

# Financial Management Assessment

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June 2016  
Project Number 47024-004

Islamic Republic of Pakistan: Pehur High Level  
Canal Extension Project



## FINANCIAL MANAGEMENT ASSESSMENT

### ABBREVIATIONS

ADB	- Asian Development Bank
AGAs	- Autonomous Government Agencies
AGP	- Auditor General of Pakistan
AGPR	- Accountant General Pakistan Revenue
APFS	- annual project financial statements
AR	- audit report
CFAO	- Chief Finance and Accounting Officers
CGA	- Controller General of Accounts
CLA	- Controller Local Audit
DGSD	- Directorate General Small Dams
EA	- executing agency
EAD	- Economic Affairs Department
FAM	- Financial Audit Manual
FMA	- Financial Management Assessment
FMAQ	- Financial Management Assessment Questionnaire
FMS	- financial management specialist
GFMIS	- Government Financial Management Information System
GoKP	- Government of Khyber Pakhtunkhwa
IA	- implementing agency
INTOSAI	- International Organization of Supreme Audit Institutions
IPSAS	- International Public Sector Accounting Standards
ISPPIA	- International Standards for the Professional Practice in Internal Audit
KPAD	- Khyber Pakhtunkhwa Agriculture Department
KPID	- Khyber Pakhtunkhwa Irrigation Department
MAG	- Military Accountant General
MDAs	- Ministries, Department and Agencies
ML	- management letter
NAM	- New Accounting Model
OFWM	- On Farm Water Management
PAC	- Public Accounts Committee
PAO	- Principal Account Officer
P&DD	- Planning and Development Department
PEFA	- public expenditure and financial accountability assessment
PEs	- Public Enterprises
PFM	- Public Finance Management
PIFRA	- Project to Improve Financial Reporting and Auditing
PIO	- Project Implementation Office
PMO	- Project Management Office
PSC	- Project Steering Committee
SBP	- State Bank of Pakistan
SAI	- Supreme Audit Institution
SOE	- statement of expenditures
WA	- withdrawal application
WB	- World Bank



## A. Introduction

1. The country public financial management (PFM) system was assessed by reviewing a public expenditure and financial accountability assessment completed in June 2012. Financial Management assessments (FMA) have been performed on executing and implementing agencies (EA/IA) which will be the recipients of ADB Loan. 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*<sup>1</sup>, *Financial Due Diligence: A Methodology Note*<sup>2</sup>, and *Financial Management Technical Guidance Note*<sup>3</sup>. 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. Financial Management Assessment Questionnaire (FMAQ) was prepared, discussed with EA/IA, and assessed (**Attachment 1 and 2**). 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 June 2012 was reviewed. The latest report indicates that overall only 13 indicators, about 42 percent of total indicators for PFM system of Pakistan, score well<sup>4</sup>, shown in Table 1. Relatively strong performance was found for budget credibility (PI 1 and 3), for comprehensiveness and transparency (PI 5-6, 8 and 10), and for Policy-Based Budgeting (PI 11-12), but weak in most of other dimensions. Areas which were found to be weaker include overall internal control (PI 19-21), accounting, recording and reporting (PI 22, 24-25), and external scrutiny and audit (PI 27-28).

**Table 1 Summary of Performance Indicator Ratings in 2012 PEFA Assessments**

Indicators	Dimension	PEFA Score	Risk Rating
	<b>A. BUDGET CREDIBILITY</b>		
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	Moderate
PI-2	Composition of expenditure out-turn compared to original approved budget	C+	Substantial
PI-3	Aggregate revenue out-turn compared to original approved budget	B	Moderate
PI-4	Stock and monitoring of expenditure payment arrears	NA	
	<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>		
PI-5	Classification of the budget	A	Low
PI-6	Comprehensiveness of information included in budget documentation	A	Low

<sup>1</sup> ADB. 2005. *Guidelines for the Financial Management and Analysis of Project*. Manila.

<sup>2</sup> ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

<sup>3</sup> ADB. 2015. *Financial Management Technical Guidance Note*.

<sup>4</sup> B and above rating given for these indicators.

PI-7	Extent of unreported government operations	C+	Substantial
PI-8	Transparency of inter-governmental fiscal relations	A	Low
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C+	Substantial
PI-10	Public access to key fiscal information	B	Moderate
<b>C. BUDGET CYCLE</b>			
<b>C (i) Policy-Based Budgeting</b>			
PI-11	Orderliness and participation in the annual budget process	A	Low
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+	Moderate
<b>Revenue Administration</b>			
PI-13	Transparency of taxpayer obligations and liabilities	B	Moderate
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+	Substantial
PI-15	Effectiveness in collection of tax payments	D+	High
<b>Budget Execution &amp; Cash/Debt Management</b>			
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	Substantial
PI-17	Recording and management of cash balances, debt and guarantees	B+	Moderate
<b>Internal Controls</b>			
PI-18	Effectiveness of payroll controls	B+	Moderate
PI-19	Transparency, competition and complaints mechanisms in procurement	D+	High
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	Substantial
PI-21	Effectiveness of internal audit	D	High
<b>C (iii) Accounting, Recording and Reporting</b>			
PI-22	Timeliness and regularity of accounts reconciliation	D+	High
PI-23	Availability of information on resources received by service delivery units	NA	
PI-24	Quality and timeliness of in-year budget reports	C+	Substantial
PI-25	Quality and timeliness of annual financial statements	C+	Substantial
<b>C (iv) External Scrutiny and Audit</b>			
PI-26	Scope, nature and follow-up of external audit	B	Moderate
PI-27	Legislative scrutiny of the annual budget law	C+	Substantial
PI-28	Legislative scrutiny of external audit reports	D+	High
<b>D. Donor Practices</b>			
D-1	Predictability of Direct Budget Support	A	Low
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	Substantial
D-3	Proportion of aid that is managed by use of national procedures	D	High

## 2. Internal Controls

4. Internal control for payroll controls is effective. Internal control for non-salary expenditure is strong in the dimensions of effectiveness of expenditure commitment controls and comprehensiveness, relevance and understanding of other internal control rules and procedures, but less effective in degree of compliance with rules for processing and recording transactions.

5. Procurement related internal control is weak. It is strong in the dimensions of legal and regulatory framework, but weak in use of competitive procurement methods, public access to complete, reliable and timely procurement information, and existence of an independent administrative procurement complaint system. Audit observations highlight use of other than competitive method of bidding without proper justification. There is a lack of complete and reliable data for public.

6. Internal audit is weak and not effective in all dimensions. The internal audit function exists in certain Autonomous Government Agencies (AGAs) and Public Enterprises (PEs) operating under corporate legislation. The internal audit function in the civil administration is responsibility of Chief Finance and Accounting Officers (CFAO), but has not been developed as an effective administrative control function. Ministry of Foreign Affairs has its internal audit department functioning under CFAO. In other Ministries, Department and Agencies (MDAs) no significant improvements are evidenced. Military administration's internal audit is working under Controller Local Audit (CLA). There is lack of use of professional audit methods and compliance with International Standards for the Professional Practice in Internal Audit (ISPPIA)<sup>5</sup> or any other national/international standards. Data on staff time usage regarding system and transaction review is not available. The dimension of coverage and quality of the internal audit function is rated "D". The other 2 dimensions, including frequency and distribution of report and extent of management responses to internal audit findings, are also rated "D".

### **3. Accounting, Recording and Reporting.**

7. Timeliness and regularity of accounts reconciliation is weak in all dimensions, including regularity of bank reconciliation, and regularity of reconciliation and clearance of suspense accounts and advances. Bank reconciliations are conducted monthly but unresolved reconciliation differences remain. Receipt side reconciliation practices of treasury managed bank accounts are deficient. Monthly clearing house meetings are scheduled for all the accounting offices for reconciliation. Difference between Economic Affairs Department (EAD) and Accountant General Pakistan Revenue (AGPR) data exists for foreign funded projects. Practice of advances has been curtailed.

8. Accounting for the Federal Government follows the cash basis. The same chart of accounts is used for both budget formulation and execution. Payments of all MDAs are processed, recorded and reported centrally by AGPR and Military Accountant General (MAG) for all civil departments and military departments respectively. Civil government fiscal reports are generated from Government Financial Management Information System (GFMIS), every month giving detailed information of budget and actual spending. However, non-recording of expenditure at commitment level by MDA is a major deficiency in the financial management procedures. The usage of the GFMIS, application of New Accounting Model (NAM) and capacity building of accounting staff has strengthened the financial reporting mechanism. Commitment and liability accounting, provided for in NAM, is still not fully enforced. Expenditure is fully captured only at the payment stage. At the year-end all un-presented cheques and related expenditure is reversed and any liabilities not fully provided for in the next budget cannot be

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<sup>5</sup> International Standards for the Professional Practice in Internal Audit (ISPPIA), issued by the Institute of Internal Auditors.

honored. As expenditure is not fully covered at both commitment and payment stage, a rating of 'C' is given for dimension of scope of reports in terms of coverage and compatibility with budget estimates.

9. GFMS terminals are now available to most of the ministries of the government, and the Principal Account Officer (PAO) is provided with the budget and spending status on real time basis. Reports are produced every month from GFMS within 10 days, while State Bank of Pakistan (SBP) is reporting cash balance of Federal Government on daily basis. Timely information is thus made available for revision of budgets and where necessary approval of supplementary budget to meet urgent or emergency requirement. Data is considered credible and accurate.

10. Overall Quality and timeliness of annual financial statements was weak. Consolidated year-end financial statements are critical for transparency, and should be complete based on details for all ministries, independent departments and de-concentrated units. Completeness of financial statements is rated C, as annual cash based Financial Statements of Federal Government for the past 3 fiscal years (FY) (i) are lack of full information on financial assets and liabilities in accordance with NAM; (ii) a stand-alone notes on liabilities and assets provided no evidence in support of basis; (iii) do not capture fully the third party payments; (iv) do not contain consolidated financial information of independent departments; and (v) certain receipts from donors are not reflected in the financial statements. Timeliness of submission of the financial statements is rated A. Accounting standards used is rated C. Financial Statements are being prepared under cash basis of accounting and are compliant with the format given by the cash basis International Public Sector Accounting Standards (IPSAS). NAM was developed using modified cash basis of accounting, which required recording and reporting of liabilities and assets as notes to the financial statements. The financial statements are yet not fully compliant with cash basis IPSAS or NAM. Third party payments need to be disclosed separately in financial statements under the IPSAS cash basis for which a column has been included but no amounts are reported.

