

Financial Management Assessment

Project Number: 51214
April 2018

SOL: Transport Sector Project Development Facility

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ANZ	–	Australia and New Zealand Banking Group Limited
AX	–	Microsoft AX Dynamics
CBSI	–	Central Bank of Solomon Islands
CPIU	–	Central Project Implementation Unit
CTB	–	Central Tender Board
DFAT	–	[Australian] Department of Foreign Affairs and Trade
DMSP	–	The Domestic Maritime Support (Sector) Project
EA	–	executing agency
FMA	–	financial management assessment
FMAQ	–	financial management assessment questionnaire
FMIS	–	Financial Management Information System
FY	–	Financial Year
IA	–	implementing agency
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
PRR	–	Procurement Rules and Regulations
SIGAS	–	Solomon Islands Government Accounting Service
STIIP	–	Sustainable Transport Infrastructure Improvement Program
TSDP	–	Transport Sector Development Project
TSFRP	–	Transport Sector Flood Recovery Project

TABLE OF CONTENTS

	PAGE
I. INTRODUCTION	1
II. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES	2
III. PROJECT FINANCIAL MANAGEMENT SYSTEM	5
IV. RISK DESCRIPTION AND RATING	6
V. DIRECTION FOR RISK MITIGATION	10
VI. FINANCIAL MANAGEMENT ACTION PLAN	12

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. The FMA considers the Ministry of Infrastructure Development (MID) as the implementing agency for the proposed project development facility. 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 4.

2. This assessment was produced during the preparation of the facility, from May to July 2017, and updated in April 2018. Preparation activities included reviewing extant country diagnostics, prior ADB assessments, various interviews and meetings with government counterparts, development partners and relevant stakeholders; it was supplemented with a review of internal control arrangements and external audit reports. In preparing this FMA, the assessments made in May 2016 for the Sustainable Transport Infrastructure Improvement Program (STIIP),³ and in July 2014 for Transport Sector Flood Recovery Project (TSFRP)⁴ have been used and updated. This assessment is intended to determine the degree to which the existing country's financial management systems will be able to manage fiduciary risks relating to financial management, and to provide reasonable assurance that facility funds will be used appropriately.

A. FACILITY DESCRIPTION

3. ADB will finance the facility through a grant not exceeding \$6.0 million from ADB's Special Funds resources (Asian Development Fund). The government will provide the equivalent of \$0.75 million in the form of exemption on taxes and duties, \$0.13 million for project management costs and \$0.09 million for contingencies.

4. The executing agency will be the Ministry of Financing and Treasury (MOFT), and the implementing agency will be MID. As the implementing agency, MID will be responsible for the day to day implementation of the facility, including (i) preparation of an overall implementation plan; (ii) overall interagency coordination; (iii) awarding consulting contracts; (iv) project financial management; (v) consolidation, review, and submission of regular progress and financial reports to ADB and MOFT.

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

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

³ ADB. April 2016. Project No. 46499-002: *Report and Recommendation of the President to the Board of Directors: Proposed Results-Based Loan and Administration of Technical Assistance Grant to Solomon Islands for the Sustainable Transport Infrastructure Improvement Program*. Manila.

⁴ ADB. August 2014. Project No. 48293: *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to Solomon Islands for the Transport Sector Flood Recovery Project*. Manila.

II. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

A. Public Financial Management System

5. Country public financial management (PFM) arrangements were assessed in 2012 using the Public Expenditure Financial Accountability (PEFA) Performance Measurement Framework (PFM).⁵ The assessment noted that, compared with the original PEFA assessment conducted in 2008, the repeat assessment in 2012 reveals an overall improvement across most performance indicators. The assessment conducted in 2012 noted an overall improvement across most performance indicators, when compared to the original PEFA assessment, conducted in 2008. A number of reforms were implemented at the time of the 2012 assessment, including: (i) updates to information technology systems (such as Aurion, Microsoft AX Dynamics [AX], BERT);⁶ (ii) development of a new chart of accounts; (iii) launch of a new Public Finance and Management Act; (iv) revisions to financial instructions; and (v) creation of a procurement unit within the MOFT.

6. In September 2013, the new Public Finance and Management Act (PFMA)⁷ was approved, and replaced the Public Finance and Audit Act of 1978.⁸ The PFMA “provides for the control and management of the public finance of Solomon Islands; for the collection, issue and payment of public moneys; for the regulation of public debt; for the duties and powers of the internal audit office; for the examination of internal controls and procedures of public body; and for other purposes connected therewith and incidental thereto” (footnote 7#). Amongst other actions, the PFMA (i) mandates the establishment of an internal audit function, within the Ministry of Finance and Treasury; (ii) provides clarity on accountable officers; (iii) assigns a debt limit, with annual appropriation; (iv) sets timelines and formats for budget preparation; and (v) provides for improved budget tracking and reporting. The MOFT Internal Audit Office was established in 2013, and counterpart audit offices will be replicated in all ministries. The financial instructions, new charts of accounts, and new financial management information system have been introduced to the Ministries and are operational.

