A. INTRODUCTION

1. The financial management assessment (FMA) was conducted in accordance with the Asian Development Bank’s (ADB) Guidelines for the Financial Management and Analysis of Projects (2005), the Financial Due Diligence: A Methodology Note (2009), and the Financial Management Technical Guidance Note (2015).

2. Financial management assessment (FMA) is an attempt to determine the capacity of the executing and/or implementing agency to manage its financial resources effectively. Such a capacity is critical for the success of the program/proposed project. The FMA considered the financial management capacity of PNG Power Ltd (PPL) as the implementing agency, focusing on funds-flow arrangements, staffing and personnel, accounting policies and procedures, financial reporting systems, information technology systems, and internal and external auditing arrangements.

3. Assessment is based on the results of the FMA questionnaire, discussions with IA officials, and information available through various reports inclusive of PPL’s audited financial statements and various ADB project reports.

B. BRIEF DESCRIPTION OF THE PROJECT

4. The energy sector is a focus area for ADB in Papua New Guinea (PNG) which is identified in the ADB Country Partnership Strategy (CPS) 2016-2020. To support power sector development in PNG, the government and sector agencies reached an agreement and implementation arrangements on the proposed “Power Sector Development Project” (PSDP or project).

5. The project will cover expansion and strengthening of transmission and distribution network to connect approximately 75,000 additional households by end of the project and will take increased grid penetration.

6. The primary objective of the project is to provide for the rehabilitation, reinforcement and extension of the 132/66 kV transmission grids, 22/11 kV distribution system backbone and effect additional household connections.

C. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

7. The latest ADB’s Country Partnership Strategy\(^1\) identified the following challenges faced by the country in the area of public financial management, public procurement, corruption and energy sector assessment:

Public Financial Management

8. PNG has made progress in strengthening its budgeting system through broad adherence to three successive 5-year medium-term fiscal strategies since 2002. However, while the budget process aligns allocations well with priority sectors, many of the projects which are funded have often not had sufficient levels of preparatory and feasibility work undertaken to enable timely implementation. This misalignment requires government agencies to rush designs, cost estimates and tenders, which often leads to delays in contract implementation and delays lead to overspending.

\(^1\) Country Partnership Strategy 2016-2020
9. Other concerns include a lack of adherence to established rules and processes and the weakness of government agencies with regard to accounting and financial reporting, cost recovery mechanisms, the role and management of state-owned enterprises (SOEs), community service obligations and the financial capacity of lower-level governments.

**Public Procurement**

10. The legal and regulatory framework for procurement in PNG, as it has applied until very recently, was largely defined by the Public Finance (Management) Act, 2003 (PFMA), Financial Management Manual (FMM) and the Good Procurement Manual (GPM), issued by Central Supply & Tenders Board (CSTB). New legislation in the form of the National Procurement Act (NPA) became effective on 1st April 2019 and introduced significant changes in the procurement regime. Many of the problems with the previous laws governing procurement have been addressed by the enactment of this law.

11. The previous procurement regime in PNG were found to have several weaknesses, including the following:
   - The legal framework was fragmentary and, in some areas, flawed. Regulatory oversight and the policing of ethical behavior was weak.
   - National Standard Bidding Documents (SBDs) issued by CSTB were recommended for use by PNG’s public agencies but were often disregarded in favor of forms preferred by government agencies and their consultants.
   - The procurement regime did not provide for the prequalification of bidders.
   - The procedures for procuring goods and works and those for procuring consulting services were not clearly distinguished.
   - There were doubts about the consistency and effectiveness of the system of auditing procurements, handling complaints, prosecuting misconduct and resolving contract disputes.

12. The NPA ushers in significant changes over a transitional period. These include:
   - Institutional reforms have been introduced, such as the replacement of CSTB with a new National Procurement Commission (NPC);
   - Oversight of procurement has been strengthened by the inclusion of the agencies such as the Authority to Pre-commit Committee (APCC).
   - Threshold values have been revised.
   - The rights of local companies to bid for government contracts have been bolstered.
   - Consultancy services are a defined category of services under the NPA and treated accordingly.

