FINANCIAL MANAGEMENT ASSESSMENT

Executive Summary

1. This Financial Management Assessment (FMA) has been prepared in accordance with Asian Development Bank (ADB)'s Guidelines for the Financial Management and Analysis of Projects (2005),[1] Financial Due Diligence a Methodology Note (2009),[2] and Staff Instructions to ADB's policy paper on Piloting Results-Based Lending for Programs.[3] The assessment focuses on accountability and transparency and covers (i) internal controls, including internal audit; (ii) funds flow arrangements; (iii) accounting and financial reporting; (iv) budgeting and planning; and (v) independent audit. The purpose of this FMA is to evaluate the Additional Skill Acquisition Program (ASAP)'s capacity to financially implement the proposed ADB-funded program. Our assessment has borrowed from existing country level financial management assessments including the World Bank Project Appraisal Document for Kerala State Transport Project II,[4] as well as interviews with the ASAP financial secretariat and document reviews.

2. This FMA provides a: (i) brief description of the Indian Public Financial Management (PFM) system, including the legislative/institutional frameworks and the inter-governmental fiscal transfer system; (ii) country-level FMA focusing on the overall PFM set-up and Public Expenditure Management (PEM) outcomes; and (iii) technical and vocational education and training sector and agency-level assessment that scrutinizes the appropriateness of the financial management system design and its functions. The assessment identifies financial management weaknesses, and determines the degree to which the system is able to manage fiduciary risks and provide reasonable assurance that program funds will be used for the intended purposes.

3. ASAPs' financial management system, while fully compliant with the Government of Kerala's financial and accounting systems, needs further strengthening to be able to implement this program efficiently.

4. Some of the key findings of the FMA are:

(i) **Accounting system.** ASAP follows the government cash basis of accounting and Indian Government Accounting Standards (IGAS) prescribed by the Government Accounting Standards Advisory Board. The current accounting system does not facilitate the identification of liabilities, receivables, and fixed assets, and the safeguarding of these assets. Pilot efforts are underway to implement accrual accounting. The Government Accounting Standards Advisory Board is in favor of limited adoption of cash-basis International Public Accounting Sector and Standards (IPSAS) for cash transactions and corresponding accrual IPSAS for those transactions recorded on other than cash basis. A road map has been prepared for transition from cash to accrual accounting system and an operational framework for its implementation. The possible transition towards accrual accounting has been planned incrementally and in phases spanning from 10–12 years. The central government and the majority of Indian state governments have accepted the idea of accrual accounting. The committee on

[1] ADB. 2005. *Guidelines for the Financial Management and Analysis of Project.* Manila.
[2] ADB. 2009. *Financial Due Diligence: A Methodology Note.* Manila.
[3] ADB. 2013. *Piloting Results-Based Lending for Programs (approved 6 March 2013). Paragraph 102.* Manila.
[4] World Bank. 2013. *Project Appraisal Document for A loan to Kerala for Kerala State Urban Transport Project*.

Accounting Standards for Local Bodies is reviewing IPSAS with a view to their adoption.

(ii) **Staffing of financial and audit unit.** Currently, a staff of four assists the Head, Financial and Audit Unit (FAU). None of these staff is a professional accountant. There is an urgent need to recruit at least one professional chartered accountant to head the accounts function of ASAP. In addition, once ASAP operations are scaled up, following the approval of the ADB loan, two more support staff will have to be recruited in the FAU to manage the project accounting and reporting function.

(iii) **Budget preparation and monitoring.** With the program activities expected to increase substantially, ASAP needs to introduce a mechanism whereby the annual budget is broken down into quarterly budgets and the same is reviewed periodically with reference to achievement of both physical and financial targets. ASAP's expenditure consists of recurrent expenditure (personnel costs and operations expenditure) and capital costs (construction cost for community skills parks and refurbishment of skill development centers, equipment costs, and employability enhancement costs). As the annual budgets are prepared based on a bottom-up basis, the variance analysis can also be done by ASAP for each budget period, linking the financial and physical targets. In 2012 and 2013, the actual expenditure fell below budgeted expenditure due to initial start-up delays.

(iv) **Information systems.** A significant strength of the financial management system of ASAP is that it has computerized both the management information system (MIS) and the Accounting System. They are also linked to a substantive extent.

(v) **Internal audit.** Due to its singular focus on designing and piloting its training programs to date, ASAP has not focused adequately on putting in place an internal audit program. After about 2 years since its formation, ASAP has only recently appointed the Institute of Public Auditors, Thiruvananthapuram as the internal auditor. It is expected that the internal auditor will have an independent reporting line with the State Level Empowered Committee (SLEC), and perform the audit in accordance with international best practices. The first internal audit report is expected for the period up to 31 March 2013 and subsequently, for the period 1 April 2013 to 31 March 2014.

(vi) **External audit.** ASAP finalized its first (annual) financial statement (Statement of Estimates and Expenditure) for the period ended March 2013.[5] However, it is yet to be audited by the Comptroller and Auditor General of India, under whose jurisdiction the entity operates. The Statement of Estimates and Expenditure for the subsequent year (year ended March 2014) has also been finalized. However, the Accountant General (Audit) office of Kerala has agreed to undertake timely annual audits of ASAP and has committed to completing the audit for the current fiscal year within 6 months thereof.

[5] During 2012–2013, ASAP was part of the budget allocation for the Director of Collegiate Education. ASAP had sent its expenditure statement for the period ending 31 March 2013 to the Director of Collegiate Education.

A. Project Description

5. ASAP is being implemented by the Department of Higher Education (DOHE) and Department of General Education (DOGE). SLEC has been formed under the chairmanship of the chief secretary for guiding the implementation of ASAP. The additional chief secretary, DOHE is the convener of SLEC. He is also the overall in-charge of ASAP. The implementation of ASAP is supervised by the additional secretary, DOHE who also functions as the team leader of the ASAP secretariat.

6. The Supporting Kerala's Additional Skill Acquisition Program in Post-Basic Education is considering providing a loan to ASAP to design and implement a skill development program to amplify working hands in the different sectors of the economy by providing additional skills sets to students along with their regular courses. ASAP is a part of the Kerala State Skill Development Project of the state government with the objective of equipping its youth with skills in cutting sectors in order to effectively alleviate the unemployment problem in the state. During the 12th Five-Year Plan period (2012–2017), the state government expects to train about 213,000 students at a total cost of $148 million, of which ADB would finance 70% ($100 million) and the government contributes the balance (30%).

B. Brief Description of the Public Financial Management System in India[6]

7. This chapter provides a brief overview regarding the main characteristics of the Indian PFM system in terms of the legislative and institutional frameworks as well as the inter-governmental fiscal transfer system between the Government of India and the states/union territories.

8. The taxation powers of both government levels (Government of India and states) are defined in the constitution based on a separation principle following an economic and administrative rationale. Since state taxes are considered inadequate to meet their expenditure needs, states receive a share of central tax revenues, as well as grants-in-aid, both of which are determined by the Finance Commission.

