

FINANCIAL MANAGEMENT ASSESSMENT

I. INTRODUCTION

1. The financial management assessment (FMA) has been completed for North-West Power Generation Company of Bangladesh (NWPGL) for the Rupsha 800-Megawatt Combined Cycle Power Plant Project. The primary objective of the assessment is to provide assurance that NWPGL will have sufficiently strong financial management systems in place to properly manage and control the project. The first FMA of the NWPGL was reviewed in 2007 under Asian Development Bank (ADB) sector development loan¹ and updated in 2012 under Power System Expansion and Efficiency Improvement Investment Program - Tranche 1² to ensure NWPGL's fulfilment of ADB fiduciary requirements. This FMA has been updated for the Project in accordance with ADB Guidelines for the Financial Management and Analysis of Projects (2005), Financial Due Diligence a Methodology Note (2009), and Financial Management Technical Guidance Note (2015).³

2. The FMA reviewed two types of risks: (i) inherent risks; i.e., risks outside the direct control of the financial management of executing agency, and (ii) control risks; i.e., risks concerning the internal functioning and control of the finance and accounting section of executing agency. The FMA also evaluated the risks associated with project financial management arrangements, as the project funds should be used economically and efficiently for the purpose.

3. The FMA consisted of (i) completing ADB's FMA questionnaire (FMAQ) through interviews with key staffs of NWPGL; (ii) evaluating personnel, accounting policies and procedures, internal and external auditing, financial reporting and budgeting with the assistance of responses to the FMAQ and other documents; (iii) identification of potential risks and mitigation measures. A FMAQ is given in the Annex 7 of this report.

II. PROJECT DESCRIPTION

4. The proposed project targets energy security in Bangladesh. Key interrelated project components include: (i) the development and operation of the Rupsha 800 megawatt (MW) gas-fired combined cycle power plant (CCPP) at Khulna, in the south-western part of Bangladesh; (ii) the construction of a gas distribution pipeline and related network infrastructure ensuring reliable supply of fuel to the CCPP; (iii) the construction of a power transmission interconnection facility to transfer the generated power to the national grid at the existing substation in Khulna; and (iv) capacity strengthening of the project's executing agency, NWPGL. The project will establish the first ever power plant to use gas from the Bangladesh gas transmission network, where its gas supply would be attributed to liquefied natural gas (LNG) imported into Bangladesh.

5. The concept involves creating a state-of-the art 800 MW CCPP, fueled by regasified LNG which is a cleaner fuel with lower power generation costs, and fewer local pollutants and carbon dioxide emissions compared with diesel-fired or fuel-oil fired generating units. LNG will be imported and supplied to the national gas grid by Bangladesh Oil, Gas and Mineral Corporation (Petrobangla), the national gas utility. For uninterrupted gas supply to the CCPP, the project will

¹ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Sector Development Program Loan to the People's Republic of Bangladesh for Sustainable Power Sector Development Program*. Manila.

² ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranchise Financing Facility and Administration of Grant to the Peoples Republic Bangladesh for Power System Expansion and Efficiency Improvement Investment Program*. Dhaka.

³ ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila; ADB. 2015. *Financial Management Technical Guidance Note*. Manila.

finance the 10 kilometer (km) of 24-inch and 2 km of 20-inch gas distribution pipeline from the Khulna City Gate Station to the CCPP. The project will also finance the construction of a 230 kilovolt substation at the CCPP and a 29 km of high-capacity 230 kilovolt, double circuit transmission line to transfer the generated power to the national grid.

III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

6. Using the existing diagnostics and available reviews, this section provides a country level of Public Financial Management (PFM) based on the Public Expenditure and Financial Accountability (PEFA) assessment conducted by the government in 2015 with the support of the World Bank.⁴ This PFM progress report reviews the performance of Bangladesh's PFM system in 2015 based on 31 performance indicators, categorized into seven critical pillars of performance.

7. **Rating results in 2015.** The ratings of the individual performance indicators for 2015 by applying the upgraded 2016 framework is summarized in the Annex 1. The summary result shows that Bangladesh ranked above B+ (representing performance near good international practice) in only 1 indicator, B (performance ranging from good to medium) in 7 indicators, and C+ and C (performance ranging from medium to poor) in 11 indicators and D+ and D (ineffective or nonfunctioning process or procedure, or no process or procedure exists at all) in the rest of the indicators among all 31 indicators.

8. **Comparison with 2010 result.** This report also compared the scores of the individual performance indicators in 2015 with 2010 result by applying 2011 framework as summarized in Annex 2. There was no improvement in credibility, comprehensiveness, and transparency of budget. Performance of other dimensions in the budget cycle improved. Of 28 parameters measured in PEFA 2010, seven performance indicators improved, 14 remained the same, and seven deteriorated in the PEFA 2015 assessment. The credibility of the budget has suffered as a result of political turmoil and exchange rate fluctuations as well as overoptimistic estimates of revenue and expenditure. Predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit remain weak in the PFM system

A. Review of PFM Performance by Seven Pillar

9. **Overall.** The institutional framework of PFM in Bangladesh is under transition and several improvements have been made or are being attempted. The dominant role of the Ministry of Finance in budget management has contributed to the country's strong record of fiscal discipline. The country's PFM systems have impacted PFM performance in the areas of (i) aggregate fiscal discipline, (ii) strategic allocation of resources, and (iii) efficient use of resources for service delivery.

10. **Budget reliability.** The credibility of the budget has steadily deteriorated between FY2011–2012 and FY2013–2014 in aggregate terms, both on the expenditure and revenue sides. This trend is also somewhat reflected in the variation between sectoral and economic categories of expenditure, which has also increased since FY2011–2012. Reasons for shortfall in actual expenditure include the institutionalization of a supplementary budget, rendering original budgets of less importance. Political instability has also been cited as a reason for the worsening credibility as economic activity has decreased and revenue targets not realized, with subsequent impact on expenditures. Revenues were also impacted by exchange rate fluctuations.

⁴ Government of Bangladesh. June 2016. *Public Financial Management Performance Report*. Dhaka. The assessment covered the central and local government and the public corporation sector from FY2011–2012 to FY2013–2014.

11. **Transparency of public finances.** Bangladesh performs well with respect to the comprehensiveness of budget documentation and public access to key fiscal information. The poor scoring for this pillar results from the lateness of audit reports being prepared and approved rather than lack of disclosure. Performance information on service delivery has generally scored well, reflecting a positive application of integrated budgeting and accounting system as well as the existence of monitoring committees at both ministry/department/agency and planning commission level. Unfortunately, any monitoring is not strongly linked to budgeted expenditures and the lack of performance audits have weakened the overall score.

12. **Management of assets and liabilities.** Asset and liability management is generally weak, with no centralized asset registers. Fiscal risk management is weak with no comprehensive monitoring of contingent liabilities of public corporation sector. The Finance Division operates a flagging system dealing with risk on a one-by-one basis rather than consolidating all risk into a report. The “C+” score is only achieved because local government is prohibited from taking out loans. Contingent liabilities are in the process of being reported on comprehensively, but this has not occurred yet.

13. **Policy-based fiscal strategy and budgeting.** A comprehensive, medium-term expenditure framework exists. Macroeconomic forecasts are prepared but lack analysis of risk to revenue or various optimistic or pessimistic scenarios. Revenue forecasting suffers from a lack of documentation of the methodology and assumptions, just as the impact of policy changes does. Evidence indicates that the forecasts for a majority of ministries are used as a guide for the next year’s ceiling for both the development and non-development budget. Sector strategies exist and are well costed for only three large ministries. However, the separation of the recurrent and development budgets is generally reflected in the lack of fully costed strategies. Related to this is the lack of bottom-up reconciliation with sector strategies to the medium-term budget framework.

