

Financial Management Assessment

Socialist Republic of Vietnam

48189-002– VIE: Support to Border Areas Development Project

Provincial People's Committee – Kon Tum

Provincial People's Committee – Gia Lai

Provincial People's Committee – Dak Lak

Provincial People's Committee – Dak Nong

Provincial People's Committee – Binh Phuoc

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EXECUTIVE SUMMARY

1. The Financial Management Assessment (FMA) was conducted in accordance with ADB guidelines. The instrument used for the assessment was ADB's financial management assessment questionnaire. The FMA covers the Provincial Peoples' Committee (PPC) of the 5 participating provinces (Kon Tum, Gia Lai, Dak Lak, Dak Nong and Bihn Phuoc) as the Executing Agency (EA) and the Provincial Project Management Unit (PPMU) of the participating provinces as the Implementing Agency (IA). The objective of the assessment was to determine whether the entities implementing the project have acceptable financial management arrangements that can comply with ADB accounting and reporting requirements.

2. Country issues noted in this FMA are based on information developed from the latest available assessments by ADB and the World Bank and the survey results by international and local research organizations. The assessments put particular emphasis on the second Governance and Anticorruption Action Plan (GACAP II) themes of public financial management (PFM), procurement, and anti-corruption. Country issues that could impact on the effective financial management of the project are concerned with: (i) public financial management (PFM); (ii) management and skills capacity; and (iii) the country environment.

3. In 2013, PFM arrangements in Vietnam were evaluated based on the Public Expenditure and Financial Accountability (PEFA) assessment framework developed by the World Bank in collaboration with other development partners.¹ Indicators were scored from A to D, with A indicating better performance. Groupings of indicators were: (i) credibility of budget; (ii) comprehensiveness and transparency; (iii) budget execution; and (iv) donor practices. Out of the 30 indicators Vietnam was rated on, scores were: A for one indicator, B for 11 indicators, C for 10 indicators, and D for 8 indicators.

4. Among a pool of 215 countries included in the 2014 World Bank's Worldwide Governance Indicators, Vietnam was among the weakest in governance and was ranked in the bottom half for all indicators except government effectiveness. Many of the features most commonly associated with systemic corruption exist in Vietnam. In 2015, the Transparency International Corruption Perception Index ranked Vietnam at 112 of 167 countries assessed. Previously, the country had a rank of 119 in 2014 (pool of 174 countries), 116 in 2013 (pool of 177 countries), 123 in 2012 (pool of 176 countries), and 112 in 2011 (pool of 183 countries).

5. The Viet Nam Provincial Governance and Public Administration Performance Index (PAPI)² is the largest time-series national governance and public administration performance monitoring tool in Viet Nam of all provinces exclusively based on citizens' experiences. The 2015 governance and public administration performance results of the 5 provinces participating in the project can be summarized as follows: out of 6 governance indicators³, Kon Tum was ranked as a poor performer in all indicators except for vertical accountability (high average). Gia Lai was ranked either as a low average or poor performer in all indicators except for participation at local levels (high average) and public administrative procedures (high average). Dak Lak was ranked either as a low average or poor performer in all indicators except for public

¹ The "Vietnam Public Expenditure and Financial Accountability, Public Financial Management Assessment" report (July 2013) resulted from a process of self-assessment led by the Ministry of Finance (MOF), under the guidance of PEFA Secretariat and support from the World Bank and other development partners.

² PAPI is a joint collaboration between the Centre for Community Support Development Studies under the Viet Nam Union of Science and Technology Associations, and the United Nations Development Programme in Viet Nam

³ The six governance indicators are: (i) participation at local levels; (ii) transparency; (iii) vertical accountability; (iv) control of corruption; (v) public administrative procedures; and (vi) public service delivery.

administrative procedures (high average) and public service delivery (high average). Dak Nong was ranked as a poor performer in all indicators except for participation at local levels (high average) and control of corruption (high average). Binh Phuoc was ranked either as a low average or poor performer in all indicators except for transparency (high average), vertical accountability (high average) and public administrative procedures (best performer).

6. Country-specific risks in financial management systems include: (i) weak public financial management (PFM) systems; (ii) a shortage of personnel with adequate financial management skills; and (iii) the failure of procuring entities to follow PFM rules. Potential project-specific risks include: (i) possible inability of Government to meet counterpart funding obligations due to budgetary constraints; (ii) limited financial management and procurement capacity within the IAs; (iii) potential for corruption as a result of weak procurement oversight; (iv) funds may not reach intended beneficiaries in a timely manner; (v) project accounting and financial reporting will not meet ADB requirements; (vi) delays in the submission of externally audited project accounts; (vi) annual audits will not meet ADB requirements; and (vii) inadequate safeguard of accounting data. Without risk mitigation measures, the overall risk level for the project is assessed as moderate.

7. Mitigating measures for country-specific risks include: (i) ADB, together with other development partners, will continue to support on-going and planned efforts to strengthen PFM arrangements, through technical assistance and lending; and (ii) the National Assembly has approved a development plan (2011-2020) for the State Audit of Vietnam (SAV) to increase staff number from 1,600 to 3,500. This will make it possible for the SAV to audit all Ministries, provinces and SOEs every year (instead of the 50-60% coverage currently achieved), as well as extending its work on performance audits. The SAV has started capacity-building activities to improve financial audits with support from development partners.

8. The PPCs have extensive experience in the implementation of externally funded projects, but less in transport and none by ADB. Mitigating measures to address project-specific risks include: (i) experienced and qualified staff shall be appointed in the PPMU; they will be trained in ADB procurement guidelines, project accounting and reporting requirements; support and training will be provided by a procurement consultant and a financial management consultant, member of the project implementation support consulting team; (ii) ADB bidding, procurement and disbursement guidelines will be used; (iii) project financing plan was formulated in consultation with the government to ensure affordable counterpart financing; (iv) ADB funds flow arrangements, which have been tested in prior projects and proven successful, will be used; (v) accounting policies and procedures consistent with VAS will be used and financial reporting shall be in accordance with ADB requirements; (vi) PPMU will recruit an external auditor whose qualifications, experience and TOR are acceptable to ADB; annual external audit will be in accordance with international auditing standards; and (vii) regular backups of all financial and accounting data and appropriate security measures over backed-up data shall be in place. With risk mitigation measures, the overall risk level for the project is assessed as low.

I. INTRODUCTION

1. The Financial Management Assessment (FMA) was conducted in accordance with ADB's *Guidelines for the Financial Management and Analysis of Projects*⁴ (the Guidelines) and the publication, *Financial Due Diligence, A Methodology Note*.⁵ The instrument used for the assessment was ADB's financial management assessment questionnaire (Appendix 1).

2. The objective of the assessment was to determine whether the entities implementing the project have acceptable financial management arrangements and staff with adequate capacity to conduct and supervise the project accounts in accordance with international standards. The arrangements assessed include the entities' system of accounting, budgeting and reporting, auditing, and internal controls. They are considered acceptable if they: (i) ensure that funds will be used only for the intended purposes in an efficient and economical way; (ii) are capable of correctly recording all transactions and balances, and supporting the preparation of regular and reliable financial statements; (iii) are capable of safeguarding the entities' assets; and (iv) are subject to external audit arrangements acceptable to ADB. Staff assessments evaluated (i) academic qualifications and years of experience implementing internationally financed projects; and (ii) the number of staff available to carry out and supervise financial management tasks.

3. The FMA incorporates a summary Financial Management Internal Control and Risk Assessment required by the Guidelines (Table 4). The FMA covers the Provincial Peoples' Committee (PPC) of the 5 participating provinces (Kon Tum, Gia Lai, Dak Lak, Dak Nong and Binh Phuoc) as the Executing Agency (EA) and the Provincial Project Management Unit (PPMU) of the participating provinces as the Implementing Agency (IA).

4. Country issues noted in this FMA are based on information developed from the latest available assessments by ADB and the World Bank and the survey results by international and local research organizations. The assessments put particular emphasis on the second Governance and Anticorruption Action Plan (GACAP II) themes of public financial management (PFM), procurement, and anti-corruption.

II. PROJECT DESCRIPTION

5. The proposed Project investment includes ADB funding of US\$106 million⁶ and is to be implemented over a five year period from 2017 to 2021. The scope of the proposed investment is limited to five provinces being Kon Tum, Gia Lai, Dak Lak, Dak Nong in the Central Highlands, and Binh Phuoc in south east Viet Nam.

6. The Project seeks to provide support to: (i) provide all-year-round access to economic opportunities for the poor, particularly among the ethnic minorities; (ii) facilitate access of agricultural products to domestic and international markets; (iii) improve agriculture value chains; (iv) improve planning capacity and coordination between the provinces to strategically prioritize transport and other infrastructure investment within a context of the DTA area development; (v) improve connectivity and eliminate missing links along major highways and provincial and district roads through a selected roads corridor to promote sub-regional integration and growth; (vi) improve knowledge and capacity of farmers and enterprises to

⁴ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

⁵ ADB. 2009. *Financial Due Diligence A Methodology Note*. Manila.

⁶ The Project will adopt the move to decentralized lending where the loan repayment will be the responsibility of each province.

capitalize on its comparative advantage, agriculture and agribusiness; and (vii) improve capacities, including preparation of an implementable strategy for development planning, resource mobilization and allocation, provision of national and sub-regional public goods, and engagement with the domestic regional and international private sector, which will also help five provinces' commitment and resources to move the CLV-DTA initiative, particularly its Master Plan, forward.

7. The expected impact of the proposed Project is for the five Vietnamese DTA provinces (Kon Tum, Gia Lai, Dak Lak, Dak Nong and Binh Phuoc) to serve as an engine for growth and a gateway to wider markets. The outcome of the project will be increased movement of goods, vehicles, and people among DTA provinces and beyond.

III. COUNTRY ISSUES

8. Country issues that could impact on the effective financial management of the project are concerned with: (i) public financial management (PFM); (ii) management and skills capacity; and (iii) the country environment.

A. Public Financial Management

9. In 2013, PFM arrangements in Vietnam were evaluated based on the Public Expenditure and Financial Accountability (PEFA) assessment framework developed by the World Bank in collaboration with other development partners.⁷ Table 1 is a summary of the results of this assessment. Indicators are scored from A to D, with A indicating better performance.

Table 1: Summary of 2013 Performance Measurement Framework

Indicators	Score
A. Credibility of the budget	
Aggregate expenditure out-turn compared to original approved budget	C
Composition of expenditure out-turn to original approved budget	D+
Aggregate revenue out-turn compared to original approved budget	D
Stock and monitoring of expenditure payment arrears	NR
B. Comprehensiveness and transparency	
Classification of the budget	D
Comprehensiveness of information included in budget documentation	B
Extent of unreported government operations	C+
Transparency of intergovernmental fiscal relations	B+
Oversight of aggregate fiscal risk from other public sector entities	C+
Public access to key fiscal information	B
C. Budget execution	
(i) Policy-based budgeting	
Orderliness and participation in the annual budget process	B
Multiyear perspective in fiscal planning, expenditure policy, and budgeting	C
(ii) Predictability and control in budget execution	
Transparency of taxpayer obligations and liabilities	C+
Effectiveness of measures for taxpayer registration and tax assessment	C+
Effectiveness in collection of tax payments	C+
Predictability in the availability of funds for commitment of expenditures	B+

⁷ The "Vietnam Public Expenditure and Financial Accountability, Public Financial Management Assessment" report (July 2013) resulted from a process of self-assessment led by the Ministry of Finance (MOF), under the guidance of PEFA Secretariat and support from the World Bank and other development partners.

