



Financial Management Assessment

Project Number: 48293
July 2014

SOL: Transport Sector Flood Recovery Project

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CBSI	–	Central Bank of Solomon Islands
CPIU	–	Central Project Implementation Unit
CTB	-	Central Tender Board
DFAT	–	Australian Department of Foreign Affairs and Trade
DP	–	development partner
EA	–	executing agency
FIs	–	Financial Instructions
FMA	–	Financial Management Assessment
FMAQ	–	financial management assessment questionnaire
FMIS	-	Financial Management Information System
FMS	-	Financial Management Specialist
FY	–	fiscal year
IA	-	Implementing agency
IMF	-	International Monetary Fund
IPSAS	-	International Public Sector Accounting Standards
MID	–	Ministry of Infrastructure Development
MoFT	–	Ministry of Finance and Treasury
NTF	–	National Transport Fund
OAG	-	Office of the Auditor General
PAC	-	Public Accounts Committee
PCA	-	Procurement Capacity Assessment
PEFA	–	Public Expenditure Financial Accountability
PFM	–	public financial management
PR	–	payment requisition
PS	–	Permanent Secretary
PV	-	payment voucher
TSDP	-	Transport Sector Development Project
TSFRP	-	Transport Sector Flood Recovery Project

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I. INTRODUCTION

1. This Financial Management Assessment (FMA) has been prepared in accordance with ADB's Guidelines for the *Financial Management and Analysis of Projects*¹ and the publication *Financial Due Diligence A Methodology Note*.² The Asian Development Bank (ADB) requires that sufficient analysis is undertaken to enable an informed assessment that the borrower's financial management systems are, or will be, sufficiently robust to ensure that funds are used for the purpose intended and that controls will be in place to support project monitoring and supervision. Consideration was given also to the application of ADB's policy on disaster and emergency assistance, with relevance to financial management matters.³ The FMA considers the Ministry of Infrastructure Development (MID) as the executing and implementing agency for the proposed Transport Sector Flood Recovery Project (the Project). The FMA includes review of the accounting and reporting system, internal and external auditing arrangements, fund disbursement procedures, and information systems. The instrument used for the assessment was ADB's financial management assessment questionnaire (FMAQ). This FMA incorporates the Financial Management Internal Control and Risk Management Assessment required by the Guidelines. The completed FMAQ is in Table 1.

2. This assessment was prepared during the loan preparation and processing in July 2014, and may need to be amended to reflect subsequent developments and agreements. In November 2010 ADB prepared a FMA for the Transport Sector Development Project.⁴ That FMA has been updated, relied on, in part, for the completion of this FMA.

A. Project Description

3. ADB will help finance the Project through ADB's Disaster Response Facility (DRF) in an amount up to the equivalent to \$13.22 million over an implementation period of 2 years and 9 months. The government will provide the equivalent of \$2.36 million as in-kind contribution in the form of administrative services, office space, audit fees, counterpart staff, service relocation, and exemption on taxes and duties, and will finance any potential land acquisition.

4. The Project will be executed and implemented by MID. As the implementing agency, MID will be responsible for the day to day implementation of the project, including (i) preparation of an overall implementation plan; (ii) overall inter-agency coordination; (iii) award procurement and consulting contracts; (iv) management of the bidding process; (v) project financial management; (vi) project safeguards document preparation and safeguards plans implementation; (vii) consolidation, review and submission of regular progress and financial reports to ADB and the Ministry of Finance and Treasury (MoFT); and (viii) monitoring and evaluation of project outputs and results.

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Refer page 14 of Knowledge Management Addendum for more information on the Financial Management Assessment.

² ADB. 2009. *Financial Due Diligence A Methodology Note*. Refer page 3 for more information on the Financial Management Assessment.

³ OM D7 (Disaster and Emergency Assistance)/Bank Policies). "Standard ADB operational policies, including those on procurement, consulting services, financial management, and disbursement, should 'be liberally interpreted to ensure speedy and effective rehabilitation' in the case of emergency assistance." Para. 16.

⁴ *Government of Solomon Islands, Transport Sector Development Project, Supplementary Document 25, November 2010*.

B. Previous PFM Assessments

5. Country public financial management (PFM) arrangements were assessed in 2012 using the Public Expenditure Financial Accountability (PEFA) PFM Performance Measurement Framework.⁵ The assessment noted that comparing with the original PEFA assessment conducted in 2008, the repeat assessment in 2012 reveals an overall improvement across most performance indicators. PEFA however noted that the assessment was done during a time of transition to implement various PFM reforms. The reforms that came on line at the time of the 2012 assessment are the updated systems (e.g. Aurion, AX, BERT)⁶ while the new chart of accounts; new Public Finance and Management Act; revised financial instructions; and the creation of a procurement unit with the MoFT were implemented after the assessment thus, the effect of these reforms were not yet captured.

6. The credibility of the central budget has improved due to better budget forecasting and compliance compared to the earlier review when the country was emerging from ethnic conflict. Comparing the budgeted and actual revenue provides an indication of the quality of revenue forecasting. The revenue performance during the period 2009-2011 showed that the revenue for 2009 was under budget by 11 percent while 2010 and 2011 were over budget by 7.6 percent and 16.5 percent respectively. Although there were variances between estimates and actual, these were significantly much lower than the previous assessment. In terms of individual ministries, the credibility of the budget fell short with most ministries receiving fewer resources than budgeted. With regards to expenditures, for the same period covering 2009-2011, there was budget underperformance of 9 percent in 2009 and overperformance of 4 percent and 5.5 percent respectively. As with revenues, these variances were significantly much lower than the previous assessment.

7. The IMF in its country report noted that the timely implementation of the Public Financial Management Act is critical to achieving the objective of safeguarding and increasing the quality of public expenditure with the issuance of relevant implementing regulations. However, the report also noted that the authorities should review the merits of channeling an increasingly large share of public resources through funds controlled directly by Parliamentarians⁷.

8. Comprehensiveness and transparency of the budget has also improved compared to the last assessment. The addition of budget paper volume 1 in the budget strategy and outlook helps the public with understanding of the government's fiscal strategy. This document provides an overview of the budgets and is linked to the design to the government's policy priorities.

9. Despite these marked improvements, weaknesses in the PFM remain. The financial instructions issued by the private sector of MoFT were clear instructions on the procurement process. Although these instructions were provided to all the ministries, no training was conducted. This resulted in non-compliance as ministries insisted on the traditional approach of using bid waivers that have become illegal under the new Act. There is also resistance in the

⁵ Under the PEFA framework, performance is assessed in relation to seven dimensions of public financial management: credibility of the budget; comprehensiveness and transparency; degree to which the budget is prepared with due regard to government policy; predictability and control in budget execution; accounting, recording and reporting; external scrutiny and audit operations; appropriateness of development partner practices in country; and intergovernmental fiscal relationships.

