

# Financial Management Assessment

---

Lao People's Democratic Republic:  
Northern Smallholder Livestock Commercialization  
Project

## TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	EXECUTIVE SUMMARY OF FINDINGS AND CONCLUSIONS	1
	A. Project Description	1
	B. Risk Assessment	1
	C. Implementation Requirements	2
III.	DETAIL FINDINGS	3
	A. Country Issues	3
	B. Risk Analysis	5
	C. Risk Mitigation	9
IV.	EXECUTING AGENCIES AND IMPLEMENTING AGENCIES	10
	A. For Non-Credit Based Investments	10
	B. Staffing	10
	C. Accounting Policies and Procedures	10
	D. Internal Audit	10
	E. Reporting and Monitoring	10
	F. Information Systems	11
	G. Staffing	11
	H. Accounting Policies and Procedures	11
	I. Internal Audit	11
	J. Reporting and Monitoring	11
	K. Information Systems	12
V.	FUNDS FLOW	12
VI.	EXTERNAL AUDIT	13

APPENDIX 1 : Financial Management Assessment Questionnaire

## I. INTRODUCTION

1. This Financial Management Assessment (FMA) for the proposed Northern Smallholder Livestock Commercialization Project has been prepared in accordance with ADB's Guidelines for the *Financial Management and Analysis of Projects*<sup>1</sup> (the Guidelines) and the publication *Financial Due Diligence A Methodology Note*.<sup>2</sup> This FMA incorporates the Financial Management Internal Control and Risk Management Assessment required by the Guidelines. Financial Management Assessment Questionnaires for each executing and implementing agencies were prepared prior to completing this FMA Report (Appendix 1).

2. For investments beyond credit lines, the FMA considers the Ministry of Agriculture and Forestry (MAF), a statutory authority, in its role as the proposed Executing Agency (EA). A national project management office (NPMO) will be established with a full time national project director who will have overall responsibility for the day-to-day implementation of all project activities. The Provincial Agriculture and Forestry Offices (PAFOs) of the participating provinces will be the implementing agencies (IAs). PAFOs will establish provincial project implementation units (PIUs) to be responsible for the day-to-day implementation and management of project activities in their respective provinces. For credit lines funded by the Project, the state Bank of Lao (BOL) will be the potential EA and the BOL will select financial intermediary institutions (FIIs) to provide credits for individual livestock value chain households and enterprises. Since the credit component for the Project will be funded by IFAD, details about this will be finalized before IFAD and the Government sign the loan and grant agreements for IFAD financing.

3. This assessment was prepared during a fact-finding mission on 18-29 August 2014. The assessment will be updated during an inception mission, and may need to be amended to reflect subsequent developments and agreements. Preparation activities included reviewing documents, interviewing counterparts and consultants, and discussing issues with stakeholders. Mitigating actions were identified together with counterparts.

## II. EXECUTIVE SUMMARY OF FINDINGS AND CONCLUSIONS

### A. Project Description

4. The Project will raise rural incomes by enabling livestock producers and agribusinesses to meet demand for Lao livestock domestically and internationally. This will contribute to ADB's Country Partnership Strategy particularly for the agriculture and natural sector and ADB's Medium Term Development Strategy objectives of: (i) economic growth; and (ii) fostering rural development, poverty reduction and human resources development.

5. The Project will have four outputs (i) strengthened smallholders and other LVC actors; (ii) LVC infrastructure strengthened; (iii) capacity to access credit improved; and (iv) project management enhanced.

### B. Risk Assessment

6. ADB projects in agricultural and natural resources sector in recent years have been performing highly satisfactory, relative to other sectors in terms of both implementation and development outcomes. Historically, the major project implementation issues have included: (i)

---

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

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

delays in reporting which may arise due to poor communications in some rural areas; (ii) the difficulty of retaining contract staff in PAFO and PIUs due to competition from the private sectors. For this reason it is necessary to ensure that appropriate training is available for newly recruited accounting and financial staff, especially at the provincial level, to ensure familiarity with ADB financial reporting requirements.

7. Inherent risk was consequently assessed as *substantial* in large part due to country-level risks and past ADB experiences. Control risk was rated as *high*, again, due to country-level risks and past ADB experiences. Particular weaknesses concerned record-keeping, internal controls, project accounting and reporting, and understanding of and adherence to financial management policies and procedures

## **C. Implementation Requirements**

### **1. Non-Credit Investments**

8. The executing agency for the Project will be MAF, within which the national project management office (NPMO) will be established with a full time national project director who will have overall responsibility for the day-to-day implementation of all project activities. The Provincial Agriculture and Forestry Offices (PAFO) of the participating provinces will be the implementing agencies and will establish provincial project implementation units (PIUs) to be responsible for the day-to-day implementation and management of project activities in their respective provinces.

9. A project steering committee (PSC) will be established, chaired by a representative of MAF, to provide co-ordination among ministries and agencies, and is the principal stakeholder in the project. It will approve and authorize annual work plans or any major changes to such plans. Corresponding provincial steering committees will be established in each province to provide local oversight of the project. Detailed project implementation arrangements are described in the project administration manual (PAM).

10. The staff of the NPMO will include project management and technical specialists, safeguards specialists, and accountants and financial management specialists. The NPMO will prepare a comprehensive organization chart and written job descriptions for each staff member. NPMO staff costs will be met by counterpart funds apart from approved per diem and transport in accordance with Ministry of Finance (MOF) guidelines, which will be met from ADB funds. ADB will finance consultants. The proposed structure of the project is appropriate as MAF and its departments are familiar with similar project mechanisms from previous projects.

11. NPMO will prepare and submit to ADB quarterly progress reports, which will include: (i) a narrative description of progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. The NPMO will prepare and submit to ADB a project completion report within 3 months of the completion of the Project.

### **2. Implementation Arrangement for Credit Lines**

12. Credit is essential for livestock farmers and their value chain enterprises to improve and expand the performance of their businesses. For the credit lines, IFAD will provide loan to the Government potentially through the Ministry of Finance (MOF) that will enter into an internal agreement with the Bank of Lao (BOL, the central bank), the executing agency (EA) for the credit lines. BOL will enter into subsidiary loan agreements with participating FIIs that will extend

subloans to eligible subborrowers, the project targeted beneficiaries. A variety of commercial FIs, both state - and private owned FIs, will be encouraged to be the sub-lending institutions to provide the subloans. These will ensure professional management and long-term sustainability of credit provision for commercial livestock development. Several potential FIs<sup>3</sup> have been assessed and expressed possible interests to participate in the Project. The FIs may work directly with individual subborrowers and/or through SLPNG committees. Staff of MAF during the individual credit assessment process will provide technical and management supports. Detailed guidelines for the credit lines will be developed and finalized by IFAD as the financier for the credit component.

### III. DETAIL FINDINGS

#### A. Country Issues

13. Country issues that potentially impact the financial management of the Investment Program include a weak public financial management (PFM) environment, management and skills capacity issues, and ADB country portfolio issues.

