total program cost. In general, the following procurement assignment model shall be followed;

- (a) For procurements of medical equipment, the TNMSC is identified as a procurement agency. The TNMSC has delegated procurement of small equipment less than INR 500,000 (approximately US\$7,140) to respective hospitals. Generally, various directorates/NHM Society rely on TNMSC for procurement of major consulting assignments. The TNMSC also has a small civil wing to perform procurement pertaining to construction of warehouses or similar works.
- (b) For the minor construction works under the Program, the Tamil Nadu PWD is identified as a procurement agency. Specifically, it is the Buildings Division of the PWD that would act as procurement agency for construction works. The PWD Buildings Division has three regional sub-divisions, namely Chennai, Madurai and Trichy; and it has a dedicated team for health facility buildings. They have an elaborate process for procurement of minor construction work.
- (c) For IT hardware, development of software/web applications, and outsourced IT manpower, ELCOT is identified as the procurement agency. ELCOT is currently working on an electronic marketplace platform, like the Government e-Marketplace (<https://gem.gov.in/>) portal of

the central government. The portal is currently in the testing phase and is expected to go live very soon. This portal will increase the transactional efficiency of procuring some of the commonly used electronic devices/equipment. The portal is designed to ensure adherence with requirements of the Tender Act and Rules; for example, an algorithm at the back end would ensure that at least 60 percent of the purchase value is awarded to an L1 (Lowest) bidder in case of multi supplier rate contracts.

- (d) Small value procurements pertaining to office resourcing (for example purchase of IT hardware, furniture, and so on) are expected to be directly undertaken by the TNHSP Society, NHM Society, and participating directorates.
- (e) Procurement of consulting assignments is also expected to be either directly undertaken by the TNHSP Society/NHM Society/directorates or requested through the TNMSC.

3.2 Budget Execution

3.2.1 Treasury Management and Fund Flow

23. The treasury systems of the GoTN are robust, well established, and experienced under several World Bank operations. The state has a treasury bill passing system and e-payroll system to process electronic payments to a third party and salary bills for government staff. The Reserve Bank of India is the banker to the GoTN and State Bank of India is the main agency bank. All receipts and expenditures transacted at various treasuries are routed to a single treasury account. At the department level, the GoTN follows a system of quarterly control of appropriation for the provisions made in the BE for better expenditure management (to avoid rush of expenditure at year end), financial control, and accountability. The Head of Administrative Department prepares a proportionate quarter-wise distribution statement of appropriation in respect of head of account (down to sub-detailed head level), excluding the salary component and other items of expenditure that are exempted² from the operation of quarterly control of the appropriation system. The statement is furnished to the Drawing and Disbursement Officers (DDOs) and Pay and Accounts Offices/Treasury/Sub-Treasury Offices to ensure that bills submitted by DDOs do not exceed the authorized appropriation limit. Any additional expenditure in the quarter, over and above the authorized appropriation for the quarter, is incurred based on specific authorization by the Finance Department. In general, departments do not submit non-salary bills to the Treasury after the cutoff date of the 20th each month as Treasury officials are occupied with processing salary bills. The non-salary bills submitted after the 20th are considered for payment in the first week of the next month. The World Bank's experience of working with GoTN over the past several years has not come across any major cash flow and payment related issues, due to any delay in the budget allotment and distribution. However, with successful implementation of the Integrated Human Resources and Financial Management System from FY2019–20 onward, it is expected that the new system will bring operational efficiencies in the Treasury processes.

24. The procurement agencies, TNMSC and ELCOT draw funds from the Treasury (sub-detailed head budget of DoHFW)³ into the bank account after administrative cum sanction order (Government Order) is

² General Exemption list include but not limited to - Central Sector Schemes and schemes shared between GoI and State, Externally Aided Project, Payment of professional and Special Services, Machinery and Equipment (up to 60% of BE), purchase of computer and maintenance, Minor Works (up to 60%), Maintenance (up to 60%), Medicine,

