

FINANCIAL MANAGEMENT ASSESSMENT

A. Introduction

1. This financial management assessment (FMA) was prepared based on information from the fact-finding mission, in accordance with the guidelines of the Asian Development Bank (ADB) for the *Financial Management and Analysis of Projects* (the Guidelines) and the publication *Financial Due Diligence A Methodology Note*.¹ Responses to the financial management assessment questionnaire are presented in Attachment 1.

2. Country-level issues noted in this FMA are based on the information developed through the Vanuatu Public Financial Management (PFM) Performance Report of 2009. That report was developed based on the PFM Performance Measurement Framework² and focuses on high-level indicators measuring the operational performance of the key elements of PFM systems, processes, and institutions of the country central government, legislature, and external audit of Vanuatu.

B. Project Description

3. Port Vila, with approximately 44,000 residents, is the largest population center, main commercial center, and seat of government of Vanuatu. It has already expanded beyond its originally defined urban boundaries due to rapid economic development, rural-urban migration, and the proliferation of informal settlements. The estimated population of the resulting “greater Port Vila” area in 2009 was 58,000 residents. By 2025, this figure will reach 109,000. Despite efforts by the government to build the necessary infrastructure to provide adequate urban services, i.e., road network, telecommunications, and water supply, significant inadequacies continue to exist, particularly in drainage, sanitation, and hygiene services. The poor conditions of these services are adversely affecting public health, economic activities, and the overall quality of life of Port Vila residents and visitors.

4. The proposed Port Vila Urban Development Project³ will provide the drainage, roads, and sanitation systems improvement in greater Port Vila within the long-term priorities for urban services and infrastructure development. It will address the poor coordination in the delivery of services and weak capacity of institutions in urban development through promoting public-private partnerships, and community and civil society participation. The project will implement the recommendations of the drainage and sanitation master plan prepared through project preparatory technical assistance.⁴ It will support the government of Vanuatu in providing affordable, sustainable, and effective sanitation and storm water drainage services, and will contribute to climate-resilient and sustainable urban development in and around Port Vila. The project has five outputs namely: (i) improved drainage systems in greater Port Vila, (ii) improved sanitation system in greater Port Vila, (iii) improved hygiene facilities in the central area and settlement communities, (iv) improved and strengthened capacity of government agencies and community and user organizations to effectively and efficiently manage sanitation and drainage systems; and (v) efficient project management services.

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence. A Methodology Note*. Manila.

² <http://resources.revenuewatch.org/sites/default/files/PEFA%20Framework.pdf>

³ The design and monitoring framework of the project is provided in Appendix 1 of the Report and Recommendation of the President.

⁴ ADB. 2009. *Project Preparatory Technical Assistance to Vanuatu for the Port Vila Urban Development Project*. Manila.

5. The project is estimated to cost \$39.1 million equivalent, including taxes and duties. Detailed cost estimates by expenditure category and financier are included in the project administration manual (PAM) in Appendix 2 as a linked document.

6. The executing agency for the project will be the Ministry of Finance and Economic Management (MFEM). The MFEM will establish a Vanuatu Project Management Unit (VPMU) as a dedicated unit for managing large and nationally significant projects with allocation of budget and core staff. VPMU which will be responsible for day-to-day project implementation.

C. Country Issues

7. Country issues that impact on the effective financial management of this project are concerned with (i) public financial management, (ii) management and skills capacity, and (iii) country environment.

1. Public Financial Management

8. Vanuatu's fiscal aggregates have improved significantly since 2000 on the back of better macroeconomic performance, improved fiscal management and strengthened PFM arrangements. The government has adopted both International Public Sector Accounting Standards (IPSAS) and Government Finance Statistics 86 standards. The use of program budgeting has increased budget transparency and coverage. Vanuatu PFM arrangements were most recently assessed in 2009 using the PFM Performance Measurement. Table 1 and Figure 1 are the summaries of the overall results of PFM assessment for 2009 and comparison with the 2006 PFM assessment. The indicators of the PFM Performance Measurement Framework are scored A to D, with A indicating better performance.⁵

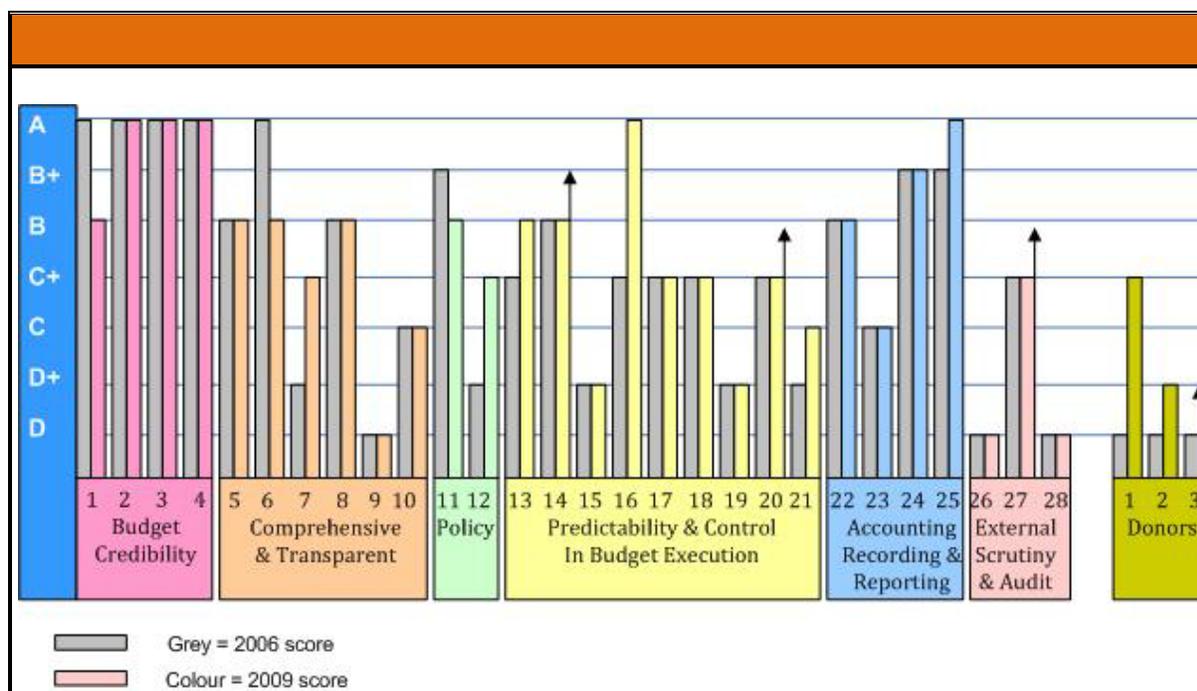
Table 1: Summary of 2009 PFM Performance Measurement Framework

PFM Performance Indicator	Dimension Ratings				Overall Rating
	i.	ii.	iii.	iv.	
A. PFM-OUT-TURNS: Credibility of the budget					
Aggregate expenditure out-turn compared with original approved budget	B				B
Composition of expenditure out-turn compared with original approved budget	A				A
Aggregate revenue out-turn compared with original approved budget	A				A
Stock and monitoring of expenditure payment arrears	A	A			A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
Classification of the budget	B				B
Comprehensiveness of information included in budget documentation	B				B
Extent of unreported government operations	C	B			C+
Transparency of intergovernmental fiscal relations	A	B	D		B
Oversight of aggregate fiscal risk from other public sector entities	D	D			D
Public access to key fiscal information	C				C

⁵ For more information on scoring guidelines, please refer to <http://resources.revenuewatch.org/sites/default/files/PEFA%20Framework.pdf>

PFM Performance Indicator	Dimension Ratings				Overall Rating
	i.	ii.	iii.	iv.	
C. BUDGET CYCLE					
(i) Policy-Based Budgeting					
Orderliness and participation in the annual budget process	B↑	A	C		B
Multiyear perspective in fiscal planning, expenditure policy, and budgeting	C	B	C	C	C+
(ii) Predictability and Control in Budget Execution					
Transparency of taxpayer obligations and liabilities	C	B	B		B
Effectiveness of measures for taxpayer registration and tax assessment	C	B↑	B		B↑
Effectiveness in collection of tax payments	n/r	A	D		D+
Predictability in the availability of funds for commitment of expenditures	B	A	A		A
Recording and management of cash balances, debt, and guarantees	C	B	C		C+
Effectiveness of payroll controls	A	B	A	C	C+
Competition, value for money, and controls in procurement	D	C	D		D+
Effectiveness of internal controls for nonsalary expenditure	B	C↑	C		C+↑
Effectiveness of internal audit	C	C	C		C
(iii) Accounting, Recording, and Reporting					
Timeliness and regularity of accounts reconciliation	B	B			B
Availability of information on resources received by service delivery units	C				C
Quality and timeliness of in-year budget reports	A	A	B		B+
Quality and timeliness of annual financial statements	A	A	A		A
(iv) External Scrutiny and Audit					
Scope, nature, and follow-up of external audit	D	D	D		D
Legislative scrutiny of the annual budget law	C	C	C	B↑	C+↑
Legislative scrutiny of external audit reports	D	D	D		D
D. DONOR PRACTICES					
Predictability of direct budget support	C	A			C+
Financial information provided by donors for budgeting and reporting on project and program aid	D	C			D+
Proportion of aid that is managed by use of national procedures	D↑				D↑

Figure 1: Indicator Comparison Between 2006 and 2009



9. Figure 1 shows that the Government of Vanuatu continued to show steady progress in several areas of PFM, and in most cases retained the position achieved in 2006. The apparent decline in the comprehensiveness of budget documentation is due to an incorrect assessment in 2006, not to a deterioration in government performance. The extent of deviation at an aggregate level has increased between the two assessments, partly due to the increase in salaries in 2006, which was approved after the appropriation of the budget.