#### **4. External Audit and Legislative Scrutiny**

11. A high quality external audit is an essential requirement for creating transparency in the use of public funds. Scope, nature and follow-up of external audit is strong. The Auditor General of Pakistan (AGP) is empowered under Articles 168 to 171 of the Constitution to audit the accounts of the Federation and of the Provinces and of any body or authority established by the Federation or a Province. The AGP Ordinance 2001 describes the powers of the AGP, including inspection of any accounts office or treasury of the Federation, Province or District; requisition accounts, books, papers and other documents for audit; and enquire or make such observations considered necessary for audit. At the time of preparing an annual audit plan for a fiscal year, AGP office selects ministries and allied departments in such a way that at least 75% of total expenditure is covered by the audit. The audit is based on risk and materiality assessments in line with the new Financial Audit Manual (FAM). International Organization of Supreme Audit Institutions (INTOSAI) auditing standards are adopted but some aspects are only partially implemented. The coverage is following a recurrent cycle ensuring that those MDAs or areas left out in one year, are covered in the next cycle. Performance audits are also done but do not follow an annual cycle. Adherence to international auditing standards requires independence of Supreme Audit Institution (SAI) and its staff. Pakistan made a significant improvement through legislation in 2001 by giving functional autonomy and independence to Controller General of Accounts (CGA) and AGP offices to address issue of independence to a major extent. However, appointment of AGP directly by the head of state, transfers and postings within CGA by the Auditor General are still threats to independence which need improvement to adhere to international auditing standards. The audited financial statements of the Federal Government



(as well as of the four provincial governments) are certified by the Auditor General. AGP commits to timely submit audit report to the President. Audit observations are communicated to audited organizations and formal response is requested within a dead line given by the AGP office. Unresolved audit observations are sent to Public Accounts Committee (PAC) for its scrutiny and directions.

12. Legislative scrutiny of the annual budget law is strong in the dimensions of (i) scrutiny scope covering fiscal policies and aggregates for coming years and detailed estimates of expenditure and revenue, and (ii) well established and respected procedures of the National Assembly. Clear rules of business for the government exist for in-year amendments of the budget without prior approval of the legislature, but they allow extensive administrative reallocation as well as expansion of total expenditure. The government has in theory an unlimited right to amend, change and reallocate the budget as no strict limits are set on the extent, the nature, or the timing of amendments for in-year budget amendments. All amendments are submitted *ex post* as Supplementary Grants to the legislature with the following year's budget proposal, and voted upon separately by the legislature. Overall the Legislative scrutiny is weak due to "C+" rating.

13. Legislative scrutiny of external audit reports is weak. In Pakistan the PAC is responsible for carrying out the legislative oversight of budget execution on behalf of National Assembly. The AGP under Article 171 submits its report to the president who causes it to be laid before both houses of the parliament. The PAC examines the accounts showing the appropriation of sums granted by the National Assembly for the expenditure of the Government, the annual finance accounts of the Government, the report of the AGP and such other matters as the Minister for Finance may refer to it. Details of the PAC hearings are recorded in a report with recommendations. The report of the Committee shall be presented to the National Assembly within a period of one year. The examination of the audit reports by the PAC has until recent years taken much more than 12 months to complete, in fact, there were several years of standstill when PAC was not working effectively. The PAC at the federal level has a long history of back logs and sometimes non-functionality and there are still some audit reports going as far back as 1998-99 that are now being discussed by the PAC. When the new PAC was formed in 2008 it inherited a backlog of 12 years of un-examined reports which they are by law bound to deal with. The new PAC has worked vigorously and adopted a two pronged strategy meaning that they examine the latest reports, first while at the same time dealing successively with the old pending reports. To make these examinations, the PAC has formed sub-committees to deal more effectively with the backlog.

14. **Government Reform Process and Capacity Building on Financial Reporting and Audit.** The World Bank funded program called Project to Improve Financial Reporting and Auditing (PIFRA) was to help Government establish an effective accounting, reporting and auditing system that complies with accepted standards, strengthen financial management and tighten internal controls, improve decision support system by generating information for management decision making, and enhance organizational and staff capacity. In the first phase of the Program from September 1996 to May 2005, NAM was developed and implemented through a GFMIS. A total of 31 sites achieved live status. In this phase New Chart of Accounts was developed and made operational. Most importantly, the functions of audit and accounts were separated through creation of the office of the Controller General of Accounts. In addition, modernization of audit was initiated through development of FAM. In this phase several hundred personnel were trained, a large exercise of data migration was undertaken, and a competency center was created that institutionalized specialist knowledge of systems and processes. The second phase started in May 2005, and designed to build on the achievements of PIFRA-I and implement new policies and procedures in all accounts / audit offices in the country. For

completion of some ongoing activities and to ensure system sustenance and consolidation, financial support for critical elements of PIFRA was extended up to June 2013.

15. In 2014, ADB provided a RETA 8697: Improving the Financial Management Capacity of Executing Agencies in Afghanistan and Pakistan, seeking to strengthen project financial reporting, auditing and executing agencies' accounting operations. ADB has a major concern of the quality and timeliness of about 120 audit reports and audited project financial statements each year in the two countries.

### **C. Financial Management Assessment on Executing and Implementing Agencies**

16. The impacts of proposed Pehur High Level Canal Extension Project (the Project) are: (i) irrigated agriculture area increased; and (ii) food security ensured by increasing at least 5% of real agricultural growth per year over the next decade in KPP. The outcome will be increased agricultural productivity in the project areas.

17. The key outputs of the project are:

- Output 1: Available water for agriculture-use increased in project areas.
- Output 2: Water-use skill and farm management capacity increased in project areas

18. **Implementation Arrangement.** A Project Steering Committee (PSC) established during the PPTA will continue during implementation stage. The PSC will provide oversight and policy guidance for the Project, review progress and make key decisions for the Project. The PSC is chaired by the additional chief secretary (development) from the Planning and Development Department (P&DD) and includes Secretaries of Khyber Pakhtunkhwa Irrigation Department (KPID) and Khyber Pakhtunkhwa Agriculture Department (KPAD), Member Board of Revenue, the Project Director and Consultants' team leader as members. The Project Director will be the secretary of the PSC.

19. KPID is the executing agency (EA) for the entire Project and Implementing Agency (IA) for Output 1 of the Project. A Project Management Office (PMO) will be established under KPID to supervise the project design and implementation. The PMO will be headed by a Project Director. The PMO will be responsible for financial management of the entire project, including managing the project funds, coordinating and allocating project funds to implementing agency (IA) for each component to expedite project implementation, and preparing consolidated project financial statement for auditing for the whole project. The PMO will implement Output 1 of the Project. The PMO will be located in Swabi.

20. KPAD will be the IA for Output 2 of the Project. KPAD will establish a Project Implementation Office (PIO) in Swabi to implement the Output 2.

21. KPID and KPAD were established as constitutional bodies through the Government of Khyber Pakhtunkhwa (GoKP) administrative management system. As an institution that follows the Chartered Accountants Ordinance, 1961, and Cost and Management Accountants Act 1966, as well as Cost and Management Accountants Regulations 1990 Rules and Regulations, 2001, accounting and financial personnel of the provincial government departments have a statutory reporting requirement. KPID and KPADs' organizational structures with different levels of hierarchy indicate specific responsibility and accountability. They both are headed by a Secretary who is the administrative head of the Department. As to the independence of the governing bodies is concerned, the project implementing agencies are not independent in terms of resources mobilization. It may be an advantage for the Project implementing as when Project

fund is available in their accounts they cannot divert those funds to other activities outside the Project loan agreements.

22. Directorate General Small Dams (DGSD) was established as an attached department to KPID. DGSD is responsible for exploitation and management of small dams system within the Province of Khyber Pakhtunkhwa, and its operation is under the direct direction and management of Secretary, Irrigation and guidelines from other line attached professional departments. As a result, KPID and DGSD are assessed in one FMAQ in **Attachment 1**.

23. On Farm Water Management (OFWM) Directorate General was established as an attached department to the KPAD. DG OFWM is responsible for (a) organization and establishment of water users associations, which can participate with the Government on cost sharing basis, (b) enhancing agricultural production through optimal use of irrigation water and improved water management and agronomic practices, and improving the overall application efficiency of irrigation system by providing training to the members of the water users association and OFWM staff. KPID and DG OFWM are assessed in one FMAQ in Attachment 2.

24. **Experiences with Donors.** Both KPID and KPAD indicated that they have received international development financing resources in the past, namely USAID, JICA, WB, and ADB. Although some staff would be experienced, finance personnel are subject to transfer every 3 to 5 years with a high probability of whole institutional memory is gone with the staff being transferred.

25. **Staffing.** To ensure a strong and capable workforce in place, the Government and ADB Fact-Finding Mission agreed to strengthen PMO's financial management by filling three positions in the PMO, including one Manager Accountant and two accountants. The PIO will also recruit one accountant. The PMO Manager accountant is responsible for the planning, financial reporting, and funds flow arrangements. The Manager Accountant will be responsible for general supervision over its accounting and administrative functions, verification of the payment supporting documentation and withdrawal application (WA), and preparation of project financial statements according to cash-based IPSAS or NAM. All accountants will be trained with ADB policies and procedures on disbursement, financial reporting and auditing.

26. The Accounts Service under the Accountant General of Khyber Pakhtunkhwa Province is entrusted with the responsibility to transfer, allocate and appoint accounting and finance staff to all the provincial government departments and agencies. Some staffs with experiences in handling donor assisted projects are conversant with the procedures related to international donors' disbursement procedures in general. However, since finance personnel are subject to transfer every 3 to 5 years, there is a high probability of whole institutional memory is gone with the staff being transferred. There is a need to provide training to the PMO and PIO staff on project financial reporting by ADB's RETA and on disbursement procedure.

27. **Planning and Budgeting.** Led by PMO Project Director, the project's budgets are to be prepared annually by chief accountant, FMS, PIO Head, and other management staff as appropriate. The budget will set annual physical and financial targets for Government approval. During project implementation the actual expenditures are 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.

