

Financial Management Assessment

November 2020

Bangladesh: Irrigation Management Improvement
Project — Additional Financing

Irrigation Management Improvement Project -Additional Financing

Funded by:

Asian Development Bank

Executing Agency:

**Bangladesh Water Development Board (BWDB)
under Ministry of Water Resources (MOWR)**

FINANCIAL MANAGEMENT ASSESSMENT

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ABBREVIATIONS

ADB	–	Asian Development Bank
AEFS		audited entity financial statements
APFS	–	audited project financial statements
BWDB	–	Bangladesh Water Development Board
CGA	–	Controller General of Accounts of Bangladesh
FAPAD	–	Foreign Aided Project Audit Directorate
FMA	–	financial management assessment
IBAS	–	Integrated Budget and Accounting System
IPC	–	interim payment certificate
ISA	–	International Standards for Auditing
LFIS	–	Loan Financial Information System
MOF	–	Ministry of Finance
MOWR	–	Ministry of Water Resources
PEFA	–	Public Expenditure and Financial Accountability
PMU	–	project management unit
PIU	–	project implementation unit
PFM	–	public financial management
SDR	–	Special Drawing Rights
SOE	–	statement of expenditure

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I. EXECUTIVE SUMMARY

1. The financial management assessment (FMA) was conducted in June–November 2020 in accordance with ADB’s Financial Management Technical Guidance Note (2015).¹ The FMA considered the financial management capacity of the Bangladesh Water Development Board (BWDB) including funds-flow arrangements, governance, staffing, budgeting, accounting and financial reporting systems, internal control procedures, financial information systems, and internal and external auditing arrangements.

2. Due to the lockdown of government offices because of the coronavirus disease (COVID-19) emergency, the FMA was conducted remotely based on the following: (i) assessment of financial management performance under the ongoing project, (ii) financial management questionnaire and desk review of documents, (iii) interviews conducted with the staff of the implementing agency, and (iv) lessons learnt from ongoing ADB projects in the country.

3. The FMA found that BWDB and its project management unit (PMU) have adequate financial management capacity to: (i) record the required financial transactions, (ii) provide reliable annual financial statements and audit reports in a timely manner, and (iii) safeguard the financial assets. The assessed pre-mitigation financial management risk is substantial mainly because of the following: (i) the proposed project may not be covered by the BWDB’s internal audit function, (ii) there is scope for improving project level financial reporting, and (iii) the receipts and payments under ABD’s funds are recorded manually.

4. These risks will be mitigated by the following: (i) providing continuous training in ADB’s financial reporting and audit requirements as well as disbursement procedures and systems, (ii) improving the quality and comprehensiveness of annual and quarterly financial reporting, (iii) including the project in the annual audit plan of DWDB’s internal audit function, (iv) adopting an accounting software at the PMU level to record receipts and payments under ADB financing. Moreover, as per ADB requirements, the BWDB will maintain separate books of account in accordance with accounting standards acceptable to ADB and in accordance with International Standards on Auditing (ISA) or the International Standards of Supreme Audit Institutions or national equivalent standards.

II. INTRODUCTION

5. The FMA was conducted in June–November 2020 in accordance with ADB’s Financial Management Technical Guidance Note (2015). The FMA considered the financial management capacity of BWDB including its funds-flow arrangements, governance, staffing, budgeting, accounting and financial reporting systems, internal control procedures, financial information systems, and internal and external auditing arrangements.

6. Due to COVID-19 situation the FMA was conducted remotely. It included a desk review of the financial management assessment questionnaire, assessing the financial management performance under the ongoing project including past audit reports and other relevant documents provided by the agency, interviews conducted by staff with the implementing agency, and drawing lessons learnt from ongoing ADB projects in the country.

¹ ADB. 2015. *Technical Guidance Note -Financial Management Assessment*. Manila.

III. BRIEF PROJECT DESCRIPTION

7. **The Ongoing Project.** ADB approved the ongoing project on 30 June 2014 for an amount of special drawing rights (SDR) 29.6 million loan, equivalent to \$46.0 million at that time. The loan agreement was signed on 14 August 2014 and declared effective on 16 September 2014. The project is being implemented for over 7.8 years, including a 1.5-year extension approved on 2 November 2018. The revised loan closing date is on 30 June 2022. As of 30 September 2020, the SDR loan is equivalent to \$41.33 million.

8. **Additional financing.** The government has requested a concessional loan of \$13.5 million from ADB's ordinary capital resources to help finance the project. ADB will finance 92% of the additional financing project cost and the government will finance \$1.1 million. The overall project is estimated to cost \$ 68.1 million.

9. The additional financing will finance cost overruns experienced under the ongoing project that are due to (i) higher bid price than cost estimate at project preparation; (ii) increase in contract quantities; and (iii) the SDR depreciation against the US Dollar. The project scope and the financial management related workload is expected to remain largely unchanged.

10. **Implementation arrangements.** The implementation arrangements will remain unchanged from the ongoing project. Accordingly, The Executing Agency for the Project is BWDB. A Project Steering Committee will provide overall coordination to the Project and to deal with issues requiring inter-ministerial coordination. PMU has been established as part of the ongoing project and it is headed by a project director. The PMU has the overall responsibility for the project including preparation withdrawal application as well as consolidation and compilation of financial reports including audited project financial statements (APFS). In addition, a Project Implementation Unit (PIU) has been established in the Muhuri Irrigation Project (MIP) to supervise the activities currently managed by the government as well as the investments and O&M activities of the project.

