

I. FINANCIAL MANAGEMENT

A. Financial Management Assessment

1. Financial management assessment has been conducted for the FATA Secretariat in accordance with ADB's *Guidelines for the Financial Management and Analysis of Projects*¹ and *A Methodology Note on Financial Due Diligence*². The assessment confirmed that the FATA Secretariat has committed to provide an adequate number of accounting professionals and computerized financial accounting and reporting systems and procedures which will control accounting, financial and physical progresses related to the Project. The Government's New Accounting Manual shall be used, which is adequate and is followed in all ADB projects in Pakistan. The FATA Secretariat's financial management meets government requirements in terms of staffing, accounting, and internal control. The PMU's staffing structure is given in the attached organization chart and the Borrower has committed that all essential financial management staff will be recruited before loan effectivity.

2. Financial management internal control and risk assessments have also been conducted for the FATA Secretariat in accordance with ADB's *Guidelines for the Financial Management and Analysis of Projects*. The overall inherent risk was assessed as moderate primarily due to security-related factors. The overall control risk was assessed as low because the FATA Secretariat has considerable experience in implementing externally financed projects including a recently closed ADB loan project. The risk will be mitigated by the establishment of a project management unit (PMU) staffed by qualified professionals who will assume day-to-day management of the project, with an adequate financial management system software installed, and staff trained accordingly. Details of the assessments are presented in the financial management assessment included as Appendix 1 of the PAM.

Summary of Financial Management Internal Control and Risk Assessment

Risk Type	Risk Assessment	Risk Description	Risk Mitigation Measures
1. Country-Specific Risks	N	No budgetary or financial managements are evident	The National Accounting, controls and auditing procedures are adequate in the country
2. Entity-Specific Risks	M	Adequate financial management assessment could not be made at the agency level	Imprest account will be at the PMU at FATA Secretariat and all disbursements will be processed at the PMU level
3. Project Specific Risks	M	Security-related risks are essentially there especially at the agency level	Since payments are centralized and the PMU is located in Peshawer, closer monitoring by ADB shall be done

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila. Available at: <http://www.adb.org/Documents/Guidelines/Financial/default.asp>.

² ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila. Available at: <http://www.adb.org/Documents/Others/FM-toolkit/Methodology-Note.pdf>