PROGRAM FIDUCIARY SYSTEMS ASSESSMENT

1. The Asian Development Bank (ADB) will be supporting the Government of Punjab in addressing the critical challenges facing the provincial nursing and health workforce segments. The proposed mode of assistance is a $150 million results-based lending (RBL) program, with focus on addressing complex underlying issues in the sector and supporting a comprehensive reform approach. By improving the performance of the nursing segment and governance and management of the health workforce, the RBL will improve the overall functioning of the health care system, ultimately leading to better health outcomes. Key outputs of the RBL include enhancing capacity of nursing professionals through improved training, establishing high-quality facilities for nursing education, and improving governance and management for health workforce strengthening in the province. The proposed program will run over 5 years, from 2026 to 2030. The Specialized Healthcare and Medical Education Department (SHC&MED) of the Government of Punjab will be the executing agency of the program and will implement the program through a dedicated program implementation unit (PIU).

2. A technical assistance grant of $0.5 million was used for program preparation and upstream work, including the preparation of due diligence assessments required for the RBL modality and to assist the SHC&MED in designing a monitoring and evaluation system for the program. While the SHC&MED has not had experience of working with ADB in the recent past and has not implemented an RBL program, the Government of Punjab is implementing an RBL program in the energy sector,[1] and is also working with ADB to prepare a program for secondary education, which will also use the RBL modality. At a broader level, the provincial government, particularly the Planning and Development Board, has experience with RBL programs and is cognizant of donor requirements.

3. The financial due diligence was carried out based on an extensive review of documents and legislation on the Government of Punjab's financial management systems. It incorporates ADB's requirements, as prescribed in the financial management technical guidance note.[2] A procurement fiduciary assessment was completed to determine whether the procurement system and the capacity of the executing and implementing agencies provide sufficient assurance that the RBL proceeds will be used for the intended purpose, considering the procurement principles of economy, efficiency, fairness, transparency, quality, and value for money as stated in the ADB Procurement Policy.

A. Information Sources

4. Information sources for this assessment included legislation such as the Punjab Public Financial Management Act and policy documents such as the Government of Punjab's Public Financial Management Reform Strategy 2025, in addition to budget documents, particularly the medium-term fiscal framework. In addition, consultations were held with government counterparts from the SHC&MED, Punjab Finance Department, and Planning and Development Board of Punjab to understand how the government implements financial management guidelines in practice. The assessment began in August 2024 and continued through to March 2025.

5. There is no recent, comprehensive, publicly available assessment of Pakistan's public expenditure and financial accountability systems. The last such assessment conducted by the public expenditure and financial accountability (PEFA) program was in 2020 at the federal level,

[1] ADB. 2024. *Pakistan: Access to Clean Energy Investment Program*.
[2] ADB. 2025. *Financial Management Assessment in Sovereign Operations - Technical Guidance Note.*

which underwent a PEFA check but remains unpublished.[3] Nevertheless, it is important to note that the 2016 PEFA assessment ranked the federal government highly on transparency, policy-based budgeting, revenue administration, and debt management. However, the government's performance on maintaining the credibility of budget estimates, establishing internal control systems (like internal audits), accounting and reporting, and regular auditing were flagged for improvement. The PEFA also conducted a financial assessment for the Punjab province in 2012 and a more recent PEFA assessment was carried out for Punjab in 2019, with the support of the World Bank and UK Aid Direct.[4] The Government of Punjab was rated highly for policy-based budgeting, however revenue forecasting was difficult at the provincial level because a substantial portion of provincial revenues are in the form of straight transfers from the federal government, which cannot always be accurately predicted. Similarly, tax administration at the provincial level was assessed to be weak regarding enforcement of laws and rules. The assessment recommended that the Government of Punjab adopt a medium-term budgetary framework modality for better planning and incorporate assessments of departmental performance when allocating resources, particularly for the development budget. The assessment appreciated the reorganization of the Finance Department, including the creation of specialized units such as the Debt Management Unit and the Corporate Finance Unit.

6. Program preparation activities included the following: (i) reviewing Pakistan's PEFA assessment of 2012 and Punjab PEFA assessment of 2019,[5] (ii) reviewing ADB's country governance risk assessment 2020,[6] (iii) assessing ADB's experience with the provincial government in another RBL program,[7] (iv) administering financial management assessment questionnaires, and (v) interviewing counterpart staff in the SHC&MED. The scope of the fiduciary review from a public financial management (PFM) perspective incorporates the financial management, internal control, and risk management assessments required by ADB guidelines for financial due diligence.

7. The procurement system assessment was undertaken during 30 July–10 August 2024 and further refined during (i) the data collection, discussion, and confirmation in February–May 2025, as well as (ii) the fact-finding mission on 25 June–2 July 2025. The assessment was guided by the Technical Staff Guidance for Results-Based Lending for Programs (June 2023),[8] assessing the Government of Punjab's procurement system to determine the extent to which the system (including through capacity development and implementation support where necessary) can provide reasonable assurance that RBL program financing will be used economically, efficiently, and for its intended purposes, based on sound procurement principles of economy, efficiency, fairness, transparency, quality, and value for money. The procurement system assessment reviews the fiduciary system and capacity within the SHC&MED and the Infrastructure Development Authority of Punjab (IDAP).

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3 PEFA is an alliance of seven international development partners which was formed to jointly assess public financial management systems of aid recipient countries. The publicly available PEFA assessments for Pakistan can be accessed at the PEFA website.

