



# Board of Executive Directors

## No-Objection Procedure

Expires on 14 December 2018

PR-4661  
30 November 2018  
Original: Spanish  
**Public**  
**Simultaneous Disclosure**

**To:** The Executive Directors  
**From:** The Secretary  
**Subject:** Peru. Proposal for a loan for the "Project to Enhance Control Services for Effective, Preventive, and Enabling Control for Public Management"

**Basic Information:** Loan type ..... Specific Investment Loan (ESP)  
Borrower ..... Republic of Peru  
Amount ..... up to US\$50,000,000  
Source ..... Ordinary Capital

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**Remarks:** The Executive Directors are requested to inform the Secretary, in writing, no later than **14 December 2018**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Management has determined that this loan proposal meets the requirements for presentation by No-Objection Procedure, in accordance with Part III, Section 2 (paragraph 3.29 (b)) of the Regulations of the Board of Executive Directors and Part III, paragraph 3.5 of document GN-1838-3.

**Reference:** GN-1838-3(6/18), DR-398-18(8/18), GN-2915(2/18), GN-2915-2(8/18)



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**PROJECT TO ENHANCE CONTROL SERVICES FOR EFFECTIVE, PREVENTIVE,  
AND ENABLING CONTROL FOR PUBLIC MANAGEMENT**

**(PE-L1240)**

**LOAN PROPOSAL**

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This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

## CONTENTS

### PROJECT SUMMARY

I.	PROJECT DESCRIPTION AND RESULTS MONITORING .....	1
A.	Background, problem to be addressed, and rationale .....	1
B.	Objectives, components, and cost .....	11
C.	Key results indicators .....	12
II.	FINANCING STRUCTURE AND MAIN RISKS .....	13
A.	Financing instruments .....	13
B.	Environmental and social risks .....	14
C.	Fiduciary risks .....	14
D.	Other risks and key issues.....	14
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	15
A.	Summary of implementation arrangements .....	15
B.	Summary of arrangements for monitoring and evaluating results .....	16

## APPENDIXES

Proposed resolution

ANNEXES	
<b>PRINTED ANNEXES</b>	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

LINKS	
<b>REQUIRED</b>	
1.	<a href="#">Multiyear Execution Plan</a> and <a href="#">Annual Work Plan</a>
2.	<a href="#">Monitoring and Evaluation Plan</a>
3.	<a href="#">Procurement Plan</a>
<b>OPTIONAL</b>	
1.	<a href="#">Project economic analysis</a> and <a href="#">spreadsheet</a>
2.	<a href="#">Draft project Operations Manual</a>
3.	<a href="#">Itemized budget</a>
4.	<a href="#">Project preinvestment study</a>
5.	<a href="#">Government Control Services Matrix for the Office of the Comptroller General (CGR) - Historical breakdown for 2013-2017</a>
6.	<a href="#">Table of government control services and related services delivered by the CGR</a>
7.	<a href="#">Law 30,742 on Strengthening the CGR and the National Control System (NCS)</a>
8.	<a href="#">Law 30,556 approving special provisions on National Government disaster interventions and ordering the creation of the authority for rebuilding with changes</a>
9.	<a href="#">Law 27,785 on the NCS and the CGR</a>
10.	<a href="#">Law 30,737 ensuring immediate payment of civil reparations to the Peruvian State in cases of corruption and related crimes</a>
11.	<a href="#">Summary of progress on IDB projects supporting the Peruvian CGR</a>
12.	<a href="#">Safeguard Policy Filter (SPF) and Safeguard Screening Form for classification of projects (SSF)</a>

## ABBREVIATIONS

BEU	Budget Execution Unit 002: Project Management and Capacity Building of the CGR
CGR	Office of the Comptroller General of Peru
ENC	Escuela Nacional de Control [National Control School]
ICT	Information and communication technology
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
MEF	Ministry of Economy and Finance
NCS	National Control System
OCI	Órgano de Control Institucional [Institutional Control Body]
OECD	Organization for Economic Cooperation and Development
OLACEFS	Organization of Latin American and Caribbean Supreme Audit Institutions
SAI-PMF	Supreme Audit Institutions Performance Measurement Framework
SDG	Sustainable Development Goal
SEPA	Procurement Plan Execution System
SERVIR	National Civil Service Authority of Peru
SOA	<i>Sociedades de Auditoría</i> [audit firms]
WEF	World Economic Forum

## PROJECT SUMMARY

### PERU PROJECT TO ENHANCE CONTROL SERVICES FOR EFFECTIVE, PREVENTIVE, AND ENABLING CONTROL FOR PUBLIC MANAGEMENT (PE-L1240)

Financial Terms and Conditions				
<b>Borrower:</b> Republic of Peru			<b>Flexible Financing Facility<sup>(a)</sup></b>	
			<b>Amortization period:</b>	9 years
<b>Executing agency:</b> Office of the Comptroller General of Peru (CGR)			<b>Disbursement period:</b>	5 years
			<b>Grace period:</b>	6.5 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
<b>IDB (Ordinary Capital)</b>	50,000,000	50	<b>Credit fee:</b>	<sup>(c)</sup>
			<b>Inspection and supervision fee:</b>	<sup>(c)</sup>
<b>Local:</b>	50,000,000	50	<b>Weighted average life:</b>	7.71 years
<b>Total:</b>	100,000,000	100	<b>Currency of approval:</b>	U.S. dollars
Project at a Glance				
<b>Project objective and description:</b> The overall objective of the project is to help improve government control services with a view to enhancing effectiveness and efficiency in the use of State resources. To attain this, the project has the following specific objectives: (i) improve processes for effective and efficient control; (ii) improve human resource capacities for government control; (iii) improve access to information and communication technologies in government control processes; and (iv) enhance operating capacity for the delivery of deconcentrated control services.				
<b>Special contractual conditions precedent to the first loan disbursement.</b> The CGR will provide evidence that: (i) the <a href="#">project Operations Manual</a> has been approved, in the terms previously agreed on with the Bank, by means of a resolution issued by the CGR; and (ii) it has the key personnel for the Budget Execution Unit, in accordance with the profiles agreed on with the Bank (see paragraph 3.5).				
<b>Exceptions to Bank policies:</b> None				
Strategic Alignment				
<b>Challenges<sup>(d)</sup>:</b>	SI	<input type="checkbox"/>	PI	<input type="checkbox"/>
<b>Crosscutting themes<sup>(e)</sup>:</b>	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>
			IC	<input checked="" type="checkbox"/>

<sup>a)</sup> Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account.

<sup>b)</sup> Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided they do not entail any extension of the original weighted average life of the loan or last payment date as documented in the loan contract.

<sup>c)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>d)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>e)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

- 1.1 One of the major challenges in Peru and Latin America and the Caribbean is improving the quality of public resource management by increasing its effectiveness, efficiency, and transparency to enhance the quality and coverage of services and reduce corruption. In 2017, Peru was in the lowest decile in a sample of almost 60 developing countries that are advanced in terms of the efficiency of investment spending, and showed execution levels of under 70%.<sup>1</sup> The inefficiency of bureaucracy in Peru is confirmed by data from the World Economic Forum (WEF) (2017-2018), according to which “inefficient government bureaucracy” is the second largest obstacle to doing business in Peru. The country is ranked 104th in efficient spending out of 137 economies, close to the regional average and far from the average of countries of the Organization for Economic Cooperation and Development (OECD).
- 1.2 The lack of transparency in public spending has a major impact on what the majority of Peruvians consider to be one of the country’s main problems: corruption. In 2017, corruption was viewed by Peruvian citizens as their main problem (National Household Survey (ENAHO) 2017) and was considered the primary obstacle to doing business (WEF Global Competitiveness Index 2017-2018). This same report showed a perception of high levels of irregular payments, bribes, and misappropriation of public funds.<sup>2</sup> Furthermore, according to World Bank governance indicators from 2016, control of corruption was weak.<sup>3</sup> The percentage of Peruvians who said that they had “a lot of” and “some” trust in public institutions falls from 23.9% in 2013 to 18% in 2017 (Latinobarómetro). According to the International Monetary Fund, the “Lava Jato” corruption case, which is related to public works and has affected a large part of the region, was one of the main causes (along with coastal El Niño) of the slowdown in economic growth in Peru in 2017 due to the negative impact it had on public investment and investor confidence.<sup>4</sup>
- 1.3 Government control consists of overseeing, monitoring, and verifying efficiency, effectiveness, transparency, and economy in the use of State resources and goods, as well as adherence to laws.<sup>5</sup> In Peru, it is performed primarily by the Office of the Comptroller General (CGR). The CGR is the highest authority of the National Control System (NCS): the “set of bodies, standards, methods, and procedures for directing and performing decentralized governmental control.”<sup>6</sup> In

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<sup>1</sup> Source: Inter-American Development Bank (IDB) The analysis suggests that it could increase the quality of its infrastructure by 46% with the same level of investment.

<sup>2</sup> Peru was ranked 89th and 118th out of 137 countries in these indicators, respectively.

<sup>3</sup> In 2016, Peru was in the 43rd percentile, while Latin America and the Caribbean was in the 54<sup>th</sup> percentile, and OECD countries were in the 85th.

<sup>4</sup> This is consistent with the literature on this subject. See, for example: Lambsdorff, J. (2003), “How Corruption Affects Productivity,” *Kyklos* 56(4): 457-474; and De Rosa, D., Gooroochurn, N. and Gorg, H. (2010), “Corruption and Productivity,” Working Paper 5348, Washington D.C.: World Bank.

