

## FINANCIAL MANAGEMENT ASSESSMENT

### I. INTRODUCTION

1. The country public financial management system was assessed by reviewing a public expenditure and financial accountability assessment completed in November 2012. This financial management assessment (FMA) report has been conducted with reference to the *Guidelines for the Financial Management and Analysis of Projects*<sup>1</sup>, *Financial Due Diligence: A Methodology Note*<sup>2</sup>, and *Financial Management Technical Guidance Note*<sup>3</sup>. It incorporates the financial management internal control and risk management assessment required by the Asian Development Bank's (ADB) Guidelines and may need to be amended further to reflect subsequent developments and agreements during the project implementation. This FMA preparatory activities included reviewing documents, interviewing staff of government agency and other stakeholders, and completed with inputs from other references through desk studies completed in May 2018.
2. The purpose of this FMA was to determine the robustness of the accounting, financial controls and internal audit arrangements, and the capability of the executing and implementing agencies to meet all the fiduciary requirements which will be set out in the grant agreement, and other project documents. The FMA has assessed executing and implementing agencies and financial arrangements, financial responsibilities and perceived financial risks and risk management. This FMA also provides guidance to the executing and implementing agencies for mitigation measures to ensure the effective project performance, following country laws and regulations as well as ADB's requirements.
3. This FMA report indicates the FMA done on the Committee of Emergency Situations and Civil Defense under the Government of Tajikistan (CESCD). To complete the FMA, the executing (CESCD) and implementing agency (project implementation group, PIG) have filled out the ADB's standard FMA questionnaires (FMAQs) and the updated FMAQs are in **Annex 1**.

### II. BRIEF PROJECT DESCRIPTION

4. The impact of the project will be Tajikistan's resilience to disasters enhanced, aligned with (i) National Development Strategy 2016–2030; (ii) Midterm Development Program 2016–2020<sup>4</sup>; (iii) ADB's Country Partnership Strategy for Tajikistan 2016–2020<sup>5</sup>; and (iv) National Disaster Management Strategy.<sup>6</sup> The project has following outcome: economic losses of Tajikistan due to natural hazards reduced.
5. The project will deliver the following three interrelated outputs: (i) DRM mainstreamed in government institutions; (ii) capacity to manage natural hazards and minimize losses strengthened; and (iii) road map for investments and sustainable financing developed.

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<sup>1</sup> ADB. 2005. *Guidelines for the Financial Management and Analysis of Projects*. Manila.

<sup>2</sup> ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

<sup>3</sup> ADB. 2015. *Financial Management Technical Guidance Note*. Manila.

<sup>4</sup> Ministry of Economic Development and Trade. 2016. *National Development Strategy and Midterm Development Plan*. Dushanbe.

<sup>5</sup> ADB. 2016. *Country Partnership Strategy: Tajikistan, 2016–2020*. Manila Source:

<https://www.adb.org/sites/default/files/institutional-document/190300/cps-taj-2016-2020.pdf>

<sup>6</sup> Government of Tajikistan. 2010. *National Disaster Management Strategy, 2010–2015*. Dushanbe; and Government of Tajikistan. 2018. *Draft National Disaster Management Strategy, 2018 – 2030*. Dushanbe.

6. The project will be implemented from January 2019 to December 2023. The financial grant closing is 30 June 2024.

7. The proposed modality will be stand-alone grant project. The current ADB allocation for the project is \$10.0 million comprising Asian Development Fund (ADF) grant under the disaster risk reduction (DRR) financing mechanism.<sup>7</sup> The Government of the Republic of Tajikistan (the Government) will finance taxes and duties initially estimated at \$1.0 million. Initial estimate of climate change adaptation is \$3.0 million. ADB will finance 100% of the adaptation cost. The financing and indicative project investment plans are in Tables 1 and 2, respectively. Further details of cost by expenditures, project investment and financing plans will be provided in the project administration manual (PAM).

**Table 1: Financing Plan (\$ million)**

Source	Amount	Share of Total (%)
Asian Development Bank		
Special Fund resources (ADF grant)	10.00	90.9%
Government	1.0	9.1%
<b>Total</b>	<b>11.0</b>	<b>100.0%</b>

Source: Asian Development Bank estimates.

**Table 2: Project Investment Plan (\$ million)**

Item	Amount <sup>8</sup>
<b>A. Base Cost</b>	
1. Disaster risk management mainstreamed in government institutions.	2.06
2. Capacity to manage natural hazards and minimize losses strengthened.	7.60
3. Roadmap for investments and sustainable financing developed.	0.62
<b>Subtotal (A)</b>	<b>10.27</b>
<b>B. Contingencies<sup>9</sup></b>	<b>0.73</b>
<b>Total (A+B)</b>	<b>11.00</b>

Source: Asian Development Bank estimates.

### III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

8. **Public Financial Management (PFM) and Procurement Risks and Mitigation.** As per ADB's Country Partnership Strategy (2016–2020)<sup>10</sup> to mitigate PFM and oversight capacity risks, ADB will extend its support to increase credibility, policy alignment, and transparency of the budget cycle. The Government has made progress in piloting medium-term expenditure frameworks in select ministries and provinces starting in 2014. ADB measures to mitigate procurement and corruption risks in its operations include (i) ADB will support the review of the draft procurement law and the development of standard procurement documents; (ii) facilitate capacity building initiatives such as ADB's organized Business Opportunities Forum; and (iii) ADB

<sup>7</sup> ADB. 2016. *Concessional Assistance Policy*. 2016. Manila.

