

FINANCIAL MANAGEMENT ASSESSMENT

A. Introduction

1. **The Project.** The project has five outputs. Output 1: Systems and capacity for integrated and participatory river basin management established. This will involve formation of river basin organizations implementing integrated water resource management (IWRM) principles. Output 2: Riparian environment in the upper Bagmati Improved. This involves physical works related to river bank improvement, weirs, green zones and beautification. Output 3: Increased water availability in the basin during the dry season, involves the construction of the Dhap dam reservoir for storage and release of water during the dry season. Output 4: Flood forecasting and early warning system in the Bagmati river basin functional. Output 5: Efficient project management and stakeholder coordination, involves project management.

2. **Methodology.** All five project outputs are non-revenue generating and therefore the standard financial analysis using Financial Internal Rates of Return (FIRR) and comparison with the Weighted Average Cost of Capital (WACC) cannot be carried out. However, an analysis of the financial sustainability of the project and Economic Analysis has been carried out.

3. **Financial Management Assessment of Project Institutions.** The project institutions are the Water and Energy Commission Secretariat (WECS), which will implement Outputs 1 and 4. The High Powered Committee for Integrated Development of Bagmati Civilization (HPCIDBC) will implement Output 2 and Output 5. The Department of Irrigation (DOI) will implement Output 3. Financial management assessments of all three institutions have been carried out using the ADB Financial Management Assessment Questionnaire (FMAQ)¹.

4. This fiduciary assessment of the financial management system of the three IAs is intended to determine the degree to which the system will be able to manage fiduciary risks and provide reasonable assurance that funds will be used according to its intended purpose. The assessment has been conducted with reference to the *Guidelines for the Financial Management and Analysis of Projects* ADB. 2005 and *Financial Due Diligence: A Methodology Note* ADB. 2009. Financial Due Diligence: A Methodology Note. Manila.. The assessment focuses on accountability and transparency and covers (i) internal controls, (ii) funds flow and disbursement arrangements, (iii) accounting, (iv) financial reporting, and (v) staffing, and (vi) internal and external audit.

B. Brief Description of Project Agencies

5. **Water and Energy Commission Secretariat (WECS).** WECS is attached to the Ministry of Energy but unlike a Department within the Ministry, has a separate Secretary reporting to the Minister. WECS has the mandate for developing policies and strategies in the water resources and energy sectors. It has a staff strength of 127, an annual operational budget of approximately Rs 15 million and implements Component C of the World Bank funded Integrated Water Resource Management Project (2012 annual budget of Rs. 15 million), mainly for consultants related expenditure. Therefore, in financial terms, WECS operations are relatively small.

6. **High Powered Committee for Integrated Development of Bagmati Civilization (HPCIDBC).** HPCIDBC is a government entity within the Ministry of Urban Development with a staff strength of 75, an annual operational budget of Rs.14 million and capital budget of Rs.38

¹ Financial Analysis of Projects, ADB, 2005

million. The main aim of the HPCIDBC is to ensure that the Bagmati and its tributaries are kept clean and towards this objective it is involved in the construction of sewerage pipelines and treatment plants, river training and greening works and public awareness programs.

7. **Department of Irrigation (DOI).** DOI is a government department under the Ministry of Irrigation (MOI). DOI has the mandate to develop, manage and operate irrigation and drainage systems throughout the country. It operates 26 divisional and 20 sub-division offices in all regions of the country. DOI has an operational budget for the current year of Rs 700 million and a capital budget of Rs 70 million. DOI is currently Executing Agency (EA) for the World Bank funded Irrigation & Water Resource Management Project, ADB funded Community Managed Irrigated Agri-Support Project and the Bagmati Irrigation Project (Saudi Fund). It has implemented donor funded projects since 1985.

C. Results of the Financial Management Assessment

8. **WECS.** WECS is within the Ministry of Energy (MOE) and has divisions for water resources, legal and institutional development and a socio-economic and environment, each headed by a Joint Secretary.

9. The Finance division has two staffs; an Undersecretary and reporting to him, an Accountant. This staffing is adequate given the current scale of operations. WECS financial management is generally satisfactory, and reporting is done on a cash basis in the manner in which the operational and capital budgets have been expended.

10. The Financial reporting system is based on cash book, budget sheet and vouchers, all prepared manually, in formats that have been agreed with the Office of the Auditor General (OAG). Reporting is in the form of budget heads for recurrent and capital budgets with amount allocated and amounted expended for the period and in cumulative terms.

