

INDEPENDENT STATE OF SAMOA

**Samoa Health System Strengthening Program**

*Fiduciary Systems Assessment*

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PREPARED BY

THE WORLD BANK

## ABBREVIATIONS AND ACRONYMS

ACGs	Anti-Corruption Guidelines
BCG	Budgetary Central Government
BFPD	Budget and Fiscal Policy Division
COA	Chart of Accounts
CTSSU	Centralized Technical Service Support Unit
DFAT	Australia Department of Foreign Affairs and Trade
DLI	Disbursement-linked indicators
FMIS	Financial management information system
GoS	Government of Samoa
HPAC	Health Program Advisory Committee
HSCRM	Health Sector Coordination, Resourcing and Monitoring
IDA	International Development Association
IVA	Independent Verification Agency
MOH	Ministry of Health
MOF	Ministry of Finance
NCD	Non-Communicable Disease
NHS	National Health Service
PAP	Program Action Plan
PFM	Public Financial Management
PFMA	Public Financial Management Act
PforR	Program for Results
PHC	Primary Health Care
POM	Program Operations Manual
SAO	Samoa Audit Office
SCRTP	Samoa Climate Resilient Transport Project

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## SECTION 1: CONCLUSION

### 1.1 Reasonable Assurance

1. In assessing the performance of the fiduciary systems under which the Program operates, the World Bank identified various issues which (once addressed either prior to effectiveness or during implementation of the Program) will result in Program fiduciary systems that provide reasonable assurance that the Program expenditures will be used appropriately to achieve their intended purpose with due attention to the principles of efficiency, effectiveness, transparency and accountability.

2. The fiduciary systems assessment identifies risks and proposed mitigation measures. Prior to undertaking the mitigation measures, the Program fiduciary system risk was assessed as “**Substantial**”. During preparation, the World Bank assessed all available options including: dated covenants, capacity building, Disbursement-Linked Indicators (DLIs) and Program design revisions, to help mitigate these risks. The results of the assessment and recommendations are reflected in the technical assistance program and the integrated Program’s Action Plan.

### 1.2 Risk Assessment

3. Financial management (FM) risks have been identified due to the lack of Program identification in the current Health Sector budgeting and financial reporting, which may result in: (i) uncertainty in the adequacy of the Program medium-term and annual budget allocation which may adversely impact Program implementation and timely achievement of Program results; and (ii) absence of Program-specific audit report which could lead to the lack of timely identification of errors/misrepresentation in Program expenditures for corrective actions, and no assurance on the financial statistics provided to the Program management and oversight bodies.

Procurement related risks include: (i) capacity challenges: potential delay of procurement implementation due to capacity constraints; and (ii) procedural issues: a. the procurement complaint handling system has not been operationalized; b. thresholds for open tender are low; and c. the review and approval for high-value contracts follow a lengthy process (in the context of Samoa, these are contracts in excess of SAT50,000 which requires open tender and approval by Government of Samoa (GoS)Tenders Board).

4. To mitigate these risks, the following recommendations are made:

*For FM:*

- a. A new budget line item for the Program identification will be created under "Transactions on Behalf of the State" Category of the Ministry of Health Budget so that the country's financial information system can generate annual Program-specific Budget & Expenditure Reports. Personnel expenditures and indirect costs will be allocated to the Program on the basis described in the Program Operation Manual;
- b. Program-specific financial statements, covering all Program sources of revenues and expenditures need to be developed, prepared, and submitted to Samoa Audit Office (SAO) for auditing. Audit opinions on Program’s financial statements, Program’s effectiveness

of internal control and compliance are to be provided by SAO while enforcement of audit recommendations must be in place and be documented; and

- c. Performance audit is to be conducted by SAO twice for the Program: once during the Mid-term review, and the other conducted 6 months before the Program closing date.

*For procurement:*

- a. Building capacity in the MOH: The financing of several capacity building activities which form part of MOH Procurement Capacity Building Plan have been approved under the Programmatic Preparation Advance (PPA) to assist with Program preparation and institutional capacity strengthening. There will be a one-week “Internship” with Pharmaceutical Stores, Solomon Islands (5 participants); and a two-week International Training Program on the World Bank's New Procurement Procedures for World Bank Aided Projects (2 participants). These activities are to be completed prior to the expiration of the PPA and prior to the effectiveness of the Program. It is worthwhile noting that the Australian Department of Foreign Affairs and Trade (DFAT) is currently financing a Procurement Specialist within the MOH to (among other things) provide hands-on capacity building to Ministry staff. This specialist would also be available in some capacity to assist the Ministry during Program implementation. In addition, DFAT is financing a program of “Capacity Building of Procurement and Supply Chain Management for Staff in the Ministry of Health” with the total fund of AUD\$200,000. This program will be implemented for 12 months starting June 2019 and will cover “long-term professional training in the Chartered Institute of Purchasing and Supply (CIPS)”, “on-line postgraduate diploma in Global Health Procurement and Supply Chain Management” and “Contract Management” for 34 MOH staff members. It is expected that the procurement and contract management capacity of the MOH will be significantly strengthened if this program is successfully implemented.
- b. The MOH will utilize the services of the Procurement Specialist hired by the Centralized Technical Service Support Unit (CTSSU), which is financed by the ‘International Development Association (IDA) under the Samoa Climate Resilient Transport Project (SCRTP), to support the implementation of all new World Bank-financed operations in Samoa. This would include technical support as and when required, as well as ongoing capacity building.
- c. If the GoS complaints handling procedure (approved by the Tenders Board on May 8, 2018) is not operationalized by the Program effectiveness, the MOH will need to develop a Program-specific complaint handling procedure in the Program Operations Manual (POM).
- d. Procurement performance will be closely monitored through the Program’s semi-annual progress reports, and any issues relating to low thresholds or lengthy review and approval processes will be identified and resolved.