7. A review conducted in 2012 noted that the credibility of the government’s central budget had improved due to better budget forecasting and compliance, as compared to a review conducted in 2008. Comparison between budgeted and actual revenues provides an indication of the quality of revenue forecasting. Revenue outturns from 2012 to 2016 were 93%, 89%, 91%, 97%, and 42% of budget estimates, for each respective year. Although there were variances between estimates and actuals during this period, they were significantly lower than those noted during a previous assessment conducted in 2008, when the country was emerging from ethnic conflict. In terms of individual ministries, however, the credibility of budgets fell short, as most ministries received fewer resources than budgeted.

8. Since 2009, Solomon Islands has made significant efforts to become more rigorous in auditing government accounts, in accordance with international auditing standards. Consolidated government statements are now prepared annually, and are submitted on time. Although these

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 a new payroll software; Microsoft Dynamics AX is a new financial management system software and BERT is a new budget programming software.

⁷ Government of Solomon Islands. 11 December 2012. *Final report: Public Expenditure and Financial Accountability Assessment (PEFA)*.

⁸ Government of Solomon Islands. 11 December 2012. *Final report: Public Expenditure and Financial Accountability Assessment (PEFA)*.

statements are still qualified by the Office of the Auditor General (OAG), improvements are recognized. International public sector accounting standards (IPSAS), or corresponding national standards, have been applied since 2009. In addition, parliament's scrutiny of budgets has improved, by expanding the scope of review (which now includes the Budget Strategy and Outlook Paper) and ensuring greater adherence to procedures. These positive developments, however, are undermined by continued lack of time to review the budget. Progress is also undermined by the ongoing practice of the executive presenting supplementary appropriations bills to Parliament to cover expenditures that have already occurred, particularly using the Contingency Warrant instrument. Although some of these appropriations may have been necessary for genuine, urgent, and unforeseen expenditures.

9. **Payroll.** Payroll performance has improved as a result of the introduction of the Aurion payroll software in 2009. This has produced benefits including stronger links between personnel records and payroll, and improved control over changes to the payroll. Further improvements are anticipated as Aurion is rolled out to line ministries, and as approval for overtime and leave become automated.

10. **Internal controls.** The use of AX is strengthening commitment controls; one reason for this is that AX does not have an override function, which is an improvement on its predecessor (Maximise). Compliance with other internal control systems, however, is an issue. This has been emphasized by the annual reports of the Auditor General. These reports highlight the issue of long delays in acquitting imprests. The internal audit function within the government, which can check if internal control systems are working properly, is improving, but is hampered by inadequate personnel resources.

11. OAG has reported minor challenges corresponding to monthly bank reconciliation, and the timely acquittal of imprest continues to be an issue. Furthermore, although each ministry prepares in-year budget performance reports to help management determine whether budgets are on track, there have been inconsistencies between MOFT data and information provided by different ministries. MOFT has made progress on enhancing accounting and reporting processes, and inconsistencies are expected to diminish as the ministries adopt AX. In June 2014, the Cabinet endorsed the PFM Reform Roadmap to strengthen ownership and coordination of PFM reforms. The roadmap is a three-year implementation framework that collates all relevant actions to strengthen PFM. The roadmap's priorities include: (i) implementing the PFM Act and financial instructions; (ii) developing information technology systems; (iii) building compliance to controls relating to budget execution, managing of cash flows and debt; and (iv) strengthen non-tax revenue collection.

12. **Skill shortages.** Solomon Islands has a shortage of skills in the areas of general management, financial management, financial analysis, and management accounting. Few accounts staff possesses practical skills beyond basic bookkeeping. The impact of these skill shortages on Government operations is amplified by the high demand for financial skills from the private sector, which often pays more and provides better conditions.

13. The 2012 Public Financial Management Performance Report indicates that unreported domestic extra-budgetary operations, in the form of special funds, pose transparency issue. This is the case because they can create conditions that may facilitate the misuse of public funds. Concerns remain regarding the operation and accountability of these funds (except for the NTF), as MOFT and Parliament provide limited oversight.

14. This assessment considers the overall... proportion of aid funds to the national government that are managed through national procedures (banking, authorization, procurement, accounting, audit, disbursement, and reporting). Development partner support for Solomon Islands is distributed

in two primary ways. It is either as a direct budget support through national budget or administered on a project- or technical assistance-basis, and subsequently implemented by development partners, through relevant ministries. A quarter of all funds disbursed to the country by development partners goes through part or all of the country's systems, procedures, and the government's administrative mechanisms. A major portion of the donor-funded projects (around SI\$1.0 billion each year) does not use national systems.

