



Session 4:

Asset and Financial Management

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Asset and Financial Management and Integrity Risks



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ADB

Strategy 2030 of ADB prioritizes Strengthening Governance and Institutional Capacity

Operational priority 6 of ADB's Strategy 2030 focuses upon 3 strategic concepts

Public financial management
and financial stability

Governance and institutional
capacity for service delivery

Using country systems and
standards

Good Governance Mitigates Integrity Violation Risks

Segregation of duties to preclude the possibility of one individual controlling all aspects of a transaction

Delegation of authority commensurate with risk to ensure prior approvals before execution

Effective and up-to-date documentation and record-keeping, generating an audit trail

Access controls to limit access to authorized personnel

Internal audit to assess adequacy and functioning of internal controls

External audit provides independent assurance to stakeholders

Scrutiny of external audit by Parliamentary Committee to enforce accountability

Ethics and training programs to promote ethical behavior and employee awareness

Penalties for unethical behavior; whistleblower protection policies

ADB FM Requirements and Value Added

FM requirements are established by the ADB Charter and reflected in Legal Agreements

To meet these requirements, acceptable FM arrangements need to be established

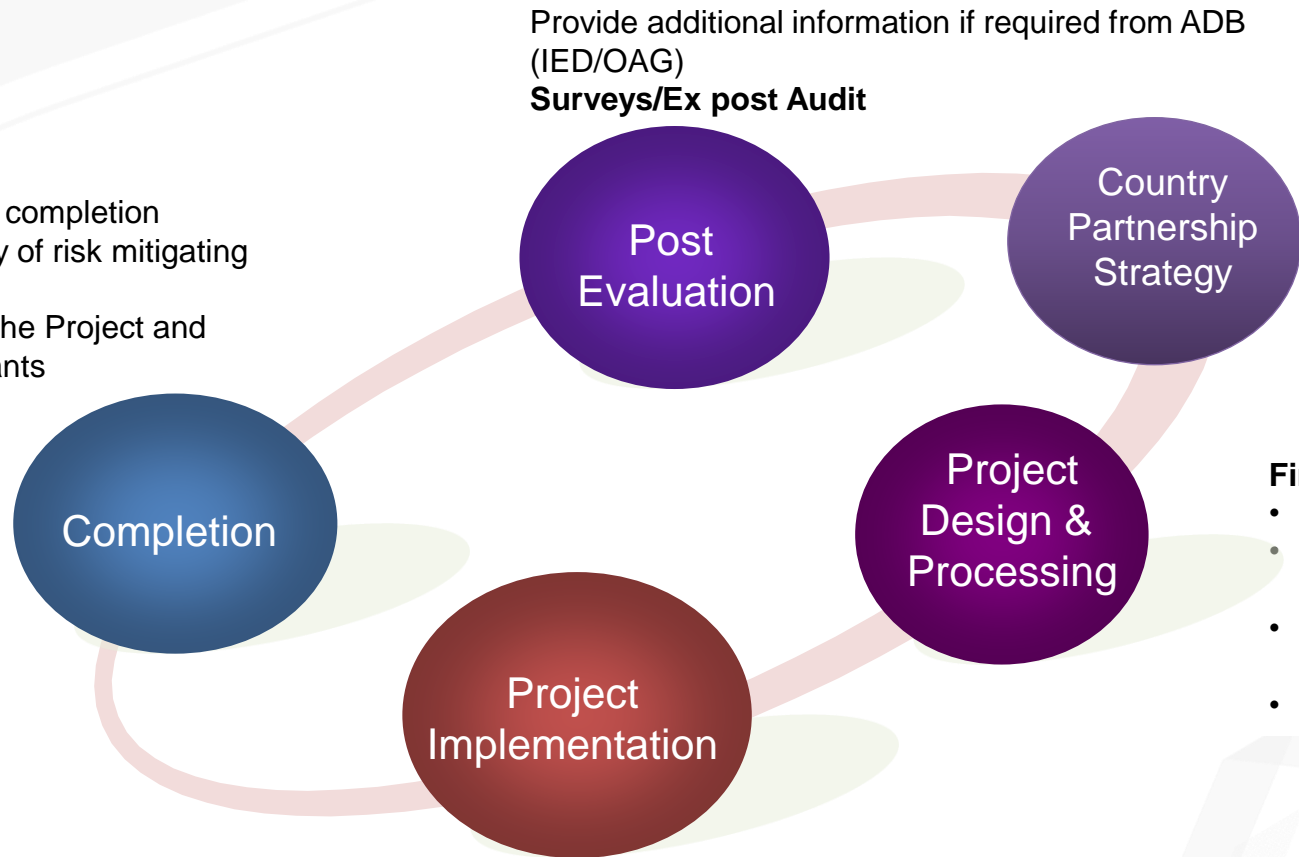
Article 14 of the Agreement Establishing the ADB (“The Charter”)