³ Machinery and Equipment (19) and Computer and Accessories (76)

provided by DoHFW with the concurrence of Finance Department. There were no significant delays observed in obtaining government order and drawl of funds from the treasury into Bank account. The payments are made by the procurement agencies on delivery of services and expenditures are recorded in the accounting system, as per laid down internal guidelines and procedures. The utilization certificates are submitted by the agencies to the Directorates on completion of the activity. For minor civil work activities, the DoHFW issue an administrative cum sanction order (Government Order) to the PWD to execute civil work and charge the expenditure to the sub-detailed budget head⁴ of DoHFW. The PWD maintain the accounting records and contract documents, bills and ledger for the expenditures incurred as per the procedures stipulated in the PWD manual. The DDO of PWD submits the bill to the Treasury and payment is made directly by Treasury to the contractor.

25. NHM Society is a separate directorate of DoHFW (Project Director, Reproductive Child Health Project) that implement several central schemes on Health for GoI. It draws funds (central and state share) from the detailed budget head 'Grant in Aid' into the Bank account after State Program Implementation Plan is approved by Ministry of Health and Family Welfare (MoH&FW) of GoI. The first tranche, of approximately 60 percent, is drawn⁵ at the beginning of each financial year in July on fulfillment of laid down eligibility conditions (that is, submission of unaudited Financial Monitoring Report - FMR of previous FY). The subsequent tranche of 40 percent is drawn into the bank account in the month of November, on submission of annual audit reports of previous FY and Financial Monitoring Report providing expenditures/ payments made for current FY. The funds drawn into the bank account are transferred into scheme-specific bank accounts and based on funding needs, the funds are subsequently released into the bank accounts of district/block/Sub-Center units and PHCs. There were no significant delays observed in obtaining government order and drawl of funds from the treasury into Bank account. It is however observed that while scheme-specific bank accounts ensure segregation of receipt and payment made under each scheme, a large number of bank accounts add to accounting and reconciliation issues. GoI has developed a Public Financial Management System (PFMS), an end-to- end solution to track funds released and spent on various schemes. The NHM Society has made good progress in the roll of PFMS system, as it uses the system extensively to process payments. It has also established a unit to monitor and support the implementation of PFMS.

26. **Fund flow for the Program Boundary of USD 5278M:** The Program funds of USD 4868M will flow to the five health directorates and two societies through the existing budget lines (broken down to sub-detailed level by economic classification) of DoHFW. The funds will be drawn from the budget and spent by directorates as per the extant budget systems and treasury procedures laid down by GoTN. A separate budget line for Externally Aided Project (EAP) will be created by GoTN under each of the five health directorates and two societies to provide for additional budget of USD 410M for the Program (this action is expected to be completed by Negotiation). The GoTN through a separate Government Order (GO) will make TNHSP Society as the budget holder (controller) of the EAP budget line. The TNHSP Society through an office order/proceeding will distribute the budget to directorates for spending, based on agreed program activities. This arrangement has been agreed with GoTN to enable TNHSP Society to effectively coordinate with directorates and implement Program activities to achieve the results.

27. **Disbursement arrangement.** The key principles guiding the World Bank disbursement of DLIs are as follows:

⁴ Minor Works (17) and Maintenance (18)

⁵ On receipt of sanction order from MoHFW (GoI) and Government Order from GoTN.

- a) The TNHSP Society will prepare technical reports to document the status of achievement of DLIs. The technical reports will be verified by an IVA, appointed by the TNHSP Society as per terms of reference agreed with the World Bank. On validation of DLIs by an IVA, the TNHSP Society will communicate the achievement of DLIs and corresponding DLI values to the World Bank along with supporting documents. In case, the TNHSP Society is unable to achieve the DLI target set out in any year, it will be rolled over for future years till such time the DLI target is achieved.
- b) In the case of non-scalable DLIs, the World Bank will disburse the DLI value only upon full achievement of the DLI target. In the case of scalable DLIs, if partially achieved, the World Bank may authorize withdrawal of an amount lesser than the DLI value allocated to the said DLI target. The remaining amount of the DLI will be disbursed once the DLI target value is fully achieved.
- c) In case the TNHSP Society is unable to achieve the DLI target (scalable or non-scalable), the World Bank may reallocate the proceeds of the Loan to another DLI, in consultation with the TNHSP Society.
- d) The World Bank will issue an official letter to the TNHSP Society endorsing the achievement of the DLI target and value.
- e) The TNHSP Society will submit the disbursement claim of the DLI value to the CAAA in the GoI.
- f) The CAAA will submit the disbursement claim to the World Bank and the funds will be disbursed by the World Bank to the GoI under IBRD loan terms. The GoI will release funds to the GoTN as per agreed financing norms between the center and the state.
- g) In the last year of the Program, the TNHSP Society in coordination with the World Bank, will reconcile the audited program expenditure (incurred under identified budget lines) with the DLI amounts disbursed by the World Bank. Any shortfall in the Program expenditure in relation to DLI disbursement will be adjusted from the final DLI claim.