9. The Ministry of Finance (MOF) has the overall responsibility for expenditure coordination and control, but some financial powers are delegated to ministries. The General Financial Rules, 2005 consists of a compendium of general provisions regarding financial management rules and procedures, including for expenditure and payments, budget formulation and implementation, accounts, procurement, contract management, grants and loans, budgeting and accounting for externally-aided projects, and guarantees. The General Financial Rules also applies to the states.

10. The Controller General of Accounts, within MOF's Department of Expenditure, is responsible for establishing and maintaining the departmentalized accounting system. The accounting set-up of the Government of India and the states/union territories has a similar format prescribed by the Controller General of Accounts.

11. The Comptroller and Auditor General (CAG) is responsible for the external audit of the accounts of both the Government of India and the states/union territories on behalf of the legislatures, and – like for accounting – the audit set-up is thus unitary. The CAG also audits

[6] This section draws substantially from ADB's draft FMA – Supporting Government of India's National Urban Health Mission, which is also currently ongoing.

government companies and statutory corporations. The parliamentary Public Accounts Committee examines the Government of India's audited appropriation accounts and finance accounts, the related audit reports, as well as other audit reports prepared by the CAG, including performance audits. For the states, the CAG submits audit reports to the Governor (appointed by the President of India) who places them before the Legislative Assembly.

12. While the legal, institutional, and procedural set-up for PFM, thus to a large extent is unitary, and hence similar across states, the functioning of states and the implementation of programs vary widely due to significant differences in capacities.

C. Country-Level Financial Management Assessment

13. Using existing diagnostics and available reviews, this section provides a country-level assessment focusing on the overall PFM set-up of the Government of India and its functioning vis-à-vis PEM outcomes, taking into account the state-level, as and where possible, based on available information.

14. Relatively few general PFM assessments have been prepared for India in recent years, cf. below:

(i) **Government of India-level**. The National Institute of Public Finance & Policy (NIPFP),[7] 2010 upon the request of the World Bank prepared a government-level public expenditure and financial accountability (PEFA)-based PFM Performance Assessment.[8] While several government officials were interviewed for the assessment and a large number participated in a launch workshop, the PEFA, 2010 was not endorsed or formally accepted by the Government of India.

(ii) **State-level.** Although state level assessments exist for some other states (Jarkhan, Maharashtra, Himachal Pradesh), there is no state-wide PFM assessment for Kerala.

(iii) These diagnostics and reviews provide the basis for the following country-level FMA, and have been supplemented with further information and data as referenced.

(iv) **Overall and comparative performance of the Government of India's public financial management system.** The scores of the individual performance indicators of the government-level PEFA, 2010 have been computed to provide the averages for the six high-level PFM dimensions as well as the overall score. A corresponding risk rating has been added.

[7] NIPFP undertakes applied research in public finance policy. It is an autonomous entity established in 1976 under the Societies Registration Act, 1860 and is overseen by a governing board comprising representatives from MOF, Planning Commission, and Reserve Bank of India. The NIPFP receives annual grants from the Government of India and state governments, which in 2012–2013 accounted for 37% of its total income.

[8] NIPFP (2010a): "India – Public Expenditure and Financial Accountability, Public Financial Management, Performance Assessment Report", March.

Table 1: GOI-Level PEFA-Based PFM Performance Assessments (2010)

PFM Performance Dimension		Calculated Ratings		Risk Rating
		Numerical Scores	**Equivalent PEFA Ratings**	
A	Credibility of the budget	2.67	B	Medium
B	Comprehensiveness and transparency	3.58	A	Low
C	Policy-based budgeting	1.75	C	High
D	Predictability and control in budget execution	2.44	C+	High
E	Accounting, recording, and reporting	3.00	B	Medium
F	External scrutiny and audit	2.33	C	High
	Calculated Overall Score	**2.75**	**B**	**Medium**

Note: The calculations are based on A = 4, B+ = 3.5, B = 3, C+ = 2.5 C = 2, D+ = 1.5 and D = 1, which is the generally applied approach for quantifying PEFA scores.
GOI = Government of India, PEFA = public expenditure and financial accountability, PFM = public financial management.
Source: Asian Development Bank.

(v) The overall score is “B”, which is associated with a medium-level of fiduciary risk.

(vi) The PFM dimension with the highest score is ‘Comprehensiveness and transparency’, while the lowest is for ‘Policy-based budgeting’. Also, the dimensions ‘Predictability and control in budget execution’, ‘Accounting, recording, and reporting’ and ‘External scrutiny and audit’ all have relatively high scores.

(vii) The overall score for India (2.75) is relatively high in an international context, given that the worldwide average PEFA overall score for 57 countries was found to be 2.33 in 2009, and also notably higher than the average for lower middle-income economies (2.41). [9]

(viii) Recent developments include the Government of India’s 2012–2013 Finance Bill that, as part of expenditure management reforms, introduced amendments to the Fiscal Responsibility and Budget Management (FRBM) Act, 2003,[10] which has the overall purpose to reduce the fiscal deficit. A provision for the ‘Medium-term Expenditure Framework Statement’ has been added in the Act to provide greater certainty in the multi-year budgeting framework. Also, three-year rolling targets for expenditure indicators are to be prepared annually to provide certainty of allocation to ministries and departments over the medium-term so as to help

[9] Ibid, Table 3, p. 5 and Table 6, p. 12. The paper included 57 PEFA assessments carried out at central government-level and completed before August 2007.
[10] Government of India, Ministry of Finance. 2012. *“Finance Bill – Chapter VI, Amendments to the FRBM Act, 2003 (2012b).* Delhi.

undertaking resource allocations for prioritized schemes. While there is now more focus on multi-year perspective, the Government of India's medium-term expenditure framework approach is not yet fully developed, particularly regarding estimation of expenditure for outer years (years 2 and 3) since focus remains on the next year's (annual) budget.

(ix) **Accounting, recording, and reporting.** The PEFA, 2010 report found this area to have a mixed performance. Information on resources received by service delivery units (education and health) was fully available, and accounts reconciliation generally timely and done regularly. However, while in-year budget reports were prepared and published monthly and there were no material concerns regarding data accuracy, they captured information only at payment stage and not commitments. Also, while the year-end financial statements were complete, they were available only with a time lag of 8 to 10 months, and IGAS are not fully aligned with the Cash IPSAS prescribed by the International Federation of Accounts.

(x) As mentioned above, as part of the on-going accounting reform, the Sundaramurti Committee (in January 2012) recommended rationalization and reorganization of the existing classifications and proposed a multi-dimensional classification framework, which would comply with the International Monetary Fund's Government Finance Statistics Manual, 2001. The current status of the implementation of the new system (earlier planned with effect from 2014–2015) is unclear.

(xi) **Conclusion of the public expenditure management outcomes.** According to PEFA, 2010, while efforts of the Government of India and the role of legal and institutional mechanisms in strengthening the financial management systems were evident in many areas, when judged from the perspective of the three main objectives of an effective PEM system – aggregate fiscal discipline, strategic allocation, and efficient delivery of services – many problems existed and actual practice left much to be desired.