10. The government's ability to set policy-based budgets, and in some cases to clearly articulate policies, remains weak. As noted in its concept note, the prime purpose of the Integrated National Budget is to establish a government-led process for identifying and funding development priorities. There are plans to introduce a more medium-term perspective in 2011.

11. Although the government has taken a number of steps to reduce the burden (economic and financial) of its state owned enterprises (SOEs), its ability to monitor fiscal risk remains weak, because of the latter's delays in producing financial statements. As noted below, plans are being discussed on how to address the SOE sector. Although financially less significant, the government's ability to monitor the fiscal risk of subnational entities is also weak, and would need strengthening if service delivery responsibilities were to be decentralized.

12. **Predictability and control in budget execution.** Tax revenues account for more than 90% of the government's overall domestic revenues. To improve taxpayers' access to information on their liabilities, the Customs and Inland Revenue Department has developed a comprehensive website and opened offices in all the main islands. Since 2006, the government has also reviewed its exemption policies for import duties, although the recommendations have not yet been considered by the Council of Ministers.

13. Nontax revenues represent about 10% of domestic revenue. As noted in the previous assessment, outstanding arrears remain a major problem, particularly for wharfage charges and

land rents. For the latter, the Ministry of Lands, Geology and Mines is embarking on a land sector framework and validating the information on its land database.

14. The government is determined to follow a prudent approach to financial management, and consequently MFEM still operates a monthly warrant system. However, amounts warranted have been in accordance with individual ministry cash flow requests for many years. Debt administration in Vanuatu is fairly straightforward, with relatively few external loans and domestic debts. Since 2006, the government has also retired some of its domestic debt. There is, however, a recognized need to review its debt recording and management systems. The centralized payments system facilitates improved commitment control, and financial regulations/circulars and manuals exist to guide sound financial management. Revisions to the Public Finance and Economic Management (PFEM) Act have addressed areas of weakness previously identified. As noted in the previous assessment, there are some concerns about the level of compliance in some ministries and in their offices in the provinces. The introduction of financial service bureaus is intended to improve PFM capacity in the provinces.

15. **Credibility of budget, comprehensiveness, and transparency.** Reflecting improved macro-fiscal settings and better fiscal management, Vanuatu was rated highly on budget credibility, with A ratings assigned to three major relevant indicators and with a B rating for one indicator. The government has a clear budget calendar which is broadly followed. From 2009, the Office of the Prime Minister, together with MFEM, formulates policy priorities. However, the multiyear perspective for financial planning and budgeting remains weak; similarly links between national and sector policies and the budget remains underdeveloped. In terms of comprehensiveness and transparency, the government's ability to oversee fiscal risk remains a concern, as many of SOEs and statutory bodies have not submitted accounts for several years. Decentralization is in its infancy, and, although charged with the legal responsibility, subnational activities are relatively minor. The information available to the public remains poor, which limits both public and political scrutiny of the government's performance.

16. **Policy-based budgeting.** As in 2006, the government has a clear budget calendar, which is broadly followed. The Executive (through the Ministerial Budget Committee) is actively involved in the process, and the legislature has generally approved the budget in a timely manner, the delay in 2009 being caused by elections. In 2009, the Prime Minister's Office and MFEM discussed policy priorities, although there have been some improvements in some sectors, e.g., education.

17. **Accounting, recording and reporting.** MFEM is responsible for the formulation of sound and effective national economic policies and for managing and coordinating distribution of the government's financial resources. In 2002, FEM established an integrated financial management information system (FMIS) that is generic to all government ministries in Vanuatu. The government operates a centralized payments and payroll system using SmartStream financial software. It includes modules for general ledger, fund control, accounts payable, accounts receivable, purchasing, payroll/human resources, and asset register. Comprehensive and detailed in-year budget execution reports can be extracted as required by all users, although senior management in line ministries do not always have access and are sometimes unaware of the information available. Since 2006, bank account reconciliations have been automated/semiautomated for the key treasury-managed bank accounts. Financial statements are produced on an accrual basis and have been produced for financial years 2006–2008, within 6 months of year-end. The government has adopted IPSAS voluntarily for some time, but this is now required by law. Detailed breakdowns of parliamentary appropriations (on a modified cash basis) are included in the financial statements to Parliament.

18. **External scrutiny and audit.** The major areas of concern remain external scrutiny and audit. The lack of audited accounts seriously undermines the Public Account Committee's (PAC) ability to carry out its role, and the government's timely presentation of its financial statements and commitment to greater transparency and accountability. Changes to the legislation have also limited executive actions without parliamentary approval. The basic legal framework for external scrutiny and audit is in place, although there are some concerns over true independence of the audit function. Since 2006, one audit report has been issued, together with the audited financial statements for 1998–2004. All other financial statements are awaiting review, given that the Auditor-General resigned in 2008 and a new Auditor-General was appointed only in late 2009. In addition, the financial statements of the Ministry of Infrastructure and Public Utilities (MIPU) through its Public Works Department (PWD), as one of the key implementing agencies of the proposed project, have not been audited since 2004. The ability of the government to ensure that its procurement policies are followed, and in a transparent manner, is also weak, and costly lawsuits might be prevented if a dispute mechanism were in place.

19. The Decentralization Review Commission issued a report in 2001 including a number of recommendations on how to take forward decentralization and improve service delivery at the local level. The government has recently (2009) convened a working group to look at a number of these recommendations, in particular the strengthening of the role of the Secretary General.⁶ In addition, in its planning matrix, the government has set out its policy to review the performance of SOEs and, where necessary, abolish them or institute reforms. ADB and the Australian Agency for International Development (AusAID) have offered joint assistance; however, as of today, no further progress has been made in this area due to the lack of ownership by the government.

20. **Donor practices.** The European Commission is the only funding agency providing budget support, the predictability of which has improved since 2006. A greater proportion of funds is being managed through government's Development Fund, and is thus known to MFEM; however, the use of the Fund does not equate with use of all of the government's proceeds. A significant amount of support, e.g., aid in-kind, technical assistance, turnkey projects, estimated to be worth Vt6 billion (equivalent of US\$60 million) remained outside government's fiscal reporting. It is therefore estimated that less than 50% of total external support currently uses government procedures. Bilateral and multilateral program and project assistance by most traditional aid agencies has been in support of projects incorporated in the Government Investment Programme (GIP), although a few agencies including multilateral ones, as well as nongovernment organizations, charitable organizations, and volunteer agencies, respond to ad hoc requests from line ministries. Vanuatu is also the recipient of funds from a number of global and regional funds, which have tended to fall outside both the estimates and GIP processes.

21. In 2008, the government also made a decision to reform its budget process with the aim of achieving better integration of external support as part of a coherent budget policy framework. The Integrated National Budget, which was previously termed the Development Budget, is being implemented since 2010. The aim of this initiative is to bring government and development partners' resources under a unified budget. It will enable the government to consider the total available resource envelope from both government and external agencies as part of the budget process, support better decision making and transparency concerning allocation of resources, and ensure that external support is aligned clearly with government budget policy priorities.

⁶ The Secretary General and the Accountant are national civil servants appointed by the central government; all other employees are appointed by the provincial council.

22. The current legal framework for PFM is set out under the following acts and regulations. The *Constitution 1980* (amended in 1988) provides the basis for sound PFM in Vanuatu. Section 25 sets out the provisions in relation to public finance including the appointment and function of the Auditor-General. The *PFEM Act 1998* (amended in 2000 and 2009) designed to ensure effective economic, fiscal, and financial management and responsibility by the government. The *Expenditure Review and Audit (ERA) Act 1998* (amended in 2000 and 2008) provides for a committee to review public expenditure and sets out the objectives, functions, and powers of the Office of the Auditor-General (OAG). In particular, it sets out reporting requirements of the auditor-general and the role of the PAC in scrutinizing public finances. An amendment in 2008 changed the auditor-general's terms of employment from a permanent position to a 5-year contract. The *Government Contracts and Tender Act 1998* (amended in 2001) and its associated regulations set out the process of procurement.

23. Revenue administration, which includes the Customs Act, Import Duties Act and the Value Added Tax (VAT) Act, sets out the mandate of the Customs and Inland Revenue Department and the administration of import duties and VAT, respectively. Other acts such as the Business Licenses Act and Casino Act set out other licensing/charging requirements. The *Leadership Code Act 1998* makes it a criminal offence for a Leader⁷ to fail to disclose a personal interest in the awarding of a government contract. The *Archives Act (1992)* provides the basic requirements for management and storage of key documents. In support of the various acts, there are a number of sets of regulations (financial and tender), financial circulars, procedural manuals (e.g., accounting), and operational manuals (e.g., payroll and bank reconciliation).

24. Vanuatu faces many challenges in ensuring that its PFM reforms can be implemented and sustained. It has a relatively small but widespread population, poor communication infrastructure, and at times political uncertainty. Nevertheless, over the past 10 years, the government has initiated many difficult reforms and remains committed to the reform process and the need for greater accountability and transparency in the use of public finances. This is illustrated clearly by significant PFM reforms such as amendments of the ERA Act in 2008 as well as the PFEM Act in 2009.

