

Financial Management Assessment Report

Lao People's Democratic Republic:
Trade Facilitation: Improved Sanitary and Phytosanitary Handling
in Greater Mekong Subregion Trade Project
– Additional Financing

Executing Agency: Ministry of Agriculture and Forestry (MAF)

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EXECUTIVE SUMMARY

1. The purpose of the Financial Management Assessment (FMA) is to determine whether the Project executing and implementing agencies (EA/IAs) have acceptable financial management (FM) capacity and arrangements that can comply with ADB accounting and reporting requirements. The FMA Report was based on the ADB guidelines other FMA reports and references available within the Ministry of Agriculture and Forestry (MAF), the Ministry of Health (MOH) and the Ministry of Education and Sport (MOES).

2. The assessment covers the MAF through its Department of Planning and Cooperation (DOPC), as the Executing Agency (EA). Department of Agriculture (DOA), Department of Livestock and Fisheries (DOLF) under MAF, Food and Drugs Department (FDD) under MOH, and the Faculty of Agriculture at National University of Laos (FA-NUOL) under MOES are the IAs. DOPC, under the ongoing project, established a Project Management Unit (PMU) that is responsible for Project coordination and management. A Component Implementation Unit (CIU) was established in each IA that each was responsible for planning and reporting on day-to-day implementation of components. PMU consolidated the documents for project plan and actual.

3. Per the latest available assessments by ADB and World Bank, the overall fiduciary risk in the Lao PDR is considered high. This is due to insufficient transparency over the use of public finances and limited public access to Government budget and financial information. In addition, there is generally low awareness of modern practices of internal controls in the public sector. The FM capacity of government staff at provincial and district levels is weak and needs to be strengthened. The external audit oversight function by the State Audit Organization (SAO) also needs improvement. There is a lack of well-trained and qualified local accountants and auditors in the country. There is reportedly a widely held public perception that the government is not committed to implementing reforms, despite recent passage of laws and decrees aimed at strengthening public FM (PFM). The level of corruption is perceived to be high per investigations and survey results by international civil society and research organizations.

4. At the country level, deficiencies in FM systems include: (i) weak PFM systems; (ii) a shortage of personnel with adequate FM skills; and (iii) the failure of procuring entities to follow PFM rules. At the project-specific level, potential risks include: (i) possible inability of Government to meet counterpart funding obligations due to budgetary constraints; (ii) limited procurement capacity within the EA and IAs; (iii) potential corruption as a result of weak procurement oversight; (iv) funds may not reach intended beneficiaries in a timely manner; (v) project accounting and financial reporting will not meet ADB requirements; (vi) delays in the submission of externally audited project financial statements (APFS) due to the heavy SAO workload; (vi) the APFSs may not meet ADB requirements; and (vii) inadequate safeguard of accounting data. Without risk mitigation measures, the overall risk level for the project is assessed as moderate.

5. The EA and IAs have extensive experience in implementing externally funded projects, including those funded by ADB. Mitigating measures to address the shortcomings include: (i) existing PMU and CIUs and their staff and existing project oversight bodies under the ongoing Project will be used for the additional financing. The existing staff are experienced and familiar with ADB accounting, financial reporting and procurement requirements; (ii) ADB bidding, procurement and disbursement guidelines will be used; (iii) counterpart funding will involve mainly in-kind support for government counterpart salaries and office space; taxes and duties will be financed by the grant; (iv) training and on-the-job mentoring of new financial staff on ADB project accounting and financial reporting by experienced existing accounts staff and FM consultants; (v)

funds flow arrangements similar to the ongoing projects, which have been tested and proven successful, will be used; (vi) accounting policies consistent with International Accounting Standards and International Financial Reporting Standards will be used; (vii) through TA 8824-REG: SAO has been empowering to be the external auditor whose qualifications, experience and TOR are acceptable to ADB; and ensure that the annual external audit will be in accordance with international auditing standards; and (viii) regular backups of all financial and accounting data and appropriate security measures over backed-up data shall be in place. With risk mitigation measures, the Project overall risk level is assessed as low.

I. INTRODUCTION

1. The FMA purpose is to determine whether the EA/IAs have acceptable FM capacity and arrangements that can comply with ADB accounting and reporting requirements. The FMA was conducted in accordance with ADB's FMA Technical Guidance Note,¹ ADB's *Guidelines for the FM and Analysis of Projects*² (the Guidelines) and the publication, *Financial Due Diligence, A Methodology Note*,³ and other references on FMA for Lao PDR. The instrument used for the assessment was ADB's FMA questionnaire. The completed FMA questionnaires are in Appendix 1.

2. The assessment included the entities' system of accounting, budgeting and reporting, auditing, and internal controls. They are considered acceptable if they: (i) ensure that funds will be used only for the intended purposes in an efficient and economical way; (ii) are capable of correctly recording all transactions and balances, and supporting the preparation of regular and reliable financial statements; (iii) can safeguard the entities' assets; and (iv) are subject to external audit arrangements acceptable to ADB. Staff assessments evaluated (i) academic qualifications and years of experience implementing internationally financed projects; and (ii) the number of staff available to carry out and supervise financial management tasks.

3. Country issues noted in this FMA are based on information developed from the latest available assessments by ADB and the World Bank and the investigations and survey results by international civil society and research organizations. The assessments put emphasis on the second Governance and Anticorruption Action Plan (GACAP II) themes of public financial management (PFM), procurement, and anti-corruption.

II. PROJECT DESCRIPTION

4. The Project is an additional financing for the ongoing ADB Project.⁴ It will continue strengthening the institutions, operational and management capacities in sanitary and phytosanitary measures (SPS)⁵ in Lao PDR. This will also enhance capacities in operating cost-effective SPS systems that facilitate trade and protect health. The Project will focus on Lao PDR's trade in agriculture, food and forest (AFF) products for which SPS measures for plant health, animal health, and food safety apply. The Project will establish, strengthen and implement: (i) surveillance and inspection programs for plant health, animal health and food safety; (ii) enhanced education levels and university training of SPS specialists; and, (iii) promote regional cooperation and harmonization for SPS. It will selectively strengthen food safety handling capacities of private enterprises in the Lao PDR tourist industry.

5. The Project intended impact is for Lao PDR's AFF products to be: (i) safer; (ii) more efficiently produced; and, (iii) traded in greater quantities. Its outcome is an enhanced SPS management system in Lao PDR. The Project has the following outputs: (i) strengthened surveillance and inspection programs, (for plant health, animal health, and food safety including safer food handling in the tourist industry); (ii) improved regional cooperation and

¹ ADB, 2015, Financial Management Technical Guidance Note

² ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

³ ADB. 2009. *Financial Due Diligence A Methodology Note*. Manila.

⁴ Project 43120-013 LAO: Trade Facilitation: Improved Sanitary and Phytosanitary (SPS) Handling in Greater Mekong Subregion (GMS) Trade Project.

⁵ SPS measures are intended to protect human, animal or plant life or health against risks arising from the entry, establishment or spread of pests, diseases, disease-carrying organisms or disease-causing organisms; or to protect human or animal health against risks arising from additives, contaminants, toxins or disease-causing organisms in foods, beverages or feedstuffs; or otherwise to prevent or limit damage from the entry, establishment or spread of pests. WTO, SPS Agreement Annex A. (1994).

harmonization in SPS management in AFF trade; (iii) enhanced education levels and university training of SPS specialists and (iv) effective Project management.

III. COUNTRY AND SECTOR FM ISSUES

6. Country issues that could impact on the effective FM of the project are concerned with: (i) PFM; (ii) management and skills capacity; (iii) the country environment; and (iv) ADB country portfolio issues.

A. Public Financial Management (PFM):

7. In 2010, PFM arrangements in Lao PDR were assessed by the World Bank using the PFM Performance Measurement.⁶ Table 1 is a summary of the results of this assessment. Indicators are scored from A to D, with A indicating better performance.

Table 1: Summary of 2010 Performance Measurement Framework

Indicators	Score
A. Credibility of the budget	
Aggregate expenditure out-turn compared to original approved budget	B
Composition of expenditure out-turn to original approved budget	NR
Aggregate revenue out-turn compared to original approved budget	A
Stock and monitoring of expenditure payment arrears	C+
B. Comprehensiveness and transparency	
Classification of the budget	C
Comprehensiveness of information included in budget documentation	B
Extent of unreported government operations	D+
Transparency of intergovernmental fiscal relations	D
Oversight of aggregate fiscal risk from other public sector entities	D+
Public access to key fiscal information	C
C. Budget execution	
(i) Policy-based budgeting	
Orderliness and participation in the annual budget process	C+
Multiyear perspective in fiscal planning, expenditure policy, and budgeting	D+
(ii) Predictability and control in budget execution	
Transparency of taxpayer obligations and liabilities	D+
Effectiveness of measures for taxpayer registration and tax assessment	C
Effectiveness in collection of tax payments	NR
Predictability in the availability of funds for commitment of expenditures	B+
Recording and management of cash balances, debt, and guarantees	D+
Effectiveness of payroll controls	C+
Competition, value for money, and procurement controls	D+
Effectiveness of internal controls for non-salary expenditure	D+
Effectiveness of internal audit	D
(iii) Accounting, recording, and reporting	
Timeliness and regularity of accounts reconciliation	C
Availability of information on resources received by service delivery units	D
Quality and timeliness of in-year budget reports	C+
Quality and timeliness of annual financial statements	D+
(iv) External scrutiny and audit	
Scope, nature, and follow-up of external audit	D+
Legislative scrutiny of the annual Budget Law	C+
Legislative scrutiny of external audit reports	C+

⁶ World Bank. 2010. *The Lao People's Democratic Republic Public Expenditure and Financial Accountability, Public Financial Management Assessment*. Washington, D.C. (June).

D. Donor practices

Predictability of direct budget support	D+
Donor information for budgeting and reporting on project/program aid	C+
Proportion of aid managed by national procedures	D

Source: World Bank. 2010. *Public Expenditure and Financial Accountability, Public Financial Management Assessment*. Washington, D.C.

Note: Indicators are scored A to D. Score of A indicates better performance; NR = not rated.

