

FINANCIAL MANAGEMENT ASSESSMENT

A. Introduction

1. The country public financial management (PFM) system was assessed by reviewing a public expenditure and financial accountability assessment completed in November 2012. A financial management assessments (FMA) has been performed on the executing agency (EA) of the subject project, the State Agency for Hydrometeorology (Hydromet). It is intended to determine the degree to which the system will be able to manage fiduciary risks relating to financial management and provide a reasonable assurance that project funds will be used appropriately. The assessment has been conducted with reference to the *Guidelines for the Financial Management and Analysis of Projects*¹, *Financial Due Diligence: A Methodology Note*², and *Financial Management Technical Guidance Note*³. The assessments focus on accountability and transparency, and covers (i) internal controls, (ii) funds flow arrangements, (iii) accounting and financial reporting, and (iv) independent audit.

2. A financial Management Assessment Questionnaire (FMAQ) was prepared, discussed with EA, and assessed (Annex 1). Deficiencies and weaknesses in the existing systems and procedures are highlighted, and mitigation measures are proposed to strengthen the financial management systems.

B. Country Public Financial Management System Assessment

1. Overview of Public Expenditure and Financial Accountability Assessment

3. A public expenditure and financial accountability (PEFA) assessment at country-level completed in November 2012 was reviewed. The latest report indicates that overall around one-third indicators for PFM system of Tajikistan scores well⁴, shown in Table 1. Relatively strong performance was found for budget credibility (PI 1 and 3), and for comprehensiveness and transparency (PI 5–8), but weak in most of other dimensions. Areas which were found to be weaker include predictability and control in budget execution including internal control (PI 15–21), accounting, recording and reporting (PI 23–25), and external scrutiny and audit (PI 26 and 28). As compared to 2007, a total of 11 performance indicators have improved, 16 have remained the same and only 3 have declined.

Table 1: Summary of Performance Indicator Ratings, 2007 and 2012 PEFA Assessments

Indicators	Dimension	PEFA Score		Risk Rating
		2007	2012	2012
A. Credibility of the Budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	A	Low
PI-2	Composition of expenditure out-turn compared to original approved budget	C	C+	Substantial

¹ ADB. 2005. *Guidelines for the Financial Management and Analysis of Projects*. Manila

² ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

³ ADB. 2015. *Financial Management Technical Guidance Note*. Manila.

⁴ B and above ratings given for these indicators.

PI-3	Aggregate revenue out-turn compared to original approved budget	A	B	Moderate
PI-4	Stock and monitoring of expenditure payment arrears	C+	D+	High
B. Comprehensiveness and Transparency				
PI-5	Classification of the budget	D	B	Moderate
PI-6	Comprehensiveness of information included in budget documentation	A	A	Low
PI-7	Extent of unreported government operations	C+	B+	Moderate
PI-8	Transparency of inter-governmental fiscal relations	B	B+	Moderate
PI-9	Oversight of aggregate fiscal risk from other public-sector entities.	C	C+	Substantial
PI-10	Public access to key fiscal information	D	C	Substantial
C. Policy Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	B	B+	Moderate
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D+	High
D. Predictability and control in Budget execution				
PI-13	Transparency of taxpayer obligations and liabilities	C	B	Moderate
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+	C	Substantial
PI-15	Effectiveness in collection of tax payments	NR	D+	High
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	D+	High
PI-17	Recording and management of cash balances, debt and guarantees	C+	C+	Substantial
PI-18	Effectiveness of payroll controls	D+	D+	High
PI-19	Transparency, competition and complaints mechanisms in procurement	C	C+	Substantial
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C+	Substantial
PI-21	Effectiveness of internal audit	D+	C+	Substantial
E. Accounting, Recording and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation	B	B+	Moderate
PI-23	Availability of information on resources received by service delivery units	C	D	High
PI-24	Quality and timeliness of in-year budget reports	C+	C+	Substantial
PI-25	Quality and timeliness of annual financial statements	D+	C+	Substantial
F. External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	D+	D	High
PI-27	Legislative scrutiny of the annual budget law	C	B+	Moderate
PI-28	Legislative scrutiny of external audit reports	D	D	High
G. Donor Practices				
D-1	Predictability of Direct Budget Support	D+	D+	High

D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	C	Substantial
D-3	Proportion of aid that is managed by use of national procedures	D	D	High

2. Internal Controls

4. Internal control for payroll controls is less effective. The personnel and payroll system are decentralized. In Tajikistan there is no sole centralized database on public servants and no single automated payroll system for civil servants. The payroll accounting function is decentralized as well as the personnel records which are held at the different Budget Organizations (BOs), including ministries. With policy, terms and conditions of civil servant being done at the central level and with the budget holders responsible through an authorization process, which is subject to frequent audits, the system appears robust. However, there does not seem to be a compelling improvement in personnel data and payroll reconciliations, mainly due to the fact the system is not automated.