### **1.3 Procurement Exclusions**

5. There are no procurement activities that involve the procurement of works, goods and services whose estimated value exceeds the Operations Procurement Review Committee thresholds (high value contracts).

## **SECTION 2: SCOPE OF THE ASSESSMENT**

### **2.1 Objectives of the Assessment**

6. The Assessment of Program fiduciary systems integrates findings in three areas:

- a. The *Program procurement systems* were assessed to determine the degree to which the planning, bidding, evaluation, contract award and contract administration arrangements and practices provide a reasonable assurance that the Program will achieve intended results through the Government's procurement processes and procedures;
- b. The *financial management systems* were assessed to determine the degree to which the relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting and auditing arrangements provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets; and
- c. The Program was also assessed on how its *governance systems* handle the risks of fraud and corruption (including the use of complaint mechanisms) and how such risks are managed and mitigated in light of the government's commitments under the Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing (Anti-Corruption Guidelines or ACGs).

### **2.2 Implementing Agencies**

7. The Fiduciary Systems Assessment has been prepared based on interviews and analysis at the national level - Ministry of Finance (MOF), Samoa Bureau of Statistics, Samoa Audit Office (SAO) and implementing agency level – Ministry of Health (MOH) departments.

### **2.3 Background and the Program's Institutional Arrangements**

8. This PforR supports Samoa's Ministry of Health's Non-Communicable Disease (NCD) Program to implement Samoa's National NCD Control Policy and Action Plan. The Ministry of Finance Aid Coordination and Debt Management Division will be the direct Borrower-level counterpart for the World Bank at the central level. It will be closely involved in overall Program coordination to ensure efficient communication and coordination among the key stakeholders involved. The HPAC (currently chaired by the Ministry of Foreign Affairs and Trade) comprising representatives of relevant line ministries and key stakeholders, is in place to provide overall policy guidance, strategic direction, cross-sectoral coordination and critical decision making.

9. The National NCD Committee, as a multi-sectoral decision-making body chaired by the MOH, provides technical leadership and implementation oversight functions for ensuring

appropriate strategies and intervention are in place for NCD prevention and control in Samoa. The Committee includes representatives of the Ministry of Women, Community, and Social Development; Ministry of Education, Sports, and Culture; Ministry of Agriculture and Fisheries; National Council of Churches; Samoa Family Health Association; Samoa Red Cross; and National Kidney Foundation. The National Disease Surveillance and International Health Regulations Division of the MOH provides technical leadership and secretariat functions for the National NCD Committee.

10. The MOH will implement the Program as the Implementing Agency of the GoS and engage health sector agencies and facilities at all levels, communities, schools, churches, youth groups, and civil society organizations on both islands through service agreements in supporting Program implementation, as needed.

11. Under the MOH, the Health Sector Coordination, Resourcing and Monitoring (HSCRM) Division is "...responsible for coordinating and managing development assistances that are channeled through the MOH for health sector development. This division works to pool the resources of the whole health sector, focusing on the coordination, distribution, and monitoring of resources and finances as well as the progress of the Health Sector Program." It also has the NCD coordination function through its Non-Communicable Disease Coordination, Programming and Implementation Unit headed by the Principal NCD Officer.

12. HSCRM Division will perform day-to-day management of this Program, by coordinating, planning, ensuring budget availability, addressing cross-divisional issues, hiring of the Independent Verification Agency, and overall monitoring and reporting on the Program progress. The latter function will be performed in collaboration with the Strategic Planning Policy and Research Division, whose core functions include monitoring the progress of the Health Sector Plan and the implementation of Cabinet-endorsed policies, including the National NCD Control Policy.

13. The PforR Program boundary, its expenditure framework, expenditure categories and DLIs allocation are provided in Annex 3 of the Program Appraisal Document – Technical Assessment.

#### **2.4 Fiduciary Framework of the Program**

14. The legal and regulatory framework for Public Financial Management (PFM) in Samoa originates with the Constitution, which establishes the requirement for: (i) a public fund to which all revenues and payments must be made; (ii) parliamentary approval of taxes; (iii) appropriations to be approved prior to the expenditure of monies; (iv) a Controller and Auditor General, and the corresponding appointment and dismissal processes; and (v) the public accounts to be audited.

15. The current PFM Act was passed in 2001 with subsequent amendment passages in 2005, 2008 and 2015, and includes provisions which relate to the Program financial management: responsibilities of the Minister, the Financial Secretary, and Heads of Department; use of generally accepted accounting principles; approach to general management of the public fund; and financial reporting requirements for government and agencies of government.

16. Treasury Instructions 2013 provides details on: budgeting and forward estimates; accounting and internal controls; asset management; payroll; procurement and contracting;

vehicles and transport; miscellaneous; travel; financial reporting; and overseas missions. The MOF has also developed a series of accounting procedures which apply to all levels of government.

17. Institutional arrangements in Samoa for management of budget resources are centralized in the MOF, with the overarching regulatory framework set centrally and applied across government. The PFMA prescribes responsibilities for the heads of line ministries who are responsible for safeguarding public monies, taking precautions regarding public properties, and ensuring they maintain effective internal controls within their respective ministries.

18. The mandate of the supreme audit institution in Samoa (SAO) is laid out in the Constitution, PMFA, Audit Act, Audit Regulation and Public Bodies Act. The Audit Act is the major statute providing for the role of SAO within the public sector. It outlines the functions, powers, immunities and independence of the Controller and Auditor General, and provides for the independent audit of the public sector and related entities.

## **SECTION 3: FIDUCIARY SYSTEMS ASSESSMENT**

### **3.1 Planning and Budgeting**

#### **3.1.1 Adequacy of Budget**

##### *Current arrangements*

19. The MOF develops a three-year plan of estimated expenditure. Ministries and agencies are required to complete budget templates to submit information for the current budget and two forward years. Once the first forward year estimate is established, it becomes the ceiling for the subsequent budget. The MOF publishes the estimates of revenue and appropriated expenditure for the budget year only.

