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Session 7: Financial Management

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Financial Management in Project Processing and Implementation



ADB's Strategy 2030 – Seven Operational Priorities



Addressing Remaining Poverty and Reducing Inequalities



Accelerating Progress in Gender Equality



Tackling Climate Change, Building Climate and Disaster Resilience, and Enhancing Environmental Sustainability



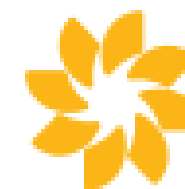
Making Cities More Livable



Promoting Rural Development and Food Security



Strengthening Governance and Institutional Capacity



Fostering Regional Cooperation and Integration



Public financial management



Projects' financial management



Value of Financial Management

The overall arrangement for planning, directing, monitoring, organizing, and controlling of financial resources

Public financial
management

Accountability over *public
financial resources*



Financial management of
projects

Control and monitoring of
the use of *project funds*





Strengthening Governance and Institutional Capacity

Policy-based lending

Support through PFM system
Strengthening Governance and Institutional Capacity

Results-based lending

Use of country systems
Strengthening institutional capacity, output-based funding

Investment lending

Individual projects' outputs, funding for inputs
FM risk management and mitigating measures

Technical assistance

Transactional support
Knowledge sharing and capacity development of institutions





Financial Management of Projects



Sufficient financing to support intended project outcomes



Strengthen FM capacity



Compliance with loan financial obligations



Timely allocation and withdrawal of financial resources



Accountability for all project financing and expenditures

- ✓ **Successful project design**
- ✓ **Completed project outcomes**
- ✓ **Achieved development objectives**



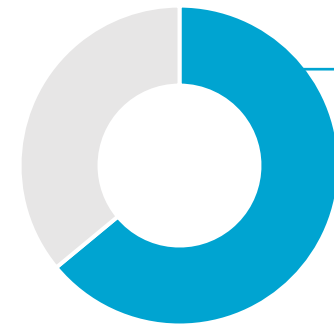
Regional Financial Management Performance



13% of active projects were rated as **high FM risk at processing**



8% of active projects were rated **"At Risk" during implementation**



64% of active projects' FM **risk mitigating measures agreed and regularly updated**

Common areas needing improvement

- Staffing and capacity
- Accounting and financial reporting
- Internal audit
- Information systems
- Internal control



Regional Financial Management Good Practices and Areas for Improvement

Good practice

- International accounting standards
- FM Manual
- Integration of reporting systems
- Staffing and implementation arrangements

Areas for improvement

- Information systems
- Accounting for various sources of financing, financing of taxes
- Internal control
- Planning and budgeting
- External audit
- FM staffing /expertise
- Knowledge transfer and capacity building



Enhancing Readiness: Financial Management Readiness Indicators and Criteria



Financial Management Assessment

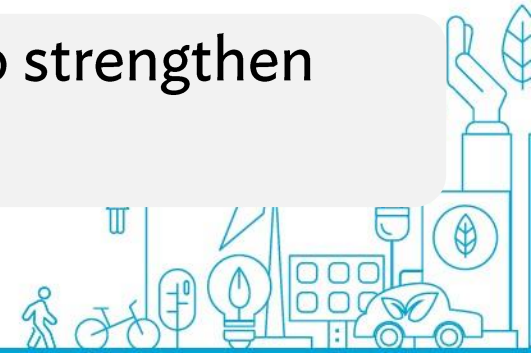
Assesses FM systems and capacity of executing and implementing agencies (EA/IA) in the areas of **planning and budgeting, management and financial accounting, reporting, auditing, and internal control.**



Concludes on project FM readiness and confirms FM implementation arrangements

Identifies FM risks to project implementation

Develops risk mitigation action plan to strengthen FM readiness



Financial Management Readiness



- 1 FM staffing and capacity
- 2 Information systems and asset management
- 3 Accounting and financial reporting standards
- 4 External audit and auditing standards
- 5 Other aspects impacting FM readiness



1

Financial Management Staffing and Capacity



Project management unit (PMU) structure finalized



Consultants and/or FM experts' terms of reference finalized



Permanent experienced staff available



Knowledge of ADB procedures and requirements

Timing of PMU establishment and staffing remains critical FM readiness factor



2

Information Systems and Asset Management

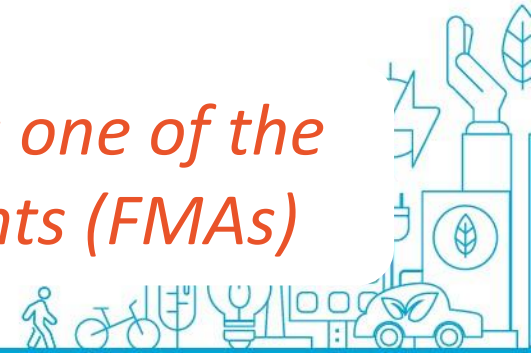
Financial record-keeping and **reporting arrangements** for project finalized



Assets management and operatorship confirmed; assets transfer (if any) procedures clarified

Availability and applicability of **automated information system** confirmed

Applicability and adaptability of information systems remains one of the key gaps identified during Financial Management Assessments (FMAs)



2

Information Systems and Asset Management - Solutions

Risk mitigating measures



Chart of Accounts mapping

Manual expenditure categorization

Stand-alone system

Manual practices

not recommended

Building institutional capacity



Information systems enhancement

Practices and procedures

Adoption of accounting standards

Capacity building



3

Accounting and Financial Reporting Standards



Define accounting standards to be applied



Assess acceptability for ADB project reporting



Ensure capacity and systems are in place



Accounting standards are to be clearly stated in Project Administration Manual and be legally promulgated in the country