11. The additional financing project will have the same implementation period as the ongoing project (at revised closing date of 31 December 2023).

IV. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

12. The inherent financial management risk in Bangladesh is substantial. The corruption perception index published by the Transparency International Bangladesh has improved slightly from 25 in 2015 to 26 in 2018. In 2018, Bangladesh ranked as 149 out of 180 countries. To date, three public expenditure and financial accountability (PEFA) assessments have been undertaken for Bangladesh—2006, 2010, and 2016. The 2016 PEFA assessment notes that overall, there has been a renewed focus on public financial management (PFM) activities and a continued emphasis on improving PFM processes and procedures and that Bangladesh has made positive strides in developing its PFM systems since the 2010 PEFA assessment.

13. However, important areas such as internal audit, annual financial reports, and external audit continue to score poorly. Indeed, significant delays in finalization of annual financial reports hamper the effectiveness of external audits while the timeliness of the legislature's scrutiny is negatively affected by the backlog of audit reports to be submitted to Parliament. However, the report emphasizes that due to the ongoing reforms at the time of the assessment, the weak score may not do justice to the areas such as procurement, internal audit, oversight of public corporations, and external audit.

14. Based on the experience gained with ADB's past and ongoing projects in the country, the following risks need to be considered during project processing and implementation:

- (i) low capacity among accounts staff specifically at the regional and district-level;
- (ii) project account staff are not adequately trained in ADB's financial management requirements and in the use of ADB's financial systems, Loan and Grant Financial Information Services (LFIS) and Client Portal for Disbursements (CPD) to reconcile project accounts with ADB's disbursement;
- (iii) manual books of account maintained by the projects, resulting in cumbersome reporting which is prone to errors;
- (iv) bridge financing where ADB funds are used to pre-finance expenditures to be financed by the government or other development partner;
- (v) inadequate financial information included in the quarterly progress reports submitted to ADB;
- (vi) Foreign Aided Project Audit Directorate (FAPAD) may not issue a separate audit opinion on the use of ADB loan/grant proceeds;
- (vii) lack of follow-up on audit observations, including recurring audit observations.

15. To mitigate the inherent risk with regards to PFM, ADB's country partnership strategy for Bangladesh, 2016–2020 highlights the need to (i) improve the preparation of timely year end accounts; (ii) adhere to international accounting standards; (iii) strengthen internal audit; and (iv) appoint skilled personnel to conduct performance audits. The country partnership strategy also states that ADB will (i) support the strengthening of country systems and counterpart capacity—through financial management action plans, fiduciary reviews, and technical assistance; (ii) continue supporting governance reforms through policy-based lending (e.g., the Good Governance Program); as well as (iii) engage with policy makers and key stakeholders, in collaboration with other development partners, to progress enforcement of laws and implementation of agreed reforms.

V. PROJECT FINANCIAL MANAGEMENT SYSTEM

16. **Overview.** BWDB is the principal agency of the government for managing water resources of the country it was given the responsibility of accomplishing the tasks of executing flood control, drainage and irrigation projects to increase productivity in agriculture and fisheries and fully financed by the Government for its Development and Operating activities. BWDB was created by Presidential Order No 59 in 1972 (as successor to the East Pakistan Water and Power Development Authority) to develop and manage water resources in the country and reports directly to the Ministry of Water Resources (MOWR). Thereafter, the position and responsibility of BWDB was further enhanced through the national Parliament by the enactment of BWDB Act 2000 and guided by the National Water Policy 1999.

17. BWDB follows the rules/regulations issued by the Government of Bangladesh (i.e., General financial rules, treasury rules, Public procurement rules etc.). As it follows government procedures, BWDB has no separate financial operation/management regulations approved by parliament or board. BWDB is governed by a governing council (Porichalana Parishad) which is chaired by the Honorable Minister, Ministry of Water Resources (Governing Council). All operational, administrative & financial decisions as conferred by the act are undertaken by Director General of BWDB and the governing council as required.

18. Financial management performance under the ongoing project. As part of the financial management assessment, the financial management performance of the ongoing project was assessed, and the following was noted:

- (i) There was no agreed financial management action plan as part of the ongoing project. Instead, the Project Administration Manual (PAM) outlined some recommendations of which not all were financial management related. The PMU has largely complied with the recommendations as outlined below.
- (ii) Currently the project includes the following full time financial management staff: one deputy director and one accountant in the PMU, one deputy director in the Regional office level and one accountant in the PIU. Moreover, a financial management expert in the form of an international consultant is included in the project support consultant package. The financial staff has been attending ADB financial management training events regularly.
- (iii) The PMU is submitting quarterly progress reports to ADB on a regular basis. However, the quarterly progress reports contain very limited financial information and as result it is recommended that a dedicated section on financial management is included in the future reports.
- (iv) BWDB has in place an internal audit function which conducts annual internal audits. The project has been included in the audit plan based on the PD's request. However, the report is often issued very late and as result the internal audit function does not appear to be very effective.
- (v) The PMU maintains manual records for the project but is exploring the options to set up a standalone accounting software and automate financial reporting. Some spreadsheet solution has been developed by the financial management expert.
- (vi) The ongoing project is audited annually by FAPAD in accordance with ISA. To date ADB has received five APFS covering the FYs 2015-19 under the ongoing financing. All audits were received on time and were unqualified. However, the detailed audit review noted the following issues:
 - (a) FAPAD did not issue a separate opinion in the format required by ADB on the use of funds for the intended purpose;
 - (b) The audit scope may be limited as it is not clear if it included direct payments made by ADB or not;
 - (c) The APFS does not reconcile fully with ADB disbursement records; and
 - (d) The financial reporting needs to be improved to address the following:
 - 1. Include a statement of budget vs actual expenditures with significant variances explained;
 - 2. Include a withdrawal application-wise reconciliation with LFIS;
 - 3. Notes to the PFS must disclose the significant accounting policies and reporting framework;
- (vii) In the latest Management letter, no unresolved audit observations from previous years were noted has been noted in the recent years.
- (viii) To date no audited entity financial statements (AEFS) has been received by ADB although this is required as per the legal agreement; However, as part of the financial management assessment it was clarified BWDB is audited by the Office of the Comptroller & Auditor General like a government sector unit/department and is not required to issue. BWDB is currently in the process of being formally changed from a government board to a government department. In December 2020, a change memo was processed by ADB to remove this requirement from the legal agreement under the ongoing project.

19. **Staffing.** Under the existing organizational structure, BWDB's finance and accounting operations are headed by the Additional Director General (Finance). There is a Comptroller of Finance and Account who oversees three directors - Director of Finance, Director of Accounts and Director of Audit. The details of staffing are given in Annex 1.

20. At the time of the financial management assessment, the following Financial staff are working full time for the project: one deputy director and one accountant in the PMU, one deputy director in the Regional office level and one accountant in the PIU. In addition, a financial management expert in the form of an international consultant is included in the project support consultant package. The financial staff has been attending ADB financial management training events regularly. The current financial management staffing is assessed to be adequate, and no additional staff is required under the additional financing. To further strengthen the financial management capacity of the PMU to comply with ADB's financial management requirements, including financial reporting, audit requirements and disbursement procedures, continuous training will need to be provided by ADB.

21. **Accounting Policies and Procedures.** BWDB and the PMU maintains its accounts in accordance with International Accounting Standards, modified cash basis. The existing regulations ensure adequate control with regards to the preparation and approval of transactions and the chart of accounts is sufficiently detailed and cost allocations are made following the structure of the chart of accounts. The receipt of counterpart funds are managed through the Treasury Account in Controller General accounts and are further credited to the bank account operated by the PMU project director. The payments of these vouchers are made by the concerned PMU director from the dedicated Bank Account operated by them. The supporting documents are kept in PMU Office for Audit as well as for future reference.

22. Receipt and payments of counterpart funds are recorded in the Government's accounting system- Integrated Budget and Accounting System (IBAS). However, as IBAS is not able to record transaction made directly neither by ADB nor receipts and payments made from the advance and sub-advance account, the project books of accounts are maintained in spread sheet and updated manually. To ensure project books of accounts reflect correctly ADB's disbursements and are free from material misstatements, it is important that the PMU conducts monthly reconciliations of the advance account and at least quarterly reconciliations of project records and ADB disbursement data as per LFIS.

23. With regards to asset management, the government procedures are followed to safeguard and protect assets from fraud, waste, and abuse. A physical inventory of fixed assets are undertaken during annual audits.

24. **Internal Audit.** BWDB has in place an internal audit department under Assistant Director General - Finance. The Director of Audit is supported by one additional director, three deputy directors, seven audit officers and other staff including junior auditor. The internal audit function reports its findings to the Assistant Director General - Finance and the Director General. The Internal Audit functions covers all units of BWDB. However, it is observed that the function lacks capacity to carry out timely audits and all externally financed projects are not necessarily always covered in the annual audit plan. It is recommended that the PMU liaises with the internal audit function annually to ensure it is included in the annual audit plan when possible. The internal audit report is to be submitted directly to the Director General for review and shared with BWDB/PMU to implement recommended remedial measures.

25. **External audit – Entity level.** BWDB is audited by the Office of the Comptroller & Auditor General like a government sector unit/department and is not required to issue Audited Entity

Financial Statements. Periodically BWDB engages a chartered accountant firm to support them in compilation of receipts and expenditures. This is however only an additional assurance, and the chartered accounting firm does not issue an audit opinion as part of the engagement. The previous contract with the chartered accounting firm covered up the FY of 2017 and at the moment there is no ongoing contract with a chartered accounting firm. BWDB is also currently in the process of being formally changed from a government board to a government department. In December 2020, a change memo was processed by ADB to remove the AEFS requirement from the legal agreement of the ongoing project.

26. **External audit – Project level.** All foreign-aided projects in Bangladesh are audited by FAPAD. The FAPAD is part of the Comptroller and Auditor General, the supreme audit institution of Bangladesh. It conducts the audit based on the ISA and practice of the International Standards of Supreme Audit Institutions. As per ADB's requirements, the project accounts will be audited annually in accordance with the ISA. Moreover, the auditor will be required to issue an opinion on the following: (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose of the project; and (iii) whether the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements (if any). In addition, the audit must issue a management letter outlining any observed weaknesses in the internal controls. From the second year onwards, the management letter must also include a follow-up on previous years audit observations.

