

## PROJECT FINANCIAL MANAGEMENT ASSESSMENT REPORT

### EXECUTIVE SUMMARY

**Overall Assessment:** The project financial management risk was assessed as moderate due to weaknesses identified in staffing, safeguard over assets, and internal audit at the Ministry of Education, Culture and Science (MECS).

**Summary of Weaknesses and Risks Identified:** The MECS will select and recruit an accountant/financial management specialist to the project implementation unit (PIU) but there is risk that a qualified and experienced accountant/financial management specialist cannot be recruited to the PIU. Although the government regulations governing fixed asset accounting exist, due to human resource scarcity, valuation of assets has not been conducted. There is no procedure in place to adequately safeguard assets. The MECS's Division of Monitoring and Evaluation and Internal Audit is understaffed and internal audit at the MECS primarily addresses compliance with rules and regulations. Controls on the efficient and effective use of funds are beyond the scope of internal audit at the MECS. In addition, tracking of audit deficiencies is conducted on an ad-hoc basis. The specialists of the Division of Monitoring and Evaluation and Internal Audit have limited knowledge and understanding of the Asian Development Bank (ADB)'s guidelines and procedures.

**Summary of Mitigation and/or Management Measures to be Adopted:** The terms of reference for the accountant/financial management specialist will be reviewed and approved by the Asian Development Bank (ADB) as well as the selection and recruitment processes. Project assets will be appropriately labeled and recorded, and reported in project quarterly and annual reports. During review missions, ADB will review transactions and financial reports. An international project management specialist to be engaged under the project will guide and coach the MECS and the PIU. The MECS and PIU staff will be trained in ADB's guidelines and procedures.

### I. INTRODUCTION

1. The financial management assessment (FMA) was conducted from 25 May 2015 to 15 June 2015 in accordance with ADB's *Guidelines for the Financial Management and Analysis of Projects*, the *Financial Due Diligence: A Methodology Note*, and the *Financial Management Technical Guidance Note: Financial Management Assessment*. The FMA considered the capacity of the MECS (the executing and implementing agency of the project), including funds flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements. The governance risk assessment for Mongolia also informed the FMA.<sup>1</sup> The Financial Management, Internal Control and Risk Assessment (FMICRA) was undertaken by Zita Aly-Belfadel, staff consultant, and Asako Maruyama, the mission leader. Preparation activities included reviewing documents, ADB's ongoing experience, interviews with counterpart and discussions with stakeholders.

### II. BRIEF PROJECT DESCRIPTION

2. The outcome of the project will be models to improve physical school dormitory environment and services established and implemented in three *aimags* of the western region in

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<sup>1</sup> ADB. 2008. *Risk Assessments and Risk Management Plans for National Systems and the Education and Urban Infrastructure Sectors in Mongolia*. Manila.

Mongolia. The project will have the following three outputs: (i) physical school dormitory environment improved; (ii) capacity to deliver school dormitory services improved; and (iii) policy and regulatory frameworks for improving school dormitory environment developed. The project is estimated to cost \$3.38 million. The total project cost of \$3.38 million will be financed by a Trust Fund grant not exceeding \$3.00 million, and the Government of Mongolia and Govi-Altai, Uvs, and Zavkhan *aimag* governments will fund \$0.38 million equivalent. The project will be implemented over three years. The MECS will be the executing and implementing agency of the project. Govi-Altai, Uvs, and Zavkhan *aimag* education departments will also be the implementing agencies.

### **III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUE**

3. The country-specific risks were assessed as moderate because of weak linkages between sectoral and local strategic plans and budget preparation, a disconnect between budget preparation and execution at the sectoral and local levels, management of donor funds outside the government system, and weaknesses in some areas of control in the government financial management information system (GFMS, i.e., manual interventions required for the preparation of financial reports, weaknesses in budgetary control, system integrity check, payment security, documentation, and system management). The entity-specific risks were assessed as substantial due to limited experience of the MECS in directly managing donor funds, lack of policies and procedures to safeguard fixed assets, and understaffed and compliance-driven internal audit function. The overall inherent risk was rated as substantial.

### **IV. PROJECT FINANCIAL MANAGEMENT SYSTEM**

#### **A. Overview**

##### **(i) Organization and Staff Capacity**

4. The MECS is a government agency established by the resolution of the State Great Hural (Parliament) and its financial management system is governed by appropriate laws and regulations, such as the Accounts Law, Budget Law, and Law on transparency of Information and the Right to Receive Information. The MECS's management positions comprise: 1 minister; 2 deputy ministers; 1 state secretary; and 7 department directors (Strategic Policy and Planning; Finance and Economics; Science Policy and Coordination; Innovation and High Technology; Culture Policy and Coordination; Public Administration; and Policy Implementation) The MECS's organizational and governance structure is considered appropriate for the project.