##### 1. Public Financial Management Environment

14. The PMF system of Lao PDR has developed considerably since the beginning of 2007 and appears now to be relatively well-functioning. However, significant further improvements are required during the coming years and may also be expected if the currently planned activities are properly and competently implemented. However, activities related to the improvement of internal audit, internal control and external audit need to be further strengthened, and the issue of extra-budgetary funds and fiscal oversight need to be addressed as does transparency and availability of fiscal and budgetary information. Moreover, and very importantly, anticorruption needs to be addressed immediately before it risks undermining and destabilising the PFM reforms. Furthermore, policy dialogue between the government of Lao (the Government) and the Development Partners (DPs) must be formalised, and collaboration and coordination between the DPs should be further improved, especially to ensure more capacity building.

15. The Public Expenditure Management Strengthening Program (PEMSP) was adopted by the Government in November 2005 and implemented from then onwards. It is a multiyear, medium-to-long term rolling programme aiming at improving policy consistency, efficiency, transparency and accountability in Public Expenditure Management (PEM) by strengthening institutional systems and capacity and making progress towards appropriate international financial management standards. The PEMSP focuses on strengthening the management systems and capacity of MOF and Provincial Finance Departments, supported by pilot interventions at provincial and sectoral levels.

16. The PFMS is a relatively well-developed programme, but does not address internal control and external audit, which should be included. This also applies to anti-corruption measures as a cross-cutting aspect. Furthermore, risk analyses need to be developed for the programme as does a monitoring and evaluation process. Also, although a governance structure has been conceptualized, it is yet to be actually implemented and operationalized though this is expected to take place in early 2009. All these aspects should be addressed with the updated programme document and implementation schedule to be approved by end of January 2009. It should be noted that monitoring and evaluation is likely to be most effective if it is an external function, which also implies that the

---

<sup>3</sup> Included ACLEDA Bank Lao, Agricultural Promotion Bank (APB), Champa Lao MFI, Luang Prabang Savings and Credit Union, Ekkpattana MFI (EMI) and Xayniom MFI. APB and ACLEDA are expected to be the first FIs that will participate in the Project. Potential participation of other FIs will be assessed during project implementation.

planned PEFA-based Performance Assessment should be carried out jointly by the Government and the DPs.

17. The overall framework for implementing the PFM and PEM reform agendas appears well structured and planned, but the governance structures are yet to become fully operational. It is noted that the recentralisation of the customs and tax functions are already under implementation. However, an overall review of the roles and responsibilities related to control and audit of government entities is required to streamline and coordinate the efforts in this area.

18. The Standard Financial Management Manual (SFMM) is yet to be finalized and disseminated to EAs. This document has been pending for many years. The SFMM is intended to enhance the transparency of procedures and requirements relating to the approval and accounting of financial transaction in a clear and consistency manner. MOF is still in the process of revising and simplifying an earlier draft version of the manual. Ongoing delays in dissemination the SFMM mean that EAs still do not have standardized procedures to refer to, and therefore face many inconsistencies in their dealings with MOF.

## **2. Management and Skills Capacity**

19. In common with many developing member countries (DMCs), Lao PDR has a shortage of skills in general management, financial management, financial analysis, and management accounting. In particular, few account staff possesses practical skills beyond basic book-keeping. The impact of these skill shortages on Government operations is amplified by high demand for financial skills from the private sector, which pay higher remuneration and, in most cases, provide better conditions. Statutory authorities, while paying higher remuneration than core-Government, are not completely immune from this issue.

## **3. ADB Country Portfolio**

20. The 2014, the Lao PDR portfolio comprises 26 projects (38 loans and grants) for a total of \$623.03 million and 19 TAs for a total of \$19.49 million. The Lao PDR portfolio is performing well. As of 30 June 2014 contract awards reached 76% of the annual projection and disbursement was 40% of the annual projection. Nineteen audit reports out of 21 due have been submitted on time and the remaining reports will be submitted shortly. Delayed audits are due to SAO's heavy workload. Other indicators such as compliance with social and environmental safeguards and technical performance are generally on-track.

21. Delays in contract awards and disbursement are mainly attributed to (i) EA's unfamiliarity with ADB procurement and financial management procedures, (ii) delays in mobilizing project implementation consultants, and (iii) slower than envisaged procurement of large works. Systematic monitoring and evaluation is difficult in some sectors due to delayed submission (or lack of) comprehensive quarterly progress reports.

## B. Risk Analysis

22. A Financial Management Internal Control and Risk Assessment was conducted. The risk-assessment approach is based largely on International Standard on Auditing 400: Risk Assessment and Internal Control. There is some risk to good financial management of the project through delays in reporting, which may arise due to poor communications in some rural areas. However, a more important risk arises from the difficulty of retaining contract staff in PAFOs and PPIUs due to competition from the private sector. For this reason it is necessary to ensure that appropriate training is available for newly recruited accounting and financial staff, especially at the provincial level, to ensure familiarity with ADB financial reporting requirements.

23. The proposed disbursement arrangements for the Project assist with overall risk mitigation. Loan proceeds will be disbursed in accordance with ADB procedures. Direct payment procedures will generally be used for equipment contracts and consulting service contracts. Two imprest accounts (one for NPMO and one for BOL) and seven sub-accounts are proposed (one for NPMO, 4 PPIUs, and 2 FIIs). Accounts for credit lines are fully managed by IFAD.

### 1. Inherent Risk

24. The following risk assessments are based on existing circumstances, staffing and procedures, and include recommendations for risk mitigation measures

Risk type	Risk Asst	Risk Description	Mitigation Measures
1. Country-Specific Risks	H	Poor financial management, including inadequate accountability.  Weak management and skills capacity.	Delay in finalizing the SFMM, which has been pending for several years.  Capacity building of staff is required in basically all reform areas where activities are currently taking place, and most donor-funded initiatives include some such support. However, it appears that there is a large backlog regarding training provision and significantly more efforts are needed on staff capacity building. Also, rehabilitation of the two remaining MOF regional training centres as well as equipment (including for libraries and IT communication) is still required as a precondition for training to be carried out properly.
		Malpractice and abuse of public financial management rules by employees.	EAs and IAs need to act decisively to remove corruption in the public financial management system. The proposed disbursement arrangement provides a strong form of control over funds (and is a key mitigation measure).