8. In general, per the latest available assessments by ADB and World Bank, the overall fiduciary risk in Lao PDR is still high. This assessment is based on concerns regarding: (i) transparency over the use of public finances with only limited public access to Government budget and financial information; (ii) the relatively low awareness of modern practices of internal control in the public sector; and (iii) weak government oversight and the slow pace of reform. The technical capacity to manage public finances among government staff at the provincial and district levels is generally weak and needs to be strengthened. There are a limited number of well-trained and qualified local accountants and auditors in the country.

9. The external audit oversight function by SAO is improving. The new State Audit Law 2007 enhances its independence by having the SAO report to the National Assembly rather than the Prime Minister as previously. ADB has provided a TA to strengthen the SAO capacity⁷ focusing on improving the audit of public sector procurement practices. Most ADB financed projects in Lao PDR are audited by the SAO. While this provides an opportunity for continuous capacity building, there have been recent reports of delayed submission of ADB-financed project's APFSs due to the SAOs heavy workload, compounded by insufficient staffing and attrition of experienced auditors.

10. There is a need to review and upgrade the existing budgeting process to one in which available resources are systematically allocated to priority economic and social development programs. Furthermore, in order to improve project and program performance and delivery, there is also a need to: (i) clarify the roles and responsibilities between central, provincial and district governments; (ii) ensure the budget is executed, reported, and monitored in a way that will bring about effective and efficient use of public finances; and (iii) introduce an integrated FM information system in order to improve fiscal reporting; improve accounting and auditing standards; reduce fiduciary risks in the management of public finances; facilitate external auditing procedures; and ensure the timely release of funds to service delivery units.

B. Management and Skills Capacity

11. The overall quality of accounting education and training in Lao PDR does not meet demand to produce qualified professional accountants and auditors needed to support the rapid sustainable development of the country. The Lao Institute of Certified Public Accountants (LICPA) lacks capacity to operate effectively, and there is no system of oversight of auditors or accountants practicing in Lao PDR. The LICPA does operate a CPA certification scheme, but this program falls short of compliance with IFAC International Education Standards. No university in Lao PDR provides a specific accountancy degree program. There is a lack of provision of required accountancy training and skilled local professionals. Thus, there are currently few local accountants with internationally recognized qualifications working in either the public or private sector. Country-wide, there are 40 accounting firms operating in Lao PDR, including 3 local offices of the large international accounting firm networks.⁸

⁷ P42226-012: Strengthening the Capacity of the State Audit Organization, TA 7857-LAO.

⁸ World Bank. 2009. *Report on the Observance of Standards and Codes, Lao PDR*.

12. Procurement capacity is also limited with no professional procurement stream within the Government.⁹ Financial management and procurement capacity development is therefore required as a matter of priority. If this deficiency is not addressed in a comprehensive manner it will increasingly constrain progress with the PFM reforms, including proper governance accountability at the national and subnational levels, and as a result diminish Lao PDR's competitiveness.

C. Country Environment

13. **Governance.** The governance system within Lao PDR is characterized by centralized decision-making, limited transparency and public service (especially at the subnational level), weak capacity and a slowly evolving legal and judicial system.¹⁰ Except political stability, Lao PDR's governance performance is well below the ASEAN average on most key indicators (Table 2). Similarly, among a pool of 215 countries included in the World Bank's Worldwide Governance Indicators,¹¹ in 2014, Lao PDR was among the weakest in governance and was listed either in the lowest or second lowest quintile for all indicators.

Table 2: ASEAN Governance Indicators. 2014

ASEAN Country	Voice & Accountability	Political Stability / No Violence	Gov't Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Brunei	-0.66	1.27	1.08	0.97	0.50	0.63
Cambodia	-1.08	-0.04	-0.68	-0.40	-0.93	-1.08
Indonesia	0.13	-0.37	-0.01	-0.10	-0.35	-0.58
Lao PDR	-1.65	0.46	-0.39	-0.85	-0.71	-0.76
Malaysia	-0.33	0.34	1.14	0.84	0.64	0.48
Myanmar	-1.39	-1.06	-1.28	-1.39	-1.17	-0.92
Philippines	0.13	-0.70	0.19	-0.01	-0.33	-0.44
Singapore	-0.11	1.23	2.19	2.23	1.89	2.12
Thailand	-0.85	-0.91	0.34	0.27	-0.15	-0.41
Viet Nam	-1.34	0.00	-0.06	-0.59	-0.31	-0.50
ASEAN average	-0.71	0.02	0.25	0.10	-0.09	-0.15
World Governance Indicators Percentile rank of Lao PDR among 215 countries	4	61	39	21	27	25

Notes: The indicators are measured in the range of -2.5 (weak) to +2.5 (strong) with a higher score indicating better governance. The percentile rank among 215 countries ranges from 0 (lowest) to 100 (highest) rank.

Source: World Bank - Worldwide Governance Indicators, <http://databank.worldbank.org/>

14. **Procurement.** Procurement procedures in Lao PDR are regulated under Decree No. 03/PM and its associated implementing rules and regulations (IRR) 0063/MOF (2004) and 0861/MOF (2009). The Ministry of Finance (MOF) Procurement Manual (2009) prepared by MOF's Procurement Monitoring Office (PMO) provides further guidance on procurement procedures. The legal framework governing procurement is generally based on World Bank standards and deals separately with works, goods and consulting services. The legal framework is explicit and comprehensive. Article 12 of IRR 0063/MOF clearly states that in the case of conflicting provisions, the procurement procedures of donor agencies/development partners take precedence over Decree No. 03/PM or its associated IRRs. Thus,

⁹ IDA and IFC. 2012. *Country Partnership Strategy for Lao People's Democratic Republic for the Period FY2012-FY2016*.

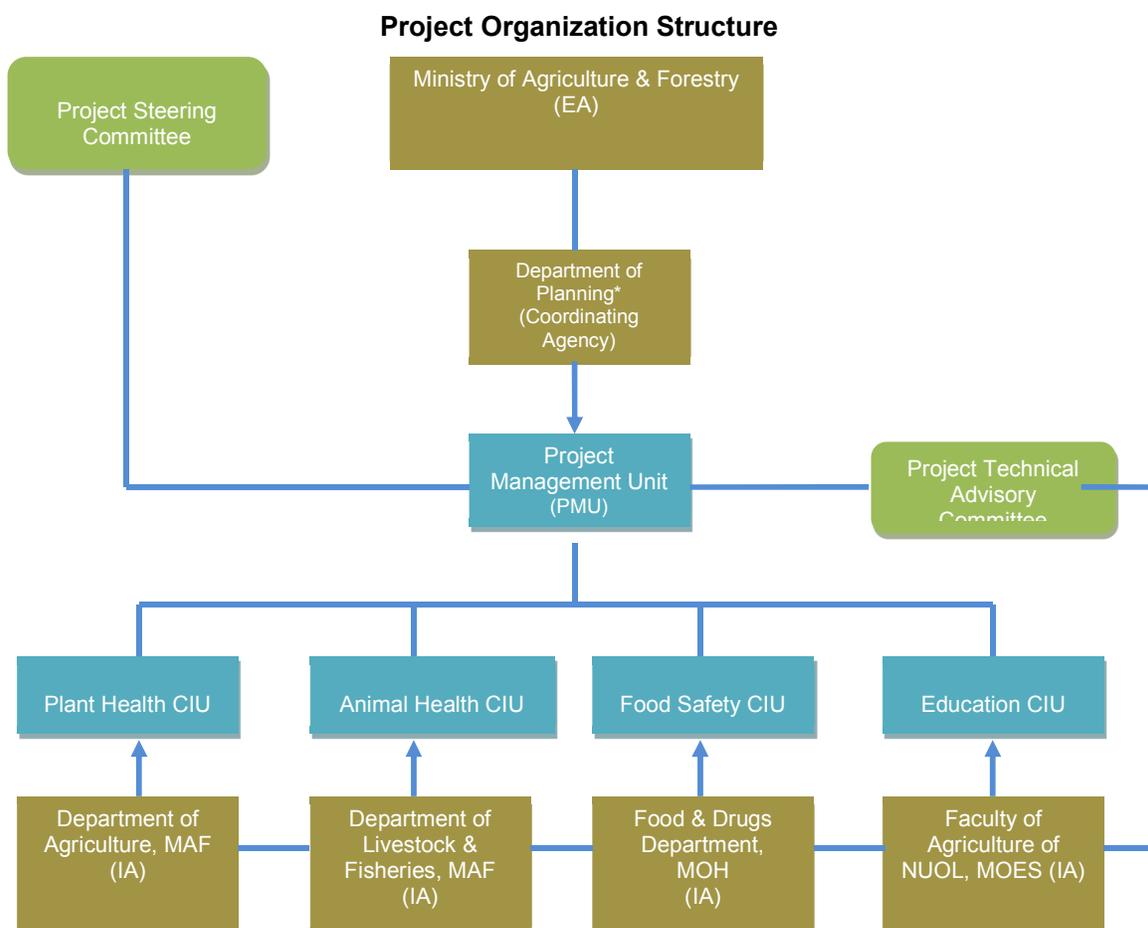
¹⁰ ADB. 2010. *Country Assistance Program Evaluation, Lao People's Democratic Republic: Sustainable Growth and Integration*. Manila (October).

¹¹ The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the governance quality provided by many enterprise, citizen and expert survey respondents in industrial and developing countries.

ADB projects are designed and implemented in accordance with ADB's Procurement Guidelines. While procurement methods falling short of open competition have often been applied for government-financed procurement this is not for the project.

15. **Anti-Corruption.** Many features commonly associated with systemic corruption exist in Lao PDR. The Freedom House report, *Freedom in the World 2012 – Laos*, noted that “Corruption by government officials is widespread. Laws aimed at curbing graft are rarely enforced, and government regulation of virtually every facet of life provides many opportunities for bribery.”¹² In 2014, the Transparency International Corruption Perception Index ranked Lao PDR at 145 of 174 countries assessed. Previously, the country had a rank of 160 in 2012 (pool of 176 countries), 154 in 2010 (pool of 178 countries) and 152 in 2006 (pool of 176 countries). The 2006 Anti-Corruption Law provides for criminal proceedings for fraud and corruption, and the government's ratification of the United Nations Convention against Corruption in 2008 provides further impetus for the fight against corruption.