⁶ Aurion is the new payroll software; AX is the new financial management information system software that replaced MAXIMISE and BERT is the new budget programming software.

⁷ Para 11, IMF country report No. 14/12, January 2014.

tender documents being reviewed by the newly created procurement unit⁸. Under the updated financial instructions, the procurement unit will first advise the Central Tender Board (CTB) on the tender evaluation reports prior to CTB deliberation⁹. It was estimated that about 90 percent of all government procurements are non-compliant to the new process. For NTF procurement under the TSDP, the non-compliance was very much lower.

10. Common with many developing member countries, Solomon Islands has a shortage of skills in general management, financial management, financial analysis, and management accounting. In particular, few accounts staff possesses practical skills beyond basic book-keeping. The impact of these skill shortages on Government operations is amplified by high demand for financial skills from the private sector, which pay higher remuneration and, in most cases, provide better conditions.

11. A Procurement Capacity Assessment (PCA)¹⁰ was conducted by the ADB in November 2010 on government's procurement procedures. The primary objective of the PCA was to review the government's existing policies, procedures, practices, institutional arrangements and organizational capacity for public sector procurement to assess their acceptability for use in national competitive bidding under DP-financed projects and through this process, establish the strengths and weaknesses of the government procurement system using benchmarking assessment. The overall results of the 2010 PCA revealed that the public procurement system is weak and the financial management risks are high. This inherent risk still exists not only in MID but other ministries as well and hence needs to be further addressed during project planning and implementation.

12. A joint review of the Solomon Islands national transport fund was also commissioned by the ADB and Australian Department of Foreign Affairs and Trade (DFAT) in September 2013. The objectives of the review were to assess the effectiveness and efficiency of existing governance, management and operational arrangements after the initial two years of operations of the NTF and to make recommendations to the government on any identified weaknesses. The overall result of the joint review revealed many weaknesses in the systems and the risks are high. Many of the recommendations in the joint review report have been addressed and the government is continuing reforms to improve its PFM.

II. FINANCIAL MANAGEMENT IN MINISTRY OF INFRASTRUCTURE DEVELOPMENT

13. The fiscal year (FY) for the central government is from 1 January to 31 December. The FY for the provincial government and Honiara City Council is April to March. For central ministries and departments, Solomon Islands has a centralized payments system and uses Microsoft AX financial software. Processing and recording of transactions is done centrally. Accounting and reporting is done on a cash basis and consolidated financial statements are produced by MoFT. Budget preparation is centrally driven with MoFT providing ministries with baseline estimates, ministries are then required to request additional support. For ministries the budget process is as follows: appropriation (by Parliament), authorisation (by the Minister through the signing of a general warrant), commitment (by relevant accounting officer through the raising of a local purchase order) and payment (on receipt and validation of invoice by Treasury).

⁸ Finance Circular 05/2013 dated October 7, 2013

⁹ Memorandum to Central Tender Board dated October 7, 2013.

¹⁰ Procurement Capacity Assessment November 2010 for TSDP, ADB.

14. As the executing agency (EA) for the Project, the MID is responsible for (i) construction, maintenance and rehabilitation of roads, bridges, wharves and airfields; (ii) maintenance and replacement of government machinery and equipment including motor vehicles; (iii) building and maintenance of government buildings; and (iv) building and maintenance of marine infrastructure and ship registration. MID's financial statutory reporting requirements are limited only to compliance with the requirements of the Public Finance and Audit Act (Cap 120) and compliance with government FIs for development and recurrent budgetary allocation.

15. The existing financial management structure and accounting system in MID only allows MID to handle the basic government accounting procedures relating to administration and recording of the processes associated with procurement of goods and services, collection of revenues pertaining to the activities of the Ministry, and providing data input to MoFT to facilitate processing of staff salaries and wages. The Ministry does not prepare any form of financial statements or reports that require conformity to international accounting standards. The only financial report prepared by the Finance Controller is the budget variance report for divisional directors to update them of the balances of their divisional budget allocations. Detailed financial reporting on the Ministry's financial affairs to the Auditor General's Office is done by MoFT.

16. Internal audit system is currently non-existent in MID. It is the primary responsibility of the head of agency to install, implement and monitor an adequate system of internal control which includes internal auditing.

A. National Transport Fund

17. The NTF, established under the National Transport Fund Act approved by Parliament on 19 March 2010 shall be capitalized and funded by proceeds of foreign assistance or grants and funds from the government which are made available to MID and Civil Aviation Division of the Ministry of Communication and Aviation in the form of assistance or grants as set forth in international agreements entered into (or to be entered into) by the Solomon Islands government with foreign governments and development partners (DPs). It is the principal mechanism for long-term financing available for the transport sector. The NTF Act established the NTF as a special fund for the purposes of developing, maintaining and managing transport infrastructure and services in Solomon Islands. Funds to be paid into the Fund are those provided by donors and development agencies, and other sources in accordance with the government budget. Since the NTF was established only Government of Australia (GOA) has made contributions into it.

18. Pursuant to the NTF Act, MoFT and MID manage the NTF and the Treasury Unit is the depository and disbursing agent of the NTF subject to the terms, conditions and guidelines stipulated in the Financial Regulations issued by the MoFT. Key provisions of the NTF Regulations are as follows:

- (i) The regulation establishes the National Transport Fund Board. The responsibilities of the Board include: (a) ensure that the Fund is managed in accordance with the NTF Act and Regulations; (b) endorse projects submitted by MID and Ministry in charge of Civil Aviation, and such endorsements are subject to approval of Cabinet; (c) ensure that annual plans, with monthly cash forecasts and estimates of anticipated receipts from DPs and approved expenditures are prepared; (d) ensure that all conditions made by DPs shall be complied with; (e) may require the appraisal of proposed projects; (f) may approve an investment policy for the Fund; and (g) oversee the accounts;

- (ii) The management of the Fund rests with MoFT and the Minister of the responsible sector agency (currently Infrastructure Development);
- (iii) All projects for funding must be specified in the National Transport Plan;
- (iv) The accounts of the Fund will be audited, and submitted to the Auditor General;
- (v) A Fund Manager may be appointed;
- (vi) For approval of projects all resolutions must be determined by consensus;
- (vii) One or more bank accounts may be established for purpose of managing the monies held by the Fund. Every such bank account shall include the name of the "The National Transport Fund"; and
- (viii) If payments under the Fund are made by another Ministry than MoFT, that Ministry shall submit a monthly report.