3

Acceptable Financial Reporting Standards

1

IPSAS

International Public Sector Accounting Standards

IPSASB

2

IFRS

International Financial Reporting Standards

IASB

3

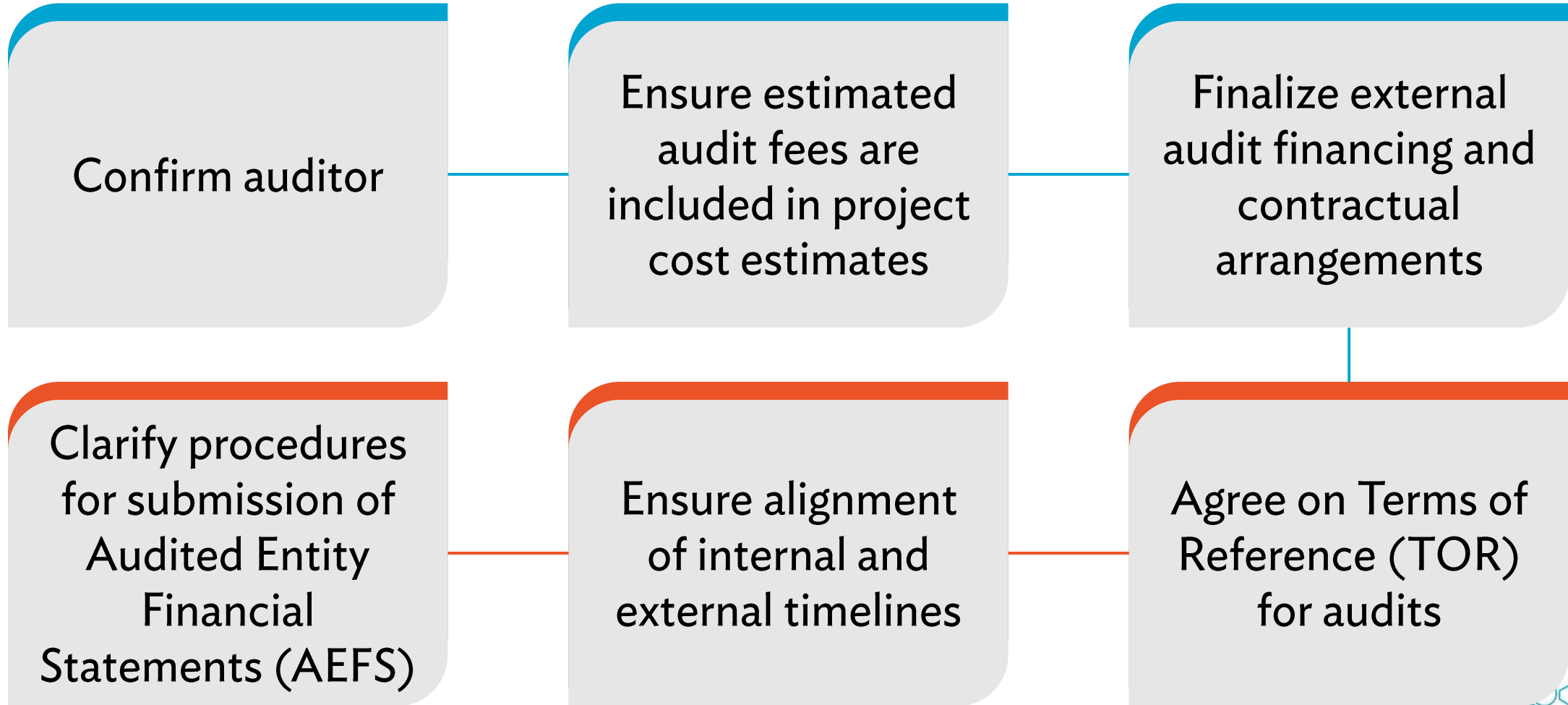
National equivalent

Equivalent and legally promulgated national standards



4

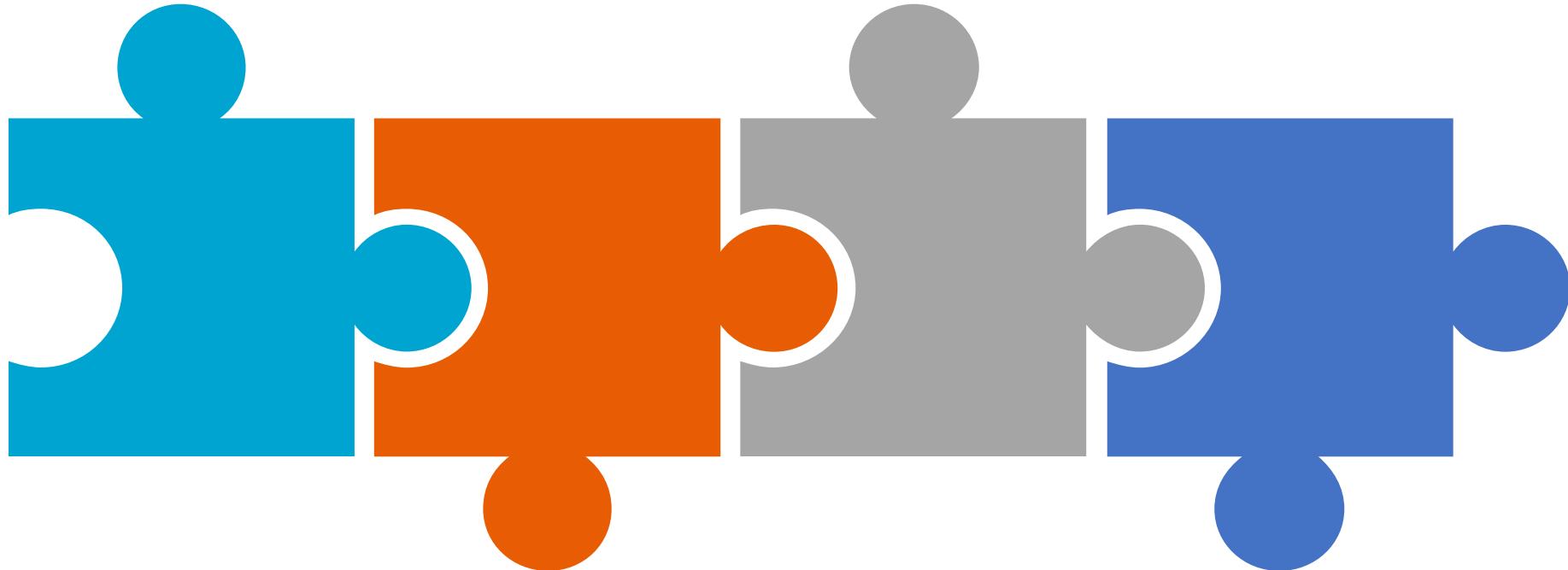
Arrangements for External Audit



4 Auditor Selection Criteria

Impartial and independent

Experienced in financial auditing