Risk type	Risk Asst	Risk Description	Mitigation Measures
2. Entity-Specific Risks	M	Confusion of roles between NPMO staff, PPIU and project consultants.	<p>A clear organizational structure of the EA/IA will need to be established in relation to the Project, particular consideration will need to be given to the extent of separation of roles and responsibilities between parties (question 3.10 of FMAQ).</p> <p>Work plans with nominated core activities for all EA/IA personnel will need to be developed (question 3.10 of FMAQ).</p>
		Inadequate record-keeping, internal reporting and monitoring of expenditure.	<p>Refer response under <i>Management and skill capacity issues</i> above.</p> <p>Technical assistance could be provided in the following areas:</p> <ul style="list-style-type: none"> <li>• budget preparation and oversight (question 4.11 of FMAQ);</li> <li>• ensuring the fixed asset module of NPMO's accounting software is functioning (question 4.34 of FMAQ);</li> <li>• strengthening the internal audit function (question 5.3 of FMAQ); and</li> <li>• putting in place systems to ensure data is safeguarded (question 8.4 of FMAQ).</li> </ul> <p>In addition, compliance with the NPMO Financial Policies and Procedures Manual is variable (question 4.2 of FMAQ). With the restructuring of the NPMO currently underway, assistance could be provided to develop a new Manual that is appropriate for the new organizational structure.</p>
3. Project-Specific Risks	H	<p>The complex structure of project over a 7 year period that will involve 4 departments under Ministry of Agriculture and Forestry, 4 provinces , 12 districts; BOL and FIs.</p> <p>Insufficient importance placed on sound financial management practices.</p>	<p>Clear segregation between non-credit and credit lines based investments provides more robust and sustainability of the project design in response to experience.</p> <p>private auditor will be recruited to conduct external audit for the project.</p>
<b>Overall Inherent Risk</b>	<b>S</b>		



## 2. Control Risk

25. Control Risk is summarised in the table below:

Risk type	Risk Asst <sup>a</sup>	Risk Description	Risk Mitigation Measures
1. Implementing Entities	M	<p>Financial management policies and procedures are not appropriate for Project management.</p> <p>High non-performing subloans in the previous projects</p> <p>No explicit Project policy of where/how to report fraud, waste, misuse of assets.</p>	<p>The comprehensive Manual of Accounting Procedures prepared by MOF. The manual has been provided to all departments and sections. The procedures are uniformly applied within MAF at national and provincial levels. For project activities specific project codes of accounts are established, based upon MOF standards with agreed amendment to accommodate donor and project requirements</p> <p>Credit lines will be provided potentially through FIIs supervised by BOL</p> <p>Procedures for reporting fraud, waste, misuse of assets to be documented and implemented (question 4.42 of the FMAQ).</p>
2. Funds Flow	H	<p>Deficiencies and misinterpretation of ADB guidelines in disbursement and withdrawal of program funds by EA/IA.</p>	<p>EA/IA to liaise regularly with ADB to ensure that ADB guidelines are followed. Interagency coordination at all levels to discuss the portfolio performance of loan. Provide regular training on ADB's disbursement policies.</p> <p>Separate accounts to be maintained for all project components financed by ADB, IFAD and the Government, and to be audited by an independent auditor.</p> <p>Direct payment procedures will be generally used for civil works, equipment contracts and consulting service contracts.</p> <p>Statement-of-expenditure procedure with record-keeping and supporting documentation will be used. Imprest account will be used to replenish eligible expenditures.</p>
3. Staffing	M	<p>Staff turnover and a lack of financial management skills.</p>	<p>Some NPMO and PIU accounting and financial staff from the previous livestock project are still in place, but others are to be appointed. Competitive remuneration will be offered by the Project</p>
		<p>No policy for rotation of staff duties.</p>	<p>Accounting duties to be rotated where feasible.</p>
		<p>Lack of performance review process for staff with sanctions for poor staff performance (including financial breaches) being rarely used.</p>	<p>Performance management process to be developed in order to retain and reward the right calibre of skilled people.</p>

Risk type	Risk Asst <sup>a</sup>	Risk Description	Risk Mitigation Measures
		NPMO and PIU accounting staff have limited understanding of ADB requirements.	Provide regular training on ADB's procurement and disbursement processes.
4. Accounting Policies and Procedures	H	Account and bank reconciliations are not performed in a timely manner.	Employ qualified and trained staff who will undertake account and bank reconciliations on a periodic basis.
5. Internal Audit	H	Weak capacity in the Internal Audit department at NPMO.	Strengthening the internal audit function is one area identified for possible technical assistance (question 5.3 of FMAQ).
6. External Audit	M	Lack of timely audit process is leading to the covenants not being met on the timely provision to ADB of audited annual project accounts.	Improved preparation of annual project accounts by the NPMO, and improved NPMO and PPIUs record-keeping and reconciliations. The NPMO will need to prepare the annual project accounts and underlying working papers on a timely basis in preparation for the annual financial audit. Refer section 6 of the FMAQ.
7. Reporting and Monitoring	H	Financial reports are produced but are based on un-reconciled accounts, and are provided late.  Reporting is not suitable for user needs.	Timely and reliable reporting provided to all stakeholders: IAs/EA, user agencies, donors, and program and project management.  Reporting to stakeholders will be prompt after the period end. These will include expenditure comparisons of actual with budget, linked to project progress and forecasts of expected outcome, cash flow statements, and asset schedules.  NPMO to prepare and submit to ADB quarterly and annual progress reports on project implementation and operation.  Monitor compliance with loan covenants, including submission of audited project accounts.
8. Information Systems	S	Back-ups of financial data are infrequent and not secure.	Regular backups of all accounting systems and appropriate security measures over backed-up data will need to be put in place (question 8.4 of FMAQ).
<b>Overall Control Risk</b>	<b>H</b>		

<sup>a</sup> H = High, S = Substantial, M = Moderate, N = Negligible or Low.

<sup>b</sup> Refer *Assessment of Executing / Implementing Agency, Financial Management Assessment Questionnaire*, 30 April 2009.

## C. Risk Mitigation

### 1. Potential need for Technical Assistance

26. The completed Financial Management Assessment Questionnaire (FMAQ)<sup>4</sup> identifies that technical assistance could be provided in the following areas: (i) budget preparation and oversight; (ii) ensuring the fixed asset module of NPMO's accounting software is functioning; (iii) strengthening the internal audit function; and (iv) putting in place systems to ensure data is safeguarded. In addition, compliance with the NPMO Financial Policies and Procedures Manual is variable. With the restructuring of the NPMO currently underway, assistance could be provided to develop a new Manual that is appropriate for the new organizational structure.

### 2. Risk mitigation actions

27. This section summarizes the actions identified throughout the Assessment for managing the risks to Investment Program from a FM perspective. The following are the proposed actions:

#### 2.1. *To be undertaken on establishment of EAs/IAs (NPMO, PIUs, BOL and FILs):*

- (i) An organizational structure of each EA/IA as it relates to the project to be developed.
- (ii) Work plans with nominated core activities for all EA/IA personnel to be developed.
- (iii) Procedures for reporting fraud, waste, misuse of assets to be documented and implemented.
- (iv) PPIUs staff remunerated at market rate to enable recruitment and retention of high calibre skilled staff.