27. As part of the ongoing project, BWDB and its PMU have gained experience in ADB's Audit requirements. In fact, all APFS were submitted to ADB in time and have been unqualified. However, in line with its practice, FAPAD did not provide a separate opinion on the use of loan proceeds for the intended purpose which is required under the ADB legal agreement. Also, it is not clear if the audit scope included third party payments or not (including direct payments made by ADB).

28. Under the proposed additional financing, it is important that the PMU engages with FAPAD to ensure the project is included in its annual audit plan from the start of the project and that the scope of the audit includes third party payments. ADB is currently supporting an initiative to revise the FAPAD audit manual, which will include ADB's requirement to issue a separate audit opinion on the use of funds. Furthermore, the timely settlement of audit observations will need to be strictly monitored through the quarterly progress reports, review missions, and annual audit reviews and the Government is to be made aware of ADB's approach to delayed submissions, and the requirements for satisfactory and acceptable quality of the audited APFS.²

29. **Financial Reporting System.** The PMU and BWDB's financial reports comply with the government reporting requirements. These reports are prepared as and when required. However,

² ADB's approach and procedures regarding delayed submission of audited project financial statements:

- (i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When audited project financial statements are not received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (a) inform the executing agency of ADB's actions; and (b) advise that the loan may be suspended if the audit documents are not received within the next 6 months.
- (iii) When audited project financial statements are not received within 12 months after the due date, ADB may suspend the loan.

based on the experience from the ongoing project, there is scope for improving the project level quarterly and annual financial reporting. In particular, the following weakness have been noted: (i) the quarterly progress reports only contain limited financial information, (ii) the PFS doesn't fully reconcile with ADB disbursement records, (iii) there is no statement of budget vs actual expenditures included in the PFS and (iv) PFS does not include any notes to the PFS disclosing the significant accounting policies and reporting framework.

30. Based on the above, it is recommended that comprehensive financial information will be included in the periodic progress reports to be submitted to ADB within 45 days after the end of each quarter. The financial information should include at least the following: (i) project's financial and disbursement progress for the reporting period and cumulative, (ii) variance analysis (budgeted vs actual and financial vs physical progress with significant deviations analysed), (iii) WA-wise reconciliation of project records and ADB disbursement records/LFIS, (iv) status of the financial management action plan, and (v) the status of past audit observations.

31. In addition to the periodic progress reports, the project financial statements will need to be prepared within 2 months after the end of the fiscal year. As per ADB's requirements, the project financial statements will include the following information:

- (i) statement of cash receipts and payments; showing the funds received by each funding source (ADB loan, Government of Bangladesh, etc.) and expenditures incurred by expenditure category for the current year, prior year, and cumulative from inception to date;
- (ii) statement of budget vs. actual expenditures; any significant variance must be sufficiently explained in the notes;
- (iii) statement of advance account reconciliation for each advance account;
- (iv) statement of disbursement with a breakdown for each funding source;
- (v) detailed notes to the financial statements including significant accounting policies. The notes of the financial statements must provide a detailed breakdown of at least the following:
 - (a) funds received from the government during the current year, previous year and cumulative to date; and
 - (b) list of withdrawal applications submitted to - and the amounts paid by ADB as follows: (i) financing source, (ii) withdrawal application number, (iii) amount claimed and currency, (iv) period when expenditures were incurred, (v) date submitted, (vi) disbursement method, (vii) amount disbursed by ADB, and (viii) the exchange rate as applicable.

32. **Information Systems.** The Government's computerized IBAS software is used for recording governmental transactions. Steps are taken by the government to incorporate the expenditure details by the Foreign Aided Project also in to IBAS system but for now IBAS cannot record payments made from the Advance/sub advance account or direct payments and these will have to be recorded manually. Moreover, BWDB's Financial management system is using a software package called Microsoft Great Plains Dynamic Accounting software, which was adopted in 2006 and needs to be updated or replaced. Currently the system is only used for recording only the government expenditure. Moreover, the financial system does not facilitate linking of financial information with physical progress. Based on the above, it is recommended that the PMU procures a standalone software to solution to record receipts and payments under the ADB financing and automates the financial reporting to the extent possible. Moreover, it is important that the PMU gets access to the CPD and LFIS and uses these regularly to track all ADB disbursements including direct payments.

33. **Asset Management system.** BWDB maintains a Fixed Assets Register in software and manual basis, which is updated regularly. Assets are coded based on common Government coding method, which is indicated in the register.

34. **Budgeting.** Budgeting in BWDB is done on annual basis. The budgets are prepared according to project requirements and in line with the approved Development Project Proforma. The budget is scrutinized by BWDB and the line ministry before receiving an inter-ministerial approval which is required for all foreign aided projects. The consolidated budget of the state is prepared by the Ministry of Finance and the Budget is approved in the State Legislature. There is a system to compare the actual expenditure with the budgeted expenditure. Before incurring any expenditure, the budget provision is considered. Reports on project progress are regularly reported to MOWR, IMED and MOF for development partner funded projects, and other reports will follow donor report requirements to monitor project performance. Actual expenditures are compared to the budgeted expenditures on monthly, quarterly, and annual basis. Any variation thereof will require an explanation to the MOWR and IMED. Explanation for significant variations will be provided by BWDB to MOWR and IMED.