4 World Bank and UKAID. 2019. *Pakistan: Punjab Public Expenditure and Financial Accountability (PEFA) Assessment Report.*

5 Government of Pakistan and development partners. 2012. *Pakistan: Federal Government Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report;* Government of Punjab and development partners. 2019. *Public Financial Management and Accountability Assessment: Pakistan Punjab Province.*

6 ADB. 2020. Pakistan's Governance Risk Assessment and Management Plan – Federal and Provincial Governments.

7 ADB. 2016. *Access to Clean Energy Investment Program: Report and Recommendation of the President.*

8 ADB. 2023. *Technical Staff Guidance for Results-Based Lending for Programs.* 30 June.

8. At the country level, ADB conducted the Pakistan country and sector procurement risk assessment report in January 2020. This program-specific procurement system assessment incorporated the 2020 Pakistan findings and recommendations. The assessment activities included document reviews, including review of the most recent applicable Punjab public procurement rules, interviews with counterparts, and the procurement performance of the SHC&MED and IDAP in conducting similar procurement.

B. Financial Management System

1. Overview

9. The Government of Pakistan has an extensive system of financial management for the federal and provincial governments, which includes systems for budget formulation and execution, accounting, and auditing. This section describes the key features of the national PFM framework and how this would apply to the program.

10. Articles 78–86 of the Constitution of Pakistan 1973 specify how the federal government is to manage its fiscal responsibilities, including the procedures for preparing the annual budget statement. Articles 118–125 of the Constitution of Pakistan 1973 deal with the financial procedures that the provincial governments are supposed to follow regarding public expenditure. Thus, Article 119, for example, specifies that the custody of the Provincial Consolidated Fund (which encompasses tax revenues, straight transfers, and loans raised by the provincial government) and the Public Account (which comprises public funds earmarked for specific projects or purposes) lies with the provincial government, and all withdrawals from these accounts are to be regulated in accordance with acts of the provincial assembly.

2. Budgeting and Expenditure Management

11. National and provincial budgetary formulation procedures are well defined. The process typically has four stages:

(i) Issuance of a budget call circular by the Ministry of Finance (at the federal level) or the provincial Finance Department in December of each year. The circular requires all ministries and departments to prepare estimates of expenditure for the coming financial year. In Punjab, departments are also expected to prepare 3-year medium-term fiscal frameworks.
(ii) Draft budgets are submitted by ministries and departments to the Ministry of Finance or Finance Department as the case may be.
(iii) Draft budget and taxation proposals are prepared and submitted to federal and/or provincial cabinet for approval.
(iv) The budget (or more specifically the finance bill) is presented in national and/or provincial assembly for debate. If the assembly concerned has major reservations on the budget, amendments are made to the finance bill. In general, the legislature will approve the budget and vote for enactment of the finance bill, after which the government can proceed with implementation of the budget proposals.

12. Budgets in Pakistan are made in accordance with the Government Financial Statistics used by the International Monetary Fund, the European Union, and other international agencies. The classification structure is hierarchical and has three levels—divisions, groups, and classes. The divisions reflect the broad objectives of government, and the groups detail how these broad objectives are achieved. The Government of Pakistan uses 10 classes to define the functions of

government.[9] In principle, the budget documents are transparent in that the classification of expenditure makes it possible to trace its intended use. In practice though, parliamentarians are not trained in the interpretation of budget documents and are typically not given enough time to go over them in detail—budget debates rarely go on for more than 1–2 weeks.

13. About 80% of the revenue of the Government of Punjab comes from the federal government in the form of transfers, as specified in the National Finance Commission award. This is a constitutional requirement, and the volume of transfers is predictable, although the timing is not. Transfers typically speed up in the last two quarters of the fiscal year, and spending tends to be crowded into these 6 months. The provincial government's own revenue, which constitutes the remaining 20%, is primarily in the form of taxes but also includes receipts from the provision of services, for example in irrigation, in addition to other fees. There has been little attention to increasing provincial revenue, and some taxes, such as property tax, are yielding far less than the capacity.

3. Recent Initiatives in Public Financial Management

14. The National Assembly passed the Public Finance Management (PFM) Act in 2019, which dealt with management of the Federal Consolidated Fund and the Public Account and, among other things, stipulated that all public entities should deposit all revenues (tax or nontax) into a Treasury single account. Thus, the practice of using multiple accounts by government entities or different projects has been done away with. The act also requires that the government's contingent liabilities be published in budget documents, in a bid to promote transparency and ensure that the full extent of the government's financial responsibilities are made public. In addition, the act requires all federal government entities to appoint chief finance and accounts officers, who will assist the principal accounting officer in maintaining and reporting on accounts. The act also requires government entities to plan for implementation of internal audit functions. In fact, each ministry was supposed to appoint a chief internal auditor within 18 months of the passage of the act. Another key reform was the stipulation that ministries are to practice performance-based budgeting, clearly specifying targets and indicators by which their performance can be assessed.

15. As of June 2024, many of the provisions of the PFM Act 2019 had not been fully implemented. For example, despite the stipulation of maintaining funds in a Treasury single account, federal government departments continue to maintain accounts in commercial banks. According to one estimate, out of 80,000 ministry accounts in commercial banks, only 4,000 had been closed as of November 2023.[10] Similarly, chief internal auditors had yet to be appointed in the ministries. Performance-based budgeting was initiated in that the Ministry of Finance began to publish a medium-term performance-based budget, known as the Green Book, in June 2021.

16. Similar PFM reforms have been initiated in Punjab. The Punjab Public Financial Management (PPFM) Act was passed in December 2022 and followed the broad principles of the earlier federal act. The Punjab act requires that the Finance Department prepare a medium-term fiscal framework, and specifies the broad contours of the framework, including the need to include socioeconomic objectives of the government, development priorities, policy targets, and key performance indicators. Departments are required to submit a performance report to the provincial

[9] These include general public services; defense; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture, and religion; education; and social protection.

[10] Jehangir, J. 2023. Public Financial Management Implementation Challenges. *The Nation*, 12 November.

government within 3 months of the close of the fiscal year. The Finance Department is required to prepare the fiscal risk management framework, which identifies major sources of risk. The act stipulates that the provincial government debt and guarantees should not exceed 160% of the average revenues of the last 3 years, and interest payments on government debt should not exceed 12% of average revenue of the last 3 years. As in the case of the PFM Act 2019, the PPFM Act 2022 also made provisions for banking arrangements such that government departments must obtain permission from the Finance Department to open accounts in commercial banks.