**Corruption**

13. Despite recent attempts to create new anti-corruption institutions, the general perception remains that corruption is endemic in PNG. Various cultural factors are complicated for the government or ADB to address in the near term, but legal structures and institutions do exist to improve transparency. The questions turn to implementation capacity. Anti-corruption rules suffer from weak enforcement and a culture of impunity, and the limits of political commitment. Accountability institutions exist and have powers to investigate corruption but suffers in limitation of resources, staff and capacity.

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Sector Assessment

14. ADB’s activities in the energy sector are primarily conducted with PNG Power Limited (PPL). Past internal audits of ADB assistance found no clear indications of fraud or corruption. This cannot, however, be assumed to mitigate all risks. While a financial management assessment of PPL revealed that its financial management of current projects is generally satisfactory, improvements to the overall financial management environment are required. Focus for improvements have been on internal controls around key business processes such as procurement, sales to pay, project management and ensuring adequate staff to implement those changes. There is an ongoing focus on the effective integration of systems into the Oracle-based accounting platform.

15. Further, while PPL is a state-owned enterprise (SOE) with an implied cost-recovery business model, it has in some recent years been unable to generate sufficient revenues from consumer charges to cover its entire recurrent and capital expenditures. It has often led to depriving assets of maintenance and ultimately threatening service quality and sustainability of investments. Although PPL is an independent SOE, it is highly prone to political interference in its operations and most notably, its investment decisions. Considerable focus from senior management has been on strengthening the systems around procurement and decisions relating to capital investment.

D. PROJECT FINANCIAL MANAGEMENT

Major Experiences in Implementing externally funded projects

16. PPL has an extensive experience to manage projects financed by international funding agencies like ADB. Previously, PPL had implemented four ADB loans under ELCOM the last being in 1989. Currently, PPL is implementing four externally-financed projects, two from ADB, and one each JICA and NZ-MFAT.

17. PPL’s on-going implementation projects are ADB’s (1) POM Grid Development Project (Project Cost-$65.2 Million) and (2) Towns Electrification Investment Project (Tranche I Project Cost-$52.6 Million and Tranche II $61.0 Million), (3) JICA’s Ramu Transmission Reinforcement Project (Project Cost-$74 Million) and Tsak Valley Electrification Project funded by mixed funds sharing from NZ-MFAT, DFAT and PNG Government (Project Cost-Kina 30 million).

Implementing Agency

18. PPL is a fully integrated power authority responsible for the generation transmission, distribution and retailing of electricity throughout the country and servicing electricity consumers. PPL services customers in all urban centers encompassing industrial, commercial government and domestic customers. Where possible, the services extend to rural communities adjacent to these urban areas.

19. In 2010, PPL was also delegated a regulatory role by the Independent Consumer and Competition Commission (ICCC) to approve licenses for electrical contractors, provide certification for models of electrical equipment and appliances as well as to ensure safety advisory services and checks for major installations.

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4 OCR loan amount is $51.7 million and ADF loan amount is $13.5 million
5 OCR loan amount is $37.9 million and ADF loan amount is $14.7 million
6 OCR loan amount is $55.0 million and ADF loan amount is $5.05 million
7 Original amount per loan agreement is Yen 8.34 billion.
20. Currently, PPL manages installed generation capacity of about 320 MW, including the two main grids and 26 other smaller urban centers through 19 independent power systems. Electricity provided by PPL to consumers is mostly sourced from hydropower and diesel generation.

**Funds Flow Mechanisms**

21. ADB funds will be channeled to the Government of PNG through the Treasury Department and will be on-lent to PPL. Disbursement of funds will be in accordance with ADB’s policies and procedures on disbursements. For Direct Payment method, payment will be made directly to contractors, suppliers or consultants.

