



Workshop on ADB Lending Modalities

**For Implementing Agencies and
Future Project Implementation
Unit Staff**

**Marriott Hotel, Karachi
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Session 10

Combined Audit Session

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WHY IS FM IMPORTANT?

A FUNDAMENTAL CHARTER REQUIREMENT

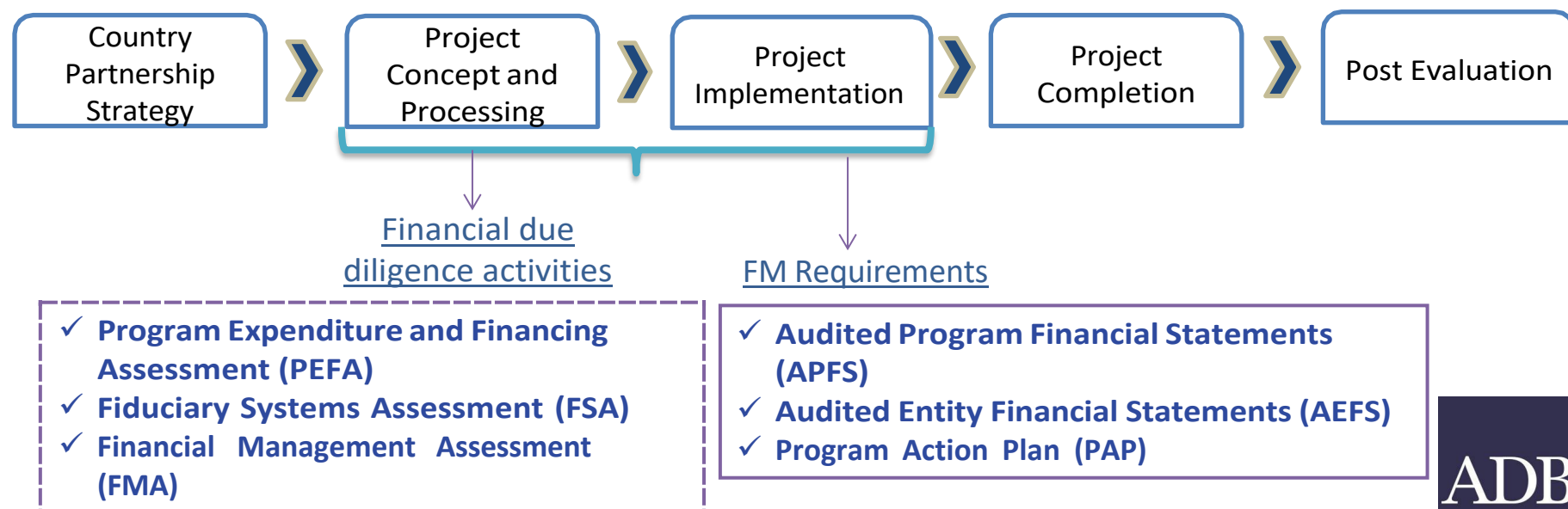
ARTICLE 14 OF ADB CHARTER (1966)

- The Bank shall pay due regard to the prospects that the borrower will be in a position to meet their obligations under the loan contract.
- Proceeds of any loan made are used for the purpose for which the loan was granted and with due attention to considerations of economy and efficiency.
- Bank shall be guided by sound banking principles in its operation.

FM during Project Cycle - RBL

“ADB’s Charter requires (i) borrowers to meet obligations under the loan agreement; (ii) loan proceeds to be used for the purposes intended; (iii) due attention paid to economy and efficiency; and (iv) to be guided by sound banking principles”

ADB meets this requirement by undertaking financial due diligence of projects at the processing stage and monitoring through FM requirements during the Project Implementation stage.



Key FM Considerations - RBL

Funds Flow

- All funds commingled at source.
- No link between DLI-based disbursement and program expenditure.

- ADB funds
- Co-financing
- Government counterpart



Accounting

- Program expenditure and financing assessment.
- Clear identification of account heads during FDD.
- Systems in place to capture expenditure from identified account heads.