35. The current process of fund disbursement seems satisfactory based on the experience of past and ongoing foreign funded projects executed by BWDB. The Treasury releases the budgetary allocation normally in four quarterly installments. These budgetary releases used for the counterpart payments. In case of any short fall in the budget release the payment will be affected and may lead to delay in execution of the project. Proper budgeting is required at the beginning itself to avoid such instances. It is recommended to BWDB to ensure proper release of counterpart fund from MOF in time.

36. **Conclusion - Strengths and Weakness** The main strength is that BWDB has implemented numerous externally funded projects of ADB, WB, JICA, etc... Moreover, as part of the ongoing project the PMU has already been established and the number of finance staff is adequate. Moreover, the ongoing project has a track record of submitting unqualified audits in a timely manner and audit observation are being followed up on. The main weakness include: the accounts of the ongoing project are maintained manually, partly inefficient internal audit function and there is scope for improving quarterly and annual financial reports.

VI. FLOW OF FUNDS AND DISBURSEMENT ARRANGEMENTS

37. The flow of funds and disbursement arrangement will follow the established practice under the ongoing project.

38. **Disbursement Arrangements for ADB Funds.** The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),³ and detailed arrangements agreed upon between the government and ADB. The PMU will be responsible for (i) collecting and retaining supporting documents, and (ii) preparing and sending withdrawal applications to ADB. PMU staff are encouraged to avail of training with ADB's financial management team to help ensure efficient disbursement and fiduciary control.

39. ADB's disbursement procedures including direct payment, reimbursement, commitment and/or advance fund procedure) may be used for withdrawal of project funds:

- (i) Direct payment procedure will be used for foreign currency payments to contractors, suppliers and consultants;

³ ADB. 2017. [Loan Disbursement Handbook](#). Manila.

- (ii) Reimbursement will be used for any eligible payments pre-financed by the government, including all expenditures financed under retroactive financing;
- (iii) Advance fund (liquidation or replenishment) procedures will be mainly utilized for payments to contractors, suppliers, or service providers when government pre-financing is not feasible; and
- (iv) Under the commitment procedure, ADB, at the borrower's request, provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a letter of credit financed from the loan account.

40. **Advance fund procedure.** Two separate advance accounts are to be established and maintained by BWDB with the Bangladesh Bank for the ADB original loan and the ADB additional financing loan. The currency of the advance accounts is the US dollar. In addition, two sub-accounts, one for the ADB original loan and one for the ADB additional financing loan, in Bangladesh Taka will be established in a commercial bank and maintained by BWDB. The advance accounts and the sub-accounts are to be used exclusively for ADB's share of eligible expenditures. BWDB is accountable and responsible for proper use of advances to the advance accounts including advances to any sub-accounts.

41. The total outstanding advance to the advance accounts should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months. BWDB may request for initial and additional advances to the advance account based on an estimate of expenditure sheet⁴ setting out the estimated expenditures to be financed through the accounts for the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by BWDB in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) when liquidating or replenishing the advance account.

42. **Statement of expenditure procedure.**⁵ The SOE procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the advance account. The ceiling of the SOE procedure is equivalent to \$100,000 per individual payment. Supporting documents and records for the expenditures claimed under SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. Reimbursement and liquidation for individual payments in excess of the SOE ceiling should be supported by full documentation when submitting the withdrawal application to ADB.

43. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the persons who will sign the withdrawal applications on behalf of the borrower, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is stipulated in the ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments should be paid (i) by BWDB and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before requesting disbursements. Use of ADB's Client

⁴ Estimate of expenditure sheet is available in Appendix 8A of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

⁵ SOE forms are available in Appendix 7B and 7D of ADB's *Loan Disbursement Handbook 2017* (2017, as amended from time to time).

Portal for Disbursements (CPD) system⁶ is mandatory for submission of withdrawal applications to ADB.

44. **Disbursement Arrangements for Counterpart Funds.** The government counterpart funds will be sufficiently allocated in the budget annually. Disbursement for counterpart funds will be carried out in accordance with guidelines and practices of the government. BWDB will be responsible for preparing the budget and requesting budgetary allocations for counterpart funds to the Ministry of Finance. BWDB ensure that counterpart funding is reflected annually in the approved budget and the annual capital expenditure budget of BWDB. BWDB shall open and maintain the separate account for government's counterpart funds. Detailed funds flow diagram given in Annex 2.

VII. RISK DESCRIPTION AND RATING

45. **Risk Analysis:** During the implementation phase, the BWDB might face some risks that can generally be divided in two main categories: (i) country level; and (ii) organization/project level. Financial management risks shall need to be considered and updated throughout the life of the project and risk mitigation measures shall also be updated accordingly. The overall assessment of the of the project financial management risks and internal control assessment are presented in Table 3 below:

Table 3: Financial Management and Internal Control Risk Assessment

Risk	Risk Assessment	Risk Description	Mitigation Measures or Action Plans
<i>Inherent Risk</i>			
1. Country-specific Risks	S	Partly weak PFM systems and financial management capacity.	Not applicable for this project
2. Entity-specific Risks	M	BWDB has extensive experience in implementing ADB and other externally financed projects. However, there is scope for improving the financial management arrangements in place.	Specific mitigation actions listed below.
3. Project-specific Risks	M	No Particular Project Specific risks foreseen	Not applicable for this project
<i>Overall Inherent Risk</i>	S		
<i>Control Risk</i>			
1. Implementing Entity	L	The PMU has been established under the ongoing project and is adequately staffed.	Not Applicable

⁶ The CPD facilitates online submission of withdrawal applications to ADB, resulting in faster disbursement. The forms to be completed by the Borrower are available online at <https://www.adb.org/documents/client-portal-disbursements-guide>.