IV. PROJECT FINANCIAL MANAGEMENT AND INFORMATION SYSTEM



* MAF through its Department of Planning will assume the role of EA
 CIU=component implementation unit; IA = implementing agency, MAF=Ministry of Agriculture and Forestry;
 MOE=Ministry of Education; MOH=Ministry of Health; NUOL=National University of Laos

¹² Freedom House. *Freedom in the World 2012 - Laos*, 18 May 2012, available at: <http://www.unhcr.org>

A. Overview the Executing/Implementing Agencies (EA/IAs)

16. Following the ongoing project, the Project EA for the additional financing will be MAF that will delegate its responsibility for overall project coordination and management to its DOPC. The existing PMU under DOPC will undertake overall responsibility for the day-to-day implementation of all project activities.

17. Department of Agriculture (DOA), Department of Livestock and Fisheries (DOLF) under MAF, Food and Drugs Department (FDD) under MOH, and the Faculty of Agriculture at National University of Laos (FA-NUOL) under MOES are the Project Implementing Agencies (IAs). DOPC, under the ongoing project, established a Project Management Unit (PMU) that is responsible for Project coordination and management. A Component Implementation Unit (CIU) was established in each IA that each was responsible for planning and reporting on day-to-day implementation of components. PMU consolidated the documents for project plan and actual. Figure 1 presents the Project Organizational Structure.

B. Personnel, Accounting Policy and Procedures

18. **Personnel/Staffing:** The existing staff of PMU and 4 CIUs under ADB Project No. 43120-013 – LAO will handle the Project FM and financial statements. The ongoing qualified financial staff will be recruited and further trained in ADB guidelines and procedures.

19. **Accounting Policies:** PMU and 4 CIUs will continue adhering the accounting policies consistent with International Accounting Standards and sound financial management requirements during implementing the Project. Separate project records and accounts will be maintained to adequately identify the: (i) goods and services financed from grant proceeds; (ii) financing resources received; (iii) expenditures incurred on each component of the project; and (iv) monetarize counterpart funds received and expended. As required by ADB's Guidelines for the *FM and Analysis of Projects*, appropriate International Financial Reporting Standards will be applied for project reporting.

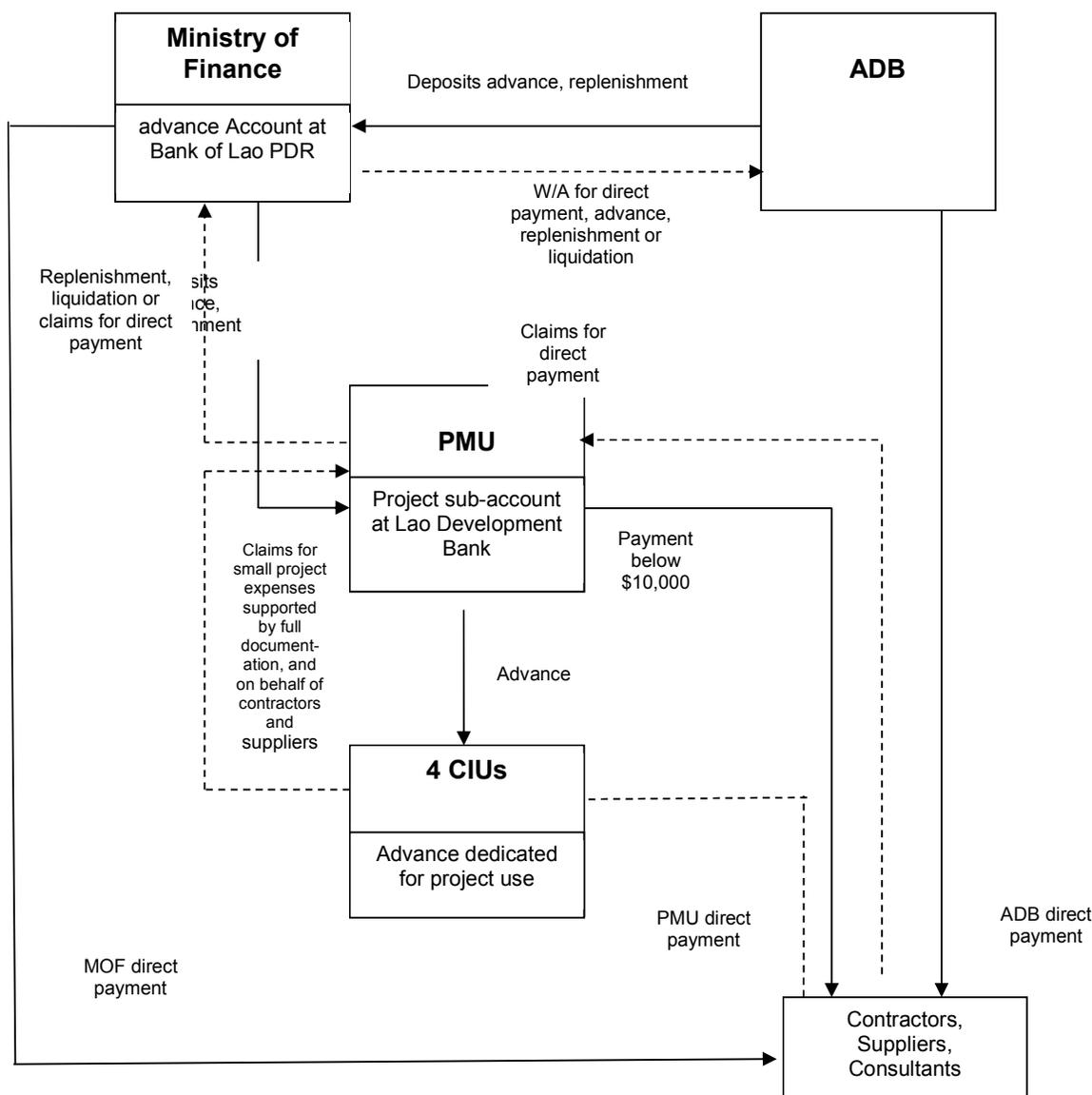
20. **Internal Audit:** MAF Internal Audit (Inspection) department effectiveness has been limited by the lack of capacity, funding, and staff. The Internal Audit department also does not have independence from management. The requirement of an internal audit function is not necessary for this Project. Adequate internal control procedures will be in place and timely annual external audit is mandatory for the Project during implementation.

21. **External Audit.** PMU will cause the detailed consolidated annual project financial statements (APFSs) to be audited in accordance with international standards on auditing by an auditor acceptable to ADB. SAO is an acceptable auditor to ADB. The EA will submit the audited APFSs in the English language to ADB within 6 months of the end of the fiscal year. The annual audit report will include (i) audited APFSs, (ii) audit opinion on the use of the advance account and sub-account, and the SOE procedures. ADB reserves the right to verify the APFSs to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. Appendix 2 presents the draft Terms of Reference for SAO. The TOR will be cleared by SAO prior to grant negotiation.

22. **Reporting and Monitoring:** PMU will prepare and submit to ADB quarterly project progress reports, which will include: (i) a narrative description of physical and financial progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. PMU will prepare and submit to ADB a project completion report within 3 months of the Project completion.

C. Fund Flow Mechanisms, Disbursements and Financial Information Systems:

Figure 2: Fund Flow Diagram



Disbursement Arrangements for ADB funds:

1. GOL through the MOF signs a grant agreement with the ADB.
2. MOF submits to ADB withdrawal applications for advance account advance, replenishments, statements of expenditures and liquidation of advance account.
3. ADB deposits advance amounts account and replenishments.
4. PMU submits to MOF for review and approval requests for its sub-account, replenishments and liquidation of the advance account; endorses to MOF claims of suppliers and contractors for payment from the advance account.
5. Each CIU submits to PMU for review and approval requests for small standby advance and advance for each specific activity like training, replenishments and liquidation of the advances; endorses to PMU claims of suppliers and contractors for payment from the advance account.
6. MOF deposits to PMU's sub-account and replenishments (up to US\$200,000).
7. Suppliers and contractors submit payment claims to PMU (that will decide for payments through ADB direct payment, MOF's advance account or PMU's sub-account).

8. PMU processes and pays claims for its operating costs eligible for ADB financing from the its sub-account.
9. Suppliers and contractors submit payment claims to PMU directly or through CIUs.
10. PMU processes and pays claims for CIU operating costs eligible for ADB financing from its sub-account.
11. As requested by PMU, MOF pays suppliers and contractors for claims eligible for ADB financing from the advance account.
12. ADB pays directly suppliers and contractors for claims eligible for ADB financing after receipt of MOF requests for direct payment and required supporting documents.

ADB = Asian Development Bank, CIU = component implementation unit, MOF = Ministry of Finance, PMU = Project Management Unit, W/A = withdrawal application
Source: Asian Development Bank

23. **Disbursement:** The Loan/Grant proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),¹³ and detailed arrangements agreed upon between the Government and ADB.

24. Pursuant to ADB's *Safeguard Policy Statement* (2009) (SPS),¹⁴ ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS.

25. With oversight of MAF, the PMU will be responsible for (i) preparing disbursement projections, (ii) collecting supporting documents, and in coordination with MOF (iii) preparing and sending withdrawal applications to ADB.

26. To ensure the timely release of grant proceeds and to expedite project implementation, the Government will, immediately upon project effectiveness, open and maintain one advance account administered by the PMU through MOF at the Bank of Lao for disbursement of eligible expenditures. The Ministry of Finance (MOF) will be responsible for establishing, managing, replenishing, and liquidating the account through an account managed by MOF. PMU will be in charge of necessary planning and documentation for a project advance account and seeking the review and approval from MOF.

27. To minimize cash handling for small Project expenditures at CIU level, each CIU may receive small advances on a transaction basis, supported by documentation and/or invoices for claims of small project expenses.

28. The maximum ceiling of the advance account in aggregate, will not at any time exceed the estimated ADB financed expenditures to be paid from the advance account for the next 6 months.¹⁵ The maximum ceiling in the PMU's sub-account shall not exceed \$200,000.