Indicators	Score
Recording and management of cash balances, debt, and guarantees	B
Effectiveness of payroll controls	B
Competition, value for money, and procurement controls	C+
Effectiveness of internal controls for non-salary expenditure	D+
Effectiveness of internal audit	D+
(iii) Accounting, recording, and reporting	
Timeliness and regularity of accounts reconciliation	B+
Availability of information on resources received by service delivery units	A
Quality and timeliness of in-year budget reports	D+
Quality and timeliness of annual financial statements	D+
(iv) External scrutiny and audit	
Scope, nature, and follow-up of external audit	C+
Legislative scrutiny of the annual Budget Law	B+
Legislative scrutiny of external audit reports	B+
D. Donor practices	
Predictability of direct budget support	D+
Donor information for budgeting and reporting on project/program aid	B
Proportion of aid managed by national procedures	C

Source: Vietnam Public Expenditure and Financial Accountability, Public Financial Management Assessment (July 2013) - self-assessment report led by the Ministry of Finance, under the guidance of PEFA Secretariat and support from the World Bank and other development partners.

Note: Indicators are scored A to D. Score of A indicates better performance; NR = not rated.

10. According to the 2013 PEFA assessment, budget preparation process has been streamlined and budget transparency has increased. A well-developed and orderly budget calendar sets out the timetable and activities for budget preparation by line ministries and provinces as well as the schedule for presentation of budget by government for its consideration and approval. The budget process culminates with the review and approval of the National Assembly (NA) by 15 November of each year, followed by the notification of the overall allocations for the ministries and provinces – both revenue and expenditures – by the MOF. The budget cycle is well adhered to with the NA approving the annual budget on time every year for the past 5 years. However, there is a lack of integration between the capital and recurrent budget. In Vietnam, the allocations of current and capital expenditures are assigned separately to MOF and MPI. Expenditure is also reported separately by the MOF (recurrent expenditure) and MPI (capital spending). Despite regular consultation and coordination between MOF and MPI, it is difficult for MOF to have a comprehensive estimate of the sector allocations both at the national and sub-national levels, as well as their links to development plans, including forecasting of the recurrent needs of capital investments over the medium-term to long-term.

11. Budget classification is consistent with Government Financial Statistics and broadly consistent with Classification of the Functions of Government and is used for accounting and reporting. But the system is not consistently applied in all the stages of budget preparation, allocation, execution and final account presentation. National accounting standards are currently used for reporting purposes, but are not consistent with International Public Sector Accounting Standards (IPSAS). MOF is examining the implications of adopting IPSAS, and is trying to develop a set of public accounting standards based on IPSAS to facilitate the consolidation of information and the preparation of a balance sheet.

12. As a measure of the government's oversight of budget execution and internal controls, a fully effective internal audit function has not yet been established. The internal audit/inspection services of some ministries have only begun to do work which has some of the character of internal audit. However, responsibility for supervision and coordination of internal

audit work among agencies across the government has not been decided, and reports have gone only to the concerned ministries.

13. The State Audit of Vietnam (SAV) performs a wide range of audit work and reports to the NA. Its staff numbers have doubled over the last four years, and SAV now has some 1,600 staff working in 8 departments at its headquarters and in 13 offices in the provinces. An overall report is produced covering the execution of the consolidated state budget. SAV's report on budget execution is published once it has been approved by the NA; elements of its other reports may be published a month after delivery to the NA if SAV so decides. In addition, reports are produced covering individual entities or particular topics, but resource limitations restrict the annual coverage of its audit to not much more than 60% of central government departments and 50% of sub-national governments. The NA has approved a development plan for the SAV for the period 2011-2020, which will provide for an increase in staff from the present 1,600 to 3,500. This will make it possible for SAV to audit all ministries, provinces and SOEs every year (instead of the 50%-60% coverage currently achieved), as well as extending its work on performance audits.

14. The ADB, IMF, JICA, EU, World Bank and other development partners are involved in several initiatives to modernize the policies, institutional structures and PFM systems in Vietnam. Development partners participate in regular meetings of the PFM Partnership Group which provides an important platform for continuous dialogue with the government agencies.

B. Management and Skills Capacity

15. The MPI has revealed increasing investment in education to improve human resources in Vietnam and support the rapid development of the country. Vietnam, however, could still not produce enough qualified professional accountants and auditors to meet the demand of all sectors. Qualified professional accountants and auditors prefer to work in the private sector, specifically in foreign-owned firms.

C. Country Environment

16. **Governance.** Vietnam's governance performance is below the ASEAN average on all indicators (Table 2).⁸ Similarly, among a pool of 215 countries included in the 2014 World Bank's Worldwide Governance Indicators, Vietnam was among the weakest in governance and was ranked in the bottom half for all indicators except government effectiveness.

Table 2: ASEAN Governance Indicators. 2014

ASEAN Country	Voice & Accountability	Political Stability / No Violence	Gov't Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Brunei	-0.66	1.27	1.08	0.97	0.50	0.63
Cambodia	-1.08	-0.04	-0.68	-0.40	-0.93	-1.08
Indonesia	0.13	-0.37	-0.01	-0.10	-0.35	-0.58
Lao PDR	-1.65	0.46	-0.39	-0.85	-0.71	-0.76
Malaysia	-0.33	0.34	1.14	0.84	0.64	0.48
Myanmar	-1.39	-1.06	-1.28	-1.39	-1.17	-0.92

⁸ The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries.

ASEAN Country	Voice & Accountability	Political Stability / No Violence	Gov't Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Philippines	0.13	-0.70	0.19	-0.01	-0.33	-0.44
Singapore	-0.11	1.23	2.19	2.23	1.89	2.12
Thailand	-0.85	-0.91	0.34	0.27	-0.15	-0.41
Viet Nam	-1.34	0.00	-0.06	-0.59	-0.31	-0.50
ASEAN average	-0.71	0.02	0.25	0.10	-0.09	-0.15
World Governance Indicators rank of Vietnam among 215 countries	10	46	52	30	45	38

Notes: The governance indicators are measured in the range of -2.5 (weak) to +2.5 (strong) with a higher score indicating better governance. The percentile rank among 215 countries ranges from 0 (lowest) to 100 (highest) rank.

Source: World Bank - Worldwide Governance Indicators, <http://databank.worldbank.org/>

17. The Viet Nam Provincial Governance and Public Administration Performance Index (PAPI)⁹ is the largest time-series national governance and public administration performance monitoring tool in Viet Nam of all provinces exclusively based on citizens' experiences. The 2015 governance and public administration performance results of the 5 provinces participating in the project are summarized in Table 3 below. Out of 6 governance indicators, Kon Tum was ranked as a poor performer in all indicators except for vertical accountability (high average). Gia Lai was ranked either as a low average or poor performer in all indicators except for participation at local levels (high average) and public administrative procedures (high average). Dak Lak was ranked either as a low average or poor performer in all indicators except for public administrative procedures (high average) and public service delivery (high average). Dak Nong was ranked as a poor performer in all indicators except for participation at local levels (high average) and control of corruption (high average). Binh Phuoc was ranked either as a low average or poor performer in all indicators except for transparency (high average), vertical accountability (high average) and public administrative procedures (best performer).

Table 3: Provincial Governance and Public Administration Performance Index. 2015

Province	Participation at Local Levels	Transparency	Vertical Accountability	Control of Corruption	Public Administrative Procedures	Public Service Delivery
1 Kon Tum						
Index ^a	4.38	4.92	5.75	5.11	6.37	6.78
Rank ^b	52	51	19	57	59	49
Performance ^c	P	P	H	P	P	P
2 Gia Lai						
Index ^a	4.84	5.33	5.48	5.47	6.9	6.51
Rank ^b	28	36	38	48	26	56
Performance ^c	H	L	L	P	H	P
3 Dak Lak						
Index ^a	4.6	5.28	5.44	5.07	7.02	7.13
Rank ^b	45	38	40	58	17	19
Performance ^c	L	L	L	P	H	H
4 Dak Nong						

⁹ PAPI is a joint collaboration between the Centre for Community Support Development Studies under the Viet Nam Union of Science and Technology Associations, and the United Nations Development Programme in Viet Nam

Province	Participation at Local Levels	Transparency	Vertical Accountability	Control of Corruption	Public Administrative Procedures	Public Service Delivery
Index ^a	4.84	4.92	5.01	5.94	6.38	6.32
Rank ^b	29	52	56	30	58	62
Performance ^c	H	P	P	H	P	P
5 Binh Phuoc						
Index ^a	4.76	5.65	5.7	5.67	7.28	6.32
Rank ^b	34	23	22	40	5	63
Performance ^c	L	H	H	L	B	P
Index of Highest Scoring Province	6.44	7.24	7.51	7.27	7.51	7.76

^a Index is scored from 0 (poor) to 10 (best)

^b Provinces are ranked from 1 (highest) to 63 (lowest) out of all provinces in Vietnam

^c B = best performer, H = high average, L = low average, P = poor performer

Source: The Viet Nam Provincial Governance and Public Administration Performance Index, 2015

18. **Procurement.** The Procurement Law and implementing decree (No. 85/2009), and a number of circulars containing operational guidelines have strengthened the legal and regulatory framework of public procurement in Vietnam. The framework provides for public access to procurement information including government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints. However, the results of complaints against procurement decisions are not yet published. An independent system to handle complaints exists, but is not much used and lacks the authority needed to suspend contracts. Contract awards are published in MPI's Procurement Gazette and on the Ministry's website. Its implementation, however, falls short of expectations. Procurement in Vietnam leaves too much scope for direct contracting. The 2013 PEFA assessment estimated that 70% (by number) and 40% (by value) of 2009 and 2010 contracts were let directly, thus undermining open competition and value for money.

19. **Anti-Corruption.** Many of the features most commonly associated with systemic corruption exist in Vietnam. In 2015, the Transparency International Corruption Perception Index ranked Vietnam at 112 of 167 countries assessed. Previously, the country had a rank of 119 in 2014 (pool of 174 countries), 116 in 2013 (pool of 177 countries), 123 in 2012 (pool of 176 countries), and 112 in 2011 (pool of 183 countries). Institutions which are perceived by the public to be most affected by corruption are in the following order: (i) police; (ii) education; (iii) public officials and civil servants; (iv) judiciary; (v) business and private sector; and (vi) military. Institutions which are perceived to be least affected by corruption are in the following order: (i) religious bodies; (ii) non-government organizations; (iii) parliament and legislature; (iv) political parties; and (v) media.¹⁰

IV. PROJECT FINANCIAL MANAGEMENT SYSTEM

A. Overview of the Executing and Implementing Agencies

20. The executing agencies (EA) for the project will be the Provincial Peoples' Committees (PPC) of the 5 participating provinces (Kon Tum, Gia Lai, Dak Lak, Dak Nong and Binh Phuoc). Ministry of Planning and Investment (MPI) and Ministry of Transport (MOT) will provide guidance and support. A Project Coordinating Committee (PCC), which will be based in

¹⁰ 2015 Transparency International Corruption Perception Index.