- Borrower able to **meet obligations** under loan
- Loan proceeds used for **purposes intended**
- Attention to **economy and efficiency**
- Guided by **sound banking principles** in operations

Financial Management during Project Cycle

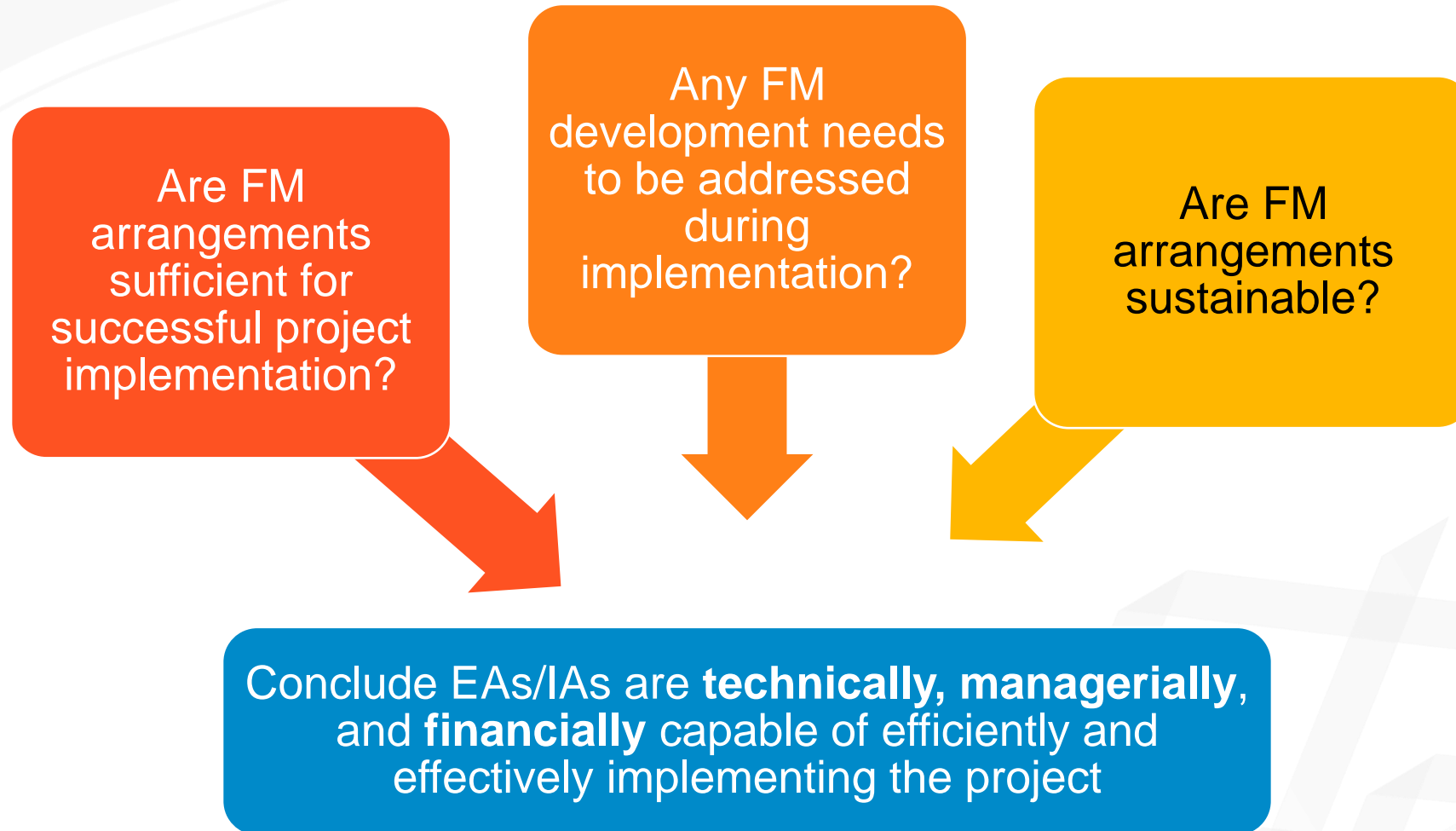
- Review of FM-related project completion activities and status/efficiency of risk mitigating measures
- Evaluation of FM aspects of the Project and compliance with legal covenants