<sup>5</sup> Adapted from Article 6 - [Law 27,785, Law on the National Control System and the Office of the Comptroller General](#).

<sup>6</sup> [Law 27,785](#) and [Law 30,742, Law on Strengthening the Office of the Comptroller General and the National Control System](#).



addition to the CGR, the NCS is made up of Institutional Control Bodies (OCIs), responsible for the governmental control of public and private institutions subject thereto by law,<sup>7</sup> and *Sociedades de Auditoría* [audit firms] (SOAs), selected through an open competition and contracted by the CGR to perform auditing services in the these entities.

- 1.4 The CGR has a constitutional mandate and broad powers and functions to perform government control. Its actions aim to contribute to the fight against employee misconduct and corruption and enhance the quality of public interventions. The CGR “enjoys economic, administrative, and financial autonomy for the effective fulfillment of its functions;”<sup>8</sup> and its highest authority, the Comptroller General, is appointed by the Peruvian Congress, to which he or she reports.<sup>9</sup>
- 1.5 The CGR is responsible for implementing external control and regulating internal control.<sup>10</sup> External control is performed through different control services provided to public entities:
  - a. **Prior control (1% of its control actions in 2017)**, by authorizing additional funds for works that exceed an established budget limit, whatever the source of financing may be, and reporting on operations that in any way involve credit from or the financial capacity of the State (such as public-private partnerships).
  - b. **Simultaneous control (80% of actions)**, through simultaneous action services, preventive visits (public services) and control visits (goods), guidance offered, and oversight.
  - c. **Subsequent control (19% of actions)**, through financial, compliance, management, and performance audit services that report findings and issue recommendations to the audited party. The CGR is required to perform follow-up to ensure compliance with these recommendations.

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<sup>7</sup> Central Government, including the Armed Forces and National Police; regional and local governments; administrative units of the legislative branch, judicial branch, and the Public Prosecutor’s Office; autonomous agencies; agencies that regulate public services and entities that oversee investment commitments originating in privatization contracts; State-owned enterprises and those in which the State holds shares; and private, nongovernmental, and international entities that receive or administer State resources ([Law 27,785](#), Article 3).

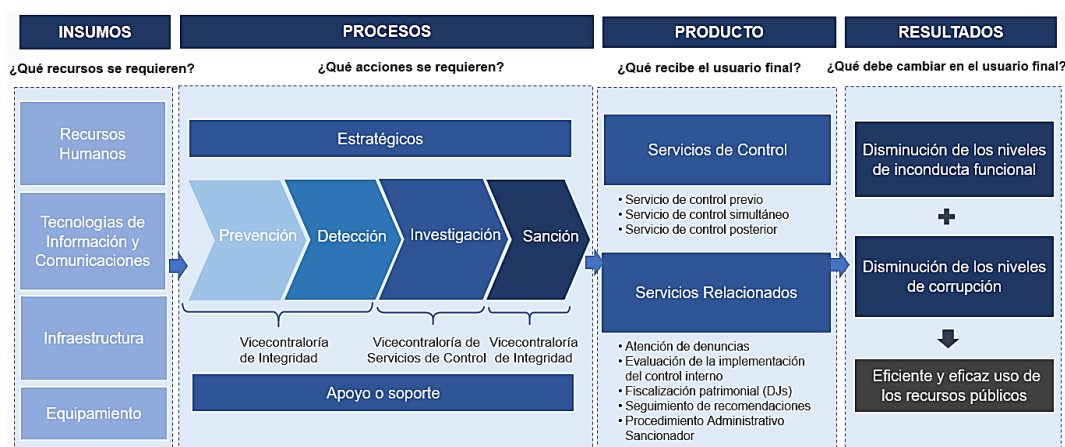
<sup>8</sup> [Law 27,785](#), Art. 34.

<sup>9</sup> The Comptroller General serves a seven-year term ([Law 27,785](#), Article 26). The term of the current comptroller is from 2017 to 2024.

<sup>10</sup> Internal control “entails prior or simultaneous precautionary actions or subsequent verification measures taken by the entity subject to control, to ensure the proper and efficient management of resources, goods, and operations.” External control is “the set of policies, standards, methods, and technical procedures implemented by the CGR, or another body of the NCS assigned or designated by the CGR, with a view to overseeing, monitoring, and verifying the administration, collection, and use of State resources and goods” ([Law 27,785](#), Articles 7 and 8).

- 1.6 The CGR also provides “related” government control services to institutions, civil servants, and citizens. Preventive processes include: (i) the receipt and processing of violation reports; (ii) the assessment of internal control implementation; and (iii) administration of the online system for public works information and citizen engagement, [InfObras](#). Detection processes entail: (i) the receipt and audit of sworn statements of assets; and (ii) audits of accountability reports for authorities. Lastly, for sanctions processes, the Administrative Sanctions Procedure is followed. Control services (investigation processes) and related services make up the value chain of government control in Peru (see Figure 1).<sup>11</sup>

**Figure 1. Government control value chain for the Peruvian CGR**



Source: Tras100d consultants and the CGR.

- 1.7 Over the last decade, the CGR has made headway on strengthening several of its capacities, though challenges remain. With the support of the Inter-American Development Bank (IDB),<sup>12</sup> the CGR has made progress in recent years, which includes: (i) increasing control actions;<sup>13</sup> (ii) building and equipping seven regional offices and the National Control School (ENC); and (iii) improving financial auditing and initiating performance auditing. Despite this, the 2016 CGR performance evaluation carried out using the methodology of the International Organization of Supreme Audit Institutions (INTOSAI) finds that, while the CGR’s performance is consistent with international standards, there is room to expand coverage and enhance the effectiveness of control and the quality of audits and other processes.<sup>14</sup>

<sup>11</sup> See: [Summary table on government control and related services](#).

<sup>12</sup> [Summary of progress on IDB projects to support the Peruvian CGR](#).

<sup>13</sup> The number of control actions rose from 10,876 in 2013 to 14,424 in 2017. Source: CGR See [Historical breakdown for 2013-2017](#).

<sup>14</sup> [Assessment Report based on the Supreme Audit Institutions Performance Measurement Framework \(SAI-PMF\)](#).

- 1.8 Recent reforms have increased demand for simultaneous control services from the CGR, especially those aimed at making public investment more efficient and transparent over a period of time. The law supporting rebuilding with changes after coastal El Niño<sup>15</sup> provides for concurrent control—a new type of simultaneous control—for these works. Concurrent control consists of “assessing one or more tasks or activities in a selected process that is under way using control milestones to alert the director of the entity and competent authorities in a timely manner of adverse situations that are or could be detrimental to the outcome or the achievement of the objectives of the process, so that appropriate corrective actions may be taken.”<sup>16</sup>
- 1.9 In its first few months of implementation, concurrent control has shown greater efficiency in the use of public resources. From September 2017 to January 2018, the CGR reported the identification of 272 adverse situations in 89 concurrent control reports that have been released to the general public. This led to the State saving more than S/ 60 million (almost US\$19 million) in penalties for breaches of contract by contractors and in cost overruns that were detected in a timely manner in control alerts, disclosed in control reports, and corrected by public executing agencies.<sup>17</sup>
- 1.10 These outcomes have led to greater demand for concurrent control services. The law passed in March 2018 to allow for the resumption of works that were stopped due to cases of corruption and related crimes<sup>18</sup> also provides for the use of concurrent control for such works. The recent reform of the national investment system<sup>19</sup>—which aims to streamline the investment cycle—has also spurred demand, in terms of volume and speed, for control services, underscoring the relevance of these services even further.<sup>20</sup>
- 1.11 While concurrent control is similar to what the literature recognizes as internal control (performed by each entity), in Peru, the former is carried out by the CGR under the aforementioned legal mandate. This intervention—in line with work done by comptroller’s offices in China, Germany, and other countries—requires more resources, but it addresses a specific need in the Peruvian context. It is expected to be used intensely over the next six years, after which time greater management capacities will have been generated in public entities and its relevance will diminish. The focus will then shift back to subsequent control services.

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<sup>15</sup> [Law 30,556](#). An investment equivalent to approximately US\$7 billion is estimated.

<sup>16</sup> CGR Resolution 066-2018-CG amending Directive 017-2016-CG/DPROCAL “Simultaneous Control.”

<sup>17</sup> [CGR \(2018\). CGR Semiannual Executive Management Report \(August 2017 - January 2018\)](#).

<sup>18</sup> [Law 30,737](#).

<sup>19</sup> [Legislative Decree 1,252](#) – December 2016.

<sup>20</sup> The CGR’s 2018-2024 Strategic Institutional Plan expands concurrent control services to all public investment projects of more than S/ 100 million (approximately US\$30.6 million).

