

## FINANCIAL MANAGEMENT ASSESSMENT

### A. SUMMARY

1. The financial management assessment (FMA) was carried out for the project in accordance with the Asian Development Bank (ADB) Guidelines for the Financial Management and Analysis of Projects and the Financial Due Diligence: A Methodology Note.<sup>1</sup> The FMA considered the capacity of the China Railway Corporation (CRC) and the Chengdu–Kunming Railway Company Limited (CKRC) including funds-flow arrangement, staffing, accounting and financial reporting systems, financial information systems, policies and procedures, and internal and external auditing. CRC has rich experience in managing foreign-funded projects including ADB projects, thus FMA was conducted with focus on CKRC. The assessment was based on (i) relevant information and documents submitted by CKRC including their audited financial statements for recent years; (ii) their responses to the FMA questionnaire; and (iii) information collection from interviews with key financial staff. CRC is the executing agency, while CKRC is the implementing agency (IA) of the proposed Multimodal Passenger Hub and Railway Maintenance Project (the project).

2. The assessment showed that financial management systems and procedures at CRC and CKRC are in place to perform proper financial management and reporting. Both CRC and CKRC's accounting procedures are aligned with the regulations and policies issued by the Ministry of Finance (MOF), which are considered effective and adequate for the project. The CRC have extensive project experience with international financial institutions such as the World Bank, Asian Development Bank (ADB), and other bilateral financial institutions. ADB has financed 20 rail projects for a total of nearly 6,000 kilometers (km). CRC's experience in railway projects funded by international financial institutions will be transferred to the CKRC to mitigate the risk of CKRC's unfamiliarity with ADB's guidelines and procedures on procurement and disbursement. The financial management capacities of CRC and CKRC are summarized in Table 1.

3. The overall financial management risk-rating of the project before considering mitigating measures is moderate. The moderate rating is based on the potential risk of lack of familiarity with ADB disbursement procedures and requirements on financial reporting and auditing; and delays in provision of or inadequate counterpart funding.

4. The FMA recommended that the executing and implementing agencies would strengthen their financial management capability by (i) undertaking training, particularly on ADB policy and procedural requirements on financial management, disbursement, and procurement; (ii) closely monitoring to timely identify potential issues in counterpart funding; and (iii) strengthening internal auditing function in the CKRC.

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<sup>1</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila.; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

**Table 1: Summary of Financial Management Capacity, Internal Control and Risk Assessment**

<b>Risks</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Risk Mitigation Measures</b>
<b>Inherent Risk Assessment</b>			
1. Entity specific risk	M	Financial management and internal control in place, but there may be a delay in withdrawal application for the ADB loan.	The EA to provide assurance that necessary control will be in place and ensure proper coordination mechanism to enhance processing of ADB's disbursement
<b>Control Risk Assessment</b>			
1. Implementing Agency	M	IA's have limited familiarity and experience with ADB loan administration procedures.	Training and assistance from the EA and ADB will be provided.
2. Accounting Policies and Procedures	L	IA's lack of familiarity with the accounting and reporting requirements for ADB project, which may derail identification of issues on the use of loan proceeds	CRC and CKRC have adopted new Accounting Standards for Business Enterprises approved by the Ministry of Finance since 2007, which is consistent with international accounting standards on a project accounting level. CRC will provide guidance with CKRC covering ADB requirements.
3. Funds Flow including disbursement arrangements, use of Advance Account, & Direct Payment arrangements	L	The IA's lack of familiarity with ADB's disbursement requirements and procedures	CRC has implemented a number of ADB Projects. Past experience has indicated that CRC has sufficient experience and capacity to handle withdrawal applications and manage advance account.  Capacity training on ADB requirements and procedures of disbursement will be provided to ensure all related staff at CKRC can understand ADB's procedures and standards in advance.
4. Staffing	L	Staff are in place and are adequately qualified but may need additional training to familiarize with ADB guidelines and policies.	Training will be provided by the EA and ADB.
5. Internal Audit	M	CKRC has no internal audit	CRC's internal audit function will cover CKRC's operation.
6. External Audit	L	Due to the large number of ADB and World Bank projects to be audited, insufficient auditors may delay the issuance of auditors' reports.	Suggest hiring more CPAs to assist China National Audit Office in their annual audit on the project accounts
7. Reporting and Monitoring	L		The current routine practice of reporting and monitoring at CKRC and CRC is adequate for the monitoring purposes of the project. CKRC will prepare project financial statements in accordance with Accounting Methods mandated by the Ministry of Finance. These financial statements will be submitted to CRC for review and confirmation. The audited entity financial statements of CKRC will be submitted to ADB during implementation to supplement the audited project financial statements.

<b>Risks</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Risk Mitigation Measures</b>
8. Information Systems	L		CRC and CKRC use computerized accounting systems which produce financial statements automatically.
<b>Overall Control Risk (before mitigation action)</b>	M		Implementing the mitigation actions mentioned above will reduce the control risks from moderate to low.

ADB = Asian Development Bank, CKRC = Chengdu–Kunming Railway Co., Ltd., CRC = China Railway Corporation, H = High, L = Low, M = Moderate, PRC = People's Republic of China.

Source: Asian Development Bank.

## **B. EXECUTING AGENCY AND IMPLEMENTING AGENCY**

CRC is the executing agency of the project. The IA will be the Chengdu–Kunming Railway Co. Ltd. (CKRC). CKRC is a joint venture among China Railway Chengdu Bureau Group Co., Ltd. (38.21%), China Railway Development Funds Co., Ltd. (32.26%), and Sichuan Railway Industrial Investment Group Co., Ltd. (29.53%). The CRC and the CKRC have the responsibility in the planning, implementation, financing, and operation of the project after its completion. The organization structure of CRC and CKRC are presented in the Figures 2 to 4.