Well-established and reputable

Competent personnel



4

Auditors Engaged in ADB-financed Projects

PRIVATE

Cambodia
Thailand
Timor-Leste
Vietnam
Indonesia
Lao PDR

74%

FY2020

158 Submissions

26%

SAI

Philippines
Indonesia
Lao PDR

SAI = Supreme Audit Institution

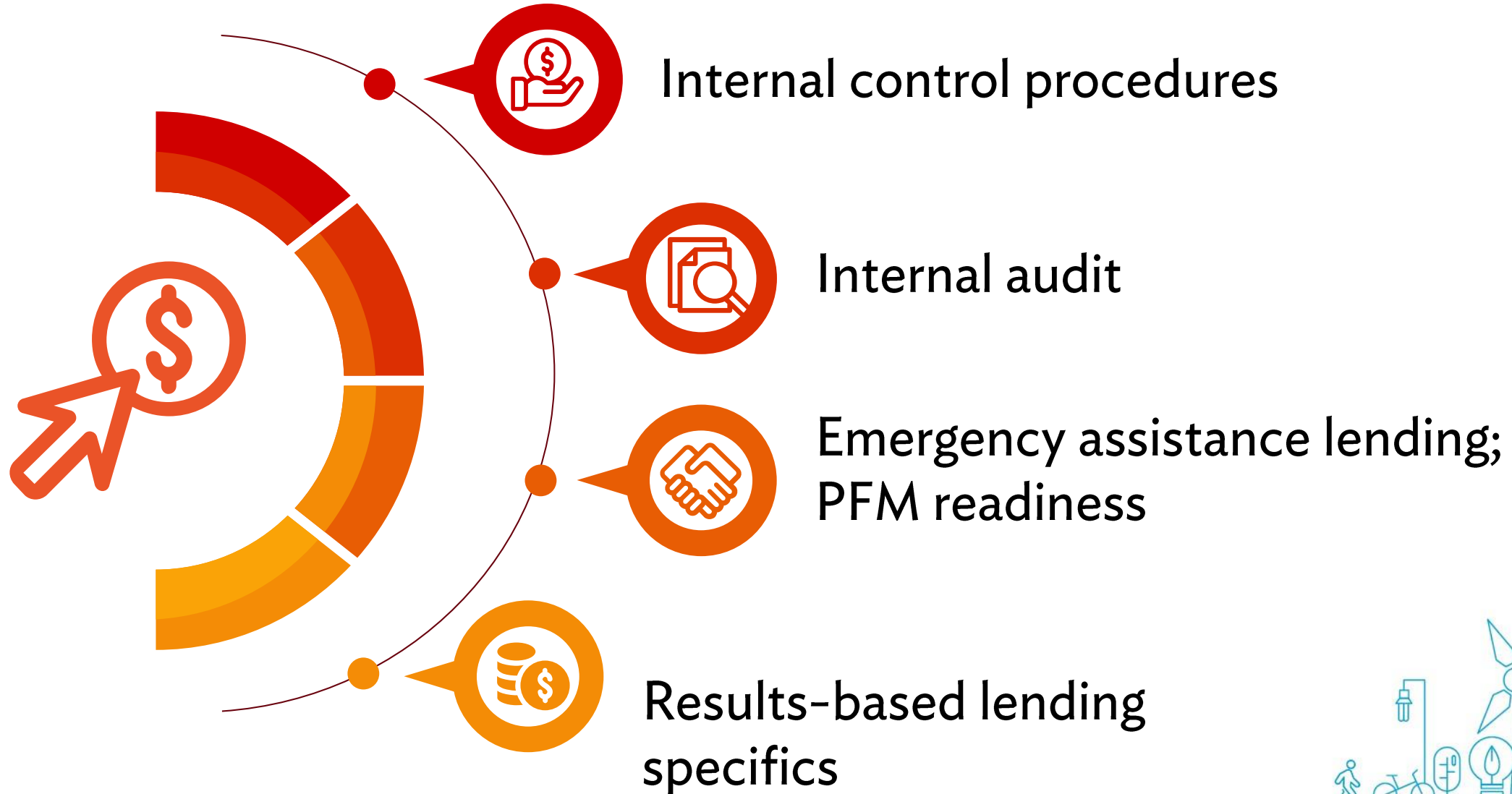
Note: i) Excludes Myanmar, ii) % is based on number of submission, iii) Indonesia and Lao PDR projects are audited by both Private and SAI