5. Procurement related internal control is strong in the dimensions of legal and regulatory framework, and public access to complete, reliable and timely procurement information, although the amount of information particularly on contract awards, stating the basis and conditions of awards is less than desirable. It is weak in using competitive procurement methods, and existence of an independent administrative procurement complaint system. About 20% of total volume of contracts was awarded by restricted tendering bidders method or single-source procurement.

6. Internal control for non-salary expenditure is strong in the dimension of comprehensiveness, relevance and understanding of other internal control rules and procedures, but less effective in expenditure commitment control, and degree of compliance with rules for processing and recording transactions. Expenditure commitment controls need to be comprehensively reviewed and updated. Rules are complied with in a significant majority of transactions, but use of simplified emergency procedures in unjustified situations is an important concern.

7. Internal audit function is operational for the most important central government entities and undertakes some systems review (about 20% of staff time) but does not meet all recognized professional standards. Approximately 25% of the professional standards are met. Reports are issued regularly for most audited entities and distributed to the audited entity, and to the Ministry of Finance (MOF). There is no Supreme Audit Institution (SAI). Managers of BOs normally take adequate action within the recommended deadlines, usually addressing internal audit recommendations. All issues concerning losses of funds are resolved or recovered by budget cuts. However, a substantial part of the recommended measures are punitive, and do not address the underlying cause of the problems. No data has yet been collected on response to recommended changes in the systems of public financial management. Overall the internal audit is less effective.

3. Accounting, Recording and Reporting

8. Accounts reconciliation is strong in all dimensions, including regularity of bank reconciliation, and regularity of reconciliation and clearance of suspense accounts and advances. The government has moved to establish the Single Treasury Account which means the reconciliations processes has improved. Bank reconciliations for all central

government and Treasury managed bank accounts take place at least monthly at aggregate and detailed levels, usually within four weeks of end of period. Sub-national Bank accounts are reconciled monthly and officially sent to treasury quarterly

9. Information on resources received by service delivery units is week, as no comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last three years of this PEFA report.

10. Overall, the in-year budget reports are produced in a timely and regular manner on actual budget performance enabling all management levels a tool for effective monitoring throughout the year. Comparison against the revised budget is possible at the detailed level but for expenditure this is only universally available at the payment stage, not the commitment stage.

11. With a strong legal base the consolidated government statement is prepared in a timely manner meeting annual deadlines of 15 July for submission to Parliament and includes, with few exceptions, full information on revenue, expenditure and financial assets and/or liabilities, including a statement on accounting standards. The consolidated financial statements are prepared on a cash basis according to standards incorporated in the relevant legal requirements. However, the statements are not fully compliant with recognized International Accounting Standards.

4. External Audit and Legislative Scrutiny

12. A high quality external audit is an essential requirement for creating transparency in the use of public funds. In December 2006, Government Decree dissolved the State Financial Control Committee (SFCC). Its successor is the Agency of State Financial Control and Combating Corruption (ASFCCC), which reports to the President. The combination of the external audit function with the function for corruption control does not conform to international practices. ASFCCC should not be perceived as performing an audit function. It would be considered as an internal audit function. In 2007, the World Bank (WB) and Government of Tajikistan (GOT) reached an agreement that an SAI reporting to the Parliament would be developed. The Law on the Supreme Audit Institution was adopted in 2011, but no organization has yet been established. External audit is not yet in place. There are no audit reports for parliament to examine.

13. Legislative scrutiny of the annual budget law is strong in all dimensions. The legislature through the Parliamentary Committee of Majlisi Namoaydagon Majlisi Oli on Economy and Finance involves itself in the budget formulation much more from the start of the budget process and the formulation of macroeconomic parameters, budget negotiations and to the final submission of the budget to parliament. Parliament is given adequate time for deliberations on the budget. However, current practice of changing support staff (civil servants) after elections could disrupt parliamentary procedures with a loss of institutional memory. The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. Medium Term Fiscal Frameworks and Medium term Expenditure Frameworks are currently being introduced but do not yet form part of the official budget review by parliament. The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations. The Government's freedom to allocate excess revenue up to a

limit of 10 per cent without parliamentary approval is of particular concern. The process is not transparent, and parliament cannot easily determine whether the extra budgets are allocated on a rational and fair basis. The substantial allocations from the Reserve Fund of the President (amounting to 2% of total expenditures) are also outside normal parliamentary controls; however, disbursements are documented and communicated to parliament on a regular basis.