D. Overview of Kerala's Financial Management System

15. Kerala has the highest human development outcomes in India with 99% literacy, the highest life expectancy, and the lowest rates of infant mortality in the country. Despite first world human development indicators, the economy is heavily dependent on the service sector for 64% of its gross domestic product (GDP) with 21% coming from the secondary sector (i.e., manufacturing and construction); and 15% coming from the primary sector (i.e., agriculture and allied activities). Remittances are the primary driver for Kerala's economy accounting for 25% of GDP. Public sector undertakings also play a significant role in Kerala's economy and the state's fiscal affairs. In 2009–2010, the state's 96 public sector undertakings registered a turnover equivalent of 5.3% of Kerala's 2009–2010 GDP and employed approximately 110,000 people.

16. A state level FMA was done for Kerala based on the data available in public domain and the summary of the same are given below.

17. The major deficit indicators of Kerala are given in Table 2.

Table 2: Major Deficit Indicators
($ in million)

Year	Revenue Deficit		Fiscal Deficit		Primary Deficit		GSDP
	Amount	% to GSDP	Amount	% to GSDP	Amount	% to GSDP	
2007–2008	631	2%	1017	3%	295	1%	29190
2008– 2009	619	2%	1058	3%	281	1%	33797
2009– 2010	837	2%	1312	3%	430	1%	38666
2010– 2011	612	1%	1288	3%	340	1%	44912
2011–2012	1339	3%	2136	4%	1087	2%	52534
2012–2013	1559	3%	2500	4%	1300	2%	60551

GSDP = Gross State Domestic Product.
Source: Economic Review, 2013.[11]

18. During 2007–2008 to 2010–2011, the indicators were showing improvement, subsequently, the indicators began to rise due to the fiscal stimulus measures adopted to overcome the adverse impact of the worldwide recession during 2008–2009. The liberal public expenditure resorted to by Kerala to tide over the impact of recession was instrumental for the widening of the deficit. Thus, the fiscal deficit as percentage of the Gross State Domestic Product (GSDP), which initially declined from 3.13% in 2008–2009 to 2.87% in 2010–2011, increased to 4.13% in 2012–2013.

19. Kerala's politics have historically shown a strong socialist influence and a deliberate focus on wealth redistribution via public sector employment, and expenditures on social services, such as health and education. This has historically challenged the state's ability to maintain a sound fiscal position.

E. Fiscal Responsibility and Budget Management

20. Subsequent to the enactment of the FRBM Act, 2003 by the Government of India, the Government of Kerala also enacted the Kerala Fiscal Responsibility Act, 2003 which came into force on 5 December 2003 to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit and sustainable debt management consistent with fiscal stability, greater transparency in fiscal operations of the government, and conduct of fiscal policy in a medium-term framework and for matters connected therewith.

21. The Thirteenth Finance Commission (TFC), appointed by the Government of India for sharing of central government funds with the states, treated Kerala, along with Punjab and West Bengal, as a debt stressed state, setting targets for revenue deficit, fiscal deficit, and debt as a proportion of GSDP. While the state has been able to meet the targets with respect to the debt ratio, revenue deficit and fiscal deficit targets are still distant.

22. Kerala was also required to amend its Fiscal Responsibility Act to conform to the above fiscal reform path. Accordingly, the state government passed the Kerala Fiscal Responsibility (Amendment) Act, 2011 (Act 17 of 2011) on 8 November 2011. As per the Act, the government committed to:

[11] Government of Kerala. 2013. *Economic Survey.* Thiruvananthapuram.

(i) Reduce the revenue deficit to 'nil' within a period of 4 years commencing on 1 April 2011 and ending on 31 March 2015 by reducing the revenue deficit in 2011–2012, 2012–2013, 2013–2014 and 2014–2015 in the order of 1.4%, 0.9%, 0.5% and 0%, respectively, of GSDP.

(ii) Build up surplus amount of revenue and utilize such amount for discharging liabilities in excess of assets.

(iii) Reduce the fiscal deficit to 3% of the estimated GSDP within a period of 3 years commencing on 1 April 2011 and ending on 31 March 2014 by maintaining the fiscal deficit at a level not exceeding 3.5% of GSDP in 2011–2012 and 2012–2013 and reducing it to 3% in 2013–2014.

(iv) Reduce the state's total debt liabilities to 29.8% of the estimated GDP within a period of 4 years commencing on 1 April 2011 and ending on 31 March 2015 by reducing the total debt liability in of 2011–2012, 2012–2013, 2013–2014, and 2014–2015 to the order of 32.3%, 31.7%, 30.7% and 29.8%respectively of the GSDP.

23. The summary of the performance of the state government in achieving its fiscal targets is given in Table 3.

Table 3: Comparison of Fiscal Targets

	2011–2012			2012–2013		
Particulars	**TFC**	**Budget**	**Actual**	**ThFC**	**Budget**	**Actual**
Revenue Deficit to GSDP	1.40	1.81	2.55	0.90	0.89	2.60
Fiscal Deficit to GSDP	3.50	3.43	4.07	3.50	2.74	4.10
Outstanding Debt to GSDP	32.30	29.03	30.10	31.70	25.86	29.90

GSDP = Gross State Domestic Product, TFC = Thirteenth Finance Commission.
Source: Reserve Bank of India Analysis of State Finances 2013–2014, Budget papers of Government of Kerala.

24. The state could not however achieve the revenue/fiscal deficit targets set in the revised fiscal consolidation path stipulated in the TFC report, as well as that estimated in the budget documents. Disproportionate growth of revenue expenditure together with non-realization of estimated revenue collection led to an increase in revenue and fiscal deficit and consequent non-achievement of fiscal targets. However, the state's debt/GSDP ratio was well within the target fixed by TFC.

F. Comptroller and Auditor General Audit of Kerala Finances

25. The CAG audits the finances of the state government every year and for 2012–2013, based on its findings, CAG has forwarded the following recommendations:

(i) Budgetary controls need to be strengthened in all government departments. Re-appropriation/surrender of funds may also be done at the earliest in order to make the funds available to the needy departments of the government.

(ii) Realistic assessment of revenue receipts and revenue expenditure may be made, so that achievable goals can be set in the fiscal reform path of the state.

(iii) The government's compliance with various rules, procedures, and directives needs to be improved as it was lacking in various departments, which was evident from delays in furnishing of utilization certificates against loans and grants by various grantee institutions. Delays were also noticed in submission of annual accounts by autonomous bodies and departmentally-managed commercial undertakings.

(iv) The departments should ensure timely submission of utilization certificates in respect of the grants released for specific purposes to the grantee institutions and the annual accounts in respect of the autonomous bodies to the principal accountant general (Accounts and Entitlement), Kerala and the principal accountant general (Social and General Sector Audit), Kerala respectively.

(v) Departmental enquiries in respect of all fraud and misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organizations should be strengthened to prevent such cases.

(vi) The MIS may be established and the existing central plan scheme monitoring system may be utilized effectively for real time accounting and monitoring of funds transferred directly to state implementing agencies of central sector schemes. Audit specifically recommends that real time integrated MIS should be put in place. This would enable the controlling officers as well as the Finance Department in judicious allocation and utilization of funds.