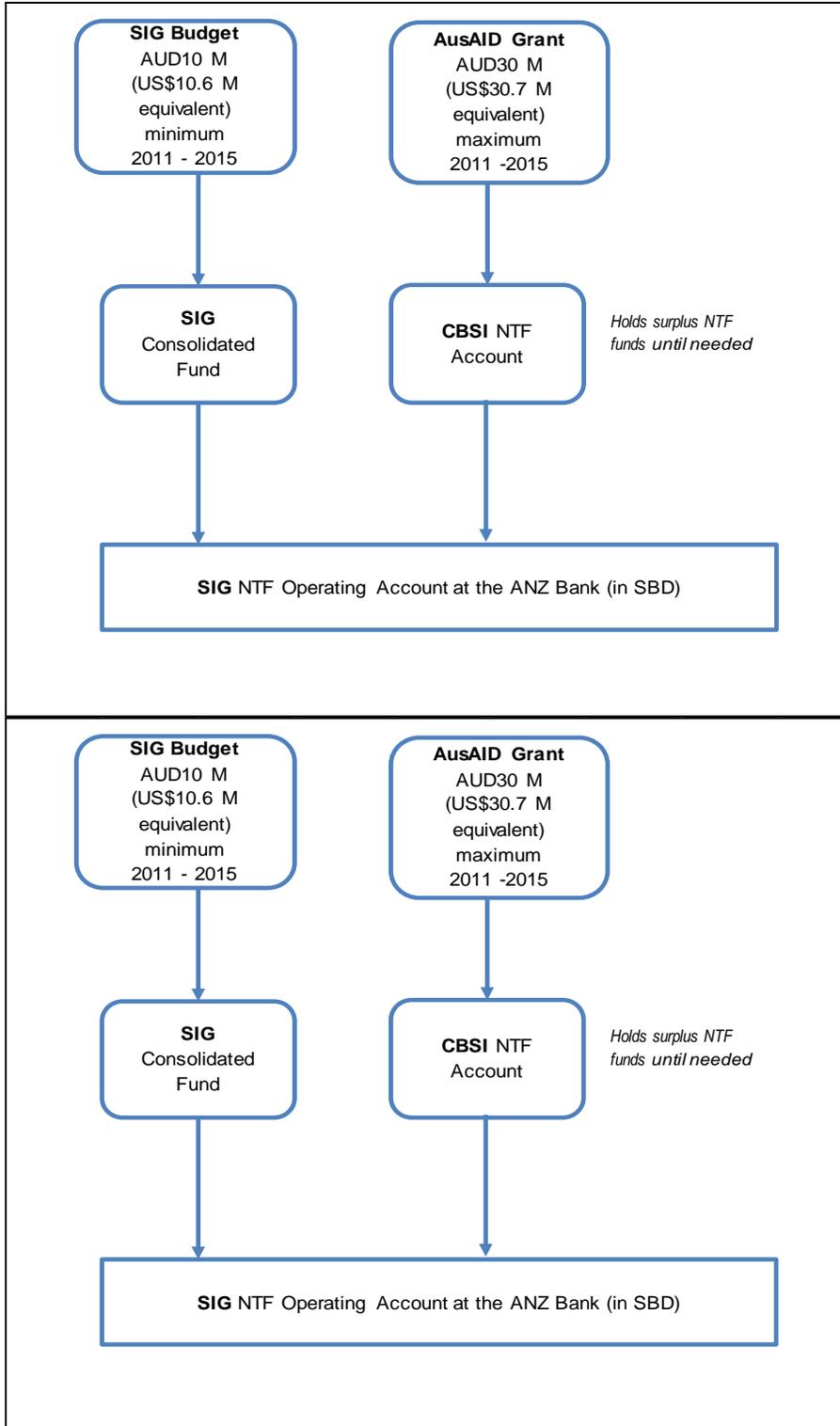
1. Current NTF Funds Flow Mechanism

19. Australia DFAT currently is the only development partner to fund NTF. The New Zealand Ministry of Foreign Affairs and Trade have indicated that potential contribution in the short term is unlikely. The Government of Japan for technical reasons cannot contribute to the NTF per se but are interested in providing funding for works which meet NTF funding criteria. The current World Bank program for the Solomon Islands does not include transport. All contributions of DFAT and the Solomon Islands government are disbursed to the NTF and all funds are released through the regular system of the government. Under this arrangement all funds are managed according to the general financial rules of the government. Both DFAT and government contributions are transferred to the bank account opened solely for NTF funds using government regular system for public financial management for release and accounting of all funds. The funding arrangement for projects under NTF was a major step in consolidating DPs support to the transport sector compared to the past multiple funding arrangements.

20. The foreign currency denominated contributions from Australian DFAT are deposited into the NTF bank account at the Central Bank of Solomon Islands (CBSI). These funds are converted by the CBSI into Solomon Islands dollars (SI\$) at the prevailing rate on the date of deposit. These are then deposited in SI\$ into the NTF operating fund at the ANZ Bank as the need for funds arises.

21. Payments out of the NTF operating account at the ANZ bank are made in accordance with government procedures as required under the Public Finance and Audit Act of 1996 and the detailed in the Financial Instructions. Payment vouchers are raised and authorized by appropriate officers at MID and sent to MoFT for processing. MoFT ensures that all required processes have been complied with before drawing the cheques. Prior to October 2013 cheques are drawn against the government's Consolidated Creditors Account at the ANZ Bank. From October 2013 cheques are drawn against the NTF Operational Account at the ANZ Bank. The reconciliation of the NTF bank accounts is the responsibility of MoFT.

22. Figure 1 depicts NTF funds flow.



B. Main Findings on Public Financial Management

23. The review of the public financial management builds on previous general assessments of public expenditure management and accountability in Solomon Islands.¹¹

1. Unreported Domestic Extra-budgetary Operations

24. As noted by the 2012 Public Financial Management-Performance Report, unreported domestic extra-budgetary operations in the form of Special Funds still pose a transparency issue as they can create the conditions for and raise the possibility of misuse of public funds. Concerns still remain regarding the operation and accountability of these funds (with the exception of the National Transport Fund), with little central oversight provided by either the MoFT or the Parliament.

2. Proportions of Aid that is managed by use of national procedures

25. The dimension assessed is the overall proportion of aid funds to the national government that are managed through national procedures (banking, authorization, procurement, accounting, audit, disbursement and reporting). Total aid received by Solomon Islands from its development partners is composed of the budget support component plus the donor-funding of a large number of development projects, which are implemented by the donors through almost all Ministries. A quarter of the total funds disbursed by the country's major development partners goes through part or all of the national systems/procedures and government's administrative mechanisms. A major portion of the donor funded projects (at least 150 projects worth around SI\$1.0 billion each year) does not use the national systems.

3. Quality and Timeliness of Annual Financial Statements

26. The timeliness and quality of annual financial statements is improving over time and IPSAS cash is now being used. However, the Office of the Auditor General (OAG) report for 2009 indicated that it was not possible to form an opinion of the financial statements for that year, due to the internal control weaknesses that affected the quality of the data.