C. Financial Management Assessment of Executing Agency

14. The proposed project will support Hydromet's development to a sustainable and well-resourced institution that produces timely and accurate forecasting of extreme weather events particularly in the PRB. In doing so, the project will address key institutional weaknesses. The project will (i) support legal transformation of Hydromet into a government entity with flexibility to set staff salaries and retain additional entrepreneurial revenue, (ii) modernize Hydromet's campus and associated facilities, (iii) support development and implementation of a viable business model, and (iv) undertake capacity building for improve forecasting and warning of extreme weather events.

15. **Implementation Arrangement.** The Agency for Hydrometeorology will be the executing agency (EA) to implement the project. The project organization structure is presented in

16. Figure 1 below. The implementation arrangements take into account the findings and recommendations of the FMAQ (see Annex 1).

17. A project implementation group (PIG) under Hydromet will be established for day-to-day management and implementation of the proposed project including design and procurement, financial management, capacity building, monitoring and evaluation, and reporting. There is an existing World Bank project management unit in Hydromet, however this unit is being wound down for the end project implementation and is thus not sufficiently staffed and resourced to implement the subject project.

18. The new PIG would be led by the Director and is expected to be supported by technical officers, a procurement officer, a finance officer, an office manager and interpreter/translator and a project assistant. The PIG will be supported by a project implementation consultant (PIC) team to ensure timely and best-practice outputs. The project will be overseen by the Project Steering Committee.

19. **Experiences with Donors.** Hydromet has experience of implementing projects financed by international donors, including *Central Asia Hydromet Modernization Project* (ongoing), funded by the World Bank (WB).

20. **Safeguard Over Assets.** Hydromet has procedures that assure sufficient controls are undertaken over project assets, and safeguards are in place to protect assets from fraud, waste, and abuse. An annual physical inventory of all stocks and materials is carried out, and the fixed assets inventory is required to be updated every two years.

21. **Internal Audit.** Hydromet does not have a department or unit for conducting internal audit of either the Hydromet or project operations, a deficiency in the internal control environment of the agency's financial management system.

22. **Staffing.** Although staffing of the financial management function is adequate in terms of

numbers, staff lacks experience with project financial management and disbursement requirements of the Asian Development Bank. Therefore, experienced financial management consultants will be needed to work with the chief accountants and be responsible for project financial management and disbursement functions.

23. The accounting department of Hydromet is headed by the Chief of Finance reporting to the Deputy Director. The Chief of Finance is supported by 4-5 accountants. The proposed PIG would have a full-time finance officer, procurement officer and office manager guided by an international Budget and Accounting Specialist.

24. The finance officer (FO) will deal with verification of the payment supporting documentation and withdrawal application (WA), and preparation of project financial statements according to cash-based IPSAS. The FO would be responsible for the planning, financial reporting, and funds flow arrangements. The FO will be trained with ADB policies and procedures on disbursement, financial reporting and auditing.

25. **Planning and Budgeting.** Led by the PIG Project Director, the project's budgets are to be prepared annually by finance officer, procurement officer and technical officer. The budget will set annual physical and financial targets. The budget will be presented to the Hydromet, which after approval, will be submitted to MOF for final approval. During project implementation the actual expenditures would be compared with planned budgeted expenditures on a monthly and quarterly basis, and reports on an analysis of variations is prepared. Significant variations in budgeted expenditure need to be approved by the Project Director prior to actual expenditure.

26. **Cash and Bank.** The Project Director and the FO will be the duly authorized signatories to all project bank transactions. Use of accounting software such as "1C" installed at the Hydromet will allow maintaining the cashbook in a computerized electronic system. Bank reconciliations are to be undertaken at the end of each month, or at any time as necessary.

27. **Project Financial Reporting and External Audit.** Project's accounts would be maintained on 1C software which is able to record and provide reports on the basis of nature, component, category and financier. Project's financial reports including project financial statements would be prepared on the basis of information generated by the software but would be prepared in excel. The PIG finance officer would have to be trained on ADB's financial management policies, procedures and required reports. External audit would be conducted by an independent professional audit firm who would provide audit report on the project financial statements and management letter, highlighting control weaknesses.