5. The MECS's Treasury Fund Unit (equivalent to the accounting unit) is staffed by 1 senior specialist and 2 specialists. The MECS will select and recruit an accountant/financial management specialist to the PIU who will manage the project funds and prepare financial reports.

##### **(ii) Information Management**

6. Since the late 2000s, the MECS has been using the computerized GFMS. However, donor funds have been managed outside the government system and the project financial data will not be integrated with the MECS's financial data. The GFMS requires some manual interventions for the preparation of financial reports which are thus prepared by spreadsheets with the support of the GFMS. The GFMS does not have the capacity to link the financial

information with physical progress. The MECS's management, organization and processes and systems generally safeguard the confidentiality, integrity and availability of the data in the GFMS. Some weaknesses in the backup procedures have been identified in the GFMS.

### **(iii) Budgeting and Funds Flow Arrangements**

7. The MECS's budgets are prepared by the Department of Finance and Economics by economic category in accordance with the decree approved by the Ministry of Finance. The Ministry of Finance reviews and revises the MECS's budget proposal and submits them for approval to the State Great Hural (Parliament). The MECS's budgets mainly include financial targets only. The Ministry of Finance monitors the budget execution through the Treasury Single Account System and reports to the State Great Hural. Explanations are required for significant variations from the approved budget and the budget execution when presenting overall semiannual and annual financial reports.

### **(iv) Effectiveness**

8. The country's public financial management system is backed by sound legislative frameworks and has been strengthened since the early 2000s. The budget preparation is now guided by a medium-term (three year) fiscal framework and the budget preparation timeline is consistently followed. Since 2015, in addition to sector central ministries, local governments have started participating in budget planning. The GFMS, which was brought into use in 2005, integrates key public financial management component elements such as the Treasury Single Account System, a chart of accounts consistent with the international accounting standards, an integrated budget and treasury system linked to the Bank of Mongolia, and a debt management system providing inputs to the integrated budget and treasury system. With the GFMS in place, controls over budget execution have improved. Important financial reporting requirements to the State Great Hural have been fulfilled by the government. The National Audit Office performs audit of financial statements submitted by the government and reports to the State Great Hural.

### **(v) Accountability Measures**

9. The responsibility for conducting external audit is assigned to the National Audit Office. No later than six weeks after the end of the fiscal year, the government has to submit the financial accounts to the National Audit Office. All government agencies and legal entities with state involvement are required to report on budgets and financial matters to the State Great Hural. The Accounts Law adopted in 2014 further obliges the government to make information on budgets and financial matters available to the public.

## **B. Strengths**

10. Annual budgets and plans as well as quarterly and annual reports of the project will be reviewed and approved by a project steering committee to be established by the MECS. The PIU, staffed by a qualified and experienced accountant/financial management specialist, will also be established by the MECS to assume day-to-day management of the project, including managing of the project funds and financial reporting. The grant proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook*. Direct payment by ADB, and imprest fund procedures, liquidation and replenishment, and statement of expenditures (SOEs), will be used to disburse the grant proceeds. The imprest account will be established at a commercial bank acceptable to ADB. With the PIU staffed by qualified professionals, a ceiling on the use of

the SOE procedure may not be required. An external auditor acceptable to ADB will be appointed by the National Audit Office for the project. Integrated financial management information system software acceptable to ADB will be installed at the PIU and authorized PIU staff will be trained in the use of the system. The system will directly generate financial reports and will be linked to the project performance management system, which will allow reporting on financial and physical progress in project implementation.

### **C. Weaknesses**

11. Since donor funds have been managed outside the government system, the MECS has limited experience in directly managing donor funds. The MECS will select and recruit an accountant/financial management specialist to the PIU but there is risk that a qualified and experienced accountant/financial management specialist cannot be recruited to the PIU. Although the government regulations governing fixed asset accounting exist, due to human resource scarcity, valuation of assets has not been conducted. There is no procedure in place to adequately safeguard assets. The MECS's Division of Monitoring and Evaluation and Internal Audit is understaffed and internal audit at the MECS primarily addresses compliance with rules and regulations. Controls on the efficient and effective use of funds are beyond the scope of internal audit at the MECS. In addition, tracking of audit deficiencies is conducted on an ad-hoc basis. The specialists of the Division of Monitoring and Evaluation and Internal Audit have limited knowledge and understanding of ADB's guidelines and procedures.