20. The Fiscal Strategy Paper, which accompanies the budget, uses the baseline expenditure estimates to provide information on expenditure as a proportion of gross domestic product and personnel expenditure as a proportion of total expenditure provided for the budget and forward estimates period.

21. Each year, the Budget and Fiscal Policy Division (BFPD) under the MOF prepares a budget circular providing all agencies: (i) guidance on the requirements for updating information on budget and forward estimates; (ii) the requirement for all agencies to complete a procurement plan template; and (iii) the calendar with deadlines and milestones.

22. The budget process provides line ministries with sufficient time and guidance to prepare their budget submissions. Expenditure ceilings are provided to line ministries but are not endorsed by Cabinet at any stage. Legislative scrutiny of the budget is systemic and timely, with the Legislative Assembly delegating to the Finance and Expenditure Committee the role of scrutinizing the budget and reporting back to it. The budget is passed prior to the commencement of the fiscal year (Samoa's fiscal year is from July 1 to June 30).

23. The Public Expenditure and Financial Accountability 2018, which became available recently, showed good quantitative data on budget allocation and out-turns of the Health sector

compared to others. The supplementary budget accounted for only 2% of total budget allocation for the year, and there was no unexpected expenditure item arising outside the allocated budget.

24. The chart of accounts (COA) used for the preparation, execution and reporting of the budget is approved and administered by the MOF. The COA provides for: (i) administrative classification (that is, the legal structure of government); (ii) classification of outputs and sub-outputs (as opposed to programs); and (iii) economic type through the natural account. The COA does not have the capacity to classify on a functional basis. Information on a functional basis would require a mapping tool such as the one used to map the natural account and Government Finance Statistics codes.

25. Budget document contains detailed information by the administrative classification broken down to output and by economic type within the output. Administrative information is aggregated, economic type classification is not.

26. The COA does not have the capacity to track the budget allocation and actual expenditures to programs.

### ***Performance and Identified Risks***

27. The Budgeting Process is effective at ministerial level but does not necessarily ensure timely and adequate budget allocation for the proposed Program in terms of both annual budget and medium-term planning. The COA classification codes, and hence budget lines, are only assigned to outputs and sub-outputs instead of programs, while there may be situations where activities of more than one program are required to achieve an output, or it takes more than one financial period to achieve an output. In both cases, the existing setting up of annual budget allocation does not provide information on how much a specific Program will get in a financial year, and therefore is not effective and efficient for Program-based implementation and reporting.

28. The risks identified are:

- a. Funds for the PforR Programs may not be adequately allocated or supplemented in a timely manner for Program activities, which may affect the Program implementation.
- b. There is no accurate boundary to report on budget execution at Program level for audit and performance assessment purposes.

### ***Proposed Arrangement and Actions***

29. The Program Actions proposed: A new budget line item for the Program identification will be created under "Transactions on Behalf of the State" Category of the Ministry of Health Budget so that the country's financial information system can generate annual Program-specific Budget & Expenditure Reports. Personnel expenditures and indirect costs will be allocated to the Program on the basis described in the Program operation manual.

### **3.1.2 Procurement Planning**

30. Procurement Planning – The Treasury Instruction – Section 6: Procurement and Contracting (Part K Amended in 2016) requires procuring entities to prepare and submit an Annual Procurement Plan for each financial year in accordance with prevailing government policies. It also requires that these plans be integrated with applicable budget processes. In practice, MOH follows this requirement, but the plan is not publicly disclosed on the MOF Website (<https://www.mof.gov.ws/Services/Procurement/tabid/5587/Default.aspx>). The MOF and the MOH have agreed that the portion of the MOH Annual Procurement Plan that relates to the activities that fall within the Program Boundary will be published on their respective websites. Under the PforR, the MOH will be required to provide to the World Bank a copy of their annual procurement plan, as part of the annual workplan, which clearly indicates the planned procurement activities that fall within the Program boundary, especially the procurement activities that are essential to the successful achievement of the Program indicators such as the construction and upgrading of rural district hospitals and doctors’ residences, procurement of diagnostic equipment, and development of various programs and policies.

### **3.1.3 Procurement Profile of the Program**

31. From the expenditure framework (dated May 13, 2019) it is noted that a significant proportion of the Program funds will be used for recurrent or operating costs, which are not subject to procurement. The planned procurement activities that are within the Program boundary (that is, about 20.6% of the total Program expenditure boundary) include the procurement of consulting services (policy development and training); construction (rural district hospitals and doctors residences); and goods (diagnostic equipment and supplies). Refer to Appendix 1 for a more detailed and comprehensive list of the planned procurement activities.

## **3.2 Budget Execution**

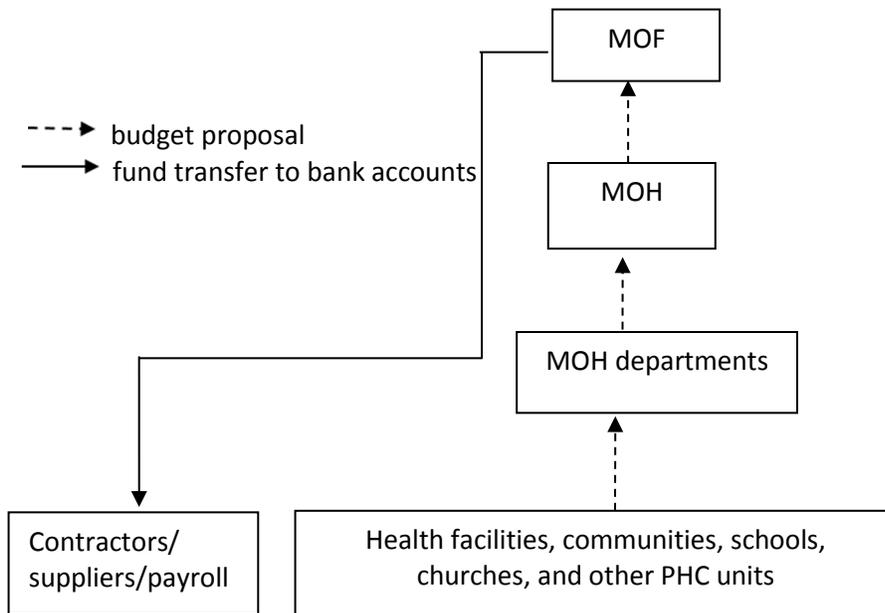
### **3.2.1 Treasury Management and Fund Flow**