D. Fiduciary Risk Assessment and Risk Mitigation Measures

28. The risk assessment approach is based largely on International Standard on Auditing 400 Risk Assessment and Internal Control. The following risk assessments are based on existing circumstances, staffing and procedures, and include recommendations for risk mitigation measures (Table 2).

29. **Inherent Risk.** Inherent Risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment.

30. **Control Risk.** Control Risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported.

Table 2: Financial Management Risk

Risk Type	Risk Description	Risk Rating	Risk Mitigation Measures
Inherent Risk			
1. Internal controls	<p>Internal control is less effective for payroll controls and non-salary expenditure.</p> <p>Procurement related internal control is strong in legal and regulatory framework, but lack of information and the basis on contract awards, weak in using competitive procurement methods, and an independent administrative procurement complaint system.</p> <p>Internal audit is less effective without meeting recognized professional standards; recommended measures do not address the underlying cause of the problems.</p>	S	Capacity building of PIG finance and procurement staff to be conducted in ADB's financial and procurement policies and procedures.
2. Accounting & financial reporting	<p>Information on resources received by service delivery units, and quality and timeliness of in-year budget reports, are weak. Consolidated government statements are prepared in a timely manner on a cash basis, but not fully compliant with recognized international accounting standards.</p>	S	Capacity building of PIG finance and procurement staff to be conducted applying international standards on accounting, reporting, and auditing Training on financial reporting and auditing should be provided. Regular review of external audit reports and management letter should be used to update financial management action plan as required.
3. External audit	<p>The Law on the Supreme Audit Institution was adopted in 2011, but no organization has yet been established. External audit is not yet in place, and there are no audit reports for parliament to examine.</p> <p>Legislative scrutiny of the annual budget law is strong in all dimensions.</p>	H	The project will be audited annually by independent private auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards on auditing or the national equivalent acceptable to ADB.
Overall inherent risks		S	
Control risks			

1. Staffing	Lack of capacity for the PIG to manage ADB funds.	M	Hiring of professional staff having experience of implementing WB/ADB financed projects. Capacity building of PIG finance and procurement staff to be conducted in ADB's financial and procurement policies and procedures. Consultant support would be provided to strengthen PIG staff knowledge and capacity.
2. Funds flow	The fund flow risks concerns the delays of payments to contractors, which will delay project implementation activities.	M	Majority of funds for the project will be under control of PIG to avoid delays. Consulting Service will be managed by ADB using direct payment procedure only.
3. Accounting and financial reporting	The risk of inaccurate accounting and incorrect & delayed reporting due to un-familiarity with ADB requirements.	M	Hiring of professional staff having experience of implementing WB/ADB financed projects. Capacity building of PIG finance and procurement staff to be conducted in ADB's financial and procurement policies and procedures. Using appropriate software for accounting and financial reporting.
4. Internal Controls and internal audit	Internal control environment needs strengthening.	S	Establishing a well-staffed and resourced internal control system is recommended.
5. External Audit	There would be low risk in conducting audit by private audit firm(s) on project FS prepared by PIG.	L	Project FS prepared by PIG will be audited by an independent professional audit firm competitively selected.
6. Rotation of auditors	The same audit firm to audit an organization for a long period of time has risks due to complacency and familiarity with Management and staff.	L	It is proposed that auditors be rotated every three to five years in line with international best practice
Overall Control Risk		M	
Overall Risk		S	

H = High, S = Substantial, M = Moderate, L = Low. Source: Asian Development Bank.

E. Project Financial Reporting, Auditing, and Public Disclosure

31. The PIG shall (i) maintain separate accounts and records for the Project by funding source for all expenditures incurred on the project; (ii) prepare annual financial statements for

the Project in accordance with cash-based International Public Sector Accounting Standard (IPSAS); (iii) have such project financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report which includes the auditors' opinions on the financial statements and use of the Grant proceed⁵, and a management letter which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any; and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited project financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

32. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal program supervision, and followed up regularly with all concerned, including the external auditor.

33. The Government, EAs, PIG have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements⁶. ADB reserves the right to require a change in the auditor, or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of GCF's and ADB's financing is used in accordance with ADB's policies and procedures and Funded Activity Agreement.

34. ADB shall disclose the annual audited financial statements for the project and the opinion of the auditors on the 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 will not be disclosed.

F. Disbursement and Fund-Flow Arrangements

35. The grant and TA grant proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time)⁷, and the Technical Assistance

⁵ Auditor's opinions shall cover (i) whether the project financial statements present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (ii) whether loan and grant proceeds were used only for the intended purposes of the project in accordance with ADB's Loan Disbursement Handbook and the loan/grant and project agreements.

