

FINANCIAL MANAGEMENT ASSESSMENT

A. Introduction

1. In accordance with the relevant ADB guidelines, a financial management assessment (FMA) was conducted to ensure that the executing and implementing agencies have the appropriate financial management systems to manage the project's financial resources during implementation.¹ The FMA was undertaken in two stages, first at the country level, to understand Uzbekistan's financial accountability systems, governance policies, and accounting as well as auditing procedures. During this phase, country risks requiring mitigation were identified. The second stage assessed the financial management capability at the project level, mainly focusing on the project's implementing agency, the Department for Operation of Interregional Trunk Main Tuyamuyun-Nukus (DOITM-TN), also referred to as TN. In addition, the financial management capacity of the Communal Services Agency (CSA), the intended executing agency of the project, was reviewed. The CSA and TN are expected to work closely on the financial management aspects of the project, with the former working through its project coordination unit (PCU), a unit with an established track record in implementing ADB-funded projects.

B. Country Public Financial Management Risks and Mitigation

2. The public financial management system of Uzbekistan remains centralized. It is guided by a public financial management reform program which has yet to be fully implemented. The key components of the program include: (i) establishing a fully functioning uniform treasury system, (ii) adopting and implementing a modern, unified budget and accounting system; and (iii) introducing a medium-term budget framework and program budgeting. While progress has been achieved on various aspects of the program, a few challenges persist. Sector planning, budgeting, and financing links need to be strengthened. Managing expenditure streams requires increased flexibility at the sector and local government. Many state-owned enterprises continue to operate inefficiently, at low-level tariffs that eventually lead to central government subsidies. There is sufficient accounting personnel capacity within the country, but they have to adapt to international financial reporting standards and contemporary financial management techniques. Internal and external audit policies and capacities are limited, and they have to be reinforced to prevent corrupt practices arising from the lack of transparent monitoring and misuse of funds.

3. The water supply sector of Uzbekistan appears to be insulating itself against country-risks posed by what has become a protracted public financial management reform process. It is in the midst of a major transformation, largely driven by Decree 306, which mandates a nationwide reorganization of sector institutions and implementation of sector-wide management, financial, and cost recovery reforms.² Decree 306 encompasses major legislative and regulatory reforms, institutional rationalization, and a renewed focus on efficiency, accountability and sustainability through improved cost recovery. All these augur well for both CSA and TN, not only in terms of expanding and strengthening their financial management capacity, but also for their long-term institutional sustainability.

¹ ADB. 2005. *Financial Management and Analysis of Projects*, Manila.

² Decree 306—On measures to implement the main directions of development of the organizations of water supply and sanitation—enacted by the Cabinet of Ministers on 30 October 2015.

C. Project-Level Financial Management Assessment and Improvements

4. At the project level, the FMA was undertaken through a series of activities involving TN. They consisted of the following: (i) an interview with the senior management and chief accountant of the company, (ii) an assessment of their accounting and reporting systems and resources, internal and external auditing, fund disbursement, and information systems, and (iii) a review of their 2012–2016 audit reports.³

1. Assessment Findings and Conclusions

5. The FMA concluded that in general, adequate knowledge and skills in project management, financial management, financial analysis, management accounting, and construction supervision are prevalent among the officers and staff of the TN. The company's financial policies and procedures, monitored through MOF auditors, were deemed appropriate for the financial management of the project. Its finance and accounting department is adequately staffed and its accounting system allows for adequate recording of financial transactions, strictly adhering to national decrees and MOF circulars. Within the accounting office, functional responsibilities are allocated.⁴ The functions of ordering, receiving, accounting for and paying for goods and services are also allocated, within the limitations of the small number of personnel.

6. The TN uses the latest version of the standard '1C' Russian accounting software program which is regularly updated at their request. Transactions are properly controlled, prepared by the accounting staff and countersigned by the chief accountant and director. Cost allocations are accurate and consistent with established agreements. Ledgers, both general and subsidiary are reconciled monthly, and action is taken to resolve differences. Documents are stored on site for up to 5 years, after which they are archived and readily accessible. The audit reports for 2012–2016 do not state any significant or unresolved findings.