3.2.2 Accounting and Financial Reporting

28. The accounting and internal controls are governed by the State Financial Rules (Budget Manual, Treasury Code, and specific government orders issued from time to time). The DDO of each directorate (and PWD) present the physical copy of the bill to Treasury that scrutinize the bill and make electronic payment to the vendor / supplier. With respect to salary bill, the DDO prepares the salary bill in e-payroll system and submit the physical copy of the salary bill to Treasury that makes the electronic payment directly into the bank account of government staff. The payment transactions are recorded by Treasury against the sub-detailed approved budget head. These transactions are reconciled monthly by DDO with Treasury for validation and thereafter are submitted by Treasury to the Accountant General (Accounts and Entitlements) of GoTN. The Accountant General (Accounts and Entitlements) compiles the Finance and Appropriation accounts and submits monthly budget execution reports to Finance Department, Treasury and DDOs. This entire accounting, reconciliation and financial reporting process normally takes 45 days from the end of the month. The amounts so recorded in the Treasury system of GoTN satisfy the accounting and reporting requirements of the Program.

29. **The procurement agencies, ELCOT and TNMSC** have computerized accounting systems⁶. The payment and accounting function is centralized. The transactions are recorded at the time of payment and bank accounts are monthly reconciled. The Financial statements are prepared in a timely manner as both agencies fall under the Companies Act, that require accounts to be audited within 6 months from close of each FY. The entity systems were experienced in the previous World Bank operation and satisfy the accounting and reporting requirement of the Program.

30. **The NHM Society** has a computerized accounting system⁷ and also uses the PFMS system to process payments and account for expenditures. The accounting system is customized as per reporting requirement (FMR codes) of NHM schemes, classified into 18 major budget heads and sub-heads at detailed activity level for expenditure tracking. The accounting system is used at the state, district, and block level, and expenditure reports (FMR) generated from the accounting system are submitted quarterly to MoHFW (Central Ministry in GoI). As the number of accounting units are high, coupled with human capacity constraints, there are issues in accounting and bookkeeping functions at lower levels in PHC/Sub Center units. The NHM Society has taken several steps, such as conducted training programs for the accounting staff, extensively used the PFMS system to disburse funds to third parties and tracking expenditure, and, introduced concurrent audit system of health facilities to strengthen the overall accounting and bookkeeping functions. It is expected that with these interventions, the FM issues will be reduced in the future years. The World Bank will provide technical support using Program funds allocated for training and capacity building activities to NHM Society to develop good FM practices. The existing systems of NHM Society and with World Bank interventions to strengthen FM systems, it will satisfy the accounting and reporting requirement of the Program.

3.2.3 Procurement Processes and Procedures

31. Salient provisions of the Tamil Nadu Transparency in Tenders Act and Tamil Nadu Transparency in Tenders Rules 2000 on procurement processes and procedures summarized below show that the regulatory system ensures a fair and transparent procurement process with the objective of achieving best value for money.