### **D. Personnel, accounting policies and procedures, internal control, internal and external audit**

12. The PIU will be established by the MECS to carry out day-to-day project management activities, including financial management. The PIU will be staffed by qualified and experienced professionals including: a project manager responsible for the overall project management, an accountant/financial management specialist, a procurement specialist, and three local project coordinators to be based at the education departments of Govi-Altai, Uvs, and Zavkhan *aimags*. The MECS, the education departments, and the PIU will be guided and coached by an international project management specialist. Based on the government accounting system and through integrated financial management information system software acceptable to ADB to be installed at the PIU, the project accounting system will be established. Policies and procedure manuals will be compiled by the PIU with the support of the international project management specialist at the beginning of project implementation. Project assets will be appropriately labeled and recorded, and reported in project quarterly and annual reports. Annual budgets and plans, quarterly and annual reports will be reviewed and discussed by the project steering committee established by the MECS and the project steering subcommittees established at the *aimag* level. During review missions, ADB will review transactions and financial reports to complement the MECS's weak internal audit functions. An external auditor acceptable to ADB will be appointed by the National Audit Office for the project. Terms of reference for the external auditor is prepared by the National Audit Office, reviewed and approved by ADB.

### **E. Financial reporting systems, including use of information technology**

13. Integrated financial management information system will be installed at the PIU and will be linked to the project performance management system. The system will directly generate financial reports. The PIU will prepare quarterly and annual reports on financial and physical progress in project implementation.

## F. Disbursement arrangements, funds flow mechanism

14. Direct payment by ADB, and imprest fund procedures, liquidation and replenishment, and SOE procedures will be used to disburse the grant proceeds. In particular, civil works contractors will be paid directly by ADB. Other suppliers and contractors, as well as training and workshops, and operational costs, will be paid through imprest accounts to be opened by the PIU on behalf of the MECS. There will be an imprest account for the grant proceeds and the other for counterpart funds. The MECS and *aimag* governments will include counterpart funds in the budget proposals and the Ministry of Finance will disburse the funds to the imprest account for counterpart funds. The funds flow diagram is in Appendix 2.

## V. RISK DESCRIPTION AND RATING – INCLUDING THE FINANCIAL MANAGEMENT AND INTERNAL CONTROL RISK ASSESSMENT

Risk Type	Risk Assessment	Risk Description	Mitigation Measures or Risk Management Plan
<b>Inherent Risk</b>			
1. Country-Specific Risks	Moderate	Linkage between sectoral and local strategic plans and budget preparation is weak, and there is a disconnect between budget preparation and execution at sector and local levels. Donor funds have been managed outside the government system. Although the government financial management information system (GFMS) is generally functioning, some manual interventions are required for the preparation of financial reports and some areas of control such as budgetary control, system integrity check, payment security, documentation, and system management need to be strengthened.	The Ministry of Education, Culture, and Science (MECS) and education departments of Govi-Altai, Uvs, and Zavkhan <i>aimags</i> will be assisted by the project implementation unit (PIU) in preparing annual budgets and plans for the project in accordance with the design and monitoring framework, the project administration manual and grant agreement. Integrated financial management information system software acceptable to ADB will be installed at the PIU to manage the project funds.
2. Entity-Specific Risks	Substantial	Since donor funds have been managed outside the government system, the MECS has limited experience in directly managing donor funds, which may cause delays in project implementation. Policies and procedures to safeguard fixed assets are not in place, and there is risk of loss of project assets. Internal audit at the MECS mainly addresses compliance with rules and regulations and the efficient and effective use of funds is not verified. Division of M&E and Internal Audit is not adequately staffed to properly assume the function.	The PIU will be established by the MECS to carry out day-to-day project management activities, including financial management. The PIU will be staffed by qualified and experienced professionals including: a project manager responsible for the overall project management, an accountant/financial management specialist, a procurement specialist, and three local project coordinators to be based at education departments of Govi-Altai, Uvs, and Zavkhan <i>aimags</i> . The MECS, education departments, and the PIU will be guided and coached by an international project management specialist. Project assets will be appropriately labeled, recorded and reported in project quarterly and annual reports. Annual budgets and plans, quarterly and annual reports will be

Risk Type	Risk Assessment	Risk Description	Mitigation Measures or Risk Management Plan
			reviewed and discussed by the project steering committee established by the MECS and the project steering subcommittees established at the <i>aimag</i> level.
<b>Overall Inherent Risk</b>	<b>Substantial</b>		
<b>Project Risk</b>			
1. Implementing Entity	Low	The MECS is a government agency and its financial management system is governed by appropriate laws and regulations. The MECS's organizational and governance structures are considered appropriate for the project.	The MECS will establish a project steering committee to review and approve annual budgets and plans, quarterly and annual reports and provide guidance in project implementation. It will also establish the PIU which will assume day-to-day management of the project.
2. Funds Flow	Low	The fund flow arrangements already used under past ADB-financed projects executed and implemented by the MECS will be used for the project. The PIU to be established by the MECS will manage the imprest fund and statement of expenditure (SOE) procedures.	The grant proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> . Direct payment by ADB, and imprest fund procedures, liquidation and replenishment, and statement of expenditures (SOEs), will be used to disburse the grant proceeds. The imprest accounts will be established at a commercial bank acceptable to ADB. The PIU will be established by the MECS and staffed by an accountant and/or financial management specialist and a project manager who would have experience with ADB-financed projects. The PIU, therefore, will have adequate administrative and accounting capacity and a ceiling on the use of the SOE procedure may not be required.
3. Staffing	Substantial	The MECS will select and recruit an accountant/financial management specialist to the PIU. There is risk that a qualified and experienced accountant/financial management specialist cannot be recruited to the PIU.	Terms of reference for the accountant and/or financial management specialist will be reviewed and approved by ADB, as well as the selection/recruitment processes.
4. Accounting Policies and Procedures	Substantial	The MECS uses the government accounting system which meets international accounting standards. The government regulations governing fixed asset accounting exist but due to human resource scarcity, valuation of assets has not been conducted. No procedures have been in place to adequately safeguard assets.	Based on the government accounting system and through integrated financial management information system software acceptable to ADB to be installed at the PIU, the project accounting system will be established. Policies and procedure manuals will be compiled by the PIU with the support of an international project management specialist at the beginning of project implementation. Project assets will be appropriately labeled and recorded, and reported in project quarterly and annual reports.