22. The ADB loan terms and conditions will be applied for the loan repayment to ADB by the Government, while the borrowing terms and conditions of the Government shall be adopted for the repayment by PPL to the Government. It is assumed that the re-lending rate by ADB will be the same rate that the Government will charge PPL. In the previous projects, the Treasury Department have on-lent the funds to PPL in an arrangement between the two parties separate to ADB.

**Funds Flow Diagram**

![Funds Flow Diagram](image)

**Staffing and Personnel**

23. PPL is currently in the process of re-organization, a new Chief Financial Officer was appointed in May 2019 along with a new Executive General Manager Finance and Shared Services (EGM) in September 2019. PPL’s financial operations are performed by the Finance Business Group under the direct supervision of the Executive General Manager (EGM).
Finance and Shared Services. The EGM is currently supervised by the Managing Director. Under the new structure, the Finance Group headed by the Financial Controller has seven divisions. Each division is led by a senior manager and/or specialist and assisted by Team Leaders and staff. Currently, 4 of the key positions below are vacant and recruitment for the EGM role is ongoing, with a shortlist of 3 finalized. Below is the organizational structure of the Finance Management Team under the Finance and Shared Services Unit.

**Figure 1: Organizational Chart of Finance & Shared Services**

![Organizational Chart of Finance & Shared Services]

**Project Finance**

24. The financial management of the three on-going projects funded by ADB and JICA is currently ring-fenced. A separate Project Management Unit (PMU) has been set-up for each project to oversee and supervise the proper project implementation. It is headed by a PMU Manager and is supported by technical and financial staff. The financial accounting and control, including financial reporting, are done separately for each project. This method has proved effective. The overall financial control and supervision, including fund disbursements and monitoring, is managed by the Manager, Project Finance. On discussions with the Auditors completing the 2019 project audits they have highlighted delays in processing given the processing of PMU expenditure through PPL processes.

25. Similarly, the proposed PSDP will have its own PMU modelling of the existing structures. The PMU will be set-up during the implementation stage of PSDP. Correspondingly, the project accounting for the proposed project will be handled by the Project Finance Group. The group has qualified staff and has the experience to manage project accounts. Some of the personnel from this Unit has adequate training gained from previous and existing projects undertaken by PPL. Newly hired staff will be given proper and suitable training to comply with ADB loan policy guidelines and procedures.

**Accounting policies and procedures**

26. PPL employs the accrual basis of accounting in recording financial transactions and financial reporting. The agency recognizes the use of the Advance account system, the
voucher and check disbursement systems for processing payment of all types of expenditures. It follows the International Financial Reporting Standards (IFRS) in the preparation of financial statements.

27. PPL is currently using Oracle Version 11 software installed in 2002. Financial information and all accounting transactions are captured by the software and can produce reports up to the preparation of Trial Balance, Income Statement and Balance Sheet while the Cash Flow Statement is done manually in Excel.

28. For cash and bank accounts, PPL maintained its deposit accounts with the Bank of South Pacific (BSP). All collections from customers are deposited intact into this account on a daily basis. There are about 34 collection centers all over the country. Status of the cash balance is monitored through the Oracle database system, and cash book is likewise maintained in the system itself. Monthly bank reconciliation is performed regularly to ensure the correctness of the cash balance.

29. Cash disbursements are processed using a check voucher system. Currently, PPL had assigned five check signatories; namely (1) Mr. Phill Oreily - Executive General Manager (EGM) Finance and Shared Services (2) Mr. Douglas Mageo -(EGM, Transmission & Distribution, (3) Michael Penrose-EGM-Retail, (4) Mr. Josua Tuwai Naisau-EGM- People & Culture, and (5) Ms. Bernadette Ombu - Financial Controller The signatories are authorized to sign all cheques, Bills of Exchange, Promissory notes and any other financial instruments on behalf of PPL. The authority-to-sign is effective 30 November 2018 per Board Resolution No. 6/2018 dated 30 November 2018.