7. The chief accountant and director are the only authorized bank account signatories, and an up-to-date cashbook is maintained. Branch offices collect tariffs, which are deposited into their bank accounts, with the balance subsequently transferred to TN through bank transfer. Balances are checked daily, and all reconciling items are approved and recorded. Controls are in place for unused checks, USB keys and passwords, official receipts and invoices.

8. Measures are in place to protect assets from abuse, fraud and waste. A fixed asset register is maintained and updated monthly, subsidiary records of assets are maintained, and periodic inventories implemented. Assets are only rarely disposed of. Apart from compulsory insurance for employees and vehicles, insurance is not provided. All assets are included in an asset register, which shows the original purchase price, book value, accumulated depreciation and depreciation rate.

2. Financial Management Risk Rating

9. Nonetheless, the overall financial management risk of TN is rated moderate for the following reasons: (i) it has implemented ADB projects but has no prior experience as an implementing agency with financial management responsibilities for project funds; (ii) adjustments

³ The FMA was based on ADB's Guidelines for the Financial Governance and Management of Projects Financed by the Bank (2002) and Financial Management Guidelines Technical Note, ADB, May 2015. The instrument used for assessment was ADB's standard financial management assessment questionnaire (FMAQ).

⁴ Including (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; and (iv) reconciliation of bank accounts and subsidiary ledgers.

are necessary to its accounting, budgeting, auditing, and reporting systems for the project's financial management; and (iii) its staff lack sufficient understanding of ADB's loan disbursement policies and procedures. The TN does not have experience in the management of disbursements from ADB, or adequate administrative or accounting stock knowledge to manage an imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook. Although TN's financial statements and reports are available quarterly,⁵ these reports will have to be modified for the reporting requirements of the project.⁶ However, the TN has experience with ADB and other development partners and donors. Its audit reports reflect loans granted by the Government of France, KFAED, World Bank, and ADB.

3. Risk Mitigation Strategy and Action Plan

10. The moderate financial management risk will be mitigated under the project with the CSA providing supervision and guidance to the TN. The CSA has the necessary experience in implementing water supply and sanitation projects funded by ADB, World Bank, and other international financial institutions. CSA has amassed considerable experience in rehabilitation, upgrading, and management of water supply infrastructure facilities and projects since its inception in 2008. Currently, two PCUs are operated by CSA, one of which is dedicated to the implementation of ADB-funded projects.

11. State agencies are not required to undergo external auditing but because of its role as the executing agency of foreign funded projects, the CSA is audited annually by an independent external auditor as a requirement of the ADB loan. External auditors are hired through a selection process that is in accordance with ADB requirements. The external auditors should be licensed by the state authorities and required to apply international auditing standards. The external audit reports of CSA for the last three years (2013 – 2015) did not highlight any major issues and in the auditors opinion the financial statements of CSA are a true and fair view of its financial situation. Its financial and business transactions meet the requirements of accounting legislation of the Republic of Uzbekistan.⁷

12. Under the overall supervision of the CSA, financial management consultants and training will be made available to the TN to support its project financial management activities. The action plan for TN and CSA comprising time-bound initiatives to mitigate the financial management risks identified by the FMA is summarized in Table 1 below. The FMA questionnaire with the response provided by TN is in Annex A.

Table 1: Financial Management Improvement Plan

	Risk Description	Risk	Action Item	Period	Responsibility
1	Implementing Entity. Failure to report suspected fraud, waste or misuse of	Low	Monitor compliance with financial management	During implementation	Ministry of Finance through mandatory external audits

⁵ Some of these reports are prepared utilizing information from the 1C accounting program, while some are prepared manually in Excel. They compare actual expenditures with budgeted and programmed allocations, and are utilized by management.