#### *Current Arrangements*

32. Institutional arrangements in Samoa for management of budget resources are quite centralized in the MOF, and the overarching regulatory framework is set centrally and applied across government. The PFMA prescribes responsibilities for the heads of line ministries who are responsible for safeguarding public monies and taking precautions for public properties while ensuring that they maintain effective internal controls within their respective ministries. Line Ministries originate the ministry budget proposals, execute the approved budget, incur expenditure, procure goods and services and report on their performance to the MOF.

33. Funds for NCD activities flow from the MOF to the ultimate service delivery units including hospitals, clinics, PHC facilities, the MOH payroll etc. This process takes place through the Treasury system, whose accounts are held at both Central Bank of Samoa and domestic commercial banks. Based on the approved budget plan, implementing units conduct NCD activities.

34. Fund flow for the Program in the government current system is illustrated below:



### ***Performance and Identified Risks***

35. Without Program identification in the budget proposal and fund transfer, there is a risk of inadequate funds for ultimate implementing units to produce the results/ DLIs as designed, which is the basis for claiming disbursements from the World Bank.

36. Risk of misuse of funds is low as the SAO is involved significantly in the ongoing transaction processing. Every payment from government budget has a pre-audit check undertaken by the SAO.

### ***Proposed Arrangements and Actions***

37. With the proposed PforR, NCD program funds will be ringfenced with a separate budget line item under the ‘Transactions on Behalf of the State’ budget category in the MOH Budget for both budget proposal and budget execution reporting in order to better manage budgetary allocations, execution and reporting of NCD activities and results.

38. Funds transferred from the MOF to the MOH, through the country annual budget cycle, are to be performance-based. Amount allocated by the MOF to the MOH annually for this Program should reflect the amount needed by the MOH to achieve planned results and DLIs. Funds transferred from the MOH account to implementing agencies’ accounts are to follow the same principles.

## **3.2.2 Accounting and Financial Reporting**

### ***Current Arrangement***

39. The MOF centralizes the capture and processing of ministries’ transaction data. It produces Government’s (Budgetary Central Government – “BCG”) consolidated reports and distributes budgetary unit-specific reports, including the MOH’s expenditures. Until 2018, the

National Health Service (NHS) was an entity outside of BCG. The grants from the MOH to the NHS were reported as 'spent' since they were transferred to the NHS. The NHS is responsible for recording and reporting its own expenditures. From 2019 onward, the NHS has been merged with the MOH and will be recorded back to on-budget.

40. The MOF's Operating Manual on Monitoring and Review Procedures defines policies and procedures pertaining to regular monitoring, review and reporting of financial data to ensure the maintenance of effective internal controls at all times and the accuracy of processing, as well as prevention and detection of errors. The financial data captured in the Financial Management Information System (FMIS) is used to generate a range of reports, including: (i) budget comparison, budget v actual (BFPD and line ministries); (ii) quarterly summary reports; (iii) budget monitoring reports; (iv) project monitoring reports; and (v) cashflow management and forecasting reports.

41. The annual financial statements were prepared under cash reporting International Public Sector Accounting Standards and met the Public Financial Management Act (PFMA) requirements. The annual financial statements report on BCG are directly comparable to the approved budget. They contain information on key items such as revenue, expenditure, financial assets, tangible assets, financial liabilities, guarantees, and long-term liabilities. Additional information on receivables, payables, fixed assets, contingent liabilities, write-offs and losses, coupled with ex-gratia payments are all reported.

42. Like the budget classification system, the NHS's financial reporting system, before the merger in January 2019, did not assign identity sub-codes for NCD activities, but only generated reports on the NHS as a whole.

### ***Performance and Identified Risks***

43. Lack of identification sub-codes for NCD activities prevents accounting and reporting for NCD activities separately among total health accounts. Separate boundary reporting for Program expenditures is required for Program financial statements and Program audit.

### ***Proposed Arrangements and Actions***

44. A new budget line item for the Program identification will be created under "Transactions on Behalf of the State" Category of the Ministry of Health Budget so that the country's financial information system can generate annual Program-specific Budget & Expenditure Reports. Program financial statements, covering all Program sources of revenues and expenditures must be prepared and submitted to the SAO for auditing.

### **3.2.3 Procurement Process and Procedures**

45. Public procurement in Samoa is based on clear, mandatory, and enforceable rules that are freely accessible to the public (refer to the enclosed link to the Ministry of Finance website: <https://www.mof.gov.ws/Services/Procurement/ProcurementLegalFramework/tabid/8807/Default.aspx>). Public procurement is governed by the requirements detailed in the relevant sections of Public Finance Management Act 2001 (Section XII Procurement and Contracts); Treasury Instructions - Section 6: Procurement & Contracting (Part K Amended in 2016); Procurement

Guidelines: Goods, Works & General Services (Amended in 2016); Procurement Guidelines: Consulting Services (2014); and B4 Schedule: Thresholds and Approvals.