Source: FMID, September 2022




5

Other Aspects Impacting Financial Management Readiness



Use of Country Systems



Adequate and acceptable country and/or agency systems are in place

- ✓ FM implementation arrangements based on **existing systems**
- ✓ **Higher** FM readiness
- ✓ **Lower** FM risk

Available country and/or agency systems are not fully applicable for the project FM

- ✓ FM implementation arrangements designed **specifically for project**
- ✓ **Lower** FM readiness
- ✓ **Higher** FM risk

Financial Management at Implementation: Monitoring & Evaluation



Financial Management for Successful Project Implementation





Implementation of Financial Management Arrangements

FM Arrangements are summarized in Project Administration Manual



Follow individual executing and implementing agencies responsibilities for project accounting and financial reporting



Maintain separate project accounts and records



Ensure compliance with project funds flow procedures and ADB Disbursement Handbook



Comply with co-financiers' funds planning and disbursement procedures



Implement agreed risk mitigating measures and other FM related covenants





Monitoring of Project Expenditures

Cost estimates

- ✓ Actual vs. budget analysis
- ✓ Regular reconciliation with ADB disbursement data
- ✓ Cost estimates update
- ✓ Disbursements timeline update

Financing plan

- ✓ Availability of funds
- ✓ Update of funds flow arrangements
- ✓ Compliance with disbursement procedures





Timely, Complete, and Accurate Financial Reporting



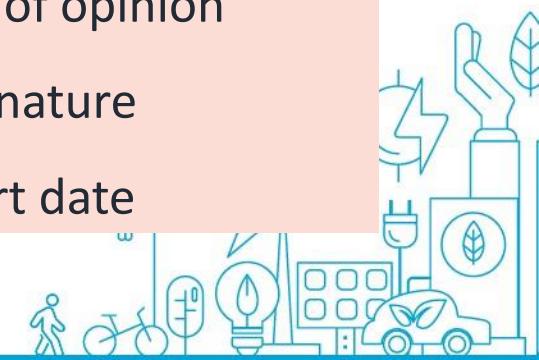
- ✓ Submissions of audited project financial statements (APFS) are **due 6 months** after end of fiscal year
- ✓ **Includes** all project expenditure from all financing sources
- ✓ ADB loan and grant disbursements reported are **reconciled** with ADB data
- ✓ **Accurate** interpretation and calculation of financial covenants (actual values)
- ✓ Waiver of compliance with financial reporting requirements is not allowed. Deferment is possible.





Independent Audit Requirements

Audit Framework	Complete	Use of Appropriate Format
<ul style="list-style-type: none">• Report in accordance with acceptable auditing standards• Clearly state the financial reporting framework and auditing standards• Use of appropriate phrase in issuing opinion	<ul style="list-style-type: none">• Reasonable assurance on financial statements• Reasonable assurance on use of loan proceeds and compliance with financial covenants• Management letter on internal control	<ul style="list-style-type: none">• Title and Addressee• Identification of FS audited• Management responsibility• Auditor responsibility• Expression of opinion• Auditor signature• Audit report date