Completion Report



- Implementation of agreed FM arrangements and risk mitigating action plan
- Compliance with FM/FA legal covenants
- Review and Update of Cost Estimates (Planned vs Actual)
- Preparation of Financial Statements/APFS/info in Project Progress Reports

Objective of Financial Management Assessment



Financial Management Assessment Outputs

*Analytical
FM
assessment
report*

*Governance
assessment,
risks and
mitigating
measures*

*FM action
plan*

Covenants

Implementation of FM Arrangements

FM Risk Mitigating Measures	Implementation of FM Action Plan
Cost Estimates	Update cost estimates as procurement is completed
Project Financing	Availability of counterpart funds; Funds flow.
Financial Reporting and Auditing – timeliness and quality	Follow financial reporting standards; Auditor recruitment; Financial reporting; Submission of Project and Entity Audit Reports
Financial Covenants	Monitoring compliance with timebound covenants (e.g., ratios, specific actions).





Tea Break

16:00 – 16:15



Expenditure eligibility, financial reporting, auditing

ALL project expenditure to be reported from all sources of financing

Eligible expenditure is incurred between loan effectiveness and loan closing dates

Retroactive financing may be allowed in a project

Use of agency financial reporting system is preferred

Ad hoc reporting system may be used if agency system is not suitable

Audited project financial statements (APFS) should be in English

APFS to be submitted to ADB within 6 months after fiscal year end

Why Audited Financial Statements

Accountability for use of public funds

Funds are used for the purposes intended

Due attention to economy and efficiency

To verify compliance with covenants

Reliable financial information

ADB's Access to Information Policy

Why Audited Financial Statements



Performance Audits

To ensure that project objectives are achieved in exceptional cases
(e.g., Disaster Response)

Asset Management Systems and Inventory

Financial Sustainability - example

Regular revaluation

Regular Revaluation of assets using IFRS based revaluation model



Physical Verification

Regular Physical verification helps in timely mitigation measures for asset loss or theft



Robust IT infrastructure

IT infrastructure for asset management and Inventory tracking



Asset Records & Maintenance

Detailed, complete and updated asset register.



Inventory Management

Robust inventory records ensure smooth operations



Policy and regulations

Detailed and Coherent Asset Management Policies & Procedures



Accurate calculation of O&M costs and inventory level
Systems & Procedures complement the O&M forecasts





ADB's Technical Guidance Notes

Participants can read the below for further details

- [Technical Guidance Note on Financial Reporting and Auditing in Sovereign Operations](#)
- [Cost Estimation in Sovereign Operations: Technical Guidance Note](#)
- [Financial Analysis and Evaluation: Technical Guidance Note](#)
- [Financial Due Diligence for Financial Intermediaries: Technical Guidance Note](#)

Red Flags: Financial Capacity



Questionable Information

A bidder, a joint venture of firms A and B,

- declared firm A's cash and cash equivalents on the bidding form FIN-3: Availability of Financial Resources at a higher amount than what was reported in firm A's audited financial statements, ⚠ and
- submitted, for firm B, annual earnings released in lieu of audited financial statements to support the financial information in its bid.