⁶ ADB approach and procedures regarding delayed submission of audited project financial statements:

- (i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (i) the audit documents are overdue; and (ii) if they are not received within the next six months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When audited project financial statements have not been received 6 months after the due date, ADB will
 - (i) inform the executing agency of ADB's actions to withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters; and (ii) advise that the loan may be suspended if the audit documents are not received within the next 6 months.
 - (iii) When audited project financial statements have not been received 12 months after the due date, ADB may suspend the loan.

⁷ Available at: <http://www.adb.org/documents/loan-disbursement-handbook>.

Disbursement Handbook (2010, as amended from time to time)⁸, and detailed arrangements agreed upon between the government and ADB.

36. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS)⁹, ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS. The EA will ensure that the investment Project follows applicable national laws and regulations and will apply the prohibited investment activities list to the Project financed by ADB.

37. The fund-flow arrangement for the project is depicted in

38.

39.

40.

41.

42.

43. **Figure 2.**

44. **Direct payment.** The procedures will generally be used for civil works contracts and consulting services.

45. **Advance (imprest) account.** The PIG shall establish a separate imprest account in US Dollars for each fund source (ADF Grant and Green Climate Fund Grant). The request for initial advance to the imprest account should be accompanied by an Estimate of Expenditure Sheet¹⁰ setting out the estimated expenditures for the first six (6) months of project implementation, and evidence that the imprest account has been duly opened. For every liquidation and replenishment request of the imprest account, the borrower will furnish to ADB (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 PIG's records.¹¹

46. The ceiling of total outstanding advances to the imprest account will not at any time exceed the estimated ADB financed expenditures to be paid from the imprest account for the next 6 months or \$500,000, or 10% of the loan amount¹², whichever is lower.

47. The statement of expenditure (SOE) procedure, as described in the Loan Disbursement Handbook, will be used to reimburse eligible expenditure and to liquidate and replenish the imprest account for individual payments of up to \$100,000 equivalent. SOE records should be maintained and made readily available for review by ADB's disbursement and review mission

⁸ Available at: <http://www.adb.org/documents/technical-assistance-disbursement-handbook>.

⁹ Available at: <http://www.adb.org/documents/safeguard-policy-statement>.

¹⁰ Available *Loan Disbursement Handbook*.

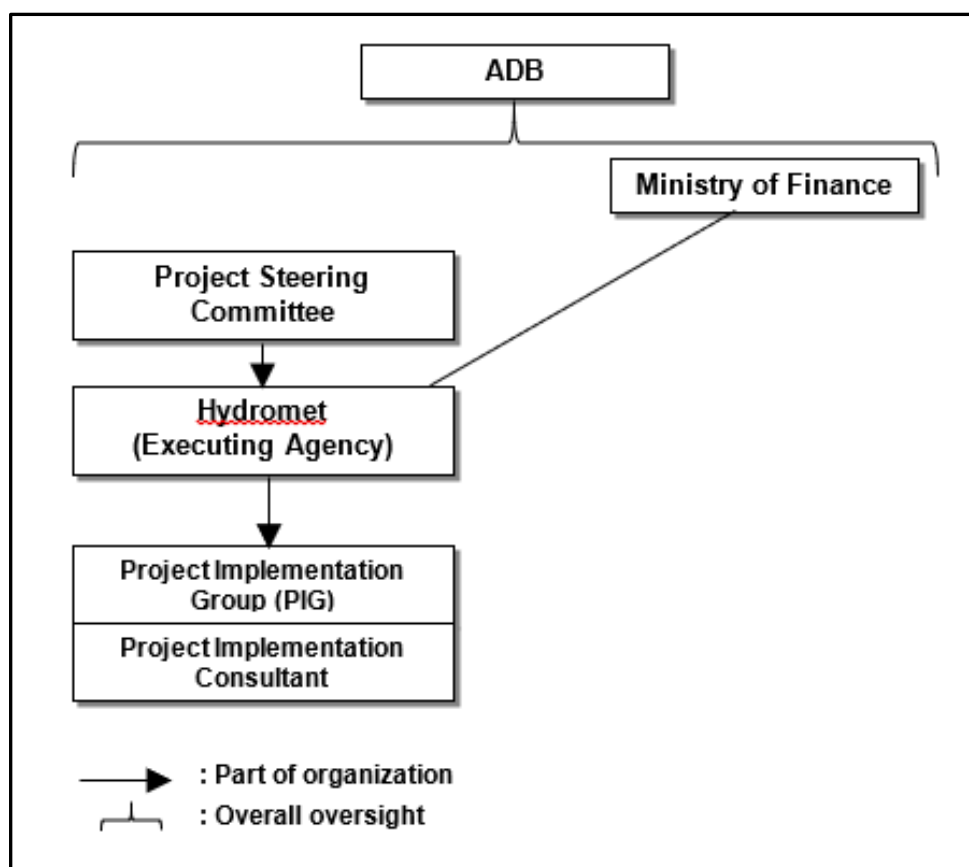
¹¹ Follow the format provided in *Loan Disbursement Handbook*.