<sup>8</sup> In mid-2018 prices as of May 2018. Includes taxes and duties of \$1.0 million to be financed by the Government of Tajikistan.

<sup>9</sup> Physical contingencies are computed at 5% of the base cost for consulting services and PIG expenses. Price contingencies computed at average of 7.0% on local currency costs and 1.5% on foreign currency costs from 2019 onwards; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

<sup>10</sup> ADB. 2016. *Country Partnership Strategy: Tajikistan, 2016–2020*. Manila.

will emphasize merit-based personnel management in ADB-funded projects and engage more strongly in the recruitment, promotion, and training of PIG personnel.

9. **Public Expenditure and Financial Accountability (PEFA) Assessment.** The overall ratings of the PEFA assessment conducted in 2012 indicate a mixed assessment for Tajikistan. Of the 31 items rated, two (6.5%) were rated A; eight were rated B or B+ (25.8%); 11 were rated C or C+ (35.4%); while ten were rated D or D+ (32.3%).

#### IV. PROJECT FINANCIAL MANAGEMENT SYSTEM

##### A. Overview

10. **Executing and Implementing Agencies.** Overall, the CESC (EA) will be responsible for emergency management and civil defense, implementation of policies on the provision of public services, and preparation and protection of the population and assets. The EA executes its responsibilities directly and through regional bodies, in cooperation with other government entities.

11. The assessment reveals that the executing agency has experience dealing with projects funded by the development partners (DPs) and other external donors. Their experiences include procurement of equipment and various technical assistance projects funded by those donors in the past. They have adequate internal control systems and financial reporting arrangements, not only for their regular budget and expenditure management, but also for other external funded projects. A PIG will be established in the EA for implementing the project, which will be assisted during project implementation by the relevant departments of the EA. The EA will be overall responsible for (i) overseeing the services of the PIG for the day-to-day implementation of the project, and (ii) being the party to sign all contracts with consultants and contractors employed by the project. The PIG will have full time dedicated staff from the EA, headed by a Project Director. The PIG tasks will include, among others, the procurement, accounting, monitoring, and supervision of the project, as well as the necessary liaison with the EA, contractors, suppliers, and ADB. The EA/PIG will also be responsible for compliance with grant covenants. Other relevant agencies will designate focal persons for the project who shall be responsible for coordination of activities related to their respective agencies with the EA/PIG during implementation.

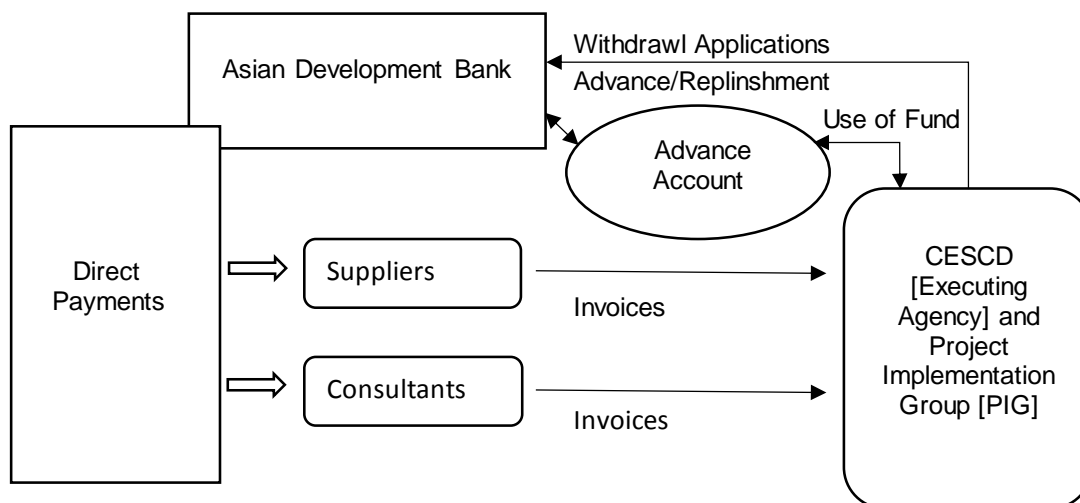
12. **Funds Flow Arrangements.** Arrangements for the project are depicted in **Figure 1**.

13. **Direct payment.** The procedures will generally be used for goods and consulting services. The EA will approve withdrawal applications from the PIG and submit them to ADB for direct payment for goods and consultancy services of the project.