15. The IMF in its 2016 country report recommends the government to sustain the efforts to advancing PFM reforms, including by improving the transparency and accountability of scholarships and constituency funds and by continuing to strengthen the quality of public spending.⁹

B. Procurement

16. In November 2010, ADB conducted a procurement capacity assessment (PCA) of the government's procurement procedures.¹⁰ A new procurement risk assessment was commissioned by ADB in 2016, and the final report will be available by the end of 2017. The 2010 PCA reviewed the government's policies, procedures, practices, institutional arrangements, and organizational capacity for public sector procurement. The objective of the 2010 PCA was to assess whether government procedures were acceptable for use in national competitive bidding under projects financed by development partners. This review process identified strengths and weaknesses of the government procurement system, using benchmarks to perform the assessment. The 2010 PCA revealed that the public procurement system was weak, and that the financial management risks were high. This risk still exists in MID and other ministries, and needs to be addressed during and needs to be comprehensively addressed.

17. In 2013, fraud was uncovered at the Ministry of Health and Medical Services. As a result, MOFT issued the Finance Circular 3/2013, mandating that all ministries use six standard tender documents for goods, works, and services, and that they observance "SIG's [Government of Solomon Islands'] Procurement and Contract Administration Manual 2013."¹¹ Thereafter, MOFT issued various circulars and memoranda providing policy instructions for specific types of procurement. In September 2013 (in support of these instructions), MOFT designed and began delivering a series of procurement trainings to ministries. These training programs have been adopted by the Australian Department of Foreign Affairs and Trade (DFAT) for the procurement of personnel involved in development programs funded by DFAT.

18. Procurement has improved due to increased publication of contracts awarded by the Central Tender Board (CTB), but transparency is still low because limited justification is provided for the use of restricted competitive procurement methods, and because there is no independent appeals body. The financial instructions issued by MOFT were clear instructions on the procurement process. Although these instructions were provided to all the ministries, no training was conducted. Although the FM 2013 X Act makes it illegal to issue bid waivers, ministries have insisted on following traditional bid selection methods, which has resulted in non-compliance.

19. There is also resistance to newly established tender procedures.¹² Under the updated financial instructions, the procurement unit of a given ministry must first advise the CTB on the

9 International Monetary Fund. 2016 *Article Iv Consultation And Fifth And Sixth Reviews Under The Extended Credit Facility Arrangement—Press Releases; Staff Report; And Statement By The Executive Director For Solomon Islands*. Washington DC.

¹⁰ ADB. November 2010. Solomon Islands Transport Sector Development Project: *Procurement Capacity Assessment*.

¹¹ Solomon Islands Government. 2013. *Procurement and Contract Administration Manual*

¹² Government of Solomon Islands. MOFT. 2013. *Finance Circular 05/2013*. Honiara City. October 7, 2013.

tender evaluation reports, prior to CTB deliberation¹³. It was estimated that about 90% of all government procurements are non-compliant to the new process. However, procurement conducted under the NTF displayed a much lower level of non-compliance as noted by MOFT and DFAT procurement advisers during the interviews that were carried out in the course of the assessment.

20. The Public Financial Management Act of 2013 placed emphasis on procurement reforms. Part 9 of the Act mandates the preparation of "Procurement Rules and Regulations" (PRR), which will consolidate all procurement rules and procedures into a comprehensive document. DFAT has engaged a legislative expert to support MOFT to prepare the PRR. Community consultations began in May 2016, and finalization of the draft was under way; however, the cabinet suspended the process in February 2017.

C. Governance

21. Table 1 presents the summary of 2016 governance indicators for Solomon Islands. The indicators are measured in the range of -2.5 to +2.5 with higher score indicating better governance. Positive trends are discernible particularly for voice and accountability and political stability and absence of violence and terrorism.

Table 1: Governance Indicators, 2016

Governance Indicator	Score (2011)	Score (2016)
Voice and accountability	0.00	0.49
Political stability and absence of violence/terrorism	0.31	0.51
Government effectiveness	-0.86	-0.99
Regulatory quality	-1.04	-0.96
Rule of law	-0.52	-0.34
Control of corruption	-0.34	-0.34

Source: www.govindicators.org, accessed 12 May 2018. Based on research by Kaufmann, D., Kraay, A., Mastruzzi, M., 2010, "The Worldwide Governance Indicators : A Summary of Methodology, Data and Analytical Issues". World Bank Policy Research Working Paper No. 5430. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682130

III. PROJECT FINANCIAL MANAGEMENT SYSTEM

22. 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 01 April to 31 March. For central ministries and departments, Solomon Islands has a centralized payments system and uses the AX financial software. MOFT Processes and records 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, and ministries are then required to request additional funds. For ministries, the budget process is as follows: (i) appropriation by Parliament; (ii) authorization by the Minister, through the signing of a general warrant; (iii) commitment, by a relevant accounting officer, through the raising of a local purchase order; and (iv) payment, upon receipt and validation of invoice by Treasury.

23. The implementing agency for the facility (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

¹³ Government of Solomon Islands. MOFT. 2013. *Memorandum to Central Tender Board. Honiara City*, 7 October 2013.

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 financial instructions, for development and recurrent budgetary allocation.