Dak Lak, will be established with the participation of leaders from the 5 participating provinces. The PPCs will each establish a Provincial Project Management Unit (PPMU) to serve as the implementing agencies (IA) and carry out the daily activities. All the 5 PPCs have experience in implementing externally financed projects but less in transport and none by ADB.

21. The full implementation arrangements are described in detail in the Project Administration Manual (PAM); refer Section C Project Management Structure.

B. Strengths

22. Accounting regulations, policies and procedures issued by the Ministry of Finance for project accounting are already in existence. Financial management reporting regulations issued by the Ministry of Planning and Investments with regards capital investment are also in place. These accounting regulations, policies and procedures will guide the PPMU staff on how to maintain the project accounts in terms of accounting standards and method of accounting, prepare financial reports in their required formats, and the frequency these reports are prepared and submitted to concerned agencies and entities. The regulations relevant to the project are:

- (i) Financial reports as required by the Accounting Policy for the Investor in Decision no:195/2012/QĐ-BTC dated 15/11/2012
- (ii) Quarter and Annual Financial management reports as regulated in Circular 01/2014 / TT-BKHĐT dated 09/01/2014 of the Ministry of Planning and Investment
- (iii) Statement of Expenditures (SOE) of ODA disbursed funds as regulated in Circular 218/2013/TT-BTC by MOF dated 31/12/2013
- (iv) Report on the liquidation of completed project as regulated in Circular no 09/2016/TT-BTC by MOF dated 18/1/2016

23. The project has a Financial Management Manual (FMM) that will be used (and updated from time to time) during project implementation. The manual was specifically prepared under the project preparatory technical assistance (PPTA 8849-VIE: Support to Border Areas Development) funded by ADB. The manual will serve as a guide to the PPMU staff on how to maintain the project accounts, prepare financial reports in their required formats, and the frequency these reports are prepared and submitted to concerned agencies and entities. Responsibilities of each PPMU staff related to financial management and accounting are outlined in the manual to ensure staff accountability.

24. A Project Administration Manual will be available to the PPMU staff that will serve as a guide with regards the disbursement arrangements of the loan proceeds for the project in addition to ADB's *Loan Disbursement Handbook* (2015, as amended from time to time). Online training is available for project staff on disbursement policies and procedures at the ADB's website. This online training will build staff capacity to help ensure efficient disbursement and fiduciary control. All procurement and recruitment of consultants to be financed by the ADB loan will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The government's public procurement regulations (as acceptable to ADB) will be applied for packages procured using national competitive bidding and shopping procedures.

C. Weaknesses

25. Although the PPCs have adequate experience in implementing externally financed projects, they have not managed projects funded by ADB. Project Implementation Support Consultants (PISC) will be recruited to support the PPMUs implement the project. The PISC will provide a range of specialties (including Financial and Accounting Specialist) needed to support the PPMU to implement the project and meet the reporting and procedural requirements of ADB. The PISC will support the following activities:

- (i) undertake feasibility studies/investment reports, including technical assessments, financial and economic analysis subprojects, and preparation of safeguard documents;
- (ii) assist PPMU in the recruitment and supervision of all consultants;
- (iii) assist in the supervision of the construction work by serving as the “Employer’s Representative”;
- (iv) assist in project performance monitoring and evaluation; and
- (v) carry out training activities.

26. Apart from providing support in the financial management and accounting of the project, the Financial and Accounting Specialist as member of the PISC will provide on-the-job training and classroom presentations to the accounts staff to build their capacity. The terms of reference (TOR) of the Financial and Accounting Specialist are outlined in Appendix 2. The complete list of specialists as members of the PISC is presented in the PAM.

27. The PPMUs are still to be established. The experience and capacity of staff to be selected and assigned to the PPMUs are not known. The PPCs will provide ADB with the terms of reference (TOR) and curriculum vitae (CV) of all of proposed PPMU's key and professional staff for ADB's review and concurrence prior to assigning and staffing.

D. Personnel, Accounting Policies and Procedures, Internal and External Audit

28. The PPMU accounts staff are still to be selected and appointed. Experienced and qualified accounts staff (chief accountant and assistant accountant positions), if available from within the Accounts Department of the PPC, shall be seconded to the PPMU to exclusively handle separate accounts and related records for the Project. Should they not be available for the Project, the PPMU shall recruit experienced and qualified staff from recently completed PPC projects or from outside. They must have a bachelor's degree diploma in accounting, finance, or related course, adequate enterprise or project accounting experience, preferably in foreign-assisted projects, above average proficiency in oral and written English, and good computer skills with sufficient knowledge of MS Word and Excel. Upon recruitment, they will be trained in ADB procurement, disbursement and reporting procedures and the use of project accounting software. They must be contracted several weeks before start of Project implementation to undergo appropriate training in ADB procedures.

29. The accounting system will follow MOF's accounting regulation under Circular 195/2012. The Vietnamese Accounting Standards (VAS) and modified cash method of accounting as currently practiced will be used.

30. The PPMU will procure for the Project a user friendly and VAS compliant accounting software that has been tested bug-free and used in other external donors' projects. The 5 PPMUs are encouraged to coordinate in the procurement of the same software for leverage with the supplier. Using the same software will enable inter-province consultations in software use among the PPMU accounts staff during project implementation. The accounting system will be dedicated to the recording of project financial transactions including the allocation of expenditures in accordance with the respective components, disbursement categories and sources of funds. Controls will be in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained.

31. The chart of accounts under Circular 195/2012 will be used to properly account for and report on project activities and disbursement categories. The 5 PPMUs shall use uniform general ledger and subsidiary ledger accounts to record for project activities and disbursement categories for ease of comparison and consolidation of accounts. Cost allocations will be made to the various funding sources accurately and in accordance with established agreements. The general ledger and subsidiary ledgers will be reconciled monthly and in balance. All accounting and supporting documents will be retained in accordance with ADB and Government established requirements that allow authorized users easy access, including Government and independent external auditors.

32. Procurement of goods and services will be made in accordance with ADB's procurement guidelines. The functions of ordering, receiving, accounting for, and paying for goods and services will be appropriately segregated. Bank reconciliation will be done monthly and payments will be in accordance with ADB's and project disbursement guidelines.

33. Budget of project financial expenditures will be estimated in accordance with physical targets of implementation progress. Budgets will be prepared for all significant activities in sufficient detail and in accordance with the respective components, disbursement categories, and sources of funds. Actual expenditures will be compared with budget on a monthly basis and reasons for significant variations will be required. Approvals for variations from the budget are required in advance.

34. There is no internal audit function in the PPMU or PPC as a whole. Typically, a donor-funded project is subject to an audit under the following situations:

- (i) annual financial audit conducted by an independent auditor (as required by donors, occurring after the year-end);
- (ii) investment audit to check the finalization of investment expenditures of the project, conducted by an independent auditor after the project's completion (not conducted for all projects, only conducted at the request of the People's Committee);
- (iii) audit of the State Audit of Vietnam occurring after the project's completion (not conducted for all projects);
- (iv) inspection of the project (by Governmental Inspectorate, on an ad-hoc basis, occurring only when there is a problem with project management or implementation); and
- (v) inspection by the DOF (occurring after the year-end, only for counterpart funds)

35. Adequate internal control procedures are outlined in the project's FMM to mitigate the risk of not having an internal audit function in the PPMU and PPC. In addition, timely annual external audit is mandatory for the Project during implementation.

36. Each PPMU will cause the detailed project accounts to be audited in accordance with International Standards on Auditing by an independent auditor acceptable to ADB. The audited accounts, together with the auditor's opinion, will be submitted in the English language to ADB within six months of the end of the fiscal year by each executing agency. The annual audit report will include a management letter and auditor's opinions, which cover (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose(s) of the project; and (iii) whether the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements (where applicable). Appendix 3 contains the draft Terms of Reference for the Independent Audit of Project Financial Statements.

E. Financial Reporting, Use of Information Technology

37. The PPMU will: (i) ensure timely preparation and distribution of integrated quarterly financial management and project management reports and annual project financial reports and statements required by ADB, under the provisions of the Loan Agreement, as well as by the Government of Viet Nam; (ii) provide any special financial reports that may be required from time to time on specific aspects of project's financial progress or position as may be requested by ADB and/or the Government; and (iii) prepare and submit to ADB a project completion report within 3 months of the completion of the Project.

38. The PPMU will procure for the Project a user friendly and VAS compliant accounting software that has been used and tested in other external donors' projects. The PPMU will undertake regular backups of all financial and accounting data and appropriate security measures over backed-up data shall be in place.

F. Disbursement Arrangements, Funds Flow Mechanism

39. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time), and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available at: http://wpqr4.adb.org/disbursement_elearning. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

40. Disbursements will be made using the direct payment procedure, reimbursement and imprest fund procedure. Disbursements for the loan shall be managed through the imprest account in each of the PPMU in the provinces of Kon Tum, Gia Lai, Dak Lak, Dak Nong and Binh Phuoc.

41. **Imprest Fund Procedure.** To ensure the timely release of loan proceeds and to expedite project implementation, each PPMU will, immediately upon loan effectiveness, open and maintain an imprest account at a commercial bank acceptable to the State Bank of Vietnam and ADB. Each PPMU will be responsible for establishing, managing, replenishing, and liquidating the imprest account. The currency of the imprest account is the US dollar. The imprest account is to be used exclusively for ADB's share of eligible expenditures. The total outstanding advance to the imprest account should not exceed the estimate of ADB's share of

expenditures to be paid through the imprest account for the forthcoming six months. The imprest account will be replenished in accordance with standard procedures outlined in the ADB's Loan Disbursement Handbook (2015, as amended from time to time). The PPMU who established the imprest account in its name is accountable and responsible for proper use of advances to the imprest account.

42. The request for the initial and additional advances to the imprest account should be accompanied by an Estimate of Expenditure Sheet¹¹ setting out the estimated expenditures for the forthcoming six months of project implementation. Supporting documents for every liquidation and replenishment of the imprest account, are (a) Statement of Account (Bank Statement) where the imprest account is maintained, and (b) the Imprest Account Reconciliation Statement (IARS) reconciling the above mentioned bank statement against the EA's records.¹²

43. **Statement of Expenditures Procedure.**¹³ The SOE procedure may be used for reimbursement of eligible expenses or liquidation/replenishment of advances to the imprest account. All supporting documents and records should be maintained and made readily available for inspection by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. Each PPC will be responsible for ensuring that SOEs are operated in accordance with ADB's requirement.

44. Before the submission of the first withdrawal application, each PPMU should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is US\$100,000 equivalent, Individual payments below this amount should be paid (i) by the PPMU and subsequently claimed to ADB through reimbursement, or (ii) through the imprest fund procedure, unless otherwise accepted by ADB.

45. **Funds Flow.** Below in Figure 1 is the proposed funds flow diagram for the project.