G. Key Reforms Being Implemented by the Government of Kerala

26. With a view to improve its functioning, the state government is currently implementing the following initiatives:

(i) E-office under the National e-Governance Program, as a core Mission Mode Project, is being implemented to improve efficiency, consistency, and transparency of government decisions and responses and it would be extended to cover more state government offices through the Kerala State Information Technology Mission.

(ii) Business process reengineering has been initiated by the state government with the introduction of e-filing, e-payment, and online declaration of statutory forms in Taxes Department. E-payment facility has been introduced in the Motor Vehicles Department.

(iii) In the Local Self Government Department, 'Sanchaya', the application software for revenue and license systems and 'Sevana', the application software for civil registration has been introduced.

(iv) E-tendering introduced in major departments is now being extended to other departments also.

(v) Implementation of SPARK (Integrated Personal Payroll and Accounts Information System for Government employees of Kerala) and EMLI (web-based software for settlement of Letter of Credit proposal from cheque drawing departments) have also been effected.

(vi) Under the higher education sector, ASAP and the Additional Skill Enhancement Program is being scaled up.

(vii) Fund allocation for social programs, subsidies, pensions, scholarships and stipends, and similar cash benefits are being routed through electronic benefit transfer to avoid delay and misappropriation.

(viii) Inclusive growth encompassing all strata of the society, employment generation, achieving self-sufficiency in agriculture, infrastructure development, improved housing, health and education facilities, etc. are the targets of the state. To achieve this, strategies are being adopted to curtail futile and unproductive expenditure and augment revenue of the state without burdening the public through enhanced taxation.

H. Sectoral Context – Department of Higher Education and Department of General Education

27. In the Government of Kerala, the Minister of Education heads the education portfolio. However for the purpose of administration, the portfolio has been bifurcated into two departments – DOGE and DOHE.

28. The DOGE administers school education from pre-primary level to the secondary level and also teacher training, while DOHE is responsible for college education and technical education aspects in Kerala. Both DOGE and DOHE are headed by senior officers of the Indian Administrative Service (IAS).

29. However, for the purpose of preparing the state budget, the education portfolio has been consolidated into a single budget head, with various sub codes being allocated to different areas of expenditure. The budget code hierarchy for education is given in Table 4.

Table 4: Budget Code (Government of Kerala)

Category	Code	Head Description
Major Head	**2202**	**General Education**
Sub Major Head	2202-01	Elementary Education
Sub Major Head	2202-02	Secondary Education
Sub Major Head	2202-03	University and Higher Education
Minor Head	2202-03-105-97	ASAP
Major Head	**2203**	**Technical Education**

ASAP = Additional Skill Acquisition Program.
Source: Asian Development Bank.

30. The ASAP expenditure head is in turn bifurcated into the state government expenditure and externally-aided program expenditure.

31. Each of the expenditure heads are also bifurcated as plan expenditure and non-plan expenditure. Plan expenditure is that expenditure which represents current development and investment expenditure that arise due to proposals in the current plan (both central and state).

Non-plan expenditure refers to the estimated expenditure provided in the budget for spending during the year on routine functioning of the government. In other words, non-plan expenditure is all expenditure other than plan expenditure.

32. The financial year of the governments in India is 1 April–31 March. Consequently, the budget is usually presented during March for the subsequent financial year. Along with the budget estimates for the next financial year, the government also prepares revised estimates for the current financial year based on the actual cash flows up to the current period. Thus, in March of any year, the revised estimates for the current financial year (ending March) and the budget estimates for the next financial year (April–March) are presented to the State Legislature, which accords its approval, with or without modifications.

33. The total budget provision for ASAP in the budget for 2014–2015 forms about 14% of the plan expenditure (and 3% of the total expenditure) estimates for DOHE.[12] This underscores the importance of skills development for the state government. The year wise share of the education expenditure is given in Table 5. While non-plan expenditure (routine expenditure) constitutes the bulk of DOHE's expenditure, the plan expenditure component has increased from about 8% of the total expenditure in 2011–2012, to 13% in 2013–2014, and to 15% in 2014–2015 (budget estimate). Even for the education sector as a whole, plan expenditure has increased from 5.5% to 8.5% of the total expenditure between 2011–2012 and 2014–2015. This indicates the increased importance being given by the state government to reforms in education and skills training.

34. ASAP, forming part of the plan expenditure of the education sector, at an average expenditure of $50 million ($200 million over 4 years of the program), constitutes about 2% of the total budget of the Education Department. The state government's contribution would be $100 million, whereas, ADB is also expected to fund $100 million.

[12] Plan expenditure represents current development and investment expenditure included in the current annual plan (both central and state) as derived from the priorities of the ongoing Five-Year Plan. Non-plan expenditure refers to the estimated expenditure provided in the budget for spending during the year on routine functioning (e.g., wages and salaries, interest) of the government.

Table 5: Education Budget At A Glance
($ in million)

Particulars	Plan Expenditure				Non-Plan Expenditure			
	2011 – 2012 (Actual)	2012–2013 (Actual)	2013–2014 (Revised Estimates)	2014–2015 (Budget Estimates)	2011–2012 (Actual)	2012–2013 (Actual)	2013–2014 (Revised Estimates)	2014–2015 (Budget Estimates)
Elementary Education	15.67	8.40	32.20	11.02	623.46	645.73	678.23	808.72
Secondary Education	27.83	50.93	25.90	50.38	567.62	629.30	689.08	820.92
University & Higher Education (including ASAP)	18.75	33.37	40.97	57.78	197.42	223.27	272.27	323.23
Others	7.78	15.57	18.12	19.72	8.45	8.53	4.55	5.43
Technical Education	15.10	27.27	32.73	51.82	59.75	66.75	71.82	87.00
Total	85.13	135.54	149.92	190.72	1456.70	1573.58	1715.95	2045.30

ASAP = Additional Skill Acquisition Program.
Source: Asian Development Bank.

I. Performance of Department of Higher Education and General Education

35. The Kerala Fiscal Responsibility Act, 2003 requires the submission of a review report in December every year on the financial performance of the state during the previous year. The Third Committee, which was appointed to review the financial performance of Kerala for the 2011–2012, evaluated the government on various criteria. One of the criteria which it evaluated was the targeted and timely spending of plan outlay of the various government departments.

36. Three important norms were used by the committee for preparing relative ranks of departments. The norms were: (i) the percentage of annual plan expenditure to outlay; (ii) the deviation of plan expenditure in each quarter as compared to norm fixed by the state government; and (iii) percentage of plan expenditure during the last month of the financial year i.e., during the month of March. As per the committee view, the quality of plan expenditure increases with respect to increase in plan expenditure to outlay. The increase in deviation of plan expenditure from the norm stipulated by the state reduces the effectiveness of plan spending. Also, the bunching of plan spending during the month of March reduces the quality of spending. Accordingly, separate ranking of each department for each index is prepared and finally a combined ranking which is sum of individual ranks is prepared for the overall effectiveness in plan expenditure.

37. A summary of the findings of the committee in this regard is in the table below:

(i) **Norm 1:** DOHE spent 118% of its plan outlay during 2011–2012 and was ranked no. 4 among all the departments of the state, whereas DOGE spent 71% of its plan outlay and ranked 29th among all departments.