14. **Advance Account.** The PIG will establish an advance account promptly after grant effectiveness at a commercial bank acceptable to ADB for PIG expenses. The currency of the advance account is the US dollar. The advance account is to be used exclusively for the ADB's share of eligible expenditures. The EA who administers the advance account is accountable and responsible for proper use of advances to the advance account. The EA will be accountable and responsible for proper use of advances to the advance account, if utilized, which will be maintained with them. The EA and its PIG has not worked with ADB before, hence a proper training will be given to PIG on ADB's disbursement guidelines and procedures. The request for initial advance to the advance account should be accompanied by an Estimate of Expenditure

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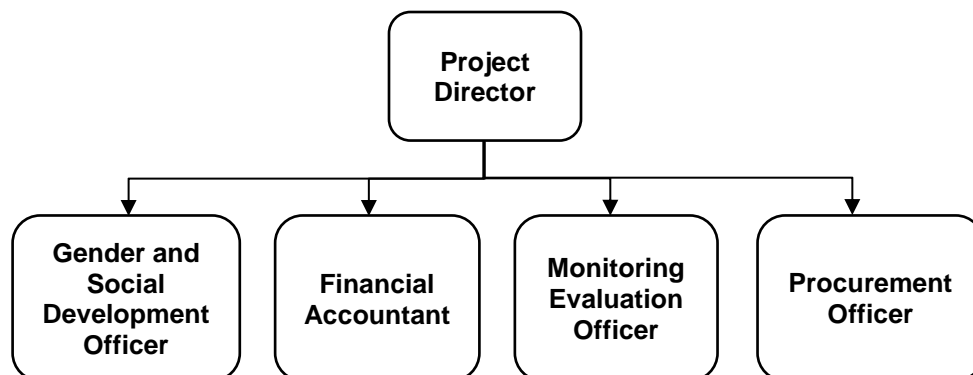
Sheet<sup>11</sup> setting out the estimated expenditures for the first six months of project implementation, and evidence that the advance account has been duly opened. For every liquidation and replenishment request of the advance account, the recipient (MOF) will furnish to ADB (a) Statement of Account (Bank Statement) where the advance account is maintained, and (b) the Advance Account Reconciliation Statement (IARS) reconciling the above-mentioned bank statement against PIG's records.<sup>12</sup>



**Figure 1: Fund Flow Diagram**

15. **Organization and Staffing.** The executing agency have adequate capacity and authority to support particularly on financial management, and procurement to properly implement this project in compliance with ADB process and procedures. The Head of financial management department reports to the Chairman of the EA and has a team of thirteen staff members in which five finance specialists are accountants. There are four divisions in the accounting department in which division on centralized accounting will deal with this project. Figure 2 shows the organizational structure of the PIG.

**Figure 2: Project Implementation Group Organizational Chart**



<sup>11</sup> Available in Appendix 10B of the ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

<sup>12</sup> Follow the format provided in Appendix 10C of the ADB's *Loan Disbursement Handbook*.

16. **Accounting Policy and Procedures.** The EA currently follows International Financial Reporting Standards and PIG will do likewise. The accounting system allows for proper recording of financial transactions. The accounting is done in line with the EA chart of accounts which is adequate. The EA records retention is for a minimum period of 5 years, with the backup server in Ministry of Finance. The EA needs to ensure that project documents retention is also within the 2-years period from the completion of the project, as required by ADB's Guidelines.

17. **Segregation of Duties.** The organizational structure of EA ensures adequate segregation of duties with different persons doing the transactions authorization, recording, custody of assets in the transaction and reconciliation of bank accounts and subsidiary ledgers. The EA finance department with a staff of thirteen at full strength and the anticipated PIG organization with a staff strength of seven will have enough officers to enable complete segregation of duties.

18. **Budgeting System.** Budget inputs are provided by the various functional units including the PMU for review and consolidation. The Head of financial management department and the Chairman has the final responsibility for the budget preparation. All budget variations are explained appropriately and the expenditures have proper functional classification to be justified. The budget is submitted to the MOF for review and final approval is given by Parliament following which it forms part of the national budget from which allocations are available to the EA.

19. **Payments.** Proper invoice processing procedures are in place within the EA. Payments are made against invoices and other supporting documents that have been verified and submitted for payments. Sufficient safeguards exist for approval of expenditure against the allocated budget with procedures in place for approvals for variation from allocated budget and quarterly reporting and explanations for variance of actuals versus budget.

20. **Cash and bank.** The Project Director and the Financial Account (FA) of the PIG will be the duly authorized signatories to all project bank transactions. Use of accounting software such as SGB.NET installed at the PIG will allow maintaining the cashbook in a computerized electronic system. Bank reconciliations are to be undertaken at the end of each month, or at any time as necessary.

21. **Safeguard of Assets.** The accounting system followed by the EA provides for adequate safeguards of assets from fraud, waste and abuse with appropriate record and labelling of fixed assets, inventory and stocks through Barcode. There are periodic audits by MOF and with internal checks at various levels within the organization to ensure verification and protection of assets. The PIG will follow the same procedures and will also be subject to audit.

22. **Internal Audit.** The Internal audit department has five full time staff in which three are finance specialists and accountants who are responsible for audits in different departments of EA. Internal Audit staff has conducted various audits on externally financed projects and all departments within the EA. The Head of internal audit submit an annual plan of audits for compliance and reports to Chairman of the EA.