⁶ Capacity development will be provided to cover the needs for report preparation. It is also possible to include the report generation function in the updating of the electronic C1 accounting system used by TN.

⁷ However, a recent assessment by ADB of the audit process for the consolidated entity and project financial statements relating to the disbursement of funds from earlier MFF tranches highlighted some deficiencies which are currently being addressed.

	Risk Description	Risk	Action Item	Period	Responsibility
	project resources or asset		policies and procedures. Monitor report on suspected fraud, waste or misuse of project resources or assets.	During implementation	Compliance Unit within TN and the PCU
2	<u>Funds Flow.</u> Misunderstanding of ADB guidelines on disbursement and withdrawal of loan proceeds	Moderate	Closely coordinate with ADB and the project consultants to ensure that ADB guidelines are followed.	During implementation	CSA/PCU/TN
	Inability to set up and manage the project imprest account in accordance with ADB policies	Moderate	Provide relevant training on financial management and handling of ADB disbursements as well on the use and management of project imprest accounts and sub-accounts.	Immediately upon commencement of project implementation, with the necessary follow up training	ADB/TN/CSA/PCU
3	<u>Staffing.</u> Inadequate staff at the Project Finance and Accounting Department of TN and lack of training on ADB procedures	Moderate	Engage PCU consultants knowledgeable on ADB financial management systems and procedures	During the first year of project implementation	ADB/TN/CSA/PCU
4	<u>Accounting.</u> Inability to record financial transactions properly and to submit reports promptly	Moderate	Develop, with the help of project consultants, a project accounting system that meets the requirements of the government and ADB.	During implementation	ADB/MOF/CSA/TN
5	<u>Budgeting.</u> Poor budget preparation leading to significant variations between planned and actual utilization of project resources	Low	Prepare project budget and financial targets in accordance with the relevant government and ADB guidelines	During implementation	CSA/PCU
			Monitor physical and financial progress and report significant deviations from	During implementation	CSA/PCU/TN

Risk Description	Risk	Action Item	Period	Responsibility
		the budget promptly		
6 <u>Payments.</u> Significant payment delays due to a lack of understanding of the policies and procedures governing direct payments and payments through the imprest account	Moderate	Implement a capacity building program for TN/PCU to help them develop an efficient payment and disbursement system.	During the first year of project implementation	ADB/CSA
7 <u>Internal audit.</u> Delays in the preparation and submission of accurate and well prepared project financial statements and audit reports	Moderate	Engage a project consultant who can develop an automated project accounting system that links with TN's accounting system and who can effectively train TN personnel on the system	During the first year of project implementation	ADB/CSA/TN
8 <u>Reporting and monitoring.</u> Audited financial reports are not prepared accurately and promptly in accordance with the requirements of the government and ADB	Moderate	Prepare financial reports through an automated accounting system to be developed with the project consultants	During the first year of project implementation	TN/CSA/PCU
		Monitor compliance with loan covenants, including submission of audited project accounts	Throughout project implementation	ADB
9 <u>Information systems.</u> Information systems lack appropriate safeguards and confidentiality.	Low	Produce reports through a computerized financial management system	During implementation	TN/PCU/CSA
		Provide regular backups to all accounting systems and put up security measures to ensure confidentiality and integrity of data in the systems.	During implementation	TN/PCU/CSA

ADB = Asian Development Bank; CSA = Communal Services Agency, MOF = Ministry of Finance, PCU = project coordination unit, TN = Department for Operation of Interregional Trunk Main Tuyamuyun-Nukus.

Annex A
Financial Management Assessment Questionnaire
Tuyamuyun-Nukus (TN)

Summary of Findings

TN Summary: The MOIWS ‘Tuyamuyun-Nukus’ (TN) is a government-owned economic enterprise that is responsible for water supply and sanitation (WSS) provision for the entire population of the Republic of Karakalpakstan (RK). It reports directly to the CSA of the Ministry of Housing and Communal Services (MHCS), which is the designated Executive Agency for the project. The TN has an established Code of Ethics, and has not reported any significant ethics violations.