14. **Predictability and control in budget execution.** Revenue administration has structural weaknesses. Most worryingly is the lack of data on tax arrears that is not routinely submitted by field officers. The government has reduced the number of bank accounts considerably; but these are not consolidated fully although all funds transferred to the treasury single account are reconciled and tracked individually. On the expenditure side, there is a cash-forecasting model that is established at the beginning of the year for each month, and this is updated based on actual collection and/or expenditure. Personnel and payroll records are manual. Overall financial management controls are in place with good segregation of duties and procedures.

15. **Accounting and reporting.** Financial data integrity is sound because access and changes to integrated budgeting and accounting system records are restricted and recorded, resulting in an audit trail that is checked by the Internal Control Unit within the Ministry of Finance. The quality of in-year budget reports is good, but timeliness could be improved. Data inaccuracies are limited to revenue estimates. The production of annual financial reports is incomplete and untimely; this undermines the credibility of annual financial reports. Modified cash accounting standards are used and are easily understood.

16. **External scrutiny and audit.** Timeliness of legislative scrutiny, which is a key factor in the effectiveness of the accountability function, is hampered by the backlog of audit reports submitted to Parliament. The external audit of government financial statements has never been completed in a timely manner. Audit reports are two years behind the due submission date. The Audit Department is active in carrying out mainly compliance audits as well as some follow-up audits on departments, projects, and statutory bodies.

B. Public Financial Management Reforms⁵

17. The government's PFM reforms covered (i) improving budgetary processes e.g., budget preparation; (ii) spending prioritization; and (iii) strengthening budget implementation. Areas marking notable progress include (i) introduction of medium term budget framework, (ii) strengthening debt management capacity, (iii) use of macroeconomic modeling to prepare medium term macroeconomic framework, (iv) introducing new budget classification conforming to international standards, (v) improving human resource management, and (vi) reforms to broaden revenue base.

18. However, more progress needs to be made in (i) improving quality and timeliness of government accounting and auditing to lift them up to international standards, (ii) improving cash management and cash flow forecasting, (iii) improving internal oversight through more effective internal audit, and (iv) a further integrated accounting framework.

C. Overall improvement on PFM Processes and Procedures from 2011 to 2015

19. Overall there has been a renewed focus on PFM activities and a continued emphasis on improving PFM processes and procedures. The major PFM reform project, 'Deepening Medium-Term Budget Framework and Strengthening Financial Accountability Project', closed in 2014. However, the development of an Integrated Budgeting and Accounting System has continued which when fully implemented should strengthen many control procedures, and address weaknesses in accounting and recording when implemented.

20. Improvements in procurement processes are ongoing and should improve as e-procurement increases coverage. Bringing the audit of government accounts up to date by preparing the annual financial statements in a timely manner is an important task in hand. Scrutiny by the Public Accounts Committee has started but is yet to reach the level of operating to its full potential. A new VAT Act was enacted in 2012. However, other elements of the Government's Tax Modernization Plan have not been affected.

D. Overview of NWPGL

21. North-West Power Generation Company Limited (NWPGL) has been formed, incorporated and registered in August 2007 under the framework of the Government Power Sector Reforms Policy and the provision of the Companies Act, 1994 to meet the growing demand of electricity in the North-West region of the country. NWPGL is one of the fastest growing power companies in Bangladesh, with the current installed generation capacity of 722 MW⁶ and present development activities aiming to increase NWPGL's generation capacity by additional 2,590 MW by 2022. NWPGL has finished five projects until now and is presently handling seven projects at various stage including the project and expects to implement eight more projects in the future based on the expansion plan as listed in the Annex 3.

⁵ This section draws from the risk assessment and risk management plan prepared to inform the country partnership strategy for Bangladesh, 2016–2020.

⁶ NWPGL currently owns operates three power plants: Sirajganj 214 MW combined cycle power plant (CCPP), Khulna 230 MW CCPP, and Bheramara 278 MW CCPP.

E. Strengths

22. **Vast experiences of managing ADB-financed projects.** Starting from 2007 to 2016, NWPGL has been implementing major projects with the funding supports of ADB. NWPGL finished four projects with ADB support and the performance of NWPGL was considered satisfactory. One of projects, Sustainable Power Sector Development Program,⁷ (footnote 1) was approved in 2007 and was completed in 2010. Project completion report of the project states that NWPGL's performance as an executing agency, is rated satisfactory, saying that NWPGL as a new entity, has made quick progress in terms of plant availability and financial sustainability and complied with most of financial covenants⁸ from 2011 to 2015. NWPGL was assessed to be very familiar with the requirements for reporting, financial management, and disbursement of ADB.

23. **Capacity of planning and budgeting and well-structured organization.** NWPGL currently has adequate technical and planning capabilities to prepare plans and budgets for the projects. Also, the NWPGL has well-established project management setup. NWPGL has a total of 500 employees across departments including engineering, human resources and administration, and finance and audit. Each department is headed by a general manager or chief engineer and each department is staffed by experienced staffs with relevant qualifications. Organization chart of NWPGL is included in Annex 6.

F. Weakness

24. **Incomplete Information Management systems.** Currently, the accounting function relies only on Excel spreadsheet to generate financial information reports and the NWPGL does not have an automated accounting system. Also, NWPGL does not have adequate data storage or backup facilities. These leave the reporting practices susceptible to possible risks of manual errors and data security issues. With the evolvement of NWPGL, the importance of enterprise resource planning (ERP) implementation will increase to integrate the functions of various departments into single application. The implementation of ERP system is urgently needed considering expansion of the activities.

25. **Needs to strengthen capacity to meet upcoming projects.** NWPGL has adequate staffs and capabilities to meet current projects, however, it needs to strengthen its manpower and corporate structure to maximize operational efficiency to handle upcoming new projects. Especially, new project includes generation projects through coal, solar and wind power plants, which require new technologies. Hence, NWPGL should be equipped with an appropriate corporate structure and manpower plan in line with the capacity expansion plan.

G. Personnel

26. **Corporate governance.** The Board of Directors is the highest level of authority in the organization structure. At present, 12 members of the Board of Directors are overall responsible for the direction, strategic planning, and policy guidelines. To ensure the management efficiency, the Board has a total of four standing committees: (i) administrative affairs committee, (ii) legal affairs committee, (iii) technical and engineering committee, and (iv) audit and finance committee. The committee prepares the proposals and issues to be dealt with at the Board's plenary

⁷ NWPGL was the executing agency for construction of Sirajganj 150 MW Peaking Power Plant Project and Khulna 150 MW Peaking Power Plant Project.

⁸ Operation ratio, debt-equity ratio, accounts receivables, debt service coverage ratio.

meetings. The conveners of the Board committees report to the Board on the committee's work at the subsequent Board meetings. The management of NWPGL is engaged to implement the decisions of Board of Directors. The managing director and other two executive directors (engineering and finance) are responsible for achieving business goals and overseeing the day to day operations and other activities.

27. **Overall personnel.** NWPGL has a well-diversified pool of human resources, which is composed of personnel with high academic background. Most employees are comparatively young in age but matured in experience. However, NWPGL will require to strengthen their manpower to control the overall operations of the organization. Due to the increase in new projects, the planning and design activities will increase. Similarly, with the commissioning of projects, the locational coordination between various plants will have impact on the corporate structure and manpower plan. Hence, NWPGL needs a corporate structure and manpower plan in line with the capacity expansion plan and needs to build competencies for the management of the upcoming projects as part of the expansion plan. The future expansion plans include generation through coal, solar, and wind power plants. These require varied competencies which needs to be developed in NWPGL.

28. **Training.** NWPGL's training program is a well-organized, systematic series of activities designed to enhance an individual's work-related knowledge. NWPGL has an overall company policy to support staff training and it provides a specific targets or staff entitlements to training. In FY2015–2016, the training target hours are 29,470 hours and total achieved hours are 37,543 hours. For accounting and finance staff, training is provided on an as-required basis

29. **Finance and Accounting Function.** The finance and accounting department is headed by the executive director (finance). The executive director reports to the managing director. The executive director (finance) will be reported by the general manager (accounts and finance). Currently, NWPGL has one position for deputy general manager (accounts and finance) under general manager (accounts and finance). NWPGL is considering having two separate positions for deputy general manager (accounts) and deputy general manager (finance) under the general manager (accounts and finance) to provide separate focus on accounting and finance activities and to strengthen each function.