2. Management and Skills Capacity

25. In common with many developing countries, Vanuatu has a shortage of skills in financial management, financial analysis, and management accounting. The few qualified and skilled persons available are often lured into private sector employment or into externally-funded projects that pay a far higher salary than that paid by the public service. Given this scenario, externally-funded projects have often relied on the use of project management units (PMUs) to manage and report on funding of public works programs delivered through the different ministries. In an effort to close the skills gap between finance staff employed by the PMUs and those employed in the mainstream ministries, the development partners often include, as part of their exit strategies, a training and capacity development component in the funding assistance provided. Given the significant number of externally funded projects, MIPU in its PWD has established a PMU headed by the Director of PWD, with VPMUs assisting with the day-to-day implementation of externally- funded projects.

26. Progress has recently been made on public sector management with support from the AusAID-supported Governance for Growth for PFM subprogram, which is providing a program of PFM capacity development that is expected to include the establishment of provincial

⁷ As defined by the act.

financial controllers as a means to establish greater accountability and oversight, and to facilitate deconcentration of decision making authority.⁸

3. Country Environment

27. As indicated in Table 2, Vanuatu performs better than the Pacific islands' average on most standard governance indicators. Indeed, positive trends are discernible for 1996-2009, particularly for voice and accountability, rule of law, and control of corruption.

Table 2: Governance Indicators, 2009

	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Vanuatu	0.58	1.27	-0.27	-0.71	0.41	0.40
Pacific Average	0.36	0.72	-0.72	-0.88	-0.15	-0.44

Source: Kaufmann D., A. Kraay, and M. Mastruzzi. 2009. *Governance Matters VII: Governance Indicators for 1996-2009*. Washington DC, World Bank Institute.

Notes: The Pacific average has been calculated for those countries for which data are available for the particular year, from the group comprising Cook Islands, Fiji, Kiribati, Republic of the Marshall Islands, Republic of Palau, Papua New Guinea, , Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu. The indicators are measured in the range of -2.5 to +2.5, with higher scores indicating better governance.

28. **Procurement.** The Government Contracts and Tenders Act 1998 (amended 2001) and its associated regulations set out the process of procurement. Vanuatu has not been subjected recently to a comprehensive review of public procurement operations. Moreover, given the absence of lending operations in the past decade, ADB has had little direct experience with procurement arrangements and operations. Nevertheless, the 2009 PFM assessment conducted a high-level review of procurement policies and processes, which in particular assessed (i) the use of open competition, (ii) justification for use of less competitive methods, and (iii) operation of a procurement complaints mechanism (Table 3).

29. The PFM assessment determined that all purchases in excess of Vt5 million (equivalent of US\$50,000) are required to be processed and approved through the Tenders Board, and that tender regulations prohibit contract splitting. Regulations under the Government Contracts and Tenders Act 1998 provide that all tenders must be called by open and competitive bidding unless another process is approved by the Tenders Board, but make explicit provision for alternative methods such as two-stage tendering, selective tendering, and period contracts for repetitive purchases.

30. There is, however, no regular maintenance of information that analyzes the number of contracts that are actually submitted for open competition or justification for use of less competitive methods. Although decisions to use less competitive methods are minuted at Tenders Board meetings, these data are not regularly analyzed. No standard bidding documents are available. A section on managing disputes is included in the purchasing manual, but no clearly recognized process is available that enables the submission and timely resolution of complaints submitted by private sector participants. Complaints are therefore processed through the court system.

⁸ AusAID and Government of Vanuatu. 2007. *Governance for Growth Program: Design Document*. Canberra.

Table 3: Competition, Value for Money, and Controls in Procurement

Performance Indicator Dimensions	2009 Assessment
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (% of the number of contract awards that are above the threshold)	D Use of open competition for contracts that exceed the nationally established monetary threshold cannot be assessed, as data are not maintained or analyzed to facilitate the calculation.
(ii) Extent of justification for use of less competitive methods	C Use of less competitive methods should be minuted by the Tenders Board; however, this information is not regularly analyzed to ensure that it is in accordance with regulations.
(iii) Existence and operation of a procurement complaints mechanism	D There is no procurement complaints mechanism.

Source: C. Pretorius and N. Pretorius. 2009. *Republic of Vanuatu. Public Financial Management Performance Report*. Port Vila.

31. In consideration of these findings, the PFM assessment assigned procurement arrangements an overall D+ rating (comprising two D ratings and one C rating).⁹ The government has been working to strengthen procurement processes, particularly through institutional strengthening, and more recently has begun working on amendments to the Government Contract and Tenders Act.

32. **Anti-Corruption.** In 2009, Transparency International assigned Vanuatu a Corruption Perceptions Index score of 3.2¹⁰ (Table 4). Vanuatu joined the ADB/Organization for Economic Cooperation and Development Anti-Corruption Initiative for Asia-Pacific on 30 November 2001, and, in 2004, an in-depth study of national integrity systems concluded inter-alia that, "since the commencement of the Comprehensive Reform Programme in 1997, Vanuatu has made significant steps in developing a strong legal framework designed to foster accountability, transparency and responsibility especially in the public sector. On paper, Vanuatu now has very good National Integrity Framework with a strong legal framework. In practice, however, it does not yet function effectively."¹¹

Table 4: Selected Rankings: Corruption Perceptions Index 2009

Rank	Country/Territory	CPI 2009 Score	Surveys Used	Confidence Range
1	New Zealand	9.4	6	9.1 - 9.5
2	Denmark	9.3	6	9.1 - 9.5
3	Singapore	9.2	9	9.0 - 9.4
3	Sweden	9.2	6	9.0 - 9.3

⁹ Refer to footnote 5.

¹⁰ The Corruption Perceptions Index (CPI) measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is a "survey of surveys", based on 13 expert and business surveys. The scores are shown between 0 and 10, with 0 perceived to be highly corrupt, and 10 perceived to have low levels of corruption. The confidence range indicates the reliability of the CPI scores and tells us that, allowing for a margin of error, we can be 90% confident that the true score for this country lies within this range.

¹¹ Transparency International. 2004. *National Integrity Systems: Country Report Vanuatu 2004*. Transparency International.

Rank	Country/Territory	CPI 2009 Score	Surveys Used	Confidence Range
5	Switzerland	9.0	6	8.9 - 9.1
56	Samoa	4.5	3	3.3 - 5.3
95	Vanuatu	3.2	3	2.3 - 4.7
111	Kiribati	2.8	3	2.3 - 3.3
111	Tonga	2.8	5	1.9 - 3.9
154	Papua New Guinea	2.1	5	1.7 - 2.5

Source: Transparency International. 2009. *Corruption Perceptions Index*.

33. In recent years, there have been a number of regional initiatives on promoting good governance in the Pacific, including Vanuatu. For instance, ADB has provided numerous technical assistance (TA) grants to the 25-member Pacific Association of Supreme Audit Institutions (PASAI) since 1989, some of which were supported jointly by the International Organization of Supreme Audit Institutions (INTOSAI) Development Initiative.¹² A 2002 review of efforts to strengthen Pacific audit capabilities concluded that intended benefits were achieved, but much more remained to be done.¹³ In December 2006, ADB approved TA for strengthening governance and accountability in Pacific island countries,¹⁴ which has successfully supported the initial implementation of the second Governance and Anticorruption Action Plan (GACAP II) in the Pacific region, and assisted in the design of the Pacific Regional Audit Initiative (PRAI)—a Pacific Plan initiative. GACAP II aims to focus ADB's attention on three specific thematic issues—PFM, procurement, and anticorruption—at the country level and in priority sectors where ADB is active.¹⁵

34. After an extensive consultation process, the April 2008 PASAI Congress endorsed the PRAI design; the initiative was also endorsed by Pacific island leaders at the August 2008 meeting of the Pacific Islands Forum. In November 2008, ADB approved TA to primarily support the initial implementation of the PRAI.¹⁶ OAG in Vanuatu is a member of PASAI and has therefore been involved in some of the activities under the TA. However, while OAG was active in the early design of the PRAI, due to no auditor-general being appointed in Vanuatu over the last few years, the OAG has lacked leadership, and it has not taken advantage of the programs available under the TA (or more generally by the PASAI).

35. **ADB past experience.** Since 1983, ADB has provided nine loans to Vanuatu, with a net loan amount of \$49.0 million, of which six were rated *successful*. The Development Financing Project (completed in 1999) and the Comprehensive Reform Program (2002) were rated partly successful, the Urban Infrastructure Project (2003) and the Cyclone Emergency Rehabilitation Project (2003) were rated successful, and the Santo Port Main Project (1991) and the Santo Port Supplementary Project (1999) were rated generally successful. Common issues identified by evaluations include overly ambitious and complex project design, lack of adequate upstream design work, insufficient attention to administration and institutional capacity, and difficulties with tender processes and procurement.

¹² The INTOSAI Development Initiative was established in 1986 as INTOSAI's training arm. Its mission is to help supreme audit institutions, especially in developing countries, to improve their audit capacity and resolve audit issues through training and information sharing.

¹³ ADB. 2002. *Technical Assistance Performance Audit Report on Strengthening Audit Capability in the Pacific*. Manila.

¹⁴ ADB. 2006. *Strengthening Governance and Accountability in Pacific Island Countries*. Manila.

¹⁵ ADB. 2006. *Second Governance and Anticorruption Action Plan (GACAP II)*. Manila.

¹⁶ ADB. 2008. *Strengthening Governance and Accountability in Pacific Island Countries (Phase 2)*. Manila.

D. Risk Analysis

36. The following assessment of risks is based on the existing PFM environment in the country and in MIPU, relying on existing staff and finance and accounting policies, procedures, and practices. The risk-mitigation assessment considers the factors that will significantly reduce or eliminate the risks identified.