Responsibilities for Financial Reporting and Audit

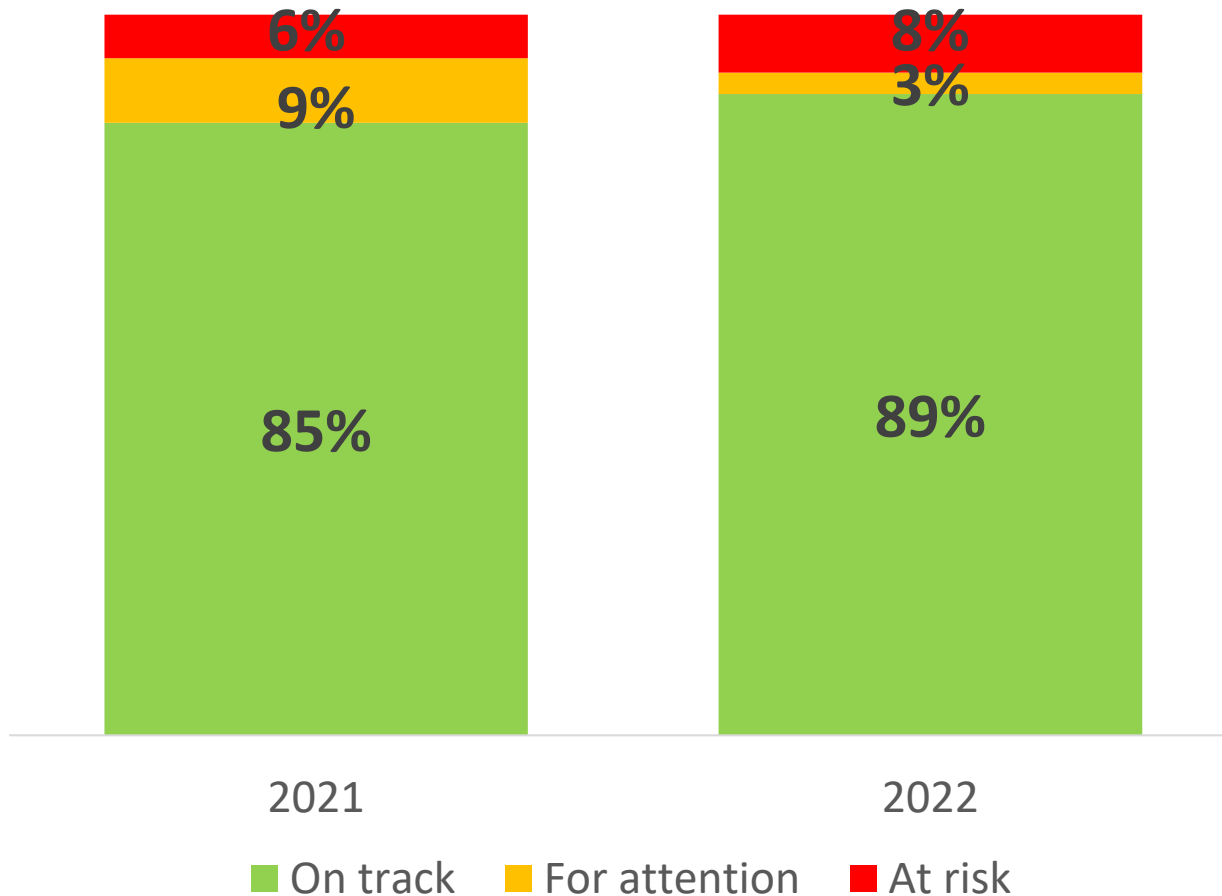


Activities	Borrower	Auditors
Preparation of Project FS and Management Representation Letter	✓	✗
Independent audit of Project FS	✗	✓
Issuance of audit opinions and management letter	✗	✓
Submission of APFS, auditors' opinions, and management letter to ADB ^a	✓	✗
Calculation of financial covenants	✓	✗
Preparation of auditors' TOR	✓	✗
Agree on the timeline, including submission timing to ADB	✓	✓

^a The borrower should arrange for the English translation of statements prepared in another language, preferably through the auditors or another translator.






Regional Portfolio Financial Management Project Performance Rating



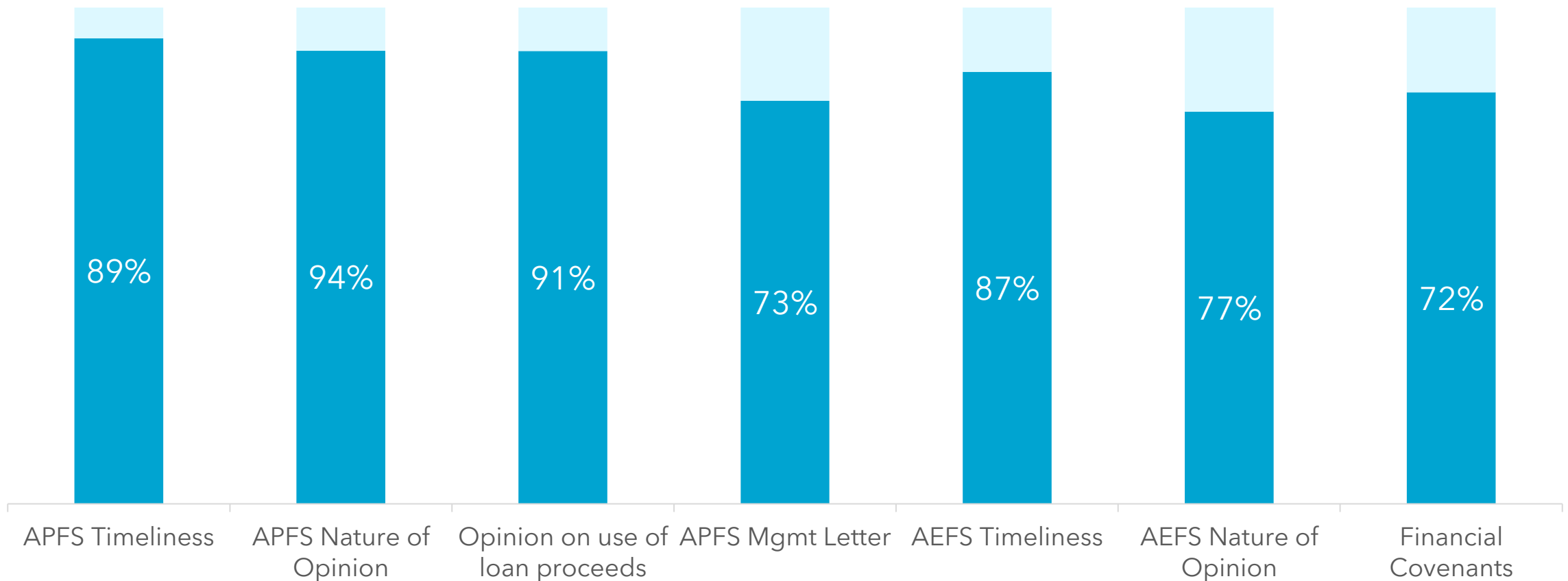
Excludes Myanmar
Source: FMiD, August 2022