## **C. CORPORATE PLANNING AND BUDGETARY CONTROL**

5. The CRC's planning framework covers long-term, medium-term and short-term planning, which comprise the primary elements in financial management. Long term planning is guided by the Railway Network Development Plan for 2020, which is recently updated and replaced by the new Long-term Railway Development Plan, 2016–2030. Medium term planning is guided by the Five-Year Railway Development plans that are coterminous with the Government's Five-Year Plans. Short term planning is based on the annual development plans that provide for budgetary appropriations and outlays. The project meets the objectives of the Thirteenth Five-Year Plan and the Railway Network Development Plan for 2020 consistent with the Government's Western Regional Development Strategy.

6. The CRC has successfully implemented a large number of projects financed by ADB, other lenders, and the PRC Government. The CRC is familiar with the requirements of planning and budgetary control. It has separate departments that perform these functions. Given the generally satisfactory environment for planning and budgetary control, the executing agency will likely be able to perform expected responsibilities with due diligence and in a satisfactory manner during project implementation.

## **D. INTERNAL CONTROL AND INTERNAL AUDIT SYSTEM**

7. The CRC has a strong organization for internal control of all expenditures and financing commitments. CRC's audit offices have permanent auditors and part-time auditors working in 157 audit units at various levels of CRC. CRC has built up a sophisticated internal audit system which runs effectively. There are broad internal auditing categories: financial audit, purchase audit, investment audit, engineering audit, comprehensive management audit, economic responsibility audit and risk management audit. Internal audit offices exist at the CRC headquarters and Railway Bureaus in parallel with the accounting departments. The internal audit staff usually has accounting background and is required to obtain an internal auditor certificate through training. CRC's internal audit function will cover CKRC's operation as well. Separating the accounting and internal auditing functions at CKRC will be further pursued.

## **E. FUNDS FLOW MECHANISM**

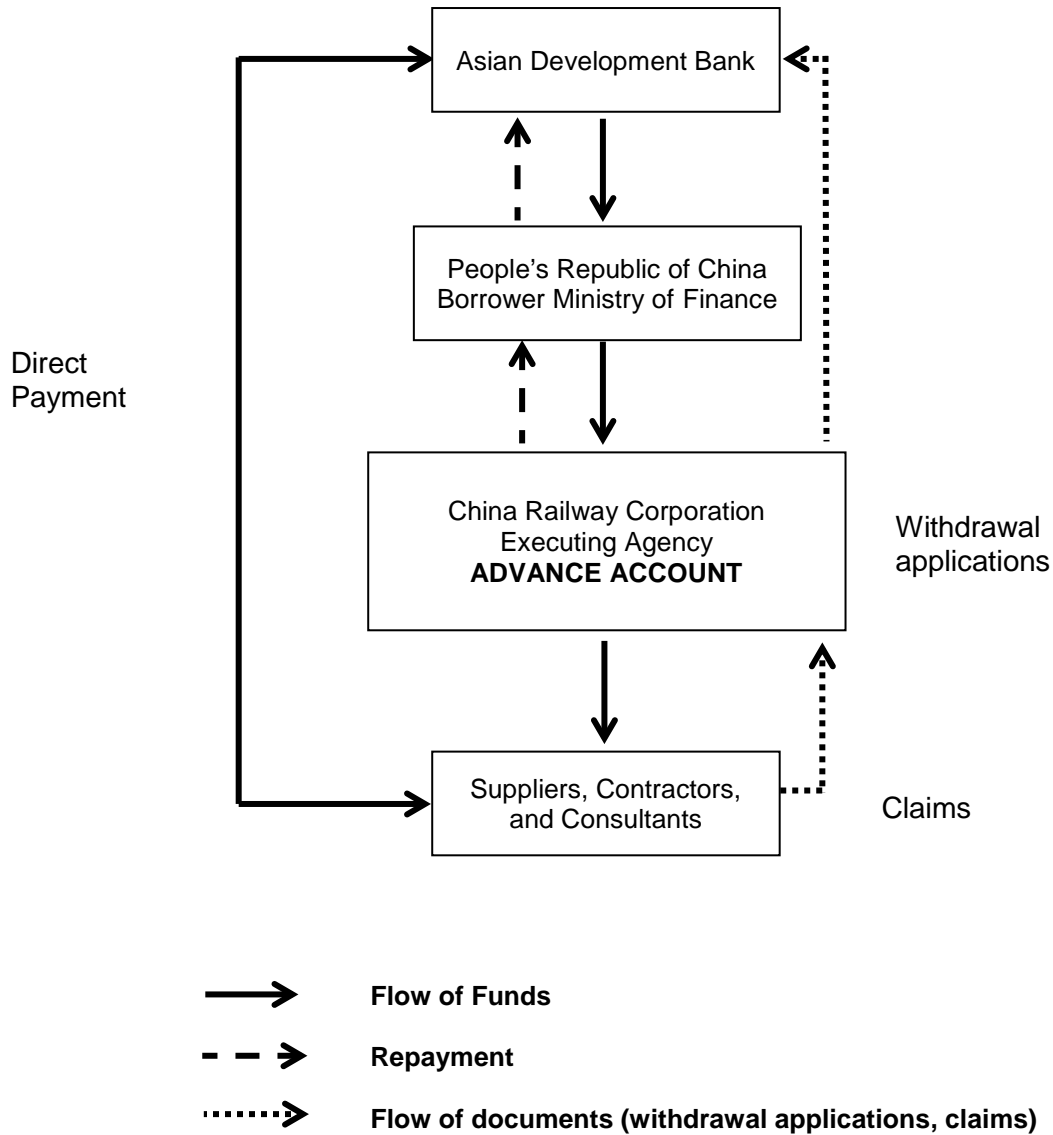
8. CRC will operate and administer an advance account for the project. The advance account will be used exclusively for ADB's share of eligible expenditures, and will be established, managed, and liquidated in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time), and detailed arrangements agreed between the Government and ADB.