11. WECS operates under the Treasury Single Account (TSA) system (recently implemented) where all payments are made by the District Treasury Comptroller (DTCO). The vouchers and other relevant documents are approved by WECS and a summary sheet of payments is sent to DTCO who processes the cheque in the name of the recipient. The experience of WECS is that the new TSA system has not resulted in undue delays in payments. The TSA was implemented to ensure that the GON had up-to-date information on government expenditure from a single source.

12. The Internal Auditor of WECS is the DTCO, whose officers visit WECS intermittently. The internal audit work is of the nature of checking to ensure that transactions are within government regulations and the resulting recovery of funds (if any). An audit of internal controls and the system is not part of the scope.

13. The annual external audit is carried out by the OAG. The internal audit work is of the nature of checking to ensure that transactions are within government regulations and the resulting recovery of funds (if any). An audit of internal controls and the system is not, generally part of the scope.

14. WECS has limited experience with donor funded projects; it currently implements Component C of the World Bank funded Integrated Water Resources Management Project, which had a budget of Rs. 15 million for 2012 mainly for consultancy services. Both accounting personnel have experience with ADB procedures for Statements of Expenditure (SOE) and Withdrawal Applications, gained from previous experience.

15. The Financial Management Questionnaire administered to the WECS is presented in Annex 1.

16. **HPCIDBC.** HPCIDBC comprises of a 28 member committee which provides policy directive to the head of the institution who is designated Member Secretary/Project Manager. Reporting to the Project Manager, are divisions for construction, procurement, social development, finance and administration. As a government department, it is committed to implement the policies of the Ministry of Urban Development (MOUD).

17. The finance division of HPCIDBC comprises of an Account Officer and Accountant. HPCIDBC financial management is generally satisfactory. Since it is a government entity financial statements are not prepared on a commercial basis using accrual accounting rather it is on a cash basis, reporting the manner in which the operational and capital budgets have been expended.

18. Financial reporting system is similar to that of WECS.

19. HPCIDBC also operates under the TSA. The experience of HPCIDBC is that the new TSA system has not resulted in undue delays in payments.

20. Similar to many government departments in Nepal, HPCIDBC does not have an internal auditor, but internal auditing is carried out by the DTCO on a regular basis. The internal audit work is of the nature of checking to ensure that transactions are within government regulations and the resulting recovery of funds (if any). An audit of internal controls and the system is not, generally part of the scope.

21. An external audit of HPCIDBC is carried out annually by OAG in a similar manner to WECS.

22. HPCIDBC has no experience with donor funded projects, and therefore the accounting staff do not have experience with the system of Statements of Expenditure (SOE) and Withdrawal Applications. However, they have access to a national Financial Consultant until the end of 2014, who has experience with donor projects and which will be available to train them with ADB accounting and disbursement procedures.

23. The Financial Management Questionnaire administered to the HPCIDBC is presented in Annex 2.

24. **DOI.** DOI is headed by a Director General with divisions for irrigation management, groundwater irrigation, surface irrigation, and design, planning and monitoring and support divisions for administration, finance and legal. As a government department, it is committed to implement the policies of the Ministry of Irrigation (MOI).

25. At the Head Office level, the finance division is headed by a Chief Accounting Controller with 2 Account Officers, 5 Accountants and 3 Sub-Accountants. At the divisional level, there is one Account Officer and an Accountant. DOI financial management is generally satisfactory. Given that it is a government department its financial reporting system is aligned to the government system and as such does not require that the traditional suite of financial statements such as the Income and Expenditure, Balance Sheet and Cash flow to be produced. Furthermore, the cash basis of accounting is used which limits the extent of reporting since items such as assets and liabilities, depreciation, payables, receivables etc are nonexistent. The financial statements are in the form of cash income and cash expenses and a budget sheet

comparing actual expenditure against the budget. There are no asset register to track both internal assets and future ADB funded assets

26. The financial reporting system is similar to that of WECS and HPCIDBC.

27. Similar to WECS and HPCIDBC, DOI also operates under the Treasury Single Account. The experience of DOI is that the new TSA system has not resulted in undue delays in payments. The TSA was implemented to ensure that the GON had up-to-date information on government expenditure from a single source.

28. Similar to many government departments in Nepal, DOI does not have an internal auditor, but internal auditing is carried out by the DTCO and the external audit is by the OAG.