<b>Risk Type</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Mitigation Measures or Risk Management Plan</b>
5. Internal Audit	Substantial	Division of M&E and Internal Audit of the MECS is understaffed. Internal audit of the MECS primarily addresses compliance with rules and regulations. Controls on the efficient and effective use of funds are beyond the scope of internal audit. Tracking of audit deficiencies is conducted on an ad-hoc basis. The specialists of the Division of M&E and Internal Audit have limited knowledge and understanding of ADB's guidelines and procedures.	During review missions, ADB will review transactions and financial reports. The international project management specialist will guide and coach the MECS and the PIU. The MECS staff will be trained in ADB's guidelines and procedures.
6. External Audit	Low	External audits are conducted in accordance with the International Standards on Auditing. The audit reports of the MECS for the past three years identified no major accountability issues. The National Audit Office has knowledge and understanding of ADB's guidelines and procedures.	An external auditor acceptable to ADB will be appointed by the National Audit Office for the project. Terms of Reference for the external auditor is prepared by the National Audit Office, reviewed and approved by ADB.
7. Reporting and Monitoring	Low	The MECS's financial reports are prepared by spreadsheets with the support of the GFMIS. The GFMIS does not have the capacity to link the financial information with physical progress. The MECS prepares quarterly and annual financial reports and present them in a timely manner for management decision-making.	Integrated financial management information system will be installed at the PIU and will be linked to the project performance monitoring system. The system will directly generate financial reports. The PIU will prepare quarterly and annual reports on financial and physical progress in project implementation.
8. Information Systems	Low	Since the late 2000s, the MECS has been using the computerized GFMIS. The GFMIS requires some manual interventions. Donor funds are managed outside the government system.	Integrated financial management information system software acceptable to ADB will be installed at the PIU. The authorized PIU staff will be trained in using the system. The system will directly generate financial reports. It will have online data backup and recovery functions.
<b>Overall Project Risk</b>	<b>Moderate</b>		
<b>Overall (Combined) Risk</b>	<b>Moderate</b>		

## VI. PROPOSED TIME-BOUND ACTION PLAN

14. The following actions will be taken to minimize the key risks identified above.

<b>Key Risks</b>	<b>Activity to Mitigate Risks</b>	<b>Staff/Personnel Responsible</b>	<b>Timeline</b>
Limited experience of the	Establish a PIU staffed by qualified and	MECS and <i>aimag</i>	Before grant

Key Risks	Activity to Mitigate Risks	Staff/Personnel Responsible	Timeline
MECS staff in directly managing donor funds	experienced professionals including: a project manager, an accountant/financial management specialist, a procurement specialist, and three local project coordinators to be based at education departments in Govi-Altai, Uvs, and Zavkhan <i>aimags</i> to assume day-to-day management of the project, including financial management	education departments	effectiveness
	Review and approve terms of reference for the PIU staff, as well as the selection and recruitment processes	ADB	Before grant effectiveness
	Engage an international project management specialist to assist the MECS, <i>aimag</i> education departments, and the PIU in starting up and management the project, providing training for the MECS, <i>aimag</i> education department, and PIU staff, monitoring the application of the knowledge gained through training, and compiling accounting and financial management policies and procedure manuals for the PIU	PIU staff	Immediately after grant effectiveness
Management of donor funds outside the government system	Based on the government accounting system and through integrated financial management information system software acceptable to ADB to be installed at the PIU, establish the project accounting system	PIU staff; international project management specialist	Immediately after grant effectiveness
No procedure in place to safeguard assets	Label and record all project assets and report them in project quarterly and annual reports	PIU staff	Quarterly and annually during project implementation
Understaffed and compliance-driven internal audit function of the MECS	Review transactions and financial reports during review missions Train, guide and coach the MECS and PIU staff in ADB's guidelines and procedures	MECS and ADB International project management specialist; ADB	At least once a year Immediately after grant effectiveness; intermittently during project implementation

## VII. SUGGESTED FINANCIAL MANAGEMENT COVENANTS

15. The standard assurances would suffice, given the overall project risk was assessed as moderate.

## VIII. CONCLUSION

16. The project arrangements with appropriate mitigation measures, are considered satisfactory. ADB and the government will jointly undertake reviews of the project at least once a year. The reviews will assess progress in the project activities, including the proposed time-bound action plan, identify issues and constraints, and determine necessary remedial actions and adjustments.