9. CRC will maintain accounts for the project where ADB loan and counterpart funds will be channeled. CKRC will prepare withdrawal applications which will be reviewed and confirmed by CRC before submission to ADB. The project may also use direct payment procedures. Under the

direct payment procedure, ADB loan proceeds will be directly credited to a nominated bank account of a supplier. All claims shall be processed and consolidated by CRC prior to submission of withdrawal application to ensure efficient disbursement administration. All withdrawal applications are reviewed and signed by an authorized officer. Proper records and books are maintained for audit and verification.

10. The proposed on-lending and funds flow arrangement is shown in a fund flow chart in Figure 1.

**Figure 1: Funds Flow Diagram**



## **F. ACCOUNTING POLICIES AND FINANCIAL REPORTING**

11. To ensure accountability for project implementation funds, CRC has an adequate accounting and internal control system for recording and reporting project-related financial transactions. Financial reporting in terms of punctuality of submission and report quality has been satisfactory in most of previous railway projects. CRC manages a large foreign-funded project portfolio and has adequate capacity and capabilities to generate the reports satisfying international lenders.

12. CKRC has implemented various rules and regulations on accounting and financial management. It covers establishment of accounts, accounting procedures, financial statement preparation, fixed assets management, investment project evaluation, financial risk management, cash management and control, cash disbursement approval, significant economic incident reporting, financial settlement and reporting for projects, financial guarantee management, travel expenditure management, internal auditing structure and procedures, etc.

13. The CKRC will adopt Accounting Methods mandated by the MOF to set up the project accounts and records by funding source for all expenditures incurred on the project. Subsidiary ledgers will also be maintained to facilitate reconciliation of accounts with the general ledger and bank records. All reports and supporting documents on all transactions will be stored and retained on a semi-permanent basis and will be accessible by authorized users and are available for audit and inspection. CKRC will prepare the project financial statements.

14. The CKRC has established clear segregation of duties with respect to review and approval of payments. Processing of the project payment invoices involves comparison of quantities, prices and terms in purchase orders/contracts and those reported in the receipts. Controls are in place for the preparation of payroll while changes to the payroll are approved by the relevant Department. All fund payments are made by using bank cheques or bank transfers. All funds received for the project will be deposited to the advance accounts. A cashbook is maintained for small petty cash payments and bank reconciliation is undertaken at the end of each month.

15. Capacity training on ADB requirements and procedures of disbursement and procurement will be provided to ensure all related staff at CKRC can understand ADB's procedures and standards in advance.

## **G. SAFEGUARD OF ASSETS**

16. CKRC's records of fixed assets and stocks are kept up-to-date and reconciled with control accounts periodically. CKRC conducts annual physical inventory of all assets. During the construction insurances are the responsibility of contractors and cover worker compensation for losses due to accidents apart from compensation for property.

## **H. EXTERNAL AUDIT**

17. An external audit firm is hired for the annual auditing of CKRC's entity financial statements. No significant error, inconsistency or unsolved issue has been found in the audit reports of the CKRC in the past five years.

18. The CRC through the CKRC will cause the project financial statements to be audited in accordance with International Standards on Auditing and with the Government's audit regulations, by an independent auditor acceptable to ADB. The China National Audit Office (CNAO) has been

undertaking audit on previous ADB-financed projects of CRC. These audit reports have been submitted to ADB timely and in good quality. Similar practices will be followed for this project.

## **I. REPORTING AND MONITORING**

19. The project financial reports will be prepared by using automated accounting software systems and are submitted on a monthly, quarterly and annual basis. The reports will highlight the physical and financial progress of the project. The CKRC will prepare and submit to ADB during implementation including: (i) annual audited project financial statements six months after the end of fiscal year; (ii) annual audited entity financial statements of CKRC; (iii) semiannual progress reports during project implementation; and (iv) a project completion report 6 months after completion of the project.

## **J. INFORMATION SYSTEMS**

20. A computerized accounting system developed by CRC has been installed in the CKRC. The accounting records and payment processes in all departments are monitored by the finance department of the CKRC through the network in a real time manner. The accounting staff has been trained to use and maintain the data in the system. The CKRC submits monthly and yearly financial statements (i.e., balance sheet, income statement, cash flow statement and project-specific reports). The financial reports in accordance with PRC requirements are generated by the computer system rather than manually. The financial data and the operational information have not been inter-connected in the system, and reconciliations are realized by regular manual checks.

21. Existing automated accounting software system of CKRC is capable of generating the project reports required for both external and internal use. In addition, all relevant staff have been trained and are familiar with the systems, although supplementary training in reporting requirements for the ADB financed project will be needed and provided. Regular back-ups of all accounting systems and appropriate security measures over backed-up data are in place.