29. The Financial Management Questionnaire administered to the DOI is presented in Annex 3.

D. Financial Management Risk Matrix and mitigation measures

Findings	Potential Risks	Risk Mitigation
(a) Manual systems of accounting and reporting increases the risks of misstatement, error and fraud	Financial statements may not represent a true and fair view of the project	The project financial accounting must be computerized using a simple off-the-shelf accounting package
(b) Internal audit does not review internal controls in a systematic manner	Internal control weaknesses may go undetected leading to error and/or fraud	The Terms of Reference (TOR) of the external auditor to include review of internal controls
(c) External audit does not review internal controls in a systematic manner	Internal control weaknesses may go undetected leading to error and/or fraud and external audit may not comply with International Auditing Standards as required by ADB	The TOR of the external auditor to include review of internal controls and a Management letter stating internal control weaknesses
(d) WECS and HPCIDBC have limited experience with donor funded projects	Proper financial management of the project may be hampered by the lack of experience of staff	The PMU to be staffed by financial and procurement consultants experienced in ADB projects

E. Recommendations for Improving Financial Management at Project Institutions

30. **Training of Accounting Personnel in ADB Procedures.** Whilst some staff may have experience with the use of SOE, Withdrawal Applications and Imprest Account procedure, it is important that training on these procedures is provided on a regular basis. This is especially so since government staffs are transferred at regular intervals and newcomers may not be familiar with these procedures. Together with these training, staff should be provided with the formal documentation on ADB processes (ADB manuals and guidelines) that should be maintained in each agency for the project. There is sufficient experience in-country and a suitably experienced specialist will be recruited for the PCMU to provide this expertise. Among other, he will ensure that Financial and Accounting Manuals are in place or that government finance regulations are available to the PCMU and followed.

31. **Strengthening Internal Auditing and Audit Training.** The current internal and external auditing procedures involve checking transactions for their accuracy and compliance with regulations. This is merely one aspect of auditing. The more important aspect is to ensure that internal controls are in place and actually follow the Government internal procedures. The TOR of the project external auditor will include the submission of a Management Letter with a review of internal controls and recommendations to improve any identified weaknesses.

32. **Use of Computerized Accounting and Training.** HPCIDBC and WECs continue to use manual systems in their accounting, although PMUs implementing DOI projects use computerized systems. It is important that all three institutions and particularly the one hosting the PCMU use computerized systems to record project transactions to ensure that information is available in a timely and accurate manner. Such computerized accounting system should include an asset register that track both internal and ADB funded assets. The fixed Asset Register will be maintained, physical assets coded, and records reconciled to physical assets at least every 3 year.

36. Provisions were made in the project budget to acquire necessary equipment and software and ensure staffs are trained to use such systems.

37. Statement of Audit Needs will be provided in the PAM to ensure timely submission of audited financial statements of the Project as a whole in accordance with international best practices in accounting and auditing. It is recommended that the PMU contract a Nepalese firm with affiliation to an international firm of accountants to undertake the audit on behalf of the OAG.

Annex 1: Financial Management Assessment Questionnaire - WECS

Topic	Response	Remarks
1. Implementing Agency		
1.1 What is the entity's legal status / registration?	Separate Government Entity with own Secretary within the Ministry of Energy (MoE). Has own budgets for capital and recurrent expenses.	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Currently, Implementation Agency for Component C: Integrated Water Resource Management Project (World Bank), for the consultancy budget of Rs. 15 million. Main project components handled by DOI.	
1.3 What are the statutory reporting requirements for the entity?	Reports to MoE and MoF re monthly, quarterly yearly comparing budget vs actual	
1.4 Is the governing body for the project independent?	Yes	
1.5 Is the organizational structure appropriate for the needs of the project?	Yes	
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Funds will be transferred from Imprest account based on DTCO authorization. Imprest account replenished based on withdrawal applications with SoEs.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes.	
2.3 What have been the major problems in the past in receipt of funds by the entity?	WECS has experienced no delays with the WB project	This is not through Imprest A/C but through regular budget
2.4 In which bank will the Imprest Account be opened?	Will be Nepal Rastra Bank	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes	
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	No.	Not relevant
2.8 How are the counterpart funds accessed?	Through the government budget.	

Topic	Response	Remarks
2.9 How are payments made from the counterpart funds?	Through the 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?	No	
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?	No	
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Finance division headed by Undersecretary with one accountant.	This is adequate given the budget they handle.
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.	Undersecretary holds postgraduate business degree and Accountant is a graduate	
3.3 Is the project finance and accounting function staffed adequately?	Yes	Currently adequate
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes	
3.5 Is the project accounts and finance staff trained in ADB procedures?	Yes, but not at WECS	The two staff also have experience in other organizations with Imprest A/c, SOE and Withdrawal Applications
3.6 What is the duration of the contract with the finance and accounts staff?	Permanent staff not contract	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	None	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, according to government regulations	
3.11 At what frequency are personnel transferred?	Government officers are generally transferred every 3-5 years, sometimes sooner. However not strictly implemented for Ministry staff	This is a major issue since new officers take time to understand project procedures once trained get transferred