¹² The bank charges on the imprest account will be financed from the proceeds of the loan.

or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit¹³. Individual payments in excess of the SOE ceiling should be accompanied by full supporting documents when submitting the withdrawal application to ADB.

48. Before submitting the first withdrawal application, the Government must 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 set in accordance with the Loan Disbursement Handbook (i.e., \$100,000 equivalent). Individual payment below this amount should be paid by the PIG and subsequently claimed from ADB (i) through reimbursement, or (ii) from the imprest accounts, unless otherwise approved by ADB. The PIG is to consolidate claims to meet this limit for reimbursement and imprest account claims. Withdrawal applications and supporting documents will demonstrate, among other things that the works, goods, and/or services were produced in or from ADB members and are eligible for ADB financing.

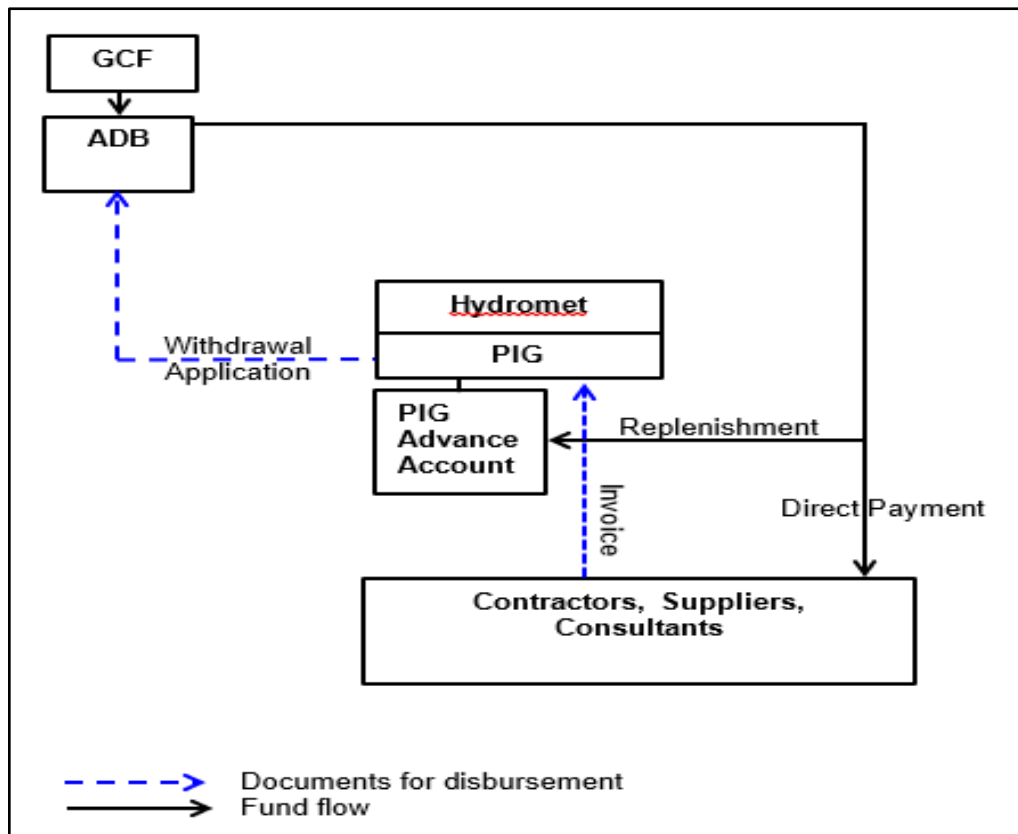
Figure 1: Project organization structure



Source: Asian Development Bank.

¹³ Checklist for SOE procedures and formats are available at <http://www.adb.org/documents/loan-disbursement-handbook>.

Figure 2: Fund flow for project



ADB = Asian Development Bank; GCF = Green Climate Fund; PIG = Project Management Office
 Source: Asian Development Bank.