## **K. CONCLUSION AND PROPOSED ACTION PLAN**

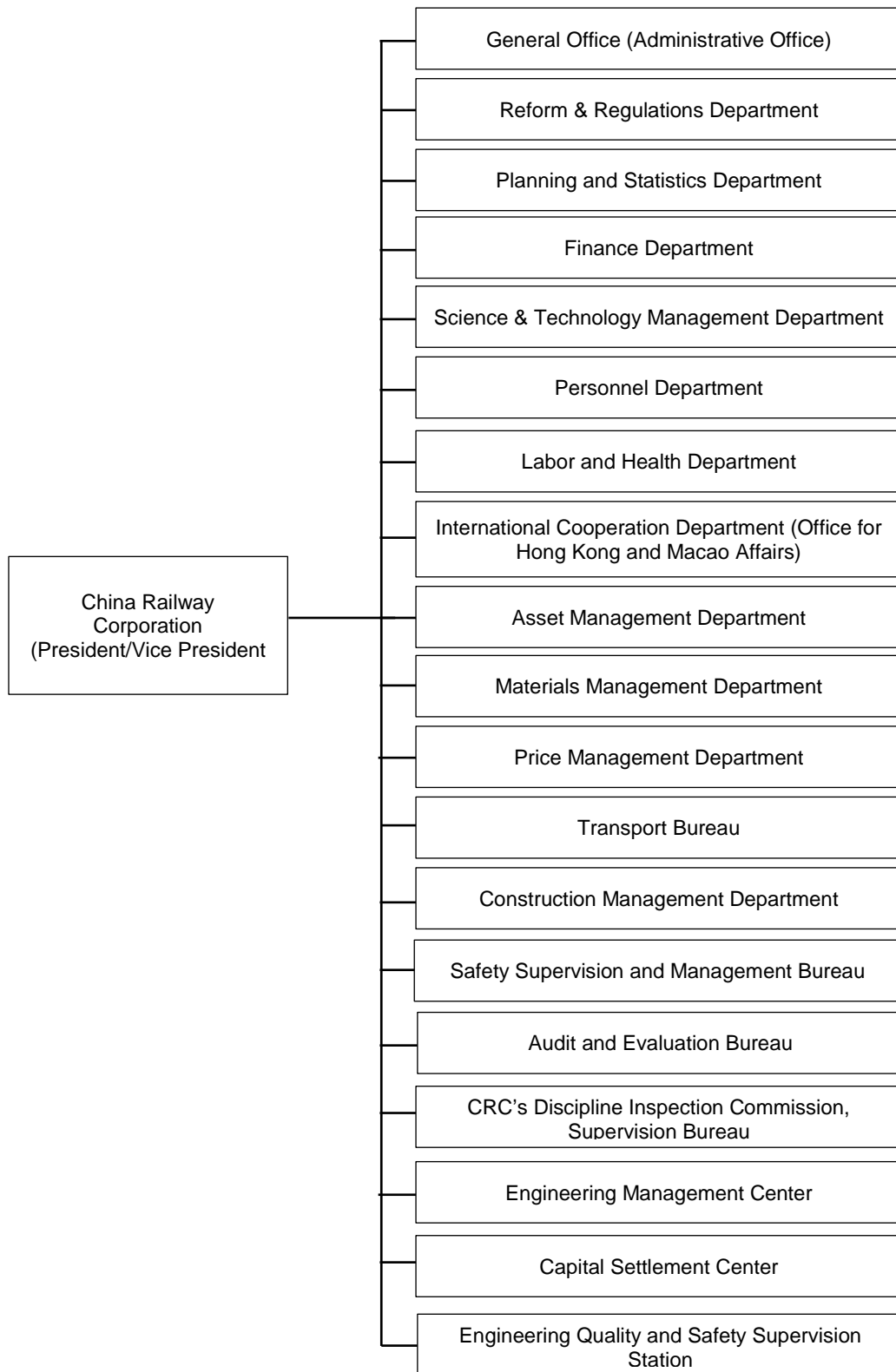
22. CRC and CKRC have in place proper financial management and reporting systems, which are considered effective and adequate for the project. An action plan is proposed in Table 2 below to mitigate the risks and weaknesses identified.

**Table 2: Proposed Action Plan for Risk Mitigation**

<b>Action</b>	<b>Responsibility</b>	<b>Timing</b>
Training on ADB financial management requirements, including accounting, disbursement, reporting, auditing and foreign exchange and interest risk management	EA/IA/ADB	1 month before loan effectiveness + refresher sessions as needed
Close monitoring to timely identify potential issues in counterpart funding	EA/IA/ADB	At least once a year during project implementation
Acquiring international best practices in new technology to enhance the operational capacities	IA	Continuous