Topic	Response	Remarks
3.12 What is training policy for the finance and accounting staff?	FCGO carries out an orientation program for new staff. Thereafter on the job training	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	Transactions are approved by Secretary (delegated to Joint Secretary, Administration), and Finance Undersecretary
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Catered to government budget heads not project activities	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	
<i>Segregation of Duties</i>		
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?	Yes	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Bank reconciliation prepared by the Accountant	Would have been considered a control weakness if not for the fact that DTCCO makes all payments
Budgeting System		
4.10 Do budgets include physical and financial targets?	Financial target, government budget and actual	

Topic	Response	Remarks
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	For government accounting purposes
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes	
4.13 Are approvals for variations from the budget required in advance or after the fact?	In advance	
4.14 Who is responsible for preparation and approval of budgets?	Prepared by WECS and approved by MOE	
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?	Yes	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	
Payments		
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?	Yes	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	
Policies And Procedures		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash accounting	
4.21 What accounting standards are followed?	Nepali accounting standards, but since cash basis used not so relevant	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes	
4.23 Is the accounting policy and procedure manual updated for the project activities?	No	

Topic	Response	Remarks
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?	Yes	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Government procedures	
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?	No	
4.27 Are manuals distributed to appropriate personnel?	No	
Cash and Bank		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Transactions are approved by Secretary (delegated to Joint Secretary Administration), and Finance Undersecretary	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes, manual cashbook as well as computerized	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	All deposits at bank	
4.31 Are bank and cash reconciled on a monthly basis?	Yes, by system	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	No unusual items	
4.33 Are all receipts deposited on a timely basis?	No collections at office	
Safeguard over Assets		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Register of fixed assets and stocks	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes	
4.37 Are assets sufficiently covered by insurance policies?	No insurance	
Other Offices and Implementing Entities		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes, HPCIDBC and DOI	

Topic	Response	Remarks
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?	Yes, there are procedures	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	
Other		
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?	No	
5. Internal Audit		
5.1 Is there a internal audit department in the entity?	No	Internal audit is carried out by DTCO
5.2 What are the qualifications and experience of audit department staff?	Commerce graduates with experience in accounting and audit as staff of DTCO	
5.3 To whom does the internal auditor report?	Secretary, MOE	
5.4 Will the internal audit department include the project in its work program?	Yes	Internal audit involves checking transactions if they are within regulations and if the payment is correct
5.5 Are actions taken on the internal audit findings?	Yes	
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Annual audit by the Office of the Auditor General (OAG)	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No delay	Should be done within 6 months of the end of the fiscal year
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	This is a transactions audit where transactions are checked if they are within regulations
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Same	

Topic	Response	Remarks
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	The OAG comments relate to procedural issues only, which have been answered and corrected where necessary	OAG has to also report on efficiency and effectiveness of fund utilization.
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?	Yes, the OAG	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Yes	The scope only relates to procedural matters
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	The financial statements are budget and actual expenditure and cash receipts and payments	Cash basis used. Standard Income & Expenditure, Balance Sheet and Cashflow not prepared
7.2 Are financial statements prepared for the implementing unit?	Yes	
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?	Monthly, annually	
7.4 Does the reporting system need to be adapted to report on the project components?	No	Financial information required by the project has to be extracted and not easily available
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?	No	
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?	Yes	Project reporting is done by the PCU in the center
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Some are prepared manually	

Topic	Response	Remarks
8. Information Systems		
8.1 Is the financial management system computerized?	Manual in formats approved by OAG	
8.2 Can the system produce the necessary project financial reports?	Yes	
8.3 Is the staff adequately trained to maintain the system?	Not applicable.	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Not applicable	

Annex 2: Financial Management Assessment Questionnaire - HPCIDBC

Topic	Response	Remarks
1. Implementing Agency		
1.1 What is the entity's legal status / registration?	Government entity under the Ministry of Urban Development , department level office with a total staff of 75	The staff also includes those managing the adjacent sewerage plant.
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Has not implemented any donor funded projects but only those funded by GON.	Operational budget of Rs 14 million and capital budget of Rs. 38 million.
1.3 What are the statutory reporting requirements for the entity?	Monthly reporting to Ministry and FCGO and annually to OAG, on budget and actual expenditure	
1.4 Is the governing body for the project independent?	Yes	It is a government entity which will implement government policies
1.5 Is the organizational structure appropriate for the needs of the project?	Yes	.
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Funds will be transferred from Imprest account based on DTCO authorization. Imprest account replenished based on withdrawal applications with SoEs.	Currently direct budget transfers from FCGO based on approval by MOF
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes.	Has not implemented any externally funded projects as yet
2.3 What have been the major problems in the past in receipt of funds by the entity?	No	
2.4 In which bank will the Imprest Account be opened?	Will be Nepal Rastra Bank	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	No.	Not relevant
2.8 How are the counterpart funds accessed?	Through the government budget.	
2.9 How are payments made from the counterpart funds?	Through the budget.	