- a) Open tendering is the preferred mode of procurement and conditions and low-value thresholds are laid down for limited and direct procurement in exceptional circumstances.
- b) The provisions of the act require that unbiased technical specifications shall be prepared by observing certain safeguards defined under the rules and there are no exceptions offered to any particular categories of bidders from meeting other bidding conditions like corporate status of the entity, need for submitting bid security known as earnest money or performance security, bid validity, currency of bid, and so on.
- c) The tender documents shall clearly indicate the criteria, including financial bid, which are to be adopted for evaluating the tenders and how such criteria will be quantified or evaluated.
- d) Adequate time of 15 or 30 days based on the value threshold needs to be provided for submission of bids, and tenderers can seek clarification on the tender documents before 48 hours of the opening of the tender, for which a reply is sent and copied to all bidders. Public opening of bids in mandatory.

⁶ ERP - Tally

⁷ ERP - Tally

32. Upon analyzing the historical procurement data for all three procurement agencies, it is observed that there is strict compliance on the Tender Act and Rules pertaining to lead time for submission of bids, clearly defined award criteria, public opening of bids, requirement of EMD/ Security Deposit, clearly established accountability. Here are some of the key findings which have emerged from the analysis of historical data shared by three procurement agencies;

- a) ELCOT: 39 procurements are conducted by ELCOT during FY 2016-17 and 2017-18. Average time allowed for preparation of bid was 46 calendar days from the date of advertisement. All procurements were conducted through Open Tender with average number of 3.44 bids received for each procurement. No cases of Limited Tender, Quotation and single source were found.
- b) TN PWD: 80 procurements are conducted by TNPWD for health department during FY 2016-17 and FY 2017-18. Average time allowed for bid preparation is 30 calendar days and average time taken for award is 96 calendar days from the date of advertisement. All procurements are conducted through Open Tender with average number of 2.19 bids received for each procurement. No cases of Limited Tender, Quotation and single source were found.
- c) TNMSC: 270 procurements are conducted by TNMSC during FY 2017-18. Average number of 4.71 bids are received for each procurement. 47% of the tenders are open tender and 53% are limited tenders and no cases of quotations and single source are found.

33. The GoTN promotes the use of e-procurement and has set up systems through the National Informatics Centre, Gol, for its procurement entities to use. ELCOT uses its own e-procurement system and the PWD has used e-procurement in selected procurement activities. The TNMSC has not yet implemented e-procurement in its operations, but off late has started working towards implementation of e procurement system in their procurement process.

34. In about one-third of the sample, bidder participation was found to be less than two in the case of the TNMSC and ELCOT. While it is recorded that the TNMSC had attracted upto 157 bidders in the case of establishing rate contracts (similar to Framework Arrangements) for drugs, low bidder participation continues to remain an issue. From last two years procurement data, highlighted in Para 31, indicates that average number of bids in all three agencies is more than 2.

35. Though in Tamil Nadu Transparency Act, there is a provision of Appeal, no systematic Procurement Complaint Management protocol is available. While no record of complaints was observed during the assessment, there is a need to establish a Procurement Complaints Management process with defined protocols for parties who can submit a complaint at various stages of the procurement process; a submission and escalation mechanism; and timelines as well as remedies available to bidders and procurement entities.

36. A transparent system shall also keep all stakeholders informed about the outcomes of the procurement process. As of now, there are no systematic processes followed for publication of contract awards details in their website by the entities assessed. Hence publication of award is recommended as one of the risk mitigation action item.

3.2.4 Contract Administration

37. There are no provisions on contract administration from the Tamil Nadu Transparency in Tenders Rules 2000. Hence it is expected that contract administration between two parties shall take place strictly in line with provisions agreed by the parties during the tender process and then incorporated into the resulting contract agreement.

38. **Contract administration at the TNMSC.** For drugs, the order quantity is determined by the reorder level, maintaining a base stock of 4 months and pipeline stock of 2 months. Drugs are also exchanged between the warehouses to maximize the usage before expiry. The TNMSC imposes liquidated damages in case of a delay in delivery and installation by the contractor. The TNMSC does not have a system-based tool to monitor delivery progress. At warehouses, system-based outward and inward registers are maintained to monitor inventory levels. The TNMSC has documented procedures on continuous improvement of suppliers; controlling the quality of drugs and surgical equipment; issuance of drugs to user departments; and the procedure for receipt and storage of drugs at warehouses. Procurements are audited by internal as well as external auditors. An internal audit at the warehouse is conducted once in three months and physical verification is carried out at the end of the financial year. Delivery lead times are pre-agreed with the suppliers. The equipment unit generally does not have more than one supplier for the same item of same specification, but the drugs unit has multiple contracted suppliers for the same drug. In case of a dispute that cannot be resolved at the government level, arbitration is sought. General conditions of contract cite dispute resolution to be conducted in line with the Arbitration and Conciliation Act 1996.