4. External Audit

27. In the last four to five years, there has been a significant effort to audit government accounts and commence a rigorous audit regime in accordance with international auditing standards. The principal disappointment since the 2008 PEFA assessment has been the non-functionality of the Public Accounts Committee (PAC) in terms of its scrutiny of audit reports. The ability of the legislature to hold the executive branch of Government to account has thus significantly diminished. In the process the effectiveness of the external audit function has also been diminished, as the PAC gives force to the OAG's recommendations. Parliamentary scrutiny of the budget has improved, through its enhanced scope of scrutiny (now including the Budget Strategy and Outlook Paper) and greater adherence to procedures. These positive developments are undermined, however, by continuing lack of time to review the Budget and by the continuing practice of the executive to present supplementary appropriations bills to Parliament to cover expenditures that have already occurred, particularly through the use of the Contingency Warrant instrument. Some of these expenditures may have represented

¹¹Solomon Islands: Public Expenditures and Financial Accountability (PEFA) Assessment: Final Report. 11 December 2012.

genuine urgent and unforeseen expenditures, but, in the opinion of OAG and PAC, some do not.

28. In June 2014, PAC has called MID to discuss the 2012 NTF audit report of project accounts and audit management letter points and actions taken by MID to implement the 2012 audit recommendations.

5. Internal Controls

29. Payroll. Performance has improved mainly through the introduction of Aurion in 2009 and its attendant benefits in terms of strengthened linkages between personnel records and payroll and strengthening of controls over changes to the payroll. Further strengthening will come about through the roll-out of Aurion to line ministries and the purchase by the service commissions of the human resource management function in Aurion, as well as other improvements such as the automation of overtime payments and leave approval processes.

30. Procurement. Performance has improved in terms of more publication of contracts awarded by the Central Tender Board (CTB), but transparency is still low in terms of the justification provided for using restricted competitive procurement methods and the lack of an independent appeals body.

31. Non-salary internal control. Commitment controls are being strengthened through the use of AX, which, unlike its predecessor (Maximise) does not have an over-ride function.. Compliance with other internal control systems is an issue, as strongly emphasized by the Auditor General in his annual reports; the reports highlight in particular long delays in acquitting imprests. The internal audit function, which can check if internal control systems are working properly, is improving, but is hampered in its efforts by inadequate resources.

6. Accounting, Recording and Reporting

32. The monthly bank reconciliation has continued to run satisfactorily, though OAG reports suggest some problems. The timely acquittal of imprest continues to be an issue. In-year budget performance reports are prepared for management for the purposes of determining whether the budget is on track or not, but there is an issue with the quality of the reports, as indicated by inconsistencies between MoFT data and line ministry data. MoFT is making progress in enhancing accounting and reporting processes within the ministries. These inconsistencies should diminish over time as AX becomes embedded in line ministries.

III. RISK ANALYSIS

33. A Financial Management Internal Control and Risk Management Assessment was conducted.¹² The risk-assessment approach is based largely on International Standard on Auditing 400: *Risk Assessment and Internal Control*. The following risk assessment is based on the existing public financial management environment in the country and in MID, relying on existing staff and finance and accounting policies, procedures, and practices. The risk mitigation measures consider the factors which will significantly reduce or eliminate the risks identified.

¹² Refer page 24 of *Financial Management and Analysis of Projects*. ADB.2005.

A. Inherent Risk

34. Inherent Risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and the entity working environment (assuming absence of any counter checks or internal controls).

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
1. Country-Specific Risks	Moderate	Weak public financial management	<p>A Public Expenditure Financial Accountability (PEFA) study has been undertaken in 2012 which identified areas of weakness and recommended strategies and means of strengthening public financial management. Compared with 2008 assessment the 2012 PEFA reveals overall improvement in financial management. Various PFM reforms are now implemented (e.g. financial management information system: MS AX), a new Chart of Accounts, a new Public Financial Management Act, revised Financial Instructions, and a new dedicated Procurement Unit within MoFT.</p> <p>A Procurement Capacity Assessment (PCA)¹³ was conducted by the ADB in November 2010 on government's procurement procedures. The overall results of the 2010 PCA revealed that the public procurement system is weak and the financial management risks are high.</p> <p>Under the current TSDP, CPIU has a Procurement Unit which is manned by international and national consultants. MID still needs to appoint a national counterpart staff to head the procurement unit at CPIU. The Government has approved the positions of Principal Procurement and Procurement Officers and MID is in the process of</p>

¹³ Procurement Capacity Assessment November 2010 for TSDP, ADB.

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
			<p>recruitment.</p> <p>Procurement training is being provided to MID staff. MoFT has rolled out procurement training in the first half of 2014.</p>
2. Entity-Specific Risks	Moderate	<p>Institutional capacity: There are insufficient resident skills, expertise and depth of experience for timely and successful implementation.</p> <p>Implementation capacity: ADB and other DPs past development projects were mainly supported by construction supervision consultants and the situation still exists. MID has never been involved in financial management of projects, accounting, financial reporting and audit. The financial management capacity is limited to processing recurrent and personnel expenditures and hence unable to accommodate the demands of complex financial management and information systems requirements of ADB and other DPs. Also lack of accounting and auditing increases the risks of corruption. These factors may result in undue delays in implementing key activities and increased risks without capacity substitution.</p>	<p>The functioning CPIU under MID will also be responsible for implementing the proposed Transport Sector Flood Recovery Project (TSFRP). The CPIU is supported by Consultants from the TSDP up to 2016. After 2016, CPIU may still engage some Consultants to assist implement TSFRP.</p> <p>As part of TSDP a capacity development is being implemented to improve the implementation capacity of MID. A Financial Management Specialist is engaged under TSDP assisting the Project Accountant in the financial management of TSDP. The current MID Capacity Development Plan (with assistance from ADB TA 7715) covers recruitment, training, capacity development, and institutional strengthening and change management.</p> <p>Australian DFAT has engaged a new Financial Management Specialist at MID to support improve financial management in MID, particularly of the NTF. This Specialist will advise on the development of an improved financial management systems in consultation with MID and MoFT.</p> <p>MID development and recurrent funds currently use Sage50 financial management system. MID finance staff has been trained to use the system. Financial report for development and recurrent budget allocations using Sage50 has been produced starting June 2014.</p>

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
3. Project-Specific Risks	Low	Confusion of roles between MID staff, CPIU and project consultants	A clear organization structure of the CPIU has been established under TSDP. The separation of roles and responsibilities between MID staff and project consultants was clear. CPIU is fully integrated with MID staff and consultants.
Overall Inherent Risk	Moderate		

B. Control Risk

35. Control Risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Risk type	Risk Assessment	Risk Description	Risk Mitigation Measures
1. Implementing Entity	Moderate	Financial management policies and procedures might not be appropriate for project management.	An improved financial management system is currently ongoing that aim to provide improved resources management and accounting information flows to support timely updates of CPIU project management system and to provide better financial reporting to the NTF Board.
		No explicit project policy of where/how to report fraud, waste, misuse of assets.	Procedures for reporting fraud, waste, misuse of assets to be documented and implemented.
2. Funds Flow	Low	Deficiencies and misinterpretation of ADB guidelines in disbursement and withdrawal of project funds by EA.	Under the current TSDP, CPIU Finance staff have knowledge and experienced in ADB disbursement guidelines and procedures.