- 1.12 In terms of related services, the law regulating sworn statements of assets and liabilities for public officials, once in effect, will lead to a nearly tenfold increase in the number of individuals required to submit these statements.<sup>21</sup>
- 1.13 The new law to strengthen the CGR and NCS, unanimously passed by Congress and in effect since 29 March 2018,<sup>22</sup> provides for a radical reform of the NCS. The law expands the direct responsibilities of the CGR even further and requires it to be modernized to fulfill the new mandate. Its provisions include: (i) the gradual incorporation into the CGR of public entities' OCIs;<sup>23</sup> (ii) the absorption of the financial audit function previously performed by SOAs; (iii) the reorganization of the CGR; and (iv) the greater use of information and communication technologies (ICTs) in the provision of control services.
- 1.14 As part of the implementation of this reform, the CGR is moving from a reactive approach to a more preventive one involving advisory services for public entities. Traditionally the CGR had followed a reactive, punitive, sanctions-based approach. The [2018-2024 Strategic Institutional Plan](#) and its guidelines<sup>24</sup> establish an institutional policy of strengthening the focus on prevention and advisory services, by generating evidence, to promote better decision-making in public entities, with an emphasis on simultaneous control. Its objectives include: (i) helping improve management in public entities and reducing employee misconduct and corruption through effective and timely control services; (ii) optimizing mechanisms for prevention, detection, and sanctions to combat employee misconduct and corruption in high-risk processes and operations;<sup>25</sup> (iii) achieving appropriate decentralized control coverage with a multiyear approach to expand coverage at the level of local governments; (iv) responding to violation reports in an effective, timely manner; (v) imposing effective, timely penalties on civil servants; (vi) making strategic use of studies and big data analysis; and (vii) implementing performance audits for political priorities such as the Sustainable Development Goals (SDGs).<sup>26</sup>
- 1.15 Additionally, as established in the law, the CGR is moving toward the decentralization of control services. The Strategic Institutional Plan lays out a scaled mechanism for the implementation and oversight of control services, so that all entities receive at least one visit during the 2019-2021 period, and an additional visit during the 2022-2024 period. Regional OCIs oversee provincial OCIs and are

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<sup>21</sup> The number of people required to submit statements will rise from 60,000 to 600,000 as of the effective date of Law 30,521, the Law amending Law 30,161 regulating the submission of sworn statements of the income, assets, and revenues of public officials and civil servants, with the goal of extending the aforementioned obligation to all public officials, employees in positions of trust, and civil servants to increase the reach of the audits performed by the CGR.

<sup>22</sup> [Law 30,742](#).

<sup>23</sup> In 2017, there were 914 OCIs with varying degrees of coverage: 93% with national coverage; 100% with regional coverage; 72% with provincial coverage; and 9% with district coverage.

<sup>24</sup> CGR Resolution 489-2017-CG.

<sup>25</sup> Focus control actions on investment projects of more than S/ 100 million and the rebuilding plan.

<sup>26</sup> In the Twenty-sixth Ordinary General Assembly (2016) of the Organization of Latin American and Caribbean Supreme Audit Institutions (OLACEFS), member countries discussed the contribution and role of supreme audit institutions in monitoring the implementation of the SDGs; they decided to perform auditing and examination work on the Goals. In 2017, more than 12 Latin American member countries of OLACEFS (including Peru) began a "coordinated audit" exercise on SDG 5: "Gender Equality," to evaluate the readiness of regional governments for its implementation.

- in charge of regional government control. Provincial OCIs oversee district OCIs and are in charge of province- and district-level municipalities. District-level OCIs will be established on the basis of characteristics and risk level. The CGR, acting through mobile OCIs, will be in charge of control in the smallest municipalities. Also, to maximize coverage, it has been determined that citizen oversight will take place through the Programa de Monitores Ciudadanos de Control en la Reconstrucción con Cambios [Citizen Monitors Program for Control in the Rebuilding with Changes Process] (February 2018) for all works with an investment cost of under S/ 2.4 million (approximately US\$750,000).
- 1.16 To successfully implement the new administration model and provide better services to public entities, the CGR has set the goal of strengthening its institutional capacity. This includes its organizational structure and support processes, through optimized processes, updated regulations, optimal human capital management, and appropriate physical and technological infrastructure.
- 1.17 **Problem and causes.** The main problem identified in this project is inadequate government control services for effective, efficient, and transparent public resources management. This problem is caused, in part, by: (i) the ineffective and untimely use of different government control services provided by the CGR; and (ii) insufficient coverage.
- 1.18 **Ineffective and untimely use of government control services.** This, in turn, has three causes:
1. **Low effectiveness of processes for control services.** Mainly: (i) missions to deliver control and related services are inadequate for the new preventive, decentralized management approach; (ii) audit planning, quality control for processes, and ex post quality assurance of deliverables (audit reports with relevant findings or recommendations, case files, and notifications, etc.) fail to meet some aspects of the INTOSAI International Standards of Supreme Audit Institutions (ISSAI). This could, in turn, undermine the relevance of recommendations; (iii) performance audit, financial audit, and compliance audit reports are inconsistent with international standards;<sup>27</sup> and cases opened as a result of these audits through the Administrative Sanctions Procedure often do not reach the minimum quality required to impose timely sanctions; (iv) there is a lack of uniform criteria to draft recommendations, and of parameters for their standardization and classification, which limits their analysis and strategic use, as well as impact measurement;<sup>28</sup> (v) performance audits have room for improvement to bring them in line with international commitments and national priorities related to audits of the SDGs in general, and in particular, SDG 5 on gender equality;<sup>29</sup> (vi) the operational and strategic planning of different control and related services is uncoordinated, which limits the potential strategic use of information that they generate; (vii) concurrent control is an incipient practice that has yet to be exploited; (viii) the new

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<sup>27</sup> Source: 2014 SAI-PMF report.

<sup>28</sup> CGR presentation before the Audit and Comptroller Committee of the Peruvian Congress. September 2017.

<sup>29</sup> The CGR implemented performance audits in 2014, with one being completed that year. Fourteen performance audits were done in 2017.

decentralized control model has not been defined in detail, standardized, or implemented; (ix) the current internal control assessment model is ineffective; (x) the Administrative Sanctions Procedure is built on obsolete regulations and paper-based management of case files and notices, which is more costly and leads to a large number of cases being closed because deadlines for their resolution pass, creating a sense of impunity; and (xi) the management model for sworn statements is obsolete and does not allow for effective oversight.<sup>30</sup>

2. **Inadequate human resources management.** Mainly: (i) classification system is ineffective and salary scales favor discretion; (ii) personnel databases are managed through spread sheets; (iii) the position and profile manual is outdated and lacks a competency-based methodology; (iv) skills are not aligned with the new management model;<sup>31</sup> (v) capacities are inadequate to plan staffing needs, recruitment and selection, change management, and other key human resources management processes under the CGR reform (staff expansion) and the needs of the National Civil Service Authority (SERVIR)<sup>32</sup>; and (vi) the ENC's offering in terms of its curriculum and equipment for the new management model is insufficient.
3. **Obsolete ICTs and outdated ICT management model to respond to CGR requirements.** Business processes do not operate on appropriate ICT solutions: (i) there are 45 control service support applications, but no integrated vision, and virtually no communication among them; (ii) outside access to applications is limited and has long response times due to connectivity problems and design flaws; (iii) in regional offices, OCIs, and the field, work must be done mostly on paper, which leads to deviations from the methodology used in Lima; (iv) applications for concurrent control are not designed to handle future demand: at least 460 megaprojects and 30,000 annual projects; (v) current systems do not support the expected increase in the number of CGR employees resulting from the absorption of the OCIs and the expected personnel expansion; (vi) there is no system for obtaining information in real time from OCIs;<sup>33</sup> (vii) the most critical applications for management of control services are developed on obsolete technologies that are no longer supported and cannot be expanded to meet current requirements; (viii) relevant information is only partially recorded or not recorded at all in applications; instead, hard copies are almost always kept as the valid version; (ix) execution times for control processes are adversely effected by deficiencies in applications and the paper-based management thereof; (x) information stored in a structured manner is split between at least 50 databases without any clear organization or synchronization, which leads to inconsistencies and duplications; (xi) shortcomings in the quality and quantity of structured information hinder its use in business intelligence,

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<sup>30</sup> Of 54,040 sworn statements submitted in 2016, 795 were evaluated and only 34 were audited. A sworn statement system with no auditing could lead to a lack of credibility and a trend of civil servants omitting information.

<sup>31</sup> Of 2,859 permanent civil servants, fewer than 5% are civil engineers, who are key to concurrent control and the control of works performance.

<sup>32</sup> With the reforms, the staff size is expected to nearly triple. SERVIR requirements are contained in Law 30,057 on the Civil Service and its regulatory decrees.

<sup>33</sup> In 2016, there was only oversight for 4% of OCIs.

analytics, or artificial intelligence processes that contribute to prevention, detection, auditing, and control; (xii) there is no clear management model for ICTs and their assets, which means that there are no agreements on the scope of services and the levels at which they are offered; and (xiii) there is no information and data governance model to manage these assets in a structured, timely, useful, and secure fashion.<sup>34</sup>

- 1.19 **Insufficient coverage of government control services.** This limited coverage<sup>35</sup> is due to: (i) centralized applications that are not designed to be used remotely; (ii) the limited building capacity of primary and alternative data centers located in Lima to support the needs of decentralization; (iii) insufficient equipment in data centers to meet the demand expected after the absorption of more than 900 OCIs; (iv) inadequate physical infrastructure of regional offices with a lack of space and modifications<sup>36</sup> to address gender issues<sup>37</sup> and other considerations; (v) the nonexistence of regional data centers to serve as work hubs in the provinces; (vi) the absence of disaster recovery data centers;<sup>38</sup> and (vii) difficult geographic access in rural areas.
- 1.20 **Rationale.** In this context, the Government of Peru has requested the Bank's support for the CGR to help it address the challenges described in this proposal. The intervention strategy will focus on supporting the implementation of the NCS reform, shifting to a more preventive, enabling, and decentralized approach to public management. This seeks to address demand for more and better government control services to enhance efficiency and effectiveness in the use of public resources and to reduce corruption.
- 1.21 The intervention strategy is coordinated with policies and plans prioritized by the Peruvian government, which are aligned with the SDGs and seek to spur economic growth by closing infrastructure gaps and repairing public infrastructure damaged by the coastal El Niño. It is also in line with INTOSAI international audit standards and documented best practices, including those on concurrent control, such as the Appendix to ISSAI 5520 and the lessons learned from the National Audit Office of the People's Republic of China and the Comptroller's Office of Germany in the implementation of real-time audits.<sup>39</sup> These experiences highlight the contribution to: (i) early detection and attention to significant problems in project execution; (ii) improved control regulations; (iii) improved management of project

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<sup>34</sup> While there are digital security policies and applications, they are outdated.