(ii) **Norm 2:** DOHE ranked no. 3 and DOGE ranked no. 6 among all the departments in spending of the plan outlay as compared to the norm fixed by the government.

(iii) **Norm 3:** DOHE ranked no. 9 by spending about 22% of the whole year’s plan outlay in the month of March 2012, whereas DOGE ranked no. 7 by spending only about 17% in the month of March 2012.

(iv) On a consolidated basis, DOHE was ranked no. 1 and DOGE no. 8 by the committee and consequently DOHE was ranked the best department with regard to spending the plan outlay during 2011–2012.

(v) The ranking is only about efficiency in spending the plan outlay and does not evaluate based on outcome variables.

Table 6:
Criteria and Ranking of Departments with Respect to Spending Plan of Plan Outlay (2011–2012)

Departments	Rank on the Basis of % of Plan Spending	Rank on the Basis of Quarterly Expenditure from the Norm	Rank on the Basis of Spending during March	Sum of All Ranks (3+4+5)	Final Rank
General Education	29	6	7	42	8
Higher Education	4	3	9	16	1

Source: Asian Development Bank.

38. **Conclusions.**

(i) From a fiscal perspective, Kerala needs to continue its reform measures in order to be able to achieve the norms set by TFC and consequently by the Fiscal Responsibility (Amendment) Act, 2011.

(ii) However, the state's debt/GSDP ratio was well within the target fixed by TFC.

(iii) The state government has taken a number of initiatives to improve governance.

(iv) Education departments (both DOGE and DOHE) are among the best performers in utilizing plan outlay among all the departments of the state government.

J. Risk Analysis

39. The financial management internal control and risk assessment examines the proposed program on two levels. Under inherent risks, it considers risks that are inherent to programs in India and Kerala more specifically, its rules and regulations, and the entity's working environment. Under control risks, it considers risks that are unique to ASAP like the adequacy of internal controls, ASAP's accounting, financial reporting, auditing arrangements, etc. (Table 7).

Table 7: Financial Management Internal Control and Risk Assessment

Risk	**Risk Assessment**	**Risk Rating**	**Risk-Mitigation Measures**
Inherent Risk			
1. Country-specific risks (India)	In some states, there have been instances of delay in release of counterpart funds by state governments. Public and private sector auditing standards and capacity in India are sound. India has a relatively strong accounting profession although most levels of government still use a cash basis of accounting.	M	GOK's proposal for accessing ADB funding for ASAP was reviewed and cleared by the Department of Expenditure, Ministry of Finance, GOI after an assessment of its fiscal situation (including borrowing headroom) and ability to provide counterpart funds. Since ASAP is a flagship program, and an integral part of the Kerala State Skill Development Project, GOK has already made a separate provision for it in its budget for 2012–2018. This is an RBL program where disbursements are linked to achievement of specific results. GOK will have to undertake expenditure and fulfill results before it gets reimbursed by ADB. Since GOK's share in the total RBL is 30%, no problem is envisaged in terms of timely release of counterpart funding.
2. Sector-program specific risks	The ASAP Secretariat, which has been constituted under DOHE,	S	While the ASAP Secretariat is relatively new, it has been established under DOHE by

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
	is a relatively new entity (2 years old). It will be implementing an EAP for the first time. The capacity of ASAP's finance accounting staff to handle the budgeting, accounting, internal controls, and reporting functions needs to be strengthened. There are some sector-specific challenges – ensuring that the skills training providers are imparting good quality training as per national standards, and that students are actually attending the courses regularly and benefitting from the same.		government order, and therefore, follows government's rules and regulations. GOK has implemented six World Bank projects and two ADB-funded projects to date. Some of the GOK staff who worked on the first ADB project, "Modernizing Governance and Fiscal Reform in Kerala" are also members of the ASAP Secretariat. They are aware of ADB's fiduciary procedures. Further, as noted in paragraph 6, the ASAP Secretariat has agreed to recruit a full time Chartered Accountant by the end of Oct 2014 (prior result) in order to strengthen its finance and accounts function in view of the scaling-up of ASAP implementation. It is also proposed to review the adequacy of the staffing of FAU of ASAP after 12 months and if there is any need for a financial management specialist it can be considered at that stage. The FMIS is operational since August 2014. ADB will provide the required capacity building support in the area of financial management, accounting, and reporting. RBL modality lowers financial risk as disbursement will be made on targets being achieved and any delayed achievement of targets would correspondingly delay disbursement. The comprehensive ASAP MIS is capable of tracking project activities and providing gender-disaggregated data on the output and results indicators. In addition, through a piggy-backed CDTA, ADB will assist the Secretariat in undertaking surveys and tracer studies to assess the employability and employment outcomes of ASAP. DOHE and the ASAP Secretariat have also agreed to engage an independent firm for

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
			undertaking third-party validation of its performance.
Overall Inherent Risk		**M**	
Control Risk			
1. Internal controls	The KFC, 2008 (7th Edition, 1st Edition was in 1963) lays down unified rules on general financial principles and rules of procedure with respect to financial matters common to all departments under GOK.[13] This includes DOHE/ASAP which is the executing/implementing agency for the proposed project. Hence, GOK's policies and procedures also apply fully to ASAP in all areas including general administration, procurement, and financial management. While approval of all procurement is centralized at the ASAP Secretariat, some of the procurement activities are delegated to the field heads. The head of the unit at each of these locations are expected to be fully responsible for their actions and also maintain appropriate records for all transactions conducted by them. However, there is currently no policy of conducting periodic audits relating to their administrative actions. This presents a substantial risk to the organization in areas relating to procurement of fixed assets and their	M	The ASAP Secretariat has a separate Finance Unit which is headed by an officer from the Finance Department, GOK. He is assisted in his work by four staff. However, since the Secretariat was in the process of conceptualizing ASAP and getting the program off the ground, some of the Finance Department staff also had to help out with other functions such as costing of training courses and evaluation of training service providers. However, it has now been agreed that with the additional capacity building technical assistance from ADB, the Finance Unit staff will focus only on financial management and internal controls. This will also be in keeping with commonly-accepted good practice principles. Further, with the operationalization of the FMIS by August 2014, and recruitment of a dedicated Chartered Accountant, and procurement staff by end of Oct 2014, the Secretariat will be fully equipped to handle all financial management, procurement, and control functions effectively. The Finance Unit should be part of the procurement process to ensure adherence to procurement norms and budget provision. ASAP has agreed to consolidate information on procurement and safeguards of all fixed assets at the head office.

[13] The Stores Purchase Manual, 2013 provides detailed guidelines for all procurement activities pertaining to all government departments, autonomous bodies, etc. The Kerala Financial Code, 2008 and the Stores Purchase Manual, 2013 draw on each other and are internally-consistent. These are amended periodically to keep them up-to-date and relevant.