Risk type	Risk Assessment	Risk Description	Risk Mitigation Measures
4. Accounting Policies and Procedures	Moderate	Accounting policies and procedures are inadequate. Accounts reconciliations are often not undertaken, in-year reports incompatible	<p>MID currently follows the accounting policies and procedures outlined in the newly enacted 2013 PFM Act and its Financial Instructions.</p> <p>MoFT have changed the system for NTF payments. All NTF payments are now paid through the NTF operation account and not through the government's creditors account as previously. There is an issue with the new systems where disbursements are not immediately captured in the MoFT AX system. MID and MoFT need to agree on a system to capture financial data appropriately.</p> <p>MID has established a system with MoFT where CPIU was provided bank reconciliations, bank statement and cashbook on a monthly basis. Monthly, quarterly and annual reports are now produced and submitted regularly to all stakeholders.</p>
5. Internal Audit	High	There is no internal audit unit/department in MID.	Create an internal audit unit within MID and hire a certified public accountant as Head of the Unit and accounting degree holders as staff.
6. External Audit	Low	Lack of timely audit process is leading to the covenants not being met.	Currently, TSDP-ADB and NTF (2012 and 2013) accounts are being audited by a local firm Deloitte Touché Tohmatsu. The audit reports are without any qualifications, though there are some issues raised by the auditor in their management letter. CPIU has implemented the audit recommendations. ADB staff during review missions ensure that the recommendations are implemented.
7. Reporting and Monitoring	Low	Financial reports are produced but provided late.	<p>Currently, MYOB is used for external and internal reports. By January 2015 Sage50 will replace MYOB accounting software.</p> <p>Starting September 2013, financial reports were prepared and submitted on time.</p>

Risk type	Risk Assessment	Risk Description	Risk Mitigation Measures
8. Information Systems	Low	Back-up of financial data are infrequent and not secure.	Original documents of PVs including supporting documents are filed and secured by MoFT and duplicate copies are kept in CPIU/TSDP and MID Accounts. MYOB has back-up in the CPIU/TSDP server (NAS). Similarly, a back-up will be created in the NAS for Sage50 when CPIU/TSDP starts to use it for contracts continuing in 2015.
Overall Control Risk	Moderate		

CPIU = project implementation unit, DPs = development partners, EA = executing agency, FMAQ = financial management assessment questionnaire, MID = Ministry of Infrastructure Development, MoFT = Ministry of Finance and Treasury, NTF = National Transport Fund, PFM = public financial management, TSDP = Transport Sector Development Project

IV. DIRECTION FOR RISK MITIGATION

36. Based on the results of the Financial Management Internal Control and Risk Management Assessment, the following sections will address directions for risk mitigation to reduce or eliminate the risks identified under the proposed project.

A. Executing/Implementing Agency

37. MID will be the EA and IA for the Project. MID through its Transport Infrastructure Management Service (TIMS) has established a Central Project Implementation Unit (CPIU) to manage transport subprojects. The CPIU is currently manned by 16 MID personnel supplemented by 19 international and 22 national consultants. On the other hand, MID Accounts Section has 7 staff. Some positions in the Accounts Section are unclear, particularly those that are expected to provide financial services to activities under the NTF, development and recurrent budgets. The Accounts Division has received technical assistance from DFAT FMS and TSDP FMS particularly on the establishment of the financial management information system including NTF-funded projects and training of staff to use them. The Accounts Section still needs more support from the government and TSDP. Priority support areas include (i) streamlined structure and clearer job description – being addressed by a separate TA funded by JFPR (ii) connection to internet and automation of financial recording – being addressed by DFAT FMS and also from TSDP (iii) capacity building for existing staff including automation – from TSDP Financial Management Consultants, and (iv) recruitment of additional staff to improve provision of support services to MID departments particularly TIMS/CPIU – by Human Resources Manager through Public Service Commission (PSC) and MoFT. MID has recently hired an accountant for NTF.

B. Staffing

38. MID finance staff have experience in the accounting and disbursement procedures of DPs but lack the proficiency. This is because the staff do not possess the formal education in accounting and none are certified public accounts. It is proposed that MID through the Ministry

of Public Service increase the qualification of all the finance staff by enabling the staff to gain the accounting degree. However due to the stiff competition with the private sector for highly qualified and trained individuals, the Ministry of Public Service may have to upgrade their salary levels. Unless this is done, Government's chances of hiring more qualified persons will be challenging.

C. Accounting Policies and Procedures

39. MID will follow accounting policies and procedures outlined in the new Public Financial Management (PFM) Act and using the new financial management information system Sage50. Strengthening of MID accounting functions such as ensuring that funding through NTF is spent in line with agreed priorities through agreed processes in order to achieve value for money outcomes was introduced, Australian DFAT has engaged a new Financial Management Specialist to support improve financial management in MID and assist DFAT in managing the risks associated in using government systems, and implementing Sage50 accounting software. NTF/Sage implementation is a trial for the rest of 2014. If the trial provides timely, relevant project cost information then it will be recommended that Sage50 replace MYOB from January 2015. MoFT/MID have already established a system for NTF payments – All NTF payments are now paid through the NTF operation account and not through government creditors or consolidated account as previously. But the issue with this system is that disbursements could not be captured in the MoFT AX system. NTF will use the Sage50 software which is based on accrual accounting. Although the AX system follows the cash basis of accounting and the Sage50 uses the accrual basis both are compatible using an excel-based electronic spreadsheet. MID and MoFT will set up a system to capture financial data. Further, MID/CPIU has established a system with MoFT where they are provided with cashbook, monthly bank statements for reconciliation and reporting purposes. TSDP and MID Finance Specialists have also developed new payment and cash monitoring processes of NTF transactions.

D. Internal Audit

40. MID has no internal audit division. Internal audit function is lodged at MoFT. Internal audit was strengthened by the PFM Act of 2013. The Public Service Commission shall appoint a Director of Internal Audit. It's roles and function will include advising accountable officers on proper financial controls that should be in operation and adhered to by all ministries. The Director of Internal Audit can also investigate and report on allegations of any misconduct.