30. The department is responsible for following functions: (i) policy formulation in respect of account and finance, (ii) arrangement and management of funds and finance management information system, (iii) budgeting, (iv) employee salary processing, (v) tax compliance, (vi) preparation of corporate accounts, (vii) tariff and regulatory affairs, (viii) information technology initiatives etc. As illustrated in the Annex 5, the department presently employs 23 staffs and all staff members have been assigned specific roles and functions within the department.

31. The number of staff is considered adequate and meet the current core functions and responsibilities. However, there is a need to increase staffs and strengthen finance function to deal with the increasing activity of Bangladesh Electricity Regulatory Commission such as revenue requirement filing and regulatory affairs management, and to deal with growing external debt from the upcoming projects.

H. Accounting Policies and Procedures

32. **Accounting Principle.** NWPGL's accounts are maintained and financial statements are prepared on an accrual basis in accordance with Bangladesh Financial Reporting Standards and Bangladesh Accounting Standard, the Companies Act 1994 and other applicable laws and

regulations. The accounts are maintained in accordance with the standards issued by the Institute of Chartered Accountants of Bangladesh (ICAB), which are in line with International Accounting Standards. Specific accounting policies based on the accounting standards issued by ICAB have been adopted.

33. NWPGL's financial statements are prepared in accordance with Bangladesh Accounting Standards which are largely consistent with international accounting standards. However, the auditor issued a qualified opinion on three consecutive fiscal years from FY2013–2014 to FY2015–2016, meaning that the financial statements are fairly presented with some exceptions of a specified area. The auditor noted two matters on accounting issues of NWPGL. The first is NWPGL has not made provision for Workers Profit Participation Fund in accordance with Bangladesh Labor Act 2013 and the second is the company has increased the paid-up share capital, but no regulatory formalities have been performed. These two issues have not been solved yet.

34. **Accounting procedures.** NWPGL maintains record of receipts, payments, and cashbooks. The receipts start from collection, timely deposit and coding thereof are properly controlled. The cash balance and cash book are periodically verified for ensuring control and accuracy. The bank accounts are reconciled systematically after the closing of each month. The outstanding items of bank reconciliation are reviewed, and appropriate action is taken within reasonable time, with final reconciliation at the end of the year.

35. Current procedures ensure that only authorized persons can alter or establish new accounting principles, policies, or procedures. Policies and procedures clearly define conflict of interest and any related party transaction. The finance and audit department has developed procedures and guidelines for accounting and financial reporting. Recently, NWPGL was equipped with specific manuals on budget, costing, fixed assets, employee benefit and inventory accounting manual with support of Japan International Cooperation Agency (JICA). Before, there were no specific manuals and NWPCGL generally followed manuals set by Bangladesh Power Development Board (BPDB).

36. **Safeguard over asset.** The transfer of materials and assets from one place to another is carried out with proper documentation, with a fixed asset register. The security guards ensure that no material is taken out without proper documentation. Physical verification of stocks is carried out annually to safeguard the assets from fraud, waste and abuse. Also, insurance is maintained on the company's assets. Regarding the procedure in disposal of assets, a committee is formed to evaluate the usability and residual life. Based on salvage value and utility of assets, a decision to abandon or sale is taken. Based on type and value of asset decision on disposal is taken.

I. Internal and External Audit

37. **Internal Audit.** NWPGL has its in-house internal audit unit headed by a deputy general manager. The scope of internal audit covers all major activities of the entity including externally funded projects. All major purchases and payments, projects, and corporate actions are subject to internal audit procedures. The scope of internal audit includes (i) verification of invoice or bill, books of accounts, various registers, and bank reconciliation statements; (ii) compliance with internal rules and regulation such as delegation, service rules, tender documents/contracts; (iii) compliance with relevant laws and regulations such as income tax and VAT laws and subsequent amendments; (iv) compliance with donor agencies disbursement procedures;

(v) compliance with accounting standard for presentation of financial statements (vi) verification of budgetary control mechanism; (vii) verification of timely repayments of interest during the construction; and (viii) physical verification of assets and stores etc. The internal audit department reports directly to the managing director and functionally reports to audit and finance committee and the committee guides the internal audit department.

38. The internal audit department issues audit reports for entity level and project level on annual basis. The past three years' reports for the company has identified issues regarding taxation, payment of interest by bank, and verification of immovable assets. The project level reports have raised issues relating to taxation, approvals, reconciliation of stocks, and verification of fixed assets. The reviews from audit department have been comprehensive in regards of transactions and payments. However, they did not address broader risks dimensions from process and operations perspective. Going forward as the number of projects increase, the coverage of the audit function will need to be more risk based and process focused. In addition, the staff of the internal audit team would need to be trained for audit of the information systems.

39. **External audit for entity level.** NWPGL's external audit is conducted by a firm of chartered accountants and reports are submitted every year to the NWPGL management and stakeholders within six months after the end of the fiscal year. NWPGL is also subject to annual statutory audits of the Office of the Comptroller and Auditor General (CAG)⁹ of Bangladesh for government-funded projects and entity level of operations. Audit issues are brought to the notice of management for follow-up and the necessary actions are taken to settle audit observations.

40. Audits are conducted in accordance with auditing standards issued by the ICAB. The auditors have pointed out inconsistencies and/or irregularities in allocation of profits to Workers Profit Participation Fund, issuances of share capital without regulatory formalities, however, no major accountability issues were noted by external auditors in their audit report over the past three years.

41. **External audit for project level.** Foreign-aided projects are annually audited by the Foreign-Aided Project Audit Directorate (FAPAD) under the CAG (footnote 9). This unit has expertise on loan procedures and loan negotiation documents. The unit reviews compliance with actual procedures based on the approved loan agreements, including tax payments, and disbursements. Project audit reports of three externally funded projects of NWPGL were reviewed by FAPAD and the opinion on these was unqualified.

J. Reporting and Monitoring

42. **Reporting.** NWPGL has prepared the following management information reports periodically; (i) monthly and quarterly financial reports; (ii) monthly report on billing, realization, and outstanding dues in respect of power sales; (iii) reports on manpower, employment and training; (iv) reports on equipment acquisition and civil construction; (v) reports on power sales; (vi) monthly report on utilization of external loans and procurement; (vii) annual report on yearly

⁹ The Office of the Comptroller and Auditor General of Bangladesh (CAG) is the supreme audit institution of Bangladesh, responsible for maintaining accounts of the republic and audits all receipts and expenditure of the Government of Bangladesh, including those of bodies and authorities substantially financed by the government. The reports of the CAG are discussed by the Public Accounts Committee, which is a standing committee in the Parliament of Bangladesh. typically audit the projects funded by the GOB. FAPAD, on behalf of the CAG, audit the aided projects and certify their accounts and issue reports to the donor agencies, besides the parliament and audited entities

disbursement commitments to lending agencies and actual disbursement of loan; and (viii) monthly report on capital expenditure.

43. **Reporting standards.** In respect of various financial activities, detailed guidelines have been issued by the finance department of NWPGL specifying the various formats for the matters to be reported, detailed instructions and responsibilities of various departments for filling out contents. Time schedule for submission of the same is also specifically stated. Based on the input received from site and branch offices, various reports and statements are compiled at company level. These are in turn forwarded to government agencies for review and monitoring.

K. Information system

44. **Current system.** Financial accounting records are currently being maintained on Microsoft Excel and are subject to manual interventions. NWPGL currently has no automated systems for accounts, however, NWPGL established a plan to introduce an ERP platform. This will be useful for monitoring and controlling of critical project activities spread across various functions like engineering, contracts and finance and will help in getting timely inputs for decision making.