V. RISK DESCRIPTION AND RATING

46. The summary Financial Management Internal Control and Risk Assessment presented in Table 4 was completed based on the International Standard on Auditing 400: *Risk Assessment and Internal Control* and ADB guidelines.¹⁴

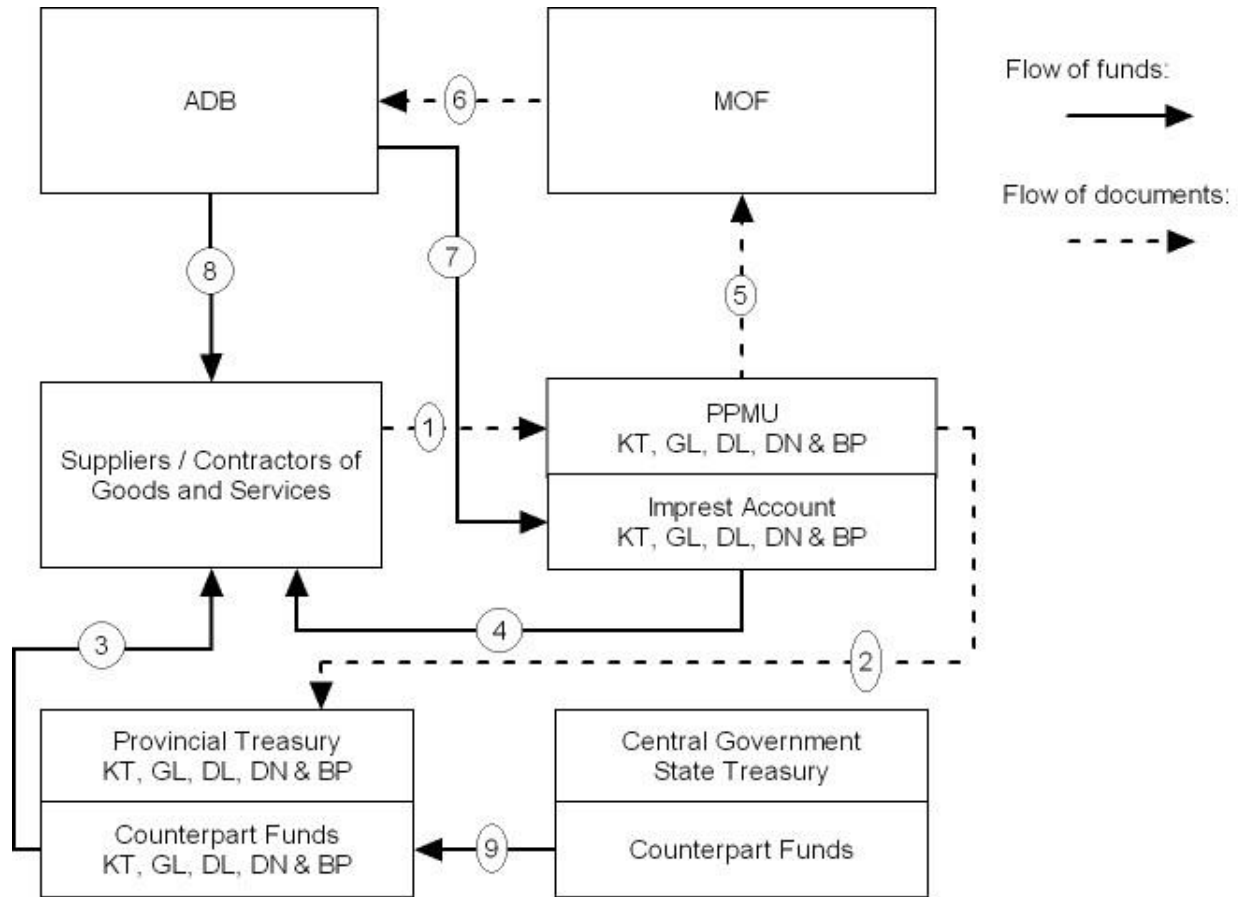
¹¹ Available in Appendix 10B of the *Loan Disbursement Handbook* found in <http://www.adb.org/documents/loan-disbursement-handbook>

¹² Follow the format provided in Appendix 10C of the *Loan Disbursement Handbook*.

¹³ SOE form is available in Appendix 9B of ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

¹⁴ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

Figure 1: Funds Flow Diagram



Legend:

- 1: Submission of claims
- 2: Endorsement of claims payable from counterpart funds
- 3: Payment of claims from counterpart funds
- 4: Payment of eligible claims for ADB-financed items from Imprest Account
- 5: Submission of withdrawal applications for Imprest Account advance, replenishments and requests for direct payment
- 6: Endorsement of withdrawal applications for Imprest Account advance, replenishments and requests for direct payment
- 7: Deposit of Imprest Account advance and replenishments
- 8: Direct payment of eligible claims for ADB-financed items
- 9: Transfer of central government share of counterpart fund contribution

ADB = Asian Development Bank, MOF = Ministry of Finance, PPMU = Provincial Project Management Unit, KT = Kon Tum, GL = Gia Lai, DL = Dak Lak, DN = Dak Nong, BP = Binh Phuoc
Source: Asian Development Bank

Table 4: Financial Management Risk Assessment and Mitigation Measures

Risk Type	Risk description	Risk and Impact	Likelihood	Mitigation Measures	Risk With Mitigation
Country-specific risks					
1. Public financial management risks	Weak PFM system, particularly accounting, budget preparation and execution, cash planning and performance measurement.	High – Chances of error and non-compliance with accounting and reporting requirements	Likely	ADB, World Bank and other development partners continue to support on-going efforts to strengthen PFM arrangements, through technical assistance and lending.	Moderate
	Shortage of skills in financial management, including financial analysis, management accounting, financial reporting and audit.	High – Chances of error and non-compliance with accounting and reporting requirements	Likely	On-going and planned efforts by ADB, World Bank and other development partners to support PFM reforms and capacity building in all PFM aspects.	Moderate
	Malpractice and abuse of PFM rules by employees.	High – Chances of fraud or misappropriation of assets	Likely	The NA has approved a development plan (2011-2020) for the SAV to increase staff number from 1,600 to 3,500. This will make it possible for the SAV to audit all Ministries, provinces and SOEs every year (instead of the 50-60% coverage currently achieved), as well as extending its work on performance audits The SAV has started capacity-building activities to improve financial audits with support from development partners.	Moderate
Project-specific risks					

Risk Type	Risk description	Risk and Impact	Likelihood	Mitigation Measures	Risk With Mitigation
2. Government financing risks	Government may be unable to meet funding obligations due to budget constraints.	High – Chances of project delay	Likely	Project financing plan has been formulated in consultation with the government to ensure affordable counterpart financing; a covenant to be included in the loan agreement requiring government assurance that necessary counterpart funds shall be included in the provincial five-year plans and will be provided on an annual basis starting in 2017	Moderate
3. Procurement risks	Procurement capacity is limited.	Moderate – Chances of project delay	Likely	PPMU staff will be trained in ADB procurement guidelines. Support and training will be provided by a procurement consultant, member of the project implementation support consulting team.	Low
	Potential corruption from weak procurement oversight.	Moderate – Chances of fraud or misappropriation of assets	Likely	Standard ADB bidding documents and procedures will be used. Grievance redress procedures, including misuse of funds, will be published on the project website, and mechanisms put in place to address any grievances received.	Low
4. Funds flow	Funds may not reach intended beneficiaries in a timely manner.	Moderate – Chances of project delay	Likely	ADB disbursement arrangements, which have been tested in prior ADB projects and proven successful, will be used.	Low
5. Staffing	PPMU has limited staff capability in financial management, accounting, budgeting, internal controls and financial reporting.	Moderate - Chances of error and non-compliance with accounting and reporting requirements	Likely	Experienced and qualified staff shall be appointed in the PPMU. Staff will be trained in ADB project accounting and reporting requirements. Support and training will be provided by a financial management consultant, member of the project implementation support consulting team.	Low

Risk Type	Risk description	Risk and Impact	Likelihood	Mitigation Measures	Risk With Mitigation
6. Accounting policies and procedures	Maintenance of project accounts does not meet ADB requirements.	Moderate – Chances of delay in complying with ADB accounting and reporting requirements	Unlikely	Accounting policies will be consistent with VAS. Separate project accounts will be used to identify the: (i) goods and services financed from loan proceeds; (ii) financing resources received; (iii) expenditures incurred on each component; and (iv) counterpart and co-financier funds received and expended.	Low
7. Internal audit	Weak capacity of or no internal audit department at PPC.	Moderate – Chances of fraud or misappropriation of assets	Unlikely	Project FMM outlines adequate internal control procedures; timely annual external audit is mandatory for the project during implementation.	Low
8. External audit.	Delay in the submission of externally audited project accounts; annual audit may not meet ADB requirements.	Moderate – Chances of delay in complying with ADB audit requirements	Likely	PPMU will recruit an external auditor whose qualifications, experience and TOR are acceptable to ADB; external audit will be in accordance with international auditing standards.	Low
9. Reporting and monitoring	Unreliable reports due to errors and limited staff capability in ADB financial reporting requirements.	Moderate - Chances of error and non-compliance with ADB reporting requirements	Likely	Experienced and qualified staff shall be appointed in the PPMU. Staff will be trained in ADB project accounting and reporting requirements. Support and training will be provided by a financial management consultant, member of the project implementation support consulting team.	Low
10. Information systems	Accounting data not adequately safeguarded.	Moderate – Chances of loss of accounting data	Likely	PPMU will undertake regular backups of all financial and accounting data and appropriate security measures over backed-up data shall be in place.	Low
Overall Risk		Moderate			Low

ADB = Asian Development Bank; PFM = Public Financial Management; NA = National Assembly, SAV = State Audit of Vietnam, SOE = State-owned Enterprise, PPC = Provincial Peoples' Committee, PPMU = Provincial Project Management Unit, VAS = Vietnamese Accounting Standards, IFRS = International Financial Reporting Standards, LARC = Land Acquisition and Resettlement Cost, TOR = Terms of Reference

Source: Asian Development Bank

VI. PROPOSED TIME-BOUND ACTION PLAN

47. The proposed time-bound action plan is outlined below.

Table 5: Time-Bound Action Plan

Weakness	Mitigation Action	Responsibility	Timeframe
No experience in implementing projects funded by ADB; Lack of knowledge in ADB procurement, disbursement and reporting guidelines and procedures may result to project delay and non-compliance with ADB project requirements	Start-up/Procurement Specialist will be recruited to assist the PPMUs in the (i) recruitment of consultants and (ii) preparing for project procurement in compliance with Project documents	PPMU	Before loan effectiveness
	PISC will be recruited to support the PPMUs implement the project. The PISC will provide a range of specialties (including Financial and Accounting Specialist) needed to support the PPMU to implement the project and meet the reporting and procedural requirements of ADB and government	PPMU	Upon mobilization of Start-up/Procurement Specialist
	Key PPC and PPMU staff will attend ADB training on procurement, disbursement and financial reporting	PPMU / ADB	Before loan effectiveness
	On-the-job training and classroom presentations on financial management, project accounting and financial reporting will be provided to PPMU accounts staff	PISC	During project implementation
PPMUs are still to be established. The experience, qualifications and capacity of staff to be assigned to the PPMU are not known. Assigning unqualified	The PPCs will provide ADB with the terms of reference (TOR) and curriculum vitae (CV) of all of proposed PPMU's key and professional staff for ADB's review and concurrence prior to	PPC / ADB	Before loan effectiveness

Weakness	Mitigation Action	Responsibility	Timeframe
staff to the PPMU may result to project delay and non-compliance with ADB project requirements	assigning and staffing		

VII. SUGGESTED FINANCIAL MANAGEMENT COVENANTS

48. The following are the suggested covenants related to financial management:
- (i) Necessary counterpart funds shall be included in the provincial five-year plans and will be provided on an annual basis starting in 2017. The provinces will take the necessary action to provide counterpart funds in accordance with the Project requirements including possible front loading to support project start-up;
 - (ii) The provinces shall provide adequate funds in a timely manner from provincial budgets to implement the maintenance management plan;
 - (iii) The provinces shall ensure that the provincial recurrent costs and financing charges accruing to the loan proceeds on-lent will not result in a net reduction to the annual DOT budget for capital and or maintenance program;
 - (iv) The provinces shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request;
 - (v) The provinces shall enable ADB, upon ADB's request, to discuss the provinces' financial statements for the Project and the financial affairs related to the Project from time to time with the auditors appointed by the provinces and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the provinces unless the provinces shall otherwise agree.