29. The request for the Project advance account should be accompanied by an Estimate of Expenditure Sheet¹⁶ setting out the estimated expenditures for the six (6) months of project implementation, and submission of evidence satisfactory to ADB that the advance account for the additional financing has been duly opened. For every liquidation and replenishment request of the advance account, the recipient will furnish to ADB (a) Statement of Account (Bank Statement) where the advance account is maintained, and (b) the Advance Account Reconciliation Statement (IARS) reconciling the above-mentioned bank

¹³ Available at: <https://www.adb.org/sites/default/files/institutional-document/33606/adb-loan-disbursement-handbook.pdf>.

¹⁴ Available at: <http://www.adb.org/Documents/Policies/Safeguards/Safeguard-Policy-Statement-June2009.pdf>.

¹⁵ Bank charges may be financed from the ADB loan.

¹⁶ Available in Appendix 29 of the *Loan Disbursement Handbook*.

statement against the EA's records.¹⁷

30. ADB's statement of expenditure (SOE) procedures may be used for reimbursing eligible expenditures and liquidating of advances to the project advance account due to impracticality of full documentation. The maximum payment for any individual item using these procedures is \$20,000 equivalent per individual payment. Individual payments more than the SOE ceiling should be accompanied by full supporting documents with submitting the WA to ADB. SOE records should be maintained and made readily available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.¹⁸

31. Before the submission of the first withdrawal application, PMU through MOF shall submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the Government, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is US\$100,000, unless otherwise approved by ADB. The recipient is to consolidate claims to meet this limit for reimbursement and advance account claims. Withdrawal applications and supporting documents will demonstrate, among other things that the goods, and/or services were produced in or from ADB members, and are eligible for ADB financing.

32. **Financial Information System:** PMU will undertake regular backups of all financial and accounting data and appropriate security measures over backed-up data are in place. EA and IAs will be responsible for implementing the project per the grant agreement and its linked – and other supporting documents. ADB will monitor the project and review its progress to ensure that the grant proceeds are spent as agreed. All disbursements under the Grant will be carried out in accordance with *ADB's Loan Disbursement Handbook* (2017, as amended from time to time).

33. Figure 2 above presents the funds flow diagram and arrangements updated from ADB Project No. 43120-013–LAO: Trade Facilitation: Improved Sanitary and Phytosanitary (SPS) Handling in Greater Mekong Subregion (GMS) Trade Project.

D. FM Strengths and Weaknesses

34. **FM Strengths.** The following are the main strengths in the project's FM, based on the complete questionnaires given in Annex 1:

- (i) Executing / Implementing Agency:
 - The PMU and 4 CIUs have successful experience in implementing various projects funded by donors, including ADB and World Bank and IFAD;¹⁹
- (ii) Funds Flow Arrangements:
 - Similar arrangements will apply for the additional financing: PMU and 4 CIUs believe that they can manage the arrangements properly;
- (iii) Staffing:

¹⁷ Follow the format provided in Appendix 30 of the *Loan Disbursement Handbook*.

¹⁸ Checklist for SOE procedures and formats are available at:
http://www.adb.org/documents/handbooks/loan_disbursement/chap-09.pdf
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-100-Below.xls
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Contracts-Over-100.xls
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Operating-Costs.xls
http://www.adb.org/documents/handbooks/loan_disbursement/SOE-Free-Format.xls

¹⁹ These include the on-going ADB Grant 0296-LAO: Trade Facilitation: Improved Sanitary and Phytosanitary (SPS) Handling in Greater Mekong Subregion Trade Project (43120-013).

- The government staff, contractual staff and consultants have experience and learned from the ongoing project
- (iv) The government has adequate accounting and finance policies and guidelines which are implemented for all externally financed projects and programs.
- (v) Learnt from the ongoing project, the PMU and 4 CIUs have strong capacity in budget preparation and execution, FM and accounting, procurement, internal audit development, and in monitoring and evaluation.
- (vi) Capacity of the State Audit Organization (SAO) in auditing the externally funded projects has been improved. SAO has been progressively improving external audit scrutiny of government expenditures and revenues, borrowings, and assets. Under the ongoing TA 8824-REG,²⁰ the SAO capacity as the external auditor of ADB funded projects has been enhance to comply with the international standards of supreme audit institutions (ISSAIs).
- (vii) The PMU management, financial and other key officers who are currently performing very well will be also the potential officers for the project extension through the additional financing.

35. **FM Weaknesses:** The following are some weaknesses of the project's FM system:

- (i) Executing / Implementing Agency:
 - New financial staff appointed for additional financing may lack of experience to address potential shortcoming during project implementation;
 - lack of strong commitment to sustain good staff and consultants in PMU/CIUs;
 - Inadequate monitoring the performance of staff and consultants;
- (ii) **Funds Flow Arrangements:**
 - Inadequate balance in advance account and sub-account and delays in replenishment;
 - Unclear payment segregation from advance-, sub-accounts and direct payments;
 - Low ceiling for disbursements from the advance and sub-account
- (iii) **Staffing:**
 - lack of knowledge need to be aware on updated financial reporting and auditing guidelines related to the additional financing;
 - Unclear interlinks between the financial and physical progress/ deliverables, especially for the consultant performance;
- (iv) **Accounting Policies and Procedures:**
 - Unclear accounting system whether modified cash or accrual and unclear how cash – and accrual basis are used in the project
 - Improper interlinks between overall budget and expenditures;
 - More partial lump sum based for consulting contracts for better deliverables;
 - Better contract variation to monitor overall budget versus actual expenditures and deliverables
 - Lack awareness to ensure proper ceiling in advance- and sub-accounts are maintained
 - Unclear how the International Financial Reporting Standards, equivalent to international standards is used by the Project;
- (v) **Internal and External Audit:**
 - Weak interlinks between internal and external audit for the Project;
 - Unclear coordination between Planning & Internal Audit Department in monitoring project planning and progress;

²⁰ Enhancing Roles of Supreme Audit Institutions in Selected ASEAN countries.

- Unclear standards of operational procedures how Department of Planning and Audit in each line agency monitor the project;
 - Potential incomplete and poor unaudited APFSs from the EA;
 - SAO has not fully complied with ISSAI since limited budget and human resources;
 - Auditor TOR has not been discussed with SAO
 - Inadequate monitoring on audit findings and follow up actions
- (vi) **Reporting and Monitoring:**
- improvements are required on the content of the project progress (physical and financial) reports;
 - Improvements on the types, the content, and purpose of the reports;
 - Inadequate monitoring the project progress quality especially for the performance of consultants;
- (vii) **Financial Information System:**
- improvement is required to interlink progress by component and expenditures;
 - poor interlinks between the project financial data and the entity financial data;
 - Unavailable system to automatically produce the necessary project financial reports

V. RISK DESCRIPTION AND RATING

36. The summary FM Internal Control and Risk Assessment presented in Table 3 was completed based on the International Standard on Auditing 400: *Risk Assessment and Internal Control* and ADB guidelines.²¹

Table 3: FM Risk Assessment and Mitigation Measures

Risk Type	Risk description	Risk Without Mitigation	Mitigation Measures	Risk With Mitigation
Country-specific risks^a				
1. PFM risks	Weak PFM systems on accounting, budget preparation and execution, cash planning and performance measurement.	High	ADB, World Bank and other development partners support on-going efforts to strengthen PFM arrangements, through TAs, grants and loans.	Moderate
	Shortage of skills in FM, including financial analysis, management accounting, financial reporting and audit.	High	On-going and planned efforts by ADB, World Bank and other DPs to support PFM reforms and capacity building in all PFM aspects. Government and DP support for scholarships abroad.	Moderate

²¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

Risk Type	Risk description	Risk Without Mitigation	Mitigation Measures	Risk With Mitigation
	Malpractice and abuse of PFM rules by employees	Moderate	Since 2007, significant progress in strengthening SAO. The new State Audit Law 2007 enhances its independence by reporting to NA. Staffing has been doubled and regional offices; enhanced capacity-building activities to improve financial audits with support from DPs	Low
			An action plan for 2009–2020 focuses on building its capacity and defining its resource requirements with support from development partners. ^a	
Project-specific risks				
2. Government financing risks	Government may be unable to meet funding obligations due to budget constraints	Low	Counterpart financing will involve mainly in-kind support for (i) government counterpart staff salaries and office space and (ii) Taxes and duties will be financed by the grant.	Low
3. Procurement risks	Procurement capacity is limited especially at CIU level.	Moderate	The PMU existing staffs are experienced and familiar with ADB procurement guidelines. Support and training for FM and procurement have been provided by the FM and procurement consultants. PMU will manage all procurement packages	Low
	Potential corruption on procurement oversight.	Moderate	Standard ADB bidding documents and procedures will be used. Grievance redress procedures, including misuse of funds, will be published on the project website, and mechanisms put in place to address any grievances received.	Low
4. Funds flow	Funds may not reach intended beneficiaries in a timely manner.	Moderate	ADB disbursement arrangements which have been tested in ADB ongoing and prior projects and proven successful, will be used.	Low

Risk Type	Risk description	Risk Without Mitigation	Mitigation Measures	Risk With Mitigation
5. Staffing	MAF through PMU as EA and CIUs as IAs have limited staff capability in FM, accounting, budgeting, internal controls and financial reporting.	Moderate	Existing staff are experienced with ADB project accounting and reporting requirements. They will continue their services for the additional financing. Staff will be invited to periodic disbursement seminars conducted by ADB's Controller's Department to update their skills and knowledge in FM.	Low
6. Accounting policies and procedures	Budget and actual expenditures are not properly presented in the project financial statements to meet ADB requirements.	Moderate	Accounting policies will be continuously improved to comply with International Accounting Standards. Separate project accounts will be used to identify the: (i) budget versus expenditures; (ii) goods and services financed from grant proceeds; (iii) financing resources received; (iv) expenditures incurred on each component; and (iv) counterpart received and expended.	Low
7. Internal audit	Weak capacity in the Internal Audit department at MAF and IAs.	Moderate	internal control procedures have been in place and timely annual external audit will continue during project implementation.	Low
8. External audit.	Potential delay in the submission of externally audited APFSs	Moderate	TOR for SAO as the external auditor has been prepared and discussed prior signing grant agreement. Potential outsourcing private auditors by SAO will also be explored to address potential shortcomings on SAO human resources.	Low
9. Reporting and monitoring	limited staff capability in ADB financial reporting requirements.	Moderate	Existing staffs are experienced and familiar with ADB financial reporting requirements.	Low
10. Information systems	Accounting data not adequately safeguarded.	Moderate	PMU will undertake regular backups of all financial and accounting data and appropriate security measures over backed-up data shall be in place.	Low
Overall Risk		Moderate		Low

^a ADB. 2011. Country Partnership Strategy 2012-2016 for Lao People's Democratic Republic, Appendix 2, No. 2 of linked documents: Risk Assessment and Risk Management Plan (Summary). Manila.