**APPENDICES:**

- 1. COMPLETED FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE**
- 2. FUNDS FLOW DIAGRAM**

### APPENDIX 1: FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

Topic	Response	Potential Risk Event
<b>1. Executing / Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	The Ministry of Education, Culture and Science (MECS, Executing and Implementing Agency of the Project) is a state central administrative organization in charge of education, culture and science, established by the resolution of the State Great Hural (Parliament).	Low
1.2 How much equity (shareholding) is owned by the Government?	The MECS is a government agency.	Low
1.3 Obtain the list of beneficial owners of major blocks of shares (nongovernmental portion), if any.	n.a.	Low
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	The MECS has implemented several externally financed projects, including:  The Global Partnership for Education Preschool Education Project (GPE/World Bank, 2013–) Higher Education Reform Project (ADB, 2011–) Education for the Poor – Financial Crisis Response Project (ADB, 2009–2014) Education Sector Reform Project (ADB. (2008–2014)	Low
1.5 Briefly describe the statutory reporting requirements for the entity.	The MECS should make Information on budgets and financial matters available to the public, according to the Accounts Law, Budget Law and Law on Transparency of Information and the Right to Receive Information of Mongolia.	Low
1.6 Describe the regulatory or supervisory agency of the entity.	The MOF, the National Audit Office, and the State Great Hural (Parliament) supervise the MECS.	Low
1.7 What is the governing body for the project? Is the governing body for the project independent?	The project will be guided and supervised by a project steering committee established by the MECS and project steering sub-committees established at the <i>aimag</i> level.	Low
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	The MECS's management positions comprise: 1 minister; 2 deputy ministers; 1 state secretary; 7 department directors (Strategic Policy and Planning; Finance and Economics; Science Policy and Coordination; Innovation and High Technology; Culture Policy and Coordination; Public Administration; and Policy Implementation). The MECS's organizational and governance structure is considered appropriate for the project.	Low
1.9 Does the entity have a Code of Ethics in place?	The Government Resolution No.58 (1999) set up the Code of Conduct for Public Administrative Officials.	Low
1.10 Describe (if any) any historical issues reports of ethics violations involving the	The former minister's wife had been investigated for alleged corruption in	Moderate

Topic	Response	Potential Event	Risk
entity and management. How were they addressed?	2013 but no conclusive evidence was found.		
<b>2. Funds Flow Arrangements</b>			
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	Civil works contractors will be paid directly by ADB. Other suppliers and contractors as well as training and workshops, operational costs will be paid through imprest accounts to be opened by the project implementation unit (PIU) on behalf of the MECS. ADB, the central and aimag governments disburse funds to imprest accounts.	Low	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	The grant proceeds will be transferred directly from ADB to imprest accounts or civil works contractors. The PIU, staffed by qualified professionals, will manage the imprest accounts. The arrangements have been used in other ADB-financed projects in the sector and prove satisfactory.	Low	
2.3 Are the disbursement methods appropriate?	The disbursement methods are in line with ADB's Loan Disbursement Handbook.	Low	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	There have been no major problems.	Low	
2.5 In which bank will the Imprest Account (if applicable) be established?	Imprest accounts will be established at a commercial bank acceptable to ADB.	Low	
2.6 Is the bank in which the imprest account is established capable of – (i) Executing foreign and local currency transactions? (ii) Issuing and administering letters of credit (LC)? (iii) Handling a large volume of transaction? (iv) Issuing detailed monthly bank statements promptly?	The bank accepted by ADB will be capable of executing foreign and local currency transactions, issuing and administering LC, handling a large volume of transactions, and issuing detailed monthly bank statements promptly.	Low	
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	The amount of the imprest account for the grant proceeds will be determined based on ADB financed expenditures to be paid from the imprest account for the next 6 months.	Low	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	The PIU will be established once the grant becomes effective. Staff who have experience with ADB-financed projects will be selected as PIU staff.	Substantial	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of	The PIU will be established before the grant becomes effective. Staff who have experience with ADB-financed projects will be selected as PIU staff. A ceiling on the use of the SOE procedure may not be necessary if the PIU is staffed by qualified professionals.	Substantial	