Risk	Risk Assessment	Risk Description	Mitigation Measures or Action Plans
2. Fund Flow	M	BWDB and the PMU has experience with ADB's disbursement procedures. However, delays in the release of government counterpart funds may delay implementation.	<p>Firm commitment from the government to be obtained as part of the legal agreement that counterpart funds will be released in a timely fashion.</p> <p>Direct Payment mechanism is to be used for major foreign currency payments for contractors and suppliers for ADB share.</p> <p>SOE threshold set at \$100,000 per individual payment.</p> <p>Quarterly reconciliations of advance account, sub advance account and sub accounts to be conducted.</p>
3. Staffing	M	The PMU has adequate accounts staff in place. However, training needs to be provided in financial reporting including QPRs.	Continuous training to be provided in ADB's financial reporting and audit requirements as well as disbursement procedures and systems.
4. Accounting Policies and Procedures	M	Existing GOB policies and procedures are followed by BWDB. There is scope for improving project level systems and FM procedures to ensure full compliance with ADB procedures.	The Project Administration Manual is to include detailed FM instructions and templates. to ensure full compliance with ADB's FM requirements at all levels
5. Internal Audit	S	There is an Internal Audit function in BWDB. However, the internal audit is only conducted annually and based on past experience it may not include the ADB assisted projects in its audit plan.	The PMU must request the BWDB internal audit function to include the project in its audit plan on an annual basis. The internal audit report is to be shared with the PMU for follow-up.
6. External Audit	M	<p><u>Project level</u> OCAG/FAPAD may not issue a separate opinion on the use of the ADB financing, which is required by ADB.</p> <p>The scope of the audit may not include direct payments made by ADB.</p>	<p>- The project will liaise with OCAG/FAPAD to ensure the following: i) proposed project is part of its annual audit plan, ii) direct payments are included in the audit scope and iii) that ADB's audit requirements are strictly followed.</p> <p>- The audit observations are to be resolved in a timely manner. The status of audit observations to be included in the quarterly progress reports.</p>
7. Reporting and Monitoring	S	At the project level, there is scope for expanding the FM related information included in the quarterly financial reports and the improving the quality of the annual project financial statements.	<p>Comprehensive financial information to be included in the QPRs in a format agreed with ADB within 45 days after the end of each quarter.</p> <p>The PFS to be improved by including the following: (i) a statement of budgeted vs actual expenditures, (ii) a WA wise reconciliation and (iii) comprehensive disclosure of used accounting policies, and financial reporting framework in the notes.</p>

Risk	Risk Assessment	Risk Description	Mitigation Measures or Action Plans
8.Information Systems	S	Accounting systems are currently only capturing payments done through the government treasury system while direct payments and payments from the advance account will have to be recorded manually. Moreover, project financial reports are produced manually.	Explore and implement IT solutions to fully computerize the project accounts and automate financial reporting to the extent possible through modifying the existing systems or through a standalone software. Use of ADB client portal for disbursement to submit and track withdrawal applications to ensure timely availability of funds. Use of LFIS to reconcile ADB disbursement records with project records on a quarterly basis to ensure all withdrawal applications have been correctly reflected in the PFS
Overall Control Risk	S		
Overall FM risk	S		

H – High, S- Substantial, M – Moderate, L – Low.

ADB = Asian Development Bank, BWDB = Bangladesh Water Development Board, FAPAD=Foreign Aided Projects Audit Directorate, GOB = Government of Bangladesh, LFIS = loan financial information services, OCAG= Office of the Comptroller General, PFM = public financial management, PFS = project financial statement, SOE = statement of expenditure.

Source: ADB.

46. The disbursement and budgeting mechanisms are adequate. The overall Inherent Risk is “Substantial” and overall financial management and internal control risk is rated as ‘Substantial’. The Financial Management Risk for ADB assistance project at the country level is also considered as substantial.

VIII. TIME BOUND FM ACTION PLAN

47. Based on the identified risks, the Table 4 below action plan is recommended.

Table 4: The Financial Management Action Plan

Area	Agreed Action	Responsibility	Target date
Financial management capacity building	Undertake training in ADB's financial management requirements and disbursement procedures and systems (LFIS, CPD)	BWDB & ADB	Continuous
Internal audit	Request the BWDB internal audit function to include the project in its audit plan. Implement internal audit recommendations in a timely fashion.	PMU, BWDB	Annually
External audit - Project level	-Ensure the project is included in the audit plan of the OCAG/FAPAD and that the audit scope includes also third-party payments (direct payments) made by ADB and other financiers if applicable. -Cause consolidated project financial statements (ongoing loan and additional financing) to be audited separately by OCAG/FAPAD in accordance with ADB's audit requirements and submit the APFS and management letter to ABD. -Address audit observations in a timely manner.	BWDB	-Within 2 months after loan effectiveness. -Annually throughout the project implementation. -Continuous throughout the project.
Financial reporting	Include comprehensive financial information as agreed with ADB in the quarterly progress reports to be submitted to ADB.	BWDB	Within 45 days after each quarter throughout the project implementation.