23. **External Audit.** A high quality external audit is an essential requirement for creating transparency in the use of public funds. In December 2006, the Government Decree dissolved the State Financial Control Committee (SFCC). Its successor is the Agency of State Financial Control and Combating Corruption (ASFCCC), which reports to the President. The combination

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of the external audit and ASFCCC with the function to control corruption does not conform to international practices. ASFCCC should not be perceived as performing an external audit function. It would be considered as an internal audit function. In 2007, the World Bank (WB) and Government of Tajikistan (GOT) reached an agreement that the Supreme Audit Institutions reporting to the Parliament would be developed. The Law on the Supreme Audit Institution was adopted in 2011, but no organization has yet been established. External audit is not yet in place. There are no audit reports for parliament to examine.

24. The external audit is done by three independent state organizations (i) State Chamber of Accounts under the Government; (ii) ASFCCC; and (iii) MOF. Audits of the EA are carried out annually by MOF but the state departments perform the audit after every two years. There have been no significant delays in the external audits of the EA regular budgets and expenditures and for completed externally financed projects. The audit reports of projects are generally issued within six months from the end of financial year. External audit is conducted in accordance with the International Standards on Auditing (ISA). The audit for this project will be conducted by an independent auditor. The EA through PIG will cause the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing and with the Government's audit regulations, by an independent auditor acceptable to ADB. The audited project financial statements will be submitted in English to ADB within six months of the end of the fiscal year by the PIG.

25. **Legislative Scrutiny.** Legislative scrutiny of the annual budget law is strong in all dimensions. The legislature through the Parliamentary Committee of *Majlisi Namoaydagon Majlisi Oli*<sup>13</sup> on Economy and Finance involves itself in the budget formulation much more from the start of the budget process and the formulation of macroeconomic parameters, budget negotiations and to the final submission of the budget to parliament. Parliament is given adequate time for deliberations on the budget. However, current practice of changing support staff (civil servants) after elections could disrupt parliamentary procedures with a loss of institutional memory. The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. Med term Fiscal Frameworks and Med term Expenditure Frameworks are currently being introduced but do not yet form part of the official budget review by parliament. The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations. The Government's freedom to allocate excess revenue up to a limit of 10 per cent without parliamentary approval is of particular concern. The process is not transparent and parliament cannot easily determine whether the extra budgets are allocated on a rational and fair basis. The substantial allocations from the Reserve Fund of the President (amounting to 2% of total expenditures) are also outside normal parliamentary controls; however, disbursements are documented and communicated to parliament on a regular basis.

26. **Reporting systems.** Financial Statements are prepared for the EA on quarterly basis and financial reporting is also done quarterly. Financial reports are generated by the accounting system of SGB.NET and also excel module is used to generate few other financial reports. They show comparisons of actual expenditures against budgeted expenditures.

27. **Public disclosure:** ADB shall disclose the annual audited financial statements for the project and the opinion of the auditors on the financial statements no later than 14 calendar days

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<sup>13</sup> Supreme Assembly of Tajikistan's parliament.

of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter will not be disclosed.

28. **Information System.** The accounting division of the EA uses customized accounting system of SGB.NET, which has backup server in MOF. To prepare separate financial statements and reports for the project, the PIG will use the same accounting system. The software will also be used for recording of project's receipts and payments.

29. **Experience with other donors.** The EA has experience of implementing projects financed by international donors including the European Union, the United States Agency for International Development, the Swiss Agency for Development Cooperation, the Japan International Cooperation Agency, the German Development Cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), United Nations Development Program, the World Bank, and Russian Federation.

30. **Staffing.** Although staffing of the financial management function is adequate in terms of numbers, staff lacks experience with project financial management and disbursement requirements of the ADB. Therefore, experienced financial management consultants will be needed to work with the FA of the PIG and be responsible for project financial management and disbursement functions.

31. The FA will deal with verification of the payment supporting documentation and withdrawal applications (WAs), and preparation of project financial statements according to cash-based IPSAS. The FA would be responsible for the planning, financial reporting, and funds flow arrangements. She/He will be trained with ADB policies and procedures on disbursement, financial reporting and auditing.

## V. RISK ASSESSMENTS

32. The FMA has considered two types of risks: (i) inherent risks, i.e. risks outside the direct control of the entity financial management; and (ii) control risks, i.e. risks concerning the internal functioning and control of the entity's accounts division. The following key risks have been identified.

**Table 3: Financial Management Inherent and Control Risk Assessment**

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<b>Inherent Risk</b>		
<b>I. Country Specific</b>		
<p>A. PFM</p> <p>(i) Policy emphasis on new road construction and the lack of integration of investment and recurrent budgets leads to underfunded road maintenance and results in unsustainable infrastructure.</p> <p>(ii) High receivables of electricity providers, connected with defaults in payments, especially by TALCO, discourage investment in the energy sector and improve electricity generation, transmission and distribution.</p> <p>(iii) Poor accounting and financial reporting at OJSC Barki Tojik impedes management</p>	Substantial	<p>(i) ADB will support the preparation of an action plan to integrate investment and recurrent budgets in the transport sector, and adequate maintenance budgets in loan covenants and other agreements.</p> <p>(ii) ADB will facilitate through the Development Coordination Council a concerted approach toward the restructuring of OJSC Barki Tojik and TALCO. ADB will support energy efficiency at TALCO.</p>