<sup>35</sup> Through existing OCIs, the CGR controls 23% of State-funded public entities (576 entities out of a total of 2,496).

<sup>36</sup> Half of the regional offices are owned by the CGR, and only 25% have been built and equipped based on institutional needs.

<sup>37</sup> Regional headquarters do not systematically include gender-focused amenities, such as lactation rooms for users and employees who are nursing mothers. The use of facilities equipped for nursing by female users and employees in government offices brings about positive effects within the institution. Specifically, for female employees who use these facilities, absenteeism drops by as much as 70% percent and the illness rate among mothers, by 35% (Rona et al., 1995).

<sup>38</sup> The two data centers are located in Lima one kilometer from each other, which makes them simultaneously vulnerable in the event of natural disasters, power outages, Internet outages, or any other kind of physical risk.

<sup>39</sup> Eurosai Innovations Volume III - 2015, "Bundesrechnungshof (SAI Germany) - Real-time audits;" and, International Journal of Government Auditing, INTOSAI – Summer 2015.



execution; and (iv) savings generated from increased efficiency and speed in project execution and greater value for money.<sup>40</sup>

- 1.22 The intervention is consistent with the Lima Commitment: “Democratic Governance against Corruption,” that came out of the 2018 Summit of the Americas, in which Peru and all other signatory states assume a commitment to strengthen supreme audit institutions and to use digital technologies to promote transparency and integrity.<sup>41</sup> It is also aligned with the recognition by the United Nations General Assembly<sup>42</sup> and the OECD<sup>43</sup> of the potential contribution that supreme audit institutions can make to public governance by helping to improve policy-level decision-making and policies with stronger evidence and complementary cost-benefit analyses. Lastly, it is in line with OECD recommendations to reinforce the role of external oversight and control in the public integrity system,<sup>44</sup> strengthen auditing of sworn statements of assets and liabilities, establish a clear separation between internal and external control by redesigning the role and operation of OCIs, and make headway on corruption risk management through control-oriented efforts to effectively prevent, detect, and penalize acts of corruption.<sup>45</sup>
- 1.23 **The Bank’s experience in the country.** The Bank has worked closely with Peru to strengthen the institutional capacity of its public management in recent years. Support has been aimed at strategic areas where the Bank has been able to add value. This support has been embodied in loans on modernization and decentralization of the State (loan 1437/OC-PE); modernization of the national justice system (loan 2534/OC-PE, in execution); reducing the transaction costs for civil registry services and identification (loan 4297/OC-PE); improving services for citizens and enterprises (loan 4399/OC-PE); boosting efficiency in investment management and public procurement (loan 4428/OC-PE); improving the budgetary information service for public sector payrolls (loan 2991/OC-PE); modernization of the public financial administration system (loan 2445/OC-PE); and doing the same for the NCS (loans 1591/OC-PE and 2969/OC-PE, the latter of which is in execution, set to end in early 2019). The Bank has also provided nonreimbursable technical cooperation funding for the institutional strengthening of the CGR as part of this operation (ATN/OC-16884-PE and ATN/AA-16885-PE) and for results-based management (operations ATN/OC-11682-PE and ATN/OC-11202-PE).
- 1.24 **The Bank’s experience in other countries in the region.** The Bank has solid experience supporting the strengthening and modernization of national control

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<sup>40</sup> In China’s case, concurrent audits during the rebuilding phase after the Sichuan earthquake (2008-2011) saved money and recovered losses equivalent to almost US\$2 billion. Source: [INTOSAI](#). Since the general evidence is not sufficiently robust, the project will include three impact evaluations (see paragraph 3.12).

<sup>41</sup> Available [here](#). See in particular Articles 10, 13, and 15.

<sup>42</sup> “The General Assembly (...) *also recognizes* the important role of supreme audit institutions in promoting the efficiency, accountability, effectiveness and transparency of public administration, which is conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals; Resolution A/RES/69/228, 19/12/2014, UN.

<sup>43</sup> “Supreme Audit Institutions and Good Governance: Oversight, Insight and Foresight” (OECD, 2017).

<sup>44</sup> OECD Recommendation of the Council on Public Integrity. “A Strategy against Corruption” (OECD, 2017).

<sup>45</sup> OECD Integrity Review of Peru. Enhancing Public Sector Integrity for Inclusive Growth (OECD, 2017).



systems, such as: in Chile, with the Program for the Modernization of the Office of the Comptroller General of the Republic (loan 391/OC-CH), and Institutional Strengthening of the Comptroller General (operation ATN/FI-13873-CH); in Brazil, with the Program to Modernize the Brazilian State (loan 1628/OC-BR) and the Program to Strengthen Measures to Prevent and Combat Corruption in Brazil's Public Administration (loan 2919/OC-BR); and in Colombia, with the Program for the Institutional Strengthening of the Office of the Comptroller General (loan 3593/OC-CO). The Bank has also done analytical work on this subject.<sup>46</sup>

- 1.25 **Lessons learned.** This project incorporates the lessons learned from the Program for Modernization of the Office of the Comptroller General of the Republic and Deconcentration of the National Control System (loan 1591/OC-PE) concluded in 2013 with a satisfactory general evaluation<sup>47</sup> and Improving the National Control System for Effective Public Management and Integrity (loan 2969/OC-PE), in execution until May 2019 (see paragraph 1.7). The main lessons learned that have been taken into account in the preparation of this project are: (i) continue the execution model with the methodology of the Office of Project Management; (ii) have outside specialized support to handle complex technological procurement and works management; and (iii) have solid leadership and ongoing support from Senior Management. The project also includes lessons learned from the Bank's experience in Peru and other countries with similar projects, which include: (i) ensure that user areas take ownership of the outputs to mitigate resistance to change; (ii) ensure the proper scaling of technological purchases; (iii) have adequate capacity to handle highly complex technical contracts; and (iv) segment complex outputs into smaller and scaled parts. The project also incorporates the recommendation by the Bank's Office of Evaluation and Oversight on the 2012-2016 Country Program Evaluation to strengthen the working niche where the Bank has positioned itself and continue support for the improvement of public management by identifying areas with the biggest gaps and those that are the highest priority, including transparency and accountability.
- 1.26 **Strategic alignment.** This project is consistent with the Update to the Institutional Strategy 2010-2020 (document AB-3008) and strategically aligned with the crosscutting areas of: (i) "institutional capacity and the rule of law" through its support for the "government effectiveness" indicator and effectiveness and efficiency in the performance of government control; and (ii) "gender equality and diversity" through the Results Matrix output indicators on performance auditing for programs to achieve SDG 5 on gender, and on improved regional offices that include lactation rooms. The project will also contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6), through government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery. It is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), which underscores the role of strengthening control institutions and promoting good practices on transparency and open government; and with the Innovation, Science, and Technology Sector

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<sup>46</sup> See, for example, ["Auditoría de desempeño para una mejor gestión pública en América Latina y el Caribe,"](#) ["Rindiendo cuentas: la agenda del BID en Transparencia y Anti-Corrupción,"](#) and ["Open Government and Targeted Transparency: Trends and Challenges for Latin America and the Caribbean."](#)

<sup>47</sup> See [project completion report](#).

Framework Document (document GN-2791-8), which envisages equipping innovation laboratories as a line of action. Lastly, the operation is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2) and is aligned with the strategic objective of “improving public management” from the IDB Country Strategy with Peru 2017-2021 (document GN-2889) and the “strengthening public management” priority of the Government Plan 2016-2021.