46. The MOH has experience financing and undertaking procurement of activities of a similar nature envisaged under the PforR-supported Program. For example, from 2014 to 2018, the MOH procured, utilizing government financing, pharmaceuticals and simple goods (office equipment (computers, printers, photocopiers & furniture) and vehicles. Whereas, capital works (renovations and new construction), consultancy services and medical equipment were procured with financing and/or support from various bilateral and multilateral donors. Consequently, the assessment concluded that the MOH has experience with the procurement of items in para. 3.1.3 or similar.

47. In general, the legal and regulatory framework for public procurement in Samoa is sufficient (2014 Methodology for Assessing Procurement Systems (MAPS) assessment and Samoa DFAT's Assessment of National Systems August 2018). The GoS has made significant progress in implementing reforms to address the weaknesses identified in the 2014 MAPS assessment. The establishment of a Procurement Division in the MOF has further strengthened procurement oversight, even though their staffing levels are low and most of their resourcing capacity is assigned to providing secretariat support to the GoS Tenders Board. What limited resources remain are channeled to advancing other key priorities such as development and promulgation of Standard Procurement Documents, as well as developing and operationalizing a complaint handling procedure. However, there are still some issues which may impact procurement implementation of this Program.

48. Thresholds: The B4 Schedule issued by the GoS Tenders Board specifies low thresholds for open tendering processes which results in most procurement activities having to go through a formal tender process. The Treasury Instructions require competitive tendering for activities with an estimate exceeding SAT150,000 (about US\$57,000 equivalent). However, in practice, the line ministries apply this to all activities with an estimate exceeding SAT50,000 (US\$19,000 equivalent). This requirement and its application may result in lengthy processes and unnecessary complex procurement documentation as well as a greater administrative burden. The MOF Procurement Division have confirmed that line ministries are able to make a case to the Tenders Board to request the use of increased thresholds (on an activity by activity basis).

49. Complaint Handling: The GoS Tenders Board approved a complaint handling procedure on May 8, 2018. The procedure was issued to line ministries on August 6, 2018 via the Tenders Board Calendar of Meetings 2018/19 Circular Memorandum. The GoS Tenders Board has now approved the appointment of the primary Adjudicator. Two alternate Adjudicators will also be contracted (in case of conflict of interest or to deal with availability). The Samoa Remuneration Framework is being used as the basis for negotiating the rates; once agreed, the Adjudicators are expected to be contracted by the end of October 2019 at which point the complaint handling procedure will become operational.

### **3.2.4 Contract Administration**

50. The MAPS assessment looked at norms for the safekeeping of records and documents related to transactions and contract management. It determined that the legal/regulatory framework establishes a list of the procurement records that must be kept at the operational level, and what is

available for public inspection, as well as conditions for access. The records should include: Public notices of bidding opportunities; Bidding documents and addenda; Bid opening records; Bid evaluation reports; Formal appeals by bidders and outcomes; Final signed contract documents and addenda and amendments; Claims and dispute resolutions; Final payments; and Disbursement data (as required by the country's financial management system). There is a document retention policy that is compatible with the statute of limitations in the country for investigating and prosecuting cases of fraud and corruption and with the audit cycles.

51. Based on information provided during discussions with the MOH, the intention is for the Health Sector Coordination, Resourcing and Monitoring (HSCRM) Division to take primary responsibility for management of all contracts. They will draw on technical expertise from other Division as well as fiduciary support from the Finance & Procurement Division (F&PD). At the time of writing this report, the proposed MOH's merged structure had been endorsed by the GoS but the organizational substructures, and staffing assignments have not been finalized.

52. No specific contractual management issues were flagged in the Implementation Completion and Results report for the SWAp<sup>1</sup> other than the identification of various variations to key contracts. However, as a newly re-amalgamated Ministry, the MOH should ensure that staff are identified and assigned responsibility for management of contracts, and that specific training is provided for these individual(s) and forms part of the MOH Procurement Capacity Building Plan to enhance their technical capacity to manage resulting contracts. In addition, the DFAT and CTSSU Procurement Specialists can assist the MOH to develop contract management plan templates and contract registers, as well as provide training and mentoring to ensure that good practices are established and/or maintained.

53. Administrative Procedures for Contract Variations: The GoS guidelines require review and approval of all contract variations/modifications (regardless of value) by the Tenders Board (Guideline Goods, Works & General Services, para B.15 3.40 refers); and for substantial modifications to consulting contracts (Guideline for Consulting Services para R. 4.33 refers). The lack of delegation of authority to project managers and line ministries for the management of minor contract variations has in the past caused significant delays (DFAT Assessment of National Systems 2018 refers). This has been highlighted as a risk that would likely contribute to delays during implementation of contracts. This issue should be taken into consideration when procurement documents are prepared under this Program to ensure that they are well prepared (including QA of documents). This includes the development of technical specifications/terms of reference and detailed cost estimates, to avoid unnecessary variations/modifications.

### **3.3 Internal Controls**

#### **3.3.1 Internal Controls**

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<sup>1</sup> SWAp is the acronym that was used in the Health Sector Management Support Project (HSP) and refers to Sector Wide Approach. The GoS requested key development partners (the New Zealand Agency for International Development (NZAID; later MFAT), the Australian Agency for International Development (AusAID; later DFAT) and the World Bank) to establish a health SWAp Program as a basis for assistance to implement the first five-year period of the HSP. The Project (P086313) became effective on October 21, 2008 and closed on December 18, 2015.

### ***Current Arrangements***

54. The control environment for public financial management in Samoa has been established through the Constitution and legislation enacted by the Legislative Assembly. The Constitution and the PFMA are the key documents for the financial activities of government. They include a broad range of coverage and assignments of specific responsibilities throughout the government structure. The coverage of the PFMA includes: (i) responsibility for financial management; (ii) fiscal responsibility; (iii) economic, financial and fiscal Policy; (iv) budget and appropriations; (v) public money and the General Revenue Fund; (vi) special purpose funds; and (vii) trust funds.