28. **Cash and Bank.** The Project Director and the Chief Accountant will be the duly authorized signatories to all project bank transactions. Bank reconciliations are to be undertaken at the end of each month, or at any time as necessary.

29. **Internal Audit.** Internal Audit Sections are available and operational in KPID and KPAD. Their duty is to support the secretaries in verifying and controlling all the financial transactions occurred within the Departments. Most of the professional employees of internal auditing divisions have been graduated from universities. They have also been properly trained and regularly updated by the Director General, Audit's Office. Although control systems are available, they are operation in a limited manner. PEFA report assessed internal audit as weak and not effective in all dimensions, including coverage and quality of the internal audit function, frequency and distribution of report and extent of management responses to internal audit findings. There is lack of use of professional audit methods and compliance with ISPPIA or any other national / international standards.

30. **Information Systems.** As information systems in government departments and agencies are not fully computerized, all financial information required under the General Financial Rule and Delegation of Powers notified by the GoKP cannot be generated through these computerized accounting systems. However, the reporting mechanism and prescriptions are available and operational although some reports are prepared manually. Financial statements of all Project EA/IA are prepared on Excel spreadsheets on monthly basis, and generally prepared in a timely manner.

31. **Project Financial Reporting.** All financial statements including mandatory monthly reports for submission to the Department of Finance will be prepared by respective EA/IA through the Budget and Accounting Systems. Control systems are in place concerning the preparation and approval of transactions for all the concerned departments. There is a statutory requirement to retain all accounting and supporting documents for 10 years after the completion of audit. Financial Statements are being prepared under cash basis of accounting and are compliant with the format given by the cash basis IPSAS. New Accounting Model (NAM) was developed using modified cash basis of accounting, which required recording and reporting of liabilities and assets as notes to the financial statements. The financial statements are yet not fully compliant with cash basis IPSAS or NAM. The PMO will prepare annual project financial statements (APFS) consolidating both Output 1 and 2. The APFS for audit and submission to ADB will be prepared in line with cash basis IPSAS or NAM.

32. **External Audit.** The Director General, Audit of the KP Province audits all the provincial government departments, autonomous agencies and donor funded projects in the Province. The audit is based on risk and materiality assessments in line with the new Financial Audit Manual (FAM). INTOSAI auditing standards are adopted but some aspects are only partially implemented. Audit is usually focused on regularity and propriety. Physical verification and expenditure tracking is a must. All donor-funded projects are audited within the time frame stipulated in the project document subject to the submission of project financial statements within a reasonable period of time.

#### **D. Fiduciary Risk Assessment and Risk Mitigation Measures**

33. 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).

34. **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.

35. **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
<b>Inherent Risk</b>			
1. Internal controls	<p>Internal control for payroll controls is effective. Internal control for non-salary expenditure is less effective.</p> <p>Procurement related internal control is weak. It is strong in legal and regulatory framework, but weak in use of competitive procurement methods, public access to complete, reliable and timely procurement information, and existence of an independent administrative procurement complaint system.</p> <p>Internal audit is weak and not effective in all dimensions. There is lack of use of professional audit methods and compliance with ISPPA or any other national / international standards.</p>	H	Capacity building is essential to improve internal control.
2. Accounting and financial reporting	<p>Accounts reconciliation is weak in all dimensions.</p> <p>Quality and timeliness of in-year budget reports is weak due to non-recording of expenditure at commitment level, although GFMS generates high quality information at all level of the budget with credible and accurate data.</p> <p>Overall quality and timeliness of annual FS was weak, as annual cash based FS of Federal Government are lack of full information on financial assets and liabilities in accordance with NAM, and without consolidated financial information of independent departments. The FS are yet not fully compliant with cash basis IPSAS or NAM.</p>	S	<p>A PMO will be established to ring-fence the implementation of the Project applying international standards on accounting, reporting, and auditing.</p> <p>Training on financial reporting and auditing should be provided by ADB RETA.</p> <p>Regular review of external audit reports and management letter should be used to update financial management action plan as required.</p>
3. External audit	AGP is empowered to audit the accounts of the Federation and of the Provinces and of any body or authority established by the Federation or a	S	Capacity building on auditing should be provided by ADB RETA.

Risk Type	Risk Description	Risk Rating*	Risk Mitigation Measures
	Province. INTOSAI auditing standards are adopted but some aspects are only partially implemented.  Both legislative scrutiny of the annual budget law and external audit reports are weak.		
<b>Overall inherent risks</b>		<b>S</b>	
<b>Control risks</b>			
1. Staffing	Lack of capacity for the PMO to manage ADB funds.	S	Staffs may not be experienced in implementing ADB financed projects. The Government agrees that accounting staff will be recruited to strengthen PMO / PIO capacity.  Training on disbursement policies and procedures, and consultant support should be provided, to strengthen PMO / PIO staff knowledge and capacity to implement the Project.
2. Funds flow	The fund flow risks concerns the delays of payments to contractors, which will delay project implementation activities.	M	Funds for the Project will be under control of PMO to avoid delays.
3. Accounting and financial reporting	PMO accountants may prepare project FS not fully compliant with cash basis IPSAS or NAM.	M	ADB RETA will provide training for PMO to prepare project FS following cash basis IPSAS.
4. Internal Controls and internal audit	Internal control environment in PMO and PIO needs strengthening.	H	Establishing a well-staffed and resourced internal control system is recommended.
5. External Audit	There would be moderate risk in conducting audit by AGP on project FS prepared by PMO, as INTOSAI auditing standards are adopted but some aspects are only partially implemented.	M	ADB RETA will help build capacity for AGP.
<b>Overall control risks</b>		<b>S</b>	
<b>Overall risks</b>		<b>S</b>	

ADB = Asian Development Bank; AGP = Auditor General of Pakistan; FS = financial statements; GFMS = Government Financial Management Information System; INTOSAI = International Organization of Supreme Audit Institutions; IPSAS = International Public Sector Accounting Standards; ISPPA = International Standards for the Professional Practice in Internal Audit; NAM = new accounting model; PIO = project implementation office; PMO = project management office

Source: Asian Development Bank.

\* H = High, S = Substantial, M = Moderate, L = Low

## E. Project Financial Reporting, Auditing, and Public Disclosure

36. The PMO 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; (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 Loan proceed<sup>6</sup>, 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.

37. 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.

38. The Government, EA/IA, PMO and PIO have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.<sup>7</sup> 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 ADB's financing is used in accordance with ADB's policies and procedures.

39. 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

40. The loan and TA grant proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time),<sup>8</sup> and the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time),<sup>9</sup> and detailed arrangements agreed upon between the government and ADB.

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

<sup>6</sup> 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.

<sup>7</sup> 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.

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

<sup>9</sup> Available at: <http://www.adb.org/documents/technical-assistance-disbursement-handbook>.

42. **Imprest account.** The PMO shall establish an imprest account in US Dollars for the projects at a bank acceptable to ADB. (State Bank of Pakistan or National Bank of Pakistan). The request for initial advance to the imprest account should be accompanied by an Estimate of Expenditure Sheet<sup>10</sup> 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 PMO's records.<sup>11</sup>

43. The ceiling of 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 amount,<sup>12</sup> whichever is lower.

44. 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 or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.<sup>13</sup> Individual payments in excess of the SOE ceiling should be accompanied by full supporting documents when submitting the withdrawal application to ADB.

45. 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 \$100,000, unless otherwise approved by ADB. The PMO is to consolidate claims for Outputs 1 and 2, 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.

46. The fund-flow arrangement is depicted in **Figure 1**.

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<sup>10</sup> Available in Appendix 10B of the *Loan Disbursement Handbook*.

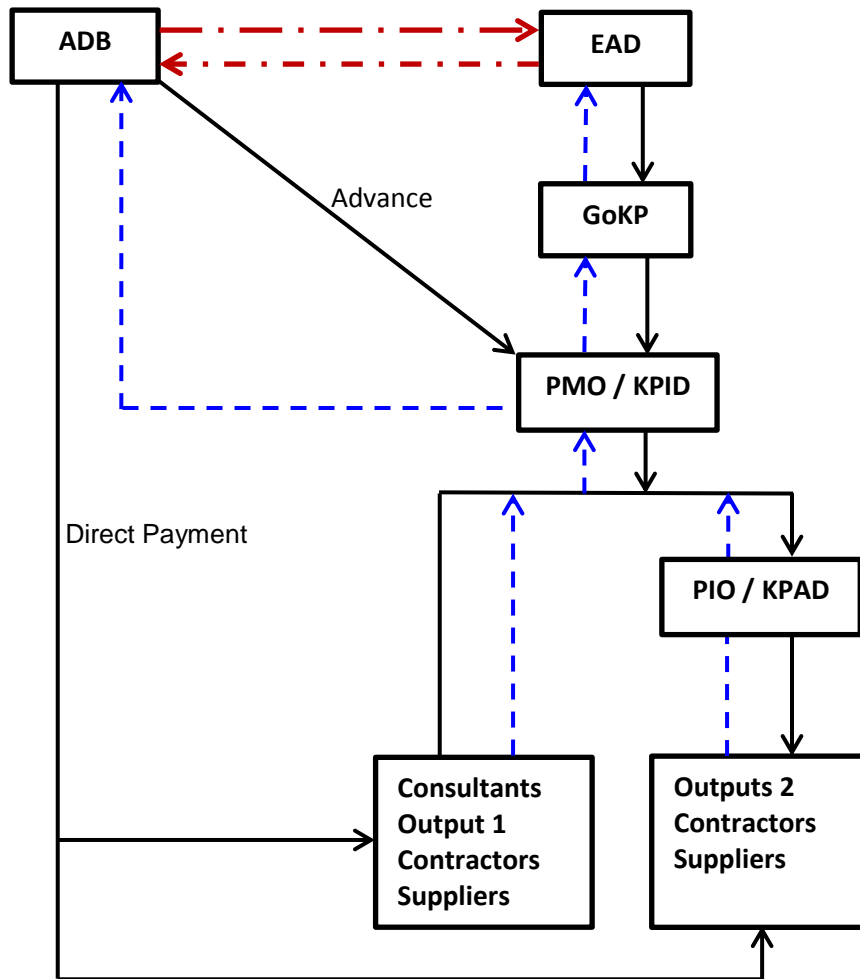
<sup>11</sup> Follow the format provided in Appendix 10C of the *Loan Disbursement Handbook*.