17. In addition, as in the PFM Act 2019, the Government of Punjab has also stipulated in the PPFM Act 2022 that each department of the provincial government should appoint a chief finance and accounts officer, who, among other responsibilities, should prepare an internal controls manual for the department in line with guidelines to be issued by the Finance Department.

18. The Government of Punjab prepared a new PFM reform strategy in 2020, which delineated a series of reforms which were to take place through to 2025. The key pillars of the PFM Reform Strategy 2025, as it was titled, included

(i) revenue mobilization strengthened to finance services,
(ii) quality of budgeting improved,
(iii) budget executed as planned and fiscal risks managed better,
(iv) development budget systems reformed,
(v) PFM and disaster risk financing systems put in place,
(vi) improved management of funds in local governments,
(vii) improved legal and regulatory framework,
(viii) capacity enhancement for better PFM, and
(ix) IT to allow for better PFM and revenue mobilization.

19. Implementation of the reform strategy remained slow in the initial phase after its approval, and with the change of government in January 2023, the strategy was temporarily shelved. With a new government in place as of February 2024, the envisaged PFM reforms may be revived in the province.

4. Implementation Arrangements

20. The SHC&MED will be the executing agency, and the PIU will be the implementing agency. The PIU under the leadership of the secretary of the SHC&MED will be responsible for the implementation of the program. A program steering committee shall be notified under the Chairman of the Planning and Development Board to provide overall strategic direction and policy guidance for the program. An independent verification arrangement system will be set up using a third-party verification agent to verify the achievement of disbursement-linked indicators (DLIs) before disbursements are made.

21. Specialized and trained finance and accounts staff shall be hired, transferred, or deputed in the PIU who will manage finances for both locally and foreign-funded development projects and programs. Currently, the SHC&MED and the PIU do not have any recent experience of managing foreign-funded projects. The staff will be hired on an extendable contract basis. It is also proposed that a full-time financial management specialist will be engaged under the program, who will augment the capacity of the PIU and be dedicated for the ADB RBL program. The dedicated financial management team of the PIU, in conjunction with the Financial Management Cell of the SHC&MED, shall manage disbursements, accounting, financial reporting, and compliance with

ADB policies and RBL requirements. Incumbent staff should receive mandatory training on ADB financial management procedures and requirements specifically for RBLs.

5. Accounting and Financial Reporting

22. The Government of Pakistan has adopted the International Public Sector Accounting Standards on a cash accounting basis. The Auditor General of Pakistan (AGP) adheres to the International Standards of Supreme Audit Institutions (ISSAI). The implementation of the financial accounting and budgeting system (FABS), the application of the new accounting model, and the capacity building of accounting staff have all contributed to strengthening financial reporting. The use of a uniform chart of accounts for budget formulation and execution at federal, provincial, and district levels ensures consistent data classification and enables direct comparison with original budget estimates.[11] Budget execution reports at the executing agency level are available in real-time throughout the financial year. Monthly civil accounts are prepared based on these reports and published on the Finance Department, Accountant General Pakistan Revenues (AGPR), and Controller General of Accounts (CGA) websites. FABS connectivity allows line departments to generate financial reports at any time, facilitating analysis and decision-making. All the accounting transactions are recorded, integrated, and reported on the Systems, Applications, and Products in Data Processing (SAP) system implemented under the project for the improvement of financial reporting and auditing at the AGPR and Accountant General offices.

23. For this ADB-financed program, separate local currency assignment accounts (one for each PC-1) and records will be maintained by the executing agency. The SHC&MED with the support of its PIU will prepare annual program financial statements for each fiscal year, starting from the program's effectiveness, and have these statements audited annually by the AGP. The RBL program will adhere to the government's accounting and financial reporting system. The program financial statements shall encompass the entire RBL program boundary and not only ADB loan proceeds. It is anticipated that the SHC&MED and PIU will rely on existing accounting and financial information systems, e.g., extracting data from SAP and using it to prepare customized financial statements in Microsoft Excel spreadsheets. Generally, it has been observed that program financial reporting and auditing is performed with limited understanding that the funds are commingled from donor and government resources. This may result in inaccurate and incomplete financial information, require cumbersome spreadsheet monitoring, and lead to delays in overall reporting and monitoring. To mitigate the risk, the SHC&MED and PIU shall be required to attend training on the RBL modality from ADB, and effectively set up their team to utilize the government’s information systems for customized financial reporting of the program.[12]

6. Internal Controls

24. The government’s internal expenditure control system at both federal and provincial levels relies on a series of regulations, including the new accounting model, General Financial Rules (GFRs), Treasury rules, delegation of financial powers, and rules of business. Internal payroll controls are strengthened by the FABS, which processes payrolls for all employees and pensioners via direct credit to bank accounts. Provincial accountants general have established

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[11] The Government of Pakistan operates its budgeting and accounting classification system under the new accounting model (NAM) introduced in fiscal year 2005. It complies with international classification standards (the United Nations Classification of Functions of Government), which enables more accurate, detailed, adequate, and transparent accounting and reporting and effective budget monitoring.

[12] The Government of Pakistan uses Integrated Financial Management Information System software customized from System, Applications, and Products (SAP) from Germany procured and deployed under the Program for Improving Financial Reporting and Auditing financed by the World Bank.

internal audit departments that handle payroll audits exclusively. Internal controls for nonsalary expenditures are strong in terms of control over expenditure commitments, and generally effective in comprehensiveness, relevance, and adherence to rules and procedures. Weaknesses include inadequate decision-making authorization at the operational level (usually a junior official such as the drawing and disbursing officer is authorized to perform this), ineffective asset management, untimely surrender of excess budgetary allocations, acceptance of incomplete works and related payments, and incorrect accounting of transactions. In addition, the internal control environment is weakened by a lack of standard operating procedures in the financial management function. There is a need to develop an financial management manual to guide through the program's accounting, charter of accounts, staff authorities, responsibilities, organogram, and job descriptions.