ADB = Asian Development Bank, EA = Executing Agency; IA = Implementing Agency

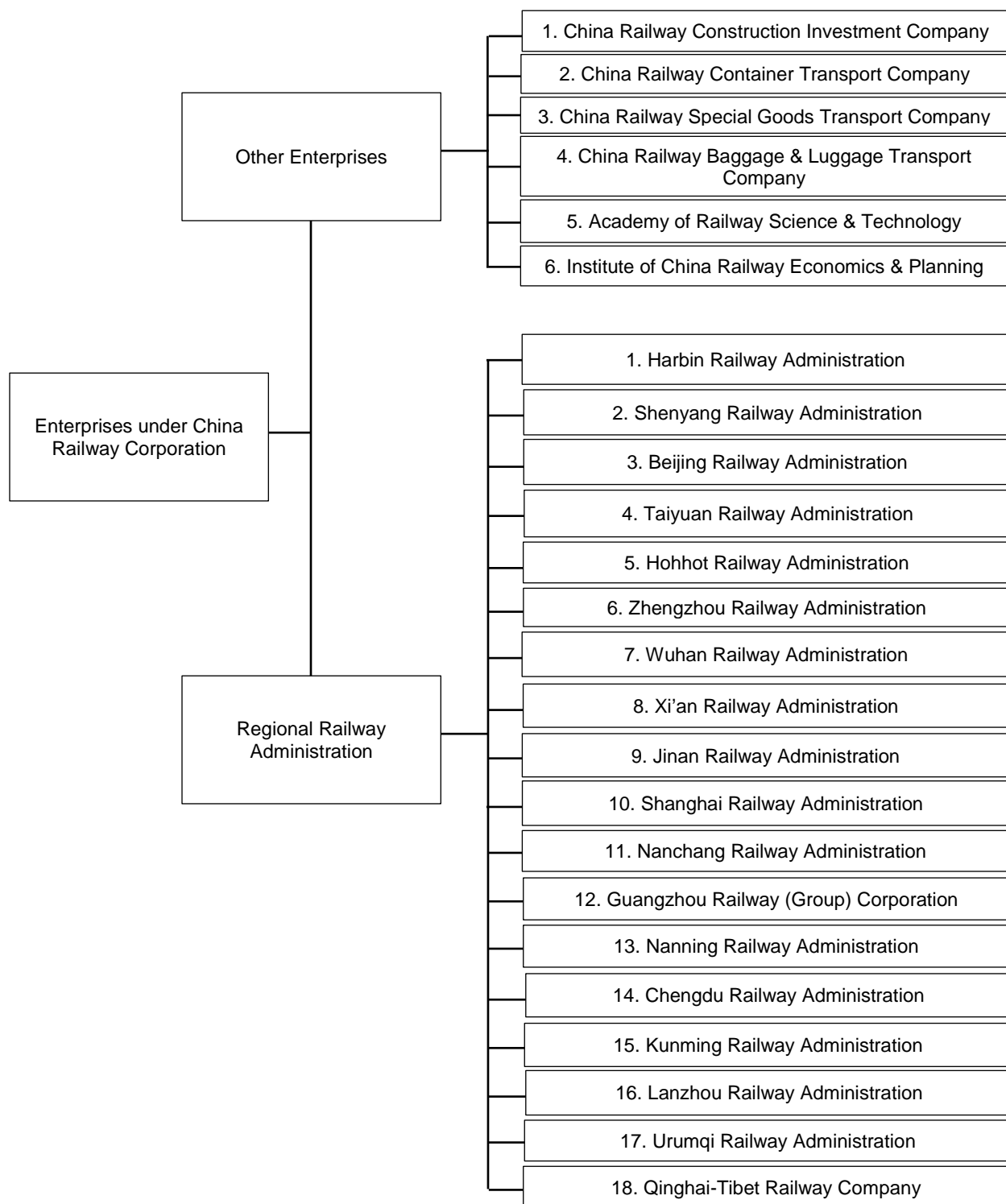
**Figure 2: Organization Chart of China Railways Corporation (CRC) as of May 2018**



Source: China Railway Corporation.

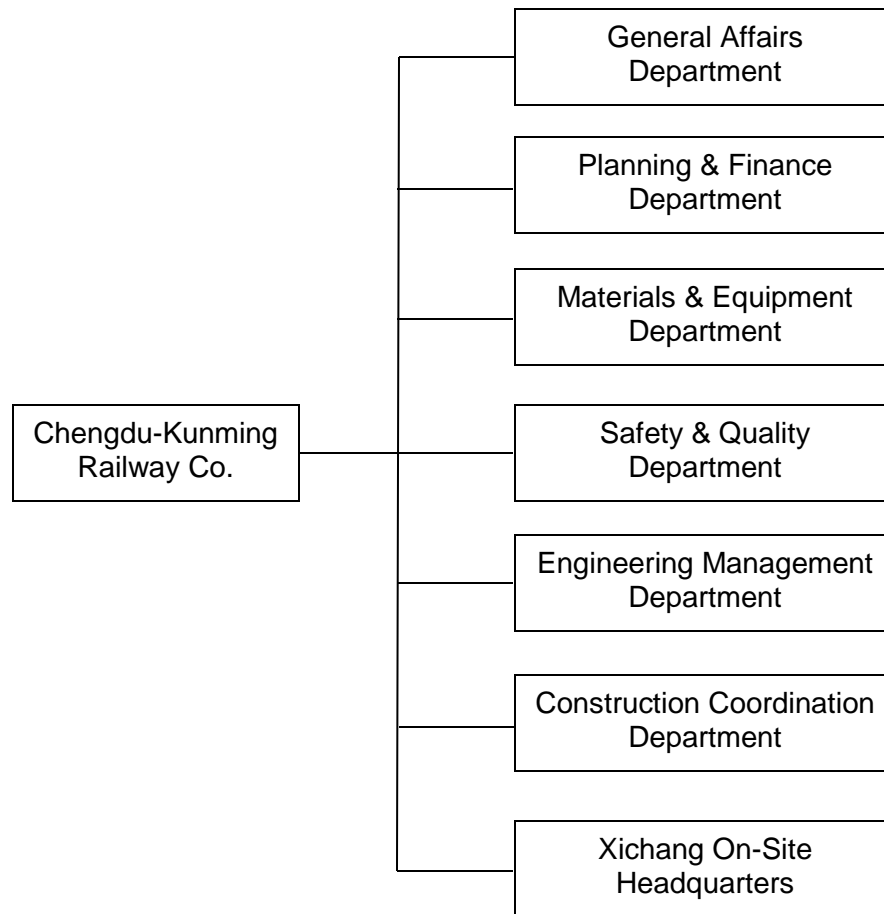


**Figure 3: Enterprises under CRC as of May 2018**



Source: China Railway Corporation.