Topic	Response	Remarks
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?	No	
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?	No	
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Finance division headed by Accounts Officer with one accountant.	This is adequate given the budget they handle.
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.	Both are B.Com graduates. The Accounts Officer has experience with OAG and DTCO but not with donor projects	
3.3 Is the project finance and accounting function staffed adequately?	Yes	Currently adequate
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes	
3.5 Is the project accounts and finance staff trained in ADB procedures?	No.	However, they have access to a Consultant for a period of 2 yrs till end 2014 who has experience with ADB procedures
3.6 What is the duration of the contract with the finance and accounts staff?	Permanent staff not contract	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	None	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, according to government regulations	
3.11 At what frequency are personnel transferred?	Government officers are generally transferred every 2-3 years.	This is a major issue since new officers take time to understand project procedures and then get transferred
3.12 What is training policy for the finance and accounting staff?	FCGO carries out an orientation program for new staff. Thereafter on the job training	Mostly on the job

Topic	Response	Remarks
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	Transactions are approved by Project Manager and Accounts Officer
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Catered to government budget heads not project activities	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	
<i>Segregation of Duties</i>		
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?	Yes	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Bank reconciliation prepared by the Accounts Officer	Would have been considered a control weakness if not for the fact that DTCO makes all payments
<i>Budgeting System</i>		
4.10 Do budgets include physical and financial targets?	Financial target, government budget and actual	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	For government accounting purposes

Topic	Response	Remarks
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes	
4.13 Are approvals for variations from the budget required in advance or after the fact?	In advance	
4.14 Who is responsible for preparation and approval of budgets?	MoUD responsible for preparation and MOF approval	
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?	Yes	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	
Payments		
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?	Yes	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	
Policies And Procedures		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash accounting	
4.21 What accounting standards are followed?	Nepali accounting standards, but since cash basis used not so relevant	There are proposals to bring in partial accrual accounting to public sector through the valuation of fixed assets and inventory
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes	
4.23 Is the accounting policy and procedure manual updated for the project activities?	No	

Topic	Response	Remarks
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?	Yes	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Government procedures	
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?	No	
4.27 Are manuals distributed to appropriate personnel?	No	
Cash and Bank		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Transactions are approved by the Project Manager, and Accounts Officer	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes,	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Deposits are generally small (such as tender deposits) and have to be banked within 3 days	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	No unusual items	
4.33 Are all receipts deposited on a timely basis?	See above	
Safeguard over Assets		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Register of fixed assets and stocks	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes	
4.37 Are assets sufficiently covered by insurance policies?	No insurance	
Other Offices and Implementing Entities		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes, DOI and WECS	

Topic	Response	Remarks
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?	Yes, there are procedures	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	
Other		
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?	No	
5. Internal Audit		
5.1 Is there a internal audit department in the entity?	No	Internal audit is carried out by DTCO
5.2 What are the qualifications and experience of audit department staff?	Commerce graduates with experience in accounting and audit as staff of DTCO	
5.3 To whom does the internal auditor report?	Secretary, MoUD	
5.4 Will the internal audit department include the project in its work program?	Yes	Internal audit involves checking transactions if they are within regulations and if the payment is correct
5.5 Are actions taken on the internal audit findings?	Yes	
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Annual audit by the Office of the Auditor General (OAG)	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No delay	Should be done within 6 months of the end of the fiscal year
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	This is a transactions audit where transactions are checked if they are within regulations
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Same	

Topic	Response	Remarks
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	The OAG comments relate to procedural issues only, which have been answered and corrected where necessary	OAG has to also report on efficiency and effectiveness of fund utilization.
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?	Yes, the OAG	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Yes	The scope only relates to procedural matters
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	The financial statements are budget and actual expenditure and cash receipts and payments	Cash basis used. Standard Income & Expenditure, Balance Sheet and Cashflow not prepared
7.2 Are financial statements prepared for the implementing unit?	Yes	
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?	Monthly, annually	
7.4 Does the reporting system need to be adapted to report on the project components?	No	Procedures to extract required information needed
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?	No	
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?	Will have	
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Through formats agreed with OAG on MS Access	