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
<p>based on meaningful operating metrics, resulting in poor sector management and results, and failed audits.</p>		<p>(iii) ADB will strengthen the accounting and internal control capacity of electricity providers. ADB will also address the need for full compliance with IPSAS standards by 2019 in all relevant communications.</p>
<p><b>B. Procurement</b>            (i) Procurement law is not a consolidated legal document and lacks standard procurement documents and manuals that increase risks of misinterpretations.</p> <p>(ii) Public Procurement Agency (PPA), the authorized body on procurement created by, and reports to, the President, is both a regulator and executor of procurement for non-procurement certified government agencies. This increases risks of potential conflict of interests and delays.</p> <p>(iii) Lack of a recognized procurement professionalization program for national procurement staff, limited capacity and understanding of international standards, and slow learning as a result of separately managed project implementation groups and units and staff turnover increases mis procurement risks.</p> <p>(iv) Lack of capacity of local firms reduces participation and development of local businesses.</p>	<p>Substantial</p>	<p>(i) ADB will support the review of the draft procurement law and the development of standard procurement documents.</p> <p>(ii) ADB will support restructuring of the PPA into an effective regulatory agency and promote the continuation of the procurement decentralization.</p> <p>(iii) ADB may consider supporting government-led comprehensive procurement capacity building and professionalization programs.</p> <p>(iv) Facilitate capacity building initiatives such as ADB's organized Business Opportunities Forum.</p>
<p><b>C. Corruption</b>            (i) The current focus of TAFACAC on enforcement and financial audit instead of on prevention may lead to an ineffective integrity system that could result in continued high levels of corruption.</p> <p>(ii) Low trust in government procurement and adherence to payment schedules may deter SMEs from participating in public tenders, resulting in reduced competition, innovation, and SME growth.</p> <p>(iii) Entrenched clientelism and patronage staffing may cause low accountability and</p>	<p>Substantial</p>	<p>(i) ADB will support the restructuring of TAFACAC jointly with partners in DCC. Support will be provided to minimize areas of overlap with agencies such as the internal audit departments of the MOF and MOJ.</p> <p>(ii) ADB will promote procurement capacity building and intensify public-private dialogue, support actions to strengthen knowledge, and practice managing conflicts of interest.</p>



<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
commitment to competence and can result in poor public sector and project performance.		(iii) ADB will emphasize merit-based personnel management in ADB-funded projects and engage more strongly in the recruitment, promotion, and training of PIU personnel.
<b>II. Entity Specific</b>		
There is room for improvement in the public financial management of the EA with low credibility of the budget	Moderate	National Disaster Risk Management project will provide support to enhance the public financial management of EA.
<b>Overall Inherent Risk</b>	<b>Substantial</b>	
<b>Control Risk (CESCD/PIG)</b>		
<b>I. Executing Entity</b>		
The EA has no experience of ADB assisted projects. However, PIG has not been formed yet and the experience and skills of PIG staff needs to be assured.	Moderate	The EA needs to timely set up PIG with qualified staff before Grant effectiveness.
<b>II. Funds Flow</b>		
The CESCD Financial Accountant is experienced and familiar with the Financial Management Procedures. However, he does not have experience of ADB financed projects	Moderate	Provide training on ADB's Loan Disbursement Handbook (2017, as amended from time to time) for the FA as part of the PIG consultancy package; All funds will flow through ADB direct payments.
<b>III. Staffing</b>		
The EA has adequate capacity to support particularly on financial management, and procurement to properly implement this project in compliance with ADB process and procedures. There will not be any delays in day to-day financial management and submission of periodical financial reports.	Low	N/A
<b>IV. Accounting Policy and Procedures</b>		
Policies and procedures are well documented in Financial Management Manual. PIG will use International accounting standards for recording of all transaction and reporting.	Low	N/A
<b>V. Internal Audit</b>		
The EA's Internal Audit function has been fully functional and working efficiently to report any compliance matters to Chairman.	Low	N/A
<b>VI. External Audit</b>		
External audit is conducted in accordance with the International Standards on Auditing (ISA). MOF conducts the audits annually.	Low	N/A
<b>VII. Reporting and Monitoring</b>		
Regular reports are generated from the accounting system and regular monitoring is carried out by management.	Low	N/A

<b>Risk Description</b>	<b>Risk Assessment</b>	<b>Mitigation Measures or Risk Management Plan</b>
<b>VIII. Information Systems</b>		
The EA uses computerized accounting software of SGB.NET and which has backup server in MOF. The system is fully functional for all Financial Accounting and Reporting.	Low	N/A
<b>Overall Control Risk</b>	Moderate	
<b>Overall FM Risk</b>	<b>Moderate</b>	The implementation of mitigation actions as proposed will reduce to risk to low.

ADB = Asian Development Bank, CESC = Committee of Emergency Situations and Civil Defense, DCC = Development Coordination Council, IPSAS = international public-sector accounting standards, MOF = Ministry of Finance, MOJ = Ministry of Justice, MOF = Ministry of Finance, PFM = public financial management, PIG = project implementing group, SME = small and medium enterprises, TAFAC = Agency for State Financial Control and Fight Against Corruption, TALCO = Tajikistan Aluminum Company  
Source: Asian Development Bank.