E. External Audit

41. Currently, TSDP-ADB and NTF funds are being audited by a local firm Deloitte Touche Tohmatsu. Under the contract, the annual audit reports and opinion will have to be submitted to ADB and DPs by end of June. This will continue with the ADB's Transport Sector Flood Recovery Project. Certified copies of audited annual consolidated project accounts as well as the auditor's report in English within 6 months of each financial year-end during implementation.

F. Reporting and Monitoring

42. MID will continue to prepare consolidated project reports. The project reports will be prepared using Sage50 replacing the MYOB accounting software. MID will prepare and submit on a monthly, quarterly and annual basis project reports. The reports will highlight the physical and financial progress of subprojects being undertaken. For this project, MID will prepare and submit progress reports, which will include: (i) a narrative description of progress made during

the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. MID will prepare and submit a project completion report within 3 months of the completion of the Project.

G. Information Systems

43. MID will use the Sage50 for both external and internal use. In addition, staff will be continuously trained on the use of the software. However, back-up and security of financial data will have to be upgraded particularly for MoFT since all original documents are submitted to them. It is the responsibility of the MoFT to ensure that the original documents (i.e. requisition forms, payment vouchers, receipts, etc) are filed properly and secure. Duplicate copies of the documents are stored in MID.

H. Conclusion

44. The PFM risk is rated as moderate¹⁴, this is considered acceptable given (i) the wide-ranging PFM reform program which the government has in place, indications of initial positive impacts and additional measures which are proposed including monitoring arrangements; and (ii) flexibility regarding financial management arrangements under the ADB's disaster and emergency assistance policy.

45. The following are the proposed actions:

To be undertaken after project effectiveness:

- (i) Designation of MID staff and Consultants;
- (ii) An organizational structure of the CPIU as it relates to the proposed Project to be developed; and
- (iii) Work plans with nominated core activities for all MID personnel to be developed.

To be undertaken during the implementation of the proposed Project:

- (i) Regular liaison between the EA and the ADB to ensure that ADB guidelines are followed, in case ADB will not use NTF;
- (ii) Regular interagency coordination at all levels to be put in place to discuss the portfolio performance of the loan/grant;
- (iii) Regular training on ADB disbursement policies to be provided, in case ADB will not use NTF;
- (iv) Separate accounts to be maintained for all projects and to be audited by an independent auditor or the Auditor General;
- (v) Performance management policies developed in order to retain and reward the right caliber of skilled people;
- (vi) Annual project accounts and underlying working papers prepared on a timely basis in preparation for the annual financial statement audit;
- (vii) Prompt reporting to stakeholders after the period-end;
- (viii) Monthly, quarterly and annual progress reports on project implementation and operation prepared;

¹⁴ On a four-point scale of negligible, moderate, substantial, and high

- (ix) Compliance with covenants monitored, including submission of audited project accounts;
- (x) Regular backup of all accounting systems and appropriate security measures over backup data to be put in place; and
- (xi) Regular training plan for accounting staff and training policies developed.

Table 1: Financial Management Assessment Questionnaire¹⁵

Topic	Response	Remarks
1. Implementing Agency	The Ministry of Infrastructure Development (MID) will be the Executing Agency (EA) and the Implementing Agency (IA) for the Project.	
1.1 What is the entity's legal status/registration	The entity is a government Department or Ministry Created under the 1978 Solomon Islands Constitution Mandate: MID is responsible to regulate, maintain and provide roads, wharves, airstrips and government workshops.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, the projects implemented are as follows: <ul style="list-style-type: none"> - Solomon Islands Emergency Assistance Project (ADB) - Institutional Strengthening of MID (ADB) - Diagnostic Assessment of Inter-island Transport (ADB) - Implementation of Inter-island Transport Reforms (ADB) - Solomon Islands Emergency Assistance Project (EU) - Transport Sector Strategy (EU) - Marine Infrastructure Project I (EU) - Marine Infrastructure Project II (EU) - Construction of Market and Jetty in Auki, province of Malaita (JICA) - Solomon Islands Roads Improvement Project (ADB) - Rapid Employment Project (WB) - Post-Conflict Emergency Assistance Project (ADB) - Transport Sector Development Project (ADB) 	

¹⁵ The responses to this questionnaire describe the existing situation in the Ministry of Infrastructure Development (MID) under its present legal status, structure and staffing. The remarks describe the situation where a Central Project Implementation Unit (CPIU) was established within MID.

Topic	Response	Remarks
1.3 What are the statutory reporting requirements for the entity?	<p>MID reports in accordance with the 1978 Public Finance and Audit Act</p> <p>No statutory financial reports are generated at the ministry level. The accounting functions established are only designed to (i) administer and record transactions associated with procurement of goods and services pertinent to the functions of the Ministry (i) collect revenues pertaining to the activities of the Ministry and (ii) administer salaries and wages of Ministry staff.</p> <p>All financial reports are generated and produced by the MoFT where statutory accounts are prepared and availed to the office of the Auditor General for auditing purposes.</p> <p>The current TSDP, a CPIU has been established and manned by both MID staff and Consultants. It is operating within the requirements of the Public Finance and Audit Act (cap 20) and complies with the terms and conditions set forth in the DPs grant agreements and associated financing arrangements.</p>	
1.4 Is the governing body for the <u>project</u> independent?	<p>The EA/IA is not a separate or independent entity but rather a department of the government.</p> <p>The governing body for the Project is not independent.</p>	
1.5 Is the organizational structure appropriate for the needs of the <u>project</u> ?	<p>The current organizational structure of MID is appropriate to meet the operational needs of the Project given its technical nature and availability of technical staff.</p> <p>The current CPIU has been structured to ensure that the appropriate staffs are recruited to ensure that the management, technical, finance, accounting, and all other needs of the project are met.</p>	
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	<p>ADB-TSFRP will make direct payment to consultants and contractors. CPIU will prepare the withdrawal applications and submit them directly to ADB for processing and effectivity of payments.</p>	

Topic	Response	Remarks
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Not applicable.	
2.3 What have been the major problems in the past in receipt of funds by the entity?	There have been no major problems in the past in receipt of funds by the entity for externally-funded projects.	
2.4 In which bank will the Imprest Account be opened?	Not applicable.	
2.5 Does the (proposed) CPIU have experience in the management of disbursements from ADB?	Yes. The CPIU is supported by project consultants which was established in 2011 for TSDP. The CPIU will be supported by additional finance and accounting consultants who will benefit from the TSDP consultants having the knowledge and experience in ADB disbursement guidelines and procedures.	
2.6 (not printed in the ADB Financial Appraisal Manual)		
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	The MoFT manages foreign exchange risks.	
2.8 How are the counterpart funds accessed?	Counterpart funds will provided as in-kind contribution.	
2.9 How are payments made from the counterpart funds?	It will be disbursed by MoFT in accordance with the government disbursement procedures.	
2.10 If part of the Project will be implemented by communities or NGOs, does the CPIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Communities and NGOs are expected to be involved in the project during consultations and implementation.	Where communities will be involved in the maintenance of the completed project assets, reporting and monitoring procedures will be developed.
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?		Where beneficiaries will be required to contribute to project costs in the form of labor, for instance, proper reporting will be built in the project to record and value the contribution of beneficiaries.