#### 2.2. *To be undertaken during the implementation of the project:*

- (i) Regular liaison between the EA/IA and the ADB to ensure that ADB guidelines are followed.
- (ii) Regular interagency coordination at all levels to be put in place to discuss the portfolio performance of the loan.
- (iii) Regular training on ADB's disbursement policies to be provided.
- (iv) Separate accounts to be maintained for all project components financed by ADB, IFAD and the Government, and to be audited by an independent auditor.
- (v) Accounting duties to be rotated, where feasible.
- (vi) Performance management policies developed in order to retain and reward the right calibre of skilled people.
- (vii) Annual project financial statements and underlying working papers prepared on a timely basis in preparation for the annual financial statement audit.
- (viii) Prompt reporting to stakeholders after the period-end.
- (ix) Quarterly and annual progress reports on project implementation and operation prepared.
- (x) Compliance with loan covenants monitored, including submission of audited project accounts.
- (xi) Regular backups of all accounting systems and appropriate security measures over backed-up data to be put in place.

---

<sup>4</sup> Refer *Assessment of Executing / Implementing Agency, Financial Management Assessment Questionnaire, 30 April 2009*. The FMAQ was completed by [NAME], (Financial Sector Specialist (Public Finance), ADB).

#### IV. EXECUTING AGENCIES AND IMPLEMENTING AGENCIES

##### A. For Non-Credit Based Investments

28. The executing agency for the project will be MAF, within which the national project management office (NPMO) will be established with a full time national project director who will have overall responsibility for the day-to-day implementation of all project activities. The Provincial Agriculture and Forestry Offices (PAFO) of the participating provinces will be the implementing agencies and will establish provincial project implementation units (PIUs) to be responsible for the day-to-day implementation and management of project activities in their respective provinces.

29. NPMO will be required to adhere to sound financial management requirements during the implementation of the Project. The PIU, supported by an Accountant and a Finance Clerk, will be required to maintain separate project records and accounts adequate to identify the: (i) goods and services financed from loan proceeds; (ii) financing resources received; (iii) expenditures incurred on the components of each project; and (iv) counterpart and co-financier funds received and expended. The NPMO will engage independent external auditors acceptable to ADB to audit the consolidated project accounts annually. The NPMO will submit to ADB certified copies of audited annual consolidated project accounts as well as the auditor's report within 6 months of each financial year-end during implementation.

30. The full implementing arrangements are described in detail in the PAM; refer Section C Project Management Structure.

##### B. Staffing

31. It is proposed NPMO and each PIU employ two National staff/contractors to undertake the roles of Accountant and Finance Clerk.

##### C. Accounting Policies and Procedures

32. As required by ADB's Guidelines for the *Financial Management and Analysis of Projects* appropriate International Financial Reporting Standards will be applied for project reporting.

##### D. Internal Audit

33. The Ministry of Agriculture and Forest Internal Audit (Inspection) department effectiveness has been limited by the lack of capacity, funding, and staff. The Internal Audit department also does not have independence from management.

##### E. Reporting and Monitoring

34. NPMO will prepare and submit to ADB quarterly progress reports for individual projects, which will include: (i) a narrative description of progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. The NPMO will prepare and submit to ADB a project completion report within 3 months of the completion of the Project.

## **F. Information Systems**

35. The NPMO needs to set up a clear policy on the back up and security of finance data with including regular backups of all accounting systems and appropriate security measures over backed-up data.

### **1. For Credit Lines**

36. The executing agency for the project credit lines will be potentially BOL to have overall responsibility to monitor FIIs for the implementation of all subloans funded by the Project. They will work with NPMO, PAFOs for the implementation and management of credit lines in their respective provinces. Details on credit lines will be prepared by IFAD, the financier for this component.

37. BOL and FIIs will be required to adhere to sound financial management requirements during the implementation of the Project. They will be supported by an Accountant and a Finance Clerk to maintain separate project records and accounts adequate to identify the: (i) goods and services financed from subloan proceeds; (ii) financing resources received; and (iii) FII counterpart and co-financier funds received and expended. The independent external auditors acceptable to ADB engaged by NPMO will also audit the consolidated project financial statements for BOL and FIIs annually. The NPMO will submit to ADB certified copies of audited annual consolidated project financial statements as well as the auditor's report within 6 months of each financial year-end during implementation. As independent entities, the participating FIIs will also submit audited annual entity financial statements to IFAD.

## **G. Staffing**

38. BOL and FIIs will employ their owned staff to undertake the subloans and the roles of Accountant and Finance Clerk to prepare financial reporting. IFAD will manage the credit component as a parallel financing.

## **H. Accounting Policies and Procedures**

39. As required by ADB's Guidelines for the *Financial Management and Analysis of Projects* appropriate International Financial Reporting Standards will be applied for project reporting.

## **I. Internal Audit**

40. The BOL and FIIs' Internal Audit (Inspection) department will monitor the effectiveness of the EA and IAs in the internal audit for overall management of the project through IFAD supervision.

## **J. Reporting and Monitoring**

41. For IFAD fund, BOL will prepare and submit to IFAD quarterly progress reports for the credit lines, which will include: (i) a narrative description of progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. The BOL through the NPMO will provide inputs in preparing and submitting to ADB a project completion report within 3 months of the completion of the project.

## K. Information Systems

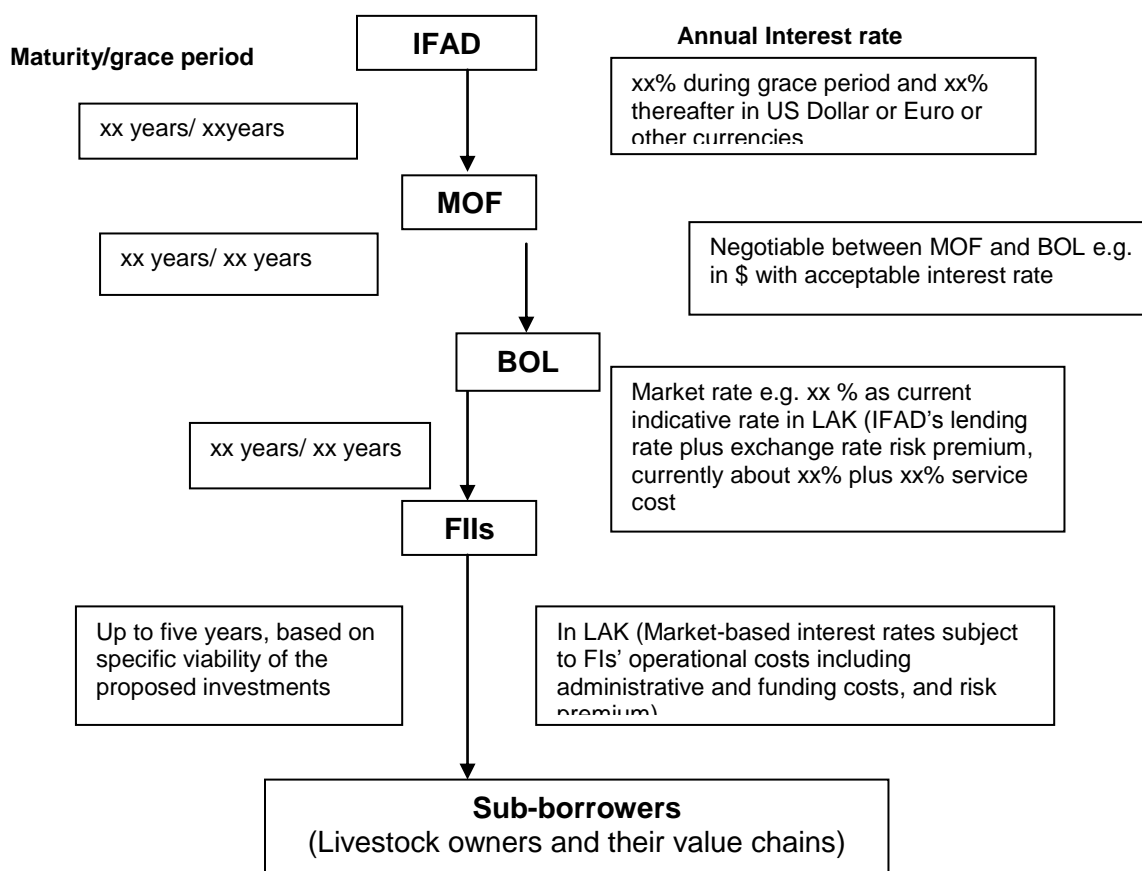
42. Under IFAD supervision, the BOL will support NPMO to set up a clear policy on the back up and security of finance data with including regular backups of all accounting systems and appropriate security measures over backed-up data.