45. **ERP implementation.** To implement the ERP plan, NWPGL appointed a consulting firm with support from JICA for development of roadmap and policy manuals towards several organizational aspects like accounting, information systems, audit, etc. The work scope of consulting service was divided into five parts: (i) corporate management plan and human resource management plan, (ii) preparatory works for establishing financial and accounting system, (iii) promotion of total quality management, (iv) introduction of performance management system, and (v) consulting services to establish integrated management system.

46. As an outcome, the consultant provided NWPGL with six manuals on financial and accounting and seven plans on corporate and human resource management such as incentive scheme, promotion policy, training and development policy and welfare policy, on-job-training of total quality management and performance management system module. Detailed scope of work and outcome of consulting service was provided in the Annex 4.

47. NWPGL will consult JICA for the preparation of bidding documents for supply, installation, implementation, and support of ERP system. NWPGL agreed to prepare and submit a time-bound action plan for the introduction of ERP system and ensured its board approval of the ERP plan for timely implementation.

L. Budgeting and Funds flow mechanism

48. **Annual Budget.** Annual budget for the next year is prepared by April prior to the fiscal year end of 30 June and includes physical and financial targets for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance. These are also required by the government for allocation of government capital expenditure and form part of the Annual Development Programme (ADP). Actual expenditure is compared with budgeted targets and significant variations are reviewed and corrective actions are taken.

49. **Budget control.** All departments in NWPGL prepare their inputs for the budgets and the consolidated budget is discussed with Monitoring Cell of Ministry of Finance before final approval. For project planning and budgets, a development project proposal (DPP) is prepared for every

project and approved by the board of the NWPGL followed by the Planning Commission. The Board of Directors of NWPGL and the Monitoring Cell of Ministry of Finance approve the revenue budget and development budgets. The Planning Commission approves the ADP and DPP.

50. Budget control is undertaken on a regular basis in which actual revenue and expenditures are compared to planned amount. Financial reports for budget control are produced to compare actual expenditures with budgeted allocations. Also, there is a regular management review of budget utilization with physical progress. The expenditure with regards to the project are planned and executed in accordance with DPP and any variation requires approval. Variations from the budget within 10% is required prior approval from Ministry of Power, Energy and Mineral Resources and variation beyond 10% is required prior approval from the Planning Commission.

51. **Payment.** NWPGL states that that invoice-processing procedures provide for copies of purchase orders and receiving reports to be obtained directly from issuing departments, comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods received, comparison of invoice quantities with those indicated on the receiving reports and checking the accuracy of calculations. All invoices are stamped paid, dated, reviewed and approved, recorded, and clearly marked for account code assignment.

52. **Cash and Bank.** Bank accounts for the projects are operated by two signatories (a project director and an accounts in-charge). Bank and cash are reconciled monthly and unusual items will be earmarked for management review. NWPGL has a single buyer which is BPDP, and all payments from BPDP are received through bank transfer.

M. Risk description and rating

53. The FMA reviewed two types of risks: (i) inherent risks (risks outside the direct control of the NWPGL financial management, and (ii) control risks (risk concerning the internal functioning and control of the NWPGL's finance and accounting section). The FMA identified the following key risks and its mitigation measures in Table 1. Based on the assessment, it is concluded that the overall project financial management pre-mitigation risk is Moderate.

Table 1. Risk Management Assessment

Risk Type	Risk Rating	Risk Description	Mitigation Measures
A. Inherent Risks			
1. Country Specific Risks	Substantial	Overall Public Financial Management Risk: Aggregate budget credibility deteriorated, and external scrutiny and audit remain in the weak area in the PFM.	Dialogue needed between ADB, Government of Bangladesh and ICAB aimed at (i) capacity building of CAG auditors, (ii) strengthening of statutory/regulatory requirements to ensure that audits look beyond transactions and focus on the systems of the audited entities.

Risk Type	Risk Rating	Risk Description	Mitigation Measures
	Moderate	Financing Risk: Delays in releasing counterpart funds for the project	The disbursements of counterpart fund are subject to approval of DPP. The DPP is reviewed and cleared by the Ministry of Power, Energy and Mineral Resources and Planning Commission, respectively with an ability to provide counterpart funds. Since the project addresses the key need for providing power supply in Bangladesh, the government is expected to make adequate provision for counterpart funds in its budget.
2. Entity Specific Risks	Moderate	Financial Risk: Revenue is insufficient to recover costs undermining financial sustainability	NWPGCL made a power purchase agreement (PPA) with BDP for three power plants, which has the full cost recovery tariff structure.
	Moderate	Foreign Exchange Risk: NWPGCL will expose to foreign exchange risk. Currently, \$ dollars continues to appreciate against Bangladesh currency taka.	Foreign exchange variation will be passed on to BDP through adjustment of power purchase cost and this will be specified in the PPA.
Overall Inherent Risk	Moderate		
B. Control Risk			
1. Executing Agency	Low	Compliance Risk: NWPGCL follows structured planning and technical assessment processes. It also has significant experience in implementing externally assisted projects and is familiar with ADB's financial management and disbursement requirements	Not required.
2. Funds Flow	Low	Financing Risk: The disbursements of counterpart fund are subject to approval of DPP. Access to funds from government follow specified procedures, and requires prior approvals, which creates delays.	NWPGCL has approved the DPP by the Ministries of Power, Energy and Mineral Resources and the Planning Commission, on November 2017 and December 2017, respectively.
3. Staffing	Substantial	Execution Risk: While the level of staffing is adequate for its current level of activities, NWPGCL should augment staff to manage the proposed upcoming projects.	NWPGCL agreed to prepare a long-term human resource plan in line with the capacity expansion plan.
4. Accounting Policies and Procedures	Moderate	NWPGCL has defined accounting policies and procedures in place which are in line with international	NWPGCL should resolve audit issues within a certain time frame.

Risk Type	Risk Rating	Risk Description	Mitigation Measures
		accounting standards. However, the past three audit annual reports issued a qualified opinion and highlighted persisting issues with regards to allocation of profits and regulatory stipulations regarding increase of share capital.	
5. Information system	Substantial	Incomplete information reporting systems: NWPGCL currently conducts its operations particularly regarding financial reporting through Microsoft Excel and has no information systems in place.	NWPGCL will implement the automated accounting software ERP funded by ADB, which will significantly improve the financial statements preparation and facilitate reconciliation with the project level of accounts.
6. Internal audit	Moderate	Strengthening of internal audit functions; NWPGCL has robust internal systems and processes in place for smooth and efficient conduct of business. However, while the scope of internal audit function covers a wide array of responsibilities and generates periodical reports, the internal audit requirements will need to evolve to become more systematic and be strengthened with development of new projects.	NWPGCL will review scope and periodicity of reporting, coverage of internal audit function and accordingly strengthen the internal audit function as required.
7. External audit	Low	NWPGCL has appointed local chartered accountancy firm for audit. Annual reports are normally issued regularly within timelines.	Not required.
8. Reporting and monitoring	Low	Comprehensive monthly and quarterly financial management reporting systems are in place with detailed guidelines issued by the finance department of NWPGCL	Not required.
Overall Control Risk	Moderate		
	Some financial management risks are recognized, but most of them are can be measured by mitigation measures		
Overall Combined Risk	Moderate		

ADB = Asian Development Bank, BPDP = Bangladesh Power Development Board, CAG = comptroller auditor general, DPP = development project proposal, ERP= enterprise resource planning, ICAB = Institute of Chartered Accountants Bangladesh, NWPGCL= North-West Power Generation Company Limited, PPA = power purchase agreement, PFM = public financial management.

Source: Asian Development Bank.

IV. PROPOSED ACTION PLAN

54. NWPGL and ADB have agreed an action plan to address the following issues that the FMA identified. The financial management action plan is provided in Table 2.