## VI. STRENGTHS AND WEAKNESSES

33. **Strengths.** A significant strength of the financial management systems of the EA is that it has adequate internal control systems and financial reporting arrangements, for their regular budget and expenditure management and also for externally financed projects.

34. **Weaknesses.** The following weaknesses in financial management assessment of the EA have been identified and need to be addressed:

- i. delays in setting up dedicated PIG may hamper the timely and effective implementation of the project; and
- ii. insufficient training on ADB procedures to the staff in PIG may cause delays in day-to-day financial management of the project.

## VI. ACTION PLAN

35. The project will ensure to set up PIG, prepare the terms of reference for external auditors and allocate adequate budget to provide appropriate training on ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) to the Financial Accountant to establish robust financial management arrangements. The following are proposed actions for supporting financial management by the project.

**Table 4: Time-Bound Action Plan**

<b>Weakness</b>	<b>Mitigation Action</b>	<b>Responsibility</b>	<b>Target Date</b>
The EA has no experience in implementing ADB financed projects. However, PIG has not been formed yet and the experience and skills of PIG staff needs to be assured.	The EA needs to timely set up PIG with qualified staff before grant effectiveness.	EA	September 2018
The EA's Financial Accountant is experienced and familiar with the Financial Management Procedure.	Provide training on ADB's Loan Disbursement Handbook and Financial Management procedure for the Financial	ADB/EA	December 2018

<b>Weakness</b>	<b>Mitigation Action</b>	<b>Responsibility</b>	<b>Target Date</b>
However, she/he has not yet received any training on ADB Financial Management procedure and ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time).	Accountant as part of the PIG consultancy package; All PIG expenses will route through advance account and other funds will flow through ADB direct payments to suppliers and consultants.		

ADB = Asian Development Bank, EA = Executing Agency, PIG = Project Implementation Group.  
Source: Asian Development Bank.

## VII. CONCLUSION

36. Overall risk rating for project FMA is assessed as “**Moderate**”. The project arrangements are considered satisfactory since appropriate mitigation measures/management actions have been prepared to address the key issues.

Topic	Response		Remarks
<b>1. Executing/Implementing Agency</b>			
	<b>Executing Agency</b>	<b>Implementing Agency</b>	
1.1 What is the entity's legal status /registration?	100% state owned.		
1.2 How much equity (shareholding) is owned by the Government?	N/A		
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.	N/A		
1.4 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	They have worked with embassies on various Technical Assistance and Procurement of Equipment. However, the CESC D has not worked with ADB before on any project.		Commitment of CESC D to ensure the timely setting up of PIG with qualified staff and training to be provided to them ADB's <i>Loan Disbursement Handbook</i> .
	<b>Executing Agency</b>	<b>Implementing Agency</b>	
1.5 Briefly describe the statutory reporting requirements for the entity.	The CESC D reports to Ministry of Finance every Quarter, reports to Tax Committee on monthly basis, Provide statistical report on number of staff and their salaries to state.		
1.6 Describe the regulatory or supervisory agency of the entity.	Ministry of Finance under the Government of Tajikistan.		
1.7 What is the governing body for the project? Is the governing body for the project independent?	The CESC D is the governing body and they report on financial issues to MOF.		
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	There are in total 2,207 staff, in which 899 are military staff, 413 civil servants and 809 ranked military staff.		

Topic	Response	Remarks
1.9 Does the entity have a Code of Ethics in place?	Yes. There are four military charters for all staff to regulate good behavior and one code of attitude and behavior for public servants.	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	There is no past history of this.	
<b>2. Funds Flow Arrangement</b>		
2.1 Describe (proposed) project funds flow arrangements, 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.	Funds flow of this project will happen directly from ADB to suppliers, contractors and consultants. While for PIG expenses an imprest account will be formed. They have not worked with ADB before on any project.	High Risk
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	N/A	
2.3 Are the disbursement methods appropriate?	N/A	
2.4 What have been the major problems in the past in receipt, accounting and/or administration of funds by the entity?	N/A	
2.5 In which bank will the imprest account be established?	N/A	
2.6 Is the bank in which the imprest account is to be established capable of - <ul style="list-style-type: none"> <li>• Executing foreign exchange and local currency transactions?</li> </ul>	N/A	

Topic	Response	Remarks
<ul style="list-style-type: none"> <li>• Issuing and administering letters of credit (LC)?</li> <li>• Handling a large volume of transactions?</li> <li>• Issuing detailed monthly bank statements promptly?</li> </ul>		
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?		
2.6 If the executing or implementing agency has used imprest funds earlier, has it experienced any difficulty in obtaining 100% of the imprest funds disbursed by ADB?		
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No, this is the first time.	
2.9 Does the PIG has adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's <i>Loan Disbursement Handbook</i> ? 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 SOE procedure.	<p>The new project implementation group (PIG) will be established, which will comprise the PIG Director, Financial Accountant, Monitoring and Evaluation Specialist, Procurement Specialist, Gender and Social Development Specialist, Translator, and drivers.</p> <p>This is the first time they are handling ADB project and hence they will be given training on ADB' <i>Loan Disbursement Handbook (2017, amended from time to time)</i>.</p>	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements	No, they don't have any foreign exchange risk.	