39. Late payment to suppliers is noticed as one of the recurring observations in the Post Procurement Reviews done under previously funded IPF projects, wherein the TNMSC was entrusted with the procurement of goods and equipment. According to the TNMSC, this is due to a delay in the receipt of installation confirmation from the end-user unit. Therefore, there is a need for close monitoring by TNMSC, so that such situation is avoided in the current PforR Program.

40. **Contract administration at ELCOT.** No advance payments are allowed by ELCOT. Officials from user units are requested to participate in demonstrations, testing, pre-dispatch inspection, and quality control activities. ELCOT manages most of its procurement and contract-related documents in electronic form. Procurement reviews are carried by internal auditor and external auditor appointed by CAG of India.

3.3 Internal Controls

3.3.1 Internal Controls

41. The internal controls of GoTN are guided by financial rules and procedures, that is, Budget Manual, Treasury Code, and specific government orders issued from time to time. These rules are robust and comprehensive, and the government officials are familiar with the application of these rules. The directorates, PWD, and TNHSP Society will use the extant procedures of GoTN to implement the Program.

42. GoTN has an e-payroll system, a standalone module (presently not linked to the Treasury system) for processing salary payments of government staff. The DDO's mapped to the Directorates prepare monthly salary bill based on the manual attendance register and submits the physical copy of the bill to Treasury for electronic payment into the Bank account of employee. The payroll system is also used to process the salaries of contractual staff working for the health directorate. The system has an enabling feature to record the transfer of an employee posted to a new location. The relieving DDO maps the

employee code in the e-payroll system to the new DDO responsible to prepare the salary bill from date of transfer. Similarly, any arrears or increments to the salary is updated, approved and validated by the directorate before salary bills are prepared by the DDO and paid by the Treasury. The audit reports of Comptroller and Auditor General of India (CAG) on State Accounts (for FY 2015-2017) have not reported any internal control issues on the present payroll system and neither any operational issues were stated by the government staff during the discussions. The GoTN is migrating to a new software application i.e. developing a new HR system (digitizing the service records of government employees) and integrating it to the new Budget, Accounting and Treasury software application. It is expected that the new system will be rolled out from April 2019. GoTN has further plans to use the biometric system from 2019 to electronically record the attendance of government staff. With implementation of these measures, the overall control environment of the payroll management is expected to be further strengthened. During the program implementation phase, the Bank team will review the new system.

43. The procurement agencies, TNMSC and ELCOT are institutions incorporated under the Companies Act. These are governed by Board of Directors (senior Indian Administrative Service [IAS] officials of the GoTN) and day-to-day administration is handled by the Chairman/Managing Director (senior IAS official of the GoTN). The NHM Society has a governing body consisting of senior bureaucrats of the GoTN and a Management Committee headed by a Managing Director (senior IAS official of the GoTN) for day-to-day administration. The agencies have accounting manuals, internal rules, and procedures to guide staff on internal control principles that are sufficient to implement Program operations.

3.3.2 Internal Audit

44. The agencies TNMSC, ELCOT and NHM Society have internal and concurrent audit mechanisms in place. These audits are carried by firm of chartered accountants appointed by the agencies and scope of these audits are mainly transactional in nature, that involve review of accounting records and financial transactions, and internal control processes. The internal / concurrent audits have been completed for the agencies till FY 2017-18. The audits of TNMSC and ELCOT have not reported any serious accounting and internal control issues. For the NHM Society, the concurrent audits are conducted quarterly, and the reports have highlighted several accounting weaknesses, reconciliation and financial reporting issues at PHC and Sub-Center units. The Internal / concurrent audit function can be made more effective by strengthening the terms of reference of audit in line with good industry practices, such as increase in the scope and coverage through risk-based audits, specialized review in the functional areas of asset procurement, inventory / stock audits (by providing detailed checklist on important aspects to be covered), and an effective compliance and follow-up mechanism. The World Bank will provide technical support using Program funds allocated for capacity building activities to strengthen the internal / concurrent audit function.