## V. FUNDS FLOW

43. For ADB Loan, the borrower will be responsible for implementing the project according to the loan agreement and other agreements. On its part, ADB will monitor the project and review its progress to ensure that the loan proceeds are spent as agreed. When a loan becomes effective, a loan account will be opened in ADB's books in the name of the borrower and the loan amount is credited to that account. All disbursements under the loan will be carried out in accordance with *ADB's Loan Disbursement Handbook (2007, as amended from time to time)*.

44. The following are a potential fund flow and terms for the credit lines funded by the Project. The fund flow will be revisited and finalized by IFAD before loan- and grant agreements are signed between IFAD and the Government.

**Chart 1: Flow of Funds and Lending Terms of Credit Lines<sup>5</sup>**



ADB= Asian Development Bank, BOL = Bank of Lao, FI = financial intermediary Institutions, LAK = Laotian Kip currency ,  
MOF = Ministry of Finance,  
Source: Asian Development Bank.

<sup>5</sup> Financial arrangements are being reviewed with two options: with and without BOL – the selected option will be decided by IFAD, ADB and the Government during finalizing Loan Agreement between IFAD and the Government

## **VI. EXTERNAL AUDIT**

45. The NPMO will engage independent external auditors acceptable to ADB to audit the consolidated project accounts annually. The NPMO will submit to ADB certified copies of audited annual consolidated project financial statements as well as the auditor's report in English within 6 months of each financial year-end during implementation.

## FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

### I. NPCO and Four PIUs: Non-credit Investments

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
<b>1. EA and IAs</b>	MAF - NPMO				
1.1 What is the entity's legal status / registration?	MAF is a line ministry of the Government of Lao PDR (GOL). Responsibility for the project coordination will be delegated to the Department of Planning and Cooperation of MAF (DOPC) with the Department of Livestock and Fisheries (DLF) playing a support and backup role. Each department managed by a Director General who is answerable to the Minister and in turn to the GOL. DOP and DLF are responsible to Vice-Ministers.	The entity is a government department. Established under MAF and the control of the Governor of each province.			
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, MAF and DOPC/DLF are presently implementing around 76 externally financed projects of varying scale. This includes large grant and loan projects similar in size and design to the proposed Project.	Yes - Northern Regions Sustainable Livelihoods through Livestock Development Project (NRSLDLP), and projects funded by TABI, GIZ, SIDA, EU & SDC.	Yes- NRSLDLP) and other projects funded by ADB, IFAD, GIZ, AFD, EU & SDC.  The Provincial Project Implementation Unit(PIU) was based in PAFO comprising personnel from PAFO and contract staff.		



Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
1.3 What are the statutory reporting requirements for the entity?	Annual accounts (Auditor General) and Annual Report  The existing projects have specific reporting requirements based on donor agency requirements.	Quarterly and annual reports and annual audit report to MAF and Provincial Governor's office. The PPIU also has specific reporting requirements to NPCO	Monthly, Quarterly and Annual Report. Annual Audit Report. The PIU have specific reporting requirements to the NPCO under the supervision of the DG of the Livestock & Fishery MAF and to MOF and Funding Agency.		
1.4 Is the governing body for the project independent?	Yes, fully representative and independent national and provincial steering committees will be established to guide and monitor the project.	Yes A National Steering Committee established under the chair of a Vice-Minister MAF with a Provincial Steering Committee chaired by the Provincial Vice-Governor and District Steering Committee chaired by the District deputy head Office.			
1.5 Is the organizational structure appropriate for the needs of the project?	Yes, the proposed organizational structure (see Table above in report) aims at balance between national coordination, fiscal responsibility and decentralized implementation. It reflects a structure that is working successfully for existing projects.	Yes. The organizational structure is tested and will be the same as for the recently completed NRSLD.	Yes The proposed organization structure is appropriate, is tested and used for past and ongoing successful projects.		

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
<b>2. Funds Flow Arrangements</b>					
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	The proposed funds flow diagram is included in this financial assessment, above.				The funds flow diagram is included above in the Financial Management Assessment
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes. Similar arrangements are working successfully for existing MAF projects.				Yes, PAFO have received and managed ADB, IFAD funds previously through NRSLLDP.
2.3 What have been the major problems in the past in receipt of funds by the entity?	None of significance Sometimes the receipt of funds can be slow.				Some problems have been encountered with the delay in fund transfers especially from PAFO to DAFO. This is partly an issue of the banking system; only some commercial banks are represented in each district.