## **B. Objectives, components, and cost**

- 1.27 The overall objective of the project is to help improve government control services with a view to enhancing effectiveness and efficiency in the use of State resources. To attain this, the project has the following specific objectives: (i) improve processes for effective and efficient control; (ii) improve human resource capacities for government control; (iii) improve access to ICTs in government control processes; and (iv) enhance operating capacity for the delivery of deconcentrated control services.
- 1.28 **Component 1. Appropriate processes for effective and efficient control (US\$14,341,904).** The objective is to improve management of government control services to prevent employee misconduct and corruption and foster results-based management. Activities: (i) mapping processes and modifying CGR processes;<sup>48</sup> (ii) designing and implementing the Control Laboratory and process innovation; (iii) creating methodologies for audits, process improvement and innovation, and technical assistance for their implementation; (iv) developing and implementing a solutions architecture to support CGR processes; and (v) improving the InfObras system to strengthen social control.
- 1.29 **Component 2. Appropriate human resources capacities for government control (US\$12,927,423).** The objective is to strengthen human resources management in the CGR. Activities: (i) creating human resources management tools; (ii) developing the comprehensive human resources management system; (iii) developing training programs on priority topics, including managerial training and knowledge exchange;<sup>49</sup> (iv) preparing and implementing the change management plan, to include raising awareness among managers of process-based management; (v) developing and implementing the knowledge management system; (vi) making improvements in the ENC’s curricula, program accreditation, and virtualizing courses; (vii) procuring equipment for the ENC; and (viii) developing the training system and disseminating it online, with the possibility of implementing virtual reality courses.
- 1.30 **Component 3. Appropriate access to ICTs in government control processes (US\$30.35 million).** The objective is to upgrade, integrate, and ensure interoperability of ICTs to enable effective management of control processes and establish uniform access to tools across all regional offices. Activities: (i) implementing a new IT management model, including an IT architecture model;

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<sup>48</sup> This will include the application of pilot performance audits, at least two of which will target programs and services related to SDG 5 on gender policies.

<sup>49</sup> This will include training for counterparts from public institutions.

(ii) implementing a new computer solutions architecture;<sup>50</sup> (iii) improving collaborative systems and the intranet to share processes and procedures, and standardize tools; (iv) implementing systems to boost data and information analysis through the use of artificial intelligence, data mining, and business intelligence; (v) expanding database capacity to support the new strategy and large volumes of information; (vi) expanding hardware<sup>51</sup> (vii) implementing an email application to support growth in the number of CGR users; and (viii) drafting terms of reference and quality control standards for complex technological procurement.

- 1.31 **Component 4. Adequate operating capacity to provide deconcentrated control services (US\$36,578,673).** The objective is to reduce the physical infrastructure and equipment gap in regional offices for proper deconcentration of oversight of control tasks. Activities: (i) improving regional control offices;<sup>52</sup> (ii) improving data centers;<sup>53</sup> (iii) preparing environmental management plans; and (iv) procuring equipment for decentralization.<sup>54</sup>
- 1.32 Identified monitoring, evaluation, and auditing costs will be US\$2,225,000, and project management costs will be US\$3,577,000.
- 1.33 **Beneficiaries.** The main beneficiaries of the project will be Peru's inhabitants and taxpayers, who will benefit from savings in cost overruns and those generated by improved government control over the use of State resources. In terms of institutions, the main beneficiaries will be public sector entities, who will receive better control services, and the CGR (at the national and subnational level), whose management capacities will be enhanced.

## C. Key results indicators

- 1.34 **Impact and outcomes.** The impact of the operation will be greater effectiveness and efficiency in the use of public resources, measured through State savings from concurrent government control in public works and an improved corruption control index. The expected outcomes are increases in: (i) the percentage of violation reports filed with the CGR that get resolved; (ii) the number of sworn statements filed with the CGR that get audited; (iii) the percentage of reported government employees that get penalized through first-level proceedings; (iv) the percentage of

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<sup>50</sup> Including: a new CGR portal that can handle mass online processing and online use of applications, internal and external crosscutting interoperability of operation and records systems, identity and user management with a single account (digital security), creation and execution of Business Process Management and the capacity to monitor solutions at the logical and business level.

<sup>51</sup> Including computer infrastructure (servers and storage) and communications infrastructure for three data centers, software to virtualize computer infrastructure, and all base software for the new infrastructure.

<sup>52</sup> By purchasing lands, and building and adapting physical infrastructure in a deconcentrated manner in regional offices, where lactation rooms will also be built or set up and equipped. These rooms will meet conditions required for their proper use, which includes having items like chairs, room dividers, refrigerated containers, etc., and protocols for use. At least 11 regional offices are expected to be funded for actions including construction, replacement, and remodeling. Prioritization criteria for regional offices will be: (i) greater budget execution; (ii) higher demand for government control services; and (iii) larger infrastructure gaps. The following regional offices have been identified as potential beneficiaries: Arequipa, Chiclayo, Ancash, Lima Provinces, Puno, Piura, Abancay, Huancayo, Huánuco, Trujillo, Cerro de Pasco, Cusco, Iquitos, Chachapoyas, Moquegua and Tumbes. This includes lands, works, oversight, and furniture.

<sup>53</sup> For the main headquarters, ENC, and disaster recovery.

<sup>54</sup> Servers.

CGR personnel specialized in implementing concurrent control in public works; and (v) the percentage of government control system features with decentralized access. For coverage, an increase is expected in the percentage of executed funds from the budget that are audited by the NCS.

- 1.35 **Economic analysis.** An [economic analysis](#) consisting of a cost-benefit analysis was performed for the project. The main quantifiable benefits of improvements in the quality and coverage of control services come from: (i) reduced infrastructure cost overruns;<sup>55</sup> (ii) lower audit costs due to improved technology and personnel productivity; (iii) benefits associated with an increased capacity to penalize criminal and civil offenses; and (iv) an enhanced administrative sanctions procedure. The evaluation concludes that, even without considering all possible sources of benefits and applying a conservative benefit rate, the project's benefits rise above its costs: its net present value in the base case scenario is approximately US\$13.9 million and the internal rate of return is 46%. All assumptions were built as conservatively as possible with benefits beginning as of year two. Several sensitivity analyses were conducted by taking assumptions to substantially lower values (for example, by reducing savings on infrastructure works or pushing back savings due to delays in implementing the improvements to control services supported by the project), and in all of them, the internal rate of return was above 17%.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 This specific investment project will have a total cost of US\$100 million and will be financed with an investment loan of US\$50 million (50%) from the Bank's Ordinary Capital and a local contribution of approximately US\$50 million (50%) (see Table 1 and the [itemized budget](#)). The disbursement period will be five years (see Table 2).

**Table 1. Estimated Project Cost (US\$)**

Component	IDB	Local	Total
Component 1. Appropriate processes for effective and efficient control	7,170,952	7,170,952	14,341,904
Component 2. Appropriate human resources capacities for government control	6,463,712	6,463,711	12,927,423
Component 3. Appropriate access to ICTs in government control processes	16,963,500	13,386,500	30,350,000
Component 4. Adequate operating capacity to provide deconcentrated control services	18,289,336	18,289,337	36,578,673
Monitoring, evaluation, and auditing	1,112,500	1,112,500	2,225,000
Management	-	3,577,000	3,577,000
<b>Estimated total</b>	<b>50,000,000</b>	<b>50,000,000</b>	<b>100,000,000</b>

<sup>55</sup> In the case of public-private partnerships, Guasch et al. (2014) find that the cost increase due to renegotiations in transportation projects in Peru from 1990 to 2013 was 13.4%. The analysis assumes less than 50% of these savings in a lower percentage of megaprojects and works for the rebuilding with changes program.

**Table 2. Projected Annual Flow of Disbursements of IDB Proceeds (US\$)**

Year 1	Year 2	Year 3	Year 4	Year 5	Total
7,069,583	13,851,188	12,421,949	7,879,331	8,777,949	50,000,000
14%	28%	25%	16%	17%	100%

## **B. Environmental and social risks**

- 2.2 In accordance with the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this is a category “C” operation, since the expected socioenvironmental impacts and risks of the works to be financed are minimal in scale, complexity, and intensity. The disaster risk classification is low. To mitigate the socioenvironmental risks associated with the construction activities considered in Component 4, the [project Operations Manual](#) will lay out: (i) the basic criteria for the selection (macro and micro location) of the planned new regional headquarters; and (ii) minimum requirements for environmental and social management plans. The plans will be finalized and receive the Bank’s no objection before the start of execution of the works.

## **C. Fiduciary risks**

- 2.3 During the design of this operation, the team identified a medium fiduciary risk of greater costs and time for project implementation, since a new execution unit will be responsible for fiduciary management with Bank policies. To mitigate this “medium-level” risk, the following actions were identified: (i) hiring key personnel that has experience with projects financed by multilateral organizations and Invierte.pe regulations; (ii) identifying fiduciary process flows in the project Operations Manual with responsible parties and roles; (iii) providing fiduciary assistance/support to the budget execution unit (BEU)<sup>56</sup>; and (iv) contracting consulting firms to draft highly complex bid specifications.

## **D. Other risks and key issues**

- 2.4 **Public management and governance risks.** The following risks and mitigation measures have been identified. As high risks: (i) resistance to change among CGR staff relating to new IT processes and solutions for managing and delivering the various government control services. Mitigation measures will be training civil servants in and raising their awareness of change management as part of the activities to be financed under Components 1 and 2 of this proposal, and ensuring that user areas take ownership of activities; and (ii) possible inefficiencies in implementing the new concurrent control approach, since it was introduced recently and there is demand for it to be expanded quickly. Mitigation measures will be developing training courses, manuals, and applications to simplify concurrent control work and creating up-to-date job profiles for new staff. Lastly, the lack of counterpart resources in a context of fiscal austerity has been identified as a medium risk. Mitigation measures will be: (i) involving key actors like the Ministry of Economy and Finance (MEF) and the Congressional Budget Committee in project execution; and (ii) generating evidence on the reform’s added value.

<sup>56</sup> Created by CGR Resolution 030-2018-CG of 23 January 2018.