Area	Agreed Action	Responsi-bility	Target date
	Prepare PFS template in a format agreed with ADB (including statement of budget vs actual, WA-wise reconciliation and comprehensive notes disclosures)		Within 2 months after loan effectiveness.
Information systems	Use of ADB disbursement systems (CPD & LFIS) to reconcile project accounts and ADB disbursement records on a quarterly basis. Detailed reconciliation by Withdrawal application to be included in the QPRs and the APFS submitted to ADB.	BWDB	Quarterly from loan first disbursement throughout project implementation.
Information systems	Adopt a standalone software to record receipts and payments under the ADB financing and automate the financial reporting	BWDB	September 2021
Record keeping	All supporting documents (or copy of such documents) to support expenditures claimed from ADB under Statement of Expenditure (SOE) are to be filed in the PMU to support ADB's SOE reviews and annual project audits.	BWDB	Continuous

ADB = Asian Development Bank, BWDB = Bangladesh Water Development Board, CPD = client Portal for Disbursement, FAPAD = Foreign Aided Projects Audit Directorate, LFIS = Loan Financial Information Services, QPR = quarterly progress report, OCAG = Office of the Comptroller General, PMU = project management unit, SOE = statement of expenditure.

Source: ADB and BWDB.

IX. CONCLUSION

48. The financial management arrangements are considered adequate. However, the overall premigration financial management risk is considered as *substantial*. As a result, it is important that the financial management action plan is implemented in a timely manner and that ADB executes a supervision and implementation support plan as outlined below.

X. SUPERVISION AND IMPLEMENTATION SUPPORT PLAN

49. In order to ensure sufficient knowledge in ADB's financial management requirements, including procedures and related systems, the BWDB will ensure that each financial staff assigned to the ADB project undertake the following actions within the first month after working with the project:

- (i) become aware of the ADB and national anticorruption policy and whistle blowing mechanisms;
- (ii) master loan/grant agreement including the loan covenants and the relevant sections of the PAM, as well as the ADB's *Loan Disbursement Handbook* (2017, as amended from time to time);
- (iii) obtain user/reader rights (as required) to ADBs systems including the CPD and the LFIS;
- (iv) complete the ADB Disbursement eLearning course; and
- (v) complete the International Public Sector Accounting Standards - Cash Basis for ADB Project Financial Reporting eLearning course.

50. In addition, the PMU should, on a yearly basis, liaise with ADB to ensure participation in financial management and disbursement training events organized by ADB in the region, especially in the first 2 years of project implementation.

51. Moreover, due to the substantial financial management risk, it is recommended that a financial management specialist/officer (ADB staff or consultant) will participate in a mission annually to supervise and provide implementation support to the project and follow up the fiduciary risk.

52. The supervision plan of the project will especially focus on the following actions:

- (i) detailed review of the status of the financial management action plan outlined in the PAM;
- (ii) detailed review of adequacy of the staffing arrangements at the financial management unit within the PMU, including the TOR and performance of the financial staff and training needs identification;
- (iii) detailed review of the project financial management and accounting procedures in use;
- (iv) reconciliation of project books of accounts and LFIS as well as reconciliation of the advance account and the sub-advance account;
- (v) review of overall flow of funds (and resolving any bottlenecks) and a detailed review of the operation of the advance account (including monthly reconciliations);
- (vi) detailed review of records management, filing and information back-up;
- (vii) follow-up on audit arrangements;
- (viii) follow-up on audit (internal& external) recommendations; and,
- (ix) follow-up on recommendations from past supervision missions and TPRMs.

53. The supervision process will be complemented by periodic desk reviews of financial information included in the quarterly progress reports and APFS.

Annex 1: Organizational structure of Finance and Accounts

Under the existing organizational structure, BWDB's finance and accounting operations are headed by the Additional Director General (Finance). There is a Comptroller of Finance and Account who oversees three directors - Director of Finance, Director of Accounts and Director of Audit. Staffing is as follows:

Additional DG – Finance: (No of sanctioned post: 7)

Controller of Finance, Accounts & Audit (No of sanctioned post: 7)

- One Accounts Officer and supporting staff.

Director of Accounts (No of sanctioned post: 135)

- Additional Director in charge of RAC-East
- Additional Director in charge of RAC-West
- Six Deputy Directors of Accounts, Fourteen Accounts officer, One System analyst, One Programmer & remaining other staffs.
- Twenty-five Regional Accounting Centre offices headed by eight Deputy Director & 17 Accounts officer.