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
Inherent Risks			
1. Country-Specific Risks	S	<p><i>Weak financial management Environment</i>—while budget execution and reporting standards are generally sound, audit, planning, and transparency issues need further improvement.</p> <p><i>Management and skill capacity issues</i>— in common with many developing countries, there is limited experience in implementing ADB-funded projects and low financial management capacity within the finance department of the implementing agency.</p> <p><i>Corruption</i>—allegations of corruption and malfeasance have characterized some aspects of transport and trading in Vanuatu.</p>	<p>Vanuatu has recently started to reform its legal framework such as updating the PFEM Act in 2009 and the ERA Act in 2008 with the new auditor-general being appointed in late 2009. Vanuatu will continue to reform its legal framework and ensure that the new legislations are enforced. Development partners' initiatives on improving the financial management environment and promoting good governance will be also be continuously implemented in the country.</p> <p>Various externally funded projects include an element of training and capacity development in their project activities, which is directed towards upgrading, improving, and strengthening the performance of public servants holding key finance positions in the ministries. This proposed project is no exception. The government will establish the VPMU as a dedicated unit for managing large and nationally significant projects with allocation of budget and core staff. The VPMU will be tasked with the day-to-day implementation of this project. Relevant training and capacity building will be provided to MFEM, VPMU, MIPU and its PWD, and other relevant agencies.</p> <p>ADB will include anticorruption provisions in the grant provisions and the bidding documents of the project, consistent with its commitment to good governance, accountability, and transparency. ADB will reserve the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the project. MFEM will establish a grievance mechanism and committee to deal with any concerns arising from project implementation.</p>
2. Entity-	M	<i>Lack of Ni-Vanuatu</i>	The government will establish the VPMU as a

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
Specific Risks		<i>project championship</i> —although MIPU has been involved with ADB projects in the past, these projects have been managed through a separate PMU. Thus, MIPU's capacity is limited to servicing the requirements of the government financial instructions, and it is unable to accommodate the demands of complex financial management systems and reporting requirements of financial institutions such as ADB.	dedicated unit for managing large and nationally significant projects with allocation of budget and core staff. It will be tasked VPMU with the day-to-day implementation of this project. The consulting firm will assist and train the VPMU, to ensure that that a good financial management system is instituted and that proficient and skilled staff are engaged for the project. They will also ensure that the more rigorous requirements of the ADB and other cofinanciers are met. The government is expected to appoint permanent staff in key positions at MIPU and its PWD to ensure that infrastructure investments are implemented and maintained.
3. Project-Specific Risks	M	<p><i>Poor procurement arrangements</i>—Vanuatu has not been subject recently to a comprehensive review of public procurement operations. Moreover, given the absence of lending operations in the past decade, ADB has little direct experience with procurement arrangements and operations.</p> <p><i>Lack of appropriate project management skills in the program/project administration staff.</i></p>	<p>Various externally funded projects include an element of training in procurement, disbursements, and project management arrangements in their project activities. This proposed project is no exception. In addition, ADB will regularly conduct regional workshops to train staff from the relevant agencies in ADB procurement, disbursement arrangements, and project management.</p> <p>The VPMU to be established will be managed by a consulting firm consisting of international and national consultants who will have a significant knowledge of project management and be familiar with or have some experience in the management of procurement and disbursements. A training component in the implementation phase of the project will also provide an opportunity for staff engaged for the project to acquire skills and get exposure to procurement, disbursement, and project management.</p>
Overall Inherent Risk	M		
Control Risks			
1. Implementing Entity	M	The organizational structure of MIPU is appropriate for implementing the operational needs of	The VPMU will be structured to ensure that the appropriate staff are recruited in order to meet the management, technical, finance, accounting, and all other needs of the project.

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
		the project. However, <i>the accounting and financial management structure is inadequate</i> and needs tailoring to meet the project's requirements.	
2. Funds Flow	M	<p>Rigorous procurement procedures and introducing direct payments for high profile contractors may slow down the flow of funds and stall project progress.</p> <p>Existing accounting staff in MIPU do not have the capacity to manage foreign exchange risk but those in MFEM have.</p>	<p>VPMU staff and contractors will be provided training on their responsibilities and tasks as well as on ADB requirements to ensure that they perform their respective roles effectively and thus facilitate an efficient flow of funds.</p> <p>There will be some need for management of exchange risks, especially if overseas contractors are engaged for civil works contracts. The VPMU will engage staff who have the capacity to manage exchange risks. The project will engage financial management and accounting experts to support the VPMU.</p>
3. Staffing	H	<p>The organizational structure of existing accounting staff in MIPU is not adequate to serve the needs of the project due to lack of skilled staff.</p> <p>The project accounting and finance staff are currently not trained in ADB procedures.</p> <p>Lack of performance review process for staff. Sanctions for poor staff performance (including financial breaches) are rarely used.</p>	<p>An organizational structure of the accounting department of the proposed VPMU will be set up during the project implementation phase. The structure will ensure that there is proper segregation of duties and that staff capabilities are commensurate with their responsibilities. The VPMU will recruit finance and accounting staff who are adequately and appropriately qualified and experienced for the tasks. Some positions may also be contracted. The project implementation specialist within VPMU will also prepare a training needs analysis for and extend the training to staff of VPMU, PWD and other relevant agencies.</p> <p>The VPMU, through a capacity development component in the implementation phase, will conduct/coordinate appropriate training in ADB procedures for project staff and VPMU staff to ensure that relevant skills and knowledge of ADB procedures are sustained after project completion.</p> <p>Work plans/written position descriptions with nominated core activities for VPMU personnel to be developed. Performance management process to be developed in order to retain and reward the right caliber of skilled staff. Project manager(s) to be informed of their performance responsibilities.</p>

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
4. Accounting Policies and Procedures	M	<p>Account and bank reconciliations are not performed in a timely manner, which fundamentally undermines internal controls.</p> <p>There are no documented policies on conflict of interests or related party transactions.</p>	<p>The VPMU will ensure that bank reconciliations are done on a timely basis by accounting staff different from the person(s) making or approving payments.</p> <p>Policy on conflict of interests or related party transactions to be documented. The VPMU will be established and will recognize the need for segregation of duties to ensure that various functional responsibilities are performed by different units or persons.</p>
5. Internal Audit	M	No Internal audit in place in VPMU.	To mitigate any risks arising from the absence of an internal audit function within MIPU, the VPMU under MFEM will be provided with significant capacity building during the planning stage to ensure that the internal control environment within the VPMU is strong. Assistance to reinvigorate the internal audit of government financial systems would be prudent to mitigate any possible risks in revenue collection and expenditure associated with loan projects. MFEM's internal audit may be introduced for the project.
6. External Audit	S	Annual audits are not conducted and completed within 6 months from end of fiscal year as required by ADB grant covenants.	<p>Annual project accounts with detailed supporting documentation and reconciliations are to be produced by the VPMU immediately after the end of each fiscal year to enable external auditors^a to start their audit earlier and have it completed within the 6-month required period.</p> <p>The government will cause the office of the Auditor-General to undertake performance audit of PWD. Pending the workload of OAG staff, of project accounts may be outsourced to external auditors acceptable to ADB, and this may involve the tender process should the procurement exceed Vt 5 million. The VPMU will decide on this in consultation with ADB. OAG, the entity's auditor, appears eligible to conduct the audit.</p>
7. Reporting and Monitoring	M	Financial reports not provided on a timely basis to enable regular management analysis and corrective actions	The consultant will be required to produce monthly financial accounts and reports in conformity with international accounting standards.

Risk Type	Risk Assessment*	Risk Description	Risk-Mitigation Assessment
		to be taken in time to address any delays and/or deficiencies occurring during project implementation.	Month-end deadlines will be set for staff performing these roles to put them on alert.
8. Information Systems	M	<p>The existing integrated FMIS contains most subledgers; however, not all of them were implemented when it was established in 2002. Job costing, inventory, investments, and borrowings subledgers have yet to be installed, as it may not be possible to integrate these with the original software.</p> <p>Software that is not integrated with the MFEM FMIS has been used to establish the asset register. The asset register system uses an alphanumeric-based code that does not align with the capital expenditure accounts in MFEM's charts of accounts. This leads to duplications of effort in data entry.</p> <p>Throughout the government, including MIPU, the management and maintenance of inventory records is weak and generally ineffective.</p>	<p>The cost-benefit analysis will be prepared as to whether the whole system software may require replacement. Appropriate actions will be taken based on this analysis.</p> <p>As a result of structural differences between the financial system and the asset register system, reconciliations will be regularly performed by MFEM to ensure that the two remain in balance with each other. PWD will perform an asset audit every 6 months to ensure that all assets are at their respective locations and in working condition. Periodic asset checks will be also carried out. Procedures for reporting fraud, waste, and misuse of assets will be documented.</p> <p>PWD would be marginally better informed if there were a better inventory control and job costing system in place. However, with PWD contracting all larger projects out to qualified private sector companies, it is unlikely that the expenditure and effort required can be justified. The cost-benefits analysis of this matter will be undertaken by the consulting firm.</p> <p>Also for the project, a separate asset registry will be maintained by VPMU.</p>
Overall Control Risk	M		

H = high, S = substantial, M = moderate, N = negligible or low.

^a = External auditors are selected by the VPMUVPMU in liaison with the auditor-general using ADB procedures and approved by ADB before formal appointment.