- 2.5 **Sustainability.** The project was designed to have a high degree of integration into and ownership by the CGR, which will contribute to its sustainability. Components 1 to 3 envisage activities to improve management for all strategic and support processes in the government control value chain, which include redesigning processes, technology upgrades for control services and other related services that are part of the CGR's legal mandate. The low turnover rate for CGR employees, combined with a significant increase in permanent staff through competitive selection processes, will increase the sustainability of training activities. The CGR also has a multiyear budget that covers the maintenance costs of technology investments over 10 years running from the end of the five-year project period. This ensures medium-term sustainability (see the [project preinvestment study](#)). Lastly, Component 4 includes infrastructure investments that the CGR will maintain with its own resources once the project is completed.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Execution arrangement.** The project will be executed by the CGR, acting through the BEU. The CGR has experience implementing loans and technical cooperation programs financed by the Bank.
- 3.2 The BEU, which has administrative and financial autonomy, will be responsible for execution, financial and procurement management, and general project management and coordination, in addition to acting as the Bank's interlocutor. It will have an executive director of the project, who will be responsible for coordinating technical matters, such as planning, execution, monitoring, and evaluation. Its key personnel will consist of the project's executive director, an accounting-financial specialist, and a procurement specialist.
- 3.3 **Interagency coordination mechanisms.** The incorporation of OCIs into the CGR and the implementation of the new management model with preventive and enabling approach to public management will bring the CGR closer to the audited public institutions, which will improve coordination of control services at all three levels of government. Coordination with the MEF will also continue, in order to make public investment more efficient and effective through the provision of timely information for decision-making, using concurrent audits in particular. Regarding external interoperability, coordination will take place with the Office of the President of the Council of Ministers' Secretariat for Digital Government, which leads the State Interoperability Platform.
- 3.4 The details of the strategic orientation, implementation, including coordination, flowcharts for fiduciary processes, and a detailed description of responsibilities for all institutions involved in project execution, will be described in the [project Operations Manual](#).
- 3.5 **Special contractual conditions precedent to the first loan disbursement.** In order to strengthen the operating capacity needed to move forward with the timely implementation of project activities, **the CGR will provide evidence that: (i) the [project Operations Manual](#) has been approved, in the terms previously agreed on with the Bank, by means of a resolution issued by the CGR; and**

**(ii) it has the key personnel for the BEU, in accordance with the profiles agreed on with the Bank.**

- 3.6 **Fiduciary agreements and requirements.** The fiduciary agreements and requirements establish the framework applicable to project execution for financial management and planning, as well as procurement supervision and execution. The loan proceeds may be disbursed through the advance of funds, expense reimbursement, and direct provider payment modalities. In the case of the advance of funds modality, disbursements will be made on the basis of spending projections of up to 180 days. At least 80% of the cumulative total of disbursements pending justification will be justified in subsequent requests, using the Bank's formats. The BEU will submit audited financial statements annually and at the end of the operation, in accordance with the terms and deadlines required by the Bank's policies. To this end, the BEU agrees to select and contract an independent audit firm acceptable to the Bank for the duration of the operation.
- 3.7 The [procurement plan](#) will be managed through the online Procurement Plan Execution System (SEPA) or the system determined by the Bank. Procurement for the operation will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9), or subsequent updates thereof. Nonetheless, considering that both the partial and advanced use of the Peruvian national procurement system have been approved by the IDB Board (documents GN-2538-11 and GN-2538-22, from 2013 and 2017, respectively), this system may be used once the implementation and monitoring actions included in the approved Report for Acceptance of Use of the Country Procurement System in Peru have been adopted and the procurement plan has been amended. The subsystems for electronic reverse auctions and electronic price lists under framework agreements may be used upon fulfillment of the implementation phase for the recommendations prior to their use.
- 3.8 The procurement of land will comply with the eligibility criteria and requirements established in applicable Bank policies (Modernization of Policies and Practices that Restrict the Use of Resources in Investment Loans (document GN-2331-5) and the Guidelines for the Eligibility of Expenditures in Investment Loans (document CC-6004-2)), namely: (i) they are part of the project; (ii) they are necessary to attain the development objectives thereof; (iii) use of the land is productive in the context of the particular project; and (iv) it is possible to establish the values of the input at reasonable market prices satisfactory to the Bank.

## **B. Summary of arrangements for monitoring and evaluating results**

- 3.9 As part of its work, the BEU will: (i) monitor and evaluate the project; (ii) track project management; (iii) implement outputs; and (iv) report on progress towards expected outcomes using the following documents: (i) the Results Matrix; (ii) the [multiyear execution plan](#), [annual work plan](#) and [procurement plan](#); (iii) progress monitoring report and expanded progress monitoring report; (iv) semiannual progress reports; (v) audited financial statements; and (vi) the project completion report. To this end, the BEU will receive support from a monitoring and evaluation specialist. The Bank, for its part, will conduct on-the-ground technical and fiduciary supervision.



- 3.10 Two evaluations will be performed: one midterm and one final, under the terms of reference agreed on with the Bank. The midterm evaluation will be conducted once at least 50% of the loan proceeds have been disbursed, or two-and-a-half years have elapsed following the effective date of the loan contract (whichever occurs first). The final evaluation will be performed once 95% of the total proceeds have been disbursed. These reports will include: (i) the results of physical and financial execution; (ii) the degree of fulfillment of the targets in the Results Matrix, including a summary of the outcomes against the baseline prepared during the first year of project execution; (iii) a summary of the outcomes of audits and the implementation of improvement plans; (iv) an analysis of the sustainability of project investments, especially at the level of their cost and human capital management; and (v) a summary of the main lessons learned. Midterm evaluations in particular will take into account any recommendations that help attain an appropriate level of execution in the event of difficulties. The final report will include an economic evaluation of the project using a methodology consistent with the ex ante evaluation conducted as part of the operation's design. This has been covered in detail in the [project economic analysis](#) and [spreadsheet](#) and included in the [monitoring and evaluation plan](#).
- 3.11 The project also considers an impact evaluation (using the random method) to identify the causal effect of the project's interventions, which would be focused primarily on human capital, new technologies, and citizen monitoring. For more details, see the [monitoring and evaluation plan](#).



Development Effectiveness Matrix		
Summary		
<b>I. Corporate and Country Priorities</b>		
<b>1. IDB Development Objectives</b>	Yes	
Development Challenges & Cross-cutting Themes	-Gender Equality and Diversity -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
<b>2. Country Development Objectives</b>	Yes	
Country Strategy Results Matrix	GN-2889	Improve public management
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
<b>II. Development Outcomes - Evaluability</b>	Evaluable	
<b>3. Evidence-based Assessment &amp; Solution</b>	8.2	
3.1 Program Diagnosis	2.4	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	1.8	
<b>4. Ex ante Economic Analysis</b>	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
<b>5. Monitoring and Evaluation</b>	10.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	7.5	
<b>III. Risks &amp; Mitigation Monitoring Matrix</b>		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
<b>IV. IDB's Role - Additionality</b>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control.  Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Strategic Planning National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	PE-T1398. Institutional Strengthening of the General Comptroller's Office (US\$300,000). Approved on April 18, 2018.

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The overall objective of this program is to contribute to the improvement of governmental control services in order to improve efficiency and efficacy in the use of public resources of Peru's state. The specific objectives are: (i) to enhance the efficiency and efficacy on the control process of the Peruvian Republic Controllorship, (CGR, for its acronym in Spanish); (ii) improve its human resources capacities on control; (iii) improve its information and communication technology (ICT) access on control process; (iv) improve its operational capacity for deconcentrated control services. The main problem relates to inadequate governmental control services that limit an effective, efficient and transparent management of public resources, resulting from (i) ineffective and untimely control's services; (ii) insufficiency in the service's coverage provided by CGR. The POD clearly identifies the potential beneficiaries of the project.

The project's vertical logic is clear and well specified. The link between interventions and problems has been adequately established. The project presents adequate evidence and proposes strategies to generate new evidence where there are limitations on the external and internal validity of the proposed solutions.

The Result Matrix is adequately built and incorporates the required elements for monitoring the project.

The POD documentation includes an Economic Analysis where the economic benefits have been quantified, and the costs reflect the project's investments and product maintenance. The estimated Net Present Value (NPV) is US\$13.9 millions and the Internal Rate of Return (IRR) is 46 percent. The analysis presents valid assumptions and a sensitivity analysis that has been performed undertaking variations in the main assumptions.

The program includes an adequate monitoring and evaluation plan. It also includes three experimental impact evaluation designs that seek to estimate the impact of the critical reforms on the project, particularly, changes on human resources internal control; use of technology for control and, finally new low-cost control mechanisms. The evidence in this field is limited, and there are not any other similar experimental impact evaluation designed for an analog reform in Latin America.

The POD documentation includes a risk matrix. Mitigation measures were identified with adequate monitoring indicators.