Link PEF with Government Budget classification system and Chart of Accounts.



Key FM Considerations - RBL

Reporting

- Financial Reporting of 100% of RBL program expenditure (not only ADB financing).
- Financial Statements not limited to ADB financing.

Auditing

- Audit scope will cover all program expenditure
- Audit conducted within the RBL boundary.
- Audit arrangements vary depending on project structure and entities.
- Period for APFS submission can exceed 6 months.

Statement of Audit Needs (SOAN) defines RBL boundary, scope and fiduciary and reporting arrangements.



RBL – Audit Requirements

- RBL Program's Financial Statements are subject to independent audit.
- ADB requires annual Audited Program Financial Statement (APFS) reports after the close of the DMC's fiscal year (30-Jun in case of Pakistan).
- Audit scope covers the whole of program expenditure within the RBL boundary.
- Audits to be conducted by independent, experienced, and capable auditors under terms acceptable to ADB.
- Audits are conducted by the existing government audit bodies, i.e., the country's Supreme Audit Institution (SAI); however, other independent audit firms could be engaged if there are capacity concerns.
- The program team and government agree on the period for receipt of annual audit reports in English (e.g., within six months after the fiscal year).

RBL Program

Disbursement Linked Indicators (DLIs)

Disbursement Linked Indicators-DLIs

DLIs are a limited set of results indicators that are critical for achieving and measuring the RBL program outcome. These are the basis for disbursing ADB financing.

Disbursement-Linked Indicators (DLIs)

Depending on the RBL program DLIs can be:



DLIs should be:



Each DLI needs to have a clear verification protocol including:

- DLI definition and what constitutes achievement
- Whether disbursements can be partial and how that would be done
- Expected timing of verification
- Data for measuring achievements, including reporting frequency; and
- Entities responsible for verification

The DLI verification protocol provides assurance that disbursements will be made based on credible results

Independent Verification Agency (IVA) - Responsible for verifying achievement of DLI



Government agencies, private entities, or third-party entities, such as civil society organizations



ADB needs to be satisfied with competence, capacity, and credibility of the verifying agent to provide credible verification



If DLI verification by the executing or implementing agency of the RBL program, strong justification needed.



ADB may conduct spot checks of the robustness of the verification mechanism, including using external independent agencies

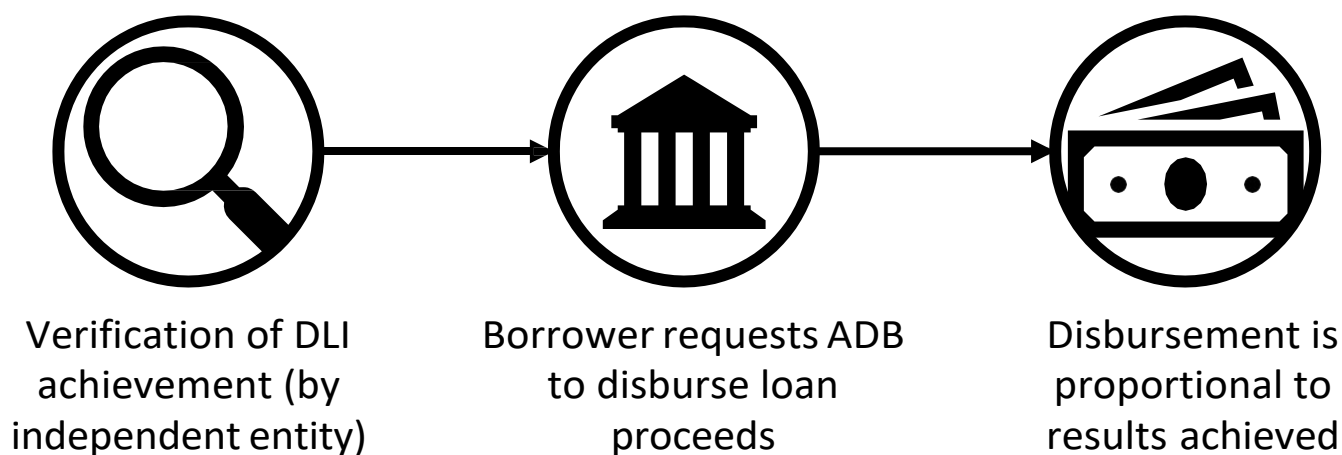


ADB should not act as an independent verifier



IVA should not provide capacity building, but can make recommendations to improve systems.