7. Auditing

25. **Internal audit.** Most departments of the Government of Punjab, including the SHC&MED, have an internal audit section. In the SHC&MED, this section operates under the supervision of the finance wing of the department. The key weakness is that internal audit units, although institutionalized at a rudimentary level in provincial government departments, have issues related to (i) capacity constraints and limited understanding of compliance requirements with international internal auditing frameworks in the public sector; (ii) lack of qualified and trained staff who are often on deputation from the AGP but have insufficient knowledge and understanding of donor guidelines and procedures, including the use of loan proceeds; and (iii) alternative risk management arrangement with the CGA—which includes the AGPR, provincial accountants general, and district accounts offices—in terms of pre-audit of all expenditures hinders the independent function and challenges the legitimacy of the internal audit function. There is an imminent need for an independent internal audit function which complies with internationally acceptable internal audit frameworks and standards.

26. **External audit.** To ensure transparency in the use of public funds, external audits which are compliant with internationally acceptable auditing standards are crucial for the program. The SHC&MED undergoes annual external financial audits conducted by the AGP in accordance with the Constitution of Pakistan and ISSAI. The ISSAI are the authoritative international standards on public sector auditing issued by the International Organization of Supreme Audit Institutions. Recent audit reports have not identified any major accountability issues, although there are a few outstanding audit observations of the SHC&MED, which will be settled in due course following prescribed discourse of departmental accounts committee and public accounts committee fora.

27. For the program financial statements, the SHC&MED will have these audited by the AGP and in accordance with ISSAI. The auditor is expected to express an opinion on whether the RBL program expenditure on goods, works, and services (including expenditures on all items from the borrowing country) is at least equal to, or exceeds, the amount of the ADB RBL disbursements during the relevant reporting period. The RBL program's financial statement should report on the aggregate funds received and aggregate expenditures made for the RBL program. The auditor shall express opinion on whether a true and fair view of the RBL program expenditure is presented. Since the ADB loan proceeds will be commingled with the government's resources, a separate opinion on the use of loan proceeds will not be required.

28. The audited program financial statements will be submitted to ADB in English within 6 months of the end of the fiscal year. Historically, there have been instances of delays in the external audits of the RBL programs in Pakistan, although several consultative sessions of ADB with the AGP have led to significant improvements in the understanding of the RBL modality and

the timing of external audits, with the AGP setting a deadline of 31 December for submitting audit reports for the previous financial year ending 30 June.

8. Disbursement and Fund Flow

29. The program disbursement arrangement will promote results-based management that links disbursements to delivery of results. Disbursement by ADB will be subject to achievement of key results presented in the DLI matrix and to the submission of the withdrawal application duly supported with verifiable evidence of achievement against specific DLIs. The SHC&MED and PIU shall manage the operations of the local currency assignment account(s) in which the recurrent and development funds shall be released and transferred onwards to implementing partners in alignment with the specific needs and disbursement schedule. The fund flow diagram is in Appendix 1.

30. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2022, as amended from time to time), and detailed arrangements agreed upon between the provincial government and ADB. ADB will disburse the loan proceeds in United States dollars to a designated government general account in the State Bank of Pakistan, where the funds will be converted into Pakistan rupees based on the exchange rate on the date of the funds transfer and then deposited in the provincial government's nonfood account. The provincial finance department shall confirm that the loan proceeds have been received. The disbursed amount shall not be immediately remitted to the SHC&MED, instead the program funds shall be released to the SHC&MED as part of its regular budget support commensurate with the program's cash and work plan, following the regular budgeting and release strategy.

9. Risk Assessment

31. The financial management systems assessment considered two types of risks: (i) inherent risks, i.e., risks outside the direct control of the entity financial management; and (ii) control risks, i.e., risks concerning the internal functioning and control of the entity's accounts division. The assessment of the SHC&MED identified the strengths and weaknesses, which are described as follows.

(i) **Strengths.** The assessment found that (a) a robust institutional link exists between planning and budgeting processes, which includes the use of physical targets where relevant; (b) the federal and provincial governments' accounting systems and policies are well developed, and the SHC&MED's accounting policies appear to be effective and functioning well (e.g., segregation of duties, payment processing, cash and bank arrangements, and safeguarding of assets); (c) financial reporting and monitoring follow the legislative requirements and are done on a regular and timely basis; (d) the SHC&MED's financial reporting mechanism relies on the SAP system implemented at national and subnational levels, which can generate reports, albeit to a limited extent; and (e) the government's external audit framework appears to be well developed and adequately operationalized.

(ii) **Weaknesses.** The assessment identified the following weaknesses: (a) the SHC&MED does not have recent experience in handling funds flow and disbursements of RBL programs and other donor-funded projects; (b) the PIU is yet to be made operational and must be given financial powers and carry out procurements while ensuring transparency and accountability in the financial records and auditing; (c) the internal audit department has weak capacity, with limited staff, and the reports may not be in compliance with international standards; (d) the SHC&MED and PIU will rely on the government's SAP system for recording

program expenditures, however financial statements will be prepared and consolidated manually for preparing customized reports and program financial statements; and (e) limited understanding of the auditor and implementing agency in RBL programs may lead to delays in preparing and submitting audited program financial statements.