Topic	Response	Remarks
8. Information Systems		
8.1 Is the financial management system computerized?	Uses MS Access where voucher details are keyed in and output in formats approved by OAG	
8.2 Can the system produce the necessary project financial reports?	Yes	
8.3 Is the staff adequately trained to maintain the system?	Yes.	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	There is password control	

Annex 3: Financial Management Assessment Questionnaire - DOI

Topic	Response	Remarks
1. Implementing Agency		
1.1 What is the entity's legal status / registration?	Government department under Ministry of Irrigation	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, with World Bank and ADB. Currently EA for Irrigation & Water Resource Management Project (World Bank), Community Managed Irrigated Agri-Support Project (ADB) and Bagmati Irrigation Project (Saudi Fund). DOI has seconded staff to the PCUs of these projects	DOI has implemented donor funded projects since 1985
1.3 What are the statutory reporting requirements for the entity?	Monthly reporting to Ministry of Irrigation and FCGO and annually to OAG, on budget and actual expenditure	
1.4 Is the governing body for the project independent?	Yes,	
1.5 Is the organizational structure appropriate for the needs of the project?	Yes	
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Funds transferred from Imprest account based on DTCO authorization. Imprest account replenished based on withdrawal applications with SoEs.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3 What have been the major problems in the past in receipt of funds by the entity?	No	
2.4 In which bank will the Imprest Account be opened?	Nepal Rastra Bank	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes	
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	No	No requirement as funds are transferred in local currency
2.8 How are the counterpart funds accessed?	Through budget allocation	

Topic	Response	Remarks
2.9 How are payments made from the counterpart funds?	According to budget limits	
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?	No	
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?	No	
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	Finance Division headed by Chief Accounting Controller with 2 account officers, 5 accountants, 3 sub accountants. Divisional level 1 account officer and 1 accountant in sub division only 1 accountant	DOI has 26 divisions and 20 sub-divisions throughout the country. They normally deputize key personnel to projects
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.		
3.3 Is the project finance and accounting function staffed adequately?	Yes	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Officers are graduates	
3.5 Is the project accounts and finance staff trained in ADB procedures?	ADB project in progress. New / seconded staff will have to be trained	
3.6 What is the duration of the contract with the finance and accounts staff?	Permanent staff	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	None	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, according to government regulations	
3.11 At what frequency are personnel transferred?	Government officers are generally transferred every two years, sometimes sooner	This is a major issue since new officers take time to understand project procedures and when they do, they then get transferred

Topic	Response	Remarks
3.12 What is training policy for the finance and accounting staff?	FCGO carries out an orientation program for new staff. Thereafter on the job training	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Catered to government budget heads not project activities	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	
<i>Segregation of Duties</i>		
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?	Yes	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Under the TSA system DTCO makes all payments	
Budgeting System		
4.10 Do budgets include physical and financial targets?	Financial target, government budget and actual	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	

Topic	Response	Remarks
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes	
4.13 Are approvals for variations from the budget required in advance or after the fact?	In advance	
4.14 Who is responsible for preparation and approval of budgets?	DOI provides details to MOI for budget	
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?	Yes	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	
Payments		
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?	Yes	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	
Policies And Procedures		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Cash accounting	
4.21 What accounting standards are followed?	Nepali accounting standards, but since cash basis is used, this is not so relevant	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes	
4.23 Is the accounting policy and procedure manual updated for the project activities?	No	
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?	Yes	

Topic	Response	Remarks
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Government procedures	
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?	No	
4.27 Are manuals distributed to appropriate personnel?	No	
Cash and Bank		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Currently, Account Officer and Undersecretary Administration section. DG can delegate any person	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Cash book, budget sheet and vouchers in loose sheet form. Advance ledger maintained for mobilization advances	All done manually at present
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	All deposits at bank	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Authorized signatory (Account officer) does it	From an internal control perspective, should be done by someone who has no involvement in the transaction
4.33 Are all receipts deposited on a timely basis?	Very few collections at office, except for some tender deposits	
Safeguard over Assets		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Stock ledger and vehicles ledger by stores division format approved by OAG	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes	
4.37 Are assets sufficiently covered by insurance policies?	No insurance	
Other Offices and Implementing Entities		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes, HPCIDBC and WECS	