E. Implementing Entity

37. MFEM is the executing agency of the project. MIPU through its PWD and the Department of Environmental Protection and Conservation will be the key implementing agencies. The MFEM will establish the VPMU as a dedicated unit for managing large and nationally significant projects. The VPMU will be responsible for day-to-day implementation of the project. It will be headed by a Director who will be responsible for day to day management of the project supported by VPMU staff, project consultants and the implementing agencies.

38. MIPU has been involved with a number of externally funded projects¹⁷ in the past in its capacity as the technical ministry responsible for providing infrastructural technical support through the Director of PWD, but it has never undertaken the financial management responsibility for any of these projects. Financial management, monitoring and control, reporting, and external audit of the past projects have always been done by PMUs established under the ministry's umbrella though PWD but separately managed by a project management and implementation team of international and national consultants and PWD staff with technical, social, environmental and financial expertise, often headed by an international consultant appointed by the funding agency or project funded. There is no evidence of a handover of management tools or skills from these projects to the finance staff in the ministry, either through the implementation of an FMIS or human resource development.

39. Given that the government operates on centralized payments and payroll system using SmartStream financial software, the existing financial management structure and accounting system in MIPU was designed to handle the basic government accounting procedures relating to (i) administration and recording of the processes associated with procurement of goods and services pertinent to the functional activities of the ministry, (ii) collection of revenues pertaining to the activities of the ministry, and (iii) providing data input to MFEM for facilitating the processing of MIPU staff salaries and wages. The existing finance staff are accustomed to the routine accounting tasks and procedures relating to the abovementioned functional activities. They are required to comply with the requirements of the PFEM Act 1998.

40. Reporting requirements of MFEM and line ministries, including MIPU, are provided in Part 6 of the PFEM Act. Section 24 of this Act stipulates the following:

- Any forecast or statement of account required by this Act must include details of: (a) the total operating expenses, (b) all other payments, (c) the total operating revenues, (d) all other receipts, (e) the difference between all payments and all receipts, (f) the level of the total debt, and (g) the level of the net worth.
- Each report shall also include: (a) a statement of the financial position, (b) a statement of the financial performance, (c) a statement of cash flows, (d) a statement of borrowings, (e) a statement of commitments, (f) a statement of specific fiscal risks, (g) such other statements as are required to be consistent with generally accepted accounting principles and practice, and (h) a statement of accounting policies.

41. Section 25 (Statement of Accounts) of the PFEM Act stipulates that (i) the Director-General must, as soon as practicable after the end of each financial year, but not later than the end of the third month of the next succeeding financial year, prepare and send to the auditor-general a financial statement of transactions affecting the public fund encompassing all the information required under section 24; (ii) the financial statements, together with the report

¹⁷ A list of some of these projects is provided in Attachment 2.

thereon by the auditor-general will be forwarded to the Speaker of Parliament, who shall table the financial statements and reports in Parliament.

42. In addition, Section 27 of the PFEM Act provides that (i) every head of a ministry at intervals fixed by ministry instruction, but in any event at the end of each half-year in each financial year, must, in accordance with any instructions of the ministry, report on the variables specified in section 24 as they relate to the ministry; (ii) at the conclusion of each financial year, all heads of ministries must present an annual report as specified by the minister and covering all the information required under section 24 it applies to the ministry; (iii) the statement of financial performance will report the results achieved in comparison with the budget statement and the provisions or outcomes for which the appropriation was provided under the Appropriation Act; and (iv) the financial statements of each ministry at the end of the financial year will be examined and reported upon by the auditor-general and laid before Parliament as soon as practicable after the tabling of the financial accounts. However, the audits of MIPU's accounts remain outstanding since 2004.

43. The scenario portrayed in the foregoing paragraphs confirms that MIPU currently has very limited technical capacity to effectively implement the proposed project without outside assistance. To mitigate this fact, government is expected to establish the VPMU at MFEM and appoint permanent staff in key positions at MIPU and PWD. A VPMU steering committee (SC) will be established representing the MFEM and key implementing agencies, and will provide guidance and direction for the project.

F. Funds Flow Mechanism

44. The funds flow mechanism is detailed in PAM, Section C-Fund Flow diagram. It shows how the funds will flow from ADB, AusAID, and the Government of Vanuatu to implement project activities.

G. Supervision Plan¹⁸

45. The following supervisory roles will have paramount impact on the effective implementation of the project:

1. VPMU Steering Committee

46. The government will establish a VPMU Steering Committee to provide guidance and direction to the project including (i) policy guidance and coordination, (ii) subproject feasibility study and selection, (iii) project progress reports and other project documentation, and (v) audited accounts and financial statements.

2. Director General

47. The Director General will be responsible for the overall execution of the project on behalf of MFEM, and in his/her supervisory role, liaise with all stakeholders to coordinate on all administrative and operational matters as well as for monitoring and review of the project's progress.

¹⁸ Other requirements such as accounting policies and procedures, internal and external audits, financial reporting and monitoring, procurement arrangements, disbursement arrangements, and anti-corruption policy are covered in PAM.

3. VPMU Consultants

48. The consultants will have functional and supervisory roles in broad areas. Specific terms of reference covering these broad areas will be given to the consultants in their appointment contract.

Attachment 1: Financial Management Assessment Questionnaire

Ministry of Infrastructure and Public Utilities (MIPU)

EXPLANATORY NOTE:		
<p>As one of the key implementing agencies of the project specifically on the infrastructure investment, the responses to this questionnaire describe the existing situation in the Ministry of Infrastructure and Public Utilities (MIPU) under its present legal status, structure and staffing. The remarks describe the situation in MFEM to address the financial management gaps and lapses when the Vanuatu Project Management Unit (VPMU) is established.</p>		
Topic	Response	Remarks
1. Implementing Agency		
1.1. What is the entity's legal status/registration?	<p>The entity is a government agency under the name of Ministry of Infrastructure and Public Utilities (MIPU).</p> <p>(One of Vanuatu Government's major and more stable ministries)</p>	
1.2. Has the entity implemented an externally financed project in the past (if so, please provide details)?	<p>Yes. These include</p> <ul style="list-style-type: none"> ▪ Multiproject (ADB) ▪ Santo Port Project (ADB) ▪ Emergency Assistance Project (ADB) ▪ Urban Infrastructure Project (ADB) ▪ Institutional Strengthening Project (EU) ▪ Port Vila Wharf Upgrade (JICA) ▪ Outer Islands Airport Upgrade (AFD) ▪ Governance for Growth (AusAID) ▪ Vanuatu Transport Sector Support Program (AusAID) ▪ Millennium Challenge Account (USA) <p>Details are provided in Attachment 2</p> <ul style="list-style-type: none"> ▪ All these externally funded projects were implemented through VPMUs set up within MIPU with financial 	

	<p>management and administration provided by contracted consulting firms while controlling authority remained with MIPU. The ministry's technical staff also provided technical support and ensured that regulatory requirements are fulfilled.</p>	
<p>1.3. What are the statutory reporting requirements for the entity?</p>	<p>Reporting requirements of the MFEM and line ministries, including MIPU are provided in Part 6 of the PFEM Act. Please refer to paras. 38-40 for more details.</p> <p>MIPU is also required to comply with the requirements of the Government Contracts and Tenders Act 1998 and subsequent revisions, Tenders Regulations 1999; ERA Act 1998 and subsequent revisions, Finance Regulations 2000 and subsequent revisions, which contain the detailed finance procedures that are applied in the public sector.</p>	<p>The reporting requirements of MFEM will remain similar to current reporting requirements.</p> <p>The entity provides quarterly reports and annual reports of progress of works and financial expenditure included.</p> <p>In addition, the entity will comply with the terms and conditions (covenants) of the ADB Loan Agreement and associated Financing Agreements.</p>
<p>1.4. Is the governing body for the project independent?</p>	<p>The EA is not a separate and independent entity but rather a ministry of the government. The EA will establish a VPMU as a dedicated unit to manage large and nationally significant projects.</p>	<p>The VPMU will be managed independently from the normal functions and management of MFEM, within which it is established.</p>
<p>1.5. Is the organizational structure appropriate for the needs of the (proposed) project?</p>	<p>The organizational structure of the entity is appropriate for implementing the operational needs of the project, given its technical nature and availability of appropriate technical staff.</p> <p>The accounting and financial management structure is, however, inadequate and needs tailoring to meet the project's administration, accounting, and financial management requirements.</p>	<p>The VPMU will be structured to ensure that the appropriate staff are recruited to ensure that the management, technical, finance, accounting, and all other needs of the project are met.</p>
<p>2. Funds Flow Arrangements</p>		
<p>2.1. Describe (proposed) project funds flow arrangements, including</p>	<p>Please refer to section F (Funds Flow Mechanism) above.</p>	

a chart and explanation of the flow of funds from ADB, the government, and other financiers.		
2.2. Are the (proposed) arrangements to transfer the proceeds of the loan and grant components (from the government / finance ministry) to the entity satisfactory?	The arrangement to transfer the proceeds of the loan and grant components from ADB to MFEM is satisfactory.	The funds transferred will be deposited into a separate project imprest bank account in the name of the VPMU.
2.3. What have been the major problems in the past in receipt of funds by the entity?	There have been no major problems in the past in receipt of funds by the entity for externally funded projects.	Projects associated with MIPU in the past and at present have always been managed separately by a separate administration / management office, functioning as a separate unit accountable to the financiers through the ministry as required by applicable covenants.
2.4. In which bank will the imprest account be opened?	In the Reserve Bank of Vanuatu for the imprest account.	<p>The imprest bank account will be opened at one of the commercial banks in Vanuatu. This will be arranged when the VPMU is established.</p> <p>There are only four commercial banks operating in Vanuatu, namely Australia and New Zealand Bank, Westpac, National Bank of Vanuatu, and Banque Bred Vanuatu.</p>
2.5. Does the (proposed) VPMU have experience in the management of disbursements from ADB?		<p>The VPMU to be established will be supported by a consulting firm consisting of international and national consultants who will be familiar with or have some experience in the management of disbursements from ADB. A training component in the implementation phase of the project will also provide an opportunity for staff engaged by the project to acquire skills and get exposure to the management of disbursements from ADB as well as in other areas,</p>