ADB = Asian Development Bank CIU = component implementation unit; DPs = development partners, EA = executing agency; IAs = implementing agencies, PFM = Public financial management; MAF = Ministry of

Agriculture and Forestry, MOF = Ministry of Finance; NA = National Assembly; PMU = project management unit; SAO = State Audit Organization; TA = technical assistance,
Source: Asian Development Bank

VI. PROPOSED ACTION PLAN

37. For improving FM for extending the Project by additional financing, the qualified FM staff (both the Government officials, contractual staff and consultants) will continue their services. The following are proposed actions for supporting the project FM.

Table 4: Time-Bound Action Plan

Weakness	Mitigation Action	Responsibility	Timeframe
<p>a. EA & IAs:</p> <p>(i) New financial staff may lack of experience to address potential shortcoming during implementation;</p> <p>(ii) lack of strong commitment to sustain good staff and consultants in PMU/CIUs; and</p> <p>(iii) Inadequate monitoring the performance of staff and consultants</p>	<p>PMU & 4 CIUs will</p> <p>(i) do their best to keep the good staff and consultants on the ongoing project to continue their services for the additional financing;</p> <p>(ii) TORs of staff and consultants will be revisited; and</p> <p>(iii) proper monitoring especially on FM deliverables will be enhanced.</p>	<p>PMU & 4 CIUs in close coordination with EA, IAs, project officer and analyst.</p>	<p>From processing till contracts are awarded to consultants and staff are assignment for the additional financing.</p>
<p>b. Funds Flow Arrangements:</p> <p>(i) Inadequate balance in advance account and sub-account and delays in replenishment;</p> <p>(ii) Unclear payment segregation from advance-, sub-accounts and direct payments; and</p> <p>(iii) Low ceiling for disbursements from the advance and sub-account</p>	<p>PMU & 4 CIUs will intensively (i) monitor and replenish as soon as funds in advance- and sub-account reduced by 20%; (ii) properly segregate the payments from sub-account; advance account, and direct payments; and</p> <p>(iii) monitor ceiling the accounts and update the ceiling regularly</p>	<p>PMU & 4 CIUs in close coordination with EA, IAs, project officer and analyst.</p>	<p>From processing till the Grant closing date</p>
<p>c. Staffing:</p> <p>(i) Ongoing and new staff lack of knowledge need to be aware on updated financial reporting and auditing guidelines related to the additional financing;</p> <p>(ii) Unclear interlinks between the financial and physical progress/ deliverables, especially for the consultant performance.</p>	<p>PMU & 4 CIUs will regularly consult with project officer, analyst and EA to ensure the following:</p> <p>(i) follow properly if any update in ADB financial reporting and auditing;</p> <p>(ii) update reporting system to clearly interlinks between physical and financial progress</p>	<p>PMU & 4 CIUs in close coordination with EA, IAs, project officer and analyst.</p>	<p>From processing till the Grant closing date</p>
<p>d. Accounting Policies and Procedures:</p> <p>(i) Unclear accounting system whether modified cash or accrual and unclear how cash – and accrual basis are used in the project;</p> <p>(ii) Improper interlinks between overall budget and expenditures;</p> <p>(iii) More partial lump sum</p>	<p>PMU & 4 CIUs will work with the project officer, analyst and EA to ensure the following:</p> <p>(i) clearly decide the accounting system that they will use in the financial reporting;</p> <p>(ii) properly interlink the overall budget and expenditures;</p>	<p>PMU & 4 CIUs in close coordination with EA, IAs, project officer and analyst.</p>	<p>From processing till the Grant closing date</p>

<p>based for consulting contracts for better deliverables; (iv) Better contract variation to monitor overall budget versus actual expenditures and deliverables; (v) Lack awareness to ensure proper ceiling in advance- and sub-accounts are maintained; and (vi) Unclear how the International Financial Reporting Standards, equivalent to international standards is used by the Project;</p>	<p>(iii) improve contract arrangements with consultants and contractual staff; (iv) verify the reporting standards used</p>		
<p>e. Internal and External Audit: (i) Weak interlinks between internal and external audit for the Project; (ii) Unclear coordination between Planning & Internal Audit Department in monitoring project planning and progress; (iii) Unclear standards of operational procedures how Department of Planning and Audit in each line agency monitor the project; (iv) Potential incomplete and poor unaudited APFSs from the EA; (v) SAO has not fully complied with ISSAI since limited budget and human resources; (vi) Auditor TOR has not been discussed with SAO; (vii) Inadequate monitoring on audit findings and follow up actions</p>	<p>PMU & 4 CIUs will work with the project officer, analyst and EA to ensure the following: (i) proper interlinks between internal and external audit for the Project; (ii) better coordination between DOP & Internal Audit Department in monitoring project planning and progress; (iii) improved SOP how DOP and Audit in each line agency monitor the project; (iv) properly prepare unaudited APFSs from the EA; (v) SAO has not fully complied with ISSAI since limited budget and human resources; (vi) update Auditor TOR and discuss SAO; (vii) proper monitoring on audit findings and follow up actions</p>	<p>PMU & 4 CIUs in close coordination with EA, IAs, project officer and analyst.</p>	<p>From processing till the Grant closing date</p>
<p>f. Reporting and Monitoring: (i) improvements are required on the content of the project progress (physical and financial) reports; (ii) Improvements on the types, the content, and purpose of the reports; (iii) Inadequate monitoring the project progress quality especially for the performance of consultants;</p>	<p>PMU & 4 CIUs will work with the project officer, analyst and EA to ensure the following: (i) revisit the content of the project progress (physical and financial) reports to ensure that they are in line with Grant Agreement, RRP, PAM and other supporting documents; (ii) the types, the content, and purpose of the reports will be further improved; (iii) proper monitor project progress quality</p>	<p>PMU & 4 CIUs in close coordination with EA, IAs, project officer and analyst.</p>	<p>From processing till the Grant closing date</p>

<p>g. Financial Information System: (i) improvement is required to interlink progress by component and expenditures; (ii) Improve interlinks between the project financial data and the entity financial data; (iii) Unavailable system to automatically produce the necessary project financial reports</p>	<p>PMU & 4 CIUs will work with the project officer, analyst and EA to ensure the following: (i) proper interlinks in financial and physical progress between project expenditures and components; (ii) explore potential interlinks between project and entity financial data; and (iii) explore potential automatic system to produce necessary reports.</p>	<p>PMU & 4 CIUs in close coordination with EA, IAs, project officer and analyst.</p>	<p>From processing till the Grant closing date</p>
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ADB = Asian Development Bank, CIU = component implementation unit, DOP = Department of Planning, FMM = financial management manual, FMR = financial management report, IAD = Internal Audit Department, MOF = Ministry of Finance, PMU = project management unit, SOP = standards of operational procedures

VI. SUGGESTED COVENANTS

38. **Right of Auditor access on Project Documents.** The MOF, PMU and 4 CIUs will ensure that contracts financed from the project will include provisions specifying the right of ADB to audit and examine the records and all financial statements of the project including information from all contractors, suppliers, consultants, and other service providers as they relate to the project. The external auditor, in this case, SAO will also have right to access to all project documents in preparing the external financial audit for the Project.

39. **Governance and anti-corruption.** The government will ensure that (i) the program is carried out in compliance with all applicable anti-corruption regulations in the Government of Lao PDR, and ADB's Anticorruption Policy (1998, as amended to date); (ii) all project staff actively participate in the training in anti-corruption regulations in Lao PDR and ADB's Anticorruption Policy; and (iii) a website is maintained to disclose the audited annual project financial statements (APFSs), the auditor opinions for the APFSs, project progress, and procurement activities.

VII. CONCLUSION

40. Overall risk rating for Project FMA is "Moderate". General environment for public financial management in Lao PDR is generally satisfactory and to large extent strengthened by standardized policies and guidelines which are implemented for all externally financed projects and programs.

41. Although capacity is still limited and needs improvement in project financial management and internal auditing, this is expected to improve significantly because of the ongoing support from ADB to the SAO and EAs and IAs through LRM and also the ongoing TA 8824-REG: Enhancing Roles of Supreme Audit Institutions in Selected ASEAN countries.

42. The FMA results prepared for the project are summarized below. This is compiled from the responses and information obtained from the EA and IAs (through their PMU and CIUs) as detailed in the Appendix 1. The summary includes proper mitigation measures and other management actions that have been prepared to address the identified key issues:

43. The performance of the international and national consultants working in the ongoing Project have been assessed. The Project (for the additional financing) will recruit the good performance consultants (potentially through individual recruitments) to continue their

services. Further training especially in the areas of FM for PMU Finance Unit and related CIUs will be provided.

44. Overall, the project arrangements are considered satisfactory since appropriate mitigation measures/management actions have been prepared to address the key issues (as detailed in the time bound action plan in Table 4 above).