Funds Flow Arrangements: The TN does not have experience in the management of disbursements from ADB, or adequate administrative or accounting capacity to manage an imprest fund and statement of expenditure (SOE) procedures in accordance with ADB’s Loan Disbursement Handbook. It is envisioned at this stage that counterpart funds will be in the form of exemptions from duties and taxes, granted through the Ministry of Finance (MOF). A flow down of project funds to NGOs or communities is not anticipated. The TN is not exposed to foreign exchange risks.

Staffing: The TN has a total of 22 personnel in the areas of corporate and management (9 personnel), production and technical (2 personnel), finance and economic (2 personnel), human resources (2 personnel), and the central accounting office (7 personnel). The central accounting office is adequately staffed with permanent employees, being headed by a chief accountant, and supported by a deputy chief accountant, four accountants and a cashier.¹ Their educational level range from secondary school education to degrees in accounting, and are trained in their respective disciplines. On average, 2-3 personnel receive training annually, organized by governorship. Annual staff turnover is around 20%. The finance and economics unit oversees the central accounting office.

Accounting Policies and Procedures: The TN utilizes the latest version of the standard ‘1C’ Russian accounting software program that is regularly updated at TN’s request. Transactions are properly controlled, being prepared by accounting staff and countersigned by the chief accountant and director. Although a chart of accounts is utilized in accordance with national accounting standards, refinements may be needed to ensure its compatibility for the project. Cost allocations are accurate and accord to established agreements. Ledgers, both general and subsidiary are reconciled monthly, and action is taken to resolve differences. Documents are stored on site for up to five years, after which they are archived and readily accessible. Audit reports for 2012-15 do not state any unresolved findings.

Segregation of Duties: Within the accounting office, functional responsibilities are allocated.² The functions of ordering, receiving, accounting for and paying for goods and services are also allocated, within the limitations of the small number of personnel.

¹ The total remuneration for the accounting department is Som6,480,797 (\$1,637 equivalent), ranging from Som1,254,024 (\$316.67 equivalent) for the chief accountant to Som765,253 (\$193.25 equivalent) for the cashier.

² Including (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; and (iv) reconciliation of bank accounts and subsidiary ledgers.

Budgeting System: Budgets include physical and financial targets, and budgets are prepared in sufficient detail to allow for performance monitoring. Expenditures are compared with budgets on a quarterly basis, and action is taken when significant variations are identified. Budget variations are approved in advance, and all budget variations require approval. The finance and economics unit prepares budgets for approval by the TN Director, and subsequently oversees budgets while the central accounting office verifies that transactions are also within approved budgets. Project plans and budgets are considered to be realistic and based on valid assumptions, being coordinated by the finance and economic unit.

Payments: The central accounting unit implements adequate invoice-processing procedures,³ with all invoices being stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment. Controls also exist for the preparation of the payroll, with changes being authorized by the director.

Policies and Procedures: The TN utilizes the accrual basis of accounting, and follows national Uzbekistan standards. Regarding accountability, government procedures are followed, and accounting policy accords with local standards⁴. Procedures are in place to (i) allow only authorized personnel to alter or establish new accounting policy or procedures, and (ii) define conflict of interest and related transactions and provide safeguards to protect the organization. Only informal verification procedures are adopted regarding compliance with policies and procedures.

Cash and Bank: The chief accountant and director are the only authorized bank account signatories, and an up-to-date cashbook is maintained. Branch offices collect tariffs, which are deposited into their bank accounts, with the balance being transferred to the TN through bank transfer. Balances are checked daily, and all reconciling items approved and recorded. Controls are in place for unused checks, USB keys and passwords, official receipts and invoices.

Safeguard over Assets: Measures are in place to protect assets from abuse, fraud and waste. A fixed asset register is maintained and updated monthly, subsidiary records of assets are maintained, and periodic inventories implemented. Assets are only rarely disposed of. Apart from compulsory insurance for employees and vehicles, insurance is not provided. All assets are included in an asset register, which shows the original purchase price, book value, accumulated depreciation and depreciation rate.