		especially finance and administration. ADB project officers and analysts will also train the VPMU staff in the management of disbursements.
(2.6. Deleted or not printed in the ADB Financial Appraisal Manual template)		
2.7. Does the entity have/need a capacity to manage foreign exchange risks?	Existing accounting staff in MIPU do not have the capacity to manage foreign exchange risk..	There will be some need for management of exchange risks, especially if overseas contractors are engaged for civil works contracts. Existing accounting staff in MFEM have the capacity to manage foreign exchange risk, The VPMU will engage staff who have the capacity to manage exchange risks to provide further support to MFEM.
2.8. How are the counterpart funds accessed?	Annual requirements will be assessed by VPMU during the preparation of annual budgets.	
2.9. How are payments made from the counterpart funds?	Following ADB procurement and payment procedures	Payments of counterpart funds will follow ADB procurement and payment procedures, which will be adopted for use by the VPMU.
2.10. If part of the project is implemented by communities or NGOs, does the VPMU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Funds are centrally managed by VPMU and easily monitored.	Where communities or NGOs are expected to be involved in the level of implementation that would commit project proceeds, the VPMU reporting and monitoring features to be established during project implementation by the VPMU consultants will be capable of tracking the use of project proceeds into these areas.
3. Staffing		
3.1. What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	The organizational structure of existing accounts staff in MIPU is not adequate to serve the needs of the project due to lack of availability of skilled staff. The	An organizational structure of the accounting department of the proposed VPMU office will be set up during the project implementation

	payments are made centrally by MFEM.	phase. The structure will ensure that there is proper segregation of duties and that staff capabilities commensurate with their responsibilities.
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>The current Accounting staff in MIPU is headed by the Senior Finance Officer (SFO) supported by a Finance Officer and one part time staff. The SFO is Francophone and does not speak or write in English.</p> <p>None of the existing staff in MIPU have formal accounting qualifications.</p> <p>Existing MIPU accounting staff job capabilities and responsibilities will therefore not match the needs and requirements of the proposed project.</p>	<p>The project will engage financial management and accounting experts to support the VPMU. The VPMU will recruit an overall project accountant who will be responsible for the overall financial management, control, accounting, and reporting on the project's finances. Other staff such as accounts clerks will be recruited to carry out accounting functions supporting the project accountant.</p> <p>The organization structure (for accounting staff) will be established during the implementation phase to ensure that there is proper segregation of duties so that job titles and responsibilities are clear and that there is a separation between processing and authorization functions in order to eliminate inherent risks associated with conflict of interest situations or intentional fraud.</p> <p>Professionally qualified and experienced accounts staff will be recruited to manage the VPMU accounts.</p>
3.3. Is the project finance and accounting function staffed adequately?	<p>No, if using MIPU accounts staff.</p> <p>The current setup is not intended to accommodate the extra tasks and responsibilities involved in introducing new projects into the ministry and accounting and financial management to fulfill other financiers' financial management and reporting requirements.</p>	<p>The proposed project's finance and accounting function will be adequately staffed as highlighted/identified in 3.2 above.</p>

3.4. Is the finance and accounting staff adequately qualified and experienced?	Not the current staffing in MIPU.	The proposed VPMU will recruit finance and accounting staff who are adequately and appropriately qualified and experienced for the tasks.
3.5. Is the project accounting and finance staff trained in ADB procedures?	Not at the moment.	The VPMU through a capacity development component in the implementation phase, will provide/conduct/ coordinate appropriate training in ADB procedures for project staff and MFEM staff to ensure that relevant skills and knowledge of ADB procedures is sustained after project completion.
3.6. What is the duration of the contract with the finance and accounting staff?	In MIPU, staff are permanent public servants posted to the ministry as public service staff.	The MFEM staff are also permanent public servants. The staff contract under the VPMU will initially be for 5 years and extended if needed for project implementation support.
3.7. Indicate key positions not contracted yet, and the estimated date of appointment.	As shown in 3.2 above, only 2 full-time positions and 1 part-time position in the accounting unit exist in MIPU. Additional staff for the project accounts will be engaged.	All positions in the VPMU are yet to be filled/contracted. This will be done as part of the implementation phase when the VPMU is established and manned by the international consultants.
(3.8.. Deleted or not printed in the ADB Financial Appraisal Manual template)		
(3.9. Deleted or not printed in the ADB Financial Appraisal Manual template)		
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, MIPU has written position descriptions. This is, however, not updated to reflect the current staff establishment for the ministry as set out in the recurrent budget document.	MFEM has written position descriptions. Written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff will be established under standard VPMU arrangements when it is established. The project already outlines the terms of reference for the proposed

		positions.
3.11. At what frequency are personnel transferred?	Accounting staff within the ministry are public servants and members of the Vanuatu government's accounting services. The government is responsible for recommending to the Public Service Division persons within its membership to fill vacant positions within the public service departments or ministries.	Project staff movements are subject to their individual employment contracts with the VPMU.
3.12. What is the training policy for the finance and accounting staff?	There appears to be no training policy in place for finance and accounting staff of MIPU. However staff training and development requirements are considered based on a training needs analysis, short courses designed by the Human Resource Division within the Public Service Commission when new systems are introduced.	The project implementation specialist within VPMU will prepare a training needs analysis for its VPMU staff and extend the training to MFEM staff. Terms of reference will thus be given to the implementing specialist to provide the training required by both project staff and staff of MFEM to ensure that standards of design, implementation, and financial management are sustained at a satisfactory level with minimal assistance after the project has been completed.
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?	In 2002, the MFEM established integrated FMIS that is generic to all government ministries in Vanuatu. The existing government integrated FMIS contains most subledgers; however, not all of them were implemented when it was established in 2002. The government also operates a centralized payments and payroll system using SmartStream financial software.	MFEM adheres to the SmartStream accounting system implementing other externally funded projects, which 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. Hence, MFEM will ensure that VPMU will use the entity's accounting system where possible. In addition, cost-benefit analysis will be undertaken as to whether the whole system software may require replacement and whether the VPMU should

		<p>use a standard computerized financial management system.</p> <p>The consulting firm will assist and train VPMU to ensure that a good financial management system is instituted and that proficient and skilled staff are engaged on the project.</p>
4.2. Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, in MIPU controls are in place for normal ministry transactions, which ensures that the preparation and approval of transactions is segregated and in compliance with the PFEM Act 1998 and Financial Regulations 2000.	With MFEM guidance, the VPMU consultants will ensure that the accounting system has the necessary controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately accounted for in accordance with the Financial Regulations.
4.3. Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	An adequate chart of accounts (heads and sub-heads) does exist for the ministry's own accounts.	The VPMU consultants will assign a similar chart of accounts for the project with separate lists of accounts for the different account categories such as civil works, FSS, Administration, etc.
4.4. Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Not applicable to MIPU line accounting but are applied to capital externally funded projects.	VPMU will set up its financial management, administration, and reporting mechanism to comply.
4.5. Are the general ledger and subsidiary ledgers reconciled and in balance?	In general, in MIPU a manual commitment ledger is set up for the ministry's normal operations and this is reconciled against the balances from the MFEM financial reports before preparation of the ministry's monthly internal management report, which informs divisional directors of their available budget balances.	The VPMU will comply and ensure that the general ledger and subsidiary ledgers are reconciled monthly or on a more regular basis as required.
4.6. Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	<p>Yes; all original documents are with MFEM for processing. The documents in MFEM are kept forever.</p> <p>Only finance officers have access to accounts.</p>	For the project, the VPMU will follow specific requirements demanded by the project cofinanciers as well as complying generally with any statutory requirements such as the

		<p>Chapter 244 of the PFEM Act (Cap 20) No. 6 of 1998 and financiers' and cofinanciers' requirements demanding the retention of all accounting and supporting documentation on a permanent basis in a defined system that allows authorized users easy access for auditing purposes.</p> <p>In the course of its operation, the VPMU will retain in its office all originals and/or photocopies (where originals are required to be sent to MFEM or ADB) of all accounting and supporting documents.</p>
<i>Segregation of Duties</i>		
<p>4.7. Are the following functional responsibilities performed by different units or persons:</p> <p>(i) authorization to execute a transaction;</p> <p>(ii) recording of the transaction; and</p> <p>(iii) custody of assets involved in the transaction?</p>	<p>Yes, for normal ministry transactions.</p> <p>Yes - Director general</p> <p>Yes - Senior finance officer</p> <p>Yes – Finance officer</p>	<p>The VPMU will be established and will recognize the need for segregation of duties and to ensure that these functional responsibilities are performed by different units or persons.</p>
<p>4.8. Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?</p>	<p>Yes. The finance officer raises local purchase order within MIPU. The local purchase order is then printed and signed and forwarded to the approved supplier.</p>	<p>The VPMU will be established and will recognize the need for segregation of duties and to ensure that these functional responsibilities are performed by different units or persons.</p>
<p>4.9. Are bank reconciliations prepared by someone other than those who make or approve payments?</p>	<p>No, bank reconciliations are done at the ministry (MFEM) level.</p> <p>MFEM is responsible for bank accounts and bank reconciliations.</p> <p>The VPMU does its own bank reconciliations through nominated</p>	<p>The VPMU will ensure that the bank reconciliations are done by accounting staff different from the person(s) making or approving payments.</p>