Topic	Response	Remarks
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?	The only such project related office will be the PMU – to be established	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Will	The PMU will coordinate this role.
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	
Other		
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?	No	
5. Internal Audit		
5.1 Is there a internal audit department in the entity?	No.	Internal audit is carried out by DTGO
5.2 What are the qualifications and experience of audit department staff?	Not applicable	DTGO is under the FCGO and have qualified staff
5.3 To whom does the internal auditor report?	DTGO reports to FCGO and DG	
5.4 Will the internal audit department include the project in its work program?	Yes	Internal audit involves checking transactions if they are within regulations and if the payment is correct
5.5 Are actions taken on the internal audit findings?	Yes	
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Annual audit by the Office of the Auditor General (OAG)	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No delay	Has to be completed within nine months of the end of the fiscal year
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	This is a transactions audit where transactions are checked if they are within regulations
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No	

Topic	Response	Remarks
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Same	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	The OAG comments relate to procedural issues only, which have been answered and corrected where necessary	
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?	Yes, the OAG	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Yes	The scope only relates to procedural matters
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	The financial statements are budget and actual expenditure and cash receipts and payments	
7.2 Are financial statements prepared for the implementing unit?	The PMU will prepare	
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?	Monthly, annually	
7.4 Does the reporting system need to be adapted to report on the project components?	No	
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?	No	
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?	Yes	
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	All reports prepared manually	

Topic	Response	Remarks
8. Information Systems		
8.1 Is the financial management system computerized?	Manual in formats approved by OAG	However, the PMU will have computerized systems and financial statements will be prepared as required by donors
8.2 Can the system produce the necessary project financial reports?	Yes	
8.3 Is the staff adequately trained to maintain the system?	Currently yes.	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Not applicable	