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

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



Figure 1 – Fund flow Diagram



- - - - - > Documents for disbursement (Withdrawal Application / Invoice)
- > ADB Funds
- . - . - > Lending
- - - - - > Loan repayment

ADB = Asian Development Bank; EAD = Economic Affairs Division; GoKP = Government of Khyber Pakhtunkhwa; KPID = Khyber Pakhtunkhwa Irrigation Department; KPAD = Khyber Pakhtunkhwa Agriculture Department; PIO = Project Implementation Office; PMO = Project Management Office  
 Source: Asian Development Bank.

## Attachment 1

**Financial Management Assessment Questionnaires  
on KPID and its DGSD**

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	<i>KPID and DGSD:</i> KPID is a functional department operating under Khyber Pakhtunkhwa Provincial Government.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	<i>KPID and DGSD:</i> Yes.	<p>KPID received development funds from different international financiers, including ADB, as detailed below:</p> <ol style="list-style-type: none"> <li>1) Irrigation System Rehabilitation Project (ISRP) financed by USAID.</li> <li>1) Irrigation System Rehabilitation Projects (ISRP I &amp; II) financed by World Bank.</li> <li>2) Flood Sector 2 Project financed by ADB &amp; Government of Pakistan.</li> </ol> <p>National Drainage Program (NDP) financed by World Bank, ADB and OECF.</p>
1.3 What are the statutory reporting requirements for the entity?	<i>KPID and DGSD:</i> Financial and physical Progress reports on monthly and quarterly basis are submitted to the Accountant General (AG) and Planning and Development Departments with consequent review meetings.	
1.4 Is the governing body for the project independent?	<i>KPID and DGSD:</i> Yes, The Project will be implemented under the Khyber Pakhtunkhwa Provincial rules and regulations for the general project management.	<p>There is a well-structured provincial government system in place under which various relevant KP departments are represented as per rules.</p> <p>Hence the governance system is independent as representatives are nominated as per rules.</p>
1.5 Is the organizational structure appropriate for the needs of the	<i>KPID and DGSD:</i> Yes, the approving authority, executing	There is a proper and appropriate government structure in place

Topic	Response	Remarks
project?	agency and the monitoring cell are already available.	<p>where reporting arrangements and authorities are in place.</p> <p>The organizational structure is appropriate for carrying out the work under the Government of Pakistan's rules and regulations and in accordance with the international financiers' requirements</p>
<b>2. Funds Flow Arrangements</b>		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	<p><i>KPID and DGSD:</i> Fund flow will be managed by the PMO. The funds received from ADB will be deposited in an approved bank and then it will be disbursed by the Executing Agency through cheques in the name of consultants/contractors/suppliers, as the case may be, as per interim payment certificate (IPC) cleared or verified by the Consultant for expenditure on the project.</p>	<p>The fund flow mechanism of the Government of KP system is in place. The KPID has maintained separate bank accounts for different international financiers' projects to facilitate fund transfer (disbursement).</p>
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	<p><i>KPID and DGSD:</i> During fact finding ADB and GoKP will agree on the funds transfer mechanism to ensure that the funds are received in the Imprest Account without delay..</p>	<p>International Donors' funds are being received through separate bank accounts and KPID maintains certain number of bank accounts for this purpose.</p>
2.3 What have been the major problems in the past in receipt of funds by the entity?	<p><i>KPID and DGSD:</i> The major problem faced in the past with ADB funded projects was delayed payments to the contractors as it took long time for clearance from the ADB Head Quarters in Manila, Philippines. This process was adversely affecting the project progress.</p>	<p>There might be two reasons:</p> <ol style="list-style-type: none"> <li>1. Although they followed ADB disbursement procedures, the withdrawal application may have been prepared inappropriately and some required information may have been missing. It took much time for ADB responsible officer rearranging it in proper order before reviewing and approving.</li> </ol> <p>The delay might be because of the work overload in ADB Office and their withdrawal applications</p>

Topic	Response	Remarks
		has to stand in a long waiting list.
2.4 In which bank will the Imprest Account be opened?	<i>KPID and DGSD:</i> Most probably in National Bank of Pakistan.	In the past the Project Imprest Accounts were opened in National Bank of Pakistan.
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	<i>KPID and DGSD:</i> Yes, KPID implemented ADB funded projects, so they have experience in management of ADB loan fund disbursement process.	They implemented several external funding projects, , and they are familiar to the project financial management and fund disbursement procedures. That is an advantage of an implementing agency.
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	<i>KPID and DGSD:</i> Yes.	<p>It will depend on the Loan Agreement that will be signed by ADB and GoKP, and the on-lending arrangement prescribed by the GOP as to who will take the exchange risk?</p> <ul style="list-style-type: none"> <li>In most of the cases, the Central Government borrows from the ADB in SDR (Special Drawing Right), and then on-lends the loan proceeds to the provincial Government in local currency. That means the Central Government bears all the risks of exchange rate variations.</li> </ul> <p>In case GoKP decides that the loan should be passed on by the federal government without any add-ons, the foreign exchange risk will have to be borne by the province. The issue may be thrashed out during fact finding.</p>
2.8 How are the counterpart funds accessed?	<p><i>KPID and DGSD:</i> Fund receiving mechanism for KPID is through government system.</p> <ul style="list-style-type: none"> <li>KPID submits the budgeting plan to Department of Finance for clearance then to the Khyber Pakhtunkhwa Provincial Government for approval.</li> <li>After the budget is finally approved it becomes part of the Khyber Pakhtunkhwa Provincial budget allocation.</li> </ul>	The Project counterpart fund is normally generated from Government Budget, and after approval of the budget the required funds are released by the Finance Department to the PMO.

Topic	Response	Remarks
	<ul style="list-style-type: none"> <li>Once the approving process is complete, then KPID can access the funds through Government Treasury.</li> </ul>	
2.9 How are payments made from the counterpart funds?	<i>KPID and DGSD:</i> PMO will disburse the funds on the basis of approved budget.	On receipt of cleared claim for payment, the disbursement form counterpart fund will be made in the ratio agreed as in the Project Agreements on the availability of the allocated budget.
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	<i>KPID and DGSD:</i> KPID doesn't implement its activities through communities or NGOs. The OFWM component will be implemented by water user associations who will contribute to ofwm works. Enough experience of this system exists in DG OFWM. Similarly the water supply component may be implemented with the help of communities.	In general view, if some activities are implemented by communities, the respective implementing agency have reasonable experience and should have the necessary proper reporting and monitoring mechanism to track the use of funds.
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	<i>KPID and DGSD:</i> Yes, the beneficiaries will be required to contribute to costs of OFWM works and water supply schemes but no contribution is envisaged for pressure pipes, canals and distributaries and irrigation infrastructure above the watercourse	<p>Most of the international development donors have required undertaking the participatory approach for their project implementation. This means that donor, government, and beneficiaries all together contribute their resources into the project implementation activities.</p> <p>In order to manage the beneficiary contribution process social mobilization is required.</p>
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	<i>KPID and DGSD:</i> Follow the general prescriptions in Accounting Codes certified by Accountant General of GoKP.	A PMO will be established by the EA, which will also be the IA for implementation of the pressure pipes, canals and distributaries and irrigation infrastructure above the watercourse. The Office of DG OFWM will designate one its director/deputy director as the project director for OFWM works whereas PHED may undertake

Topic	Response	Remarks
		the development of water supply schemes through XEN Swabi..
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	<i>KPID and DGSD:</i> At the current time no additional accounting staffs are needed.	When the project implementation activities are booming, the volume of accounting work will definitely increase and some additional staff may be required. However the specific jobs cannot be still identified by KPID and by DGSD.
3.3 Is the project finance and accounting function staffed adequately?	<i>KPID and DGSD:</i> Yes	All accounting staffs understand their duties, job requirements, rules and regulations and professional ethics.
3.4 Is the finance and accounts staff adequately qualified and experienced?	<i>KPID and DGSD:</i> Yes	All accounting staffs have graduated from recognized universities and accounting professional institutions. The skill updated short courses are often organized by Provincial Accountant General Office.
3.5 Are the project accounts and finance staff trained in ADB procedures?	<p><i>KPID and DGSD:</i> Only some of them were trained during the ADB Project implementation long time earlier.</p> <ul style="list-style-type: none"> <li>• Now short course on ADB financial management procedure, especially on ADB loan fund disbursement procedures, is needed.</li> </ul>	<p>Generally when the project implementation activities start, ADB Country Mission in Islamabad will organize this course for the account staff of Project EA and IAs.</p> <p>The financial management specialist of the project implementing consultant will organize on the job trainings to the staff of EA and IAs on the ADB loan fund disbursement process.</p>
3.6 What is the duration of the contract with the finance and accounts staff?	<i>KPID and DGSD:</i> All accounting staffs are appointed on permanent basis.	The financial management and accounting staffs are appointed on permanent basis, hope no one will leave their job during the Project implementation.
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	<i>KPID and DGSD:</i> Until now, no additional positions are identified.	The strategic management approach is not properly active in their regular operations.
3.8 Does the project have written position	<i>KPID and DGSD:</i> Yes, all	Their Job Descriptions may have

Topic	Response	Remarks
descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	accounting staffs have their job description that clearly define their duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff, and professional ethic codes.	to change including project financial management duties, responsibilities, and decision-making rights.
3.9 At what frequency are personnel transferred?	<i>KPID and DGSD:</i> Minimum tenure is 03 years.	<i>Generally viewing</i> It can be seen enough time for completion of project implementation activities. However, during the Project implementation process some skillful staffs may be transferred somewhere else and their skill and experience will go away with them.
3.10 What is training policy for the finance and accounting staff?	<i>KPID and DGSD:</i> Trainings are being provided through the Accountant General of GoKP.	Beside official training activities, all accounting staffs are encouraged to take any training that can increase their job skills provided that they can arrange the time available so that training does not adversely impact their work. Training in ADB's financial management procedures should be arranged at the start of the Project.
<b>4. Accounting Policies and Procedures</b>		
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? Will the project use the entity accounting system	<i>KPID and DGSD:</i> Yes, KPID accounting system follows The Chartered Accountants Ordinance, 1961, and Cost and Management Accountants Act 1966, as well as Cost and Management Accountants Regulations 1990.	All of those acts and regulations prescribe clearly recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds.  The project should use these accounting rules and system.
4.2 Are controls in place concerning the preparation and approval of	<i>KPID and DGSD:</i> Yes, accounting transactions are verified and approved by the Chief Accountant	In KPID there is internal audit section that is responsible for regularly controlling all the financial management issues and