VIII. CONCLUSION

49. The financial management assessment indicates that the project-specific risks, which are generally moderate, can be reduced to low with the appropriate mitigation measures. These mitigation measures involve the appointment of experienced and qualified staff to the PPMU, technical support from PISC and training in ADB procedures. The financial management arrangements of the project can comply with ADB accounting and reporting requirements.

APPENDIX 1
FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
1. Executing / Implementing Agency						
1.1 What is the entity's legal status / registration?	It is the executive agency of the Provincial People's Council and the State administrative agency at provincial level. It is responsible for executing and carrying out State management at local level in accordance with the Constitution, law and documents of State agencies at higher levels and resolutions of the Provincial People's Council					
1.2 How much equity (shareholding) is owned by the Government?	100% owned					
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ¹⁵	None					
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Implemented externally financed projects of NGO, ODA grants and ODA Concessional credit. (Grant Aid from UNDP, UNFPA, UNICEF for Kon Tum - United Nations Project	Implemented The Highland Central Poverty Reduction Project - Gia Lai province with WB loan	Implemented The Highland Central Poverty Reduction Project – Dak Lak province with WB loan and the Rural Development Project – Dak Lak province funded by GTZ (2005)	Implemented The Highland Central Poverty Reduction Project – Dak Nong province with WB loan	Implemented The Community Based Rural Development Project funded by the WB from 2002-2009	Entities do not have experience implementing ADB-financed project. Training on ADB procedures is required for the PPMU staff on disbursements, financial reporting and

¹⁵ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
	(from 2007-2011) and the Child Friendly Project (from 2012-2016); Loan from WB and ADB for Poverty Reduction program in Central Vietnam.					procurement
1.5 Briefly describe the statutory reporting requirements for the entity.	<p>PPMUs are not yet established at the moment. The regulations relevant to the project are:</p> <ul style="list-style-type: none"> • Financial reports as required by the Accounting Policy for the Investor in Decision no:195/2012/QĐ-BTC dated 15/11/2012 • Quarter and Annual Financial management reports as regulated in Circular 01/2014 / TT-BKHĐT dated 09/01/2014 of the Ministry of Planning and Investment • Statement of Expenditures (SOE) of ODA disbursed funds as regulated in Circular 218/2013/TT-BTC by MOF dated 31/12/2013 • Report on the liquidation of completed project as regulated in Circular no 09/2016/TT-BTC by MOF dated 18/1/2016 					
1.6 Describe the regulatory or supervisory agency of the entity.	National Assembly through the State Audit					
1.7 What is the governing body for the project? Is the governing body for the project independent?	The PPC is the EA with the PPMU as the IA					
1.8 Obtain current organizational structure and describe key management personnel. Is the	PPMUs are not yet established at the moment. Please refer to proposed implementation arrangements and organization structure for the project in the main report					

	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
organizational structure and governance appropriate for the needs of the project?						
1.9 Does the entity have a Code of Ethics in place?	Yes	Yes	Yes	Yes	Yes	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	No reported issues of ethical violations	No reported issues of ethical violations	No reported issues of ethical violations	No reported issues of ethical violations	No reported issues of ethical violations	
2. Funds Flow Arrangements						
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	Please refer to funds flow arrangements and diagram in the main report					
2.2 Are the (proposed) arrangements to transfer the	Yes					

	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?						
2.3 Are the disbursement methods appropriate?	Yes					
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	No problems of major significance	No problems of major significance	No problems of major significance	No problems of major significance	No problems of major significance	
2.5 In which bank will the Imprest Account (if applicable) be established?	Any commercial bank acceptable to the State Bank of Vietnam and ADB					
2.6 Is the bank in which the imprest account is established capable of – <ul style="list-style-type: none"> • Executing foreign and local currency transactions? • Issuing and administering letters of credit (LC)? • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 	Yes	Yes	Yes	Yes	Yes	

	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	Yes					
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	No	No	No	No	PPMU accounts staff shall be trained in ADB procedures to mitigate risks
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	PPMUs are not yet established at the moment. Accounts personnel with adequate project accounting experience in foreign assisted projects will be recruited and trained in ADB disbursements, accounting and reporting procedures. No previous experience in ADB procedures would support the establishment of ceiling on the use of SOE procedure.					PPMU accounts staff shall be trained in ADB procedures to mitigate risks
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's	Yes. Provincial Treasury will seek and follow guidance from the MOF in managing foreign exchange risk					Foreign exchange risk exists from the subloan. Provincial

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
policy and arrangements for managing foreign exchange risk.						Treasury shall seek guidance from the MOF in managing the risk
2.11 How are the counterpart funds accessed?	Through the DOF; share of the central government in the counterpart funds will be transferred to the provinces through the regular budget transfer					Possible delay of counterpart funds availability could occur; a loan covenant requiring government to provide timely and adequate counterpart funds shall be made
2.12 How are payments made from the counterpart funds?	Payments are made based on approved budget and in compliance with established MOF guidelines and procedures					
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	No project funds will flow to communities or NGOs					

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation ?	No, beneficiaries are not required to contribute to project investment.					
3. Staffing						
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	PPMUs are not yet established at the moment. Please refer to proposed implementation arrangements and organization structure for the project in the main report					
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	PPMU is still to be established. PPC will select and appoint staff to be seconded to the PPMU.					Unqualified staff are assigned to the PPMU; PPC shall submit to ADB the CVs of staff to be seconded for review and approval prior to their assignme

Topic	Respos e Kon Tum	Respos e Gia Lai	Respos e Dak Lak	Respos e Dak Nong	Respos e Binh Phuoc	Potential Risk Event
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	(i) Chief Accountant who has overall responsibility for PMU finance and accounting; bachelor's degree diploma in finance, accounting or related course required with adequate accounting experience in foreign-assisted projects, above average proficiency in oral and written English, and good computer skills with knowledge of MS Word and Excel; and (ii) Accounts Assistant who will assist the Chief Accountant; bachelor's degree diploma required with experience in accounting, above average proficiency in oral and written English, and good computer skills with knowledge of MS Word and Excel.					nt
3.4 Is the project finance and accounting function staffed adequately?	PPMUs are not yet established at the moment. Adequately qualified staff will be recruited and trained in ADB procedures					Accounts section is inadequately staffed; PPC shall ensure to follow the PPMU staffing as described in the PAM
3.5 Are the project finance and accounting staff adequately qualified and experienced?	PPMUs are not yet established at the moment. Adequately qualified and experienced staff will be assigned to the PPMU: (i) Chief Accountant who has overall responsibility for PMU finance and accounting; bachelor's degree diploma in finance, accounting or related course required with adequate accounting experience in foreign-assisted projects, good in oral and written English, and good computer skills with knowledge of MS Word and Excel; and (ii) Accounts Assistant who will assist the Chief Accountant; bachelor's degree diploma required with experience in accounting, good in oral and written English, and good computer skills with knowledge of MS Word and Excel.					Unqualified staff are assigned to the PPMU; PPC shall submit to ADB the CVs of staff to be seconded for review and approval prior to their assignment

	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
Topic						
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	PPMUs are not yet established at the moment. Once the new accounts personnel are recruited, they will be trained in ADB disbursements, accounting and reporting procedures.					
3.7 What is the duration of the contract with the project finance and accounting staff?	One year and renewable each year until project completion					
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	PPMUs are not yet established at the moment. Chief Accountant and Accounts Assistant; to be recruited and appointed months prior to the start of the project for training in ADB procedures.					
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	PPMUs are not yet established at the moment. (i) Chief Accountant who has overall responsibility for PMU finance and accounting; bachelor's degree diploma in finance, accounting or related course required with adequate accounting experience in foreign-assisted projects, good in oral and written English, and good computer skills with knowledge of MS Word and Excel; and (ii) Accounts Assistant who will assist the Chief Accountant; bachelor's degree diploma required with experience in accounting, good in oral and written English, and good computer skills with knowledge of MS Word and Excel.					
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,	Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available outlining position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff					

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
managers, and staff?						
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	PPMU is still to be established					
3.12 What is training policy for the finance and accounting staff?	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules and donors; staff undergoes training when new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time					
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	PPMUs are still to be established. Upon recruitment, staff will undergo training in accounting regulation under Circular 195/2012 of the MOF; financial management training for ODA projects, particularly for ADB.					
4. Accounting Policies and Procedures						
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of	PPMUs are still to be established. Upon project start, project accounting system will be set up. Project will use accounting system software that is dedicated to the recording of project financial transactions including the allocation of expenditures in accordance with the respective components, disbursement categories and sources of funds. The accounting system will be compliant with accounting regulation under Circular 195/2012 of the MOF.					

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?						
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available outlining internal control procedures. Controls will be in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained. There will be separation of responsibilities for processing and authorizing payments.					
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	PPMUs are still to be established. Upon project start, project accounting system will be set up. The chart of accounts under Circular 195/2012 will be used to properly account for and report on project activities and disbursement categories. The 5 PPMUs shall use uniform general ledger and subsidiary ledger accounts to record for project activities and disbursement categories for ease of comparison and consolidation of accounts.					
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	PPMUs are still to be established. Upon project start, project accounting system will be set up. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.					
4.5 Are the General Ledger and subsidiary ledgers reconciled	PPMUs are still to be established. Upon project start, project accounting system will be set up. Yes, the General Ledger and subsidiary ledgers will be reconciled monthly and actions will be taken to resolve reconciliation differences.					