Topic	Response	Potential Risk Event
	the SOE procedure.	
2.10	Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Low
2.11	How are the counterpart funds accessed?	Low
2.12	How are payments made from the counterpart funds?	Low
2.13	If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Low
2.14	Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	Low
<b>3. Staffing</b>		
3.1	What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Low
3.2	Will existing staff be assigned to the project, or will new staff be recruited?	Substantial
3.3	Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	Low
3.4	Is the project finance and accounting function staffed adequately?	Substantial
3.5	Are the project finance and accounting staff adequately qualified and experienced?	Substantial

Topic	Response	Potential Risk Event
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	The specialist should be an accounting professional who has experience in financial management under ADB-financed projects. Training in ADB procedures will also be provided.	Substantial
3.7 What is the duration of the contract with the project finance and accounting staff?	The specialist will be engaged for the whole duration of the project on a full-time basis.	Low
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	The specialist will be contracted by the MECS before the grant becomes effective.	Substantial
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	An accountant/financial management specialist will be recruited to the PIU. The specialist should be an accounting professional who has experience in financial management under ADB-financed projects. TOR for the accountant/financial management specialist will be reviewed and approved by ADB.	Low
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Draft TORs for the PIU staff have been developed. The TORs will be further reviewed and approved by ADB.	Low
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	The turnover rate for the accountant/financial management specialist of the PIU under the past ADB-financed projects in the sector has been low.	Low
3.12 What is training policy for the finance and accounting staff?	Training for the PIU staff has been included in the project cost. An international project management specialist to be engaged under the project will also guide and coach the PIU staff.	Low
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	ADB-organized disbursement seminars.	Low
<b>4. Accounting Policies and Procedures</b>		
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 (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	The MECS uses the government accounting system which meets international accounting standards. Based on the government accounting system and through integrated financial management information software acceptable to ADB to be installed at the PIU, the project accounting system will be established.	Low
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	The preparation of transactions will be made by the PIU, which will be approved by the MECS and ADB. When payments should be made, the MECS and the Ministry of Finance need to approve the transactions. The arrangements ensure	Low

Topic	Response	Potential Event	Risk
	adequate controls.		
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	The chart of accounts is adequate and in conformity with the international standards.	Low	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Cost allocations to the MECS, and the three <i>aimag</i> governments were made adequately and agreed.	Low	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	General Ledger and subsidiary ledgers are reconciled monthly.	Low	
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g. ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Accounting records and supporting documents are retained for 1-2 years for audit purposes and subsequently archived for 10 years. Only authorized staff with pass keys have access to records and documents.	Low	
4.7 Describe any previous audit findings that have not been addressed.	Previous audit findings under past ADB-financed projects in the sector include unclear distinction between imprest account and operational account (established under the imprest account) activities. This has been addressed.	Low	
<b>Segregation of Duties</b>			
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Different specialists perform those responsibilities separately at the MECS.	Low	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	These functions are handled by different specialists and segregated at the MECS.	Low	
<b>Budgeting System</b>			
4.10 Do budgets include physical and financial targets?	The MECS's budgets mainly include financial targets only. The project has clearly established physical and financial targets.	Low	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	The MECS's budgets are prepared by economic category in accordance with the decree approved by the Minister of Finance. The project has detailed cost estimates by year which will be updated by PIU and approved by the project steering committee and subcommittees.	Low	

Topic	Response	Potential Risk Event
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Actual expenditures are compared to the budget quarterly under the Treasury Single Account framework. Explanations are required for significant variations when presenting overall semiannual and annual financial reports.	Low
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Approvals for variations are required in advance.	Low
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	There is a ceiling.	Low
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	The MECS's budgets are prepared by the Department of Finance and Economics. The Ministry of Finance reviews and revises the MECS's budget proposals and submits them for approval to the State Great Hural (Parliament). The Ministry of Finance monitors the budget execution which will be reported to the State Great Hural.	Low
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	The project budgets were prepared in accordance with the implementation schedule. The budgets will be updated by the PIU and reviewed and approved by the project steering committee and subcommittees and ADB.	Low
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals? Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds? Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects? What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?	The project budgets were prepared in accordance with the implementation schedule. Under an ongoing ADB-financed project in the sector, the MECS's weak capacity to spend project funds in accordance with ADB procedures has been noted. Under ADB-financed projects in other sectors, there were cases where government counterpart funding is not made available on a timely basis, delaying project implementation. However, there has been no such case in the sector. Because of the depreciation of the Mongolian currency against US dollars, there were savings under past ADB-financed projects in the sector.	High
<b>Payments</b>		
4.18 Do invoice-processing procedures require: (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? (v) Checking authenticity of	Invoices are processed by following the procedures.	Low