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
	safeguards and the maintenance of records relating to them.		
2. Funds flow	Fund flows are transparent. ADB funds would be received by GOK through CAAA, GOI. They will then be allocated to ASAP (along with its own contribution) through the state budget. ASAP will be able to withdraw these resources from the State Treasury and utilize the same through the project bank account.	L	Budget allocations to ASAP to be monitored as part of regular performance reporting.
3. Accounting and financial reporting	ASAP uses cash-based system of accounting in line with the government system. ASAP prepares an annual budget for submission to the state government based on the business plan for the next year. Periodical review of achievements is also undertaken. However, there is a clear need to link physical progress with financial progress and review of the same for midcourse correction.	M	ASAP has recently computerized its accounting system and also MIS and is now capable of generating a number of reports through the system. The ASAP MIS can track project implementation, including activities of the training service providers, and provide gender-disaggregated data on various output and results indicators. Budget monitoring tools like variance analysis of budget versus actuals, both for financial and physical targets shall form part of program monitoring. Capacity building workshops to ensure that ASAP financial statements are prepared in accordance with relevant accounting standards.
5. Internal audit	The entity has just appointed an internal auditor to audit its operations.	S	ASAP has appointed the Institute of Public Auditors as the internal auditor and the exercise is underway. The scope of work, however, needs streamlining in accordance with best practices. An ADB consultant is assisting the Secretariat in this regard.
6. External audit	CAG, GOI is to audit ASAP's financial statements. However ASAP's financial statement for the years	S	ASAP was formed during July 2012 and consequently, its first annual expenditure statement (annual accounts) was for the year ended March 2013.

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
	ended March 2013 and March 2014 are yet to be audited.		ASAP's annual expenditure statement (annual accounts) for year ended March 2013 and March 2014 are yet to be audited by CAG. The Accountant General (Audit) office, GOK has assured that ASAP's accounts will be audited by end of Oct 2014. Moving forward, ASAP needs to ensure the audit of its accounts within 6 months of the closure of the financial year by CAG as required by ADB.
Overall Control Risk		**S**	
Overall Risk		**S**	

H=High, S=Substantial, M=Moderate, L=Low
ADB = Asian Development Bank, ASAP = Additional Skill Acquisition Program, CAAA = Controller of Aid, Accounts, and Audit, CAG = Comptroller and Auditor General, CDTA = capacity development technical assistance, DOHE = Department of Higher Education, EAP = externally-aided project, FAU = Finance and Audit Unit, FMIS = financial management information system, GOI = Government of India, GOK = Government of Kerala, KFC = Kerala Financial Code, MIS = management information system, RBL = results-based lending.
Source: Asian Development Bank.

K. Financial Management System: Strengths and Weaknesses

40. **Strengths.** A significant strength of the financial management system is that it has computerized both the MIS and accounting system, and they are also linked to a limited extent. A detailed budget preparation exercise is also carried out every year.

41. **Weaknesses.** The significant weaknesses of the financial management system are as follows:

Table 8: Weaknesses

Significant Weaknesses	Resolution
ASAP does not have experience in implementing any EAPs	Training of staff in program accounting and reporting
Need for a qualified professional accountant	To recruit a qualified Chartered Accountant as Head of Accounts
Internal audit not completed	Internal auditor, who has now been appointed, to complete the internal audit prior to first disbursement
Audit of annual accounts not completed	CAG to complete the audit for FY2013 and FY2014 prior to the first disbursement

ASAP = Additional Skill Acquisition Program, CAG = Comptroller and Auditor General, EAP = externally-aided project.
Source: Asian Development Bank.

L. Implementing Entity

42. The Government of Kerala vide its order (or GO) dated 7.7.2012, formed a core team called "ASAP Secretariat" in July 2012 under DOHE to design and implement ASAP. The ASAP

Secretariat functions under the joint initiative of DOGE and DOHE. The additional chief secretary, DOHE, is the overall in-charge of ASAP. The governing body constituted for ASAP is the SLEC headed by the chief secretary. The organization structure of ASAP including the members of the SLEC is given as Annexure A.

43. ASAP is a part of the State Skill Development Program of the Government of Kerala with the objective of equipping its youth with skills in cutting sectors in order to effectively alleviate the unemployment problem in the state. During 2014–2017, the state government expects to train 213,000 students at a total cost of $148 million, of which ADB would finance 67% ($100 million) and the state government contributes the balance (33%).

44. DOHE has posted qualified, experienced, and committed officers from various government departments (e.g. Finance, Education, and General Administration) as well as recruited consultants to implement this program. The ASAP secretariat has several business heads focusing on:

(i) strategy and design;
(ii) quality control and monitoring;
(iii) research and analysis;
(iv) training program management;
(v) finance and audit;
(vi) communication
(vii) general administration, and
(viii) lifelong learning.

45. The team leader, who is an additional secretary, DOHE, and is currently on deputation from the state government, is responsible for the implementation of ASAP. He coordinates the functions of all the business heads and also with the state government. With a view to strengthen its senior management, ASAP proposes to appoint an IAS officer as its chief executive officer (CEO). ASAP has finalized the appointment of the CEO who is expected to join ASAP by June 2014.

46. The business heads, apart from being responsible for their main area of activity (as indicated above), also have several other responsibilities. For example, the head of FAU is also responsible for the implementation of the training modules related to finance. Such multidisciplinary responsibilities without adequate support at middle management level may be counter-productive. With ASAP on the cusp of a major expansion of its operations during the next few years, there is an urgent need to recruit adequate middle management staff to support the business heads in all their activities.

M. Funds Flow

1. Asian Development Bank Disbursements

47. ADB’s disbursement to ASAP will be using the results-based lending modality, and will be subject to the delivery of results as measured by the disbursement-linked indicators (DLIs) agreed with ASAP in the results framework. DLI delivery depends, among other things, on efficient and effective budget management. Achievement of the DLIs will thus in itself as such serve to indicate efficient and effective financial management.

48. The loan proceeds will be disbursed to ASAP (through the Government of India) in accordance with ADB's Loan Disbursement Handbook (2012, as amended from time to time).[14] Withdrawal applications are to be supported by evidence of DLI achievement. Pursuant to ADB's Safeguard Policy Statement (2009),[15] ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement.

49. The total ADB loan of $100 million will be disbursed over 4 years (2015–2018). The first disbursement will be made after achievement of Year 0 DLIs based on verification. For DLIs that can be carried forward, any amounts not disbursed for unmet DLIs will be disbursed once they have been met. Withdrawal application shall also be supported by unaudited interim financial reports supporting that cumulatively expenditure has been incurred for the purpose of the program in excess of development partners' contributions.

50. The proposed program funds shall flow from ADB to the deposit account maintained by the Controller of Aid, Accounts, and Audit, Government of India. This shall be then transferred to the state government's Finance Department who shall allocate it to DOHE based on the approved budget by the state legislature. DOHE shall, in turn, provide funds to ASAP by way of transfer to the Single Special Treasury Savings Bank (TSB) account maintained with the District Treasury, Trivandrum from where ASAP would transfer its requirement to its bank accounts with State Bank of Travancore (SBT) (or to any of the other two banks approved for that purpose). The funds would be utilized from this account. A funds flow diagram is given below in Figure 1.