32. The financial management risks and mitigation measures are summarized in Table 1.

Table 1: Financial Management Risks

Risk Type	Risk Description	Rating without Mitigation	Mitigation Measure	Responsibility & Timelines
Inherent Risk				
1. Public expenditure	Delay in timely releases of allocated funds because of limited fiscal resources and conflicting development priorities could impact the targeted results	Moderate	Ensure timely release of counterpart funds from the Finance Department to the SHC&MED, ideally at the start of the year but no later than 15 days after the start of each quarter in line with the quarterly release strategy, enabling achievement of DLIs	Finance Department, Punjab; SHC&MED Ongoing during implementation, 15 days after the start of each quarter
Overall Inherent Risk		**Moderate**		
Control Risks				
2. Organizational structure and staffing	Current organizational structure of the SHC&MED and PIU (i) are not fully staffed for the RBL program, (ii) may be overburdened with existing assignments if they are only on additional charge, and (iii) have limited prior experience of donor-funded programs and projects.	High	SHC&MED will recruit sanctioned staff for the program in the PIU which must include at least one financial management specialist having prior experience of handling projects financed by international financial institutions ADB to provide training to the agency handling funds for the program on ADB's FM requirements for RBL programs particularly focusing on financial reporting and auditing, as well as training on ADB's Anticorruption Policy, including the use of ADB's e-learning courses on financial management.	ADB, SHC&MED Recruitment: before loan effectiveness Training: Within 2 months after loan effectiveness
3. Funds flow	The funds flow risk concerns diversion or misuse of funds (use for other than the intended purposes).	Moderate	The SHC&MED's concerned additional secretary of development and/or finance along with the director of budget and accounts will ensure that the local currency assignment accounts are under the specific PC-1s to enable funds for the program to be placed at the disposal of the implementing agency.	SHC&MED Within 30 days after approval of respective PC-1s / development schemes
4. Internal audit	Weak capacity and hiring in independent internal audit	Substantial	Institutionalize internal audit function in the SHC&MED, either outsourced or in-house. In case of in-house capacity, this includes notification to the function,	SHC&MED

Risk Type	Risk Description	Rating without Mitigation	Mitigation Measure	Responsibility & Timelines
	function at the SHC&MED may affect the effectiveness of risk management, control, and governance processes.		approved organogram and positions, internal audit charter, and reporting lines.	Within 6 months of loan effectiveness
5. External audit	Because of limited understanding of the auditor and implementing agency in RBL programs, audited program financial statements may face delays in preparation and submission.	Moderate	Methodology and execution of the audit of RBL programs to be discussed and documented between the SHC&MED and the auditors. The scope and methodology of audit, especially considering RBL programs, including the timelines for (i) deputing audit teams, (ii) carrying out field work, and (iii) submitting the audit report shall be documented and the minutes of the meeting to be shared with ADB.	SHC&MED, AGP Within 6 months of loan effectiveness
6. Financial reporting of the program	Complex financial reporting in RBL fund flows because of limited understanding of RBL programs at provincial level may result in incomplete financial reporting.	Substantial	An accounting manual shall be prepared to document the procedures carried out by the FMC for the RBL program. It will contain a section elaborating how the external audit of the program would be conducted. This will also include links between development and recurrent budget cost heads with the cost categories mentioned in the program implementation document.	SHC&MED, AGP Within 6 months of loan effectiveness
7. Information Systems	Consolidation of budget codes for the program financial statements will be carried out manually in Excel, which may be prone to errors.	Substantial	The SHC&MED will automate the data ETL function from all financial sources including SAP to prepare linked financial statements and documented account codes, and document such procedures in the financial management manual	SHC&MED, AGP Within 12 months of loan effectiveness
Accounting policies and procedures	**Budget codes which will be used for preparing the program financial statements are not identified.**	**Substantial**	PC-1s relevant to the program should be approved and budget codes relevant to the program in conformity with the program expenditure framework should be identified and approved by the SHC&MED.	Before effectiveness
Overall Control Risk		**Substantial**		
Overall Risk		**Substantial**		

ADB = Asian Development Bank; AGP = Auditor General of Pakistan; DLI = disbursement-linked indicator; ETL = extract, transform, and load; FMC = Financial Management Cell, PC-1 = Planning Commission Form-1; PIU = project implementation unit; RBL = results-based lending; SHC&MED = Specialized Healthcare and Medical Education Department, Punjab.

Source: Asian Development Bank.

10. Conclusion

33. The ADB program will rely on the robustness of the government financial management systems. However, independently assessed on a standalone basis, the SHC&MED has weak financial management capability and there are risks regarding the program's capacity to record financial transactions, provide regular and reliable financial statements, and generate reliable monitoring reports. The overall pre-mitigation risk for the program's financial management is rated *substantial*, and to address the risks, appropriate mitigation measures and management actions are documented. Consequently, the program preparation team proposed targeted mitigation measures to manage and monitor these risks, ensuring transparency and accountability in program financial management and adherence to government standards and ADB requirements. With the implementation of these measures, the SHC&MED's financial management capacity is expected to be further strengthened.

C. Procurement System

34. **Procurement profile of the program.** Procurement activities under the RBL program are expected to include the following:

(i) **The procurement of construction of centers of excellence (COEs), civil works, and hostels) for nursing education**. This procurement is under output 2, which supports the construction and operationalization of three state-of-the-art COEs (in Multan, Lahore, and Rawalpindi). The IDAP will be responsible for infrastructure development and procurement of allied furniture and fixtures under output 2.

(ii) **The procurement of teaching and simulation equipment, digital infrastructure, and furnishings**. This procurement is required for equipping the COEs, and includes the following: IT equipment, simulation lab, skills lab, science lab, anatomy lab, instruments, and other equipment, goods, and furnishings as required for the RBL program. The procurement will be carried out by the PIU.

(iii) **The hiring of consulting services to support the program.** The activities include the recruitment of consultants (both firms and individuals) under the program for the following services: independent verification agent and consultants to be engaged for curriculum development for bachelor of science in nursing, master of science in nursing, specialized courses, continuing professional development, and faculty development, and an implementation specialist to help the government implement the program activities. Consultants will be selected by the PIU.