Other Offices and Implementing Agencies: Due to recent regulatory amendments, the TN has recently absorbed the assets of all its branches. Each branch has its own accounting staff, utilize compatible accounting and reporting systems and with periodic reconciliation systems. Sub-accounts are also maintained at the branches for the water supply services.

Contract Management and Accounting: TN maintains contracts for maintenance and civil works, and contractor payments following invoice approval. Contract records are regularly reconciled with contractors.

Audits: The TN does not have an internal audit department or audit committee, however at the TN level, an external audit is performed annually by an MOF accredited (licensed) and duly

³ Including (i) copies of purchase orders and receiving reports obtained directly from issuing departments, (ii) comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received, (iii) comparison of invoice quantities with those indicated on the receiving reports, (iv) checking the accuracy of calculations, and (v) checking the authenticity of invoices and supporting documents.

⁴ Public Sector Accounting Standards of the Republic of Uzbekistan.

registered external auditor in accordance with the National Standards on Auditing. Different audit companies are engaged through a tendering process and it is not known at this stage if they have knowledge of ADB's guidelines. Regarding potential project level audits, it is likely that an external auditor will be hired which has experience on ADB projects. At this stage however, terms of reference for an annual project audit are yet to be prepared.

Reporting and Monitoring: Although financial statements and reports are available quarterly for the TN⁵, adaptation is considered necessary for project reporting⁶. TN has however previous experience with other development partners and other donors: the audit report for 2015 reflects loans granted by the Government of France, KFAED, IBRD and ADB.

Information Systems: The TN's financial accounting and reporting system is computerized, utilizing a 1C version 8.1 program, with data files being backed up every several days. The system is currently a stand-alone system, however it is in the process of being updated to integrate with the branches. Also, although the personnel are trained in the current system, additional training in ADB procedures will be required.

Questionnaire

Interviews with:

- (i) Niyetullaev Mangitbay, Deputy Director on economic issues (tel.: +998 61 226 5154);
- (ii) Matekeev Khitjan, Chief Accountant (tel.: +998 61 226 5161);
- (iii) Pirjanov Salamat, Deputy of Chief Accountant (tel.: +998 61 226 5159);
- (iv) Sabirov Saylau, Deputy Head of Financial Economic Department (tel.: +998 61 226 5162)

Supplemented further with Audit Report findings (2015), additional desk and online research.

Topic	Response	Potential Risk Event
1. Executing / Implementing Agency		
1.1 What is the entity's legal status / registration?	TN is an economic enterprise under the USCA by virtue of Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. PP-445 of August 17, 2006. The department is responsible for Management, maintenance, repairs, expansion of interregional water and sewerage pipelines. The Charter of the Directorate was approved by the Director General of the Agency "Uzkommunkhizmat" (UCSA), registered by the Statistics Department of Nukus on October 31, 2006 under No. 1162. UCSA has been renamed to CSA in the recent government reorganization.	

⁵ Some of these reports are prepared utilizing information from the 1C accounting program, while some are preparing manually in Excel. They compare actual expenditures with budgeted and programmed allocations, and are utilized by management.

⁶ Capacity development will be provided to cover the needs for report preparation. It is also possible to include the report generation function in the updating of the electronic C1 accounting system utilized by the TN.

Topic	Response	Potential Risk Event
1.2 How much equity (shareholding) is owned by the Government?	100% government enterprise as a department of CSA	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ⁷	Not applicable (n.a.).	
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes. Please see Attachment A.	
1.5 Briefly describe the statutory reporting requirements for the entity.	Required to submit quarterly, semi-annual, annual reports to the UCSA, State Committee (Committee) for Privatization, DE monopolization and Development of Competition, MOF, Tax Committee, and State Statistics Committee.	
1.6 Describe the regulatory or supervisory agency of the entity.	CSA	
1.7 What is the governing body for the project? Is the governing body for the project independent?	CSA is the executing agency for the project.	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Attachment B provides the current organizational structure of TN.	
1.9 Does the entity have a Code of Ethics in place?	TN has an internal policy document, which defines ethics and other similar rules to be followed at the company level.	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	Nothing significant.	
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.		
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	n.a.	
2.3 Are the disbursement methods appropriate?	n.a.	