24. The existing accounting system in Solomon Islands allows MID to handle the basic accounting procedures related to collecting revenues pertaining to the activities of the Ministry, recurrent, development budget and personnel expenditures. Since 2014 MID has prepared financial statements for the NTF that require conformity to international accounting standards. However, detailed financial reporting on the Ministry's financial affairs to the OAG is done by MOFT.

25. A system for internal audits has not yet been established in MID, and the creation of an internal audit office within MID has been identified as a possible intervention in the long-term. MOFT has an internal audit department, however, its effectiveness is limited by lack of staff. Selected transactions of MID are included in the normal program of activities of MOFT's internal audit department. MID will support MOFT to engage the services of an internal auditor to perform internal audits for the MID, commencing 2018. MOFT Internal Audit Department will oversee and manage the service contract of the internal auditor. As this facility will follow ADB disbursements guidelines and will mainly follow ADB direct payment and imprest fund procedure, the risk associated with the facility is low.

IV. RISK DESCRIPTION AND RATING

26. Processing team conducted a financial management internal control and risk management assessment in SIG and MID. The risk-assessment approach is based largely on International Standard on Auditing 400: Risk Assessment and Internal Control. The risk assessment in Table 2 is based on the existing public financial management environment in the country and MID, and based on existing staff, finance and accounting policies, procedures, and practices. The corresponding risk mitigation measures consider factors that will significantly reduce or eliminate the identified risks.

27. The following risks are assessed in Table 2: (i) "inherent risk" describes 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); and (ii) "control risk" describes the risk that the project's accounting and internal control framework are inadequate to ensure proper reporting, and that project funds are used (a) economically, (b) efficiently, and (c) for the purpose intended.

Table 2: Financial Management, Internal Control and Risk Assessment

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
Inherent Risk			
1. Country-Specific Risks	Moderate	Weak public financial management	<p>A Public Expenditure Financial Accountability (PEFA) study was undertaken in 2012. It identified areas of weakness and recommended strategies and means of strengthening public financial management.</p> <p>Compared with the 2008 assessment, the 2012 assessment indicates the following:</p>

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
Inherent Risk			
			<p>(i) PEFA reveals overall improvement in financial management. Various PFM reforms are now implemented (e.g. financial management and information system), a new chart of accounts, a new Public Financial Management Act, revised financial instructions, and a new dedicated procurement unit within MOFT.</p> <p>(ii) In 2010, ADB conducted a procurement capacity assessment (PCA) to assess the government's procurement procedures. The overall results of the 2010 PCA revealed that the public procurement system is weak, and that financial management risks are high. A repeat assessment was undertaken in 2016, yet the findings were not officially shared.</p> <p>(iii) The central project implementation unit (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 2 procurement officers, and MID is in the process of recruitment.</p> <p>(iv) Procurement training is being provided to MID staff. MOFT has rolled out procurement training since 2014.</p>
2. Entity-Specific Risks	Low	<p>Institutional capacity:</p> <p>MID has never been involved in accounting and financial reporting of ADB-financed projects. Financial management was always carried out through project management units.</p>	<p>The functioning CPIU under MID will also be responsible for implementing the proposed Facility. The CPIU is supported by consultants from STIIP and MID engaged local consultants.</p> <p>There is sufficient expertise within CPIU to implement the facility timely and successfully.</p> <p>STIIP will carry out financial management capacity development for CPIU and MID staff. The financial management specialist that was engaged under STIIP is assisting the CPIU in financial management.</p> <p>DFAT will continue to engage a financial management specialist at MID to support improved financial management in MID, particularly for the NTF. This specialist will continue to advise on the development of improved financial management systems in consultation with CPIU, MID, and MOFT.</p> <p>The NTF currently uses the Sage50 financial management system. MID finance staff has been trained to use the system. Financial reports for the</p>

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
Inherent Risk			
			NTF have been produced since June 2014, using Sage50.
3. Project Specific Risk	Low	Work overload for the CPIU financial management unit	An accounting officer will be recruited to CPIU to implement the facility.
Overall Inherent risk	Low		

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
Control Risk			
1. Implementing entity	Moderate	Financial management policies and procedures might not be appropriate for project management.	Improvements to the financial management system are on-going, and aim strengthen resource management and accounting information flows to support timely updates of CPIU project management system and to provide better financial reporting to the NTF Board.
2. Fund flow	Low	Deficiencies and misinterpretation of ADB guidelines in disbursement and withdrawal of project funds by the executing agency.	Under STIIP, CPIU finance staff have knowledge and experienced in ADB disbursement guidelines and procedures.
3. Accounting policies and procedures	Low	Accounting policies and procedures are inadequate. Accounts reconciliations are often not undertaken and hence reports are sometimes not accurate.	<p>MID currently follows the accounting policies and procedures outlined in the newly enacted 2013 PFM Act and its Financial Instructions.</p> <p>MOFT has changed the system for NTF payments. All NTF payments are now paid through the NTF operation account and not through the government creditor's account, as was previously the case. NTF payments are processed in the MOFT AX system.</p> <p>MID has established a system with MOFT where CPIU and MID accounts were provided bank reconciliations, bank statements, and cashbooks on a monthly basis. Monthly, quarterly, and annual report are now produced and submitted regularly to all stakeholders.</p> <p>Payment to consultants under the facility will follow direct payment and imprest fund procedures.</p>
4. Internal audit	Low	There is no internal audit unit/department in MID.	In the future, create an internal audit unit within MID and hire a certified public accountant as Head of the Unit and accounting degree holders as staff.