3.3.3 Program Governance and Anti-Corruption Arrangements

45. Under the larger governance framework of the country, all the implementing agencies are covered under the RTI Act 2005. Under the provisions of this act, any citizen of India may request information from a public authority, which is required to reply within thirty days. The act also requires every public authority to computerize their records for wide dissemination and to proactively disclose certain categories of information so that the citizens need minimum recourse to request for information formally. The Comptroller and Auditor General of India (CAG) through its State office also carry out compliance audit annually and the audit paras are reported to the State Assembly and Public Accounts Committee for recommendations and actions. The TNMSC and ELCOT are additionally governed by the

Companies Act 2013 (previously Companies Act 1956). To ensure sound governance, the Companies Act spells out mandatory obligations in the areas of management and administration; accounts of companies; audit and auditors; inspection, inquiry, and investigation; and so on.

46. The GoTN has constituted the DVAC in 1964 and the State Vigilance Commission in 1965. The commission has jurisdiction and power to undertake an enquiry or cause an enquiry/investigation to be made on any information that a public servant has exercised or refrained from exercising his powers, for improper or corrupt purposes. It also has powers to call for any information from any department or undertaking of the state government or from any public servant on matters within its jurisdiction.

47. As a latest development, on July 9, 2018, the Tamil Nadu State Assembly has passed a bill to set up the Lokayukta (Office of Ombudsman). This would translate into the Tamil Nadu Lokayukta Act in the near future. By this act, it is expected that the DVAC with all its functions, officers, and staff would merge under the office of the Lokayukta. The head of the DVAC would report to the Lokayukta. With enactment of the Lokayukta, the overall governance framework of the state would further get strengthened.

48. Chief Minister Office of GoTN has a special cell for grievance redressal. This is an online Grievance Redressal system open to public from all walks of life. Anybody, who feels adversely affected by the program, can register a complaint/grievance online and can track the action taken on it. Review meetings are being convened by the CM's office on regular basis with the nodal officers of each Department/ District to expedite the action.

49. None of the three procurement agencies currently have a dedicated procurement complaint redressal system. This is an area of improvement recommended under the Program. For the resulting Program, TNHSP Society would be required to set-up a centralized procurement complaint redressal system to deal with procurement related complaints under the Program. The system shall have a web interface to receive complaints (like the grievance/suggestions web page on the Central Public Procurement Portal) and clearly defined rules and authorities to process the complaint/suggestions. Furthermore, this system shall be designed to ensure compliance with the requirements of various acts and rules applicable on each of these organizations. For example, section 11 of the Tamil Nadu Transparency in Tenders Act 1998 allows any aggrieved tenderer to appeal to the Government within ten days from the date of receipt of an order passed by the Tender Accepting Authority and the Government shall dispose the appeal within fifteen days from the date of receipt.

50. The World Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Program for Results Financing" dated February 1, 2012 and revised on July 10, 2015, shall apply to all activities within the Program Boundary. As there is no distinction between World Bank funded activities and Government funded activities within the Program boundary, these guidelines shall be applied in an unrestricted manner on all activities within the Program boundary. Requirements under these guidelines include but are not limited to (a) borrower's obligation on informing the World Bank about all fraud- and corruption-related allegations and investigations, (b) the World Bank's right to conduct administrative enquiries, and (c) ineligibility of debarred firms for contract awards. It is clarified to implementing agencies that these guidelines shall be applicable to all activities within the Program boundary and not the parts of the government program that are outside these boundaries.