Disbursement - RBL



Sector Development Program (SDP)

Sovereign Lending Modalities*

Expenditure-based disbursement

Project loan

Sector loan

Financial intermediation loan

Emergency assistance loan

Project readiness financing

Small expenditure financing
facility

PPP standby financing facility

Multitranche financing facility

Results-based disbursement

Results-based loan

Policy-based disbursement

Policy-based loan

Credit enhancement products

Policy-based guarantee

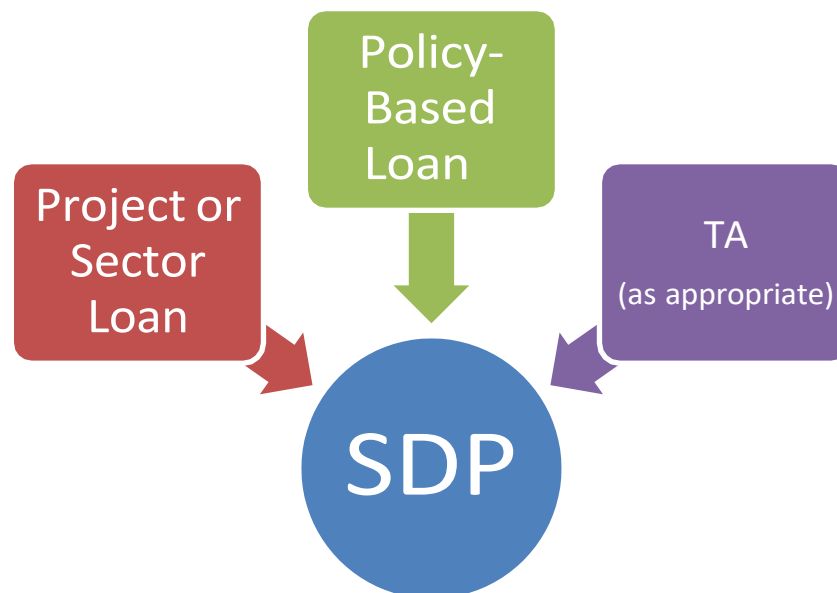
Partial credit guarantee

Political risk guarantee

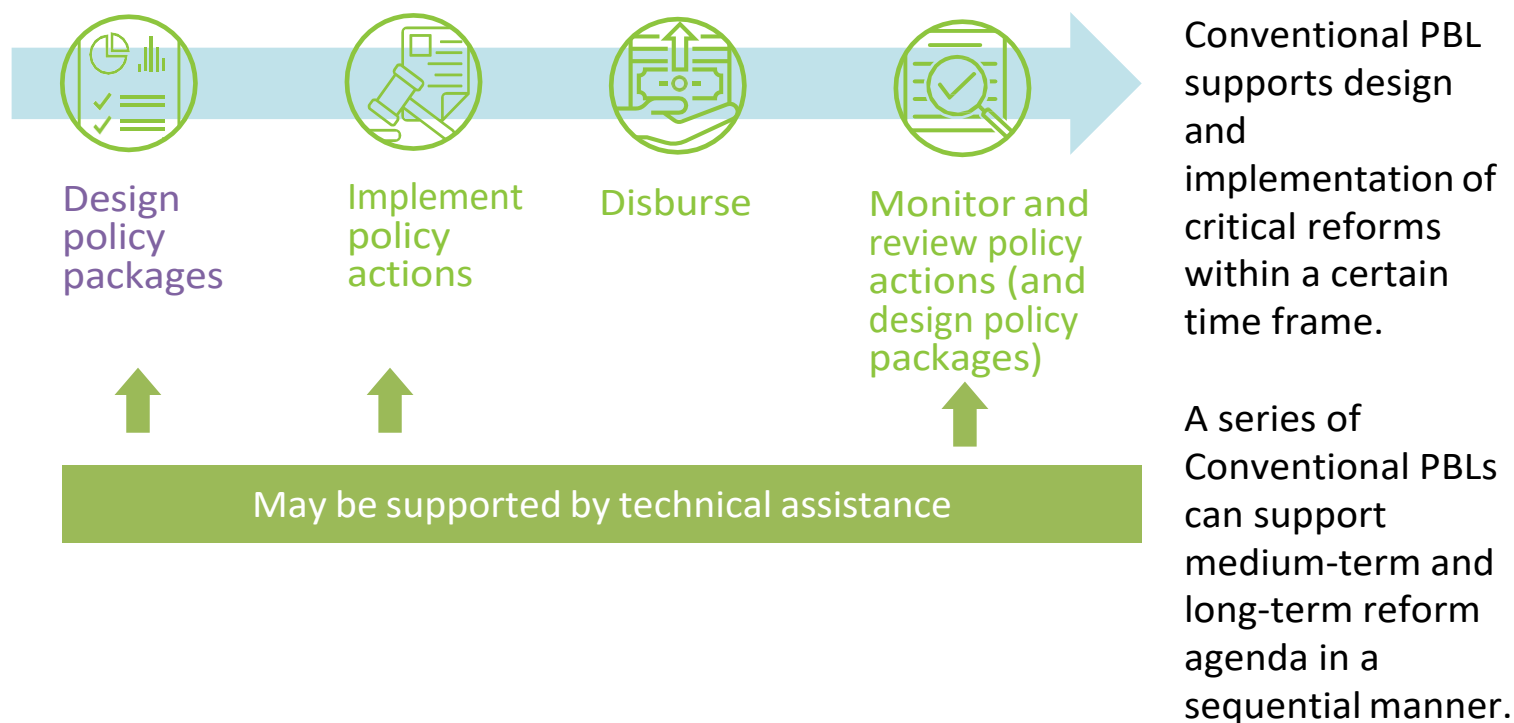
Sector Development Program (SDP) combines project and policy-based lending modalities.

Sector Development Program (SDP)

- Address sector needs and development constraints in a comprehensive manner
- Foster an integrated and long-term approach to sector needs (policies, institutions, and investments) and enhance ADB's leverage for promoting policy and institutional reforms
- Combine
 - Policy and/or institutional reform actions
 - Project investments



Life Cycle of Conventional PBL



No FM specific requirements for PBL

Project Loan – Audit Requirements

- Legal Agreements:
 - Loan or Grant Agreement – Section 4.02
 - Project Agreement – Section 2.09
 - Schedule attached to the agreements – Financial Covenants/matters
- Project Administration Manual (PAM) or Facility Administration Manual (FAM)
- Addendum or Amendment to the above documents (if any)
- Standard Audit Terms of Reference (TOR)


Project Loan - FM Requirements

Periodic




**Quarterly
Progress
Report**

Annual




APFS

Annual



AEFS

Annual



**Financial
covenants**

FM Reporting and Performance Management



Project Implementation => **Implement Agreed Arrangements**

Audited Project Financial Statements

Auditor's Opinion on use of loan proceeds

Management Letter

Audited Entity Financial Statements

Auditor's Opinion on compliance with financial covenants

Financial information in project progress report

Annually, 6 months after fiscal year end

Annually, 6 months after fiscal year end

Annually, 6 months after fiscal year end

12 months after fiscal year end or within 1 month of their approval by the relevant authority, whichever is earlier

Annually

Basic Requirements - APFS



Audited

- Independent auditor whose qualifications, experience are acceptable to ADB



Accurate and Complete Submission

- Auditor's Opinions on
 - FS Presentation
 - Use of Proceeds
 - Compliance on the use of advance account / SOE
- Financial Statements
- Management Letter