Annex 1 – Financial Management Assessment Questionnaire (FMAQ)

Agency for Hydromet

Topic	Response
1. Executing / Implementing Agency	
1.1 What is the entity's legal status / registration?	Agency
1.2 How much equity (shareholding) is owned by the Government?	100% owned by Government
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.	N/A
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes. <ul style="list-style-type: none"> • World Bank financed project in 2011 - Modernization of Hydrometeorology Services in Central Asia - USD 13 Million • Swiss Cooperation Office - First Phase - 2004-06 - Regional Center for Hydrology - USD 1.2 million, • Swiss Cooperation Office - Second Phase - 2006-10 - Swiss Francs - 226 k. • USAID - 2001/02 - Humanitarian Assistance - Technical Equipment to Hydromet
1.5 Briefly describe the statutory reporting requirements for the entity.	Regular Financial Report is provided to the Committee for Environmental Protection (COEP)
1.6 Describe the regulatory or supervisory agency of the entity.	Committee for Environmental Protection (COEP)
1.7 What is the governing body for the project? Is the governing body for the project independent?	Project Management Unit (PIG) would be established supported by national and international consultants. The governing body of the project would be independent.
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	The current organisations structure and proposed / restructured organizational structure is provided in the main report.
1.9 Does the entity have a Code of Ethics in place?	There is no separate / specific policy / code of ethics of the Agency. However, general GoT laws for government employees are applicable.
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	No such reports available/provided.
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, executing agency, implementing agency, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	A flow of funds arrangement is proposed and is given in the structural chart, attached.

Topic	Response
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?	Yes
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?	Hydromet Agency has not indicated any problems.
2.5 In which bank will the Imprest Account (if applicable) be established?	PIG imprest accounts will be opened in a local bank.
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
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. Specialists with adequate experience of management of disbursement will be recruited in PIG.
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.	The proposed PIG will be strengthened by recruiting relevant experienced staff. There is no uncertainty about the capability of staff to be recruited.
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?	Through Ministry of Finance (MOF)
2.12 How are payments made from the counterpart funds?	Government counterpart funds are annually approved by the Government resolution and transferred through 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?	Not Applicable

Topic	Response
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?	The beneficiaries are not required to contribute to the project cost.
3. Staffing	
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	<p>The accounting department of Hydromet is headed by the Chief of Finance reporting to the Deputy Director. The Chief of Finance is supported by 4-5 accountants.</p> <p>The proposed PIG would have a full time finance officer guided by a specialist from the implementation consultant firm.</p>
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	PIG would comprise of Project Director, Technical, Procurement and Finance Officer supported by office manager and project assistant. In addition International and National consultants would also be available intermittently.
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.	To be developed.
3.4 Is the project finance and accounting function staffed adequately?	Adequately qualified and experienced staff would be recruited in the PIG.
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Adequately qualified and experienced staff would be recruited in the PIG.
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Adequately qualified and experienced staff would be recruited in the PIG.
3.7 What is the duration of the contract with the project finance and accounting staff?	Project finance/accounting staff would be hired for the duration of the project.
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	Finance Officer would be hired for the duration of the project.
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.	Adequately qualified and experienced staff would be recruited in the PIG.
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?	Would be developed subsequently.
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Low turnover rate.

Topic	Response
3.12 What is training policy for the finance and accounting staff?	Policies and procedures for training have not yet been developed in Hydromet.
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	<ul style="list-style-type: none"> • 2011 - Chief of Finance - WB financial management training • 2016 - Two Accounting staff - Accounting Software (1C Software)
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?	<p>Yes.</p> <ul style="list-style-type: none"> • For Hydromet SGB Net Software is being used. This software is provided by a Turkish company which has contract with the Ministry of Finance and local support is available. • For the WB project, IC software is used. This software is provided by a Russian company. Reports required by WB are prepared from IC data and checked from SGB Net Software. • IC software is able to provide information in accordance with component, category and source of finance.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes
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
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
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?	EA will follow ADB's policy and guidelines for the retention of accounting records and supporting documents.
4.7 Describe any previous audit findings that have not been addressed.	Not Available.
Segregation of Duties	

Topic	Response
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?	(i) PIG Project Director (ii) PIG Finance Officer (iii) PIG Office Manager (iv) PIG Finance Officer
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, depending upon the type of operations these functions are divided among the Project Director, Finance Officer and Officer Manager.
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
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes. Budgets are compared with actual on quarterly basis.
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Approval for variations from the budget is required in advance.
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Not Available
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Chief Accountant
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?	Budget is prepared in consultation with different departments.
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals? Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds? Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects? What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?	Yes Not available Not available. However, government funding is generally constrained. Not available
Payments	