35. No high-value contracts are envisaged for procurement under the program.[13]

36. **Country, sector, and program procurement regulations, rules, procedures, and arrangements.** The RBL implementation will rely on the Government of Punjab's procurement system for the procurement of goods, works, and services as follows: (i) the Punjab Procurement Regulatory Authority (PPRA) Act 2009 (as amended through 9 January 2023), and (ii) the Punjab Procurement Rules (PPR) 2014 (as amended through 23 December 2022), both of which are generally aligned with the ADB core procurement principles. The e-procurement system developed by the PPRA, i.e. e-Pak Acquisition and Disposal System,[14] has a basic feature for

[13] High-value contracts are those worth at least (i) $50 million for works, turnkey and supply, and installation contracts; (ii) $30 million for goods; (iii) $20 million for IT systems and nonconsulting services; or (iv) $15 million for consulting services.

[14] It is noted that the most recent development and improvement of the EPADS was done under the World Bank assisted funding, and it is used from July 2024.

uploading and downloading procurement-related documents in a procurement transaction, hence it is generally adequate and therefore will be used for procurement transactions to be carried out under this RBL program.

37. **Agency organizational capacity and arrangements.** There are two agencies directly responsible for the procurement management aspect of this program—the PIU under the SHC&MED, and the IDAP.

38. **PIU**. By loan effectiveness, a dedicated PIU under the SHC&MED will be established and properly staffed and will work closely with the SHC&MED's procurement cell. The main function of the PIU is to oversee day-to-day operations, interagency coordination, and results monitoring. The PIU will be responsible for procurement, safeguards compliance, financial reporting, and implementation of DLIs across all components. On procurement, the PIU's roles are to (i) provide the overall procurement coordination and management under the program, including developing and submitting the procurement performance report for procurement carried out by both the PIU and the IDAP; (ii) recruit consultants for the program; and (iii) procurement equipment and digital infrastructure for the COEs.

39. The PIU procurement team will consist of a procurement and contract management specialist, and a procurement assistant.

40. The terms of reference, including the qualification requirements of those key experts, are agreed with ADB, which will ensure only experts with adequate qualifications and experience are hired.

41. **IDAP.** The IDAP is an autonomous body established for planning, designing, constructing, and maintaining infrastructure in Punjab. It was established under the Infrastructure Development Authority of the Punjab Act 2016. The IDAP has vast experience in constructing, procuring, and delivery of equipment for the Government of Punjab, in various sectors, including in the health infrastructure and digital sectors. The IDAP has developed health infrastructure for the design, construction, procurement, and delivery of health equipment, such as the Teaching Hospital Sheikh Zayed II at Rahimyar Khan; construction of the general hospital at Layyah; and a lot number of medical equipment, laboratory equipment, and medical furniture, including the development of the tier 3 data center design and build. The IDAP is also involved in the construction of "net-zero building" for the Punjab Energy Department, which is set to achieve Leadership in Energy and Environmental Design (LEED) gold certification. The IDAP has a group of engineers, health care experts, health equipment experts, project management, and a procurement team. It has adequate capacity in carrying out high-value procurement of hospital construction and equipment. The IDAP has the standard bidding documents, bid evaluation reports, and other procurement practices which are aligned with the standards set forth by the PPRA and international standards. To execute this RBL program, prior to loan effectiveness the IDAP will establish a dedicated in-house team for the following functions: detailed engineering design, procurement support, and construction supervision, with their respective terms of reference agreed with ADB.

42. **Procurement planning and budgeting.** The procurement plan is developed manually by each procuring entity (i.e., there is no digital version), with procurement following PPRA rules, and is published on the PPRA website. The procurement plan is linked to the budget and planning of the financial management system and to the needs of the program beneficiaries, and is realistic, timely, and reliable. The procurement planning is developed at a department level and generally does not cover procurement risk assessment, and market assessment.

43. **Procurement practices.** Standard bidding documents for procurement under PPRA rules are available and contain provisions for good procurement practices ensuring all elements of the core procurement principles. The bidding documents also contain anticorruption provisions as appropriate. Bidding opportunities are properly advertised, and reasonable arrangements exist to ensure fairness and efficiency throughout the bidding process. The single stage, one envelope bidding procedure shall ordinarily be the main open competitive bidding procedure used for the procurement of works and standard goods (PPR #38).[15] However, in practice, most of the time a single stage, two envelope process is followed to avoid complications and subsequent audit-related issues. On the contract administration and management, the bidding process is generally governed by government rules, regulations, standard operating procedures (SOPs), and notifications which are adequate.

44. One of the key issues is that the procurement system assessment found that currently the executing agency lacks the procurement strategy for the procurement of teaching and simulation equipment, digital infrastructure, and furnishings. Accordingly, a specific program action plan (PAP) has been agreed for the PIU to finalize and approve standard equipment specifications and procurement packages for COEs, including simulation labs, IT infrastructure, and instructional materials. This activity includes the development and validation of detailed technical specifications, packaging strategies, and procurement methods for all major equipment categories. It ensures readiness for procurement once the loan is effective and aligns with standards for simulation-based training and digital infrastructure. Technical consultants, the SHC&MED's procurement cell, and the PIU will jointly undertake this work.

45. In addition, as required and as part of the PAP, the PIU will submit biannual procurement performance reports to ADB for all procurement delivered under the RBL program, confirming that (i) procurement is in compliance, (ii) there are no high-value contracts, and (iii) there are no contracts awarded to entities debarred by ADB.

46. **Control and integrity.** There is no official procurement audit system in place. However, from time to time, as a matter of practice, the AGP has done the procurement audit function. Accordingly, there is a specific PAP requiring that a procurement audit be conducted at least annually to ensure procurement compliance. The audit will be done by the AGP and specific terms of reference for procurement audit as agreed by ADB and the SHC&MED will be adopted. To handle corruption cases, the Anti-Corruption Establishment of Punjab is an attached department of the Services and General Administration Department of the Government of Punjab. Its primary objective is to investigate cases of corruption and conduct preliminary inquiries to assess whether these offenses warrant further investigation.