51. **Anti-Corruption Guidelines:** In summary, in order to operationalize implementation of the various areas covered in the ACGs, the Secretary office in DoH&FW shall:

- a) maintain and compile a quarterly report of complaints that may be reported that are related to the Program and share it with the Bank (based on the agreed format incorporated in the POM);
- b) incorporate the Bank's debarment list in the filter used by Implementing Agencies when they conduct due diligence. This list may be found in the following website: <http://web.worldbank.org/external/default/main?contentMDK=64069844&menuPK=116730&pagePK=64148989&piPK=64148984&querycontentMDK=64069700&theSitePK=84266>
- c) incorporate into the filter mentioned above the Bank's suspension list that will be compiled on a periodic basis by the WB team and shared with the Program Team.
- d) Report on quarterly basis stating that none of the contract awards under the Program are made to any of the sanctioned/ suspended firm.
- e) For every bidding opportunity under the Program, each participating bidder shall submit (as part of the bidding process) a self-declaration that the firm is not subject to debarment or has not been sanctioned under the World Bank system of debarment and cross-debarment.

3.4 Auditing

3.4.1 Program Audit

52. The audit of the **state accounts** is conducted annually by the Supreme Audit Institution—CAG of India—and reports are issued in the month of February. The reports are tabled before the State Assembly in the ensuing budget session of February/March each year and are made publicly available in the website of the CAG. The audit paras are reviewed by the Public Accounts Committee and recommendations are made to the GoTN. The CAG of India also carries out performance and compliance audits of the 'General and Social Sector' each year, that include operations of the Health Department and such reports are issued together with the state accounts. A review of audit reports for FY2015—16 and FY2016—17 have not reported any serious accountability issues on budget execution, misappropriation of funds, and fraud- and corruption-related areas.

53. The entity audit of **ELCOT and TNMSC** are conducted annually by an external audit firm appointed by the CAG of India and reports are issued in the month of September/October each year. A supplementary audit is further conducted by the CAG after the statutory audit is completed by an external audit firm. The audit report, entity financial statements, and forming schedules are exhaustive and provide detailed financial information on the use of funds. The audit reports are examined by the Committee on Public Undertakings. A review of audit reports for FY2015—16 and FY2016—17 have not reported any serious accounting, internal control issues, misappropriation of funds, and fraud- and corruption-related areas. To enhance transparency, we have recommended TNMSC and ELCOT to disclose the annual audit reports and financial statements in the official websites.

54. The statutory audit of the **NHM Society** is conducted by a chartered accountant firm appointed by the NHM Society and reports are issued in the month of October/November each year. The audit reports are also shared with the Ministry of Health and Family Welfare at the central level. The audit for FY2017—18 is ongoing and the audit report is expected in the month of October 2018. A review of audit reports for FY2015—16 and FY2016—17 indicate several accounting and internal control issues in the area of bookkeeping at PHC and Sub-Center units. The NHM Society has taken several steps, such as conducted training programs for the accounting staff, extensively used the PFMS system to disburse funds to third parties and implemented the concurrent audit system of health facilities to strengthen the overall accounting and bookkeeping functions. It is expected that these actions will result in the improvement of the FM system. The World Bank will provide technical support to the NHM Society using Program funds

allocated for training and capacity building activities to develop good practices to address the FM issues. To enhance transparency, we have recommended NHM Society to disclose the annual audit report and financial statement in the official websites.

55. For the **Program**, the World Bank will rely on the existing audit mechanisms of the state and will monitor the following audit reports over the Program implementation period. The audit reports will be shared by TNHSRP PMU with the World Bank. These audit reports satisfy the fiduciary requirements of the Bank.

- a) CAG Audit Certificate on the Finance Accounts and Appropriation Accounts that provide spending on the health budget (classified by 'major head', 'sub-major head', 'minor head', and 'sub-head') on the agreed budget lines of the Program boundary will be shared by March 31 each year (that is, within 12 months from the end of each fiscal year - April to March). The audit report of the CAG on State Finances (that provide analytical review and performance of the annual accounts of the state government) will be shared within one month of the audit reports being presented at the State Assembly.
- b) Entity Audit Certificate of TNMSC, ELCOT, TNHSP Society and NHM Society that includes expenses incurred under the Program. These certificates will be shared by TNHSRP PMU by December 31 each year (that is within 9 months from end of each fiscal year - April to March).