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
monthly? Are actions taken to resolve reconciliation differences?						
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g, ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	All accounting and supporting documents will be retained in accordance with Government (10 years) and ADB established requirements that allow authorized users easy access, including government and independent external auditors					
4.7 Describe any previous audit findings that have not been addressed.	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
Segregation of Duties						

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available outlining internal control procedures. Functional responsibilities of the following will be performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers					
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available outlining internal control procedures. The functions of ordering, receiving, accounting for, and paying for goods and services will be appropriately segregated					
Budgeting System						
4.10 Do budgets include physical and financial targets?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, budgets will include physical and financial targets					
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, budgets will be prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance					
4.12 Are actual expenditures compared to the budget with reasonable	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Budget comparisons will be done monthly. Explanations will be required for significant variations against					

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
frequency? Are explanations required for significant variations against the budget?	the budget					
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Approvals for variations from the project will be required in advance					
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	PPMUs are still to be established. PPMUs will prepare the budget and will be approved through the normal government process.					
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	PPMUs are still to be established. Units responsible of the different components will submit budget details based on planned project activities for consolidation by PPMU finance and approval by PPMU Director					
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by	Yes, based on PPTA consultants' estimates, vetted by project implementation consultants and approved by steering committees and ADB					

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
<p>knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p style="text-align: center;">None</p> <p style="text-align: center;">None</p> <p style="text-align: center;">No consistent trend of over or under budgeting</p>					
Payments						
4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments?	<p>PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, these tasks will be carried out during project implementation</p>					

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
(ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?						
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?					PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, these tasks will be carried out during project implementation	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?					PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project outlining internal control procedures. Yes, controls will exist for payroll preparation and payroll changes will be properly authorized	
Policies And Procedures						
4.21 What is the basis of accounting					Entity uses modified cash basis of accounting and the project will use modified cash basis accounting	

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
(e.g., cash, accrual) followed (i) by the entity? (ii) By the project?						
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	Vietnam Accounting Standards; modified cash basis of accounting					
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project to guide activities and ensure staff accountability. In addition, established MOF guidelines and procedures and ADB Project Administration Manual and Loan Disbursement Handbook will be available.					
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. The manual will be updated regularly during project implementation.					
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, only authorized persons can alter or establish a new accounting policy or procedure to be used.					

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. The manual covers all routine financial management and related administrative activities					
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes, based on government policy and donor guidelines					
4.28 Are manuals distributed to appropriate personnel?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, the manual will be distributed to appropriate personnel					
4.29 Describe how compliance with policies and procedures are verified and monitored.	PPMUs are still to be established. Compliance with policies and procedures will be verified and monitored through audit					
Cash and Bank						
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	PPMUs are still to be established. Authorized signatories will be the PPMU Director and PPMU Deputy Director					
4.31 Does the organization	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to					

Topic	Respos e Kon Tum	Respos e Gia Lai	Respos e Dak Lak	Respos e Dak Nong	Respos e Binh Phuoc	Potential Risk Event
maintain an adequate and up-to-date cashbook recording receipts and payments?	Border Areas Development) funded by ADB will be available for the project. Yes, the PPMUs will maintain an adequate and up-to-date cashbook recording receipts and payments the manual will be distributed to appropriate personnel					
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	ADB transfers funds to an imprest account; controls exist in accordance with MOF guidelines and procedures and ADB guidelines					
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, bank account will be reconciled on a monthly basis					
4.34 Are all reconciling items approved and recorded?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, all reconciling items will be approved by appropriate authority and subsequently recorded					
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Yes, all unusual items on the bank reconciliation will be reviewed and approved by appropriate authority					
4.36 Are there any persistent/non-moving reconciling items?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project outlining internal control procedures like appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices.					
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
Safeguard over Assets						
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Assets will be appropriately labelled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets. Circular 198/2013 / TT-BTC dated 20/12/2013 of the Ministry of Finance regulates the management, usage and handling of the assets of the project using foreign capital					
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Assets will be appropriately labelled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will					

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	be allowed access and use of the assets					
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts					
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Assets will be appropriately labelled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets					
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Assets will be appropriately labelled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; discrepancies will be analyzed and resolved; only authorized personnel will be allowed access and use of the assets					
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are	<p>PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project.</p> <p>MOF regulations and procedures will be followed on asset disposal, approval, recording, repair of broken assets, etc.</p>					

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
steps immediately taken to locate lost, or repair broken assets?						
4.46 Are assets sufficiently covered by insurance policies?	Vehicles and equipment are covered during implementation according to donor stipulations; civil works and equipment are covered by contractors during construction; once assets are transferred as public assets, government accepts the risk and acts as its own insurer					
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. MOF regulations and procedures will be followed in identifying and maintaining fully depreciated assets from active assets					
Other Offices and Implementing Entities						
4.48 Describe any other regional offices or executing entities participating in implementation.	PMUs in Gia Lai, Dak Lak, Dak Nong and Binh Phuoc	PMUs in Kon Tum, Dak Lak, Dak Nong and Binh Phuoc	PMUs in Kon Tum, Gia Lai, Dak Nong and Binh Phuoc	PMUs in Kon Tum, Gia Lai, Dak Lak, and Binh Phuoc	PMUs in Kon Tum, Gia Lai, Dak Lak, and Dak Nong	
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	PPMUs are still to be established. Each PPMU will be responsible for their respective province's project implementation. New staff will be recruited: (i) Chief Accountant who has overall responsibility for PMU finance and accounting; and (ii) Accounts Assistant who will assist the Chief Accountant in handling the PMU finance and accounting responsibilities.					

	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
Topic						
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Each PPMU will be responsible for their respective province's project implementation, including segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits.					
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Each PPMU will be responsible for their respective province's project implementation. Yes, the PPMUs will use the same accounting and reporting system.					
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Each PPMU will be responsible for their respective province's project implementation, including project reporting and auditing arrangements.					
4.53 If any sub-accounts (under the Imprest Account) will be	No sub-accounts will be maintained.					

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.						
Contract Management and Accounting						
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Each PPMU will maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made and undisbursed balances. These records will be reconciled with physical outputs/deliverables of the contract					
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	PPMUs are still to be established. Financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Each PPMU will reconcile contract records regularly with the contractor.					
Other						
4.56 Describe project arrangements for reporting fraud,	ADB requirements on corruption, fraud and the mechanisms for lodging complaints will apply. Once the project starts, the project will advise employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources					

Topic	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?						
5. Internal Audit						
5.1 Is there an internal audit (IA) department in the entity?	No	No	No	No	No	Adequate internal control procedures are outlined in the project's FMM to mitigate the risk of not having an internal audit function
5.2 What are the qualifications and experience of the IA staff?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.3 To whom does the head of the internal audit report?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.4 Will the internal audit department include the project in its annual work program?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
5.5 Are actions taken on the internal audit findings?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.6 What is the scope of the internal audit program? How was it developed?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.7 Is the IA department independent?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.8 Do they perform pre-audit of transactions?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.9 Who approves the internal audit program?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.10 What standards guide the internal audit program?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.11 How are audit deficiencies tracked?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.12 How long have the internal audit staff members been with the organization?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.13 Does any of the internal audit staff have an IT background?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
5.15 Has the internal auditor identified / reported any issue with reference to availability and	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
completeness of records?						
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
6. External Audit – entity level						
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	No, the financial statements of the PPCs are not audited regularly. State Audit of Vietnam is responsible for the audit of ministries, provinces and SOEs. But resources limitations restrict the annual coverage of its audit					
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Not applicable If audit is conducted, audit report is normally issued June of each year					
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	SAV follows national auditing standard					
6.4 Were there any major accountability issues noted in	Not applicable					

	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
the audit report for the past three years?						
6.5 Does the external auditor meet with the audit committee without the presence of management?	Not applicable					
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	Not applicable					
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	Not applicable					
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Not applicable					

Topic	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	Not applicable					
External Audit – project level						
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	The external auditor for project accounts is still to be recruited and must be acceptable to ADB					
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	Not applicable					
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes, if included by the State Audit of Vietnam in its audit work program					
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been	Yes. TOR is still to be discussed with the EA and auditor.					

	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
agreed and discussed with the EA and the auditor?						
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	Not applicable					
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	<p>The external auditor is still to be recruited during project implementation. The external auditor must be acceptable to ADB.</p> <p>Sufficient knowledge and understanding of ADB's disbursement guidelines and procedure will be a major consideration in the selection of the external auditor</p>					There is a potential risk that the external auditor is inadequately qualified; the external auditor to be recruited must be acceptable to ADB
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	
6.17 [For second or subsequent projects] Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	

	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
Topic						
noted during the review of the audited project financial statements and related audit report that have remained unaddressed?						
7. Reporting and Monitoring						
7.1 Are financial statements and reports prepared for the entity?	Yes	Yes	Yes	Yes	Yes	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes	Yes	Yes	Yes	Yes	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Quarterly and annual reports are prepared timely for use by management					
7.4 Does the entity reporting system need to be adapted for project reporting?	Project financial reports will follow Decision no:195/2012/QĐ-BTC dated 15/11/2012 and ADB reporting requirements					
7.5 Has the project established financial management reporting responsibilities that specify the types of reports	The financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. The manual has outlined financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports, including ADB reporting requirements					

	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
to be prepared, the report content, and purpose of the reports?						
7.6 Are financial management reports used by management?	Yes	Yes	Yes	Yes	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	The financial management manual prepared under the PPTA (TA 8849-VIE: Support to Border Areas Development) funded by ADB will be available for the project. Financial reports will compare actual expenditures with budgeted and programmed allocations					
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Reports are prepared directly by the automated accounting system but there are some reports prepared in Excel with data extracted from the automated system					

	Response Kon Tum	Response Gia Lai	Response Dak Lak	Response Dak Nong	Response Binh Phuoc	Potential Risk Event
7.9 Does the financial 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?	No. Physical data should be end of quarter data to reduce risk that the physical data may not synchronize with the financial data					There is risk that the physical data may not synchronize with the financial data; . Physical data should be end of quarter data to reduce risk that the physical data may not synchronize with the financial data
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes but none by ADB	Yes but none by ADB	Yes but none by ADB	Yes but none by ADB	Yes but none by ADB	
8. Information Systems						
8.1 Is the financial accounting and reporting system computerized?	PPMUs are still to be established. Each PPMU will procure for the Project a user friendly and VAS compliant accounting software that has been tested bug-free and used in other external donors' projects.					
8.2 If computerized, is the software off-the-shelf, or customized?	Off-the-shelf that is user friendly and VAS compliant and has been tested bug-free and used in other external donors' projects					
8.3 Is the computerized	Standalone					

	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
Topic						
8.4 software standalone, or integrated and used by all departments in the headquarters and field units using modules?						
8.5 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?				Manual entry		
8.6 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?				Software to be procured must be able to directly generate periodic and regular financial statements. But for some special purpose and specific-format reports, they will be prepared in Excel with data extracted from the software		
8.7 Can the system automatically produce the necessary project financial reports?				No. Project accounting is separate from entity accounting		
8.8 Is the staff adequately trained to maintain the computerized system?				PPMUs are still to be established. PPMU staff will be trained to use and maintain the computerized accounting system		

	Respons e Kon Tum	Respons e Gia Lai	Respons e Dak Lak	Respons e Dak Nong	Respons e Binh Phuoc	Potential Risk Event
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	Yes	Yes	Yes	Yes	
8.9 Are there back-up procedures in place?	Yes	Yes	Yes	Yes	Yes	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Back-up on external hard drive for offsite storage	Back-up on external hard drive for offsite storage	Back-up on external hard drive for offsite storage	Back-up on external hard drive for offsite storage	Back-up on external hard drive for offsite storage	