Director of Finance (No of sanctioned post: 40)

- Additional Director, Finance
- Three Deputy Directors, six Assistant Director, three Accountant & Other staffs

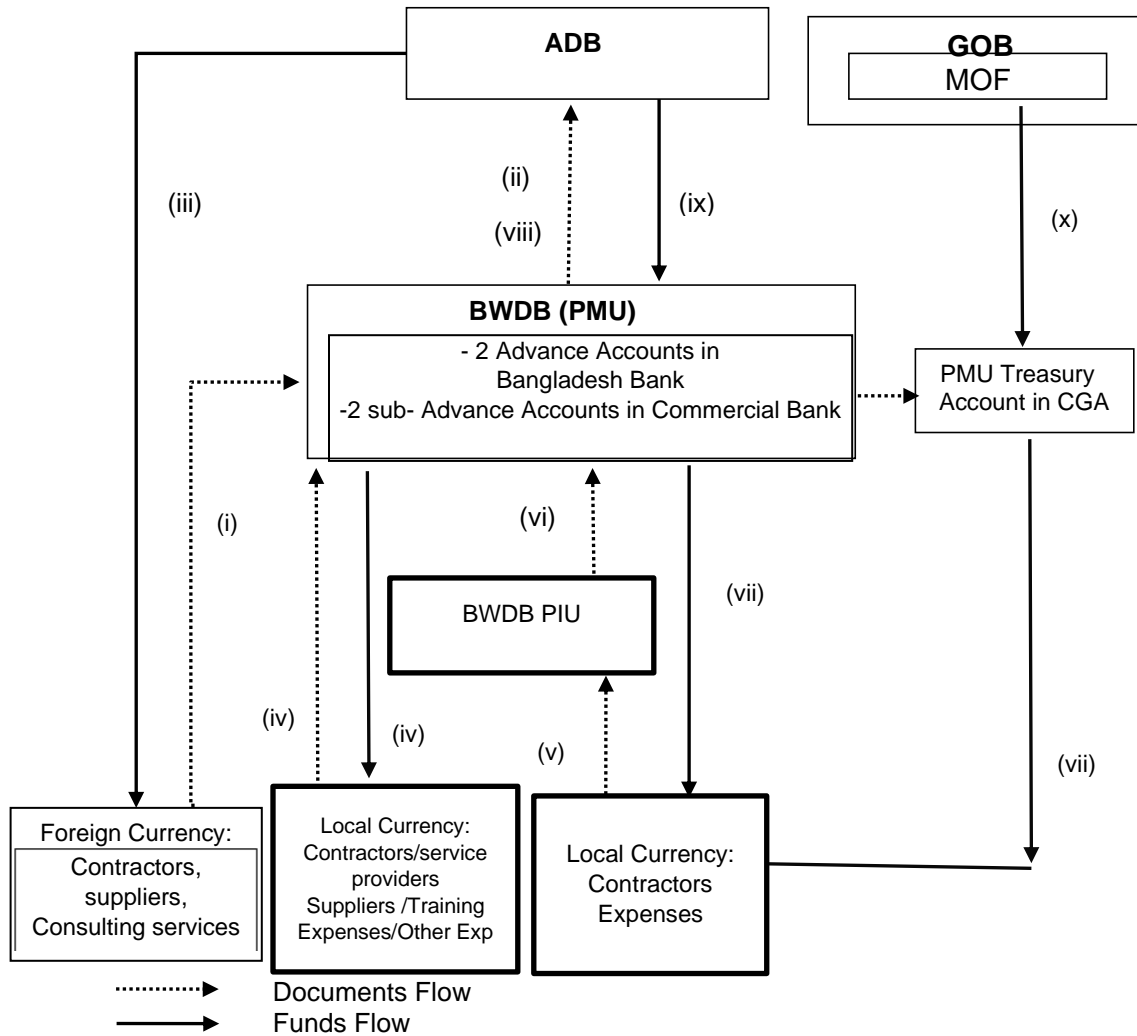
Director of Audit (No of sanctioned post: 46)

- Additional Director, Audit
- Three Deputy Directors, Seven Audit officer & Auditors and support staff

Trustee Board - Staff Welfare (No of Sanctioned post: 8)

- One Deputy Director, One Accounts Officer
- Other support staff

Annex 2: Flow of Funds



ADB=Asian Development Bank, BWDB= Bangladesh Water Development Board, GOB= Government of Bangladesh, CGA = Controller General of Accounts of Bangladesh, MOF =Ministry of finance, MOP=Memorandum of Payment, PMU = project management unit< PIU = Project Implementation Unit

Notes on funds flow:

For Direct Payment to contractors, suppliers or service providers in Foreign Currency:

- (i) Contractor/Supplier/Consultants submits claims to PMU
- (ii) PMU sends request to ADB for direct payments together with consultants' invoices and supporting documentation as necessary;
- (iii) ADB makes direct payment to consultants

For Other Payments and Expenditures under Local Currency & Counterpart Fund payments

- (iv) Service providers/suppliers/ submits claims to PMU for payments and PMU make the payment
- (v) Contractors submits claims to the PIU for payments.
- (vi) The PIU sends Memorandum of Payment (MOP) to PMU together with all supporting documentation as necessary. All supporting documents (or copy of such documents) to support expenditures claimed from ADB under Statement of Expenditure (SOE) are to be filed in the PMU to support ADB's SOE reviews and annual project audits
- (vii) Based on the received documentation, PMU makes payments to Contractors in Local Currency. The payments are made from the ADB sub-advance account and from the government counterpart account in accordance with the applicable financing percentage.
- (viii) PMU consolidates statement of expenditures and request ADB for liquidation/replenishment.
- (ix) ADB makes replenishment to Advance Account
- (x) Release of counterpart fund quarterly basis based on PMU request to MOF through LGD Planning Section and funds released to District Treasury Account in CGA.