Table 2: Risks and Mitigation Plan

Risk Description	Mitigation Actions	Responsibility	Timeframe
Incomplete information reporting systems: Currently, accounting, financing and fixed asset recording are done manually using spreadsheets.	NWPGL established an overall ERP implementation plan (accounting, financing, human resource and procurement) and will expand its plan including the preparation of Bidding document for ERP solution procurement, inventory with support from JICA-funded consulting for full implementation of ERP system.	NWPGL	Expected timelines for deployment of the ERP solution to be submitted by December 2017. Bidding document for ERP solution procurement to be issued by June 2018. ERP system fully implemented by December 2020.
Strengthening manpower: The level of staffing is adequate for its current operation. However, need to increase staffs and provide adequate training considering future development projects.	Prepare a long-term staffing and training plan for next five years.	NWPGL	Long-term human resource plan including manpower strength and job description submitted by December 2018
Improving the finance function for efficient financial management of the expected growing external borrowing; currently, NWPGL has one position for DGM (accounts and finance) under GM (accounts and finance)	Separate account and finance function to focus its own activities Financial covenants relating to Debt to Equity ratio and DSCR incorporated to review financial status of NWPGL	NWPGL NWPGL	Separate positions for DGM (Accounts) and DGM (Finance) by December 2018. Audited annual financial report submitted within 6 months from the closing date of financial year.

DSCR = debt service coverage ratio, DGM = deputy general manager, ERP = enterprise resource planning, GM = general manager, NWPGL = North-West Power Generation Company Limited, JICA = Japan International Cooperation Agency.

Source: Asian Development Bank's assessment.

V. SUGGESTED FINANCIAL COVENANTS

55. ADB and NWPGL have agreed to the following financial covenants. NWPGL will comply with (i) the debt-equity ratio shall not exceed 80:20 from 30 June 2019 onwards; (ii) the debt service coverage ratio shall not be less than 1.2 from 30 June 2019 onwards, thereafter; (iii) the annual accounts receivable ratio is maintained at 75 days by 30 June 2019; and (iv) the ratio of total operating expenses to total operating revenue shall not exceed 85% at all times.

Annex 1

PEFA Scores in 2015 Using 2016 Framework

PFM Performance Indicator	2015 Rating
Pillar I. Budget reliability	
PI-1. Aggregate expenditure outturn	B
PI-2. Expenditure composition outturn	D+
PI-3. Revenue outturn	C
Pillar II. Transparency of public finances	
PI-4. Budget classification	C
PI-5. Budget documentation	B
PI-6. Central government operations outside financial reports	D
PI-7. Transfers to subnational governments	D+
PI-8. Performance information for service delivery	D+
PI-9. Public access to fiscal information	D
Pillar III. Management of Assets and Liabilities	
PI-10. Fiscal risk reporting	D+
PI-11. Public investment management	C
PI-12. Public asset management	D+
PI-13. Debt management	B
Pillar IV. Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	D+
PI-15. Fiscal strategy	B
PI-16. Medium-term Perspective in expenditure Budgeting	C+
PI-17. Budget preparation process	B
PI-18. Legislative scrutiny of budgets	C+
Pillar V. Predictability and Control in Budget Execution	
PI-19. Revenue administration	D+
PI-20. Accounting for revenue	C+
PI-21. Predictability of in-year resource allocation	B+
PI-22. Expenditure arrears	D
PI-23. Payroll controls	C+
PI-24. Procurement management	B
PI-25. Internal controls on non-salary expenditure	C
PI-26. Internal audit	D
Pillar VI. Accounting and Reporting	
PI-27. Financial data integrity	C+
PI-28. In-year budget reports	C+
PI-29. Annual financial reports	D+
Pillar VII. External Scrutiny and Audit	
PI-30. External audit	D+
PI-31. Legislative scrutiny of audit reports	B

Note: A rating of "A" corresponds to international-level practice; "B" to good to medium performance; "C" to medium to poor performance; and "D" indicates process or procedure does not exist at all or it is not functioning effectively. Source: Government of Bangladesh. 2016. *Public Financial Management Performance Report and Public Expenditure and Financial Accountability*. Dhaka.

Annex 2

Comparison of PEFA Scores of 2010 and 2015 Using 2011 Framework

PFM Performance Indicator	2010	2015
A. PFM-OUT-TURNS: (1) Credibility of the Budget		
PI-1. Aggregate expenditure outturn compared to original approved budget	B	C
PI-2. Composition of expenditure outturn compared to original approved budget	D+	D+
PI-3. Aggregate revenue outturn compared to original approved budget	B	D
PI-4. Stock and monitoring of expenditure payment arrears	n.a.	n.a.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5. Classification of the budget	B	C
PI-6. Comprehensiveness of information included in budget documentation	B	A
PI-7. Extent of unreported government operations	B	n.a.
PI-8. Transparency of intergovernmental fiscal relations	D	D+
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	D+	D+
PI-10. Public access to key fiscal information	B	B
C. BUDGET CYCLE		
C (i) Policy-Based Budgeting		
PI-11. PI-11 Orderliness and participation in the annual budget process	B	A
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	B	B+
C(ii) Predictability and Control in Budget Execution		
PI-13. Transparency of taxpayer obligations and liabilities	C	C
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	C	B
PI-15. Effectiveness in collection of tax payments	D	n.a.
PI-16. Predictability in the availability of funds for commitment of expenditures	C+	B+
PI-17. Recording and management of cash balances, debt and guarantees	C+	C+
PI-18. Effectiveness of payroll controls	D+	C+
PI-19. Competition, value for money and controls in procurement	B	B
PI-20. Effectiveness of internal controls for non-salary expenditure	D+	D+
PI-21. Effectiveness of internal audit	D	D
C(iii) Accounting, Recording and Reporting		
PI-22. Timeliness and regularity of accounts reconciliation	B	D
PI-23. Availability of information on resources received by service delivery units	D	A
PI-24. Quality and timeliness of in-year budget reports	C+	C+
PI-25. Quality and timeliness of annual financial statements	D+	D+
C(iv) External Scrutiny and Audit		
PI-26. Scope, nature and follow-up of external audit	D+	D+
PI-27. Legislative scrutiny of the annual budget law	D+	D+
PI-28. Legislative scrutiny of external audit reports	D+	D+

n.a. = not available, PEFA = public expenditure and financial assessment, PFM = public financial management.

Note: A rating of "A" corresponds to international-level practice; "B" to good to medium performance; "C" to medium to poor performance; and "D" indicates process or procedure does not exist at all or it is not functioning effectively. Source: Government of Bangladesh. 2016. *Public Financial Management Performance Report and Public Expenditure and Financial Accountability*. Dhaka.

Annex 3

NWPGL's Current Projects and Expansion Plan

Name of the Projects	Fuel Type	Capacity (MW)	Expected COD
Projects to be finished			
Sirajganj 150 MW Power Plant ^a	Gas	150	Dec 2012
Upgradation of Sirajganj Power Plant to 225 MW CCPP ^a	n.a	225	July 2014
Khulna 150 MW Power Plant ^a	Gas	150	Sep 2013
Upgradation of Khulna Power Plant to 225 MW CCPP ^a	n.a	225	June 2016
Bheramara CCPP Development Project (Simple Cycle) ^b	Gas/HSD	272	May 2017
Total: 5 projects finished	-	722	-
Ongoing Projects			
Bheramara CCPP Development (Steam Turbine)	n.a	132	Dec 2017
Sirajganj Combined Cycle Power Plant (2nd Unit)	Gas/HSD	220	Dec 2017
Sirajganj Combined Cycle Power Plant (3rd Unit)	Gas/HSD	220	Sep 2018
Sirajganj 400 MW Combined Cycle Power Plant	Gas/HSD	220	Sep 2018
Payra 1320 MW Thermal Power Plant	Imported Coal	1,320	Oct 2019
Madhumati 100 MW HFO Based Power Plant	HFO	100	Oct 2018
Rupsha 800 MW Combined Cycle Power Plant	Gas/ HSD	800	Sep 2020
Total: 7 projects are ongoing	-	3,206	-
Future Projects			
Faridpur 100 MW Grid Connected PV Solar Power Plant	Solar	100	Dec 2020
Pabna 60 MW Grid Connected Photovoltaic Solar Power Plant	Solar	60	Dec 2019
Payra 3,600 MW LNG-to-Power Plant Project	LNG	3,600	June 2023
Payra 1,320 MW Thermal Power Plant (2nd Phase)	Imported Coal	1,320	Dec 2021
Payra 100 MW Solar Power Plant Project	Solar	100	June 2022
Payra 50 MW Wind Power Plant Project	Wind	50	June 2021
Bheramara 400 MW CCPP (2nd Phase)	Gas/HSD	400	June 2028
Dighipara 1000 MW Ultra Super Critical Thermal Power Plant	Domestic coal	1000	June 2032
Total: 8 projects will implement	-	6630	-

CCPP = combined cycle power plant, Dec = December, HFO = heavy fuel oil, HSD = high speed diesel, LNG = liquefied natural gas, MW = megawatt, n.a. = not available, Oct = October, PV = photovoltaic, Sep = September.