Internal Audit

30. The Internal Audit Group (IAG) has an approved 18 internal positions, and 12 positions have been filled. The IAG is headed by a Senior Manager and has 4 Team Leaders to supervise the regular conduct of the audit. Team Leader for Risk Management Investigation is still vacant. The audit group is directly reporting to the Board of Directors. The auditors carry out the audit not only involving financial but as well as a technical audit on PPL's capital assets. The organizational structure of IAG is presented in Figure 2:

Figure 2: Organizational Chart of Internal Audit Group
31. Functionally the Internal Audit Unit is reporting directly to the Board through the Board Audit Risk & Compliance Committee and administratively to the Managing Director.

32. The annual audit plan is developed based on the risk profile and endorsed by the Managing Director to be approved by the Board. No pre-audit of transactions is being done unless requested by management. The Internal Audit Unit has not undertaken any audit of the project funds, it has been requested that future projects are included in the IA plan.

33. The audit findings and recommendations are coursled through the Management and reported to the Board of Directors. As gathered from the Internal Audit, not all audit findings are being addressed by the management.

**External Audit**

34. The external audit is conducted by a private auditing firm engaged by the Auditor General's Office (AGO) under the supervision of the Auditor General (AG) of PNG. The AGO assigns the audit to firms on a rotational basis. Current auditor is Ernst and Young and has been the External Auditor since 2014 and will conduct the 2018 through 2020 audits.

35. Audit findings and report are submitted to the Auditor General for confirmation and approval. The external auditor will likewise prepare the Management Letter and endorse the same to the AGO. The AGO then reviews the file and the AG issues the final report will then the management letter to PPL for compliance.

36. The release of the audit report for the fiscal-year (FY) 2017 financial report was significantly delayed, and the signed report was not released until June 2019 almost a year behind schedule. Usually the audit takes place from April – September, but is technically due 30 June of each year. According to PPL’s Finance Business Unit, the 2017 audit has been finalized and approved, and the audit report and management letter was issued towards the end of December 2018. Receipt of signed documents five months later could indicate delays in the AGO.

37. The Auditor’s General Office (AGO) issued a “Disclaimer of Opinion” on the results of the FY 2017 audit due to unreliable opening balances and lack of transparency on audit supporting documents. The AGO was not able to satisfy themselves as to the accuracy and completeness of the opening balances of the following accounts: (i) capital work in progress, (ii) property, plant and equipment, (iii) inventories, (iv) trade and other receivables, (v) trade and other payables, (vi) employees and other provisions, and (vii) income tax balances as at December 31, 2016. PPL was not able to provide the Auditor, the necessary documents to support the establishment of account balances.

38. Since the opening balances substantially affect the determination of the results of operation and cash flows of PPL for the FY 2017, the AGO was not able to establish whether adjustments to the results of operation, cash flows and statement of financial condition are necessary for the year 2017.

39. As observed, these weaknesses/flaws in financial accounting and internal control systems have been continuing for the past three years as indicated in previous years audit findings. PPL management needs to institute reforms specifically on financial matters to improve the existing situation. An in-depth reassessment of the financial policies and procedures, internal control systems, as well as the automated financial accounting system, has been conducted by an external party and the Executive Manager of Finance has tabled with the Board an approved FM reform agenda for the next 12 months and subsequent years.
40. Significant work has been undertaken by the PPL finance team in conjunction with Deloitte and the external auditors to rectify the underlying issues identified which led to the adverse opinion. PPL is scheduled to issue the 2019 and 2020 financial statements by 30 June 2021 and the expectation is that the disclaimer of opinion will be removed for these years.

**Financial Reporting System**

41. Financial reporting and monitoring are the sole responsibility of the Finance Business Unit (FBU). PPL financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). These financial statements are prepared monthly and are supposed to be audited annually.

42. The Trial Balance is generated from the Oracle System Software. The Financial Statements are then prepared manually from the mapping within the system.