COMPLETE FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

<i>Topic</i>	<i>Response</i>	<i>Potential Risk Event</i>
1. Executing / Implementing Agency	<i>Executing Agency – PMU</i>	
1.1 What is the entity's legal status / registration?	Ministry of Agriculture and Forestry through its Department of Planning and Cooperation	None
1.2 How much equity (shareholding) is owned by the Government?	100% government owned	None
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ²²	None	None
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes; various projects funded by donors, including ADB and World Bank. This includes the on-going project, ADB Grant 096-LAO: Trade Facilitation: Improved Sanitary and Phytosanitary (SPS) Handling in Greater Mekong Subregion Trade Project (43120-013)	New financial staff may lack of experience to address potential shortcoming during project implementation
1.5 Briefly describe the statutory reporting requirements for the entity.	Lao PDR Budget Law (2006) reporting requirements, including audited APFSs, quarterly physical and financial progress reports; and other project donor agency reporting requirements	<i>Improper and incomplete information between budget and actual; physical and financial progress</i>
1.6 Describe the regulatory or supervisory agency of the entity.	NA supervises activities of central government and Prime Minister, MOF monitor fund flow within the Project	Inadequate interlinks between budget and actual expenditure; between financial reporting and auditing
1.7 What is the governing body for the project? Is the governing body for the project independent?	Same independent National Steering Committee headed by Deputy Minister and PMU established under the ongoing Project	Potential high turnover of staff assigned for the Project
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Same organizational structure and governance of the ongoing since they are appropriate for the needs of the project	No official commitment to sustain good staff and consultants
1.9 Does the entity have a Code of Ethics in place?	PMU and 4 CIUs follow PM Decree No. 82 (Decree on Civil Service) issued on 19 May 2003	Inadequate monitoring the performance
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity	No reported issues of ethical violations	

²² In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

<i>Topic</i>	<i>Response</i>	<i>Potential Risk Event</i>
and management. How were they addressed?		
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	Same funds flow arrangements of the ongoing Project for Improved Sanitary and Phytosanitary Handling; please see funds flow diagram in the current project document	Inadequate balance in advance account and sub-account and delays in replenishment
2.2 Are the (proposed) arrangements to transfer the proceeds of the grant (from the government /MOF) to the entity and to the end-recipients satisfactory?	Yes	Potential delays in replenishments from MOF, PMU and 4 CIUs
2.3 Are the disbursement methods appropriate?	Yes	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	No problems of major significance, only delays in replenishment and no increase in the ceiling of the accounts	
2.5 In which bank will the Advance Account (if applicable) be established?	Bank of Lao for the advance account under MOF; and Development Bank of Lao for the sub account under PMU	Lack of fund flow monitoring
2.6 Is the bank in which the advance account is established capable of <ul style="list-style-type: none"> • Executing foreign and local currency transactions? • Issuing and administering letters of credit (LC)? • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 	<ul style="list-style-type: none"> • Yes • Yes • Yes • Yes 	
2.7 Is the ceiling for disbursements from the advance account and SOE appropriate/required?	Not so	Low ceiling for disbursements from the accounts
2.8 Does the (proposed) project PIUs have experience in the management of disbursements from ADB?	Yes – ongoing and previous projects	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the advance	Yes	If the new staff and consultants

Topic	Response	Potential Risk Event
fund and SOE procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.		appointed for the additional financing
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	No. Under the current project, the Government borrowed SDR and there was exchange rate risk as the US\$ fell in value by more than \$200,000 against the SDR. However, if the additional financing is to be wholly US\$ grant funded there will be no exchange rate risk to be managed by MOF. The advance account is maintained in US\$.	
2.11 How are the counterpart funds accessed?	Through the MOF for central level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	
2.12 How are payments made from the counterpart funds?	Payments are made based on approved budget and in compliance with established MOF guidelines and procedures	
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	No project funds will flow to communities or NGOs	
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	No, beneficiaries are not required to contribute to project investment costs	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Same organizational structure of the ongoing Project for Improved Sanitary and Phytosanitary Handling	

Topic	Response	Potential Risk Event
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Existing staff of the ongoing Project for Improved Sanitary and Phytosanitary Handling will be used	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	At MOF, signed by DG of External Finance Dept (Mr. Sithisone Thephasy) At PMU, Ms. Kinnaly Phommasack (National Project Coordinator and Dr. Somphanh Chanphengxay, Project Director (See attached list of key persons involved in implementation including project PMU and CIU key staff).	None are certified public accountants
3.4 Is the project finance and accounting function staffed adequately?	Yes, 4 government staff + 3 contractual staff	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes, graduate in Financial, and additional courses of finance, and MBA in financial management;	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes, several training on accounting, disbursements and financial reporting. In each CIU – at least one financial officer	Changes in ADB procedures and disbursement guidelines
3.7 What is the duration of the contract with the project finance and accounting staff?	One contract till project completion for contractual staff, and permanent staff of the government – assess potential SSS for the existing firm for project management & implementation consultant	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	- the same team will be potentially assigned for the additional financing	
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	Will be included in PAM: job title, responsibilities, educational background and professional experience for existing and potential new additional staff in finance and accounting	Ongoing and new staff lack of knowledge need to be aware on updated financial reporting and auditing guidelines related to the additional financing
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all officers, managers, and staff?	Yes – see TOR for related staff and consultants in PAM. Most CIUs did not satisfy with their performance in the ongoing projects	Unclear interlinks between the financial and physical progress/ deliverables
3.11 What is the turnover rate for finance and accounting personnel (including	Turnover rate is low – one resigned and replaced during 5 years of project implementation	

Topic	Response	Potential Risk Event
terminations, resignations, transfers, etc.)?		
3.12 What is training policy for the finance and accounting staff?	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements per MOF rules; staff undergoes training when new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Financial management training including financial reporting and auditing	
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 (for the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Project will use an Excel-based system like the system used in the ongoing the ongoing Project for Improved Sanitary and Phytosanitary Handling that is dedicated to the recording of project financial transactions including the allocation of expenditures in accordance with the respective components, disbursement categories and sources of funds. The Project used the accounting system that mixed accrual and cash basis	Unclear accounting system whether modified cash or accrual
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, controls will be in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	A new chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	Improper interlinks between overall budget and expenditures
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes, the General Ledger and subsidiary ledgers will be reconciled monthly and actions will be taken to resolve reconciliation differences.	

Topic	Response	Potential Risk Event
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	All accounting and supporting documents will be retained in accordance with Government (10 years) and ADB established requirements that allow authorized users easy access, including government and independent external auditors	
4.7 Describe any previous audit findings that have not been addressed.	None	
Segregation of Duties		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
Budgeting System		
4.10 Do budgets include physical and financial targets?	No – unclear interlinks between budget and actual deliverable targets	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes – see RRP, PAM & supporting documents	
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Budget comparisons will be done monthly. Explanations will be required for significant variations against the budget	Better contract variation to monitor overall budget versus actual expenditures and deliverables
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Approvals are required in advance	

Topic	Response	Potential Risk Event
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	None	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Budget is consolidated by PMU finance based on budget details prepared by units responsible of the different components; budget is approved by DOPC Director and monitored by PMU finance	
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Units responsible of the different components submit budget details based on planned project activities for consolidation by PMU finance and approval by DOPC Director	
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes, based on consultants' estimates, vetted by project implementation consultants and approved by steering committees and ADB</p> <p>Yes, slow replenishment, limited 10% of loan and grant amount to be spent by the accounts. This can be improved since the 10% requirement has been amended.</p> <p>None – Government properly provided its kind contribution like office spaces, staff time and salary</p> <p>No consistent trend of over or under budgeting</p>	Lack awareness to ensure proper ceiling in advance- and sub-accounts are maintained
Payments		
4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated	Yes, these tasks are carried out both for government and externally funded projects	

Topic	Response	Potential Risk Event
on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?		
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes, these tasks are carried out both for government and externally funded projects	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes, controls exist for payroll preparation and payroll changes are properly authorized	
Policies And Procedures		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Entity uses cash basis of accounting and the project will use accrual accounting	Unclear how cash – and accrual basis are used in the project
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	Entity follows MOF national accounting standards while project will follow International Financial Reporting Standards, equivalent to international standards	Unclear how the International Financial Reporting Standards, equivalent to international standards is used by the Project
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes, established MOF guidelines and procedures and ADB Project Administration Manual and Loan Disbursement Handbook	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes	
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide	Yes, based on government policy and donor guidelines	

Topic	Response	Potential Risk Event
safeguards to protect the organization from them?		
4.28 Are manuals distributed to appropriate personnel?	Yes	
4.29 Describe how compliance with policies and procedures are verified and monitored.	Through internal regular monitoring, internal and external audit	
Cash and Bank		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Payments are approved by DOPC; authorized signatories' PMU Director and DOPC Deputy Director	
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	ADB transfers funds to an advance account at MOF, then to a sub-account in PMU; controls exist in accordance with MOF guidelines and procedures and ADB guidelines	
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Bank account is reconciled on a monthly basis	
4.34 Are all reconciling items approved and recorded?	Yes	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.36 Are there any persistent/non-moving reconciling items?	None	
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	None	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and	Not applicable	

Topic	Response	Potential Risk Event
passwords? Describe the security rules on password and access controls.		
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Assets are appropriately labeled and recorded; Fixed Asset Register is maintained and updated regularly; regular physical counts are conducted and reconciled with registers; only authorized personnel are allowed access and use of the assets	
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes	
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Yes	
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	MOF regulations and procedures are followed on asset disposal, approval, recording, repair of broken assets, etc.	
4.46 Are assets sufficiently covered by insurance policies?	Vehicles and equipment are covered during implementation according to donor stipulations; civil works and equipment are covered by contractors during construction; once assets are transferred as public assets, government accepts the risk and acts as its own insurer	
4.47 Describe the policies and procedures in identifying and	MOF regulations and procedures are followed in identifying and	

Topic	Response	Potential Risk Event
maintaining fully depreciated assets from active assets.	maintaining fully depreciated assets from active assets	
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	PMU is under DOPC, and 4 CIUs under MAF, MOH, and MOES	
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	PMU Chief Accountants and other financial staff handle central level accounting and overall project consolidation; and at least a financial officer in each CIU support the implementation	
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Yes	
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	Yes	
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Yes, PMU handles periodic reconciliation and consolidation. PMU handles consolidated project reporting and audit arrangements	
4.53 If any sub-accounts (under the Advance Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	Advance Account is established under MOF; and PMU has a sub-account. Both have the capacity to handle the advance account and the sub-account	
Contract Management and Accounting		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with	Yes	