**Figure 4: Organization Chart of Chengdu–Kunming Railway Co., Ltd.**



## FMAQ RESPONSES FOR CRC

Topic	Response	Potential Risk Event
<b>1 Executing/Implementing Entity</b>		
1.1 What is the legal status/registration of the entity?	EA—China Railway Corporation (CRC) managed by the Central Government of People's Republic of China (PRC).	
1.2 How much equity (shareholding) is owned by the Government?	100% owned by the Government	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. <sup>2</sup>		
1.4 Has the entity implemented an externally financed project in the past? If yes, please provide details.	Yes. CRC implemented about 60–70 projects funded by the Asian Development Bank (ADB) and the World Bank.	
1.5 Briefly describe the statutory reporting requirements for the entity.	Annual financial statements are prepared and audited by China National Audit Office.	
1.6 Describe the regulatory or supervisory agency of the entity.	The Central Government, The Ministry of Finance (MOF)	
1.7 What is the governing body for the project? Is the governing body for the project independent?	Planning Department of CRC, the governing body for the project is not independent.	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	See consultant's report Yes	
1.9 Does the entity have a Code of Ethics in place?	Yes	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	No	
<b>2. Funds Flow Arrangements</b>		
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.	It is described in chart of project funds flow prepared by the Consultant.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes	
2.3 Are the disbursement methods appropriate?	Yes	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	None	
2.5 In which bank will the Advance Account (if applicable) be established?	Not sure at the moment, will be identified through bidding	
2.6 Is the bank in which the advance account is established capable of – - Executing foreign and local currency	Not applicable (see above)	

Topic	Response	Potential Risk Event
transactions? - Issuing and administering letters of credit (LC)? - Handling a large volume of transaction? - Issuing detailed monthly bank statements promptly?		
2.7 Is the ceiling for disbursements from the advance account and SOE appropriate/required?	Yes	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the advance fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes, CRC will conduct training on IA—Chengdu–Kunming Railway Company Limited (CKRC) before ADB loan disbursement.	
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	
2.11 How are the counterpart funds accessed?	See chart of funds flow	
2.12 How are payments made from the counterpart funds?	Counterpart funds are paid directly to the project based on contract and construction schedule.	
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?	Project funds will not 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	
<b>3. Staffing</b>		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	There are three people in Accounting Division for Foreign Capital under Accounting Department	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Existing staff	
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.	There are three people in Accounting Division for Foreign Capital under Accounting Department. Division chief Mr. Mu Xinwei is in charge of all foreign	

Topic	Response	Potential Risk Event
	capital projects, and accounting management. He has been working in CRC for 26 years.	
3.4 Is the project finance and accounting function staffed adequately?	Yes.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes.	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes, existing staff in EA are very familiar with ADB procedures.	
3.7 What is the duration of the contract with the project finance and accounting staff?	Permanent staff.	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	N/A	
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.	None	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, for both EA and IA.	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Fixed staff	
3.12 What is training policy for the finance and accounting staff?	About 48-72 hours training annually	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	National Government Offices Administration and CRC organize training programs every year	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	

Topic	Response	Potential Risk Event
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes. Monthly.	
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?	Yes. Per National Accounting Law of PRC.	
4.7 Describe any previous audit findings that have not been addressed.	No	
<b>Segregation of Duties</b>		
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. Currently the EA has different units performing all of these functions.	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes.	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes	
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes	
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance.	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Approvals for variations from the budget are all required in advance.	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Budgets are prepared by the accounting department, approved by CRC, and monitored by Audit and Inspection Office.	
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?	Budget is jointly reviewed by Planning Department and Engineering Certificate Center, and finally upon approval of the National	

Topic	Response	Potential Risk Event
	Development and Reform Commission (NDRC)	
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals	Yes, the project plans and budgets are prepared by design institutes.	
Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?	No	
Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?	No	
What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?	No	
<b>Payments</b>		
4.18 Do invoice-processing procedures require:		
(i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments?	Yes	
(ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?	Yes	
(iii) Comparison of invoice quantities with those indicated on the receiving reports.	Yes	
(iv) Checking the accuracy of calculations?	Yes	
(v) Checking authenticity of invoices and supporting documents?	Yes	
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes	
<b>Policies and Procedures</b>		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Accrual	
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	National accounting standards issued by MOF	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes; EA has adequate procedural manuals	

Topic	Response	Potential Risk Event
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 safeguards to protect the organization from them?	Yes	
4.28 Are manuals distributed to appropriate personnel?	Yes.	
4.29 Describe how compliance with policies and procedures are verified and monitored.	National Audit Office conducts audit on CRC for monitoring every year	
<b>Cash and Bank</b>		
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.	It will be identified after implementation of the project.	
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?	No cash is involved, and it's dealt directly through bank account.	
4.33 Are bank accounts reconciled on a monthly basis? Or more often?  Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes  There is no cash on hand.	
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?	Yes	
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?	No	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	There is no online transaction.	



Topic	Response	Potential Risk Event
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	There are sound policies that protect assets from fraud, waste and abuse.	
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?	Disposal of assets is conducted with records based on national regulations. Yes	
4.46 Are assets sufficiently covered by insurance policies?	Yes	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	It's conducted based on national regulations.	
<b>Other Offices and Implementing Entities</b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	CKRC is the only IA, and there is no other IA.	
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.		
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?	CKRC is the only IA.	
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.	CKRC is the only IA.	
4.53 If any sub-accounts (under the Advance Account) will be maintained, describe the results	There is no sub-account under the advance account.	