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
Control Risk			
			<p>Under STIIP, arrangements have been made to perform internal audits through the MOFT Internal Audit Department (MOFT IAD) by supporting MOFT IAD to engage an external audit officer.</p> <p>As this facility will follow ADB disbursements guidelines and will mainly follow ADB Direct payment and imprest fund procedure, the risk associated with the facility is low.</p>
5. External audit	Low	Lack of timely audit process leading to the covenants not being met.	Currently, STIIP-ADB and NTF accounts are 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 ensured that the recommendations are implemented
6. Monitoring and reporting	Low	Financial reports are produced but provided late.	Starting September 2013, financial reports were prepared and submitted on time. In January 2015 Sage50 replaced MYOB accounting software.
7. Information Systems	Low	Backups of financial data are infrequent and not secure.	Original documents of PVs, including supporting documents, are filed and secured by MOFT, and scanned copies are kept in CPIU and MID accounts. Sage50 has backups in the MOFT ICTSU. CPIU also maintains its own backup system (NAS).
Overall Control Risk	Moderate		

ADB = Asian Development Bank, CPIU = central project implementation unit, DFAT = Australian Department of Foreign Affairs and Trade, EA = executing agency, FMAQ = financial management assessment questionnaire, IAD = Internal Audit Department, ICTSU = Information Communication Technology Services Unit, MID = Ministry of Infrastructure Development, MOFT = Ministry of Finance and Treasury, NTF = National Transport Fund, PFM = public financial management, PV = payment voucher, STIIP = Sustainable Transport Infrastructure Improvement Program, TSDP = Transport Sector Development Project

V. DIRECTION FOR RISK MITIGATION

28. 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

29. MOFT will be the executing agency and MID will be the implementing agency 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, and supplemented by 4 international and 5 national consultants. MID's Accounts Section has 7 staff. The MID accounts division has received technical assistance from DFAT financial management specialist, particularly with respect to establishing the financial management information system including NTF-funded projects, and training of staff to use them. The accounts division still needs more support from the government and from STIIP. Priority support areas include (i) connection to internet and automation of financial recording (ii) capacity building for existing staff including automation and internal control, and (iii) recruitment of additional staff to improve provision of support services to MID departments.

30. The CPIU finance unit is managed by one STIIP Finance Consultant and supported by two MID staff. The accounting officer that will be hired by the facility will join the CPIU finance team.

B. Staffing

31. MID finance staff have experience in the accounting and disbursement procedures of development partners, but lack proficiency. This is because staff do not possess the formal education in accounting, and because none are certified public accounts. It is proposed that MID, through the Ministry of Public Service, increase the qualification of all finance staff, by enabling the staff to gain accounting degrees. However due to the competition with the private sector for highly qualified and trained individuals, the Ministry of Public Service may have to upgrade their salary levels to increase the government's chances of hiring qualified persons.

32. It is recommended that CPIU/MID hire an accounting officer to handle the financial management of the facility. Training on ADB disbursement guidelines and procedures will be provided before implementation.

C. Accounting Policies and Procedures

33. MID follows accounting policies and procedures outlined in the new PFM Act, and will use the financial management information system Sage50. MID's accounting capacity has been improved. DFAT has, DFAT has engaged a financial management specialist to (i) improve financial management in MID, (ii) assist DFAT in managing risks associated with using government systems, and (iii) to reduce risks associated with implementing trial version of Sage50 in 2014. Starting in October 2016, NTF payments are processed through the MOFT AX system. The NTF will use Sage50, which is based on cash basis of accounting. The AX system follows the cash basis of accounting; both systems are compatible using an Excel spreadsheet. MID/CPIU has established a system with MOFT where they are provided with cashbook, monthly bank statements for reconciliation and reporting purposes. CPIU Finance and MID Finance Specialists have also developed new payment and cash monitoring processes of NTF transactions. MID will maintain a separate book of accounts for the facility.

D. Internal Audit

34. MID has no internal audit division. The internal audit function is established at MOFT. Internal auditing was strengthened by the PFM Act of 2013. The public service commission will appoint a director of internal audits. Its roles and functions will include advising accountable officers on proper financial controls, and ensuring adherence by all ministries. The director of internal audits can also investigate and report on any allegations of misconduct.