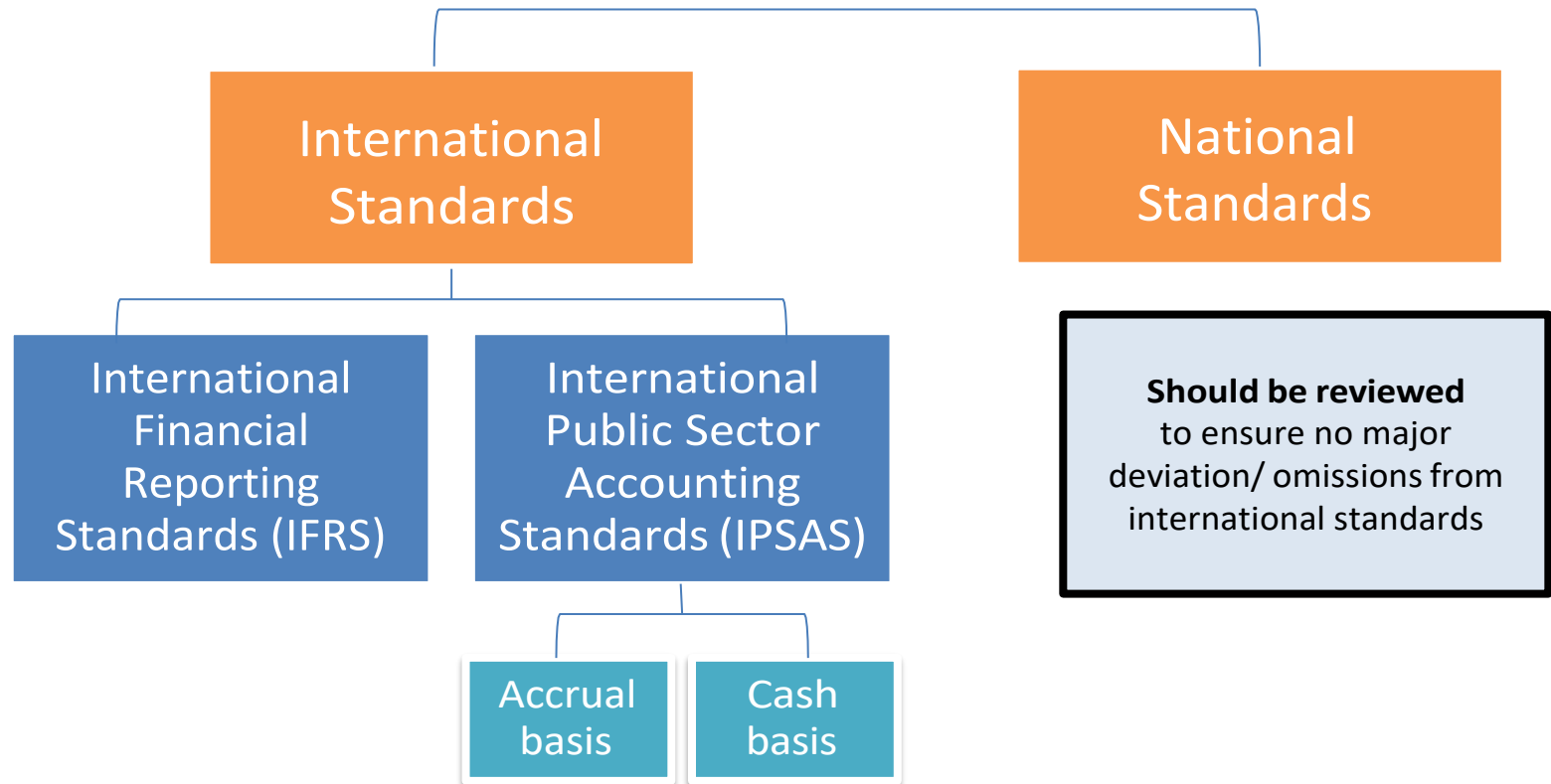


Form and Timeliness

- In English
- Compliance with acceptable accounting and audit framework
- Timely submitted

Project Accounting standards

Accounting Standards acceptable to ADB



Thank you

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