^a ADB financed projects.

^b JICA financed project.

Annex 4

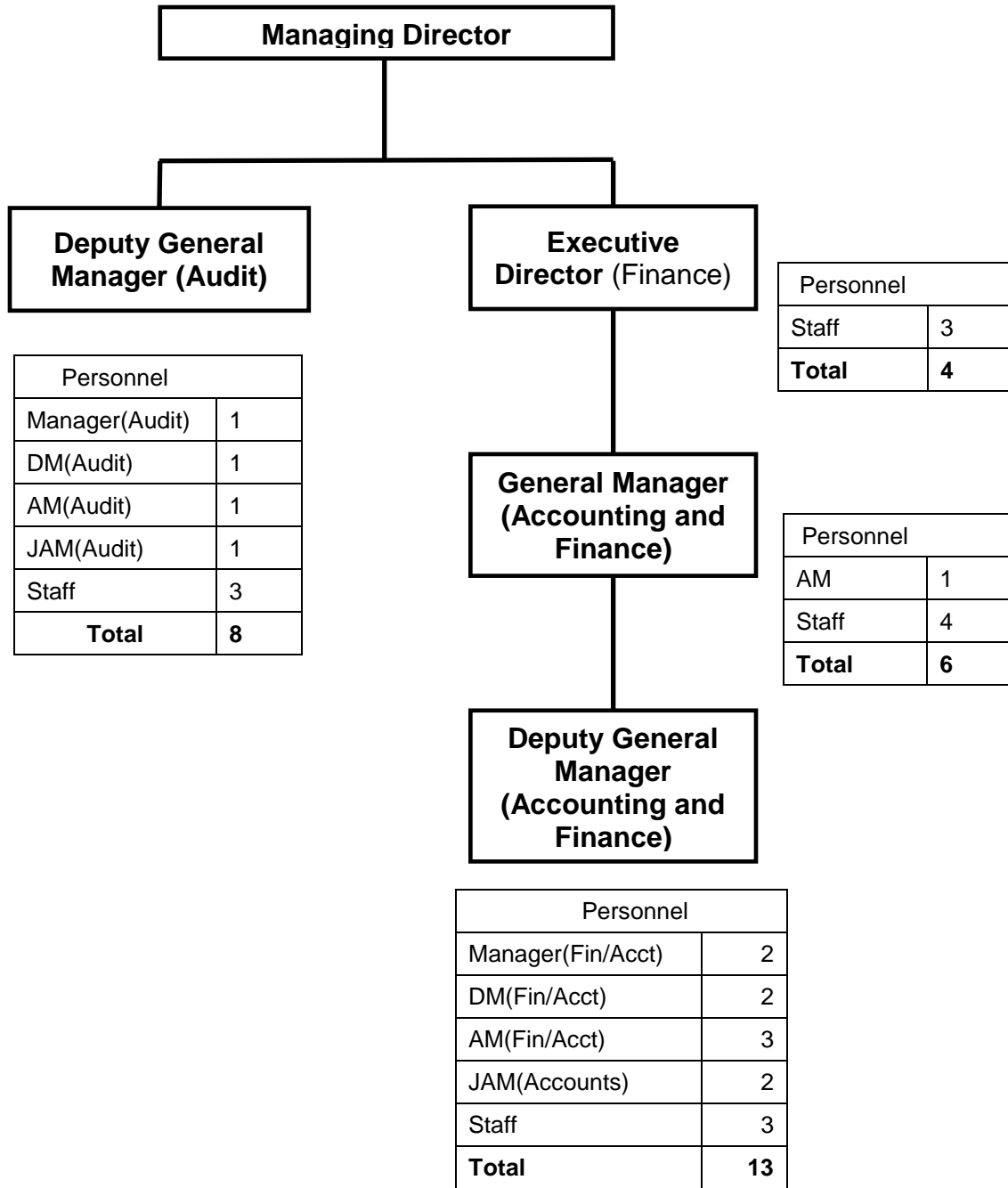
Scope of Work and Outcome of Consulting Service

Scope of Work	Outcome / Deliverable Submitted
1. Corporate Management Plan / Human Resource Management Plan	<ul style="list-style-type: none"> • As-Is study of Organization Structure and Roles and Responsibilities for Corporate, Projects (Bheramara), and Plant (Khulna and Sirajganj) • Proposed Organization structure for Corporate Office, Projects & Plants • Proposed Manpower and Job Description • Study of existing welfare policy practices & proposed welfare policy • Proposed Training and Development Policy • Proposed Incentive policy and Calculator • Proposed Promotion Policy
2. Preparatory Works for Establishing Financial and Accounting System	<ul style="list-style-type: none"> • ERP and Terms of Reference report • Accounting Policies Report / Chart of Accounts • Financial Policies report • Integrated Business Processes report • Costing Manual • Budgeting Manual/ Accounting Manual • Cash & Treasury Accounting Manual • Employee Benefits Accounting Manual • Stores & Inventory Manual • Project, CWIP and Fixed Assets Accounting Manual • Accounts Payable Accounting Manual • Accounts Receivable Accounting Manual • General Ledger Process & Accounting • Internal Audit Manual • Final Accounts Consolidation Process & MIS
3. Promotion of TQM (Total Quality Management)	<ul style="list-style-type: none"> • Evaluation of existing TQM practices in Bangladesh Power Sector. • Assisting in establishing TQM Promotion Office. • Assisting TQM Promotion Office in preparing TQM Promotion Plan • Assisting TQM Promotion Office in undertaking OJT (On Job Training) training. • Final Report on TQM Implementation at NWPGL
4. Introduction of Performance Management System	<ul style="list-style-type: none"> • Review of available performance evaluation and promotion system in Bangladesh power utilities • Gap analysis in current performance evaluation and promotion system in Bangladesh power utilities • Conducted dissemination workshop-I covering proposed PMS framework and departmental scorecards • Conducted dissemination workshop-II on detailed recommendations workshop with forms, cascade of organizational scorecard to departments.
5. Consulting service to establish Integrated Management System	<ul style="list-style-type: none"> • Inception Report / Gap Analysis Report • Process Mapping Report • Submission of Quality Documentation as per the requirements of IMS • Training to internal core team of NWPGL on IMS aspects • Shadow audit at Corporate Office, Sirajganj & Khulna Power Plants • Inception Report was submitted in October 2015. • Gap Analysis Report was submitted in October 2015. • Process Mapping Report was submitted in November 2015 • IMS Documentation for Corporate Office, Sirajganj Power Plant and Khulna Power Plant was submitted in November & December 2015 and January 2016.

CWIP = capital work in progress, ERP = enterprise resource planning, IMS = integrated management system, MIS = management information system, PMS = performance management system.