Topic	Response	Remarks
transactions, ensuring that all transactions are correctly made and adequately explained?	before they can be submitted or published.	accounting transactions.
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	<i>KPID and DGSD:</i> Yes, KPID accounting system follows CPWA Code, General Financial Rule and Delegation of Powers notified by the Provincial Government and based on The Chartered Accountants Ordinance, 1961. Pakistani Accounting System is internationalized with Generally Accepted Accounting Principles (GAAP).	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	<i>KPID and DGSD:</i> Yes, cost allocation has to follow Cost and Management Accountants Act 1966, as well as Cost and Management Accountants Regulations 1990.	Those acts are driven from General Financial Rule and Delegation of Powers which are reorganized by most of international development agencies.
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	<i>KPID and DGSD:</i> Yes, they are reconciled every month by General Accountant and they are in balance.	There is Internal Auditing Division in KPID and its main function is verifying accounting transactions recording and regular accounting statements. That function is leading to the general ledger and subsidiary ledgers are reconciled regularly.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	<i>KPID and DGSD:</i> Yes, all those documents are safely and systemically filed and any authorized user can easily access them.	All accounting and supporting documents should be kept in orderly and safe place for managers' reference during decision making process. The reference to accounting statements and supporting documents may also required by the auditors.
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute	<i>KPID and DGSD:</i> Yes, each of these activities are undertaken by different accountants: <ul style="list-style-type: none"> <li>• Authorization to execute a</li> </ul>	All of those transactions should follow Financial Management and Accounting Power and Responsibility Distributions.



Topic	Response	Remarks
a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	<p>transaction: Clarified by Chief Accountant, and finally authorized by the Project Director or Secretary KPID.</p> <ul style="list-style-type: none"> <li>• Recording of the transaction: Undertaken by General Accountant.</li> </ul> <p>Custody of assets involved in the transaction: Undertaken Accountant responsible for Assets Management.</p>	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	<p><i>KPID and DGSD:</i> Yes, each of these functions are under management and execution by different departments and different people:</p> <ul style="list-style-type: none"> <li>• Ordering and receiving: Undertaken by Material Management attached Department;</li> <li>• Accounting for: Undertaken by Material Management Accountant of attached Financial and Accounts attached Department;</li> <li>• Payment: Undertaken by Payment Accountant of attached Financial and Accounts Department.</li> </ul>	All of those transactions should follow Financial Management and Accounting Process.
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	<p><i>KPID and DGSD:</i> Yes, Accounts staff deals with reconciliation with the concerned Bank while Chief Accountant/Project Director or Secretary approve payments.</p>	The financial management and accounting responsibility division is clear and proper.
4.10 Do budgets include physical and financial targets?	<p><i>KPID and DGSD:</i> Yes, physical volume need identification and planning, and on planned physical volume need to identify financial resource need are included.</p>	This approach is similar to Zero-based Budgeting Approach that has been very popularly used by public sector worldwide, especially in the government management area. This approach of budgeting is very advanced until now.
4.11 Are budgets prepared for all significant activities in sufficient	<p><i>KPID and DGSD:</i> Yes, the budget allocation to KPID is from KP</p>	The KPID Budget for all the significant activities should be prepared with prominent details

Topic	Response	Remarks
detail to provide a meaningful tool with which to monitor subsequent performance?	Provincial Government Budget which should pass through the Assembly of KP Province.	for easily monitoring their performance, so that the budget can be passed through the Assembly of KP Province.
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	<i>KPID and DGSD:</i> Yes, actual expenditures are compared to the budget annually.	Any significant variation from the budget will be explained in details enough to show the reason of variation.
4.13 Are approvals for variations from the budget required in advance or after the fact?	<i>KPID and DGSD:</i> Generally the approvals for budget variations are required in advance.	It was reported that in certain emergency cases such as in war and serious natural disasters, the budget expenditures for these emergency cases can be post-approved.
4.14 Who is responsible for preparation and approval of budgets?	<p><i>KPID and DGSD:</i> Department of Finance collects budget plans from all other departments and offices and prepares the provincial consolidated budget plan.</p> <p>DOF submits provincial consolidated budgeting plan to the KP Provincial Government for approval.</p> <p>KP Provincial Government approves the provincial consolidated budgeting plan and gets it passed from KP Provincial Assembly</p>	The budgeting process must follow the budget planning prescriptions in the Constitution Articles relating to the financial management and accounting practices.
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	<i>KPID and DGSD:</i> Yes, the same approach adopted as indicated in the answer to Question 4.10.	As comment in 4.10 Answer.
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	<i>KPID and DGSD:</i> Yes.	It will follow the approach and process of budget planning due to that the Project counterpart funds are part of total government budget.

Topic	Response	Remarks
<p>4.17 Do invoice-processing procedures provide for:</p> <p>i. Copies of purchase orders and receiving reports to be obtained directly from issuing departments?</p> <p>ii. Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?</p> <p>iii. Comparison of invoice quantities with those indicated on the receiving reports?</p> <p>Checking the accuracy of calculations?</p>	<p><i>KPID and DGSD:</i> Yes, invoice processing has to follow the Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers, so the process provides all this information and in such sequence.</p>	<p>All of those transactions should follow Financial Management and Accounting Process.</p>
<p>4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?</p>	<p><i>KPID and DGSD:</i> Yes.</p>	<p>All invoices are stamped "PAID" before filing them in the safe place as prescribed in the Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers.</p>
<p>4.19 Do controls exist for the preparation of the payroll and changes to the payroll properly authorized?</p>	<p><i>KPID and DGSD:</i> Yes, the KPID and its DGSD are government entities.</p>	<p>They have to follow state control procedures. Responsible people (Chief Accountant, Project Director, Secretary) are properly authorized to control all the transactions of the entities.</p>
<p>4.20 What is the basis of accounting (e.g., cash, accrual)?</p>	<p><i>KPID and DGSD:</i> KPID and its GDSD are using accrual accounting concepts as required by the General Financial Rule and Delegation of Powers approved by the President of Pakistan.</p>	<p>That is appropriate for the Project financial management and accounting requirements. Generally the cash accounting principles are used for small and simple transactions.</p>
<p>4.21 What accounting standards are followed?</p>	<p><i>KPID and DGSD:</i> CPWA and General Financial Rule and Delegation of Powers notified by the KP Provincial Government.</p>	
<p>4.22 Does the project have adequate policies and</p>	<p><i>KPID and DGSD:</i> Yes, such</p>	

Topic	Response	Remarks
procedures manual to guide activities and ensure staff accountability?	documents are regularly updated to the new requirements including financial management requirement.	
4.23 Is the accounting policy and procedure manual updated for the project activities?	<i>KPID and DGSD: Yes.</i>	As mentioned in the answer to Question 4.22, the accounting policy and procedure manual will be updated when the project design is finalized to meet the specific project requirements.
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	<i>KPID and DGSD: Yes, new accounting principle, policy or procedure to be used by any entity will be altered by the CPWA and General Financial Rule and Delegation of Powers notified by the KP Provincial Government only.</i>	The answer is not relevant. Financial Management and Accounting Procedures are constitutional prescription. They just can be slightly modified to integrate into the entity operating management, not altered or newly established.
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	<i>KPID and DGSD: Yes.</i>	<i>Most policies and procedures including those for routine financial management process are documented as manual, decisions and guidelines.</i>
4.26 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?	<i>KPID and DGSD: Yes, it is the field of administrative management.</i>	An example the Administrative Regulations are indicating that to avoid potential conflict of interest the Government Officials are not allowed to run a private business, these prescriptions are also mentioned in some legal documents as Business Laws, Codes of Ethics, Administrative Regulations, etc.
4.27 Are manuals distributed to appropriate personnel?	<i>KPID and DGSD: Yes, most of the staffs receive all manuals that are necessary to do their jobs first time they come to work in either KPID or DGSD.</i>	
4.28 Indicate names and positions of authorized signatories in the bank accounts.	<i>KPID and DGSD:</i> <ul style="list-style-type: none"> <li>• Secretary Irrigation or Project Director and</li> <li>• Chief Accounting Officer</li> </ul>	The answer is half of requirement. It should be updated to demonstrate the names of the people holding these positions. The names will be known when the Project starts and PMU is

Topic	Response	Remarks
		established.
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	<i>KPID and DGSD: Yes, those documents are maintained adequately and reconciled every month.</i>	It has to follow the Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers, so these transactions should continue to be maintained adequately, orderly and up-to-date.
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	<i>KPID and DGSD: Yes.</i>	This process has to observe CPWA and General Financial Rule and Delegation of Powers notified by the KP Provincial Government.
4.31 Are bank and cash reconciled on a monthly basis?	<i>KPID and DGSD: Yes, bank and cash reconciled on a monthly, quarterly and annual basis.</i>	That is prescribed in the Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers.
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	<i>KPID and DGSD: Yes.</i>	All unusual items on the bank reconciliation reviewed and approved by the competent authority.
4.33 Are all receipts deposited on a timely basis?	<i>KPID and DGSD: Yes.</i>	All receipts are deposited on a timely basis manner.
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	<i>KPID and DGSD: Yes.</i>	The asset safeguard system is existent and operational.
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	<i>KPID and DGSD: Yes.</i>	Fixed assets and stocks are kept up-to-date and reconciled with control accounts annually.
4.36 Are there periodic physical inventories of fixed assets and stocks?	<i>KPID and DGSD: Yes.</i>	Fixed assets and stocks are physically inventoried quarterly.
4.37 Are assets sufficiently covered by insurance policies?	<i>KPID and DGSD: No.</i>	All assets owned by KPID and DGSD are Government's assets and usually they are not covered by insurance policies but by the KP Government Budget. Although