## RESULTS MATRIX

<b>Project objective:</b>	The overall objective of the project is to help improve government control services with a view to enhancing effectiveness and efficiency in the use of State resources. The specific objectives are to: (i) improve processes for effective and efficient control; (ii) improve human resource capacities for government control; (iii) improve access to ICTs in government control processes; and (iv) enhance operating capacity for the delivery of deconcentrated control services.
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### EXPECTED IMPACT

Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
<b>IMPACT: Effective and efficient use of public resources through improved government control services</b>											
State savings from concurrent government control in public works <sup>1</sup>	Millions of soles	60 <sup>2</sup>	2017	60	135.7	211.4	246.7	282.0	282.0	Report from the Office of the Deputy Comptroller for Government Control Services	<a href="#">See monitoring and evaluation plan</a>
Corruption Control Index <sup>3</sup>	Percentile	43	2016	43	43	45	50	55	55	Worldwide Governance Indicators, World Bank	

<sup>1</sup> Savings are used as an impact indicator to measure effectiveness, due to the opportunity presented by concurrent control to identify irregularities that could lead to sanctions and/or cost overruns before this takes place; and efficiency, as a result of the savings generated by the coverage of audits, in terms of the percentage of the budget that is audited and of violation reports that get addressed. The Corruption Control Index is used as an impact indicator to measure effectiveness in corruption control resulting from the improved Administrative Sanctions Procedure.

<sup>2</sup> This corresponds to information reported by the CGR through January 2018 resulting from concurrent control in preventive works and rebuilding projects. In 2017 and early 2018, concurrent control still was not performed on megaprojects.

<sup>3</sup> [Detailed description of the methodology. Data](#) Source: Government Audit System Breakdown: National government: 71.2%; regional governments: 15.1%; local governments: 12.8%. Estimates for the final target: National government: 100%; regional governments: 100%; local governments: 75%.

#### EXPECTED OUTCOMES

EXPECTED OUTCOMES											
Indicators	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target	Means of verification	Comments
Outcome 1: Improved processes for effective and efficient control											
1.1. Percentage of violation reports filed with the CGR that get resolved	[Resolved reports]/[reports filed with the CGR]	36	2017	40	70	75	85	90	90	Report from the Prevention Office	<a href="#">See monitoring and evaluation plan</a>
1.2. Number of sworn statements filed with the CGR that get audited	Number	34	2016	34	120	180	240	320	860	Report from the Detection Office	
1.3. Percentage of reported government employees that get penalized through first-level proceedings	[Employees penalized]/[Employees reported]	10.4	2015-2017	10.4	15	25	35	40	40	Report from the Office of Responsibilities and Superior Court of Administrative Responsibilities	
Outcome 2: Improved HR capacities for control											
2.1. Percentage of CGR personnel specialized in implementing concurrent control in public works	[Specialized CGR personnel/Total CGR professional personnel]	16.4	2018	16.4	20	25	30	40	40	Report from the Office of Human Capital	<a href="#">See monitoring and evaluation plan</a>
Outcome 3: Improved access to ICTs											
3.1. Percentage of government control systems with decentralized access.	%	15	2018	15	30	60	80	100	100	Report from the Office of Information Technologies	<a href="#">See monitoring and evaluation plan</a>
Outcome 4: Expanded offering (coverage) of control services											
4.1. Percentage of executed funds from the budget that are audited by the NCS.	%	53.61 <sup>4</sup>	2016	55	60	70	80	92	92	Report from the Project Office	<a href="#">See monitoring and evaluation plan</a>

<sup>4</sup> Source: Government Audit System Breakdown: National government: 71.2%; regional governments: 15.1%; local governments: 12.8%; Estimates for the final target: National government: 100%; regional governments: 100%; local governments; 75%.

OUTPUT MATRIX

Outputs <sup>5</sup>	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target <sup>6</sup>	Means of verification <sup>7</sup>	Comments
<b>Component 1. Appropriate processes for effective and efficient control</b>											
Approved reports on mapping and proposal for redesign and implementation, as well as for deployment and monitoring of mission-related processes	Reports	0	2018	1	1	1	1	1	5	Annual technical reports approved by the CGR	<a href="#">See monitoring and evaluation plan</a>
Approved reports on design and implementation of the Government Control Laboratory and innovation activities in processes	Reports	0	2018	1	1	1	1	1	5		
Approved reports on the creation of methodologies for audits and process improvement and innovation, along with technical assistance for their implementation.	Reports	0	2018	1	1	1	1	1	5		
Approved reports on development and implementation of a solutions architecture to support mission-related processes <sup>8</sup>	Reports	0	2018	1	1	1	1	1	5		
Approved reports on improvements to the InfObras system to strengthen social control	Reports	0	2018	1	0	1	0	1	3	Technical reports approved by the CGR	<a href="#">See monitoring and evaluation plan</a>

<sup>5</sup> For detailed cost information disaggregated by output, see the [itemized budget](#).

<sup>6</sup> The final target only considers what is achieved with program resources (the baseline is not included).

<sup>7</sup> All means of verification will be provided by the Project Office, which is responsible for the PEU.

<sup>8</sup> These solutions include an integrated control services system with subsystems for: violation reports, prior control, simultaneous control, subsequent control, recommendation and findings management, decentralized management, planning, sanctions procedures, and legal representation. It will also include the development and implementation of systems for: SOA ratings, digital case files with integrated electronic signatures and notices, document management, managerial information with a complete dashboard, and sworn statements.

Outputs <sup>5</sup>	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target <sup>6</sup>	Means of verification <sup>7</sup>	Comments
Published reports for performance audits on regulations and manuals, and pilot development	Reports	0	2018	0	2	2	2	2	8	Audit reports published on the CGR portal	At least two (2) of these will be audits on programs and services that contribute to SDG 5 on gender
<b>Component 2. Appropriate human resources capacities for government control</b>											
Approved reports on improved human resources management tools	Reports	0	2018	1	1	1	1	1	5	Annual technical reports approved by the CGR	<a href="#">See monitoring and evaluation plan</a>
Integrated human resources management system installed	Software	0	2018	0	0	1	0	0	1	Report verifying software installation by the CGR and its use	
Approved report on development and implementation of training programs on priority topics, including managerial training and knowledge exchange <sup>9</sup>	Reports	0	2018	1	1	1	1	1	5	Annual technical reports approved by the CGR	
Approved report on drafting and implementation of the change management plan	Report	0	2018	1	1	1	1	1	5	Annual technical reports approved by the CGR	<a href="#">See monitoring and evaluation plan</a>
Knowledge management system installed	Software	0	2018	0	0	0	0	1	1	Reports verifying software installation by the CGR and its use	
Approved reports on curricular improvements in the ENC, program accreditation, and virtualization	Reports	0	2018	1	1	1	1	1	5	Annual technical reports approved by the CGR	
Approved report on ENC equipment	Report	0	2018	1	0	0	0	0	1	Technical reports approved by the CGR	

<sup>9</sup> This will include programs on concurrent control techniques and other government control services, internships on good practices for government control, strengthened middle and high-level management capacities (including human talent management), and process-based management.

Outputs <sup>5</sup>	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target <sup>6</sup>	Means of verification <sup>7</sup>	Comments
Online training and dissemination system installed	Software	0	2018	0	0	0	0	1	1	Reports verifying software installation by the CGR and its use	
Component 3. Appropriate access to ICTs in government control processes											
Approved report on implementation of the new IT management model, including IT architecture	Report	0	2018	0	1	0	0	0	1	Technical reports approved by the CGR	<a href="#">See monitoring and evaluation plan</a>
Approved reports on implementation of the new computer solutions architecture <sup>10</sup>	Report	0	2018	1	1	1	1	1	5		
Approved reports on improved collaborative systems and the intranet	Report	0	2018	1	1	1	1	1	5		
Approved reports on implementation of systems to boost data and information analysis through artificial intelligence, data mining, and business intelligence.	Report	0	2018	1	1	1	1	1	5	Annual technical reports approved by the CGR	<a href="#">See monitoring and evaluation plan</a>
Approved reports on the expansion of database capacity to support the new strategy and large volumes of information	Report	0	2018	1	1	1	1	1	5		
Approved report on the expansion of hardware <sup>11</sup>	Report	0	2018	1	1	1	1	1	5		

<sup>10</sup> These solutions include logic and business monitoring, interoperability, identity and single user account management, business process management and the CGR portal.

<sup>11</sup> Including computer infrastructure (servers and storage) and communications infrastructure for three data centers, software for virtualization of the computer infrastructure, and all basic software for the new infrastructure.

Outputs <sup>5</sup>	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	Final target <sup>6</sup>	Means of verification <sup>7</sup>	Comments
Approved report on specialized technical support to prepare terms of reference and quality control standards for complex technological procurement	Reports	0	2018	1	1	1	1	1	5		
Email application developed and implemented	Software	0	2018	1	1	1	1	1	5	Reports verifying software installation by the CGR and its use	
Component 4. Adequate operating capacity to provide deconcentrated control services											
Appropriate infrastructure in regional control offices	Offices	7	2018	0	2	3	3	3	18	Report on delivery of CGR works	<a href="#">See monitoring and evaluation plan</a>
Data centers for the main headquarters, ENC, and disaster recovery improved	Centers	0	2018	0	2	0	0	1	3		
Environmental Management Plans approved	Documents	0	2018	1	0	0	0	0	1	CGR validation report	
Equipment for decentralization acquired	Equipment	0	2018	0	1	0	0	0	1	Record of equipment receipt	

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country</b>	Republic of Peru
<b>Project number:</b>	PE-L1240
<b>Name:</b>	Project to Enhance Control Services for Effective, Preventive, and Enabling Control for Public Management
<b>Executing agency:</b>	Office of the Comptroller General of Peru (CGR)
<b>Prepared by:</b>	Allizon Milicich Nieto-Polo, Andrés Suarez, and Gabriele del Monte (FMP/CPE)

### **I. THE COUNTRY'S FIDUCIARY CONTEXT**

- 1.1 The country has appropriate and reliable financial administration systems. The national procurement system currently uses the subsystems for electronic reverse auctions and electronic price lists under framework agreements of Peru's public procurement system as approved in document GN-2538-11.