E. External Audit

35. Currently, NTF funds are being audited by a local firm—Deloitte Touche Tohmatsu. Under the contract, the annual audit reports and an opinion statement will be submitted to ADB and development partners by the end of June each year. This will continue under the facility. MID will submit to ADB certified copies of audited annual consolidated project accounts as well as the auditor's report, in English, within six months of the close of each financial year during implementation. For the facility, an external auditor that is deemed acceptable by ADB will be hired to audit the facility's financial transactions.

F. Reporting and Monitoring

36. MID/CPIU will continue to prepare project reports. MID/CPIU will prepare and submit project reports on a monthly, quarterly, and annual basis. The reports will highlight the physical and financial progress of the of the facility. For this facility, 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 following reporting period. MID will prepare and submit a project completion report within three months of project completion.

G. Information Systems

37. MD uses Sage50 for both external and internal use. In addition, staff are continuously trained on how to use the software. However, backup and security of financial data will have to be upgraded, particularly for MOFT, since all original documents are submitted to it. It is the responsibility of MOFT to ensure that the original documents (i.e. requisition forms, payment vouchers, receipts, etc.) are filed properly, and secure. Scanned copies of the documents are stored in MID Accounts and CPIU Finance. The facility will develop its own financial management system that will be capable of meeting ADB and government reporting needs and requirements, and generate financial statements for the audit of project expenditures.

H. Conclusion

38. The PFM risk is rated moderate¹⁴, this is considered acceptable given (i) the wide-ranging PFM reform program, which the government has in place; (ii) indications of initial positive impacts and additional measures, which are proposed including (a) monitoring arrangements, and (b) financial management arrangements.

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

VI. FINANCIAL MANAGEMENT ACTION PLAN

39. Table 3 outlines the proposed financial management action plan to be undertaken during the implementation of the proposed facility.

Table 3: Financial Management Action Plan

Weakness	Risk	Action Items	Period	Responsibility	Status 31/07/2017
No Internal Audit in MID	H	Conduct regular internal audit	Continuous (2018 to 2021)	MOFT	Under STIIP, arrangements have been made to perform internal audits through the MOFT Internal Audit Department (MOFT IAD) by supporting MOFT IAD to engage an internal audit officer.
Work overload at CPIU Finance	Low	Hire accounting officer to manage the accounts of the he facility	January 2018	CPIU/MID	Preparation of accounting officer terms of reference (TOR).
Deficiencies and misinterpretation of ADB guidelines in disbursement and withdrawal of project funds by EA and IA.	Low	Regular liaising among the EA, IA, and ADB to ensure that ADB guidelines are followed. Regular interagency coordination at all levels to be put in place, to discuss portfolio performance of the facility.	Continuous (2018 to 2021)	ADB/MID/ MOFT	Not started
Newly-hired accounting officer may not have knowledge of ADB disbursement procedures	Low	Provide regular training on ADB's disbursement processes	Q1 2018	ADB	Not started
Financial management policies and procedures might not be appropriate for project management.	Moderate	An improved financial management system is currently ongoing, which aims to improve resources management and accounting information flows to support timely updates of CPIU project management system	Continuous (2018 to 2021)	CPIU/MID	Ongoing
Lack of timely audit process leadings to the covenants not being met.	Low	Annual project accounts and underlying working papers prepared on a timely basis in preparation for the annual financial statement audit. Compliance with covenants monitored, including submission of audited project accounts.	Continuous (Q2 2019 to Q2 2022)	CPIU/MID	Not started

Weakness	Risk	Action Items	Period	Responsibility	Status 31/07/2017
Backups of financial data are infrequent and not secure.	Low	Regular backup of all accounting data and appropriate security measures of backup data are in place at CPIU.	Continuous (2018-2021)	CPIU/MID	Ongoing

ADB = Asian Development Bank, CPIU = central project implementation unit, EA = executing agency, IA = implementing agency, MID = Ministry of Infrastructure Development, MOFT = Ministry of Finance and Treasury

Table 4: Financial Management Assessment Questionnaire¹⁵

Topic	Response	Remarks
1. Executing and Implementing Agency	The Ministry of Finance and Treasury (MOFT) will be the Executing Agency (EA). The Implementing Agency (IA) will be the Ministry of Infrastructure Development (MID).	
1.1 What is the entity's legal status/registration	MID created under the 1978 Solomon Islands Constitution Mandate: MID is responsible for regulating, maintaining and providing roads, wharves, airstrips, and government workshops.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	<p>MID (as the IA) implemented the following projects:</p> <ul style="list-style-type: none"> - Solomon Islands Emergency Assistance Project (ADB) - Institutional Strengthening of MID (ADB) - Diagnostic Assessment of Inter-Island Transport (ADB) - Kukum Highway - Phase 1 Central Market to Fisheries (JICA) - 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 (TSDP) (ADB) - Transport Sector Flood Recovery Project (TSFRP) (ongoing) (ADB) - Sustainable Transport Infrastructure Improvement Program (STIIP) -Ongoing (NTF) 	
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</p>	