Topic	Response	Potential Risk Event
physical outputs/deliverables of the contract?		
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
Other		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	ADB requirements on corruption, fraud and the mechanisms for lodging complaints have been applied. In the ongoing project, the project management has advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources	
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	Yes, a department under MAF will monitor fund flow for all ODA projects	Weak interlinks between internal and external audit
5.2 What are the qualifications and experience of the IA staff?	Bachelor's degree diploma; no one is a certified public accountant	
5.3 To whom does the head of the internal audit report?	Director-General of the Planning Department	Unclear coordination between Planning & Internal Audit Department in monitoring project planning and progress
5.4 Will the internal audit department include the project in its annual work program?	Unclear	
5.5 Are actions taken on the internal audit findings?	Yes	
5.6 What is the scope of the internal audit program? How was it developed?	Compliance with government regulations; audit program is based on resources availability	
5.7 Is the IA department independent?	No – responsible to the related ministries	
5.8 Do they perform pre-audit of transactions?	No	
5.9 Who approves the internal audit program?	Related Director-General & minister	
5.10 What standards guide the internal audit program?	MOF and SAO standards	
5.11 How are audit deficiencies tracked?	Follow-ups	
5.12 How long have the internal audit staff members been with the organization?	Recently	
5.13 Does any of the internal audit staff have an IT background?	No; just basic computer skills	
5.14 How frequently does the internal auditor meet with the audit	Never	

<i>Topic</i>	<i>Response</i>	<i>Potential Risk Event</i>
committee without the presence of management?		
5.15 Has the internal auditor identified / reported any issue regarding availability and completeness of records?	No	
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Unclear	
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, annually by SAO	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No, audit report is normally issued by SAO within 3 months after submitting complete financial report by the EA	Potential incomplete and poor APFSs
6.3 Is the audit of the entity conducted in accordance with the ISA, or the ISSAI, or national auditing standards?	Based on generally accepted auditing standards and the SAO decree and regulations	SAO has not fully complied with ISSAI
6.4 Were there any major accountability issues noted in the audit report for the past three years?	Some, including delays in replenishments and incomplete unaudited and audited APFSs, and less satisfactory quality	Incomplete, delays and poor quality APFSs
6.5 Does the external auditor meet with the audit committee without the presence of management?	No	
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No, since all external financial audit is conducted by SAO	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	Non-significant issues such as not proper presentation, and excluded a comparison for the overall budget and expenditure	
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes, however, further improvements are required in the timing and quality of the audit reports	Lack of capacity of the external auditor to submit the audit report on time, complete and good quality

Topic	Response	Potential Risk Event
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No	
External Audit – project level		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes, the same - SAO will audit the project accounts (financial statements)	
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	Yes, such as delays in replenishments of advance and sub-accounts (grant and loan of the existing project) – have been addressed	delays in replenishments of advance and sub-accounts
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. SAI) in addition to the external audit?	No since SAO as the external auditor, is a SAI for the government entities on regular basis	
6.13 Has the project prepared acceptable TOR for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes, as in Annex 2	Auditor TOR has not been discussed with SAO
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	Some issues in records completeness such as incomplete records between overall budget and expenditures	
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes, SAO has been trained in auditing ADB funded projects including from the ongoing TA 8824-REG	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Some auditor findings and recommendations are not properly followed up	Inadequate monitoring on audit findings and follow up actions
6.17 [For second or subsequent projects] Were past audit reports complete, and did they fully address the obligations under the loan and/or grant agreements? Were there any material issues noted during the review of the audited APFSs and related audit report that have remained unaddressed?	This assessment for the additional financing Some past audit reports were incomplete, and not fully addressed the obligations under the grant agreements. There were some material issues noted during the review of the APFSs and related audit report that have remained unaddressed – such as to increase	Very low ceiling in advance-account and sub-account

<i>Topic</i>	<i>Response</i>	<i>Potential Risk Event</i>
	ceiling in advance-accounts and sub-account	
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the entity?	For the Project, no, entity financial statement is required since the project is non-revenue earning	None
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Not necessary and not required for the Project	None
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion to be useful to management for decision making?	Monthly and quarterly reports are prepared timely for use by management. Further improvements are required on the content of the project progress (physical and financial) reports	improvements are required on the content of the project progress (physical and financial) reports
7.4 Does the entity reporting system need to be adapted for project reporting?	Monthly and quarterly reporting will be adopted for the project – not entity, project only	NA
7.5 Has the project established FM reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes, these will be contained in the PAM in compliance with ADB reporting requirements	Improvements on the types, the content, and purpose of the reports
7.6 Are FM reports used by management?	Yes, but no proper monitoring	Inadequate monitoring the project progress
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes on annual basis, but no consolidated financial reports	Improvements on project financial reports
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Excel spreadsheets	Inadequate interlinks between budget and actual expenditures
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	No. Physical data should be month end data to reduce risk that the physical data may not synchronize with the financial data	Inadequate interlinks between physical and financial progress
7.10 Does the entity have experience in implementing projects of any	Yes, significant number	Potential high turnover of staff and consultants

<i>Topic</i>	<i>Response</i>	<i>Potential Risk Event</i>
other donors, co-financiers, or development partners?		
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	Yes, through excel	
8.2 If computerized, is the software off-the-shelf, or customized?	Customized	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Standalone, improvement is required to interlink progress by component and expenditures	Inadequate interlinks between project component and expenditures
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Manual entry – no direct interlinks between the project financial data and the entity financial data	Improve interlinks between the project financial data and the entity financial data
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Use of Excel	
8.6 Can the system automatically produce the necessary project financial reports?	No. Project accounting is a separate Excel-based system	Unavailable system to automatically produce the necessary project financial reports
8.7 Is the staff adequately trained to maintain the computerized system?	Yes	
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	
8.9 Are there back-up procedures in place?	Yes	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Offsite storage	

ADB = Asian Development Bank., PFSS = annual project financial statements; CIU = component implementation unit, LDH = loan Disbursement Handbook, MAF = Ministry of Agriculture and Forestry; MOF = Ministry of Finance, NA = National Assembly DOPC = Department of Planning and Cooperation; ISA = International Standards on Auditing, ISSAI = International Standards for Supreme Audit Institutions PMU = Project Management Unit; PPO = Provincial Project Office; DOF = Department of Finance; SAI = supreme audit institution, SAO = State Audit Organization; TOR = terms of reference SOE = statement of expenditure,

Key Persons involved in Implementation

<p>Executing Agency</p> <p>MAF</p> <p>PMU (Project Coordinator)</p>	<p>Dr. Phouangparisak Pravongviengkham Vice-Minister, MAF Telephone: +856 020 55514042 Email address: pppravongviengkham@yahoo.com</p> <p>Dr. Somphanh Chanphengxay Director General Department of Livestock and Fisheries Telephone: 020-55685248 Email: somphanc@gmail.com</p> <p>Ms. Kinnaly Phommasack Deputy Director Economic Integration Division Department of Planning and Cooperation Telephone: 020-99960545 Email: Kinnaly.sps@gmail.com</p>
<p>Implementing Agencies (Component Implementation Units or CIUs)</p> <p>Department of Agriculture (MAF)</p> <p>Department of Livestock and Fisheries (MAF)</p> <p>Food & Drugs Department (MOH)</p> <p>Faculty of Agriculture (National University of Laos, MOE)</p>	<p>CIU Coordinator</p> <p>Mr. Chantha Thippavongphanh Deputy Director General Department of Agriculture Telephone: 021412350 Email address: doag@laotel.com</p> <p>Dr.Sithong Phiphakhavong Deputy Director General Department of Livestock and Fisheries Telephone: 020-55306356 Email: sithongp@yahoo.com</p> <p>Dr Somthavy Changvisommid Director General Food and Drugs Department (MOH) Telephone: 021951096 Email address: drug@laotel.com</p> <p>Asst.Prof.Dr. Silinthone Sacklokham Vice Dean Faculty of Agriculture Telephone: 021870048 email address: silinthone20@hotmail.com</p>

POSITION	SCOPE OF WORK
Project Coordinator (Coordinating Director) (36 pm)	<ul style="list-style-type: none"> • Manages the implementation of the Project. • Supervises all contracts, including the team of international and domestic consultants. • Provides overall guidance and advice on the Project's SPS capacity building activities. • Directs and manages the PMU. • Oversees bid evaluation and approvals, and contract management and administration. • Liaises with agencies involved in Project implementation on high level coordination issues. • Reports on all Project activities to the PSC. • Communicates with ADB and GOL on Project implementation. • Reviews and monitors implementation progress. • Oversees training of PMU staff. • Acts as Secretary to the PSC. • Oversight of all finance, accounting, procurement and management activities. • Manages PMU and PMU consultants' day-to-day activities. • Liaises with implementing agencies on daily coordination issues. • Coordinates with component coordinators. • Prepares progress, monitoring and evaluation reports. • Reports on Project activities to the Project Steering Committee
Component coordinator (36 pm)	<ul style="list-style-type: none"> • Manages implementation of the Project component. • For Project administration matters reports to Project Coordinator (director) and DG (or DDG as decided) of the component. • Leads work for annual, six-monthly and other periodic plans (as required) for the CIU, in close cooperation with the PMU. • Prepares release of funds from component project account for payments of costs of activities in approved plans. • Ensures financial reporting by the parent department accounting staff and that records of payments are kept. • Participates together with Departmental specialists in preparation of TORs, tender documents, selection of consultants and evaluation of biddings. • Leads work for monitoring and evaluation. • Assists staff charged with the implementation of project activities with organization of workshops and logistics. • Coordinates the use of Project component vehicles • Manages CIU and oversees consultants' activities.

(Entity name: _____)²³

**AUDITED PROJECT FINANCIAL STATEMENTS (APFS)
STATEMENT OF AUDIT NEEDS (AUDITOR'S TERMS OF REFERENCE)**

I. Introduction:

1. A description of the project will be provided with a focus on: (i) the purpose for which the funds are intended, which is consistent with broad project objectives and budget, (ii) a description of the executing and implementing agencies, (iii) loan amount and project cost (by ADB, cofinancier(s), and government counterpart), (iv) accounting and financial management practices, financial reporting periods to be audited (indicate whether it is the first audit or last audit), and (v) other relevant information that should be brought to the attention of the auditors.