55. The risk assessment component is provided in the Treasury Instructions, which covers risk assessment in general and specific areas including receipt of public money, accounting forms, electronic payments, and financial derivatives which have risk components. Additional mention is made throughout the Treasury Instructions of procurement and stores (inventory). Other requirements addressing risk include monitoring and internal audit activities and compliance function performed by the staff at the Accountant General, coupled with other similar activities within the ministries.

56. The control activities occur throughout government, with government-wide assignment to the MOF supported by department-wide activities as identified in the control environment.

57. The information and communication component is established throughout the government, including within legislation issued by the Legislative Assembly and inter-governmental communications while documentation is established by the MOF officials and inter-departmental communications issued by the government.

58. Monitoring activities are to be carried out continually by ministries' staff within their requirement to establish procedures to review adequacy and compliance with internal control system. The Controller and SAO may require any payment to be submitted for examination and approval before the payment is made.

59. In Samoa, the Controller and Auditor General has elected to review 100% of the payments. Given the acceptable level of internal controls in Samoa, this fiduciary assessment does not recommend 100% transaction review but shifting the audit approach to more risk-based and result-oriented.

### ***Performance and Risk Identified***

60. Although risk of misuse of funds is low as the SAO is involved significantly in the ongoing transaction processing -- every payment from government budget has a pre-audit check undertaken by the SAO. Oversight on the performance, effectiveness and efficiency of government agencies spending is not yet highlighted in Samoa. This performance management is essential for result-based financing programs such as PforR.

### ***Proposed Arrangements and Actions***

61. The SAO's role should be extended from financial compliance checking to supporting the Program results achievement. The Program Action Plan (PAP) proposes two (2) performance

audits to be performed by the SAO: one at the Program mid-term review and the other six (6) months before the Program closing date (see Audit Section).

### **3.3.2 Internal Audit**

#### ***Current Arrangement***

62. Internal Audit Units in Samoa operate in all 9 ministries and 17 public entities. NHS activities, before the merger in 2019, were subject to the internal audit of Ministry of Health. Annual work plans for 2017/2018 and 2018/2019 of Ministry of Health are properly documented, based on the risks identified. However, there is lack of evidence of approval by Audit Committee.

63. The internal audit activities are mostly focused on financial compliance. While spot-checks and investigative work performed may be based on risk, the risk appears related to financial activities and areas of non-compliance. Recommendations are mostly for corrective activity and not on actions to improve business processes (other than to identify what procedures should be complied with). Internal audit of Ministry of Health is ahead of other ministries in terms of evaluating the adequacy and/or effectiveness of internal controls with recommendations on improving processes.

#### ***Performance and Risk Identified***

64. Documentation and PEFA assessment 2018 show that Internal audit of the MOH is rated higher than other ministries in terms of evaluating the adequacy and/or effectiveness of internal controls with recommendations on improving processes. However, follow-up on actual implementation is not tracked through the process. No validation of the response was noted in any report.

65. Lack of written evidence for implementation of audit recommendations reduces the enforcement effectiveness of the internal audit function, as well as the efficiency of the later audit when the auditors must review the entire process again instead of following up with the documented evidence.

#### ***Proposed Arrangements and Actions***

66. Capacity building for internal audit function will be done through the Program implementation support to improve audit documentation and follow up of audit recommendations (DLI 5). As the SAO already checks 100% payments, it is not necessary for an action plan on internal audit in PAP.

### **3.3.3 Governance and Anti-corruption**

67. Fraud and Corruption: The GoS is required to take all appropriate measures to ensure that the Program is carried out in accordance with the “World Bank Guidelines on Preventing and Combating Fraud and Corruption in Program for Results Financing July 10, 2015” (ACGs). In this regard, it is noted that the GoS has established anti-fraud and anti-corruption systems and processes, which are also reported on. Health Sector has previously had situations and events leading to fraud and corruption, which GoS systems and processes identified, with necessary action taken, including transparency in reporting of these instances. Discussion was conducted with GoS

concerning the World Bank's ACGs and that the World Bank may make "administrative inquiries" to determine compliance with the World Bank's ACGs policies, directives and procedures. Inquiries include, but are not limited to, the review of relevant accounts, records and other documents, as well as interviews with relevant persons. The GoS has indicated it is prepared to agree to report regularly (yearly, at a minimum) to the World Bank, any credible and material allegations relating to the PforR-supported Program. The GoS has also indicated that it agrees to apply the World Bank's debarment and suspension lists to the PforR-supported Program to ensure that any person or entity debarred or suspended by the World Bank is not awarded a contract under, (or otherwise allowed to participate) in the Program during the period of such debarment or suspension.

68. **Debarred and Suspended Firms:** During the procurement and contracting processes, the GoS will need to check the World Bank's debarment and suspension list prior to awarding a contract to ensure that a contract is not awarded to an individual or entity debarred or suspended (see enclosed link <http://www.worldbank.org/en/projects-operations/procurement/debarred-firms>). This requirement will need to be procedurally specified in the POM to ensure adherence to the requirement.

### **3.4 Auditing**

#### ***Current Arrangement***

69. The Audit Act is the major statute providing for the role of SAO within the public sector. It outlines the functions, powers, immunities and independence of the Controller and Auditor General, and provides for the independent audit of the public sector and related entities.

70. The SAO carried out the audit of the public accounts and financial statements for nine extra budgetary units (EBUs), including National Health Services and National Kidney Foundation, for the past three years (2014/15, 2015/16 and 2016/17). Some of these audits were outsourced to the private sector as permitted by the Audit Act but remained under the direction of the Controller and Auditor General.

71. The audit opinions for public accounts and the financial statements for all EBUs were unqualified. However, there were some significant issues, which required subsequent consideration and appropriate action by the agencies being audited. Health sector, however, had no significant issues reported, except for the need to improve fixed asset register management.

72. The reported auditing standard used to conduct the external audits was the International Standards on Auditing (ISA). While the audit coverage on Government Public Accounts is high (that is, more than 80%), the coverage on EBUs is very limited: 1% for National Kidney Foundation, and 11% for National Health Services.