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
2.4 In which bank will the Imprest Account be opened?	Bank of Lao for Imprest Account for MOF and Banque pour le Commerce Exterieur Lao (BCEL) BCEL or Lao Development Bank for 5 sub-accounts (one for NPMO and 4 for each PPIU).	The NPMO sub-account will be at the BCEL and the advance will be transferred to Component Implementation Unit (CIU), The PIU sub-account will be at BCEL or Lao Development Bank. Each PIU will transfer advance for activities in district level through Agriculture Bank and Nayobay Bank.			
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	<p>At the central level, staff of the NPMO are expected to have experience with ADB and other foreign funded projects and their requirements. At the provincial level, such experience may be more limited.</p> <p>At MOF and MAF there is broad, relevant experience and this is where the main management of disbursements from ADB will occur.</p>	Yes, PAFO and PIU staff have recent experience with the management of ADB projects (e.g. NRSLLD) and have experience with the management of sub-account.	Yes PIU staff were trained and worked with the previous ADB project.		
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	No, the Government and MOF will be accepting and will manage the foreign exchange risk.	No, The foreign exchange risks will be managed by MOF and GOL			
2.8 How are the counterpart funds accessed?	Through approved project plans and GOL appropriations. Counterpart funds will only be for staff salaries, some office operational costs, the value of office rent, etc.	Through the pre-approval of project activities plan and budget. Project plans are submitted to PAFO for approval and sent to NPMO, MAF & MOF. Counterpart contributions to the project will mostly be in-kind as staff salaries, provision of office space, etc.			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
2.9 How are payments made from the counterpart funds?	By project activity, based on approval and compliance with established procedures (MOF regulations) For project counterparts, per diem and transport related costs and materials are paid according to MOF national guidelines	By project activities based on approval, PAFO makes payment according to MAF and MOF rules.			
<b>3. Staffing</b>					
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	The organizational structure of the financial section of DOPC and the recommended structures for the NPMO and PPMOs are included in the assessment above.	The PIU finance section has 4 staff, including 2 contracted staff. The PAFO finance section also has 4 staff. An organization chart for a PIU is in the PAM; refer Section C Project Management Structure.			
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	The key accounting staff of DOPC have provided information on the department's organization structure with names and educational background. The Finance Section in DPOC's Project Management Division is Mr Ketsana Loungnam, who has qualifications in finance and accounting. The other three staff in the Section have business administration backgrounds  The accounting staff for the NPMO and PIUs will be appointed after loan effectiveness.	Mr. Souvansay Vilachit Head of PAFO Financial Section (overall responsibility for PAFO accounting and finance); Mr. Somvang Banouvong Head of PIU. The PIU accounts staff are expected to carry over from the recently completed.	Ms. XXX Chief accountant (Accounting Diploma), Ms. Phoutsady Microfinance accountant (Livestock Diploma) Ms. Soutchay cash management (Livestock Diploma).	Ms. XXX Chief accountant (Accounting Diploma), Ms. Phoutsady Microfinance accountant (Livestock Diploma) Ms. Soutchay cash management (Livestock Diploma).	Ms. XXX Chief accountant (Accounting Diploma), Ms. Phoutsady Microfinance accountant (Livestock Diploma) Ms. Soutchay cash management (Livestock Diploma).

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
3.3 Is the project finance and accounting function staffed adequately?	For the project any shortfall in finance and accounting staff will be met by hiring or contracting outside skills and experience.	Yes – but some training is required to ensure accounting functions are carried out satisfactorily	Yes-but it needed to train/ upgrade staff for the PIU to ensure accounting for the project is done well. Need to recruit 1 accountant (Accountant Diploma) for PAFO. It is difficult to retain staff with accounting qualifications.		
3.4 Is the finance and accounts staff adequately qualified and experienced?	Staff at MAF, DOPC and DLF have been trained by successive projects but will require refresher training and reorientation.	Some are qualified and some are not. There is general shortage of qualified accounting staff and is very difficult for PAFO and the PIU to recruit and retain staff with formal accounting qualifications.			
3.5 Is the project accounts and finance staff trained in ADB procedures?	Yes, for MAF and DOPC Refresher training for existing staff and training for new staff and appointees may be required.	Some accounts and finance staff have had training in ADB procedures and some have received training in ADB procurement procedures  Additional training will be required for PAFO and PIU staff in ADB accounting procedures, especially for any newly recruited staff.			
3.6 What is the duration of the contract with the finance and accounts staff?	MAF, DOPC and DOF staff members are permanent government employees. Externally contracted staff members are generally on annual (renewable) contracts.  Project finance and account staff within project management offices also contracted on a yearly basis.	For PAFO: 3 accountant staff are permanent government employees and one has an annual contract; all PIU accounts staff are on annual contracts			
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	Staff of NPMO and PIUs are yet to be appointed.  Appointments will be made after loan effectiveness.	A new accountant will be required for the PIU. Recruitment after loan effectiveness			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
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, for MAF, DOPC and DLF.	Yes. The relevant Decrees and Regulations of MAF and MOF guide and manage the project in central, provincial and district level.			
3.11 At what frequency are personnel transferred?	Financial and accounting staff in MAF are seldom transferred, and then only to another Finance Section.	Contract staff are not transferred. Permanent accounts staff are generally not transferred unless they receive a promotion, which cannot be at less than 2 yearly intervals.	4 years for permanent staff. Contracts of non-permanent staff have to be renewed annually.		

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
3.12 What is training policy for the finance and accounting staff?	<p>DOPC financial staff members have receive training on Government rules and regulations for budget preparation and planning, and accounting for receipts and expenditure according to the MOF rules. Usually updated on a six monthly basis, or when new regulations are introduced. Also receive additional training in donor agency accounting and financial management and reporting procedures from time to time.</p> <p>Accounting and financial staff will require additional training in order to cope with external funding and reporting needs, particularly for the new or contracted staff.</p>	No defined policy although normally some training is arranged each year, depending on need.	Normally training is organized once a year. Training depends on the real need - e.g. if there is some change in the finance and accounting Law or Regulations.		
<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? Will the project use the entity accounting system?	<p>Yes, in the project management offices of externally funded projects. Accounting systems follow the MOF procedures manual linked to donor specific requirements; for example the code of accounts can be extended or amended to suit project requirements</p> <p>The Project will need to establish a project management system within the NPMO and the PPIUs, and train staff in the operation of the financial package, and also establish a project specific procedures manual.</p> <p>The establishment of a set of codes specific to the project requirements, adjusting the MOF's standard codes, is the normal approach.</p>	<p>Yes. The PAFO and PIU use the accounting system based on the Budget and Accounting Law</p> <p>The accounts of the previous livestock project were maintained using the ACCPAC accounting package.</p>			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	<p>Yes, for the better managed of the present externally funded projects. However a procedures manual and controls and delegations will need to be established for the proposed Project.</p> <p>A separate financial package will need to be established for the proposed Project, possibly borrowing from the best of the financial packages currently in use for project management and accounting.</p>	Yes. There are established procedures for cross-checking transactions and the recording of transactions.	Yes – transaction supporting documents are checked against budget and procurement plans prior to approval.		
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	<p>A project based chart of accounts will need to be established.</p> <p>This could also be achieved by borrowing, or building upon a current and appropriate chart of accounts in use for an existing project.</p>	Yes, The chart of accounts for PAFO is followed, with adjustments to meet the specific needs of each externally funded project.			
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	<p>Yes, for MAF and DOPC and existing project management offices.</p> <p>Allocation codes, procedures and checks will need to be established for the proposed project.</p>	Yes	Yes - but some time is needed for adjustment and exceptional requests		
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	<p>Yes, on a monthly based reconciliation.</p> <p>A procedures manual will need to be established for the project.</p>	Yes- on monthly basis.			



Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes, for MAF and the existing project management offices. Present Government regulations require retention of records for 10 years, filed in folders and kept on the premises.	Yes Yes, filed in folders and kept in secured place for 10 years.			
<b>Segregation of Duties</b>					
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, there is a high level of separated and sequential delegated responsibility and approvals for transactions.	Yes	Yes	Yes These functions are also separated between the administration and finance sections	Yes

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, by sequential actions and processes administered by accounting and finance staff.	Yes. These functions are also divided between the administration and finance sections.			
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes, prepared by the accountant	Yes	Yes - by the chief accountant		
<b>Budgeting System</b>					
4.10 Do budgets include physical and financial targets?	Generally yes for MAF and DOPC but some mismatch can occur at times. For project budget preparation this is important and mismatches can also occur.  Extra support will be needed to train project staff.	Yes			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes, for civil works and equipment procurement. No, for other less defined areas of expenditure – e.g. agricultural extension activities.	Yes in general.			
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Six monthly reconciliation of budget, with adjustments.	Yes – with the quarterly reports.			
4.13 Are approvals for variations from the budget required in advance or after the fact?	Variations to budgets are required in advance. For projects all variations are costed and approved. Finance section checks the budget balance and compares with request, then submits for approval. For externally funded projects work programs and budgets are submitted in advance to steering committees for approval, then ADB for prior approval – then monitored and reported to MAF and ADB.	In advance for civil works; after the fact for most other activities.	Yes, variations from the budget require approval in advance.		

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.14 Who is responsible for preparation and approval of budgets?	MAF, DOPC, DLF and PIUs budget are prepared by finance section and submit to respective Director Generals for approval. The approval budgets have been consolidated and checked by NPMO team and support consultants – then submitted to national project director for approval based on activities and budget plan.	Budget are prepared by PIU Financial Section and approval by the Head of PAFO			
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?	Yes, project activities prepared by NPMO with support of national consultants and loan or grant implementation consultants and approved by national project director.  Procedures are modified on a project by project basis according to donor requirements.	Yes. Project activities are planned by DIU & PIU and submitted to PAFO and NPMO for approval.			
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes, based on consultant estimates, vetted by loan or grant implementation consultants and on budget approval by steering committees and donors.	Yes. Project plans and budgets are defined in the PAM. Under NRSLLD, project consultants contributed to the development of annual plans and budgets. A similar arrangement will apply for this project.  Project budgets are reviewed by the Provincial Steering Committee.			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
<b>Payments</b>					
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes, these tasks are carried out by accounts clerks both for Government and externally funded projects	Yes			Yes, these tasks are carried out by different staff members and accounts clerks of PAFO Finance Section and PIU in accordance with government regulations and ADB Guidelines.

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes, authorization and receipts are attached with the purchase voucher and activities code.	Yes, For each request for payment, the authorization and receipt are attached together with the purchase voucher and activities code.			
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes, payroll is prepared by the Accountant, with changes action by the Personnel Department.	Yes. The payroll is prepared by accountant, changes and amendments are controlled by the PAFO personnel section.			
<b><i>Policies And Procedures</i></b>					
4.20 What is the basis of accounting (e.g., cash, accrual)?	For MAF and DOPC cash basis.	Cash basis In accordance with MoF regulation for project.			
4.21 What accounting standards are followed?	MOF regulations and standards and for externally funded projects donor requirements based on recognized International Financial Reporting Standards(IFRS)	MOF accounting standards. Donor projects are based on accepted international Financial Reporting Standards (IFRS).			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes, Government procedures and MOF manual. For externally funded projects Government and donor requirements.  Project Administration manual and donor agency policies and procedures. Additional staff training will be needed, especially for any new financial staff in the NPMO.	The manual used by the NRSLLD project will be used, which is based on MOF regulations and directives. The manual can be modified, if needed.	Yes, each PAFO will use MOF regulation and directive.		
4.23 Is the accounting policy and procedure manual updated for the project activities?	Yes based on need. Project Administration Manual and for projects a staff procedures manual	Yes	Yes Any updating originates with MOF		
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?	Yes, MOF works with projects and provides advice on the efficiency in the use and application of funds.	Yes. Alterations to the accounting principles come from MOF	Only MOF can make changes to accounting policies and procedures		

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes, for externally funded projects. Projects use project manuals in association with Government procedures	Yes, Projects also meet donor requirements.	Yes - PAFO conforms to MOF regulations and guidelines. For foreign funded projects donor accounting requirements are also met.		
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?	Yes, Based on Government Policy and donor guidelines	. Yes Based on Government Policy for staff. To all DIU, PIU and PAFO concerned staff.			
4.27 Are manuals distributed to appropriate personnel?	Yes Also associated training by ADB on the application of procedures.	Yes. All concerned personnel have access to the manuals			



Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan	
<b>Cash and Bank</b>						
4.28	Indicate names and positions of authorized signatories in the bank accounts.  For projects the national project director or his or her nominee. For MAF departments the Director-General or Deputy Director-General  For sub-accounts a delegated deputy director within DOPC and national project Director. At provincial level the Director-General PAFO or project manager of Provincial Project Office.	For PAFO and PIU, the Head of PAFO (currently Mr Vongsavan Thepphachan ) and one designated Deputy Head are the authorized bank signatories.	To be determined before project effectiveness	To be determined before project effectiveness	To be determined before project effectiveness	
4.29	Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes, checked monthly and updated.				Yes – checked and updated monthly
4.30	Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes, financial section handles the task on a daily basis	Yes.	Yes - PIU accountant prepare and PAFO Finance Section accountant controls.		
4.31	Are bank and cash reconciled on a monthly basis?	Yes	Yes			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes, by the accountant and then the Head of Finance.	Yes, by the PAFO Deputy Head in charge of the Provincial Project Coordinator			
4.33 Are all receipts deposited on a timely basis?	Yes, for externally funded projects on a daily basis.	Yes, daily.	Yes- on a daily basis for the project.		
<b>Safeguard over Assets</b>					
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes, for externally funded projects assets are registered, stamped and recorded in an inventory.	Yes – the project has a Manual for maintenance, protection of assets and financial management procedures (October 2009).  There are also the MOF management guidelines for state property financed by foreign grants and loans. (State Property Law no 14/NA dated 5/07/2012).			
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes, annually for externally funded projects	Yes, checked and updated annually for PAFO and project assets.	Yes - annually for both project and PAFO fixed assets and stocks.		
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes, annually.	Yes- on annual basis.			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.37 Are assets sufficiently covered by insurance policies?	No Vehicles and equipment are covered during Implementation according to donor stipulations. Likewise civil works and equipment are covered by contractors during construction. But once the assets are transferred as a public asset Government accepts the risk and acts as its own insurer.	No. PAFO has third party insurance for the vehicles used by the Head and Deputy Head of the office, but no insurance for other vehicles or other assets.	No Only third party insurance for vehicles, but no insurance for other assets.		
<b>Other Offices and Implementing Entities</b>					
4.38 Are there any other regional offices or executing entities participating in implementation ?	Yes, The PAFOs of Luang Prabang, Luangnamtha, Houa Phan, Xieng Kuang will participate as implementing agencies	Yes PAFO/ PIUs of other project provinces			
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	These controls are already in place for other projects being implemented by MAF.  An example of the procedures that will be followed are those used in the preceding Northern Region Sustainable Livelihoods through Livestock Development Project (NRSLDLP)	Yes, Covered by the manual for project financial management procedure (October 2009).			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Reporting from the provinces can sometimes be slow.	Based on past experience and allowing for the remoteness of some districts - yes.	Yes - but information from some districts takes more time.		
4.41 Are periodic reconciliations performed among the different offices and implementing agencies?	Yes, the NPMO will consolidate and reconcile data from all PIUs.	Yes, The NPMO will consolidate and reconcile data from the provincial PIUs. There will also be quarterly meetings of provincial project coordinators	Yes Quarterly Meeting for Provincial Coordinator, Monthly meeting for District Coordinator.		
<b>Other</b>					
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?	When the project starts. ADB requirements on corruption, fraud and the mechanisms for lodging complaints or advice will apply.	Yes Manual for maintenance, protection of assets and financial management (October 2009). ADB requirements on corruption, fraud and a complaints mechanism will also apply.			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
<b>5. Internal Audit</b>					
5.1 Is there a internal audit department in the entity?	Yes, within MAF and DOPC  Audit appears to be limited to functionary matters. For example, it checks that all paperwork complies and regulations are met to the letter.	Yes In the provincial government			
5.2 What are the qualifications and experience of audit department staff?	Not stated – but indicated that the staff have general financial and accounting backgrounds	Background in finance and accounting			
5.3 To whom does the internal auditor report?	Director-General	PAFO Head Office, Provincial Governor and MAF			
5.4 Will the internal audit department include the project in its work program?	No	Yes			
5.5 Are actions taken on the internal audit findings?	Yes, recommendations are taken into account	Yes In accordance with Auditing Guidelines.			
<b>6. External Audit</b>					
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, the State Audit Organization (SAO)  MOF conducts annual audit	Yes - State Audit Office MOF conducts an annual financial inspection			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No delays. Normally the audit report is issued within 3 months following the audit.	No. Normally reports before 31 March every year	No Normally before March 31 every year.	No Normally before March 31 every year.	No, Normally before March 31 every year.
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	MAF is audited to MOF regulations and standards. Projects to Generally Accepted Auditing Standards (standards used by SAO)	No, it based to SAO Decree and Regulations.			
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	So far there have been no major issues.  But there have been some discrepancies in the coding of expenditure and other minor indiscretions.	No major issues There were some minor discrepancies on the local purchase of goods, cash management and filing.	No major issues; only some minor issues		
6.5 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Implementation of recommendations is a continuing process.	No	No In general, these recommendations are implemented but it take time on process for upgrading the performance of PAFO.		

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
6.6 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	No – other than separate audits that may be carried out by the donor agency from time to time.  The audit and recommendations are reviewed by GOL and the donor agency.	No			
6.7 Has the project prepared acceptable terms of reference for an annual project audit?	Terms of reference will be prepared for the appointment of an external auditor in due course.	Yes, the TOR will follow the ADB guideline on Financial Management			
<b>7. Reporting and Monitoring</b>					
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes, to MOF accounting and auditing standards	Yes, using MOF project accounting standards and Government guidelines			
7.2 Are financial statements prepared for the implementing unit?	Yes	Yes			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
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?	<p>Quarterly basis for the entity. Monthly basis for externally funded projects.</p> <p>Financial reports are available for entity's Management Board to use in decision making and monitoring financial performance parameters, including revenues, expenditures and cash flow. Similarly the monthly project reports are used to manage funds draw down and progress against approved programs.</p>	<p>Financial statements are prepared monthly, quarterly and annually and must be submitted within a defined time after the end of the reporting period. Financial reports are available to guide management decision-making</p>	<p>Monthly basis by PIU and Quarterly by PAFO for management decision making. The Quarterly report presented to the Quarterly Provincial Steering Committee Meeting for comments and approval.</p>		
7.4 Does the reporting system need to be adapted to report on the project components?	<p>Reporting system needs to be established for the proposed project.</p> <p>MAF has extensive experience with implementing ADB funded projects</p> <p>The reporting system can be carried over from the previous ADB livestock project. Some adaptation may be needed for specific project elements.</p>	<p>Yes It will probably be similar to the previous livestock project</p>			



Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
<p>7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?</p>	<p>Not yet applicable for the proposed project. Systems used for existing projects consist of excel reports that need to be linked manually. The difficulty is in assessing the control and checks in the responses provided.</p> <p>If possible, an integrated system will need to be established for the proposed project.</p>	<p>Yes. There are no separate information gathering systems</p> <p>The reporting system used in the previous project can be reviewed and upgraded, if needed, for better performance.</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>Yes, in the Project Administration Manual</p> <p>The financial reporting requirements will be defined in the final project design</p>	<p>Yes. For the project, reporting responsibilities are defined in the Project Administration Manual and in the government manual for project financial management procedure (October 2009).</p>			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
7.7 Are financial management reports used by management?	Yes, for planning, program adjustment and decision making	Yes			
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes, for externally funded projects	Yes			
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	<p>By the accounting staff using spreadsheets. At the end of each year, accounts for each project are consolidated using the ACCPAC accounting software package.</p> <p>For externally funded projects financial reports are prepared using linked excel spread sheets. Physical measures and achievement often comes from excel spread sheets.</p> <p>For the project, the NPMO will use an automated accounting package to prepare consolidated accounts.</p>	ACCPAC will be used.			
<b>8. Information Systems</b>					
8.1 Is the financial management system computerized?	Yes, MAF and DOPC use a MOF developed computer system, but it is not an integrated system. Existing projects tend to use spreadsheets which are often not linked Staff will need to be trained in the system adopted for the proposed project.	Yes- but not as a fully integrated system. Some staff training may be required			

Topic	Response/ Remarks	Luang Prabang	Xieng Khouang	Luang Namtha	Hua Phan
8.2 Can the system produce the necessary project financial reports?	Yes, but needs manual alignment	Yes	Yes, but staff need more training to do so.		
8.3 Is the staff adequately trained to maintain the system?	Yes	No The staff generally had low level qualifications in accounting and financial management. More training would be beneficial			
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	Yes			

ADB = Asian Development Bank; DLF = Department of Livestock and Fisheries; DOPC = Department of Planning and Coordination; FGIA = first generation imprest account; GOL = Government of Lao PDR; MAF = Ministry of Agriculture and Forestry; MOF = Ministry of Finance; NPMO = National Project Management Office; PPMO = Provincial Project Management Office; SGIA = second generation imprest account.