Topic	Response	Potential Risk Event
of the assessment of the financial management capacity of the administrator of such sub-accounts.		
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Yes	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
<b>Other</b>		
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?	Project arrangements are conducted based on regulations and policies. Yes	
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	Yes, Audit and Inspection Office of CRC	
5.2 What are the qualifications and experience of the IA staff?	There are 36 staff in Audit and Inspection Office, and all have the necessary training and experience.	
5.3 To whom does the head of the internal audit report?	General manager and deputy general manager of CRC.	
5.4 Will the internal audit department include the project in its annual work program?	Yes. Audit and Inspection Office briefed the fact-finding mission.	
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?	Internal audit covers all construction projects. It's developed based on sound auditing system.	
5.7 Is the IA department independent?	Yes	
5.8 Do they perform pre-audit of transactions?	Yes	
5.9 Who approves the internal audit program?	General manager and deputy general manager of CRC.	
5.10 What standards guide the internal audit program?	CRC's construction management procedure, legal regulations and CRC's regulations, such as follow-up audit.	
5.11 How are audit deficiencies tracked?	Revision is made following preliminary approval and construction management procedure.	
5.12 How long have the internal audit staff members been with the organization?	It all depends on individuals.	
5.13 Does any of the internal audit staff have an IT background?	Yes.	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	There is no audit committee.	

Topic	Response	Potential Risk Event
5.15 Has the internal auditor identified / reported any issue with reference to 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)?	Yes	
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, China National Audit Office (CNAO)	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	There are no delays. Audit will be performed within 6 months after the close of the fiscal year.	
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	National Accounting Standards are utilized.	
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No.	
6.5 Does the external auditor meet with the audit committee without the presence of management?	There is no audit committee.	
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No.	
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes.	
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No	
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts, or will another auditor be appointed to audit the project financial statements?	China National Audit Office (CNAO)	
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No	
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the	CNAO is national supreme audit institution.	

Topic	Response	Potential Risk Event
supreme audit institution) in addition to the external audit?		
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes, it's being prepared.	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
<i>[For second or subsequent projects]</i> 6.17 Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	Yes  No.	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements and reports prepared for the entity?	Yes. It is prepared in accordance with China National Accounting Standards for government departments.	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes, CKRC prepares financial statements and reports.	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Annually. Yes. Timely.	
7.4 Does the entity reporting system need to be adapted for project reporting?	No need.	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	
7.6 Are financial management reports used by management?	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	They are prepared by computers but verified manually.	
7.9 Does the financial system have the capacity to link the financial information with the project's	Yes.	

Topic	Response	Potential Risk Event
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?	There are no separated systems used.	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	No	
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes, for data storage but not fully integrated as a planning and decision-making system.	
8.2 If computerized, is the software off-the-shelf, or customized?	It's customized.	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	It's integrated accounting management information system.	
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?	It's integrated manually.	
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?	Software is used for directly generating periodic financial statements.	
8.6 Can the system automatically produce the necessary project financial reports?	Yes	
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.	Backups are made at least on monthly basis.	

## FMAQ RESPONSES FOR CKRC

Topic	Response	Potential Risk Event
<b>1 Executing/Implementing Entity</b>		
1.1 What is the legal status/registration of the entity?	Implementing Entity—Chengdu—Kunming Railway Co. Ltd is an independent legal person.	
1.2 How much equity (shareholding) is owned by the Government?	38.21% came from China Railway Chengdu Bureau Group Co., Ltd., 32.26% came from China Railway Development Funds Co., Ltd., and 29.53% came from Sichuan Railway Industrial Investment Group Co., Ltd.	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.2		
1.4 Has the entity implemented an externally financed project in the past? If yes, please provide details.	Yes. Mountain Railway Safety Enhancement Project	
1.5 Briefly describe the statutory reporting requirements for the entity.	Annual financial statements are prepared and audited annually by Beijing Zhong Lu Hua Certified Public Accountants Co., Ltd.	
1.6 Describe the regulatory or supervisory agency of the entity.	China Railway Corporation (CRC)	
1.7 What is the governing body for the project? Is the governing body for the project independent?	Engineering Management Department	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	See details in organizational chart for CKRC company prepared by institutional expert. Yes	
1.9 Does the entity have a Code of Ethics in place?	Yes	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	No	
<b>2. Funds Flow Arrangements</b>		
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.	See fund flow chart prepared by Consultant	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes	
2.3 Are the disbursement methods appropriate?	Yes	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	None	
2.5 In which bank will the Advance Account (if applicable) be established?	Not applicable	
2.6 Is the bank in which the advance account is established capable of –	Not applicable	

Topic	Response	Potential Risk Event
<ul style="list-style-type: none"> <li>- Executing foreign and local currency transactions?</li> <li>- Issuing and administering letters of credit (LC)?</li> <li>- Handling a large volume of transaction?</li> <li>- Issuing detailed monthly bank statements promptly?</li> </ul>		
2.7 Is the ceiling for disbursements from the advance account and SOE appropriate/required?	No	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the advance fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes; PIU will receive training from ADB	
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	
2.11 How are the counterpart funds accessed?	See fund flow chart	
2.12 How are payments made from the counterpart funds?	Counterpart funds are paid directly to the project based on contract and construction schedule.	
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?	Project funds will not 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	
<b>3. Staffing</b>		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	There are 6 people in Division of Planning and Accounting, CKRC.	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Existing staff will be assigned to the project. There is no recruitment plan.	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and	There are 6 people in Division of Planning and Accounting, including division chief Huang Xueqiang, deputy division chief Xia Jing, three	

Topic	Response	Potential Risk Event
professional experience. Attach job descriptions and CVs of key existing accounting staff.	accounting staff and 1 cashier. Mr. Huang Xueqiang graduated from university and has experience in accounting and management since 1986. Madam Xia Jing graduated from university, and is in charge of project investment control, planning, contract, and budget management.	
3.4 Is the project finance and accounting function staffed adequately?	Yes. Six officers are performing these functions.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes.	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes.	
3.7 What is the duration of the contract with the project finance and accounting staff?	Permanent staff.	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	N/A	
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.		
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes.	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Fixed staff until retirement	
3.12 What is training policy for the finance and accounting staff?	About 56 hours training annually	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	CKRC conducts training annually.	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and	Yes	



Topic	Response	Potential Risk Event
disbursement categories? Obtain a copy of the chart of accounts.		
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes. Monthly.	
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?	Yes. Per National Accounting Law of PRC.	
4.7 Describe any previous audit findings that have not been addressed.	No	
<b>Segregation of Duties</b>		
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. Currently the IA has different units performing all of these functions.	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes.	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes	
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes	
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance.	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	All require advanced approval	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Prepared by the financial department and approved by division chief.	
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?	All departments report budget for next month.	