47. **Complaint and dispute resolution mechanism.** The PPRA has a robust complaint management system that serves as an effective tool to check corruption. The complaint is handled by a committee established by the procuring entity. Blacklisting and debarment are provided in clause 21 of the Punjab Procurement Rules. Procuring units will be required to ensure that they perform due diligence in reviewing these lists prior to contract award. Contracts awarded to firms debarred by ADB will be excluded from the RBL program.

48. **Procurement risks and mitigation**. The overall procurement risk is rated *substantial* (before mitigation) or *moderate* (after mitigation), and the procurement risk profile and mitigation measures have been identified (Table 2).

[15] Government of Punjab. 2014. *Punjab Public Procurement Rules 2014.* Rule number 38(1).

Table 2: Procurement Risks and Mitigation

Risk Description	Risk Rating	Risk Mitigation	Included as PAP	Delivery Schedule
PIU lacks the procurement strategy for the procurement of teaching and simulation equipment, digital infrastructure, and furnishings	High	Depute an equipment procurement expert to support specification finalization and packaging. Finalize and approve standard equipment specifications and procurement packages for COEs, including simulation labs, IT infrastructure, and instructional materials.	Yes Yes	Before loan effectiveness Q1–Q2 2026, post-loan effectiveness
Inadequate monitoring of the procurement performance	Moderate	Develop and operationalize procurement reporting. The ePADS will be adapted to track contract awards, supplier eligibility, and disbursement-linked procurement under the RBL. SHC&MED will prepare biannual procurement performance reports in a format agreed with ADB and submit them through the PIU, confirming (i) procurement compliance, (ii) no high-value contracts, and (iii) no contracts awarded to entities debarred by ADB.	Yes	Q1–Q2 2026, post-loan effectiveness
The appointment of IDAP, as the service provider for the infrastructure development and furniture, is not formalized yet	Moderate	Confirm and formalize the role of IDAP as the service provider for infrastructure development and procurement of allied furniture and fixtures through a government-issued notification. The IDAP will deploy its in-house dedicated detailed engineering design, procurement support, and construction supervision team to implement the COE construction and the procurement allied furniture and fixtures	Yes	Prior to loan effectiveness
Institutional capacity of IDAP, PIU, and SHC&MED is not familiar with the requirements and execution of an RBL modality	Moderate	Provide procurement and contract management training to PIU, IDAP, and relevant SHC&MED staff on ADB's procurement requirements under the RBL modality.	Yes	Within 3 months of loan effectiveness
Inadequate procurement audit system in place	High	Conduct a procurement audit at least annually to ensure legal and procedural compliance with the applicable procurement rules.	Yes	Annually within 6 months following each financial year end
Inconsistency(ies) in ePADS and Punjab Public Procurement Rules	Moderate	The Government of Punjab has requested ADB and the World Bank to assess ePADS to determine its suitability for use in projects financed by MDBs. In response, ADB and the World Bank have collaborated with the IsDB and the AIIB to conduct a joint assessment of ePADS. The assessment	No	Within 6 months after completion of ePADS assessment by MDBs, tentatively after Q1 2026.

Risk Description	Risk Rating	Risk Mitigation	Included as PAP	Delivery Schedule
		may report any misalignment between Punjab Public Procurement Rules. In case any issue(s) is identified during the assessment, particularly concerning the latest applicable procurement laws, rules, and regulations of the Government of Punjab, these will be addressed by the provincial authorities. The executing agency, jointly with ADB, will extend support to the PPRA, as needed.		

ADB = Asian Development Bank, AIIB = Asian Infrastructure Investment Bank, IDAP = Infrastructure Development Authority of Punjab, COE = center of excellence, ePADS = e-Pak Acquisition and Disposal System, IsDB = Islamic Development Bank, MDBs = multilateral development banks, PIU = project implementation unit, PPRA = Punjab Procurement Regulatory Authority, Q = quarter, RBL = results-based lending, SHC&MED = Specialized Healthcare and Medical Education Department, Punjab.
Source: ADB and Government of Punjab.

D. Anticorruption System

49. Pakistan's anticorruption institutional framework is made up of the National Accountability Bureau (NAB), the Federal Investigation Agency, and provincial anticorruption establishments. The NAB has regional offices. Specialization seems to be insufficient within some institutions and a proactive and targeted approach aimed at high-level officials and main risk areas is lacking. The appointment of heads of anticorruption institutions is reportedly subject to political interference, which has raised questions about their impartiality. Other anticorruption institutions include the AGP, which aims to ensure the accountability of government entities and in the use of public funds; and the Office of the Ombudsman, which aims to provide administrative accountability by investigating and rectifying injustice.[16]

50. The legal anticorruption framework includes the Pakistan Penal Code 1860, Prevention of Corruption Act 1947, Government Servants' Conduct Rules 1964, and National Accountability Ordinance 1999. Presidential ordinances, parliamentary legislation, subordinate legislation mechanisms, and laws have been enacted. While active and passive corruption is criminalized and public officials must declare their assets, no federal law governs conflict of interest (although conflict of interest acts have been passed in some provinces).

51. The Constitution provides citizens with the right to gain access to information on matters of public importance (article 19A). Access to information from the federal government was first established with the Freedom of Information (FOI) Ordinance in 1997, later revoked and replaced with the FOI Ordinance 2002 and the FOI Rules 2004, which provides the procedural basis of the FOI Ordinance. The federal Right of Access to Information Act was passed in 2017. Some provinces have enacted right-to-information laws, some of which may be used not only by citizens but also by legal bodies.

52. Pakistan endorsed the ADB–Organisation for Economic Co-operation and Development Anticorruption Action Plan for Asia and the Pacific in 2001. Pakistan signed the United Nations Convention against Corruption in 2003 and ratified it in 2007. Pakistan signed the United Nations

[16] The federal ombudsman has regional offices. Ombudsman offices are established by provincial governments and work in areas including tax, banking, and insurance; and against harassment of women in the workplace.