Areas for Improvement

-  Completeness of APFS
-  Alignment with legal agreements
-  Strengthening of individual indicators



Regional Project Performance Rating by Indicator



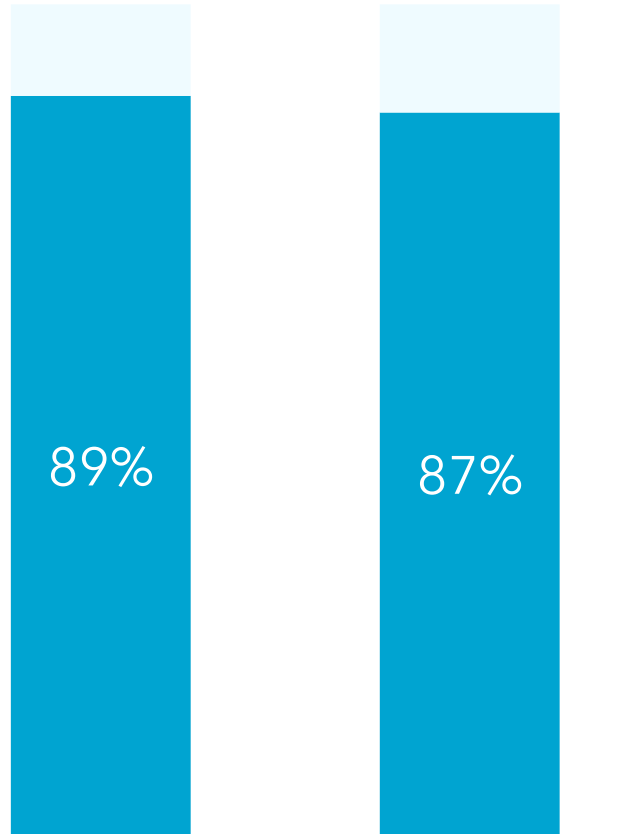
Excludes Myanmar
Source: FMiD, August 2022



Areas for Improvement and Recommendations: Timeliness of Submissions



- ✓ Assignment of FM staff to the project
- ✓ Mapping of project cost categories to chart of accounts
- ✓ Adjustment of accounting and reporting systems
- ✓ Agreement with auditor on the timeline reflected in TOR
- ✓ AEFS submission due dates and approval authority