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

	<p>accounts are prepared and availed to the Office of the Auditor General for auditing purposes.</p> <p>From the Transport Sector development Project (TSDP), a Central Project Implementation Unit (CPIU) was established and managed 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 development partner's grant agreements and associated financing arrangements.</p>	
1.4 Is the governing body for the project independent?	The IA is not a separate or independent entity, but rather a department of the government. The governing body for the project is not independent.	
1.5 Is the organizational structure appropriate for the needs of the project?	The current organizational structure of MID is appropriate to meet the operational needs of the facility, given its technical nature and availability of technical staff. The current CPIU has been structured to ensure that the appropriate staffs are recruited to ensure that the management, technical, financial, accounting, and all other needs of the project are met.	
2. Funds Flow Arrangements		
21 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	It is proposed that ADB make direct payment to consultants. CPIU/MID will prepare the withdrawal application and submit it to MOFT for approval. MOFT will submit it to ADB. ADB will directly pay the Consultants. Payments for individual consultant is proposed to be paid through the imprest fund.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Not applicable.	
23 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?	An account will be opened with the Central Bank of the Solomon Islands (CBSI). A sub-account will be opened in a commercial bank that is deemed acceptable by ADB.	
2.5 Does the (proposed)	Yes. The CPIU is supported by project consultants, which were engaged in 2016 for STIIP. The CPIU will be supported by additional finance and accounting	

CPIU have experience in the management of disbursements from ADB?	consultants who will benefit from the STIIP consultants having knowledge and experience in ADB disbursement guidelines and procedures.	
2.6 Does the entity have/need a capacity to manage foreign exchange risks?	Yes. The MOFT manages foreign exchange risks.	
2.7 How are the counterpart funds accessed?	Counterpart funds will be provided as in-kind contribution, and as taxes and duties exemptions	
2.8 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 non-government organizations are expected to be involved in the project during consultations and implementation, through the proposed consulting firm, under the facility.	Where communities will be involved in implementation, 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?	Not applicable.	
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,	MID Accounts and CPIU Finance consultants will handle the financial management of the facility. An accounting officer will be hired to exclusively support the facility.	

educational background and professional experience. Attach job descriptions and CVs of key accounting staff.		
3.3. Is the project finance and accounting function staffed adequately?	The current staffing structure of the Finance Division is adequate for the MID's existing functions.	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Current staff at MID are not adequately qualified.	The accounts personnel do not hold degrees in accounting.
3.5 Is the project accounts and finance staff trained in ADB procedures?	MID Accounts and CPIU Finance have been received training in ADB disbursement guidelines and procedures. MID Accounts and CPIU Finance consultants will handle the financial management of the facility. They will benefit from STIIP-finance personnel.	
3.6 What is the duration of the contract with the finance and accounts staff?	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.	One accounting officer will be hired under the facility. The following positions in MID Accounts are filled: finance controller, principal accountant, senior accountant (payment), two assistant accountant- requisition ledgers, and an assistant accountant- revenue	
3.8 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	MID Accounts staff have written job descriptions. ADB TA 7715 assisted in revising job descriptions. Capacity development in new job descriptions are ongoing.	
3.11 At what frequency are personnel transferred?	Account staff within the MID 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 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 developed MID a capacity development plan. Training includes financial management and internal controls. MID has updated the training plan and will be implemented the training plan under STIIP/NTF.	

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 have been put in place, which allow for the proper recording of project financial transactions, including allocation of expenditures, disbursement categories, and sources of funds during project implementation.
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 MID transactions, which ensure that preparation and approval of transactions is segregated and in compliance with the government financial instructions.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	The current chart of accounts has been revised and is adequate.	In 2013, all line ministries were provided the new chart of accounts for consistency in recording and reporting
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Not applicable to MID line accounting.	
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 MID'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?	<p>Yes, only scanned copies are retained as all original documents are forwarded to MOFT for processing.</p> <p>In STIIP, response was- Yes, using AX there are electronic backups as well as printed documents. AX system has a system administrator to control access.</p>	
Segregation of Duties		
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 will authorize execution of 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, there is proper segregation of duties. Payment requisitions are made by directors of division and submitted to MID Accounts. MID Accounts check, record, prepare payment voucher, and commit the funds. The permanent secretary authorizes the payment. A payment voucher will be prepared and submitted to MOFT for processing and payment.	
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.	
Budgeting System		
4.10 Do budgets include physical and financial targets?	Official government budget for MID has only financial targets while physical targets are set in the ministry's work program, which is managed and maintained by 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 are measured on the remaining balances in the budget, through the accounts division budget variance reports.	