⁷ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Potential Risk Event
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	n.a.	
2.5 In which bank will the Imprest Account (if applicable) be established?	To Be Determined (TBD)	
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? 	TBD	
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	TBD	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	TN no, UCSA yes	
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.	TN no, CSA yes	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	No.	
2.11 How are the counterpart funds accessed?	Counterpart funds from the GoU are in the form of exemptions from duties and taxes.	
2.12 How are payments made from the counterpart funds?	Exemption from duties and taxes are granted through the MOF.	
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?	Project funds will not flow down to the NGOs or communities as these will be utilized by the TN for its maintenance, repairs, rehabilitation, and expansion of pipelines for water supply and wastewater collection and treatment.	

Topic	Response	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?	Not yet decided	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	The current organizational structure shows that the Accounting Unit is headed by a Chief Accountant and has 5 other accountants and a cashier or a total of 7 comprising the accounting department. The department is under the oversight of the Finance and Economics Unit.	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	TBD	
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.	Please see attachment	
3.4 Is the project finance and accounting function staffed adequately?	Yes, for the current responsibilities. Its personnel possess secondary school education and degree in accounting and are trained in their respective field.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Majority of current accounting and finance staff are accountants. However, training in the use of Imprest Account and other related processes in ADB funds release may be necessary.	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	TBD	
3.7 What is the duration of the contract with the project finance and accounting staff?	Accounting staff have permanent status of employment (to be confirmed).	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	No vacancies	
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.	TBD	

Topic	Response	Potential Risk Event
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	TBD.	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Around 20%. 2 people resigned out of 10 (Deputy Director, Accounting Dept. (7), Finance and Economics Dept. (2) in 2016	
3.12 What is training policy for the finance and accounting staff?	Average-limited, 2-3 staff member per year on local level (in Karakalpakstan)	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Local trainings organized by Governorship	
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 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?	They use the standard 1C Russian accounting software program, the latest version. The program will be updated by as requested by the Company	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes. The accounting staff prepares the transactions. The Chief accountant and the Director (Chairman) countersign the usual 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.	Yes. They use the standard chart of accounts for Uzbekistan in accordance with National Accounting Standards 21, which was enacted by Order No. 103 of the Ministry of Finance on September 9, 2002 and registered by the Ministry of Justice on October 23, 2002 under No. 1181. Some refinements for the project needs may be necessary.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes	

Topic	Response	Potential Risk Event
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 documents are kept on site for a time (3-5 years) and then archived on the entity building. They are accessible to staff if needed	
4.7 Describe any previous audit findings that have not been addressed.	TBD – The Audit Reports for period 2012 to 2015 do not state any unresolved findings. Either adjustments recommended have been undertaken or TN has shown additional supporting documents to rationalize its application of items in the chart of accounts and duly accepted by the External Auditor.	
Segregation of Duties		
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?	Yes, within Central Accounting Office.	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, in as much as can be allowed by the relatively small number of staff involved.	
Budgeting System		
4.10 Do budgets include physical and financial targets?	Yes.	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes. The Law on Budgetary System 2 regulates the budgeting process in Uzbekistan. This law provides the legal basis for the preparation, review, approval and execution of the state budget. In the case of projects financed jointly with international financial institutions (IFIs), the PCU within the IA is usually responsible for providing the forecasted project budget for the subsequent year to the MOF for approval in December for the next year.	