Topic	Response	Remarks
		it is a common practice in the public service sector, it is not relevant in the FM Practice.
4.38 Are there any other regional offices or executing entities participating in implementation?	<i>KPID and DGSD: No.</i>	This means that only one Executing Agency and four Implementing Agencies as appointed by KP Provincial Government and approved by ADB.
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	<i>KPID and DGSD: Yes, Accountant General Office, Planning and Development Department, Finance Department and Monitoring Cell established at KP Provincial levels are available for Audit and Accountability.</i>	They have to follow the Public Service Quality Assurance Rules of the KP Government.
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	<i>KPID and DGSD: Yes.</i>	The necessary information flows between required offices and agencies smoothly in an accurate and timely manner.
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	<i>KPID and DGSD: Yes, reconciliation is undertaken in the form of Monthly, Quarterly and Annual Progress Review basis.</i>	They have to follow the Public Service Quality Assurance Rules of the KP Government.
4.42 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?	<i>KPID and DGSD: Yes.</i>	They have to follow the Public Community Assurance Rules of the KP Government, so proper reporting system is available and operational, however the official announcement about Project has not to be released on mass media or delivered to the concerned communities.
<b>5. Internal Audit</b>		
5.1 Is there an internal audit department in the entity?	<i>KPID and DGSD: Yes.</i>	Auditing Division is available and operational. Their duty is to support secretary Project Director verifying and controlling all the transactions occurred within the department.
5.2 What are the qualifications and experience of audit department staff?	<i>KPID and DGSD: Most of the professional employees are graduates from different universities.</i>	They have been also properly trained and are regularly updated by the Accountant General Office.

5.3	To whom does the internal auditor report?	<i>KPID and DGSD:</i> To Accountant General (AG).	As required by the Auditing regulations.
5.4	Will the internal audit department include the project in its work program?	<i>KPID and DGSD:</i> Yes	The Project will be included into the internal auditing work program when project is implemented.
5.5	Are actions taken on the internal audit findings?	<i>KPID and DGSD:</i> Yes, during the auditing process if any irregularity is found they are reported to the AG Office which are then discussed in Divisional Sub-Committee under the Chairmanship of Secretary Irrigation Department, and if the irregularities pointed out in the form of Draft Para are not settled, they are referred to Public Accounts Committee for final decision.	
<b>6.</b>	<b>External Audit</b>		
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	<i>KPID and DGSD:</i> Yes, the KPID financial statements are regularly audited by Divisional Accounts Officer who is an independent auditor, posted by the AG Office.	The quality assurance system is available and properly operational.
6.2	Are there any delays in audit of the entity? When are the auditing reports issued?	<i>KPID and DGSD:</i> No, until now the auditing process is undertaken on schedule. The audit reports are issued annually.	Financial management and accounting system is properly followed and the financial staffs of KPID and DGSD are well skilled.
6.3	Is the audit of the entity conducted according to the International Standards on Auditing?	<i>KPID and DGSD:</i> Yes, Auditor General of Pakistan is fully geared to the adoption of international professional standards.	It has adopted International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards and Code of Ethics.
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	<i>KPID and DGSD:</i> No.	Until the current time, no major accountability issues have been brought out in the audit reports.
6.5	Will the entity audit the project accounts or will another auditor be appointed to audit the project financial statements?	<i>KPID and DGSD:</i> Yes.	That may be "YES" or may be "NO" it depends on the Project financiers' requirements.
6.6	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	<i>KPID and DGSD:</i> No.	All the recommendations made by the auditors in management letters have been seriously considered to find the best options for them.
6.7	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?	<i>KPID and DGSD:</i> Yes.	The Project Implementation Consultant will prepare the TOR for independent audit, and submit it to ADB for approval.  When the TOR is approved by ADB, the independent audit will

		be undertaken.
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	<i>KPID and DGSD: Yes.</i>	KPID financial statements are prepared in accordance with Works Operations Audit Guidelines issued by Department of Auditor - General of Pakistan, and General Financial Rules and Delegations of Powers notified by the KP Provincial Government.
7.2 Are financial statements prepared for the implementing unit?	<i>KPID and DGSD: Yes.</i>	Separate accounts for the Project will be maintained by each implementing unit; Project financial management statement will be combined with the general financial statement of the implementing agencies.
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	<i>KPID and DGSD: KPID financial statements are prepared on the monthly basic.</i>	Until now the financial reports are prepared in a timely fashion, even on the requirement of management for decision making concerned specific part of them can be prepared.
7.4 Does the reporting system need to be adapted to report on the project components?	<i>KPID and DGSD: Yes.</i>	For the ADB Loan fund, generally accepted reporting system will be adapted to the Project.
7.5 Does the reporting 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?	<i>KPID and DGSD: Yes, the system has the capacity to link the financial information with the projects physical progress.</i>	Although some links are available, however, they are not strong and not operating smoothly and not adequately.
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	<i>KPID and DGSD: Yes.</i>	These requirements are in the General Financial Rules and Delegations of Powers notified by the KP Provincial Government.
7.7 Are financial management reports used by management?	<i>KPID and DGSD: Yes.</i>	It is reported that KPID and its <i>DGSD</i> management regularly review their financial statements when they make decisions.
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	<i>KPID and DGSD: Yes, the actual expenditures are always compared with the budgeted and programmed cost allocation, and explanation to any variation is assessed.</i>	This information is reflected in the Notes to Financial Statements and Analysis of Surplus or Deficit. They are parts of Financial Statement Complex.



7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	<i>KPID and DGSD: No.</i>	Financial reports of KPID and its DGSD are prepared on Excel Spreadsheets.
<b>8. Information Systems</b>		
8.1 Is the financial management system computerized?	<i>KPID and DGSD: Yes.</i>	However, the financial management system is not fully computerized; the financial statements are prepared on Excel Spreadsheet which is outside the computerized accounting system.
8.2 Can the system produce the necessary project financial reports?	<i>KPID and DGSD: Yes.</i>	Not all the project reports can be prepared by the computerized system.
8.3 Is the staff adequately trained to maintain the system?	<i>KPID and DGSD: Yes.</i>	The staffs are adequately trained to maintain the system.
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	<i>KPID and DGSD: Yes.</i>	KPID and its <i>DGSD</i> management organization and processing system safeguard the confidentiality, integrity and availability of the financial data.

## Attachment 2

**Financial Management Assessment Questionnaires  
on KPAD and its OFWM**

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.6 What is the entity's legal status / registration?	<i>KPAD and OFWM:</i> KPAD is functional department operating under the direction of Khyber Pakhtunkhwa Provincial Government.	
1.7 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	<i>KPAD and OFWM:</i> Yes, KPAD and its OFWM received development funds from different international financiers as AusAID, WB, JICA, including ADB	However within last 3 years now OFWM has not implemented any international donor's project. Their experiences may have gone with staffs to somewhere who have been transferred.
1.8 What are the statutory reporting requirements for the entity?	<i>KPAD and OFWM:</i> Financial and physical Progress report on monthly basis and quarterly basis are submitted to the Secretary Agriculture, Accountant General (AG) Office and Planning and Development Department.	They are following the reporting requirements of Administrative Regulations.
1.9 Is the governing body for the project independent?	<i>KPAD and OFWM:</i> Yes, it will be implementing the Project under the Khyber Pakhtunkhwa Provincial rules and regulations for the general project management.	KPAD is one of the departments of Khyber Pakhtunkhwa Provincial Government, it is independent, and OFWM is attached office to KPAD.
1.10 Is the organizational structure appropriate for the needs of the project?	<i>KPAD and OFWM:</i> Yes, the Approving Authority of Implementing Agency and the Monitoring Cell are already available.	There is a proper and appropriate government structure in place where reporting arrangements and authorities are in place.
<b>2. Funds Flow Arrangements</b>		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	<i>KPAD and OFWM:</i> Fund flow will be managed through either State Bank of Pakistan or National Bank of Pakistan. The fund received from ADB will be deposited in approved bank and then it will be disbursed by the EA through cheques in the name	The fund flow mechanism of the Government of Pakistan system is in place. The KPAD has maintained separate bank accounts for different international financiers' projects to facilitate fund

Topic	Response	Remarks
	of consultants/C Contractors / suppliers as per interim payment certificates (IPC) cleared or verified by the Consultant for expenditure on the project.	transfer (disbursement).
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	<i>KPAD and OFWM:</i> During fact finding ADB and GoKP will agree on the funds transfer mechanism to ensure timely transfer of funds from EA to DG OFWM or paid directly on their behalf.	International Donors' funds are being received through separate bank accounts and KPAD maintains certain number of bank accounts for this purpose.
2.3 What have been the major problems in the past in receipt of funds by the entity?	<i>KPAD and OFWM</i> The major problem is timely release of loan fund (disbursement).	There might be two reasons: Although they followed Disbursement Procedures of the financing agency and GOP Regulations, the withdrawal application may have been prepared inappropriately or some required information may have been missing.. It took much time for the financing agency's responsible officer rearranging it in proper order before reviewing and approving. The delay might be because of the work overloaded in Office and in the financing agency's offices so their withdrawal applications has to stand in a long waiting list.
2.4 In which bank will the Imprest Account be opened?	<i>KPAD and OFWM:</i> In an authorized bank, probably in in the National Bank of Pakistan.	In the past the Project Imprest Account was opened in National Bank of Pakistan.
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	<i>KPAD and OFWM:</i> Yes, KPAD and its OFWM implemented an ADB funded project, as so they have experiences in management of ADB loan fund disbursement process.	They implemented several external funding projects, and they are familiar to the project financial management and fund disbursement procedures. That is an advantage of an implementing agency.
2.7 Does the entity have/need a capacity to manage	<i>KPAD and OFWM:</i> Yes.	It will depend on the Loan