PPC = Provincial People's Committee; MOF = Ministry of Finance; ODA = Official Development Assistance; EA = Executing Agency; IA = Implementing Agency; DOF = Department of Finance; SAV = State Audit of Vietnam; ADB = Asian Development Bank

APPENDIX 2
TERMS OF REFERENCE
FINANCIAL AND ACCOUNTING SPECIALIST
(MEMBER OF THE PROJECT IMPLEMENTATION SUPPORT CONSULTANT)

Qualifications: The Specialist shall have tertiary qualifications in accounting or similar discipline, or its equivalent - CPA qualifications is preferred. Experience: The specialist shall have extensive experience (minimum 10 years) in designing and implementing accounting systems or similar projects in Viet Nam. The specialist must have good working knowledge of English, and work experience with any donor-funded project a distinct advantage. Duties: The specialist will advise and assist PPMU on overall accounting functions and activities of the Project. The specialist will perform the following tasks:

- (i) Develop a suitable project accounting system, chart of accounts, and procure and adapt any necessary software to ensure an effective and efficient project accounting, monitoring and reporting system to project executing and implementing agency managers and ADB. The system will be capable of producing routine reports by which the Project's financial and physical progress can be monitored and evaluated;
- (ii) Ensure that financial transactions are, in all cases, recorded in project accounts accurately and on a timely basis and in accordance with ADB and Government requirements and agreed financial policies and procedures for the Project;
- (iii) Ensure that Project expenditures on contract payments are made in accordance with the terms and conditions of the respective contracts and are adequately certified by duly authorized officials in relation to works completed and/or goods or services provided;
- (iv) Ensure that adequate internal control is established and maintained in terms of separation of responsibilities for processing and authorizing payments and in the management and accounting for project expenditures and assets;
- (v) Ensure that all financial records are retained for audit purposes and for review by ADB and Government until at least one year following Project completion;
- (vi) Ensure that Project financial transactions are recorded in the accounts in accordance with Government of Viet Nam regulations and ADB requirements and that records are reconciled periodically, at least on a monthly basis;
- (vii) Ensure that the Imprest Account and Sub-Accounts to be established for the Project in local commercial banks are administered in accordance with ADB requirements;
- (viii) Ensure that withdrawal requests for reimbursements from ADB are prepared and submitted to the Government and to ADB on a timely basis and in accordance with ADB procedures to replenish the Imprest Account. Ensure that Statements of Expenditures (SOEs) supporting withdrawal requests accurately reflect qualifying project expenditures and that underlying documents that verify these expenditures are retained and available for review as required;
- (ix) Periodically, but at least quarterly, reconcile project records with ADB records relating to disbursements from ADB's Loan for all Project components. Project records and bank statements should be reconciled more frequently, at least monthly;

- (x) Ensure timely preparation and distribution of integrated quarterly financial management and project management reports and annual project financial reports and statements required by ADB, under the provisions of the Loan Agreement, as well as by the Government of Viet Nam. Provide any special financial reports that may be required from time to time on specific aspects of project's financial progress or position as may be requested by ADB and/or the Government;
- (xi) Ensure that annual Project budgets are consistent with agreed program activity levels and expenditures and that budgetary allocations for the Project are available to meet projected cash flow requirements for contract payments, pending reimbursement by ADB, and for administrative expenditures of PPMU and implementing units;
- (xii) Ensure that Project assets and inventories are safeguarded and revalued and verified periodically in accordance with the requirements of ADB and Government of Viet Nam and to support annual Project financial audits;
- (xiii) Liaise effectively with auditors to ensure effective annual audits in accordance with ADB's requirements;
- (xiv) Conduct on-the-job training on project accounting and through classroom presentations; and
- (xv) Prepare progress reports for inclusion in the monthly, quarterly and annual progress reports to be prepared by PPMU.

Inputs by Year

Dak Lak, Dak Nong and Kon Tum Provincial Project Implementation Support Consultant

POSITION TITLE		2017	2018	2019	2020	2021	Total
1	Financial and Accounting Specialist	6	6	6	6	6	30

Binh Phouc and Gia Lai Provincial Project Implementation Support Consultant

POSITION TITLE		2017	2018	2019	2020	2021	Total
1	Financial and Accounting Specialist	12	12	12	12	12	60

APPENDIX 3

Terms of Reference for the Independent Audit of Project Financial Statements

1. **Introduction:** A description of the project will be provided with a focus on: (i) the purpose for which the funds are intended, which is consistent with broad project objectives and budget, (ii) a description of the executing and implementing agencies, (iii) loan amount and project cost (by ADB, co-financier(s), and government counterpart), (iv) accounting and financial management practices, financial reporting periods to be audited (whether it is the first or last audit), and (v) other relevant information that should be brought to the attention of the auditors.

2. **Management's responsibility for preparing project financial statements:** The management is responsible for preparing and fairly presenting the project financial statements, and for maintaining sufficient internal controls to ensure that the financial statements are free from material misstatement, whether due to fraud or error. In addition, management is responsible for ensuring that funds were used only for the purpose(s) of the project, for compliance with financial covenants (where applicable), and for ensuring that effective internal controls, including over the procurement process, are maintained.

In this regard, management must:

- (i) Prepare and sign the Project Financial Statements. **(Annex D1)**.
- (ii) Prepare and sign a Statement of Compliance. **(Annex D2)**

3. **Objectives:** The objectives of the audit of the project financial statements is to enable the auditor to (i) express an independent and objective opinion as to whether the project financial statements present fairly, in all material respects, or give a true and fair view of the project's financial position, its financial performance and cash flows, and (ii) provide a reasonable assurance opinion over certain specific representations made in the Statement of Compliance. (Refer to Annex D2).

4. **Auditing Standards:** The audit is required to be conducted in accordance with the Standards promulgated by the International Auditing and Assurance Standards Board (IAASB), including: (i) International Standards on Auditing (ISA); and (ii) International Standards on Assurance Engagements (ISAE). These standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the project financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the project financial statements whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the project financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the project financial statements. The auditor also note the impact on APFS arising from any material deviations from the agreed accounting standards and comment on any accounting policy changes during a financial year or from one year to another.

In complying with ISA, the auditor will pay particular attention to the following standards:

- (i) ISA 800: Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks. Where the audit report has been issued under ISA 800, it shall include the mandatory Emphasis of Matter paragraph alerting users of the audit report that the project financial statements are prepared in accordance with a special purpose framework and that, as a result, the project financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading;
- (ii) ISA 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements;
- (iii) ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements.
- (iv) ISA 260: Communication With Those Charged with Governance;
- (v) ISA 265: Communicating Deficiencies in Internal Control To Those Charged with Governance and Management;
- (vi) ISA 330: The Auditor’s Responses to Assessed Risks.

5. **Audit Deliverables:**

- (i) The auditor must verify that the project financial statements have been prepared under modified cash basis of accounting in accordance with the ADB’s reporting requirements as detailed in **Annex D1**. An auditor’s opinion providing reasonable assurance over the project financial statements.
- (ii) The auditor will provide a reasonable assurance opinion following ISAE 3000 “Assurance Engagements other than Audits or Reviews of Historical Financial Information” for the following assertions by Management in the Statement of Compliance (see **Annex D2**) that:
 - a. the proceeds of the loan were used only for the purpose(s) of the project; and
 - b. the borrower or executing agency was in compliance with the financial covenants of the loan agreement(s), where applicable.

6. The auditor needs to outline the degree of compliance for each of the financial covenants in the loan agreement.

7. Where reasonable assurance has been provided using ISAE 3000 (on the use of loan proceeds and compliance with financial covenants), the assurance report must contain, among others:

- (i) A title that clearly indicates the report is an independent assurance report;
- (ii) An addressee;
- (iii) An identification and description of the subject matter information and, when appropriate, the subject matter;
- (iv) Identification of the criteria;
- (v) A statement that the engagement was performed in accordance with ISAE;
- (vi) A summary of the work performed; and
- (vii) The auditors’ conclusion.

8. **Management letter:** The auditor will provide a management letter containing, at a minimum, the following:

- (i) Any weaknesses in the accounting and internal control systems that were identified during the audit, including any irregularity in the use of the imprest fund and statement of expenditures (SOE) procedures (where applicable);
- (ii) Any identified internal control weaknesses related to the procurement process such as, over the bidding, evaluation and contract management domains;
- (iii) Recommendations to rectify identified weaknesses;
- (iv) Management's comments on the audit recommendations along with the timeframe for implementation;
- (v) The status of significant matters raised in previous management letters;
- (vi) Any other matters that the auditor considers should be brought to the attention of the project's management; and
- (vii) Details of any ineligible expenditure identified during the audit. Expenditure is considered ineligible if it refers to (i) expenditures incurred for purposes other than the ones intended under the legal agreement(s); (ii) expenditures not allowed under the terms of the legal/financing agreements; and (iii) expenditures incurred in violation of applicable government regulations. If the auditor reports any ineligible expenditure in the management letter, the details of the findings should include the funding source to which the observation relates.

9. **Specific Considerations:** The auditor will, during the course of the audit, pay particular attention to the following:

- (i) The use of external funds in accordance with the relevant legal and financing agreements;
- (ii) The provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- (iii) The maintenance of proper books and records;
- (iv) The existence of project fixed assets and internal control related thereto;
- (v) Project's accounting policies, and confirm the extent to which the agreed project accounting policies have been applied. In particular, the impact on the APFS arising from any material deviations from the agreed accounting standards. Comments on any accounting policy changes, either during a financial year, or from one year to another.
- (vi) On the imprest fund procedure (where applicable), audit procedures are planned and performed to ensure (a) the imprest account (and any sub-accounts) has been managed in accordance with ADB's Loan Disbursement Handbook, (b) the cash balance of the imprest account (and any sub-accounts) is supported by evidence, (c) the expenditures paid from the imprest account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in the loan agreement, and (d) the amount of expenditures paid from the imprest account (and any sub-accounts) comply with disbursement percentage stipulated in the loan agreement
- (vii) On the SOE procedure (where applicable), audit procedures are planned and performed to ensure that (a) the SOEs have been prepared in accordance with ADB's Loan Disbursement Handbook, (b) the individual payments for expenditures stated in the SOE are supported by evidence, (c) the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in loan agreement, (d) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan agreement, (e) adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the imprest account;
- (viii) Any weakness in internal controls. Review and evaluate the system of internal controls in effect, including internal audit procedures, to determine the degree of reliance that may be

placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the accuracy of the accounting records

10. **Audit Deliverables:** All reports must be presented in the English language within 06 months following the end of the fiscal year. The Auditor's reports on the projects financial statements should be prepared in 08 hard copies.

11. **Public disclosure:** Public disclosure of the project financial statements, including the auditor's opinion on the audited project financial statements, will be guided by ADB's Public Communications Policy 2011.¹⁶ After review, ADB will disclose the audited project financial statements and the opinion of the auditor on the audited project financial statements no later than 14 calendar days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter and the additional auditor's opinions will not be disclosed.