Topic	Response	Potential Risk Event
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes, on a quarterly basis. Each department head analyses their situation in coordination with the Finance and Economics Unit .of appropriate action needed.	
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No, All changes require approval	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Finance and Economics Unit. prepares the budget for approval by the Director of TN. The Finance and Economics Unit oversees the budget while the Central Accounting Office checks that all transactions are also within approved budget.	
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?	A business plan and budget are prepared in December every year before the end of the fiscal year by the Finance and Economics Unit with inputs from various offices.	
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made 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>Yes, coordinated by the Finance and Economics Unit.</p> <p>Usually, for the preparation of budget TN uses a bit less maximum costs, that is why their expenses are always below planned ones.</p>	
Payments		
4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated	Yes, this is a function of the Accounting Unit.	

Topic	Response	Potential Risk Event
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?	Yes	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes, all changes must be authorized by the Director	
Policies And Procedures		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Accrual	
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?	National Uzbek standards which	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	No, they follow government procedures	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Accounting policy as per local standards – Public Sector Accounting Standards of the Republic of Uzbekistan.	
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?	Yes	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Only the accounting standards prescribed by the GoU as government procedures	
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	
4.28 Are manuals distributed to appropriate personnel?	Yes	

Topic	Response	Potential Risk Event
4.29 Describe how compliance with policies and procedures are verified and monitored.	<p>There is no formal process</p> <p>The Audit Report for 2015 describes the organizational structure of the Office, as based on a scheme of subordination and maintenance of internal control functions.</p> <p>Documentation related to financial and business activities is recorded and stored properly.</p> <p>Responsibility for maintaining the accounting records for the Office is assigned to the Central Accounting Unit, headed by the chief accountant. This Unit also prepares financial statements for external users.</p>	
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.	Chief Accountant and the Director	
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	
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?	<p>Yes. TN does not collect tariff income directly, this should be done by the branch office and local bank's specialists which deposit revenue into their bank account with the balance transferred to TN through bank transfer.</p> <p>The only bank mentioned in the Audit Report of 2015 is the Ipatoka Bank, a branch of Nukus MFO 00621.</p>	
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?	Yes. Daily balances are notified from the branch offices and checked on-line.	
4.34 Are all reconciling items approved and recorded?	Yes	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.36 Are there any persistent/non-moving reconciling items?	No	
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	

Topic	Response	Potential Risk Event
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No.	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	They do not have online transactions	
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Policy as per Local Accounting Standards, The fixed assets of UEMV "Tuyamuyun Nukus", which are reflected in the balance sheet, are used in operations. Documents on the ownership of property are submitted for audit and these documents show full financial responsibility were concluded with the persons responsible for the safety of fixed assets at the operation sites.	
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes, for all assets	
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Yes	
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?	Yes, all fixed assets are to be inventoried on annual, cashbox on quarterly basis	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Assets are only disposed of rarely and usually kept beyond their useful life	
4.46 Are assets sufficiently covered by insurance policies?	No. Only have compulsory insurances for (i) the employees, and (ii) the third party insurance for vehicles	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	All assets are included in an asset register, show original purchase price, book value, accumulated depreciation and depreciation rate	

Topic	Response	Potential Risk Event
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	TN has recently absorbed the assets and functions of all branches	
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.	Each branch has an accounting staff.	
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?	TBD	
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?	Yes	
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.	Yes	
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	Sub-accounts are kept at the branches for the water supply services.	
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?	The TN maintains contracts for maintenance and civil works. Payments are made to contractors by the accounting Dept. after approval of invoices from contractors by the Production and Technical Unit.	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
Other		