Topic	Response	Potential Risk Event
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes</p> <p>No</p> <p>No</p> <p>No</p>	
<b>Payments</b>		
<p>4.18 Do invoice-processing procedures require:</p> <p>(i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments?</p> <p>(ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods received?</p> <p>(iii) Comparison of invoice quantities with those indicated on the receiving reports?</p> <p>(iv) Checking the accuracy of calculations?</p> <p>(v) Checking authenticity of invoices and supporting documents?</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes	
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes	
<b>Policies and Procedures</b>		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Accrual	
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	National accounting standards issued by MOF	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes, IA has adequate procedural manuals	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes, if necessary, it can be updated	
4.25 Do procedures exist to ensure that only	Yes	

Topic	Response	Potential Risk Event
authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?		
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 safeguards to protect the organization from them?	Yes	
4.28 Are manuals distributed to appropriate personnel?	Yes.	
4.29 Describe how compliance with policies and procedures are verified and monitored.	IA has restricted accounting management system to guarantee performance of accounting standard and procedure.	
<b>Cash and Bank</b>		
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.	Mr. Wang Bin, general manager of IA, representative of legal person.	
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?	All funds are deposited into bank in a timely manner.	
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?	It's reconciled on monthly basis. Cash on hand is reconciled with the cash books on daily 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?	Yes	
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?	No	
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	E-banking is not allowed to use by railway bureau.	
<b>Safeguard over Assets</b>		

Topic	Response	Potential Risk Event
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	IA follows national accounting standard and internal accounting regulations.	
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?	Relevant regulations are fully followed and kept in record.	
4.46 Are assets sufficiently covered by insurance policies?	Yes	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	National regulations on depreciated assets are followed.	
<b>Other Offices and Implementing Entities</b>		
4.48 Describe any other regional offices or executing entities participating in implementation.	CKRC is the only IA.	
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.		
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?	CKRC is the only IA.	
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.	CKRC is the only IA.	
4.53 If any sub-accounts (under the Advance	No	

Topic	Response	Potential Risk Event
Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.		
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	Yes	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes	
<b>Other</b>		
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?	It will be reported directly to the general manager Mr. Wang Bin of CKRC.  Yes	
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	There is no internal audit department in CKRC. Only external (independent) auditor is used.	
5.2 What are the qualifications and experience of the IA staff?	N/A	
5.3 To whom does the head of the internal audit report?	N/A	
5.4 Will the internal audit department include the project in its annual work program?	N/A	
5.5 Are actions taken on the internal audit findings?	N/A	
5.6 What is the scope of the internal audit program? How was it developed?	N/A	
5.7 Is the IA department independent?	N/A	
5.8 Do they perform pre-audit of transactions?	N/A	
5.9 Who approves the internal audit program?	N/A	
5.10 What standards guide the internal audit program?	N/A	
5.11 How are audit deficiencies tracked?	N/A	
5.12 How long have the internal audit staff members been with the organization?	N/A	
5.13 Does any of the internal audit staff have an IT background?	N/A	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	N/A	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	N/A	
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the	N/A	

Topic	Response	Potential Risk Event
disbursement guidelines and procedures (i.e., LDH)?		
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, Beijing Zhong Lu Hua Certified Public Accountants Co., Ltd	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	There are no delays. Audit will be performed within 6 months after the close of the fiscal year.	
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	National Accounting Standards are utilized.	
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No.	
6.5 Does the external auditor meet with the audit committee without the presence of management?	Yes	
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No.	
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes.	
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No	
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts, or will another auditor be appointed to audit the project financial statements?	CNAO	
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No	
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes, CNAO conducts audit on IA.	
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes.	
6.14 Has the project auditor identified any issues with	No	

Topic	Response	Potential Risk Event
the availability and completeness of records and supporting documents?		
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
<i>[For second or subsequent projects]</i> 6.17 Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	No	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements and reports prepared for the entity?	Yes. It is prepared in accordance with China National Accounting Standards.	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes, IA prepares financial statements and reports.	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Annually. Yes. Timely.	
7.4 Does the entity reporting system need to be adapted for project reporting?	No need.	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	
7.6 Are financial management reports used by management?	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	They are prepared by computers but verified manually.	
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?	Yes, Department of Planning and Statistics under IA provides report on planning and statistics on monthly basis.	

7.10 Does the entity have experience in	No.	
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Topic	Response	Potential Risk Event
implementing projects of any other donors, co-financiers, or development partners?		
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes	
8.2 If computerized, is the software off-the-shelf, or customized?	The software is distributed by CRC.	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Computerized software is standalone.	
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?	It's manually entered into computer system.	
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?	It requires manual intervention.	
8.6 Can the system automatically produce the necessary project financial reports?	No as the accounting method for the project required by MOF are different from the accounting procedures employed by CKRC. The accounting application is designed for the company and may be customized for the project.	
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.	Yes, back up storage is saved in database of CRC.	