51. ADB would support ASAP to build capacity in the area of managing disbursements from ADB and program reporting.

52. The foreign exchange risks associated with the ADB loan will be the responsibility of the Government of Kerala.

2. Funds Flow

53. Once every 2–3 months (or whenever the SLEC, which is the apex body in-charge of ASAP, meets), ASAP submits its funds requirement for the review and approval of SLEC. Based on SLEC's approval, the funds are then transferred from the government treasury (general) account to a single special TSB account (also with the Government of Kerala). While the authority to withdraw funds from the government treasury rests with the Department of Finance, the authority to withdraw funds from the TSB account is delegated to DOHE. Consequently, it is now much easier for ASAP to withdraw funds whenever needed. Thus, when funds are required by ASAP, the Accounts Department prepares a proposal for the requirement of funds to the additional chief secretary, DOHE, through the team leader, ASAP, (Additional Secretary, DOHE). The team leader then issues a government order for the expenditure, after which the cheques for payment are signed by the additional chief secretary and the team leader. However, expenditure on salaries of ASAP staff and program managers does not need issuance of a government order.

54. Before disbursement however, the required funds are transferred from the TSB account to the account maintained by ASAP with SBT for plan funds receipts. ASAP also maintains another account with SBT for other than plan funds receipts (like course fees received from

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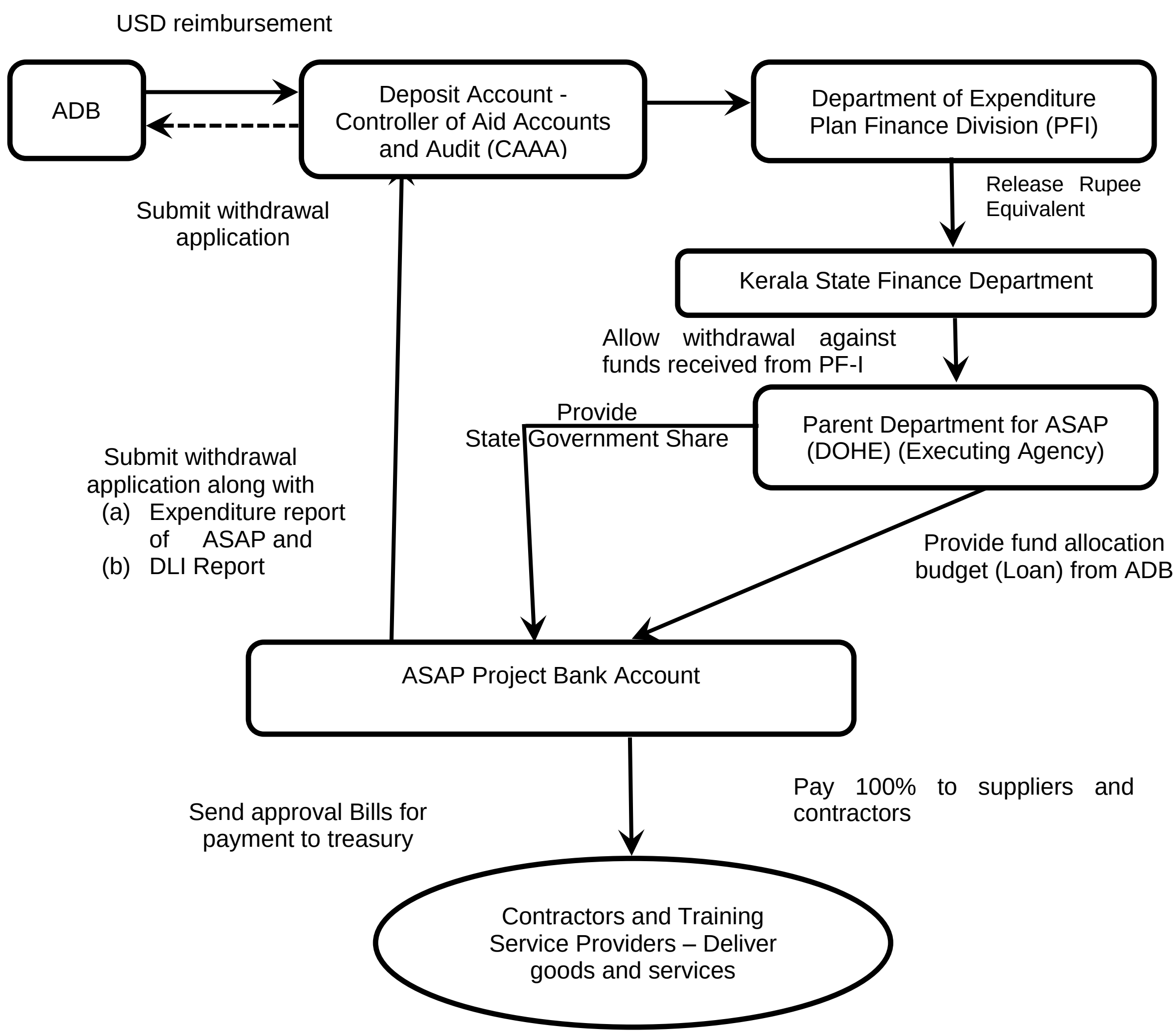
[14] Available at: http://www.adb.org/documents/loan-disbursement-handbook.
[15] Available at: http://www.adb.org/site/safeguards/policy-statement.

students, earnest money deposits, etc. Most of the payments are made only from the SBT account for plan funds.

55. As stipulated by the Kerala Financial Code (KFC), 2008, all payments except those below Rs25,000 are made by cheques. Certain routine office expenditures are however, first incurred and then approved by the team leader followed by a government order. ASAP deducts appropriate tax at source (tax deducted at source) as per the Income Tax Act, 1961. As indicated earlier, ASAP also receives money from students as fees, earnest money deposits from bidders, etc. These funds are deposited in a separate account (other than the plan funds account) with the SBT.

56. As per the G.O. (Ms.) No: 157/2014/H.Edn dated 1 April 2014, all fees collected from students shall be remitted to Account No. 67201923728 maintained at the Main Branch of SBT, Thiruvananthapuram maintained for fee collection of ASAP. These funds would then be remitted to the Treasury of the Government of Kerala and form part of the consolidated fund.

Figure 1: Flow of Funds



N. Personnel

57. ASAP has a good mix of personnel on deputation from the government and experienced professionals recruited from the private and public sector. The team leader is an additional secretary and the program itself is under the leadership of the additional chief secretary, DOHE.

58. With a view to enhance its senior management capacity, ASAP has appointed an IAS officer as its CEO. He is expected to join shortly.

59. ASAP's senior management needs to be supported by additional staff to be recruited in the middle management cadre, who can then be trained to take up additional responsibilities.

60. ASAP's personnel, except those on deputation from the government, have all been appointed on a contract basis. While this method of recruitment is adequate for training staff, as far as senior management is concerned, this may lead to a lack of commitment. It is advisable to initiate a mechanism of retaining the senior staff by making them employees, at least over a period of time.

61. While there has been no turnover of staff at the senior levels, at the program manager and skill development executive levels, less than 10% of staff have left but have been quickly replaced with new staff from the sizable panel which ASAP has created for these positions.