12. **Qualifications of Audit Firm:** The following are the requirements on the qualification of auditing firms for auditing ADB funded projects in Viet Nam. It must be authorized to practice in Viet Nam and be capable of applying established procedures and reliable methodology in conformity with ISA and ISAE. The detailed requirements on the qualification of auditing company are:

- a. Be a legal entity with business license granted by the competent authority, as requested by Vietnamese law; having business registration or set up business in the fields relevant to the requirements of the TORs;
- b. Must be impartial and independent from all aspects of management or financial interests in the EA/IA being audited. In particular, the auditor should be independent of the control of the entity;
- c. Be included in the most updated list of authorized auditing companies and auditors which is approved by Ministry of Finance and published on website: www.mof.gov.vn;
- d. Have adequate staff, with appropriate professional qualifications and suitable experience in finance/financial management in Official Development Assistance (ODA) funded projects or Government projects/ programs, including experience in auditing the Enterprise Financial system (EFS) comparable in nature, size and complexity to the entity whose audit they are to undertake;
- e. Notify and get written endorsement of the executing agency every time an engagement team member is substituted; and
- f. Subcontracting of audit services is not permitted.

13. The following are the requirements on the qualification of Individual auditor for each proposed position in the audit: The auditor must be authorized to practice in the country and be capable of applying the agreed auditing standards. The auditor should have appropriate professional qualifications and suitable experience, including experience in auditing the accounts of projects or entities comparable in nature, size and complexity to the project or entity whose audit they are to undertake. To this end, the auditor is required to provide curriculum vitae (CV) of the personnel who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

¹⁶ Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

The auditor will be impartial and independent from any aspects of management or financial interest in the entity or project under audit. In particular, the auditor should be independent of the control of the entity. The auditor should not, during the period covered by the audit, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditor should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.

The following are the outline TOR of each position¹⁷:

14. Audit Engagement Partner (X national expert):

a. Holding the highest responsibility for the audit engagement, the Partner will be responsible for:

- (i) Provide directives for the whole audit team from the planning, implementation of the audit and issuing audit opinions.
- (ii) Take responsibility for the overall quality of the audit. Assure the audit is carried out in compliance with the Firm's quality standards and procedures and with the requirements of clients.
- (iii) Developing an understanding of client's business and becoming a "functional expert" in the area.

b. Minimum Qualifications:

- (i) A university graduate (preferably with a post-graduate degree) in accounting, auditing, finance, or related fields;
- (ii) Holder of the Audit practitioner certificate granted by the Vietnamese MoF and, preferably, an internationally recognized professional certificate to practice audit or accounting, such as ACCA, CPA Australia, etc.;
- (iii) Professional experience for 15 years or above working in financial, advisory or audit services, with 08 years or more providing audit services since being granted with Vietnamese or international auditor certificate, of which at least 04 years in directing auditing teams;
- (iv) Experience as Audit Director or Partner for at least 03 audit contracts for projects funded by ADB, the World Bank, or large international donors;
- (v) Experience working for a Big4 or large regional accounting firm is a plus; and
- (vi) Fluent English is compulsory.

15. Audit Manager (X national expert):

(a) The Manager will be responsible for:

- (i) Receive the instructional directives from Partner and give detailed guidance to all team members;
- (ii) Monitor the audit fieldwork of engagement team, reviews staff work and ensure that it meet professional standards and the internal audit department's guidelines;
- (iii) Take responsibility for the quality of the audit before submitting to the engagement partner;

¹⁷ The TOR must indicate clearly how many international and national experts required for the assignment.

- (iv) To be the contact point with project management regarding key issues identified, audit adjustments; and
- (v) Monitor the progress of the audit and monitor the adherence to the committed deadline

(b) Minimum Qualifications:

- (i) A university graduate (preferably with a post-graduate degree) in accounting, auditing, finance, or related fields;
- (ii) Holder of the Audit practitioner certificate granted by the Vietnamese MoF and/or an internationally recognized professional certificate to practice audit or accounting, such as ACCA, CPA Australia, etc.;
- (iii) At least 10 years of experience providing audit services, of which 05 years or more in managing the audit team;
- (iv) Audit experience for projects funded by ADB, the World Bank, or large international donors in Vietnam would be an advantage;
- (v) Experience working for a Big4 or large regional accounting firm is a plus; and
- (vi) Fluent English is compulsory.

16. Senior Auditors (X national experts):

(a) The Senior Auditors will be responsible for:

- (i) Follow the instructions from Engagement Partner and Manager;
- (ii) Keep the Partner and Manager updated on the key issues or audit adjustments on a regular basis;
- (iii) Being responsible for the audit quality of the whole team in front of Manager;
- (iv) Being responsible for the compliance with auditing firm quality standards and procedures and with the requirements of this TOR.

(b) Minimum Qualifications:

- (i) A university graduate in accounting, auditing, finance, or related fields;
- (ii) Preferably holder of the Audit practitioner certificate granted by the Vietnamese MoF and/or an internationally recognized professional certificate to practice audit or accounting, such as ACCA, CPA Australia, etc.;
- (iii) At least 05 years of experience in providing audit services;
- (iv) Audit experience for projects funded by ADB, the World Bank, or large international donors in Vietnam would be an advantage; and
- (v) English proficiency is preferable.

17. Junior Auditors (X national experts):

(a) The Junior Auditors will be responsible for:

- (i) Implement audit procedures, audit assigned sections in the agencies, be responsible for the data and issues related to the audit engagement;
- (ii) Support the preparation of the audit report; draft the minutes of audit; report to the Audit Seniors regarding the issues related to the audit.

(b) Minimum Qualifications:

- (i) A university graduate in accounting, auditing, finance, or related fields;
- (ii) Preferably holder of the Audit practitioner certificate granted by the Vietnamese MoF and/or an internationally recognized professional certificate to practice audit or accounting, such as ACCA, CPA Australia, etc.;
- (iii) At least 02 years of experience working in providing audit services;
- (iv) Audit experience for projects funded by ADB, the World Bank, or large international donors in Vietnam would be an advantage; and
- (v) English proficiency is preferable.

18. **Locations to be Audited:** The audit fieldwork shall be carried out in the PPMUs. Since the Project is implemented in provinces and districts, the auditors may have to travel to those provinces to do audit and randomly choose the locations to be visited.

19. **Phasing of the Audit:** The TORs must specify in the following table when the report will be submitted in draft and in final format:

Table 4: Month of fiscal year (FY) and report submission

Period	FY Start	FY End	Report Submission to ADB	Remarks
1	01/01/2017	31/12/2017	30/06/2018	
2	01/01/2018	31/12/2018	30/06/2019	
3	01/01/2019	31/12/2019	30/06/2020	
4	01/01/2020	31/12/2020	30/06/2021	
5	01/01/2021	31/12/2021	30/06/2022	

Although the auditing firm will be contracted for the mentioned audit phases (maximum three years per contract), it must submit the financial proposal in US\$ in a format indicating the amount for each financial year independently: (i) If performance is not satisfactory in one year then the client will not be bound for subsequent year's audits; and (ii) If the performance is satisfactory, the auditor may participate in bidding process for the next fiscal years, but the total assignment should be up to 6 years for one project.¹⁸ The audited phases need to cover the period from loan effective date to the end of 04 months grace period (if any) succeeding the loan closing date.

20. **Available Information to be Provided to the Auditor:**

a. The auditor should have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at ADB. The Auditor shall have the right of access to banks and depositories, consultants, contractors and other persons or firms engaged by the project. In case access has been restricted, the auditor must note this in the management letter.

b. The auditor will be provided with full cooperation by all employees of the entity and the project implementing units, whose activities involve, or might be reflected in, the annual project

¹⁸ In case project wants to lengthen the contract with Auditor, after the first three years contract, but not through re-bidding, the project management is required to discuss the matter with ADB Team leader.

financial statements. The auditor will be assured rights of access to banks and depositories, consultants, contractors, and other person or firms hired by the employer.

c. ADB can request access to the auditors unedited audit working papers. If necessary, the auditing company can be requested, free of charge, to participate in a wrap-up session for the Ministry of Finance (MOF), the EA/IAs and ADB to share common findings across projects being audited and provide recommendations for addressing bottlenecks in preparation for the next audit.

21. **Reporting Relationships**

- (a) The audit services will be contracted by PPMU, and the Auditor shall report to: the Project Director and Chief Accountant.
- (b) The Auditor should maintain and file the work papers and provide them to the Government and/or ADB when requested.

Annex D1**Form of Annual Project Financial Statements:**

1. The project accounting records are maintained using the modified cash basis of accounting and in accordance with requirements per Circular 195/2012/TT-BTC following the Vietnamese Accounting Standards (VAS). The annual project financial statements are prepared in accordance with the reporting requirements by ADB as set out below.
2. The project financial statements will include, but not limited to:
 - A statement of financial position (balance sheet)
 - A statement of receipts and expenditures
 - A statement of imprest account
 - Significant accounting policies and explanatory notes
 - Statement of withdrawal applications by specific reference number and SOE amounts by expenditure categories
 - Any additional schedules, as necessary
3. Specific considerations:
 - a. Annual project financial statements should normally be presented in the local currency, with the basis for conversion of any foreign exchange transactions or commitments explicitly stated.
 - b. The project expenditures should be presented following the expenditure categories contained in the loan agreement and/or the PAM, and revisions thereto.
 - c. The annual project financial statements should include comparative figures for the preceding reporting year and cumulative figures from the loan effectiveness date to the end of the current reporting year. For projects that receive funding from other sources, the annual project financial statements should include all sources of funds (both ADB-provided and otherwise).
 - d. A Statement of Imprest Account: showing movement and reconciliation with the bank statements. The Auditor is also required to audit the activities of the Imprest Accounts/Sub Accounts associated with the Project that usually comprise of:
 - (i) Deposits and replenishments received from ADB;
 - (ii) Payments substantiated by withdrawal applications;
 - (iii) Interest that may be earned from the balances and which belong to the Borrower
 - (iv) The remaining balances at the end of each fiscal year.
 - e. The accompanying Notes to Financial Statements should provide sufficient explanation and information on the financials in narrative form or appropriate supporting schedules, including description of key financial reporting policies, and the adopted accounting standard.

Statement of Compliance

Management must prepare and sign a Statement of Compliance, which includes the following:

- (i) That project financial statements are free from material misstatements including omissions and errors, and are fairly presented;
- (ii) That the borrower or executing agency has utilized the proceeds of the loan only for the purpose(s) of the project;
- (iii) That the borrower or executing agency was in compliance with the financial covenants of the legal agreement(s) (where applicable);
- (iv) That the borrower or executing agency/implementing agency was in compliance with relevant laws and regulation. (However, in case there are conflicts between ADB's policies and procedures with Borrower's relevant laws, ADB's policies and procedures will prevail).
- (v) That the imprest fund procedure, where applicable, has been operated in accordance with ADB's Loan Disbursement Handbook;
- (vi) That adequate supporting documentation has been maintained to authenticate claims stated on the statement of expenditures (SOE), where applicable, for reimbursement of eligible expenditures incurred and liquidation of advances provided to the imprest account; and
- (vii) That effective internal control, including over the procurement process, was maintained.