Annex 5

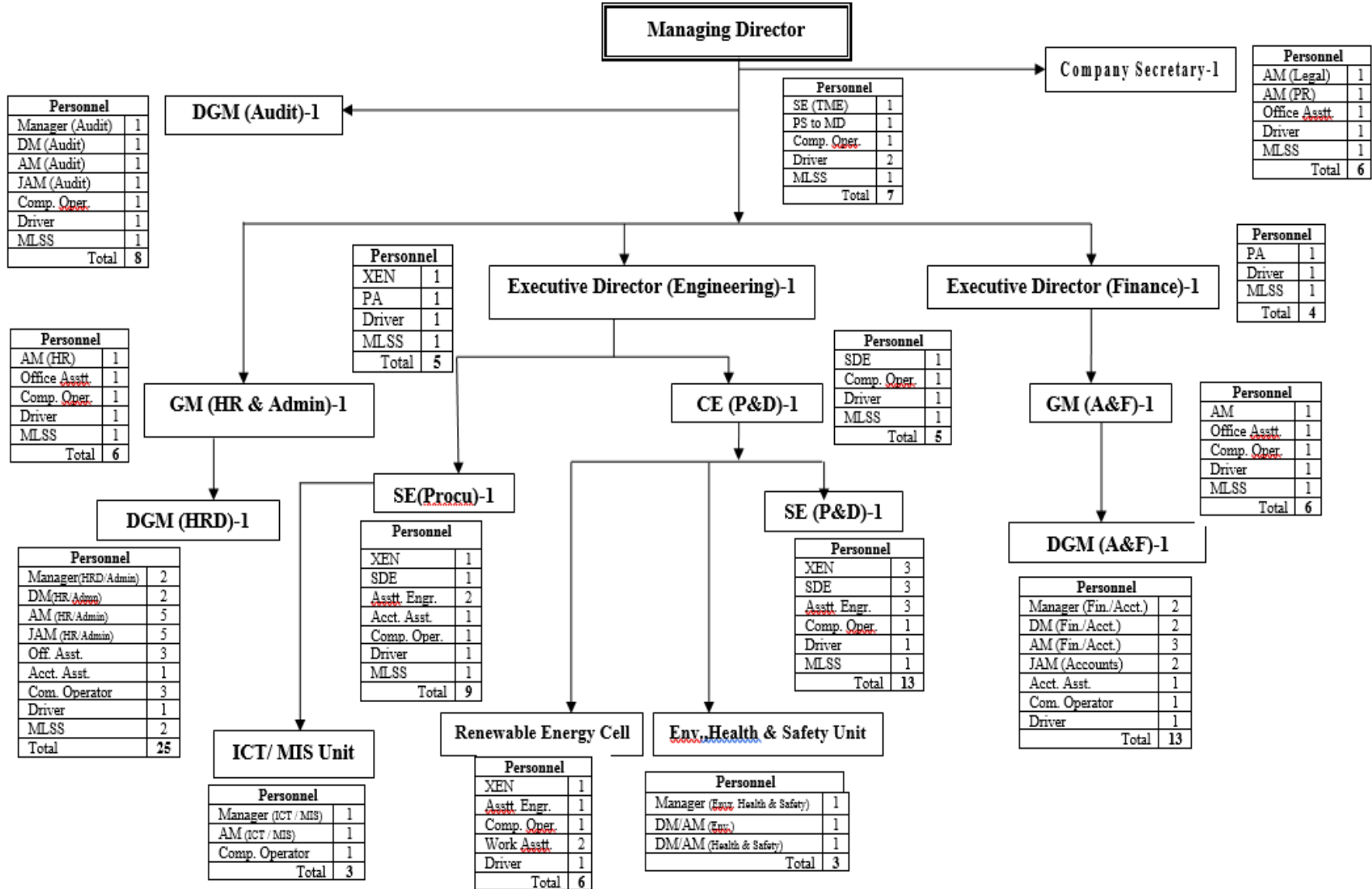
Organization of Finance Function of NWPGL



Acct = accounting, AM = associate manager, DM = deputy manager, Fin = finance, JAM = junior associate manager.

Annex 6

Organization Chart of Corporate Office of NWPGL (As of Nov 2017)



AM = associate manager, DGM = deputy general manager, DM = deputy manager, GM = general manager, JAM = junior associate manager.

Annex 7

Financial Management Assessment Questionnaire for NWPGL

Financial Management Assessment Questionnaire¹⁰

(Note: This questionnaire should be used as a tool only to gather information relevant for assessing financial management capacity of executing and implementing agencies. It may be used selectively for second subsequent projects, or periodic financing reports. Additional questions may be required as deemed fit).

Topic	Response	Potential Risk Event
1. Executing / Implementing Agency		
1.1 What is the entity's legal status / registration?	Public limited Company registered under Companies Act 1994.	
1.2 How much equity (shareholding) is owned by the Government?	The company is 100% owned by BPDP.	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ¹¹	The company is 100% owned by BPDP.	
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	<ul style="list-style-type: none"> • Khulna 225MW – funded by ADB • Shirajganj 225 MW - funded by ADB • 360 MW Bheramara under construction (estimated COD June 2017) 	
1.5 Briefly describe the statutory reporting requirements for the entity.	Company follows reporting under Company's Act 1994, taxation under National Board of Revenue and license issued by Bangladesh	

¹⁰ This questionnaire should be administered by ADB staff or consultant (the Reviewer), and utilized only to obtain information, and to identify and describe potential risk events. Rating of risks should be carried out separately by assessing their likelihood and impact.

¹¹ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Potential Risk Event
	Energy Regulatory Commission	
1.6 Describe the regulatory or supervisory agency of the entity.	The company is under supervision by BPDB, Power Division of Ministry of Power Energy and Mineral Resources, and IMED (under Planning Commission)	
1.7 What is the governing body for the project? Is the governing body for the project independent?	A Project implementation Unit under leadership of Project Director (PD) has been formed. PD Reports to Director (Technical) – Engineering.	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Organization structure attached. The company is headed by Managing Director, has 2 Executive Directors followed by GMs and DGMs. Total staff strength is 590 people. The project is headed by PD and Deputy PD and is expected to be manned by 70 people across various functions like Mechanical, Civil, Electrical, Accounts and Finance.	

Topic	Response	Potential Risk Event
1.9 Does the entity have a Code of Ethics in place?	Company follows all guidelines established by Securities Exchange Commission. However, at company level there is no separate Code of Ethics	
1.10 Describe (if any) any historical issues report of ethics violations involving the entity and management. How were they addressed?	None	
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.	Of the GOB portion 60% will be equity and 40% will be loan.	
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?	None	
2.5 In which bank will the Imprest Account (if applicable) be established?	To be maintained in a State Owned Schedule Commercial Bank. Separate Bank Account will be maintained.	
2.6 Is the bank in which the imprest account is established capable of – <ul style="list-style-type: none"> • Executing foreign and local currency transactions? • Issuing and administering letters of credit (LC)? • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 	Yes Yes Yes Yes Foreign currency Project Aid (PA) portion directly routed to	

Topic	Response	Potential Risk Event
	contractors. And Foreign Currency (GoB portion and local currency through State Owned Schedule commercial banks.	
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	NA	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	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.	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.	Yes, During Construction period there are Some provisions kept in the DPP cost budgeting. Operational period is met through operating expenses. However the Forex variation is passed on to BPDB in power purchase cost.	
2.11 How are the counterpart funds accessed?	Budget is prepared as per DPP and approved by GOB.	
2.12 How are payments made from the counterpart funds?	Payments are made in accordance with Annual	

Topic	Response	Potential Risk Event
	Development Program, following Government rules.	
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?	NA	
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?	Yes Company would contribute in terms of field establishment, allocation of manpower for the project.	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Accounts and Finance department is headed by Executive Director (Finance) followed by a GM and a DGM. The department has over 20 people.	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Existing staff will be used. Some new manpower may be required to be recruited.	
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.	Proposed organogram for the project attached. CVs of key staff Accounts and Finance department attached.	
3.4 Is the project finance and accounting function staffed adequately?	Yes, however based on the new projects planned, staff may be required	

Topic	Response	Potential Risk Event
	to be augmented.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	<p>1 GM, 1 DGM – Finance and accounts, DGM – audit. In future the company expects 2 positions for DGM – Finance, DGM accounts.</p> <p>GM has M.Com (accounting), MBA (Finance), CMA degree and over 24 years of experience. DGM has M.Com degree and over 19 years of experience.</p>	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes	
3.7 What is the duration of the contract with the project finance and accounting staff?	Normally on 3 years contract and extendable up to attaining of 60 years age.	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	The key positions are manned currently however staff might be added as projects increase.	
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.	The recruitment of new staff will be in line with company's policies which specify role qualifications and requirements.	