73. Almost all the central government agencies had submitted their financial statements to the external auditors within six months of the end of the financial year for the past three years, and the external auditors had completed auditing within six months after the receipt of the financial statements. Copies of these financial statements were made available on hand. The SAO took only two months to audit National Kidney Foundation, and six months to audit National Health services

for the financial year 2016/2017. The MOH's expenditures are consolidated in the Government Public Accounts, which took the SAO 4 months to audit.

74. The SAO's management letters on the outcome of the auditing of the government public accounts for the financial years 2014/15 to 2016/17 were received together with the written responses from the MOF. There were no other audit management letters and responses to them from the other agencies of the central government obtained.

75. The appointment and removal of the Controller and Auditor General is contingent on the advice of the Prime Minister. The appointment is made by the Head of State upon advice of the Prime Minister, while removal requires a two third majority of the Legislative Assembly upon advice of the Prime Minister. The involvement of the Prime Minister in the appointment and removal process of the Controller and Auditor General weakens the perceived independence of the Controller and Auditor General from the Executive in carrying out the responsibilities mandated in the Audit Act. The resources required for conducting its annual operations are still subject to the budget consideration of the MOF.

### ***Performance and Risk Identified***

76. Advice from Prime Minister on the appointment and removal of the Controller and Auditor General, as well as the budget consideration of MOF to SAO for conducting its annual operations reduce the independence of the SAO from the Government's executive function.

77. Low coverage of the SAO's audit of total Health expenditure in previous financial years (11%) may lead to the risk that Program expenditures are not adequately audited by the SAO.

### ***Proposed Arrangements and Actions***

78. Audit opinion on the full scope of the Program-Specific Financial Statements, which will be generated after the separate budget line item for Program identification was created in the FMIS (see Accounting and Financial reporting section), is proposed as an action for PAP.

79. As the Program disbursements will be based on achieved and verified results, SAO's role should be extended from financial compliance checking to supporting the Program results achievement. The PAP proposes two performance audits to be performed by SAO: one at the Program mid-term review and at the other six months before Program closing date.

## **3.5 Procurement and Financial Management Capacity**

80. The lead role in PFM is assigned to the MOF. Government sectoral policy and regulations is the responsibility of the 16 line-ministries led by ministers. Policies are implemented, and public services are delivered by ministries and agencies. Line ministries have functional responsibilities with some being responsible for the maintenance of internal controls within their ministries. Line ministries originate the ministry budget proposals, execute the approved budget, incur expenditure, procure goods and services and report on their performance to the MOF. The existence and powers of the Controller and Auditor General are stipulated in the Audit Act 2013.

81. Financial management function in the MOH is under Corporate Services Division, which is headed by an Assistant CEO of the Ministry. The function is performed by five tiers of

personnel: (i) Principal Accountant Officer; (ii) Senior Accountant and Senior Asset Management Officer; (iii) Accounting officer; (iv) Senior Accounts receivable/payable; and (v) Office Assistants – Account. All people in the highest 4 levels possess Bachelor of Commerce with more than five years of work experience. Principal Accountant Officer and Senior Accountant also possess Accounting Diplomas.

82. Financial management capacity of the MOF, (as well as the MOH and its departments and PHC units) is adequate for Program implementation.

#### Procurement Capacity

83. Within the MOH, the Procurement Unit is designated for procurement. The MOH has identified eight staff members for this unit. One of these members has a diploma in procurement from Italy and the others have a Bachelor's in Commerce or secondary school certificates. Most of the staff members have been in service for more than 10 years. In addition, a consolidated capacity assessment was carried out by the DFAT financed Procurement Specialist, which provided relevant details about staff from the following areas: the MOH, procurement, pharmacy warehouse, and biomedical. It included an assessment of their current experience (years of service), academic qualifications and procurement training to date. The main capacity gap is the lack of technical expertise and experience in procurement. This capacity gap has been addressed in the MOH Procurement Capacity Building Plan (which has been financed in part by the World Bank under the PPA and will continue to be financed under the PforR-supported Program) and the balance of the training and capacity building activities is being financed by DFAT.

84. The “MAPS” and “DFAT Assessment of National Systems (2018)” confirm limited procurement capacity across all line ministries, and in relation to the MOH, the Implementation Completion and Results Report for the sector-wide approach (SWAp) identified delays in review and approvals resulting from limited procurement capacity. As a result, planned procurement activities that are deemed crucial to the successful achievement of the PforR-supported Program indicators may be delayed. This could adversely impact the successful implementation of the Program.

## **SECTION 4: PROGRAM SYSTEMS AND CAPACITY IMPROVEMENTS**

85. In assessing the performance of the fiduciary systems, under which the Program operates, the World Bank identified various weaknesses and gaps which will be addressed during implementation of the Program through legal covenant(s), the PAP, the POM, and the World Bank's technical assistance and implementation support. This is expected to enhance the Program fiduciary system to ensure it will provide reasonable assurance that the Program expenditures will be used appropriately to achieve their intended purposes (Table 1).