62. ASAP also does not have a Human Resources Department to manage the aspirations and career of its huge workforce, which is only bound to increase in the future. There is a need for appointment of a human resources consultant to advise ASAP in its human resources policy-making and also recruitment.

63. FAU suffers from a lack of a professional accountant. A qualified chartered accountant needs to be recruited to head the accounts function. At least two more personnel to manage the program accounts and reporting also need to be recruited. It is also proposed to review the adequacy of the staffing of FAU of ASAP after 12 months and if there is any need for a financial management specialist, it can be considered at that stage.

O. Accounting Policies and Procedures

64. ASAP, being part of DOHE, follows KFC, Kerala Account Code, Kerala Budget Manual, Stores Purchase Manual, 2013, and Kerala Treasury Code for its functioning. The accounting system, which is a cash-based single entry system, allows for the proper recording of program financial transactions, in accordance with the KFC and Kerala Account Code.

65. Fixed assets procurement is decentralized and also is the safeguard of these assets. Fixed asset registers are also maintained on a decentralized basis. However, there is a need to have a consolidated fixed asset register at the headquarter level with a periodic inspection of such fixed assets being put in place to enable better safeguards of these assets.

66. Controls are in place concerning the preparation and approval of all transactions related to expenditure and ensuring that all these transactions are correctly made and adequately explained. Payments relating to various departments are approved by the respective heads of departments, based on which the team leader issues the government order authorizing the payment. The head of FAU then makes the payment. The entire process is computerized and has been implemented on a web platform.

67. The present chart of accounts is adequate to properly account for and report on ASAP's program. ASAP is developing a finance manual which is expected to guide the finance and accounting areas of activities of ASAP.

68. The following registers are maintained by ASAP:

(i) cash and bank book;
(ii) cheque issuance register;
(iii) treasury register; and
(iv) advance register.

69. All back-up documents for expenditures and receipts are stored in chronological order at the ASAP Head Office. Bank reconciliation (for the plan funds account with SBT) is done monthly by the Accounts Department staff and approved by the head of the department. All petty expenses incurred and not adjusted beyond one day are treated as advances and adjusted after the government order is issued. Advances are given to the program managers/skill development center heads for expenses, which are then settled periodically by them. No personal advances are given to staff. Currently, the Books of Accounts are maintained manually but a comprehensive computerized system has already been developed which would help generating the entity's accounts from the system itself.

P. Internal Audit

70. Until recently, ASAP neither has an internal audit department nor has it appointed an external auditor to do internal audit of its operations. After about 2 years since its formation, ASAP has only recently appointed the Institute of Public Auditors, Thiruvananthapuram as the internal auditor. It is expected that the internal auditor will have an independent reporting line with SLEC and perform the audit in accordance with international best practices.

Q. External Audit

71. ASAP, being a part of DOHE, is under the audit of the accountant general. ASAP was formed in July 2012, and as of date, has compiled accounts for financial years, 2012–2013 and 2013–2014. The accountant general is yet to conduct its audit of these accounts. However, now the accountant general (Audit) office of Kerala has agreed to undertake timely annual audits of ASAP and has committed to completing the audit for the current fiscal year within 6 months thereof.

R. Financial Reporting and Monitoring

72. Currently, ASAP does not prepare any other report except the annual expenditure statement for submission to the state government. There is an urgent need to formalize the monitoring systems of ASAP in the form of reports for periodic review and action. Also, ASAP needs to submit reports regarding progress of work and program periodically to ADB. ADB will provide support in building capacity in ASAP to undertake these tasks.

73. ASAP's website is fairly comprehensive, including most information required by the public. It however does not disclose any financial information. It does not appear to be a problem if ADB requires ASAP disclosing program information.

S. Information Systems

74. ASAP has implemented two separate computerized information systems – CASH accounting system (CASH) and MIS. Both systems are under implementation. While CASH system pertains entirely to fund management and accounting, MIS deals with various information requirements relating to the training programs, personnel, etc. The MIS is partially integrated with CASH for personnel salaries, etc.

75. CASH system is based on the government system of cash accounting based on single entry and consequently can only generate reports on this system. The system would need modification based on the additional requirements relating to program accounting and community skills park construction project. The MIS is comprehensive and captures all the information of the entity including training details relating to students, institutions, etc.

76. Both the systems are web-based systems with access control. Limited access is provided based on the requirement of the personnel to either input data or access information. Consequently, the systems have the necessary security features to ensure proper protection of data.

T. Financial Management Action Plan

77. ASAP and ADB have agreed to an action plan to address issues that the FMA identified (Appendix 1).

Table 9: Action Plan

Area	Current scenario	Risk	Mitigation Measure Suggested	Target Date for Implementation by ASAP
Staffing of Finance and Accounts Department	It is headed by Head – Finance and Accounts with support of four personnel	Considering the increase in ASAP's training activities over the next few years, the expected staffing pattern would only be sufficient with complete computerization of all account-related activities and with the support of external personnel for internal audit and external audit.	An experienced Chartered Accountant to be recruited to head the accounts function with the Finance and Audit Unit	October 2014

Area	Current scenario	Risk	Mitigation Measure Suggested	Target Date for Implementation by ASAP
External audit	No external audit has been conducted since program formation in July 2012	Material accounting deficiencies or control weaknesses may have not yet been identified.	The Accountant General (Audit) office of Kerala has agreed to undertake timely annual audits of ASAP and has committed to completing the audit for the current fiscal year within 6 months thereof.	December 2014
Internal audit	No internal audit has been conducted since program formation in July 2012	Material accounting deficiencies or control weaknesses may have not yet been identified.	An internal auditor has been appointed and is expected to issue the first internal audit report.	December 2014

ASAP = Additional Skill Acquisition Program.
Source: Asian Development Bank.

U. Financial Covenants

78. ADB will be contributing to the total government expenditure framework allocated for ASAP. For ASAP to deliver on results, it requires, among others, a sufficient budgetary resource to be allocated for DOHE. To ensure that ADB's contributions serve to leverage required additional resources for financing of ASAP, the government should agree to a minimum threshold of budget allocations broadly consistent with the resource requirements of ASAP.

79. The audited program financial statements prepared, in accordance with IGAS, will be submitted in English to ADB within 6 months of the end of the fiscal year by ASAP. The auditor will also provide a separate audit opinion on the status of compliance on financial covenants and use of loan proceeds. A management letter shall also be provided indicating any weaknesses in the internal control system that have come to the auditor's attention as a result of his audit, as well as recommendations for improvement and ASAP comments. This shall also include a status update on the follow-up on previous year's audit observations. The Government of Kerala and ASAP have been made aware of ADB's policy on delayed submission and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to commission an independent audit if the audit is substantially delayed or to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. The audited program financial statements shall be disclosed in ADB's website in accordance with ADB's Public Communications Policy (2011).

80. This includes the audit opinion, program financial statements, and accompanying notes. The management letter shall not be disclosed.

81. ASAP shall submit unaudited interim financial reports along with the withdrawal applications to support that expenditure being claimed has also been incurred for the purpose of the program on a cumulative basis.