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 the officers, managers, and staff?	Yes	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Negligible.	
3.12 What is training policy for the finance and accounting staff?	Company has a training calendar including finance training.	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	A list of training programs attended in last year attached.	
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?	Accounts are maintained in Excel. A consultant (Deloitte- India) has been appointed to review and suggest system requirements.	
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.	Presently NWPGL is using the Chart of accounts of BPDB with some modifications. Consultant Deloitte has submitted a chart of accounts for NWPGL which is under review and after getting approval from Board revised version will be used.	

Topic	Response	Potential Risk Event
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 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?	As per requirement of Law all financial documents are retained for 12 years. Hard copies are preserved. Yes.	
4.7 Describe any previous audit findings that have not been addressed.	None	
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	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
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	
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Variation beyond 10% requires prior approval.	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Variations up to 10% require approval from Ministry of	

Topic	Response	Potential Risk Event
	Power, Energy and Mineral Resources and beyond 10% require approval of Planning Commission.	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	<p>Divisional Head (MD and Directors) and Project Director.</p> <p>Monitoring responsibility is with Ministry and IMED (Implementation, Monitoring and Evaluation Division</p>	
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?	PIU based on the assessment of the project prepare the ADP and submit to Ministry and onwards for approval from Planning commission.	
<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</p> <p>No.</p> <p>No.</p> <p>The budget estimates have been nearly 100% of the actual amount and no significant instances of</p>	

Topic	Response	Potential Risk Event
	under or over budgeting.	
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 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?	Yes Yes Yes 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?	Yes	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes 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?	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?	The company follows Company's Act, International Bangladesh Accounting Standards (BAS), Bangladesh Financial Reporting Standards (BFRS), IAS and IFRS Accrual Basis of Accounting are followed.	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes	

Topic	Response	Potential Risk Event
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	A management consultant has been appointed to review and suggest changes. Report has been submitted. Changes are still to be implemented.	
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?	Any change in accounting policy will require approval of Board based on recommendation by Audit and Finance committee.	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Currently there are no written manuals, procedures as per erstwhile BPDB norms is followed and the manuals are under finalization by the consultant.	
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?	NA	
4.29 Describe how compliance with policies and procedures are verified and monitored.	The company has an Internal Audit Department headed by DGM (Audit). Being a public limited company as per requirement of Law Company engage Audit Firm (Chartered Accountant) for Yearly Accounts Audit. Apart	

Topic	Response	Potential Risk Event
	from this Comptroller of Auditor General conducts an audit for Foreign Aided Projects and GoB funded Projects.	
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.	For the project – PD and Finance In charge. For the corporate- Managing Director, Executive Director (Finance), GM (Accounts and Finance)	
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?	BPDB is single buyer. Payments are received through bank transfer. NA	
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, Monthly NA Yearly reconciliation of Cash.	
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?	There has been no such incidence. Unusual items would require reporting and approval.	
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.	No	
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Assets are recorded and systematically managed through Asset register and log of inventory is maintained. Also, insurance is taken as per company policy.	
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 Updated based on frequency of transactions. No.	
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 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	
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?	A committee is formed to evaluate the usability and residual life. Based on salvage value and utility of assets, a decision to abandon or sale is taken. Based on type and value of asset decision on	

Topic	Response	Potential Risk Event
	disposal is taken.	
4.46 Are assets sufficiently covered by insurance policies?	Yes	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Currently there are no fully depreciated assets.	
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	NA	
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.	NA	
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?	NA	
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?	NA	
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.	NA	
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.	NA	
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?	Yes Yes	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
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	Yes Yes	

Topic	Response	Potential Risk Event
report if they suspect fraud, waste or misuse of project resources or property?		
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	Yes	
5.2 What are the qualifications and experience of the IA staff?	<p>1. DGM (Audit):- Qualification- M.Com (Acc), MBA- (Finance), experience- 16 Years (12 years in Project Financing, Drawing & Disbursement, Budgeting, Audit, 4 years in Internal Audit)</p> <p>2. DM (Audit):- Qualification- M.Com. (Mgt), Experience- 10 years (Managerial Function, Bill Collection, Internal Audit)</p> <p>3. AM (Audit)-1: Qualification- MBA (Finance) Experience- 1.5 years in internal auditing)</p> <p>4. AM (Audit)-2- Qualification- MBA (AIS), Experience- 6 months in internal auditing</p>	
5.3 To whom does the head of the internal audit report?	Board through MD and Audit Committee	
5.4 Will the internal audit department include the project in its annual work program?	Yes	

Topic	Response	Potential Risk Event
5.5 Are actions taken on the internal audit findings?	Yes	
5.6 What is the scope of the internal audit program? How was it developed?	<p>The scope of internal audit includes-</p> <ul style="list-style-type: none"> • Verification of invoice/bill, Books of Accounts, various registers, Bank reconciliation Statements. • Compliance with internal rules and regulation such as Delegation, Service Rules, DPP, RDPP, APP, Tender documents/ Contracts, • Compliance with relevant laws and regulations such as Income Tax & VAT Laws, PPA-2006 & PPR-2008 and subsequent amendments. • Compliance with donor agencies disbursement procedures, LA, SLA • Compliance with accounting standard for presentation of financial statements • Verification of Budgetary 	

Topic	Response	Potential Risk Event
	Control Mechanism. <ul style="list-style-type: none"> • Verification of timely repayments of IDC and DSL. • Physical verification of Assets and Stores etc. • Internal audit department also takes necessary steps to meet up Govt. Audit Objections of different projects under NWPGL. It is developed by audit department by taking consent from MD and Board.	
5.7 Is the IA department independent?	Yes	
5.8 Do they perform pre-audit of transactions?	No.	
5.9 Who approves the internal audit program?	Managing Director	
5.10 What standards guide the internal audit program?	Delegation of Financial Power, Service Rules, Income Tax and VAT Laws, Public Procurement Law-2006 and Rule-2008, Company Act-1994, General Financial Rules, Bangladesh Accounting Standard, Bangladesh Standard on Auditing, Various	

Topic	Response	Potential Risk Event
	management policies,	
5.11 How are audit deficiencies tracked?	Teams assessment is reviewed and monitored by DGM (Audit)	
5.12 How long have the internal audit staff members been with the organization?	6 months to 8 years	
5.13 Does any of the internal audit staff have an IT background?	No	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Quarterly	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Yes, issues like Fixed assets register is not maintained properly, physical verification not conducted in proper time.	
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)?	Yes	
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes Auditor – Hoda Vasi Chowdhary & Co.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. For every financial year the audit report is finalized by October and Annual report published in December.	
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?	Yes	
6.4 Were there any major accountability issues noted in the audit report for the past three years?	Not significant.	

Topic	Response	Potential Risk Event
6.5 Does the external auditor meet with the audit committee without the presence of management?	Yes	
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?	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)?	Yes	
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?	Yes	
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No	
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 Foreign Aided Project Audit Department (FAPAD)	
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?	Yes Yes	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	NA	
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)?	Yes	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	

Topic	Response	Potential Risk Event
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?	Yes No	
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?	Monthly, audited yearly Yes	
7.4 Does the entity reporting system need to be adapted for project reporting?	Yes	
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?	Yes	
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?	In MS Excel Prepared on spreadsheets and transferred	
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 Review and approval mechanisms are there, however currently no systems as such.	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	JICA ECA – Standard Chartered Bank	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	No.	
8.2 If computerized, is the software off-the-shelf, or customized?	NA	

Topic	Response	Potential Risk Event
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	NA	
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?	Manual	
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?	No	
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?	NA	
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?	Backup is maintained on CDs.	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Back-up is maintained on CDs.	