II. Management responsibility for preparing project financial statements:

2. The Management is responsible for preparing and fairly presenting the project financial statements, and for maintaining sufficient internal controls to ensure that the financial statements are free from material misstatement, whether due to fraud or error. In addition, management is responsible for ensuring that funds were used only for the purpose(s) of the project, for compliance with financial covenants (where applicable), and for ensuring that effective internal controls, including over the procurement process, are maintained.

In this regard, management must:

- (i) Prepare and sign the Project Financial Statements. (Annex 1)
- (ii) Prepare and sign a Statement of Compliance. (Annex 2)

III. Objectives:

3. The objectives of the audit of the project financial statements is to enable the auditor to (i) express an independent and objective opinion as to whether the project financial statements present fairly, in all material respects, or give a true and fair view of the project's financial position, its financial performance and cash flows, and (ii) provide a reasonable assurance opinion over certain specific representations made in the Statement of Compliance. (Please refer to Paragraph 9).

IV. Auditing Standards:

4. The audit is required to be conducted in accordance with the International Standards on Auditing promulgated by the International Auditing and Assurance Standards Board (IAASB), (ii) with the International Standards of Supreme Audit Institutions (ISSAI) promulgated by the International Organization of Supreme Audit Institutions (INTOSAI), or (iii) the Lao Auditing Standards.

5. These standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the project financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the project financial statements whether due to fraud or error. In making those

²³ To be further confirmed to SAO through LRM.

risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the project financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the project financial statements. The auditor also note the impact on APFS arising from any material deviations from the international accounting standards and comment on any accounting policy changes during a financial year or from one year to another.

6. In complying with ISSAI, the auditor will pay particular attention to the following standards:

- (i) ISA 800/ISSAI 1800: Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks. Where the audit report has been issued under ISA 800/ISSAI 1800, it shall include the mandatory Emphasis of Matter paragraph alerting users of the audit report that the project financial statements are prepared in accordance with a special purpose framework and that, as a result, the project financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.
- (ii) ISA 240/ISSAI 1240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- (iii) ISA 250/ISSAI 1250: Consideration of Laws and Regulations in an Audit of Financial Statements.
- (iv) ISA 260/ISSAI 1260: Communication With Those Charged with Governance.
- (v) ISA 265/ISSAI 1265: Communicating Deficiencies in Internal Control To Those Charged with Governance and Management.
- (vi) ISA 330/ISSAI 1330: The Auditor's Responses to Assessed Risks.

V. Audit Deliverables:

A. Audited Project Financial Statements:

7. The auditor must verify that the project financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), International Public Sector Accounting Standards (IPSAS) promulgated by the International Public Sector Accounting Standards Board (IPSASB) or Lao Accounting Standards.

8. An auditor's opinion as to whether the project financial statements present fairly, in all material respects, or give a true and fair view of the project's or entity's financial position and financial performance. (See Annex 1 for requirement of annual financial statements).

B. Reasonable Assurance Opinion over the Use of Loan Proceeds and Compliance with Financial covenants.

9. The auditor will provide a reasonable assurance opinion following ISAE 3000 "*Assurance Engagements other than Audits or Reviews of Historical Financial Information*" or ISSAI 4200 "*Compliance Audit Related to the Audit of Financial Statements*" for the following confirmations provided by Management in the Statement of Compliance:

- (i) That the proceeds of the loan were used only for the purpose(s) of the project; and

- (ii) That the borrower or executing/implementing agency was in compliance with the financial covenants of the legal agreement(s), where applicable.

10. The auditor needs to outline the degree of compliance for each of the financial covenants in the loan agreement.

11. Where reasonable assurance has been provided using ISAE 3000 or ISSAI 4200 (on the use of loan proceeds and compliance with financial covenants), the assurance report must contain, among others:

- (i) A statement that the engagement was performed in accordance with ISAE 3000 or ISSAI 4200;
- (ii) Subject matter;
- (iii) Criteria for measurement;
- (iv) A summary of the work performed; and
- (v) The auditor's conclusion.

C. Management Letter (Annex 3).

D. Specific Considerations in Audit Deliverables:

12. The auditor will, during the course of the audit, pay particular attention to the following:

- (i) The use of external funds in accordance with the relevant legal and financing agreements;
- (ii) The provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- (iii) The maintenance of proper books and records;
- (iv) The existence of project fixed assets and internal control related thereto;
- (v) On the advance fund procedure (where applicable), audit procedures are planned and performed to ensure (a) the advance account (and any sub-accounts) has been managed in accordance with ADB's *Loan Disbursement Handbook*, (b) the cash balance of the advance account (and any sub-accounts) is supported by evidence, (c) the expenditures paid from the advance account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in the loan agreement, and (d) the amount of expenditures paid from the advance account (and any sub-accounts) comply with disbursement percentage stipulated in the loan agreement;
- (vi) On the SOE procedure (where applicable), audit procedures are planned and performed to ensure that (a) the SOEs have been prepared in accordance with ADB's *Loan Disbursement Handbook*, (b) the individual payments for expenditures stated in the SOE are supported by evidence, (c) the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in loan agreement, (d) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan agreement, (e) adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account;

- (vii) Any weakness in internal controls. Review and evaluate the system of internal controls in effect, including internal audit procedures, to determine the degree of reliance that may be placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the accuracy of the accounting records

13. All reports must be presented in the English language within 6 months following the end of the fiscal year.

14. Public disclosure of the project financial statements, including the auditor's opinion on the audited project financial statements, will be guided by ADB's Public Communications Policy (2011). After review, ADB will disclose the audited project financial statements and the opinion of the auditor on the audited project financial statements no later than 14 calendar days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter and the additional auditor's opinions will not be disclosed.

VI. Other Matters:

15. Statement of Access

- (i) The auditor will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices and any other information associated with the project and deemed necessary by the auditor.
- (ii) The auditor will be provided with full cooperation by all employees of the entity and the project implementing units, whose activities involve, or might be reflected in, the annual project financial statements. The auditor will be assured rights of access to banks and depositories, consultants, contractors, and other person or firms hired by the employer.
- (iii) ADB can request access to the auditors unedited audit working papers.

Form of Annual Project Financial Statements:

1. The project financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS) on Cash Basis, or Lao PDR Accounting Standards.
2. The project financial statements will include, but not limited to:

Table 1: Content of the Project Financial Statements

For Cash-Based Financial Statements	For Accrual-Based Financial Statements
A statement of cash receipts and payments	A statement of financial position (balance sheet)
A statement of budgeted versus actual expenditures	A statement of financial performance (income statement)
A statement of advance account (where applicable)	A statement of cash flows
A summary statement of expenditures (where applicable)	A statement of changes in net assets/equity (where applicable)
A Statement of Withdrawal Applications by specific reference number and amount by expenditure (where applicable)	A statement of advance account (where applicable)
Significant accounting policies and explanatory notes	Significant accounting policies and explanatory notes
Any additional schedules agreed (e.g., a summary of assets, or a reconciliation of the amounts shown as "received by the project from the ADB" with those shown as being disbursed by ADB,)	Statement of budgeted versus actual expenditures
	Summary statement of expenditures (where applicable)
	A Statement of Withdrawal Applications by specific reference number and amount by expenditure (where applicable)
	Any additional schedules agreed

3. Specific considerations:
 - a. Annual project financial statements should normally be presented in the local currency, with the **basis for conversion of any foreign exchange transactions or commitments explicitly stated.**
 - b. The project expenditures should be presented following the expenditure categories contained in the legal agreement and/or the PAM, and revisions thereto.
 - c. The annual project financial statements should include comparative figures for the preceding reporting year and cumulative figures from the loan effectiveness date to the end of the current reporting year. For projects that receive funding from other sources, the annual project financial statements should include all sources of funds (both ADB-provided and otherwise).

- d. A Statement of Advance account: showing movement and reconciliation with the bank statements. The Auditor is also required to audit the activities of the Advance Accounts/Sub Accounts associated with the Project that usually comprise of:
 - (i) Deposits and replenishments received from ADB;
 - (ii) Payments substantiated by withdrawal applications;
 - (iii) Interest that may be earned from the balances and which belong to the Borrower
 - (iv) The remaining balances at the end of each fiscal year.
- e. The accompanying Notes to Financial Statements should provide sufficient explanation and information on the financials in narrative form or appropriate supporting schedules, including description of key financial reporting policies, and the adopted accounting standard.

Statement of Compliance

Management must prepare and sign a Statement of Compliance, which includes the following:

- (i) That project financial statements are free from material misstatements including omissions and errors, and are fairly presented;
- (ii) That the borrower or executing agency has utilized the proceeds of the loan only for the purpose(s) of the project;
- (iii) That the borrower or executing agency was in compliance with the financial covenants of the legal agreement(s) (where applicable);
- (iv) That the borrower or executing agency/implementing agency was in compliance with relevant laws and regulation. (However, in case there are conflicts between ADB policies and procedures with Borrower's relevant laws, ADB policies and procedures will prevail).
- (v) That the advance fund procedure, where applicable, has been operated in accordance with the Asian Development Bank's (ADB) Loan Disbursement Handbook;
- (vi) That adequate supporting documentation has been maintained to authenticate claims stated on the statement of expenditures (SOE), where applicable, for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account; and
- (vii) That effective internal control, including over the procurement process, was maintained.

Annex 3**Management Letter**

The auditor will provide a management letter containing, at a minimum, the following:

1. Any weaknesses in the accounting and internal control systems that were identified during the audit, including any irregularity in the use of the advance fund and statement of expenditures (SOE) procedures (where applicable);
2. Any identified internal control weaknesses related to the procurement process such as, over the bidding, evaluation and contract management domains;
3. Recommendations to rectify identified weaknesses;
4. Management's comments on the audit recommendations along with the timeframe for implementation;
5. The status of significant matters raised in previous management letters;
6. Any other matters that the auditor considers should be brought to the attention of the project's management; and
7. Details of any ineligible expenditure identified during the audit. Expenditure is considered ineligible if it refers to (i) expenditures incurred for purposes other than the ones intended under the legal agreement(s); (ii) expenditures not allowed under the terms of the legal/financing agreements; and (iii) expenditures incurred in violation of applicable government regulations.

Note: If the auditor reports any ineligible expenditure in the management letter, the details of the findings should include the funding source to which the observation relates.