Topic	Response	Potential Event	Risk
invoices and supporting documents?			
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	All invoices are stamped PAID, dated, reviewed and approved, and marked for account code assignment.	Low	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Controls exist for the preparation of the payroll. Public Administration Department prepares the payroll, including changes to the payroll which are authorized by State Secretary at the MECS.	Low	
<b>Policies And Procedures</b>			
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	The MECS uses a functional modified accrual system (commitment accounting without accounting for fixed assets). The same functional modified accrual system will be used for the project.	Low	
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	International Public Sector Accounting Standards (accrual) are followed.	Low	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Policies and procedure manuals will be compiled by the PIU with the support of an international project management specialist at the beginning of project implementation.	Low	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	The accounting policy and procedure will be updated by the Ministry of Finance for the project.	Low	
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	There are regulations that stipulate only authorized persons can alter or establish a new accounting principle, policy, rules and regulations. The government accounting principles, policy and procedure can only be altered by the Ministry of Finance.	Low	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	There are written policies and procedures documents covering all routine financial management and related administrative activities.	Low	
4.27 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?	Policies and procedures define conflict of interest and related party transactions (real and apparent) and do provide safeguards to protect the organization from them.	Low	
4.28 Are manuals distributed to appropriate personnel?	Manuals are distributed to appropriate staff (Department of Finance and Economics).	Low	
4.29 Describe how compliance with policies and procedures are verified and monitored.	Compliance with policies and procedures is verified by the division of M&E and internal audit of the Public Administration Department at the MECS.	Low	
<b>Cash and Bank</b>			



Topic	Response	Potential Risk Event
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	The authorized signatories will be Ts. Bayarkhuu, Director of Finance and Economics Department of the MECS and State Secretary of the Ministry of Finance. The accountant/financial management specialist of the PIU will have custody over bank passwords.	Low
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	The MECS maintains a cashbook through the government financial management information system (GFMS). PIU will maintain a cashbook through integrated financial management information software.	Low
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	n.a.	Low
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Bank accounts are reconciled on a monthly basis at the MECS. Cash on hand is physically verified and usually reconciled with cashbooks at the end of the day of transaction. The PIU will adopt the same process.	Low
4.34 Are all reconciling items approved and recorded?	Yes.	Low
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes.	Low
4.36 Are there any persistent/non-moving reconciling items?	No.	Low
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes.	Low
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No.	Low
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	There will be no online transactions.	Low
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	The government regulations governing fixed asset accounting exist but due to human resource scarcity, valuation of assets has not been conducted. No procedures have been in place to adequately safeguard assets.	High
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	No.	High

Topic	Response	Potential Risk Event
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	No.	High
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	There are physical inventories of fixed assets but they are not conducted periodically. Fixed assets, inventories, and stocks are not always appropriately labeled.	High
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	No.	High
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	The government regulations exist on disposal of assets but no clear procedures have been established.	High
4.46 Are assets sufficiently covered by insurance policies?	No	High
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	There are regulations governing fixed asset accounting but little progress in developing fixed asset valuation accounting, depreciation procedures and recording of tangible and non-tangible assets.	High
<b>Other Offices and Implementing Entities</b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	Education departments of Govi Altai, Uvs and Zavkahn <i>aimags</i> will participate in project implementation.	Low
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	<i>Aimag</i> education departments will not perform accounting and financial management functions under the project.	Low
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Funds will not flow directly to <i>aimag</i> education departments. However, through the PIU, they will receive information on annual budgets and plans, and quarterly and annual reports.	Low
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Through PIU local project coordinators to be based at <i>aimag</i> education departments, timely and accurate information flow for reporting will be ensured.	Low
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	<i>Aimag</i> education departments will not perform accounting and financial management functions under the project. Therefore, no auditing arrangements are required for <i>aimag</i> education departments.	Low
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	There will be no sub-account set up under the imprest account.	Low
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross	Yes.	Low

Topic	Response	Potential Risk Event
value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?		
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	Low
<b>Other</b>		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. 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?	Fraud, corruption, waste and misuse of project resources will be reported to the government and ADB. The MECS and <i>aimag</i> education departments have been advised.	Low
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	The MECS has a division of M&E and internal audit at the Public Administration Department.	Low
5.2 What are the qualifications and experience of the IA staff?	A specialist with 8 years of experience in risk management inspections and auditing is responsible for operational and risk management. A specialist remains yet to be recruited for the second position for financial auditing which await approval of the State Secretary.	Substantial
5.3 To whom does the head of the internal audit report?	Specialist reports to the Director of Public Administration Department, and then to the State Secretary.	Low
5.4 Will the internal audit department include the project in its annual work program?	Yes.	Low
5.5 Are actions taken on the internal audit findings?	Generally yes.	Substantial
5.6 What is the scope of the internal audit program? How was it developed?	Internal audit primarily address compliance with rules and regulations. Controls on the efficient and effective use of public funds are beyond the scope of internal audit.	Substantial
5.7 Is the IA department independent?	Yes.	Low
5.8 Do they perform pre-audit of transactions?	Generally yes.	Substantial
5.9 Who approves the internal audit program?	State Secretary of the MECS.	Low
5.10 What standards guide the internal audit program?	National standards on auditing.	Substantial
5.11 How are audit deficiencies tracked?	Tracking of audit deficiencies is conducted on an ad-hoc basis. No established procedures and system exist.	Substantial
5.12 How long have the internal audit staff members been with the organization?	More than 5 years.	Low
5.13 Does any of the internal audit staff have an IT background?	No.	Substantial
5.14 How frequently does the internal auditor meet with the audit committee without	They meet on an ad hoc basis.	Substantial