Topic	Response
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 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?	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	No
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes
Policies And Procedures	
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	1. Entity - Cash Basis 2. Project - Cash basis
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?	IPSAS - Cash basis
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	The entity follows the Law on Budgeting and the Law on Accounting. The project would follow ADB guidelines.
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Not Applicable
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?	Yes
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?	No
4.28 Are manuals distributed to appropriate personnel?	Yes
4.29 Describe how compliance with policies and procedures are verified and monitored.	By Chief Accountant and monitored by Deputy Director and Director
Cash and Bank	

Topic	Response
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.	Group A 1. Director 2. Chief Accountant Group B 1. Deputy Director - if Director is not present 2. Deputy Chief Accountant, if Chief Accountant
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?	Yes Cash Imprest is TJS 10,000 only. All Cash received is deposited into bank account within a day
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?	Bank reconciliation prepared after 3 months Cash reconciled on a monthly basis.
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
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.	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?	Government laws and policies are followed.
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
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?	Fixed assets are physically verified after every six months. Tagging is not done for fixed assets.

Topic	Response
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
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?	Not available
4.46 Are assets sufficiently covered by insurance policies?	<ul style="list-style-type: none"> • Vehicles insured • Employees insured • Building, furniture and computers are not insured.
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Not applicable
Other Offices and Implementing Entities	
4.48 Describe any other regional offices or executing entities participating in implementation.	The project would be implemented by Hydromet only.
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.	Not Applicable
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?	Not Applicable
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?	Not Applicable
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.	Not Applicable
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.	Not Applicable
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?	Not Applicable
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Not Applicable

Topic	Response
Other	
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?	Not Applicable
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?	Not Applicable
5.3 To whom does the head of the internal audit report?	Not Applicable
5.4 Will the internal audit department include the project in its annual work program?	Not Applicable
5.5 Are actions taken on the internal audit findings?	Not Applicable
5.6 What is the scope of the internal audit program? How was it developed?	Not Applicable
5.7 Is the IA department independent?	Not Applicable
5.8 Do they perform pre-audit of transactions?	Not Applicable
5.9 Who approves the internal audit program?	Not Applicable
5.10 What standards guide the internal audit program?	Not Applicable
5.11 How are audit deficiencies tracked?	Not Applicable
5.12 How long have the internal audit staff members been with the organization?	Not Applicable
5.13 Does any of the internal audit staff have an IT background?	Not Applicable
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not Applicable
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Not Applicable
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
6. External Audit – entity level	
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Hydromet accounts are audited annual by Auditor General, Ministry of Finance and by the Agency for State Financial Control and fight with Corruption
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Audit Report is provided immediately after fieldwork.
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 audit procedures

Topic	Response
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No issues identified
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?	No
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)?	No
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 appointed to audit the project financial statements?	An independent professional audit firm would be hired by the Hydromet to conduct the audit of the Project accounts.
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 - The Agency for State Financial Control and fight with Corruption.
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, preparation of terms of reference for the project's financial statements audit will be prepared during project implementation
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)?	The selected external auditor will, most probability, have experience of auditing ADB-funded projected and so will have familiarity with ADB procedures. If not, they will have to familiarize themselves before starting the audit.
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

Topic	Response
[For second or subsequent projects] 6.17 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?	Not Applicable
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)?	Not Applicable
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?	Financial statements and reports are prepared on quarterly basis.
7.4 Does the entity reporting system need to be adapted for project reporting?	No, the project will adapt its own reporting system according to the project requirements.
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?	The general ADB system of financial management will be followed.
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 extracted from accounting software and report prepared 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?	No. The financial management staff would prepare the financial reports while the technical staff would prepare the physical progress reports. Project management staff would compare the two to ensure compatibility and accuracy.
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes - Hydromet has experience of implementing project financed by the WB.
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?	Customized
8.3 Is the computerized software standalone, or integrated and used by all departments in the	Used on Head office of Hydromet and the Ministry of Finance.

Topic	Response
headquarters and field units using modules?	
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?	Project financial data would not be integrated with the entity financial data.
8.5 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?	Information extracted from accounting software and report prepared in Excel.
8.6 Can the system automatically produce the necessary project financial reports?	No
8.7 Is the staff adequately trained to maintain the computerized system?	Yes
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
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	<ul style="list-style-type: none"> • For entity (SGB Net Software) - online backup is maintained at the servers at the Ministry of Finance. • For WB project (C-1 Software) backup is done on server at Hydromet.