Topic	Response	Remarks
for managing foreign exchange risk.		
2.11 How are the counterpart funds accessed?	They will be in-kind contribution of counterpart funds in the form of tax exemption.	
2.12 How are payments made from the counterpart funds?	N/A	
2.13 If project funds will flow to communities or NGOs, does the PIG have the necessary reporting and monitoring arrangements and features built into its systems to track the use of the project proceeds by such entities?	N/A	
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), are proper guidelines formulated to record and value the labor contribution?	N/A	
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	There are 13 staff members in which 5 finance specialists are accountants. There are 4 divisions in the accounting department in which division on centralized accounting will deal with the project.	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	An existing finance specialist will be assigned to the project and they have enough capacity to handle the project.	
3.3 Describe the existing or proposed accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	The existing accounting staff is responsible for forecasting, budgeting, calculation of salaries, pensions, paying utility bills and procurement of equipment etc.	
3.4 Is the project finance and accounting	Yes.	

Topic	Response	Remarks
function staffed adequately?		
3.5 Are the project finance and accounting adequately qualified and experienced?	Yes.	
3.6 Is the project accounting and finance staff trained in ADB procedures including the disbursement guidelines (i.e., Loan Disbursement Handbook)?	No. ADB will give training to accounting and finance staff on procedures including disbursement guidelines.	
3.7 What is the duration of the contract with the finance and accounts staff?	They are all full time permanent employees.	
3.8 Identify key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	All finance positions are filled.	
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.	N/A	
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?	Yes, TOR will be issued for this.	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Very low.	



Topic	Response	Remarks
3.12 What is training policy for the finance and accounting staff?	Every year MOF conducts 2 or 3 trainings for the accounting staff.	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	IFRS Trainings have been given by donors as well.	
<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?	Standard Operating Procedures, Chart of Accounts and Financial Management Manual is followed by accounting staff. There is a special software SGB.NET for recording of accounting transactions and the project will use this also.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes SGB.NET has all controls in place.	
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.	Yes.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes.	
4.5 Are the General Ledger and subsidiary ledgers reconciled regularly and in balance?	Yes, except very few minor differences.	

Topic	Response	Remarks
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 at least for 1 year after ADB receives the audited project financial statements, 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?	SGB.NET has a backup server with MOF which is retained for five years.	
4.7 Describe any previous audit findings that have not been addressed.	Chamber of Accounts and Agency on Anticorruption and financial monitoring do audits and there are no pending observations as they make adjustments there and then.	
<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; and (iii) custody of assets involved in the transaction?	Yes, they are performed by different people.	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, the division of responsibilities are properly segregated.	
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes. They have approved Budget of 12.8 million somoni for salaries of CESC staff and 29.8 million somoni overall budget including other expenses.	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor	Yes.	

Topic	Response	Remarks
subsequent performance?		
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes. All budget variations are explained appropriately and the expenditures have proper functional classification to be justified.	
4.13 Are approvals for variations from the budget required (i) in advance or (ii) after the fact?	They are required in advance from head of Financial Management Department and then Chairman of Committee.	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Yes.	
4.15 Who is responsible for preparation and approval of budgets?	The Head of Financial Management Department, the Chairman and MOF.	
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?	Yes.	
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations or inability of the EA to absorb/ spend released funds?</p> <p>Is there evidence that government counterpart funding is not made</p>	<p>Yes, proper procedure is in place to incorporate all assumptions like inflation, once off events, any foreseen expenses. All four departments have to make their own forecasts which is approved by Head of FM and the Chairman of CESC.</p> <p>Budgets are very accurately made every year and the extent of under and over budgeting is very low. There are very few instances of over spending. There are not many variations in Budget.</p>	

Topic	Response	Remarks
<p>available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>		
<b>Payments</b>		
<p>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 and supporting documents?</p>	<p>There are proper procedures for checking of Invoices. First request is sent to MOF, after that, upon receipt of clearance, invoice is sent to agency on state procurement of goods, works and services, which arranges tender process is required, works and improvement winner of tender process will start civil works/procurement, 80% is paid during civil works/procurement and 20% is paid only after completion and approved by the committee.</p>	
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?</p>	<p>Yes.</p>	
<p>4.20 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?</p>	<p>Yes.</p>	
<b>Policies and Procedures</b>		
<p>4.21 What is the basis of accounting (e.g., cash, accrual) by the entity and by project?</p>	<p>Accrual basis of accounting.</p>	
<p>4.22 What accounting standards are followed</p>	<p>IFRS</p>	

Topic	Response	Remarks
(International Financial Reporting Standards, International Public-Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?)		
4.23 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes, the Ministry of Finance is responsible and they follow.	
4.24 Is the accounting policy and procedure manual updated for the project activities?	Yes.	
4.25 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?	Only the Ministry of Finance can alter or establish a new accounting principle.	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes.	
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?	Yes.	
4.28 Are manuals distributed to appropriate personnel?	Yes	
4.29 Describe how compliance with policies and procedures are verified and monitored.	There are monthly random compliance checks.	
<b>Cash and Bank</b>		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have	Treasury Specialist and Head of Financial Management Department.	