	accounting staff. The accounting section in MFEM also reconciles the bank statements.	
Budgeting System		
4.10. Do budgets include physical and financial targets?	Official government budget for MIPU has only financial targets but physical targets are set in the ministry's work program and managed and maintained by the divisional directors.	Budgets, including physical and financial targets will be prepared and will have performance measures for all project activities.
4.11. Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	<p>Budgets are prepared for all significant activities and subactivities (heads and subheads) which are in sufficient detail to provide for monitoring financial performance. Budgets are detailed to Chart of Account levels.</p> <p>Detailed activities are itemized in the divisional work program and measurement of achievement is related with the balances left in the budget as provided through the accounts division's internal variance reports.</p>	From the project financing plan, the VPMU will prepare detailed budgets for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance.
4.12. Are actual expenditures compared with the budget with reasonable frequency, and are explanations required for significant variations from the budget?	<p>Yes, reports are being prepared although the frequency is not consistent. The variance report generated by the accounting division does not provide explanations for the variances.</p> <p>The Director of PWD is expected to use the reports to measure the performance of the department and to identify the causes for the variances. This guides them in planning their future activities and commitment of their budget allocations.</p>	The VPMU, when established, will ensure that actual expenditures are compared with the budget on a frequent basis and explanations made for significant variations from the budget.
4.13. Are approvals for variations from the budget required in advance or after the fact?	<p>For MIPU, variations must be requested and approved in advance so as to comply with the requirements of the PFEM Act 1998 (and subsequent revisions) and Financial Regulations 2000.</p> <p>Bank transfers (<i>Virements</i>) must be approved by the Minister of Finance and supplementary budgets must be put through</p>	The VPMU will ensure that variations in the budgets for project activities are approved before variation of the activities.

	Parliament before the variation and implementation of activities.	
4.14. Who is responsible for preparation and approval of budgets?	Budgets are prepared by the ministry staff/directors and finalized by a “ministerial committee” (heads of divisions) before being sent to the MFEM Budget Division for finalization and submission to Parliament by the Minister of Finance for approval.	The VPMU, under the supervision of the head of VPMU and Director General of MFEM, is responsible for the preparation of detailed annual budgets and work programs for submission to the SC for approval, ensuring that the detailed budget and work plans are consistent and in line with the project financing plan.
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, there is a systematic procedure for compiling the MIPU budget that which involves the SFO and all divisional directors.	The VPMU will have an established system in place for planning of project activities and to capture the information required for detailed budgeting purposes.
4.16. Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	In MIPU, the ministry budget is prepared by knowledgeable and experienced staff and based on planned activities. Budget baselines are also provided by MFEM to guide the ministry in comparing the new budget with prior years’ budgets and actual expenditures. Unit rates established under new contracts are used to determine cost estimates.	The VPMU project plans and budgets will be realistic, based on valid assumptions, and prepared by knowledgeable consultants after having obtained approval through the PSC. Unit rates established under new contracts are used to determine cost estimates.
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. In MIPU, invoice processing is the responsibility of MFEM. Payment vouchers are, however, passed for payment after the requirements of (i)-(iv) have been fulfilled. All payment vouchers passed are then summarized in a payment schedule and sent to MFEM for payment of individual payment vouchers. The accounts section reviews the payment vouchers and then forwards to payment section.	The proposed VPMU will devise payment procedures to comply with the payment procedures established under PFEM Act 1998 and Financial Regulations 2000.
4.18. Are all invoices stamped PAID, dated, reviewed, approved, and clearly marked for account	MIPU invoices are paid at MFEM. These practices and steps are all included as part of the preparation	The VPMU will maintain an adequate, up-to-date system wherein all invoices will be

code assignment?	of payment vouchers to their payments. MIPU subsequently receives a transactions report, which is then used to check against their own payment schedules and commitment ledger; where differences are sighted or payments rejected, the matter is followed up and corrected by the party in error. Yes, automatically by the Smart-Stream system.	properly stamped PAID, dated, reviewed, and approved, and clearly marked for account code assignment. An appropriately designed stamp will be ordered for this purpose.
4.19. Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	The government payroll is the single largest item of expenditure, accounting for nearly 60% of the total expenditure. Payroll is prepared by MFEM using base data supplied by MIPU including any sick days or absenteeism, or leave without pay.	In VPMU, the contractor will determine and manage the payroll, and internal controls will be put in place to ensure that changes to the payroll are properly authorized.
<i>Policies and Procedures</i>		
4.20. What is the basis of accounting (e.g., cash, accrual)?	Cash accounting is practiced for projects.	For the proposed VPMU the basis of accounting will be determined in line with the practices of previous and existing project accounts within MIPU cash accounting.
4.21. What accounting standards are followed?	International Public Sector Accounting Standards are followed.	The VPMU will comply with International Public Sector Accounting Standards. The VPMU will not be very concerned on which accounting standards are to be followed; rather, it will be concerned with ensuring compliance with required ADB procedures, reporting formats and the terms and conditions stipulated in the loan covenants. SmartStream in line with other government departments.
4.22. Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	The project will follow government's Financial Regulations and Accounting Procedures Manual.	The VPMU will prepare a guide in the form of a simple accounting policies and procedures manual for the project.

4.23. Is the accounting policy and procedure manual updated for the project activities?	There are no existing accounting policies but an accounting procedures manual is being adopted.	No update is required.
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. The Director of Finance has the delegated authority for altering or establishing accounting principles, policies, or procedures to be used by an entity and all these have to be in compliance with the Accounting Procedures Manual.	It is envisaged that the VPMU will adhere to the policies and procedures stipulated in the government's Financial Regulations and Accounting Procedures Manual throughout the duration of the project.
4.25. Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes. These are in place.	To be applied to the project activities by the VPMU
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?	N/A for the project at this stage. For MIPU or government agencies the conflict of interest and related-party transactions (real and apparent) and safeguards to protect the organization from them are clearly defined in the Purchasing Manual.	The question of whether policies and procedures clearly define conflict of interest and related-party transactions (real and apparent) and provide safeguards to protect the organization from them will be looked at again by the VPMU through the Purchasing Manual.
4.27. Are manuals distributed to appropriate personnel?	Yes. For MIPU from Director to purchasing and finance officers.	The Accounting Policies and Procedures Manual and Purchasing Manual will be distributed to appropriate staff and a copy will be readily available in the VPMU.
4.28. Indicate names and positions of authorized signatories in the bank accounts.	For MIPU, the bank signatories are the standard MFEM bank signatories nominated and authorized by that ministry. Only senior finance officer/director/ principal civil engineer to sign/approve LPO	The VPMU for the project will confirm the names and positions of those authorized to sign on the project's bank account and consulting with MFEM/VPMU.
4.29. Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	MIPU does maintain a detailed cash book; however, it is not updated on a regular basis.	The VPMU will maintain an adequate, up-to-date cashbook, recording receipts and payments in agreement with MFEM. This may be in a hard copy or on the accounting software

		package.
4.30. Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?	Yes. Cash is collected and schedule of receipts is lodged with the MFEM cashier on a daily basis.	N/A for the VPMU, as no cash receipts are anticipated.
4.31. Are bank and cash reconciled on a monthly basis?	No bank reconciliations are done regularly at the MIPU level.	The VPMU will ensure that bank reconciliations are done by an accounting staff different from the person(s) making or approving payments.
4.32. Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	N/A	Yes, the accounting supervisor will review and authorize for the project. Need auditor's report approval of NAO & funding agency.
4.33. Are all receipts deposited on a timely basis?	Deposited with MFEM cashier daily.	No other receipts anticipated apart from ADB funds, which will be paid directly into the VPMU imprest bank account via the RBV project account.
<i>Safeguard over Assets</i>		
4.34. Is there a system of adequate safeguards to protect assets from fraud, waste, and abuse?	<p>Throughout the government, the management and maintenance of inventory records is weak and generally ineffective.</p> <p>A software that is <u>not</u> integrated with the MFEM FMIS has been used to establish Asset Register. The Asset Register system uses an alphanumerical-based code that does not align with capital expenditure accounts in MFEM's charts of accounts. This leads to duplications of effort in data entry. As a result of structural differences, reconciliations are performed by MFEM to ensure that the two separate systems remain in balance with each other. Each ministry's finance officer, including MIPU, performs an asset audit every 6 months to ensure that all assets are at their respective locations and in working condition. Any missing assets are investigated and the reason noted. Those that cannot</p>	For the project, the VPMU that will be established will collaborate with MIPU/PWD in maintaining a separate asset registry that will be administered by the VPMU.