Red Flags: Financial Management



Progress Billings

Contractor paid the advance in full despite the contractor not complying with the condition for release of the advance, i.e., 75% advance would be paid upon delivery of the materials at the construction site.

The contractor had not yet made any deliveries when it received the advance. ⚠️

Contractor invoicing for payments after contracts expired by 1 day to about 2 years. ⚠️

Claims submitted without verifying completion of works for which the claims were being made. Required completion certificates issued by a third party were not attached to the claims

Red Flags: Financial Management



Goods

Proforma invoices without any supporting documents that indicated completion of delivery, inspection, acceptance, and installation (as appropriate) of goods.

The contractor had not yet made any deliveries when it received the advance. ⚠️

Contractor invoicing for payments after contracts expired by 1 day to about 2 years. ⚠️

Claims submitted without verifying completion of works for which the claims were being made. Required completion certificates issued by a third party were not attached to the claims

Red Flags: Financial Management



Audited Financial Statements

Bidder submitted audited financial statements for only one financial accounting year instead of three recent historical years as required in the bidding documents.

Bidding forms against the supporting documents - inconsistencies between the figures in the bidding forms and the submitted audited financial statements.

Figures of the consolidated financial statements when the stand-alone audited financial statements of the bidder should have been used.

Impact of the modified or qualified audit opinions on the bidders' financial capacity, which could have significantly weakened the bidders' financial strength.

Red Flags: Financial Management



Average annual turnover (ACCT)

Total revenue instead of construction revenue in computing the bidders' AACT.

One of the joint venture partners of the bidder, the auditor expressed qualified audit opinions on the construction revenue amounts for two financial years due to the questionable revenue accounting approach used.

Bidders used total turnover figures instead of construction turnover to derive annual construction turnover amounts that were, in effect, overstated. ⚠️

The AACT indicated a bid did not match the figures in its audited financial statements. Based on the audited revenues for prior years and historical revenue trend, the AACT requirements have not been met. ⚠️

Red Flags: Financial Management

Credit Lines

Credit letters that were either due to expire before contract signing or did not indicate their validity period.

The remaining unutilized balances of the bidders' credit lines were not shown in the general credit line agreements or in a supplemental letter.

The validity of submitted credit facility or commitment funding letters.

Letters containing redundant information, which may result in the same credit facility being considered twice in the evaluation

Red Flags: Asset Management

Warranties

No warranties were provided for pipes delivered in the three sites inspected

Substandard

Potholes on several stretches of road construction. • Erosion of selected stretches on the wet-mix macadam layer, where potholes were seen. • Porous abutment and heavy rust in steel truss on bridge works, as well as improperly built bridge span support

Contractor did not subject all installed pipes to pressure testing, i.e., only 8.5% of the total installed pipes were tested. The issued test reports did not identify which pipes were tested and compliant with the requirements

In six subprojects, leakages were found in installed pipes, connecting points of regulating valves, supply pits, reinforcement in the pits, and pump gaskets. In two subprojects, repainting and repairs were poorly done on the guard houses and drainage, as paint and grouts were peeling and falling off.

Case study: Rehabilitation of the Road Network Project

*Background: Bidder A's proposal was lower than engineer's estimate and other bidders.
Bidder A's proposal was not disqualified despite not meeting the qualification requirements.
Root cause: Weak governance in procurement process*



USD54 million contract was awarded to Bidder A whose books of accounts and bank statements revealed multiple payments totaling USD2 million, which were transferred to intermediaries known to be affiliated with the family of the Minister of Transport.

Impact: poor quality of works and supervision, contract amount increased, delay in contract completion and economic loss.

Case study : Great Ocean Bridge Project

Background: Multilateral Bank A received an allegation that supervision consultants turned a blind eye on the quality of contractor's works and goods.

Root cause: Collusive and corrupt practice



Most payments have been made without certifications from supervision consultants, particularly civil construction contracts. Still, full payments were made to the contractors. No disputes were raised by project officials against the product substitution.

Impact: poor quality of works and goods, weak project supervision, additional resources to rectify the defects, economic loss

Discussion

Open Floor





End of Day 2