Convention against Transnational Organized Crime in 2000 and ratified it in 2010. Pakistan is a member of the Asia–Pacific Group on Money Laundering.[17]

53. Despite legislative and institutional anticorruption frameworks being in place, implementation remains ineffective and corruption among public officials and politicians is perceived to be high and to have increased since 2018. For example, Transparency International's Corruption Perception Index for 2024 gave Pakistan a score of 27 (out of 100) and a ranking of 135 (out of 180 economies), meaning Pakistan is among the bottom one-third of assessed economies. There was no significant improvement from Pakistan's 2014 ranking of 126 among 175 economies, with a score of 29. Similarly, as per the World Bank's Worldwide Governance Indicator database, particularly for the control of corruption indicator, the country showed a declining trend in its percentile rank from 23.08 in 2014 to 18.87 in 2023.

54. Pakistan does not have an anticorruption strategy in place. While the National Anticorruption Strategy was prepared in 2002 and implemented by the NAB, it became outdated following Pakistan's ratification of the United Nations Convention against Corruption in 2007 and the 18th constitutional amendment in 2010, which gave more autonomy to the provinces.

55. Using the RBL modality for the program ensures that ADB financing will be linked to verifiable results and provides an incentive to ensure that funds are used for the intended purposes since failure to achieve results would mean non-disbursement of funds. The program excludes activities involving high-value procurement contracts, which reduces risk in terms of value.

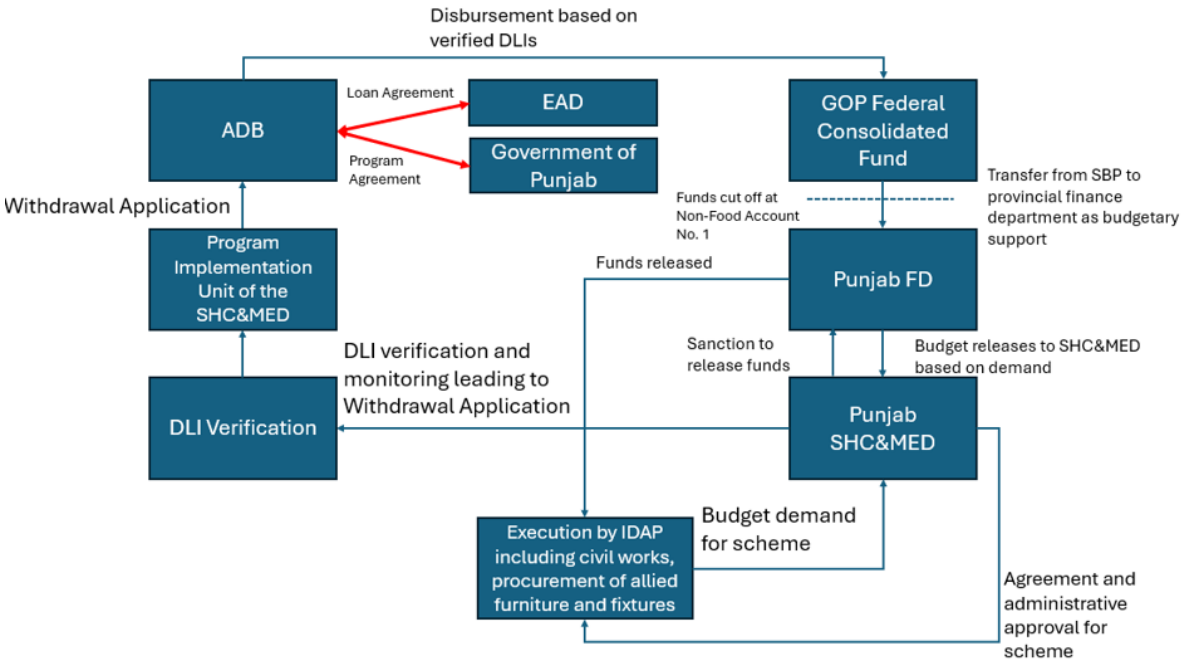
56. The program has been prepared with risk-based financial management and procurement assessments at the country level and for the SHC&MED and the PIU in their role as executing and implementing agencies. Potential corruption risks have been identified for which fiduciary management measures have been proposed, including developing staff capacity and technical expertise. Through implementation support and technical assistance, ADB helps the SHC&MED make systems and procedures more robust and transparent to reduce the risk of fraud and corruption.

57. Program integrity risks related to financial management and procurement may be exacerbated since the SHC&MED has limited prior experience of managing donor-funded projects, donor compliance requirements, engaging contractors and labor, procuring goods and materials, and managing large civil works expenditure. To mitigate this risk, ADB will conduct regular awareness and training sessions on ADB's Anticorruption Policy, and the SHC&MED will carry out adequate due diligence, through the PIU and other teams, during bid evaluation and payment processing to identify any irregularities, inconsistencies, and/or potential misrepresentations on the bids and claims including the timing and frequency of these activities.

58. ADB's Anticorruption Policy (1998, as amended from time to time), has been communicated to the government and the SHC&MED. The policy states that individuals and entities on the ADB Debarment and Suspension Register are ineligible to participate in activities financed, administered, and/or supported by ADB, and cannot be awarded any contracts under the program. Guidelines to prevent or mitigate fraud, corruption, and other prohibited activities in RBL programs have been explained to and discussed with the government and the SHC&MED.

[17] The AGP is part of the Financial Action Task Force. Pakistan has been under increased monitoring (gray-listed) by the Financial Action Task Force since June 2018 because of strategic anti-money-laundering deficiencies.

Fund Flow Diagram



ADB = Asian Development Bank, EAD = Economic Affairs Division, Ministry of Economic Affairs, DLI = disbursement-linked indicator, FD = Financial Department, GOP = Government of Pakistan, IDAP = Infrastructure Development Authority of Punjab, SHC&MED = Specialized Healthcare and Medical Education Department, Government of Punjab.
Sources: ADB and Government of Punjab.