Topic	Response	Remarks
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Currently there are 7 staff at MID Accounts: Finance Controller – 1 Principal Accountant – 2 (1 NTF and 1 Development) Senior Accountant (Payment) – 1 Assistant Accountant- Requisition Ledger – 2 Assistant Accountant - Revenue -1	
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	MID Accounts and CPIU Finance consultants will handle the financial management of TSFRP.	
3.3 Is the <u>project</u> finance and accounting function staffed adequately?	The current staffing structure of the Finance Division is adequate for the Ministry's existing functions. A Principal Accountant has been hired recently to handle NTF.	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Not the current staffing at MID	The accounts personnel do not hold degrees in accounting.
3.5 Is the <u>project</u> accounts and finance staff trained in ADB procedures?	TSDP Finance has been provided training in ADB disbursement guidelines and procedures. MID Accounts and CPIU Finance consultants will handle the financial management of TSFRP. They will benefit from TSDP Finance personnel.	
3.6 What is the duration of the contract with the finance and accounts staff?	TSDP Finance staff are contracted for 5 years. Finance staff in MID are permanent public servants posted to the Ministry as public service staff.	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	The following positions are filled up. Finance Controller, Principal Accountant, Senior Accountant (Payment), 2 Assistant Accountant-Requisition Ledger, and an Assistant Accountant- Revenue	
3.10 Does the <u>project</u> have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	MID Accounts staff have written job descriptions. ADB TA 7715 assisted in revising job descriptions. Capacity development in new job descriptions are ongoing.	

Topic	Response	Remarks
3.11 At what frequency are personnel transferred?	Account staffs within the Ministry are members of Solomon Islands Government Accounting Services (SIGAS). SIGAS is responsible for recommending to the Public Service division persons within its members to fill in vacant positions within the public service departments or ministries.	Project staff movements are subject to their individual service contracts.
3.12 What is training policy for the finance and accounting staff?	ADB TA 7715 has developed MID Capacity Development Plan. Training includes financial management and internal controls.	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	No, MID is only engaged in funds commitment (i.e., against its established budget complying with Financial Instructions and requirements of the Public Finance and Audit Act).	Financial systems using Sage50 has been put in place that allowed for the proper recording of project financial transactions, including allocation of expenditures, disbursement categories and sources of funds during project implementation. TSFRP will also use Sage50 financial management system.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, controls are in place for the normal Ministry transactions which ensures that preparation and approval of transactions is segregated and in compliance with government FIs.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	The new chart of accounts include- heads and subheads-for the Ministry's own accounts	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Not applicable to MID line accounting.	

Topic	Response	Remarks
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	In MID, a commitment ledger is set up for the Ministry's normal transactions and this is reconciled against the balances from the MoFT financial report balances before preparation of the Ministry's internal management report that inform divisional directors of their available budget balances.	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes, only photocopies are retained as all original documents are forwarded to MoFT for processing.	
<i>Segregation of Duties</i>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Yes, for normal Ministry transactions. The Permanent Secretary (PS) will authorize to execute a transaction; the Principal Accountant commits and records the transaction; and the requisitioning division will have the custody of the assets involved in the transaction.	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, requisitions are made by Directors of Division; Accounting staff will commit and record and approve by Finance Controller/PS and payments by MoFT.	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	MoFT is responsible for bank accounts and bank reconciliations.	
<i>Budgeting System</i>		
4.10 Do budgets include physical and financial targets?	Official SIG budget for MID has only financial targets while physical targets are set in the Ministry's work program managed and maintained by the divisional directors.	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Detailed activities are described and itemized in the work program of each individual divisions and measurement of achievement/accomplishment is measured on the remaining balances in the budget through the accounts division budget variance reports.	

Topic	Response	Remarks
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	The variance report generated by the accounts division does not provide explanations for the variances. Directors of division use the reports to measure the performance of their division and identify the causes of the variances. This guides them in planning their future activities.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Variations are requested and must be approved in advance. Virements are approved by the Minister of MoFT and supplementary budget are put through in the Parliament before the implementation of activities.	
4.14 Who is responsible for preparation and approval of budgets?	Budgets are prepared by the Ministry's staff/directors and finalized by a "ministerial committee" (heads of divisions) before being sent to MoFT budget division for finalization and submission to Parliament by the Minister of Finance for approval.	
4.15 Are procedures in place to plan <u>project</u> activities, collect information from the units in charge of the different components, and prepare the budgets?	The Finance Controller and all Divisional Directors compile the MID budget.	
4.16 Are the <u>project</u> plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	The Ministry budget is prepared by knowledgeable and experienced staff based on budget baselines are provided by the MoFT to guide the Ministry in comparing the new budget with prior year's budget and actual expenditures.	
<i>Payments</i>		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	The processing of invoice is the responsibility of MoFT. Payment vouchers are passed for payment after the requirements of (i) to (iv) have been complied. All payments vouchers passed are then summarized in payment schedule and sent to MoFT for payment.	

Topic	Response	Remarks
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	MID invoices are paid by MoFT. MoFT provides MID with transaction reports which accounts division used to check against their own payment schedules and commitment ledger Where differences are noted or payments rejected, the matter is corrected by the party in error.	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Payroll is prepared by MoFT using base data supplied by the Public Service Commission and details in the Staff Establishment Budget	
<i>Policies And Procedures</i>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash accounting system is followed.	
4.21 What accounting standards are followed?	With the 2013 PFM Act, international public sector accounting standards (IPSAS) will be followed by all government ministries.	
4.22 Does the <u>project</u> have an adequate policies and procedures manual to guide activities and ensure staff accountability?	<p>MID relies heavily on the Financial Instructions (FIs) for guidance. It does however have in place various procurement-related manuals prepared under ADB TA No. 4494-SOL in association with the development of the National Transport Plan. These documents include:</p> <ul style="list-style-type: none"> - Procurement Manual, which outlines policies, directives, and detailed step-by-step requirements and procedures from defining a procurement requirement up to contract award. The manual applies to goods and services and civil works. - Contract Administration Manual which serves as a general guide in the management of civil works contract and as a basis for the preparation of project-specific manuals on contract administration procedures. - Quality Control Manual, which contains check list to enable engineers and supervisors to check contractor's work against contract specifications. - Standard bidding documents for roads and bridges, road grading, roadside and drainage, vegetation and drainage, pothole repair. - Standard MID contracts for works. 	