	be found are reported to the Director General of MFEM, who decides to make further enquiries or to write them off.	
4.35. Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Annual stock-taking of fixed assets is initiated by MFEM; however, subsidiary records of fixed assets and stocks have not always been kept up to date.	Same as above. Often reconciled with control account by Auditor-General's Office.
4.36. Are there periodic physical inventories of fixed assets and stocks?	Same as above.	Same as above.
4.37. Are assets sufficiently covered by insurance policies?	No evidence of insurance cover sighted.	The VPMU will consider the insurance aspects of project procurement of the fixed assets. MFEM may have insurance cover over all government assets based on total value
Other Offices and Implementing Entities		
4.38. Are there any other regional offices or executing entities participating in implementation?	No	N/A at this stage
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?	N/A	N/A at this stage
4.40. Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	N/A	N/A at this stage
4.41. Are periodic reconciliations performed among the different offices/implementing agencies?	N/A	N/A at this stage
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?	Yes. Ombudsmen's Office, Transparency International, Governance for Growth, Internal Audit Office, OAG.	Beside the current practice, the project will be subject to ADB's Anticorruption Policy (1988, amended to date). This policy was explained to and discussed with the government and EA. Consistent with its commitment to good

		governance, accountability, and transparency. ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the project. To support these efforts, relevant provisions of ADB's Anticorruption Policy are included in the grant regulations and the bidding documents for the project. In particular, all contracts financed by ADB in connection with the project will include provisions specifying the right of ADB to audit and examine the records and accounts of the EA and all contractors, suppliers, consultants, and other service providers as they relate to the project.
5. Internal Audit		
5.1. Is there an internal audit department in the entity?	Not in MIPU, but one exists in MFEM and reports to Director of Finance.	Not envisaged at this stage. However, MFEM's internal audit will still enforce procedures as currently applies to all government agencies. Normally Auditor-General does the job. Independent audit are often engage.
5.2. What are the qualifications and experience of audit department staff?	The qualifications range from degree in accounting to diploma in accounting and finance. Experience ranges from 5 to 10 years. Qualified according to PSC requirement	The project will not have specific personnel but will be overseen by MFEM internal audit staff.
5.3. To whom does the internal auditor report?	Director of Finance in MFEM.	Director of Finance in MFEM; also to Parliament when required.
5.4. Will the internal audit department include the project in its work program?	No internal audit department exists in MIPU. However it does exist in MFEM. The project is a government project and it will be included in the internal audit work program.	The project is a government project and it will be included in the internal audit work program. Normally, projects involve independent auditors.

5.5. Are actions taken on the internal audit findings?	Yes and as needed under the supervision of principal internal auditor, who reports to Director of Finance, in MFEM.	VPMU will adopt similar practices as currently being practiced.
6. External Audit		
6.1. Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	MIPU financial records are subject to audit by OAG. Yes, with regards to projects. No with regard to recurrent funds. Only if deemed required.	The entity's annual financial statements will be audited annually by OAG or pending the workload of the Auditor-General's staff, they may be outsourced to external auditors acceptable to the ADB. The audit reports will include an auditor's opinion on the use of the grant proceeds and compliance with the financial covenants included in the grant and project agreements. The government will provide ADB with the annual audited financial statements, audited project accounts, audit reports, management letters, and other related statements no later than 6 months after the end of each fiscal year throughout the implementation period.
6.2. Are there any delays in audit of the entity? When are the audit reports issued?	Audits by the OAG are irregular. MIPU audits outstanding since 2004.	The VPMU will ensure that annual audits are not delayed and that they are issued within 6 months after the end of each fiscal year throughout the implementation period as stipulated in the financial covenants included in the grant and project agreements.
6.3. Is the audit of the entity conducted according to international standards on auditing?	Audits by the OAG are irregular. MIPU audits have not been conducted since 2004. The Auditor-General has recently requested MIPU to submit its statements for the review. The OAG will be conducting audit according to international standards on auditing and standards set by the INTOSAI of which the OAG is a member.	Yes, the audits of the VPMU will be required to be conducted according to international standards on auditing.

6.4. Were there any major accountability issues brought out in the audit report of the past 3 years?	MIPU like many other government departments has not been consistently audited since 2004 and hence no apparent accountability issues are available for consideration.	This will be a new project and no major accountability issues are expected, as clear terms of reference will be given to a professional managing consulting firm to manage and administer the activities carried out by the VPMU.
6.5. Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	MIPU's project accounts are to be audited by OAG or, pending the workload of Auditor-General's staff, they may be outsourced to external auditors acceptable to the ADB.	The project accounts will be audited by the OAG or, pending the workload of Auditor-General's staff, they may be outsourced to external auditors acceptable to the ADB. The VPMU will decide on this in consultation with ADB. The entity's auditor (OAG) appears eligible to conduct the audit. In addition, OAG will conduct a performance audit of PWD.
6.6. Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	N/A	Not considered relevant for the current project.
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?	N/A.	No. The project will only be subject to the normal external audit requirements conducted in accordance with international standards on auditing and to form an opinion on the compliance with ADB financial covenants included in the grant and project agreements.
6.8. Has the project prepared acceptable terms of reference for an annual project audit?	Not at this stage.	The VPMU will prepare acceptable terms of reference for the annual project audits in accordance with standard ADB audit requirements.
7. Reporting and Monitoring		
7.1. Are financial statements prepared for the entity? In accordance with which accounting standards?	Reporting requirements of MFEM and line ministries, including MIPU are given in Part 6 of the PFEM Act. Please refer to paras. 38-40 for more details.	Periodical financial accounts will be prepared for the VPMU in compliance with ADB procedures and in conformity with international accounting standards.

7.2. Are financial statements prepared for the implementing unit?	Not for MIPU. However, government financial statements are prepared by MFEM and hard and soft copies provided to the ministry for preparation of their internal management reports.	Same as above.
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?	MFEM prepares government financial statements on a monthly basis	VPMU will prepare monthly financial statements on a consistent basis so as to provide useful and up-to-date information to management for decision making.
7.4. Does the reporting system need to be adapted to report on the project components?	No, and may not be applicable to MIPU.	The reporting system will be adopted/formatted to suit the ADB reporting requirements. The report format will be tailored to report separately on both the civil works component and the FSS component.
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?	The existing MIPU reporting system does not provide an adequate mechanism for linking financial information with the physical progress.	VPMU will design a reporting system that will integrate both physical and financial results. This integration will reduce any risks of nonsynchronization between physical and financial data resulting from use of separate reporting systems. Results obtained may be used to prepare complementary narrative reports.
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?	Not within the existing MIPU reporting system.	The VPMU will establish financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used.
7.7. Are financial management reports used by management?	Yes.	Timely informative project reports will be provided by the VPMU to the project steering committee and development partners.
7.8. Do the financial reports compare actual expenditures with budgeted and programmed	Yes.	Yes, financial reports will compare actual expenditures with budgeted and

allocations?		programmed allocations.
7.9. Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes automated for all government agencies.	The VPMU will be using a standard accounting package and financial reports will be automatically generated.
8. Information Systems		
8.1. Is the financial management system computerized?	The existing government integrated FMIS contains most of subledgers; however, not all of them were implemented when it was established in 2002. Different software to provide recording of fixed assets has since been added. Job costing, inventory, investments, and borrowings subledgers have yet to be installed, as it may not be possible to integrate these with the original software.	The cost-benefit analysis will be undertaken as to whether the whole system software may require replacement and whether the VPMU should use a standard computerized financial management system. In addition, the consulting firm will assist and train MFEM, VPMU, and MIPU, including PWD to ensure that that a good financial management system is instituted and that proficient and skilled staff is engaged on the project. They will also ensure that the more rigorous requirements of ADB and other cofinancier(s) are met.
8.2. Can the system produce the necessary project financial reports?	Yes. An automated system is in place.	The system that will be in use by the VPMU (standard accounting package) will be tailored and able to produce the necessary project financial reports.
8.3. Is the staff adequately trained to maintain the system?	Yes.	The VPMU will recruit staff who are knowledgeable in the accounting package to be installed, and they will be trained to maintain the system and design reports to appear in the desired formats required by ADB, MFEM, VPMU, development partners, and any other stakeholders.
8.4. Does the management	Yes.	The VPMU will institute

organization and processing system safeguard the confidentiality, integrity, and availability of the data?		appropriate levels of control when setting up the accounting system to safeguard the confidentiality, integrity, and availability of data throughout the system.
--	--	--

ADB = Asian Development Bank, EA = executing agency, ERA = Expenditure Review and Audit, FMIS = financial management information system, MFEM = Ministry of Finance and Economic Management, MIPU = Ministry of Infrastructure and Public Utilities, OAG = Office of the Auditor-General, PFEM = public finance and economic management, PMU = program management unit, PWD = Public Works Department, VPMU = Vanuatu Project Management Unit.

Attachment 2: Details of External Assistance to MIPU, 1998 – 2008

Funding Agency	Grant or TA No.	Description	Amount (US\$ million)
ADB	Loan 1684	Cyclone Emergency Rehabilitation Project	2.00
	TA 7345	Port Vila Urban Development	1.35
	TA 7288	Inter Island Shipping Support	0.50
	TA 3224	Outer Islands Infrastructure Development	0.75
Agence de France	Grant	Outer Island Airports Upgrade	8.42
	Grant	Civil Works at Pekoa Airport – Luganville	6.92
	Grant	Civil Works at Bauerfield Airport – Port Vila	5.73
	Grant	Bauerfield and Pekoa Airport Terminal Upgrading	0.56
	Grant	Extension of Port Vila Market House	0.84
	Grant	Cyclone Dani Rehabilitation Project	2.69
	Grant	Vanuatu Transport Sector Support Program	15.80
European Commission	Grant	PWD Maintenance Training Program	2.51
	Grant	Rural Access Road Project	7.14
	Grant	Technical Support to Public Works Department	0.55
Japan	Grant	Maintenance of Lenakel Wharf, Tanna Island	4.62
	Grant	Improvement of Efate Ring Road – Phase 1	4.92
	Grant	Improvement of Efate Ring Road – Phase 2	8.32
	Grant	Rehabilitation of Teouma and Rentabao Bridges	2.19
	Grant	Improvement of Port Vila Main Wharf	18.95
Millennium Challenge	Grant	Millennium Challenge Account Project	65.70
Total			160.45