**Table 1: Fiduciary Risk Mitigation and Integrated Action Plan**

<i>Risks</i>	<i>Mitigation Actions</i>	<i>Fiduciary Area</i>	<i>Timing</i>	<i>Type of Action</i>
<p>Funds for the Program may not be adequately allocated or supplemented in a timely manner for Program activities due to lack of Program identification in the budgeting process, which may affect the program implementation.</p> <p>Without the Program identification in the current Chart of Accounts, there is no accurate boundary to report on budget execution at Program level for audit and performance assessment purposes.</p>	<p>A new budget line item for the Program identification will be created under "Transactions on Behalf of the State" Category of the MOH's budget so that the country's financial information system can generate annual Program-specific Budget &amp; Expenditure Reports. Personnel expenditures and indirect costs will be allocated to the Program on the basis described in the POM.</p>	FM	Throughout Program implementation	PAP, POM, technical assistance.
<p>Low coverage of the SAO's audit of total Health expenditures in previous financial years (11%) may lead to the risk that Program expenditures are not adequately audited by the SAO.</p>	<p>Audit opinion on the full scope of the Program Financial Statements, which will be generated after the budget line item for Program identification has been created in the FMIS.</p>	FM	Annually	PAP
<p>Oversight on the performance, effectiveness and efficiency of government agencies' spending is not formally stipulated in Samoa, while this performance management is essential for results-based financing programs such as PforR.</p>	<p>Two performance audits to be performed by the SAO for the Program: one at the Program mid-term review and another at six months before Program closing date.</p>	FM	Mid-term and six months before closing	PAP
<p>Lack of written evidences for implementation of internal audit recommendations reduces the</p>	<p>Capacity building for internal audit function to improve audit documentation and follow up of audit recommendations.</p>	FM	Throughout Program implementation	DLI 6 – Capacity Building Plan

enforcement effectiveness of the internal audit function.				
Lack of clarity about organizational structure for procurement functions in the health sector following the merger of the National Health Service and the Ministry of Health.	The MoH will complete, issue and adopt the updated organizational structure of the MOH, which includes at least one functional unit, to be responsible for procurement, with a mandate, composition, and resources	Procurement	No later than three months after the Effective Date	PAP, Implementation support
Lack of procurement capacity within the MOH.	A detailed capacity building program should be included and implemented under the Program that would build on the capacity building supported under the PPA and DFAT.  Number of MOH staff completing formal procurement training (online, face to face).  CTSSU Procurement Specialist (when hired) can provide training to the MOH staff.	Procurement	Throughout Program implementation	DLI 6 – Capacity Building Plan.  PAP
Lack of technical procurement expertise for procurement implementation.	The newly established CTSSU financed by IDA under Samoa Climate Resilient Transport Project (SCRTP P165782) can be a source of fiduciary support to the MOH.  In addition, there is a DFAT financed Procurement Specialist working in the MOH who is providing technical assistance on health orientated items.	Procurement	Throughout Program implementation	PAP  Implementation support
Poor quality of procurement and contract documentation leads to suboptimal outcomes (in conjunction with a lack of delegation of authority to manage contracts given to line ministries and project managers).	Procurement documents should undergo quality-assurance to avoid contract variations, as part of the internal procedures. Assistance from CTSSU or DFAT financed procurement consultant may be needed. Tracking the number of contracts for which variations are processed and the time associated with such approvals.	Procurement	Throughout Program implementation	Implementation support

To ensure that NCD medicines are readily available in Samoa to support the achievement of Program results.	A Pharmaceutical Logistics Management Information System which includes NCD medicines is procured and operationalized.	Procurement .	June 30, 2020	PAP
Delayed implementation of procurement activities for which Program results are linked.	The implementation of activities open tenders should be closely monitored, and efficiency should be improved. Establishing a timeline for procurements subject to Request for Quotations and adherence to or improving that timeline. Establishing a timeline for procurements subject to Request for Bids and adherence to or improving that timeline.	Procurement .	Throughout the Program implementation	Implementation support

## **SECTION 5: PROGRAM IMPLEMENTATION SUPPORT**

86. The Implementation Support Plan has been prepared in line with the PforR operational guidelines.

87. The Borrower is responsible for the implementation of all Program activities in support of the achievement of the agreed DLIs, as well as the PAP. The World Bank team will conduct regular implementation support missions based on the Implementation Support Plan, whose focus will be timely implementation of the agreed PAP, provision of necessary technical support, conducting fiduciary reviews, and verification of results, where appropriate. Focus of fiduciary team will be placed on reviewing and ensuring Program-based budgeting and financial reporting process, reviewing the SAO's financial audit report, performance audit report and management letter as well as the evidences of enforcement of these audits.

88. The MOH is responsible for undertaking all the procurement activities that fall within the Program Boundary in accordance with the procurement requirements of GoS. The fiduciary team can support Program implementation by monitoring actual procurement implementation based on the MOH Annual Procurement Plan for the planned procurement activities which falls within the Program Boundary (as per the identified risks and mitigation measures). The World Bank team can also help the Borrower to identify bottlenecks to the implementation of procurement activities.

## APPENDIX 1

### PLANNED PROCUREMENT ACTIVITIES

<b>Action Reference</b>	<b>Activity Description</b>	<b>Cost Estimate (WST) Million</b>	<b>Year</b>
1.3.1	Develop recreational programs to provide health promotion activities.	0.20	2018/2023
1.4.1	TA to develop national food and nutrition policy.	0.03	2019/2020
1.4.4	TA to develop national health promotion and prevention policy.	0.03	2020/2021
3.1.1	New construction and upgrading of Rural District Hospitals – Falelatai and Saanapu .	3.8	2020/21
3.1.2	Construction of Doctors Residences for 2 Rural District Hospitals – includes furnishing.	1.04	2020/21
3.2.2	Conduct training on NCD Screening Management Guidelines to health service providers and communities.	0.06	2019/2022
3.2.3	Conduct training for community representative on PEN Fa’a Samoa (provided with certificates).	0.68	2019/2023
3.3.2	Conduct NCD Awareness and Screening Campaigns in Urban Villages.	0.67	2019/2023
3.5.2	Diagnostic equipment and supplies for NCD management (all Rural District Hospitals).	3.41	2020/2023
4.1.1	Establish a national NCD registry for patients and high-risk persons and update existing records.	0.10	2019/2020
4.1.3	Pilot Patient Tracking System.	0.05	2020/2021
4.1.5	Train health providers on electronic NCD registry.	0.09	2019/2023
4.4.4	TA to assess tax structure and impact of increase in excise and tax on tobacco products.	0.12	2020/2021