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. Variations are approved by the Minister of MOFT and supplementary budgets are reviewed by 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 the MOFT budget division for finalization and submission to parliament by the Minister of Finance for approval.	
4.15 Are procedures in place to plan project 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 project 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 that are provided by the MOFT to guide the Ministry in comparing the new budget with the previous 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	The processing of invoices is the responsibility of MOFT. Payment vouchers are passed for payment after the requirements of (i) to (iv) have been complied. All payments vouchers are then summarized in payment schedule and sent to MOFT for payment.	

records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?		
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 use to check against their own payment schedules and commitment ledger. MID can check if payment has been done by MOFT through AX. 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 detailed 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 project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	<p>MID relies heavily on the financial instructions for guidance. It does however have in place various procurement-related manuals prepared under ADB TA 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. 	

	<ul style="list-style-type: none"> - Standard bidding documents for roads and bridges, road grading, roadside and drainage, vegetation and drainage, pothole repair. - Standard MID contracts for works. 	
4.23 Is the accounting policy and procedure manual updated for the project 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 and STIIP has developed a financial management manual.	
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 financial instructions 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 the Minister of MOFT.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording	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.	

receipts and payments?		
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 NTF/STIIP. TSDP and TSFRP do not maintain bank accounts since contractors and consultants are paid directly by ADB. The Domestic Maritime Support (Sector) Project (DMSP) has an imprest account and a imprest account reconciliation statement is prepared on a regularly.	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes, at MOFT. MID also generates bank reconciliation of NTF funds through Sage50, hence any unusual items are raised with MOFT.	
4.33 Are all receipts deposited on a timely basis?	Deposited with MOFT cashier daily.	
Safeguard over Assets		
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, inventories of fixed assets are conducted monthly, and at the provincial offices they are conducted quarterly.	
4.37 Are assets sufficiently covered by insurance policies?	CPIU vehicles are covered by insurance.	
Other Offices and Implementing Entities		
4.38 Are there any other regional offices or executing entities participating in implementation?	No	
4.39 Has the project	Not applicable.	

established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?		
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>		
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.	
Internal Audit		
5.1 Is there an internal audit department in the entity?	No. Not available in MID. In MOFT there is an IAD.	
52 What are the qualifications and experience of audit department staff?	Not applicable	
5.3 To whom does the internal auditor report?	Not applicable	
54 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	

External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Financial records of MID are 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.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	The timeliness and quality of annual financial statements are improving over time, and International Public Sector Accounting Standards (IPSAS) cash is now being used. Consolidated government statements are prepared annually and on time, but they are still qualified by OAG, though improvements are recognized. The findings are as follows: <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 a 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 as stated in the Ministry's 2010 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. Financial Instruction 397(2) requires the authorized officers 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. No asset register and management policy mechanism exists. 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 enable the Ministry to monitor, secure, assess, and dispose the assets.	There is an institutional strengthening program being implemented at the Auditor General's Office which aims to strengthen auditing capacity.
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	The audit of MID is undertaken by 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.	
64 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 2016) of TSDP, NTF and DMSP. There are also no accountability issues raised on the audit reports (2015–2016) of TSFRP.	
65 Will the entity auditor audit the project accounts or will another auditor be	Similar to the TSDP, STIIP, DMSP, and TSFRP, an external auditor will be hired to audit the annual project financial statements.	

appointed 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 and NTF, recommendations made by the auditors in prior audits have been implemented by CPIU.	
6.7 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?	For the facility, 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 six months of each financial year-end during implementation.	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	In consultation with ADB and OAG, the terms of reference 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 entity? In accordance with which accounting standards?	Under the new PFM Act all ministries will adopt the IPSAS. NTF, TSDP, DMSP and TSFRP financial statements are prepared using IPSAS standards.	
7.2 Are financial statements prepared for the program/project?	Financial statements are being prepared for TSDP, NTF, DMSP and TSFRP.	
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 the end of the 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	
7.5 Does the reporting system have the capacity to	The existing MID reporting system does not provide an adequate mechanism for linking financial information with the project's physical progress.	

<p>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?</p>		
<p>7.6 Does the project 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?</p>	<p>MID/CPIU under TSDP has developed a reporting system that integrates physical and financial results.</p>	
<p>7.7 Are financial management reports used by management?</p>	<p>Before, only budget variation reports were submitted to the permanent secretary, undersecretary and directors of divisions. Under TSDP and NTF, contract commitments, contract expenditures, expenditure against budgets, monthly cash flows, and account balance reports, among others, are prepared.</p>	
<p>7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?</p>	<p>Yes</p>	
<p>7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?</p>	<p>Financial reports are prepared using Sage50 accounting software.</p>	
<p>8. Information Systems</p>		
<p>8.1 Is the financial management system computerized?</p>	<p>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.</p>	
<p>8.2 Can the system</p>	<p>Under TSDP and DMSP, financial reports were produced using MYOB. Sage50 is</p>	

produce the necessary project financial reports?	used for NTF. TSFRP has developed an excel spreadsheet model. For the facility, an excel spreadsheet will be developed that will be able to generate financial statements and reports.	
8.3 Is the staff adequately trained to maintain the system?	MID finance, MID Engineers, and CPIU Finance have been trained in the use of Sage50.	
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.	