3.5 Procurement and Financial Management Capacity

3.5.1 Staffing Should Be Adequate in Both Numbers and Experience

56. The Health Directorates, PWD, TNMSC, and ELCOT are familiar with the GoTN's financial rules, treasury systems, and procedures and have the required staff strength and experience to implement the Program. The TNHSP Society will be the nodal agency responsible for coordinating and managing the fund flow for Program activities. It has a finance team headed by a Financial Advisor and Chief Accounts Officer (FA&CAO) from the Treasury and Accounts of the GoTN and has rich experience in handling government FM matters.

57. The World Bank team is engaging with the NHM society for the first time at the state level. Based on discussions with NHM staff and observations in the audit report, there is a need to develop the overall FM capacity of the staff working at PHC and Sub-Center unit levels. In the first year of Program implementation, a review will be carried out at an institutional level to identify the gaps in human resource staffing and policies. The Program would support hiring of staff, training, and capacity-building activities to ensure long-term sustainability.

58. On procurement, at the TNMSC, there is adequate staffing to discharge its procurement responsibilities on time. Staff at a higher level are on deputation, whereas most of the staff at mid or lower levels are outsourced staff. No formal trainings are provided to staff. For its tenders, the TNMSC currently uses the e-publishing feature available at the <http://www.tenders.tn.gov.in/> website. However, bid submission is still in paper form. For procurement of equipment, a surge was experienced during FY2017–18 when the total value of procurement was close to INR 5553 million (approximately US\$79.33 million), whereas annual procurement values were less than INR 3000 million (approximately US\$42.86 million) for each of the three years prior to this.

59. At ELCOT, there are close to 40 staff performing procurement activities. ELCOT also has its own training institute to train its staff. Currently, ELCOT is using its own e-procurement system <https://www.elcot.in/> to publish tenders and receive bids in electronic form. In addition to this, ELCOT also e-publishes its tenders at the <http://www.tenders.tn.gov.in/> website.

Section 4: Program Systems and Capacity Improvements

60. Based on the assessment, following key risks and proposed mitigation actions have been proposed as PAP / DLI.

Table 5. Fiduciary Risks and Proposed Mitigation Measures

Risk	Mitigation Action	Timing	Type of Action
Low bidder participation	Making a plan for introduction, piloting and scaling up of e-procurement in all implementing entities	Usage shall be gradually scaled up during Program implementation; Details are captured in the DLI section	DLI
Low bidder participation	Establishment of procurement complaint handling system by TNHSP to deal with procurement complaints in the program	Within twelve months from the Program commencement date	PAP
Low bidder participation	Organize supplier/contractor forums to gain insights about market practices and latest developments and also to encourage better participation in bids issued under the Program	Organized at least once a year by each one of the three main implementing agencies - ELCOT, TNMSC, and PWD	PAP
Transparency	Disclosure of contract award details with value more than INR 20 million (~US\$285,710) at the TNHSP Society website	Quarterly disclosure of all contract awards	PAP
Low FM capacity in the NHM Society	(i) Review will be carried out at an institutional level to identify the gaps in human resource staffing and policies. The Program would support hiring of staff. (ii) Training programs will be organized for accounting staff, to strengthen capacity on accounting and bookkeeping functions; and greater use of the expenditure module of the PFMS to report expenditures. (iii) Concurrent audit system will be strengthened for effective oversight	First year of Program implementation	PAP
Fraud and Corruption	Secretary office in DoH&FW will collate information on F & C related allegations / investigations of Program Boundary and report matters to the Bank.	Quarterly	PAP

Section 5: Implementation Support

61. The World Bank team will carry out regular implementation mission to support the implementing agencies to achieve results. The progress on agreed DLIs and PAPs will be reviewed and any additions/changes to the action plan will be made during the implementation phase. The treasury reports on budget allocation and execution by Health Directorates, Procurement progress, contract management and financial reports of the agencies (TNMSC, ELCOT), PFMS data on fund release and payments by NHM Society, internal and external audit reports and annual financial statements of the Program Boundary will be reviewed from an FM and procurement perspective. The FM and procurement issues / risks identified during the implementation phase will be addressed appropriately.