Topic	Response	Remarks
foreign exchange risks?		<p>Agreement that will be signed by ADB and GoKP, and the on-lending arrangement prescribed by the Government of Pakistan as to who will take the exchange risk?</p> <p>In most cases the Central Government borrows from ADB in SDR (Special Drawing Right), then on-lends the loan proceed to the provincial Government in local currency, and provincial Government pays the loan back in local currency. That means the Central Government bears all the risks of exchange rate variations. In case GoKP decides that the loan should be passed on by the federal government without any additions, the foreign exchange risk will have to be borne by the province. The issue may be thrashed out during fact finding.</p>
2.8 How are the counterpart funds accessed?	<p><i>KPAD and OFWM:</i> Fund receiving mechanism for KPAD is through government system.</p> <ul style="list-style-type: none"> <li>• KPAD submits the budgeting plan to Department of Finance for clearance than to the Khyber Pakhtunkhwa Provincial Government for approval.</li> <li>• After the budget is finally approved, it becomes part of the Khyber Pakhtunkhwa Provincial budget allocation.</li> <li>• Once the approving process is complete, then KPAD can access the funds through the Project Account which will be opened in an authorized Government Bank.</li> </ul>	<p>The Project counterpart fund is normally generated from Government Budget, and after approval of the budget the required funds are released by the Finance Department to the the Departments.</p>
2.9 How are payments made from the counterpart funds?	<p><i>KPAD and OFWM</i> KPAD disburses the funds on the basis of approved</p>	<p>On receipt of cleared claim for payment, payments are released on availability of the</p>

Topic	Response	Remarks
	budget.	counterpart fund in the ratio agreed in the contracts.
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	<i>KPAD and OFWM:</i> KPAD generally implement its OFWM activities through communities. The OFWM component will be implemented by water user associations who will contribute to ofwm works. Enough experience of this system exists in DG OFWM.	In general view, if some activities are implemented by water user associations, the KPAD should have the necessary proper reporting and monitoring mechanism to track the use of funds.
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	<i>KPAD and OFWM:</i> Yes, the beneficiaries will be required to contribute to costs of OFWM works.	<p>Most of the international development donors have required undertaking the participatory approach for their project implementation. This means that donors, government, and beneficiaries all together contribute their resources into the project implementation activities.</p> <p>However, this approach is difficult to put into operation because:</p> <p>In order to manage the beneficiary contribution process social mobilization is required</p>
<b>3. Staffing</b>		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	<i>KPAD and OFWM:</i> Follow the general prescriptions in Accounting Codes certified by Accountant General of GoKP.	Office of DG OFWM will designate one its director/deputy director as the project director for OFWM works of the Project.
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	<p><i>KPAD and OFWM:</i> At the current time no additional accounting staffs are needed.</p> <p>New employees' qualifications should follow Accountant General Professional experience and education requirements.</p>	When the project implementation activities are booming, the volume of accounting work will definitely increase and some additional staff may be required. However the specific jobs cannot be still identified by

Topic	Response	Remarks
		KPAD and by OFWM.
3.3 Is the project finance and accounting function staffed adequately?	<i>KPAD and OFWM:</i> Yes, all accounting staffs understand their duties, job requirements, and professional ethic rules.	However, training to improve their working efficiency is needed.
3.4 Is the finance and accounts staff adequately qualified and experienced?	<i>KPAD and OFWM:</i> Yes, all accounting staffs have graduated from reorganized accounting professional institutions.	All accounting staffs have graduated from recognized universities and accounting professional institutions. The skill updated short courses are often organized by Provincial Accountant General Office.
3.5 Are the project accounts and finance staff trained in ADB procedures?	<i>KPAD and OFWM:</i> Only some of them were trained during the ADB Project implementation long time before.	Now short course on ADB Financial Management Procedure, especially on ADB Loan Fund Disbursement Procedures, is needed.
3.6 What is the duration of the contract with the finance and accounts staff?	<i>KPAD and OFWM:</i> All accounting staffs are employed on the permanent basics.	The financial management and accounting staffs are contracted on the permanent basic, hope no one will leave their job during the Project implementation.
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	<i>KPAD and OFWM:</i> Until now, no additional positions are identified.	The strategic management approach is not properly active in their regular operations.
3.8 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?	<i>KPAD and OFWM:</i> Yes, all accounting categories staffs have their job description that clearly define their duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff, and professional ethic codes.	Their Job Descriptions may have to change including Project Financial Management Duties, Responsibilities, and Decision-making Rights.
3.9 At what frequency are personnel transferred?	<i>KPAD and OFWM:</i> General tenure is 3-5 years. It is enough time for completion of project implementation activities.	<i>Generally viewing</i> It can be seen enough time for completion of project implementation activities. However, during the Project implementation process some skillful staffs will be mobilized to somewhere else not

Topic	Response	Remarks
		relating to the Project, and their skills and proper practices are going away with them.
3.10 What is training policy for the finance and accounting staff?	<i>KPAD and OFWM:</i> Training is being provided through the Accountant General of KP.	Beside official training activities, all accounting staffs are encouraged to take any training that can increase their job skills provided that they can arrange the time available so that training does not adversely impact their work.
<b>4. Accounting Policies and Procedures</b>		
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? Will the project use the entity accounting system?	<i>KPAD and OFWM:</i> Yes, KPAD accounting system follows The Chartered Accountants Ordinance, 1961, and Cost and Management Accountants Act 1966, as well as Cost and Management Accountants Regulations 1990.	All of those acts and regulations prescribe clearly recording of financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds.  The project should use these accounting rules and system.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	<i>KPAD and OFWM:</i> Yes, accounting transactions are verified and approved by the Chief Accounting Officer before they can be submitted or published.	In KPAD there is internal audit section that is responsible for regularly controlling all the financial management issues and accounting transactions.
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	<i>KPAD and OFWM:</i> Yes, KPAD accounting system follows CPWA Code, General Financial Rule and Delegation of Powers notified by the Provincial Government and based on The Chartered Accountants Ordinance, 1961. Pakistani Accounting System is internationalized with GAAP - Generally Accepted Accounting Principles	Most of international donors reorganize that considerable accounting system status of Pakistan.

Topic	Response	Remarks
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	<i>KPAD and OFWM:</i> Yes, cost allocation has to follow Cost and Management Accountants Act 1966, as well as Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers reorganized by most of international development agencies.	Those acts are driven from General Financial Rule and Delegation of Powers which are reorganized by most of international development agencies.
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	<i>KPAD and OFWM:</i> Yes, they are reconciled every month by Accountant General and they are in balance.	There is Internal Auditing Division in KPAD and its main function is verifying accounting transactions recording and regular accounting statements. That function is leading to the general ledger and subsidiary ledgers are reconciled regularly.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	<i>KPAD and OFWM:</i> Yes, all those documents are safely and systemically filed and any authorized user can easily access them.	All accounting and supporting documents should be kept in orderly and safe place for managers' reference during decision making process. The reference to accounting statements and supporting documents may also requested by the auditors.
<b>Segregation of Duties</b>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	<i>KPAD and OFWM:</i> Yes, each of those activities are undertaken by different accountants: <ul style="list-style-type: none"> <li>○ Authorization to execute a transaction: Clarified by Chief Accounting Officer, and finally authorized by the Director General OFWM.</li> <li>○ Recording of the transaction: Undertaken by Accounting staff;</li> </ul> Custody of assets involved in the transaction: Undertaken by an Accountant responsible for assets management	All of those transactions should be followed Financial Management and Accounting Power and Responsibility Distributions.



Topic	Response	Remarks
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	<p><i>KPAD and OFWM:</i> Yes, each of those functions are under management and execution by different departments and different people:</p> <ul style="list-style-type: none"> <li>• Ordering and receiving: Undertaken by the field officers;</li> <li>• Accounting for: Undertaken by the Accountant responsible for material accounting of Financial and Accounts Department;</li> <li>• Payment: Undertaken by Accountant of the Directorate.</li> </ul>	All of those transactions should be followed Financial Management and Accounting Power and Responsibility Distributions
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	<i>KPAD and OFWM:</i> Yes, the same person.	The financial management and accounting responsibility division is not clear and not proper.
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	<i>KPAD and OFWM:</i> Yes, physical volume need identification and planning, and on planned physical volume need to identify financial resource need.	This approach is similar to Zero-based Budgeting Approach that has been very popularly used by public sector worldwide, especially in the government management area. This approach of budgeting is very advanced until now.
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	<i>KPAD and OFWM:</i> Yes, the budget allocation to KPAD is from KP Provincial Government Budget which should pass through the Parliament of KP Province.	As the result, the KPAD Budget for all the significant activities should be prepared with prominent details for easily monitoring their performance, so that the budget can be passed through the Parliament of KP Province.
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	<i>KPAD and OFWM:</i> Yes, actual expenditures are compared to the budget annually.	Any significant variation from the budget will be explained in details enough to show the reason of variation.
4.13 Are approvals for variations from the budget required in advance or after the fact?	<i>KPAD and OFWM:</i> The approvals for budget variations are required in	It was reported that in certain emergency cases such as in war and serious

Topic	Response	Remarks
	advance.	natural disasters, the budget expenditures for these emergency cases can be post-approved.
4.14 Who is responsible for preparation and approval of budgets?	<i>KPAD and OFWM:</i> KPAD prepares its budgeting plan and submits to DOF and P&DD for approval.	The budgeting process must follow the budget planning prescriptions in the Constitution Articles relating to the financial management and accounting practices.
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	<i>KPAD and OFWM:</i> Yes, the same approach as indicated the answer to question 4.11.	As comment in 4.11 Answer.
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	<i>KPAD and OFWM:</i> Yes, it will follow the approach and process of budget planning.	It will follow the approach and process of budget planning due to that the Project counterpart funds are part of total government budget.
<b>Payments</b>		
4.17 Do invoice-processing procedures provide for: (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?	<i>KPAD and OFWM:</i> Yes, invoice processing has to follow the Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers, so the process provides all this information and in such sequence.	All of those transactions should be followed Financial Management and Accounting Process.
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	<i>KPAD and OFWM:</i> Yes, all invoices are stamped "PAID" before filling them in the safe place.	All invoices are stamped "PAID" before filling them in the safe place as prescribed in the Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers.