### **II. THE FIDUCIARY CONTEXT OF THE EXECUTION UNIT AND THE ADMINISTRATIVE EXECUTING AGENCY FOR PROJECT BENEFICIARIES**

- 2.1 The executing agency will be the CGR, acting through Budget Execution Unit 002: Project Management and Capacity Building of the CGR (BEU), which will coordinate with the other units of the executing agency.
- 2.2 The institutional framework for the operation envisages a Management Committee in charge of the project strategy, and BEU, in charge of execution, financial and procurement management, and general project supervision and coordination, in addition to acting as the Bank's interlocutor. BEU will have an executive office responsible for the coordination of technical issues and planning, execution, monitoring, and evaluation of the project. Personnel responsible for fiduciary activities will work full-time in BEU on this operation. The key fiduciary personnel will be the budget and accounting specialist and procurement specialist.
- 2.3 BEU will use the Sistema Electrónico de Adquisiciones y Contrataciones del Estado [Electronic State Procurement and Contracting System] (SEACE) and SEPA complementarily to record the procurement plan for dissemination of procurement processes.
- 2.4 BEU will use the Integrated Financial Management System (SIAF) as the financial management operating system, as well as the SIAF project execution module to generate financial reports.



### III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 During the design phase of this operation, the team identified the fiduciary risk of greater costs and time for project implementation, since a new execution unit will be responsible for fiduciary management with Bank policies. To mitigate this “medium-level” risk, the following mitigation actions were identified: (i) hiring key personnel with experience in projects financed by multilateral organizations and Invierte.pe regulations; (ii) identifying fiduciary process flows in the project Operations Manual with responsible parties and roles; (iii) providing fiduciary assistance/support to BEU; and (iv) contracting consulting firms to draft highly complex bid specifications.

### IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS

- 4.1 BEU will submit audited financial statements annually and at the end of the project, with specific terms of reference acceptable to the Bank, within 120 days following the close of each fiscal year of the CGR throughout the original disbursement period or any extension thereof. The final audit report will be submitted within 120 days following the end of the original disbursement period or any extensions thereof.
- 4.2 The equivalence of the disbursement currency or approval currency of an eligible expense incurred in the borrower's local currency will be determined for accounting and expense justification purposes by using the exchange rate in effect on the date on which the approval currency or disbursement currency is converted to the borrower's local currency (section 4.10(b)(i) of the General Conditions of the loan contract). The agreed exchange rate to be used for determining the equivalence of expenses incurred in local currency and drawn from the local contribution or of expense reimbursements drawn from the loan proceeds will be the exchange rate in effect on the date on which the borrower, the executing agency, or any other legal entity or individual that has been delegated the authority to incur expenses makes the respective payments to the contractor, provider, or beneficiary.

### V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 **Procurement execution.** Procurement will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB, of March 2011 (document GN-2349-9), and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). The threshold determining the use of international competitive bidding will be made available to the borrower, through the executing agency, at [www.iadb.org/procurement](http://www.iadb.org/procurement). Below this threshold, the selection method will be determined on the basis of the complexity and characteristics of the procurement or contract, and this will be reflected in the procurement plan approved by the Bank.

- 5.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> arising under the operation will be executed using the Bank's standard bidding documents. Tenders subject to national competitive bidding will be executed using the country bidding documents agreed upon with the Bank (or satisfactory to the Bank if not yet agreed on). The project team leader will be responsible for reviewing technical specifications.
- 5.3 **Selection and contracting of consultants.** Consulting service contracts arising under the operations will be executed using the standard request for proposals issued by or agreed upon with the Bank (or satisfactory to the Bank if not yet agreed upon), regardless of the contract amount. The Bank will be responsible for reviewing the terms of reference.
- 5.4 **Ex ante procurement review.** The Bank will review the selection, contracting, and procurement processes as set forth in the procurement plan. At any time throughout project execution, the Bank may modify the review modality for those processes, by providing advance notice thereof to the borrower or executing agency. Any changes approved by the Bank will be reflected in the procurement plan.
- 5.5 **Use of the national procurement system.** In view of the Board approval of the advanced use of the Peruvian national government procurement system, the foregoing system may be used once the implementation and monitoring actions included in the approved Report for Acceptance of Use of the Country Procurement System in Peru have been adopted and the procurement plans have been amended. The subsystems for electronic reverse auctions and electronic price lists under framework agreements may be used upon fulfillment of the implementation phase for the recommendations prior to their use.
- 5.6 **Initial procurement plan.** See the itemized [procurement plan](#) for the first 18 months. The executing agency will publish the procurement plan in SEPA and will update it at least every six months or as required by the Bank to reflect the actual program execution needs and the progress achieved.
- 5.7 **Procurement supervision.** The Bank's ex post evaluations will cover a sample of contracts based on technical and professional criteria and will be performed by consultants or external auditors. Once the use of the country procurement system has been implemented, the arrangement may be updated on the basis of the fiduciary risks.<sup>2</sup>
- 5.8 **Records and files.** Files will be kept in the offices of the executing agency under conditions that ensure the integrity and security of the documents.

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<sup>1</sup> Under the Bank's procurement policies, nonconsulting services are treated as goods (document GN-2349-9).

<sup>2</sup> Once the reverse auction and framework agreement subsystems have been implemented as part of the strategy for use of Peru's country system, executed procurement processes will be systematically monitored and supervised by tracking and verifying the stability of the country system.

## VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 6.1 **Programming and budget.** Expenses related to project activities will be viable in the context of MEF regulations. The Sistema Nacional de Programación Multianual y Gestión de Inversiones [National Multiyear Programming and Investment Management System] (Invierte.pe) will be adopted to streamline the approval of investment projects and make their implementation more flexible at all three levels of government. Preparation of the annual programming and the budget will be based on the provisions of the MEF Public Budget Bureau. The multiyear execution plan will be prepared and will serve as the basis for the annual budget. The budget allocated to the projects will be approved by the MEF and the Peruvian Congress and reported annually to the Bank. The budget will be executed under the SIAF.
- 6.2 **Accounting and information systems.** The project will use the SIAF's project execution module for accounting and the issuance of reports, including disbursement requests, exchange rate control, and other reports required by the Bank. This will offer transparency and specific controls on budget execution. Accounts will be prepared on a cash basis and will follow international accounting standards and the directives issued by the National Public Accounting Office.
- 6.3 **Disbursement and cash flow.** The project will use the country's treasury system, following the directives of the National Debt and Treasury Office. Expenditures are subject to the budget and financial execution process, and data on their formalization under the rules applicable to each of the stages (commitment, liquidation, authorization, and payment) will be reported in the SIAF's project execution module. BEU will have two specific bank accounts in U.S. dollars and two others in soles (monetization) to manage the loan proceeds. The MEF has expressed interest in promoting the use of the Single Treasury Account (CUT) for loan operations, which could be implemented in the short term.
- 6.4 Disbursements will be based on the project's actual liquidity needs. BEU will submit disbursement requests to the Bank, along with a disbursement timeline for the next 180 days. At least 80% of the cumulative total of disbursements pending justification will be justified in subsequent requests, using the Bank's formats. The loan proceeds may be disbursed through the advance of funds, expense reimbursement, and direct provider payment modalities.
- 6.5 The records and documents supporting activities and transactions will be subject to ex post review by the external auditors. All documents and records will be kept for a period of at least three years following the date of the last disbursement. Expenses that the Bank does not deem eligible will be repaid from the local contribution.
- 6.6 **Internal control and internal audit.** The control environment, control activities, communication and information, and monitoring of the activities of BEU are governed by the country's regulations, which are based on the Law on the National Control System and the Office of the Comptroller General of the Republic. Internal audit functions are carried out by the CGR's institutional control office.

- 6.7 **External control and reports.** In light of the role and regulations of the CGR, external audits of projects are outsourced to independent audit firms acceptable to the Bank. These firms are evaluated periodically by the Bank. The CGR authorizes the selection and contracting of an independent audit firm in accordance with Bank policies for the entire project execution period, including extensions of the final disbursement period. It will be necessary to select a tier I or tier II audit firm.
- 6.8 Audited financial statements include: cash flow statements, a statement of cumulative investments, the notes to those financial statements, and a statement by the BEU. The audit report will include an evaluation of the internal control system. The cost of the external audits will be covered from the loan proceeds and is estimated to be US\$375,000 for the five years of project execution.
- 6.9 **Financial supervision plan.** Financial supervision may be adjusted based on the execution of operations and external audit reports.

**Table 1. Supervision plan.**

Activities	Nature/Scope	Frequency
Financial	Review of the portfolio with the executing agency and the MEF	2 times per year
	Financial audit and submission of the audited financial statements	Annual and final
	Review of disbursement requests and attached reports	4/5 times per year
	Inspection visit / review of the project's progress / analysis of the control environment in BEU	Annual

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Peru. Loan \_\_\_\_/OC-PE to the Republic of Peru  
Project to Enhance Control Services for Effective,  
Preventive, and Enabling Control  
for Public Management

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as Borrower, for the purpose of granting it a financing to cooperate in the execution of the Project to Enhance Control Services for Effective, Preventive, and Enabling Control for Public Management. Such financing will be for the amount of up to US\$50,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2018)