Figure 1 : Organization Chart of WECS

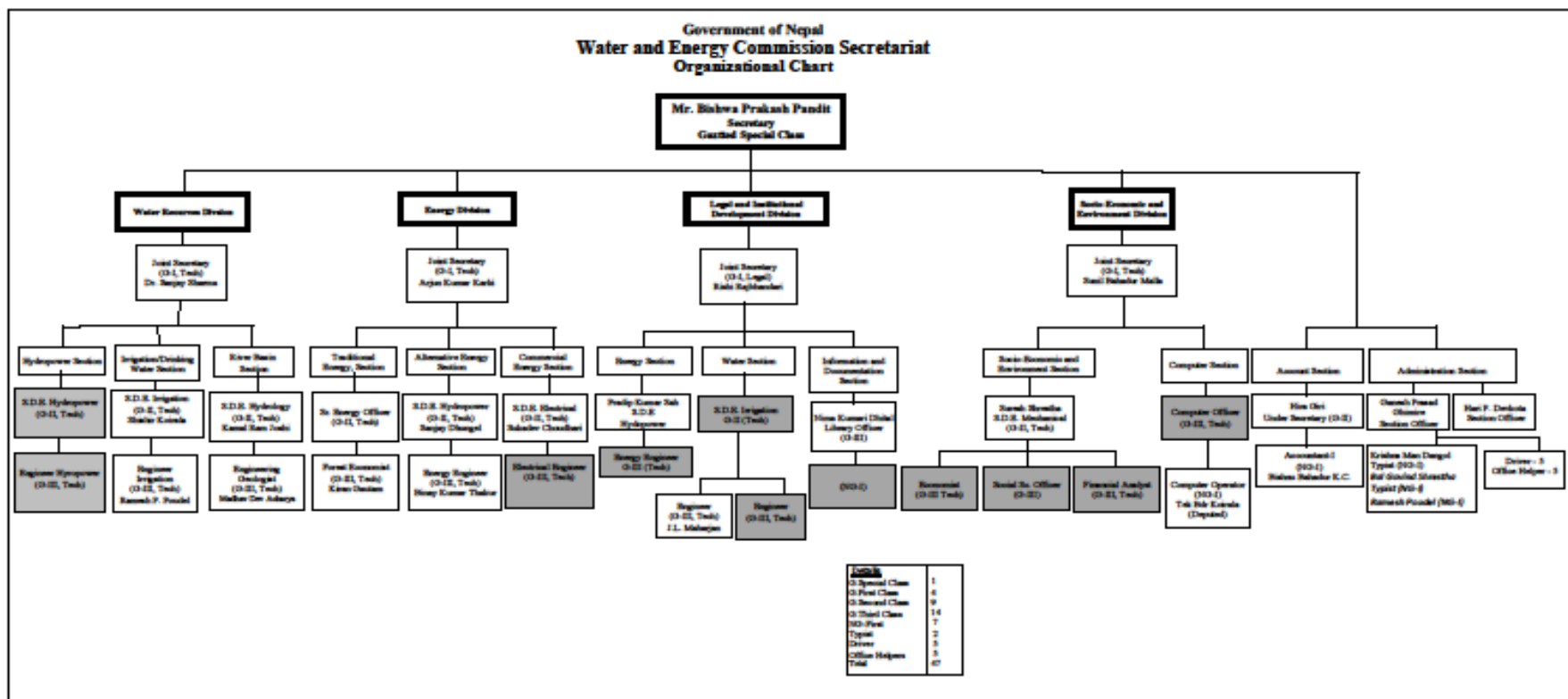


Figure 2 : Organization Chart of HPCIDBC

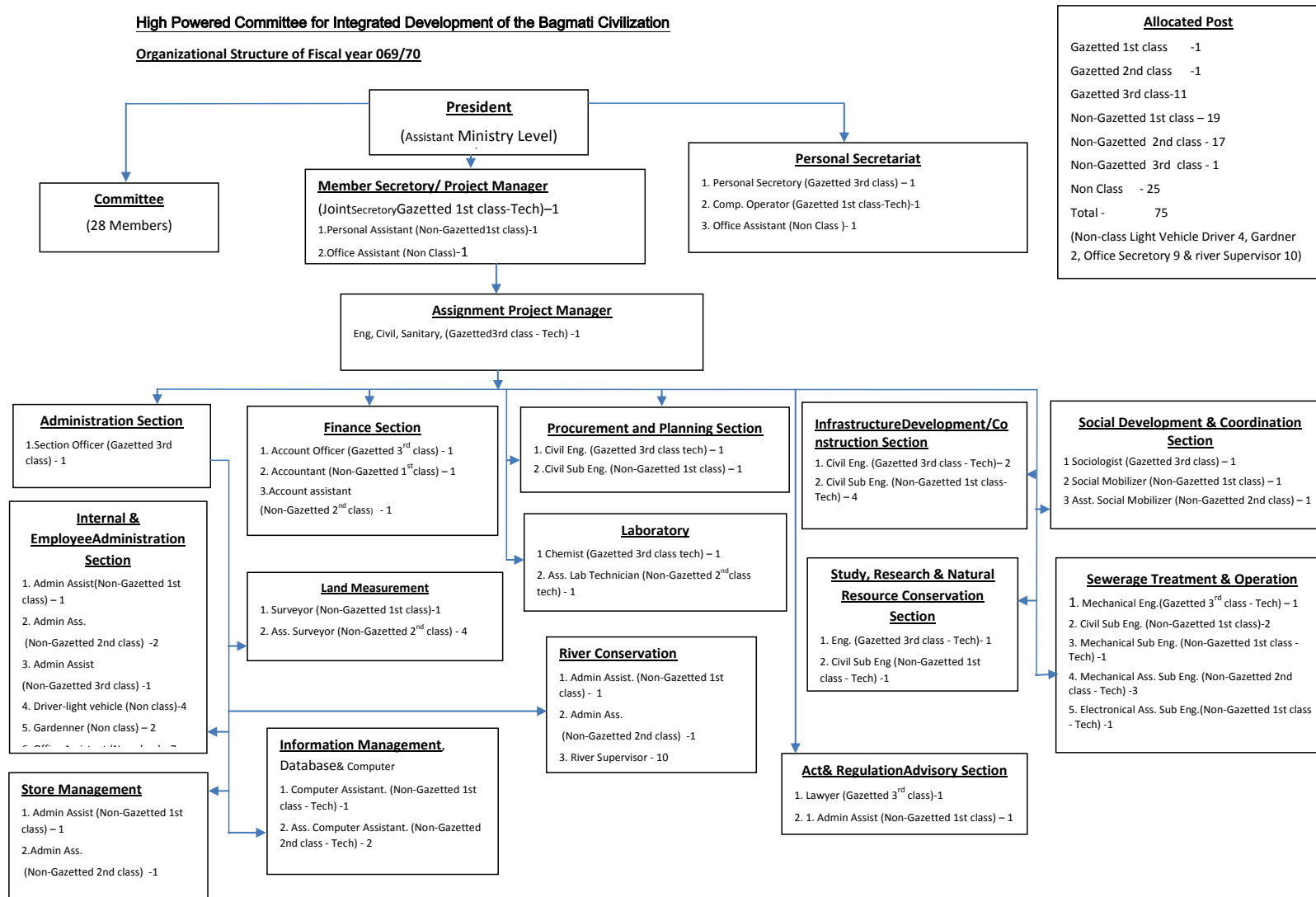


Figure 3 : organization Chart : DOI