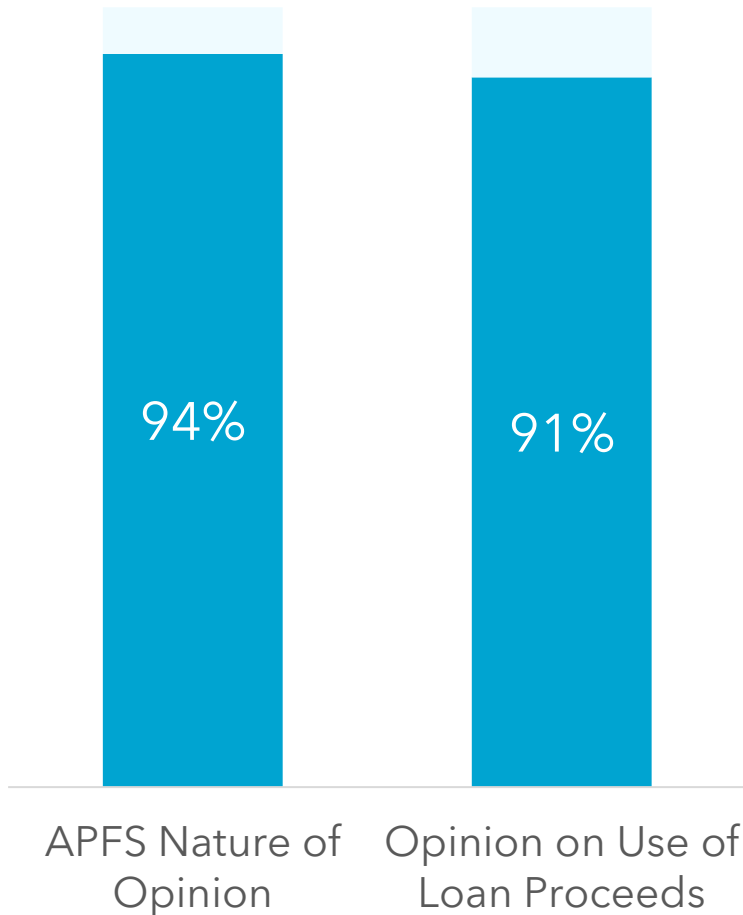
APFS Timeliness AEFS Timeliness



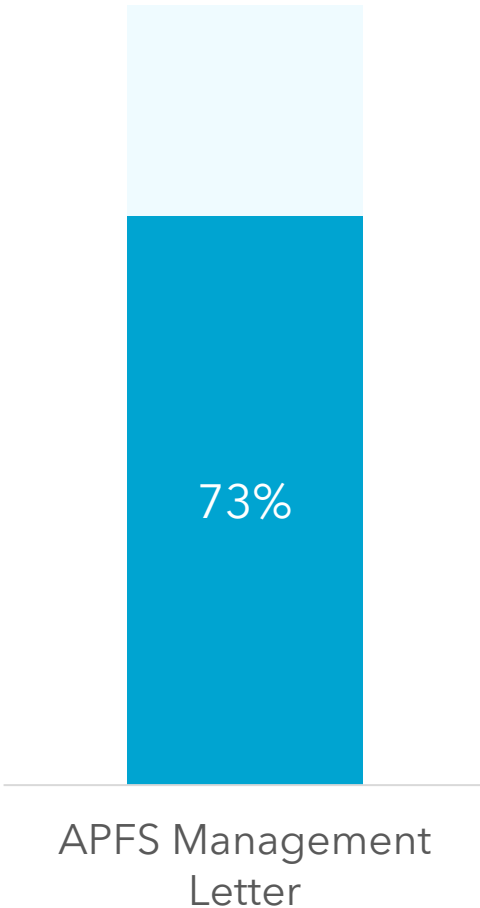
Areas for Improvement and Recommendations: Nature of Auditor's Opinion



- ✓ Reasonable assurance opinions only
- ✓ Requirements properly documented and understood
- ✓ Audit report format and wording of opinions aligned with auditing standards
- ✓ No misstatements and inconsistencies in submission



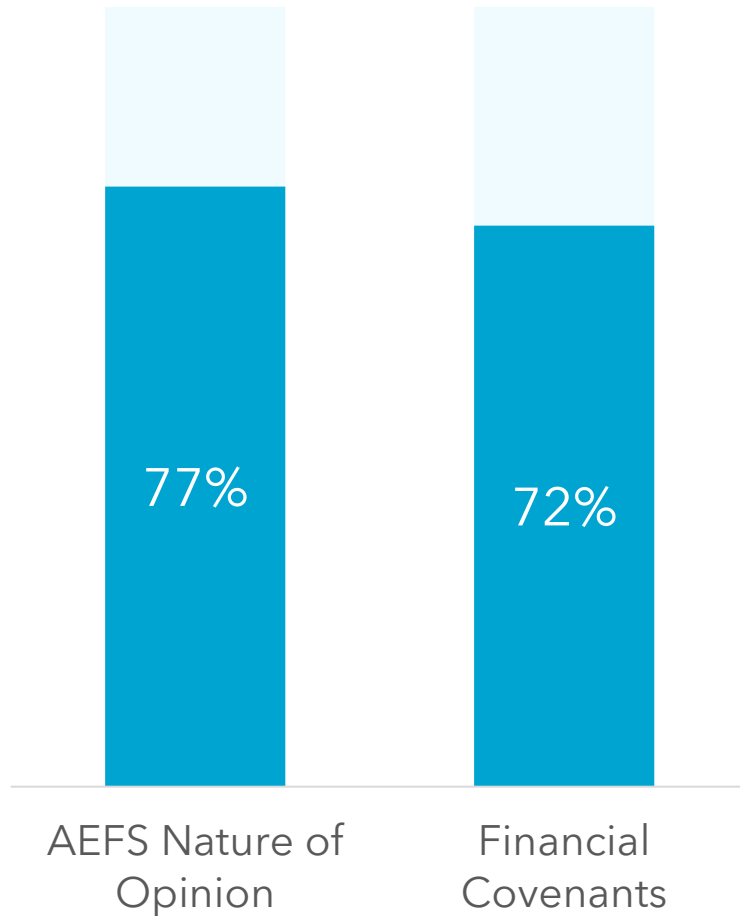
Areas for Improvement and Recommendations: Strengthening of Internal Control



- ✓ Monitoring of inefficiencies noted in Management Letter
- ✓ Discussion and timely response to weaknesses identified by auditor's
- ✓ Timely implementation of auditor's recommendations



Areas for Improvement and Recommendations: Financial Sustainability



- ✓ Alignment with legal agreement requirements
- ✓ Reasonable assurance opinion on compliance with financial covenants
- ✓ Findings and issues raised by auditors addressed timely
- ✓ Compliance with financial covenants impacted by entity's financial performance
- ✓ ADB support can be considered to improve financial sustainability



Financial Management for Successful Project Implementation





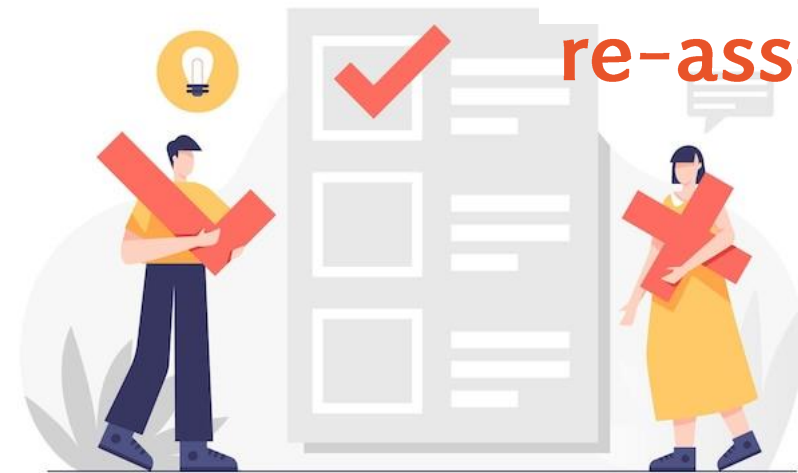
Financial Management Risk Update and Mitigation



The FM action plans are designed to **mitigate FM risks** identified during project processing.