Topic	Response	Remarks
4.23 Is the accounting policy and procedure manual updated for the <u>project</u> activities?	The 2013 PFM Act and the new Financial Instructions are in use effective 1 January 2014.	
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	MoFT is the only entity that can introduce new accounting policy or procedure.	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	CPIU under TSDP has developed a financial management manual which needs updating.	
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	The new PFM Act has provisions on this.	
4.27 Are manuals distributed to appropriate personnel?	Yes, the new PFM and FIs are distributed to the Chief Accountant and Permanent Secretary. CPIU has been provided copy.	
<i>Cash and Bank</i>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	For MID, the bank signatories are the standard MoFT bank signatories nominated and authorized by that Ministry.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	MID does not maintain a detailed cash book. Schedule of receipts and payments is maintained and copies of remittance to MoFT are kept on file.	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes, cash collected and schedule of receipts is lodged with the MoFT cashier on a daily basis	
4.31 Are bank and cash reconciled on a monthly basis?	Yes for TSDP/NTF.	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes at MoFT.	

Topic	Response	Remarks
4.33 Are all receipts deposited on a timely basis?	Deposited with MoFT cashier daily.	
<i>Safeguard over Assets</i>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Apart from the security guards who are posted around the office building there is no detailed security policy in place.	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Records are kept up to date.	
4.36 Are there periodic physical inventories of fixed assets and stocks?	At the Ministry level inventory of fixed assets are conducted monthly while at the provincial offices quarterly.	
4.37 Are assets sufficiently covered by insurance policies?	CPIU vehicles are covered by insurance.	
<i>Other Offices and Implementing Entities</i>		
4.38 Are there any other regional offices or executing entities participating in implementation?	No	
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Not applicable.	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Not applicable.	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Not applicable.	
<i>Other</i>		

Topic	Response	Remarks
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Not applicable.	
5. Internal Audit		
5.1 Is there an internal audit department in the entity?	None	
5.2 What are the qualifications and experience of audit department staff?	Not applicable	
5.3 To whom does the internal auditor report?	Not applicable	
5.4 Will the internal audit department include the project in its work program?	Not applicable	
5.5 Are actions taken on the internal audit findings?	Not applicable	
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Financial records of MID subject to audit by the Office of the Auditor General (OAG). The project accounts of the Project will be audited annually by an external auditor acceptable to ADB.	

Topic	Response	Remarks
<p>6.2 Are there any delays in audit of the entity? When are the audit reports issued?</p>	<p>Audits of the Auditor's General office are not regular.</p> <p>The Interim Audit Report for MID for the period ending December 2008 completed by OAG in September 2009 noted serious shortcomings in the procedures and practices. It also highlights deficiencies in internal control in the management of procurement, expenditures, bank accounts and assets.</p> <p>The findings are as follows:</p> <ul style="list-style-type: none"> (i) Contractors register is not maintained by MID. It is required that all contractors are registered with the Ministry. This is an internal control mechanism to ensure that contractors are legitimate and qualified. Lack of register increases the risk of awarding contracts to unqualified and illegitimate contractors. (ii) Distributions of contract documents are not carried out. The Auditor-General did not receive copies of contract documentation in 2008 as stated in the Ministry's 2006 procurement manual. Non-compliance with the Procurement Manual increases the risks of misappropriation and lack of oversight. (iii) Bank reconciliations were not performed by the Ministry. FI 397(2) requires the authorized officers to prepare bank account reconciliation on receipt of bank statements. Bank reconciliation enables the Ministry to reconcile the funds deposited and withdrawn from the account. This increases the risk of misappropriation and unaccounted funds. (iv) No asset register and management policy mechanism. The Ministry has expended approximately SI\$9.9 billion of the total recurrent expenditure on assets and equipment. Asset register, asset policy and asset management mechanism enables the Ministry to monitor, secure, assess and dispose the assets. 	<p>There is an institutional strengthening program being implemented at the Auditor General's Office which aims to strengthen auditing capacity.</p>
<p>6.3 Is the audit of the entity conducted according to the International Standards on Auditing?</p>	<p>The audit of MID is undertaken by the OAG and is conducted according to International Standards on Auditing and standards set by the International Organization of Supreme Audit Institutions of which the OAG is a member.</p>	

Topic	Response	Remarks
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	There are no accountability issues raised in the audit reports (2011 to 2013) of TSDP-ADB and NTF.	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Similar with TSDP, an external auditor will be hired to audit the project financial statements.	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Under TSDP-ADB and NTF, recommendations made by the auditors in prior audits have been implemented by CPIU.	
6.7 Is the <u>project</u> subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	For the Project, MID will engage independent external auditors acceptable to ADB to audit the project accounts annually. MID will submit to ADB certified copies of audited annual consolidated project accounts as well as the auditor's report within 6 months of each financial year-end during implementation.	
6.8 Has the <u>project</u> prepared acceptable terms of reference for an annual project audit?	In consultation with ADB and OAG, the TOR for annual project audit will be prepared by MID/CPIU during project implementation.	
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the <u>entity</u> ? In accordance with which accounting standards?	Under the new PFM Act all ministries will adopt the International Public Sector Accounting Standards (IPSAS). TSDP project financial statements are prepared using IPSAS standards.	
7.2 Are financial statements prepared for the <u>program/project</u> ?	Financial statements are being prepared for TSDP.	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Financial statements are prepared at end year. Financial reports are prepared monthly, quarterly and annually.	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes	

Topic	Response	Remarks
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	The existing MID reporting system does not provide an adequate mechanism for linking financial information with the project's physical accomplishment and progress.	
7.6 Does the <u>project</u> have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	MID/CPIU under TSDP has developed a reporting system that integrates physical and financial results.	
7.7 Are financial management reports used by management?	Before only budget variation reports are submitted to PS, Undersecretary and Directors of Divisions. With TSDP contract commitment, contract expenditure, expenditure as against budget, monthly cash flows and accounts balance reports among others, are prepared.	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Financial reports are prepared using Sage50 accounting software.	
8. Information Systems		
8.1 Is the financial management system computerized?	There is no computerized financial management system in place in MID. Now under TSDP including MID development and recurrent the accounts processing is using Sage50.	
8.2 Can the system produce the necessary project financial reports?	Under TSDP financial reports are produced using MYOB. Sage50 financial management system will be used for contracts continuing in 2015.	
8.3 Is the staff adequately trained to maintain the system?	MID finance, MID Engineers and TSDP finance have been trained in the use of Sage50.	

Topic	Response	Remarks
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes, in Sage50 there will be an administrator of the financial management system, Approval is needed for changes and data inputs to be made.	