Topic	Response	Potential Risk Event
the presence of management?		
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Yes.	Substantial
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	No.	Substantial
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	At the end of each fiscal year, the National Audit Office performs financial audits of financial statements.	Low
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. The audit reports are issued and discussed at the time of approval of the final budget performance.	Low
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	External audits are conducted in accordance with the International Standards on Auditing.	Low
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No. The audit reports for the past three years ( <a href="http://www.meds.gov.mn/audit">www.meds.gov.mn/audit</a> ) did not identify any major accountability issues.	Low
6.5 Does the external auditor meet with the audit committee without the presence of management?	Yes.	Low
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.	Low
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No.	Low
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The National Audit Office staff have knowledge and understanding of ADB's guidelines and procedures.	Low
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No.	Low
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	An external auditor acceptable to ADB will be appointed by the National Audit Office for the project.	Low
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have	No. Under past ADB-financed projects in the sector, recommendations made by the auditors were followed up.	Low

Topic	Response	Potential Event	Risk
not yet been implemented?			
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	No.	Low	
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes. TORs are prepared by the National Audit Office, reviewed and approved by ADB. Once engaged, the EA and the auditor will discuss about TORs.	Low	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No.	Low	
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The external auditor appointed by the National Audit Office should have knowledge and understanding of ADB's guidelines and procedures.	Low	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No. Under past ADB-financed projects in the sector, recommendations made by the auditors were followed up.	Low	
6.17 [For second or subsequent projects] Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	n.a.	Low	
<b>7. Reporting and Monitoring</b>			
7.1 Are financial statements and reports prepared for the entity?	Yes. The GFMS generates financial statements and reports.	Low	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	The accountant/financial management specialist of the PIU will prepare financial statements and reports through integrated financial management information software.	Low	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	The MECS prepares quarterly and annual financial reports and present them in a timely manner for management decision-making. This will also be adopted for the project.	Low	
7.4 Does the entity reporting system need to be adapted for project reporting?	No. A separate performance monitoring and reporting system will be established for the project.	Low	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	The accountant/financial management specialist, together with the project manager of the PIU, will be responsible for preparing all reports in accordance with ADB' Loan Disbursement Handbook, the Project Administration Manual and the project performance monitoring and reporting system.	Low	
7.6 Are financial management reports used by management?	Yes.	Low	

Topic	Response	Potential Risk Event
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes ( <a href="http://www.meds.gov.mn/performance">www.meds.gov.mn/performance</a> ).	Low
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	The MECS's financial reports are prepared by spreadsheets with the support of the GFMIS. For the project, integrated financial management information system to be installed at the PIU will generate financial reports.	Low
7.9 Does the financial 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 GFMIS does not have the capacity to link the financial information with physical progress. For the project, a separate project performance monitoring and reporting system will be established in sync with project budget and expenditure data.	Low
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes.	Low
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes. Since the late 2000s the MECS has been using the computerized GFMIS. The PIU will install integrated financial management information software.	Low
8.2 If computerized, is the software off-the-shelf, or customized?	Customized. The PIU will install off-the-shelf software as donor funds are managed outside the government system.	Low
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	The GFMIS is integrated and used by all ministries. For the project, software will be installed at the PIU to be located in Ulaanbaatar.	Low
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	The project financial data will not be integrated with the MECS's financial data. Donor funds are managed outside the government system.	Low
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	The GFMIS requires some manual interventions. For the project, integrated financial management information system will directly generate financial statements.	Low
8.6 Can the system automatically produce the necessary project financial reports?	Integrated financial management information software to be installed at the PIU will automatically produce necessary project financial reports.	Low
8.7 Is the staff adequately trained to maintain the computerized system?	At the MECS, staff of the Treasury Fund Unit is trained to maintain the GFMIS. The accountant and/or financial management specialist to be recruited to the PIU should have experience in maintaining the computerized system. Training will also be provided for the PIU staff.	Substantial

Topic	Response	Potential Risk Event
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Generally yes for the GFMIS. For the project, the confidentiality, integrity and availability of the data will be safeguarded through integrated financial management information system which will be accessed only by authorized staff.	Low
8.9 Are there back-up procedures in place?	Yes for the GFMIS. Integrated financial management information system for the project will have online data backup and recovery functions.	Low
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake, and calamity protection for backups.	Some weaknesses in the backup procedures have been identified for the GFMIS. For the project, online storage will be used.	Low

**APPENDIX 2: FUND FLOW DIAGRAM**