Topic	Response	Remarks
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	<i>KPAD and OFWM: Yes.</i>	KPAD and its OFWM Directorate are government entities. They have to follow state control procedures. Responsible people (Secretary and Accountant General are properly authorized to control all the transactions of the entities.
<b><i>Policies And Procedures</i></b>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	<i>KPAD and OFWM: KPAD and its OFWM are using accrual accounting concepts as required by the General Financial Rule and Delegation of Powers approved by the President of Pakistan.</i>	That is appropriate for the Project financial management and accounting requirements. Generally the cash accounting principles are used for small and simple transactions.
4.21 What accounting standards are followed?	<i>KPAD and OFWM: CPWA and General Financial Rule and Delegation of Powers notified by the KP Provincial Government.</i>	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	<i>KPAD and OFWM: Yes, they are regularly updated to the new requirements.</i>	
4.23 Is the accounting policy and procedure manual updated for the project activities?	<i>KPAD and OFWM: Yes, different manuals will be updated.</i>	As mentioned in the answer to Question 4.22, the accounting policy and procedure manual will be updated when the project design is finalized to meet the specific project requirements.
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	<i>KPAD and OFWM: Yes.</i>	The answer is not relevant. Financial Management and Accounting Procedures are constitutional prescription. They just can be slightly modified to integrate into the entity operating management, not altered or newly established.

Topic	Response	Remarks
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	<i>KPAD and OFWM: Yes.</i>	<i>Most of policies and procedures including those for routine financial management process are documented as manual, decisions and guidelines.</i>
4.26 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?	<i>KPAD and OFWM: No, follow strictly define government procedure.</i>	<i>The answer is not proper. An example the Administrative Regulations are indicating that to avoid potential conflict of interest the Government Officials are not allowed to run a private business, this prescriptions are also mentioned in some legal documents as Business Laws, Codes of Ethics, Administrative Regulations, etc...</i>
4.27 Are manuals distributed to appropriate personnel?	<i>KPAD and OFWM: Yes, most of the staffs receive those manuals.</i>	
<b>Cash and Bank</b>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	<i>KPAD and OFWM: Joint Signatures of PD and Accountant.</i>	The answer is half of requirement. It should be updated to demonstrate the names of the people holding these positions.
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	<i>KPAD and OFWM: Yes. KPAD and its OFWM maintain an adequate, up-to-date cashbook, recording receipts and payments.</i>	It has to follow the Cost and Management Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers, so these transactions should continue to be maintained adequately, orderly and up-to-date.
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	<i>KPAD and OFWM: Yes. Control mechanism is available and operational.</i>	This process has to observe CPWA and General Financial Rule and Delegation of Powers notified by the KP Provincial Government.
4.31 Are bank and cash reconciled on a monthly	<i>KPAD and OFWM: Yes. The</i>	That is prescribed in the Cost and Management

Topic	Response	Remarks
basis?	reconciliation is undertaken on the monthly basis.	Accountants Regulations 1990, which are driven from General Financial Rule and Delegation of Powers.
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	<i>KPAD and OFWM: Yes.</i>	All unusual items on the bank reconciliation reviewed and approved by the competent authority.
4.33 Are all receipts deposited on a timely basis?	<i>KPAD and OFWM: Yes.</i>	All receipts deposited on a timely basis manner as required by the Accounting and Auditing Regulations.
<b>Safeguard over Assets</b>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	<i>KPAD and OFWM: Yes.</i>	The system of adequate safeguards to protect assets from fraud, waste and abuse is available and operational.
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	<i>KPAD and OFWM: Yes.</i>	Necessary recording mechanism of fixed assets and stocks kept up to date and reconciled with control accounts is available and operational.
4.36 Are there periodic physical inventories of fixed assets and stocks?	<i>KPAD and OFWM: Yes.</i>	The periodic physical inventories of fixed assets and stocks are undertaken on quarterly basis.
4.37 Are assets sufficiently covered by insurance policies?	<i>KPAD and OFWM: No.</i>	All assets owned by KPAD and OFWM are Government's assets and usually they are not covered by insurance policies but by the KP Government Budget. Although it is a common practice in the public service sector, it is not relevant in the FM Practice.
<b>Other Offices and Implementing Entities</b>		
4.38 Are there any other regional offices or executing entities	<i>KPAD and OFWM: Yes, execution through district – wise setup having</i>	This means that only one Executing Agency and four Implementing Agencies as

Topic	Response	Remarks
participating in implementation?	complete expert team.	appointed by KP Provincial Government and approved by ADB.
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	<i>KPAD and OFWM: Yes.</i>	They have to follow the Public Service Quality Assurance Rules of the KP Government.
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	<i>KPAD and OFWM: Yes, progress reports of financial and physical executions.</i>	The necessary information flows between required offices and agencies smoothly in an accurate and timely manner.
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	<i>KPAD and OFWM: Yes, reconciliation is undertaken in in the form of Monthly, Quarterly and Annual Progress Review basis.</i>	They have to follow the Public Service Quality Assurance Rules of the KP Government.
<b>Other</b>		
4.42 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?	<i>KPAD and OFWM: Yes, proper system is available and operational.</i>	They will have to follow the Public Community Assurance Rules of the KP Government, so proper reporting system is available and operational, however the official announcement about Project has not be on mass media or delivered to the concerned communities.
<b>5. Internal Audit</b>		
5.1 Is there an internal audit department in the entity?	<i>KPAD and OFWM: Yes.</i>	Auditing department is available and operational. Their duty is to support secretary verifying and controlling all the transactions occurred within the department.
5.2 What are the qualifications and experience of audit department staff?	<i>KPAD and OFWM: Most of the professional employees are graduates from relevant universities.</i>	They have also been properly trained and regularly updated by the Accountant General Office.

Topic	Response	Remarks
5.3 To whom does the internal auditor report?	<i>KPAD and OFWM:</i> To Accountant General (AG).	As required by the Auditing regulations.
5.4 Will the internal audit department include the project in its work program?	<i>KPAD and OFWM:</i> Yes.	As required by the Auditing regulations, the Project will be included into the internal auditing work program when project is implemented.
5.5 Are actions taken on the internal audit findings?	<i>KPAD and OFWM:</i> Yes, during the auditing process if any irregularity is found they are reported to the AG Office which are then discussed in Divisional Sub-Committee under the Chairmanship of Secretary Irrigation Department, and if the irregularities pointed out in the form of Draft Para are not settled, they are referred to Public Accounts Committee for final decision.	
<b>6. External Audit</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	<i>KPAD and OFWM:</i> Yes, the KPAD financial statements are regularly audited by Divisional Accounts Officer who is an independent auditor, posted by the Auditor General Office.	The quality assurance system is available and properly operational.
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	<i>KPAD and OFWM:</i> No, until now the auditing process is undertaken on the schedule. The audit reports are issued annually.	Financial management and accounting system is properly followed and the financial staffs of KPAD and OFWM are well – skilled.
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	<i>KPAD and OFWM:</i> Yes, Auditor General of Pakistan is fully geared to the adoption of international professional standards.	It has adopted International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards and Code of Ethics.
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	<i>KPAD and OFWM:</i> No.	Until the current time, no major accountability issues have been brought out in the audit report.
6.5 Will the entity auditor audit the project accounts or will another auditor be	<i>KPAD and OFWM:</i> Yes.	That may be “YES” or may be “NO” it depends on the Project financiers’

Topic	Response	Remarks
appointed to audit the project financial statements?		requirements.
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	<i>KPAD and OFWM: No.</i>	All the recommendations made by the auditors in management letters have been seriously considered to find the best options for them.
6.7 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?	<i>KPAD and OFWM: No.</i>	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	<i>KPAD and OFWM: Yes.</i>	<p>The Project Implementation Management Consultant will prepare the TOR for independent audit, and submit it to ADB for approval.</p> <p>When the TOR is approved by ADB, the independent audit will be employed EA.</p>
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	<i>KPAD and OFWM: Yes.</i>	<p>KPAD financial statements are prepared in accordance with Works Operations Audit Guidelines issued by Department of Auditor - General of Pakistan, and General Financial Rule and Delegation of Powers notified by the KP Provincial Government.</p>
7.2 Are financial statements prepared for the implementing unit?	<i>KPAD and OFWM: Yes, the implementing agencies will prepare their financial statement as required by General Financial Rule and Delegation of Powers notified by the KP Provincial Government.</i>	<p>Separated implementing unit will not be available; Project financial management statement will be combined with the general financial statement of the implementing agencies. The final statement should clearly show utilization of funds for the Project.</p>



Topic	Response	Remarks
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	<i>KPAD and OFWM:</i> KPAD financial statements are prepared on the monthly basis.	Until now the financial reports are prepared in a timely fashion, even on the requirement of management for decision making concerned specific part of them can be prepared.
7.4 Does the reporting system need to be adapted to report on the project components?	<i>KPAD and OFWM:</i> Yes.	As the counterpart funds will be part of KP Budget, generally accepted reporting system will be adapted to the Project. For the ADB Loan fund, generally accepted reporting system should be adapted to the Project.
7.5 Does the reporting 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?	<i>KPAD and OFWM:</i> Yes, the system has the capacity to link the financial information with the project physical progress.	Although some links are available, however, they are not strong and not operating smoothly and not adequately.
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	<i>KPAD and OFWM:</i> Yes.	These requirements are in the General Financial Rule and Delegation of Powers notified by the KP Provincial Government.
7.7 Are financial management reports used by management?	<i>KPAD and OFWM:</i> Yes.	KPAD and its attached OFWM management regularly review their financial statements when they make decisions.
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	<i>KPAD and OFWM:</i> Yes, the actual expenditures are always compared with the budgeted and programmed cost allocation, and explanation to any variation is assessed.	This information is reflected in the Notes to Financial Statements and Analysis of Surplus or Deficit. They are parts of Financial Statement

Topic	Response	Remarks
		Complex.
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	<i>KPAD and OFWM: No.</i>	KPAD and its OFWM financial reports are prepared on Excel Spreadsheets
<b>8. Information Systems</b>		
8.1 Is the financial management system computerized?	<i>KPAD and OFWM: No.</i>	Some computers are operating in the Financial Division, however the financial management system is not fully computerized; the financial statements are prepared on Excel Spreadsheet which is outside the computerized system.
8.2 Can the system produce the necessary project financial reports?	<i>KPAD and OFWM: Yes.</i>	Not all the project reports can be prepared by the computerized system.
8.3 Is the staff adequately trained to maintain the system?	<i>KPAD and OFWM: Yes.</i>	The staff adequately trained to maintain the system.
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	<i>KPAD and OFWM: Yes.</i>	KPAD and its OFWM management organization and processing system safeguard the confidentiality, integrity and availability of the financial data.