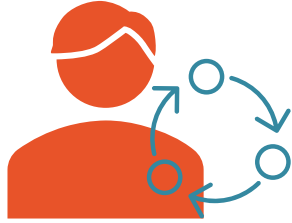


The risks and mitigation actions should be **re-assessed** throughout a project.





Financial Management Action Plan Implementation



The EA/IA are required to

- Complete actions by the indicated due dates
- Report the latest FM action plan progress to ADB
- Advise on any changes in risk level or risk mitigating activities

ADB project teams

- Consolidate the progress updates
- Follow up on overdue actions
- Update project FM risk as relevant





Financial Sustainability

is achieved when *sufficient financing* is available for assets to be *operated and maintained in a sustainable manner* and deliver the intended benefits *over their economic life*.

- Assessed at project design and approval
- Monitored at implementation
- Evaluated at project completion



Just after
project completion



5 years after
project completion





Analysis of Financial Sustainability



Progress update for project Design and Monitoring Framework (DMF) indicators



Analysis of entity financial performance



Monitoring of financial covenants compliance



Regular review and analysis of key assumptions

✓ **Project progress reports**

✓ **Administration missions**





Strengthening Financial Sustainability

Discussed during project administration mission and agreements made on mitigating measures to ensure compliance and strengthen financial sustainability

Opportunities to strengthen entity financial performance

- Financial recovery action plan
- Technical assistance for financial restructuring and strengthening
- Consultations on tariff review and subsidies calculations
- Policy-based lending to support sector reforms, etc.

Update project financial analysis with revised assumptions

Revisit project scope and design of DMF outputs



Financial Management Monitoring and Evaluation

Project Administration Missions



Project Progress Reports

- ✓ Prepared quarterly
- ✓ Latest update of cost estimates
- ✓ Actual expenditure and disbursements data
- ✓ Status of FM risk and mitigating actions



Inception Mission

- ✓ Clarify FM arrangements
- ✓ Monitor FM readiness
- ✓ Confirm proper function of required systems, staffing, etc.



Progress Review Mission

- ✓ Review project FM performance and progress reports
- ✓ Review implementation of FM risk mitigating actions
- ✓ Update project FM risk
- ✓ Discuss and resolve any other FM issues



Financial Management Monitoring and Evaluation (cont'd)

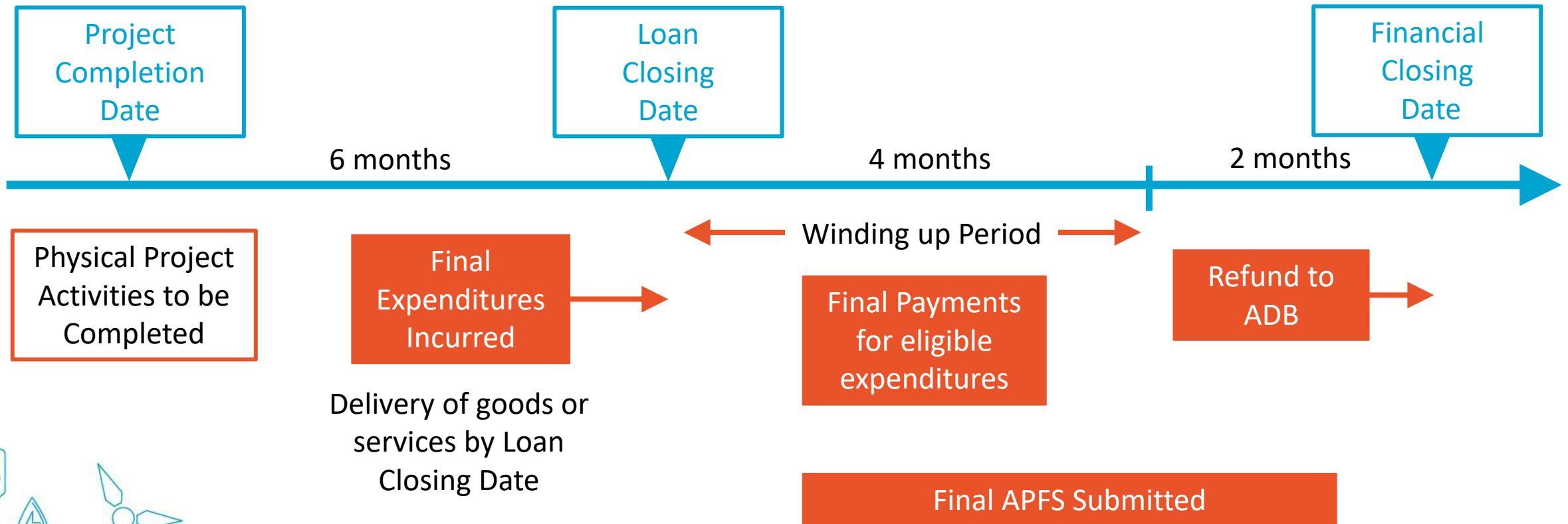


FM Consultation Mission

- ✓ Review country portfolio FM performance
- ✓ Define systemic FM issues and analyze portfolio FM risk
- ✓ Conducts consultations and workshops for EA/IA staff, auditors and other relevant government agencies
- ✓ Discuss opportunities for strengthening country fiduciary systems and the institutional FM capacity



Project Closing – Financial Management Aspects to Remember



Financial Management Tips for Loan Closure



Please Share Examples and Good Practices from Your Experience.

Thank You!