Topic	Response	Remarks
custody over bank passwords, USB keys, or equivalent for online transactions.		
4.31 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	They maintain daily but reconciliation is done every month.	
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?	Yes.	
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 monthly. There are three bank accounts e.g. Foreign Exchange Account, Budget Account and Special Account.	
4.34 Are all reconciling items approved and recorded?	Every month Financial Management Unit head and chairman has to sign and approve the reconciliation of items.	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes.	
4.36 Are there any persistent/non-moving reconciling items?	Yes. There are only small unreconcilable items.	
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes.	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No.	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and	Only 2 persons.	

Topic	Response	Remarks
passwords? Describe the security rules on password and access controls.		
<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? Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	There are proper policies in place to adequately safeguard and protect assets from fraud.	
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?	Yes. There is a commission set up and they check fixed asset register and maintain it through bar code. The chairman has to sign monthly updated register.	
4.42 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes.	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labelled?	Yes.	
4.38 Is the disposition of each asset appropriately recorded, and immediate steps taken to locate lost, or repair broken, assets?	Yes.	
4.46 Are assets sufficiently covered by insurance policies?	Yes.	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	They have a written procedure in place for this.	

Topic	Response	Remarks
<b><i>Other Offices and Implementing Entities</i></b>		
4.48 Describe other regional offices or executing entities participating in implementation	There are 15 other affiliates and they are following and work under the same process and procedures.	
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.	N/A	
4.50 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	N/A	
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?	N/A	
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.	N/A	



Topic	Response	Remarks
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.	N/A	
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross 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?	N/A	
4.55 If contract records are maintained, does the agency reconcile	N/A	
<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?	N/A	
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	Yes. There are separate reports sent to the chairman. Every year different sections of the departments are audited throughout the year.	
5.2 What are the qualifications and experience of the IA staff?	Accountants	
5.3 To whom does the internal auditor report?	Chairman of CESC	

Topic	Response	Remarks
5.4 Will the internal audit department include the project in its work program?	Yes.	
5.5 Are actions taken on the internal audit findings?	Yes.	
5.6 What is the internal audit program? How was it developed?	Every year Internal Audit comes with a plan of Audits.	
5.7 Is the IA department sufficiently independent?	Yes. There are 5 Auditors [1 Technical, 1 Legal and 3 Financial Auditors]	
5.8 Do they perform pre-audit of transactions?	Yes.	
5.9 Who approves the internal audit program?	Chairman of CESC	
5.10 What standards guide the internal audit program?	IFRS	
5.11 How are audit deficiencies tracked?	They are tracked once audits finishes and adjustments are made there and then.	
5.12 How long have the internal audit staff members been with the organization?	They are experienced.	
5.13 Does any of the internal audit staff have an IT background?	Yes.	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Monthly	
5.15 Has the internal auditor identified/reported any issue with reference to retention or availability of records?	No.	
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)?	Internal Audit of CESC has never worked with ADB before, a proper training will be given to them on Disbursement guidelines and procedures.	
<b>6. External Audit- entity level</b>		

Topic	Response	Remarks
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. There are three institutions who perform external audit (i) State Chamber of Accounts, (ii) State Anti-corruption and Financial Monitoring Agency perform audits every 2 years and (iii) Ministry of Finance perform audits every year.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No.	
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?	Yes.	
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No.	
6.5 Does the external auditor meet with the audit committee without the presence of management?	Yes.	
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.	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No.	
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)?	No.	

Topic	Response	Remarks
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.	
<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?	Yes, another auditor (such as PWC, KPMG, EY or BDO) will be appointed by the project.	
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No	
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?	Yes, by Ministry of Finance.	
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, it will prepare the Terms of Reference which needs to be discussed with CESC and to be submitted to ADB's to obtain prior approval.	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	N/A.	
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines	External auditors have sufficient knowledge.	

Topic	Response	Remarks
and procedures (i.e., LDH)?		
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	
[For second or subsequent projects] 6.17 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?	Yes.	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity?	Yes, they are made on Quarterly basis and submitted to MOF.	
7.2 Are financial statements prepared for the implementing unit (s)?	N/A	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Quarterly.	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes, it has the provision of this.	
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?	Yes.	

Topic	Response	Remarks
7.6 Are financial management reports used by management?	Yes.	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes.	
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?	Financial Reports are extracted from SGB.NET software and also there is an excel based module in use which was made by a local software developer.	
7.9 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes.	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes, they have worked on various TA's and Procurement of equipment with Embassies.	
<b>8. Information System</b>		
8.1 Is the financial management system computerized?	SGB.NET is for recording of accounting transactions, banking transactions, reporting and approvals.	
8.2 If computerized, is the software off-the-shelf, or customized?	Yes, it is customized.	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	It is a standalone software used by CESC.	
8.4 How are the project financial data integrated	Yes, it is integrated.	

Topic	Response	Remarks
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?		
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?	Yes, for some and also Excel is used to generate the financial reports.	
8.6 Can the system produce the necessary project financial reports?	Yes.	
8.7 Is the staff adequately trained to maintain the system?	Yes.	
8.8 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes.	
8.9 Are there back-up procedures in place?	Yes.	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	The CESC has all data backup with the server in MOF.	