Topic	Response	Potential Risk Event
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	No formal process is in place	
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	No	
5.2 What are the qualifications and experience of the IA staff?	n.a.	
5.3 To whom does the head of the internal audit report?	n.a.	
5.4 Will the internal audit department include the project in its annual work program?	n.a.	
5.5 Are actions taken on the internal audit findings?	n.a.	
5.6 What is the scope of the internal audit program? How was it developed?	n.a.	
5.7 Is the IA department independent?	n.a.	
5.8 Do they perform pre-audit of transactions?	n.a.	
5.9 Who approves the internal audit program?	n.a.	
5.10 What standards guide the internal audit program?	n.a.	
5.11 How are audit deficiencies tracked?	n.a.	
5.12 How long have the internal audit staff members been with the organization?	n.a.	
5.13 Does any of the internal audit staff have an IT background?	n.a.	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	n.a.	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	n.a.	
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)?	n.a.	
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, an audit is performed every year by an external auditor which is MOF-	

Topic	Response	Potential Risk Event
	accredited (licensed) and duly registered with the Ministry of Finance.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Only the Contract No. 15 of February 28, 2016 with the UEMV Tuyamuyun-Nukus for audit of TN's 2015 financial statements was reflected in Audit Report.	
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?	National Standards on Auditing.	
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No major issues	
6.5 Does the external auditor meet with the audit committee without the presence of management?	TN has no internal audit committee	
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	<p>The External Auditor stated that the following sources of information were utilized:</p> <ul style="list-style-type: none"> - Financial statements of the Office: balance sheet, income statement - orders, material reports, accounting records with personnel, management orders and other financial documents available. - Contracts with suppliers and buyers. - Bank management documents. 	
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)?	Different audit companies are engaged through a tendering process and it is not known if they have knowledge of ADB's guidelines	
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No	
External Audit – project level		
6.10 Will the entity auditor audit the project accounts or will another auditor be	Probably ensure the external auditor to be hired has an experience on ADB projects.	

Topic	Response	Potential Risk Event
appointed to audit the project financial statements?		
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	TBD For the period 2012 to 2015, no mention of non-adjustments for items in audit findings of previous fiscal year were mentioned.	
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?	TBD The External Auditor is licensed by the MOF and registered with the Ministry of Justice. There is no mention of independent government entity to conduct audit in addition to external audit.	
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	No, not yet. It is expected that the TOR for annual project audit will be developed with assistance from consultants.	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	
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)?	Experience of External Auditor on ADB-funded projects have not been determined. However, it can be seen from the Audit Reports that Debt servicing and funds utilization are also part of the audit and policy is based on loan agreements with donor (s).	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
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 noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	n.a.	
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the entity?	Yes	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	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?	Prepared and reported on quarterly basis	

Topic	Response	Potential Risk Event
7.4 Does the entity reporting system need to be adapted for project reporting?	Some adaptation will be necessary	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	No. Not yet. Capacity development will be prepared to cover the needs for report preparation. It is also possible to include the report generation function in the updating of the electronic C1 accounting system used by TN.	
7.6 Are financial management reports used by management?	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Information from the 1C accounting program is used to prepare reports, some reports are preparing manually in Excel	
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?	Yes. All physical progress should be checked and approved by Civil Dept and then will be paid	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes. TN has transactions with development partners and other donors. The Audit Report of 2015 operations reflected loans granted by the Government of France, KFAED, IBRD, ADB.	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	Yes	
8.2 If computerized, is the software off-the-shelf, or customized?	Off-the-shelf program, 1C version 8.1.	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Stand alone but in the process of being updated to integrate with the branches.	
8.4 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?	TBD	
8.5 Is the computerized software used for directly generating periodic financial	Information from the electronic 1C (latest version 8.1) accounting	

Topic	Response	Potential Risk Event
statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	program is used for preparing reports and some still produce reports manually in Excel	
8.6 Can the system automatically produce the necessary project financial reports?	Adjustments to the existing electronic Accounting System C1 may be adapted after checking if reports required by the ADB have not been included in the latest version.	
8.7 Is the staff adequately trained to maintain the computerized system?	Yes somewhat, but they don't have an experience in ADB procedures and need more training.	
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	
8.9 Are there back-up procedures in place?	Yes, main data files (from 1C are backed up every 2-3 days on hard memory disk.	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, and earthquake and calamity protection for backups.	Backed up informally on memory drives by the staff	