**Information Technology**

43. The financial management system of PPL is fully computerized using the Oracle 11 Database Integrated Software system. Several other software sub-systems are used in other accounting-related activities and eventually these are integrated into the Oracle system.

44. The Easipay transactions are captured using the Suprema software, which is then transferred to the Oracle Database. The billing and collection of credit meters and customer data are in the software called Gentrac III, while Easipay transactions are captured thru Suprema. All billing and collection operations are linked to Oracle. On the other hand, the payroll transactions are processed using the Chris21 software and likewise integrated with the Oracle system. The main system will consolidate all accounting transactions and produce the monthly Trial Balance, Income Statement and Balance Sheet. Cash Flow Statement is produced off-system using the Excel Spreadsheet. The system is being updated to eventually enable the production of financial statements.

45. The processing system safeguards the confidentiality and integrity of the accounting data since it is protected by a password at every level for data entry into the system. Passwords are changed regularly, and data are backed-up daily. Further, the Unit is supported by a full-time IT Consultant and an on-line support from Oracle Australia.

**A. RISK ASSESSMENT**

46. The FMA has considered two types of risks: (i) inherent risks, i.e., risks outside the direct control of PPL’s financial management and (ii) control risks, i.e., risks concerning the internal functioning and control of the PPL Finance and Administration Section. The following key risks have been identified:

<table>
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<tr>
<th>Weakness</th>
<th>Impact</th>
<th>Likelihood</th>
<th>Risk</th>
<th>Mitigating Measure</th>
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<tbody>
<tr>
<td>Inherent Country Risk</td>
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### 1.1 Procurement

A number of weaknesses have been identified within the previous procurement framework including:

- Fragmented legal framework with limited oversight.
- Standard Bidding not being followed.
- No prequalification of bidders.
- Inadequate separation between procurement of goods and consultancy services.
- Inconsistent and ineffective processes for handling the auditing of procurement, handling of complaints and addressing mis procurement.

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The newly introduced National Procurement Act (NPA) looks to implement important changes including:

- Replacing the CSTB with a new National Procurement Commission (NPC);
- Introduction of the Authority to Pre-commit Committee (APCC).
- Threshold values have been revised.
- The rights of local companies to bid for government contracts have been bolstered.
- Consultancy services are a defined category of services under the NPA and treated accordingly.
- Procurement review completed and revised policy approved by the Board in Q1 2021.

### 1.2 Corruption

Despite recent attempts to create new anti-corruption institutions, the general perception remains that corruption is endemic in PNG. Various cultural factors are difficult for the government or ADB to address in the near term, but legal structures and institutions do exist to improve transparency. The questions turn to implementation capacity. Anti-corruption rules suffer from poor enforcement and a culture of impunity, and the limits of political commitment. Accountability institutions exist and have powers to investigate corruption but suffers in limitation of resources, staff and capacity.

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<th>High</th>
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In February 2020 PNG Parliament voted overwhelmingly to introduce a 'Whistle-blower Act' designed to increase the responsiveness and ability for government to identify and respond to corruption.

Reforms to SOEs underway in 2020/21 also provide a greater platform for strengthened governance and increased transparency around Board and management appointments.

### 1.3 Shortage of foreign currency

PNG has finite reserves, limited access to international credit markets, and heavy reliance on commodity prices suggest there is a significant macroeconomic country risk.

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Continuous monitoring by ADB of macroeconomic conditions; assessment of impacts of external shocks, particularly with respect to commodity prices; coordination with other development partners; and potentially other forms of assistance. Close oversight of the Staff Monitored Program run by the IMF.

### Overall Inherent Country Risk

High

### Control Risks – Entity Level PPL
### 1.1 Project Delays
Despite a long history of running ADB projects in PPL, there are persistent delays in the implementation of projects which leads to increased commitment charges and delays in project outcomes including revenue flows.

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PPL must continue to leverage the lessons learned from existing projects. The establishment of a Project management division will help address the delays. Pre-procurement will also be used to ensure there is minimal time in starting the project after loan effectiveness. CPD has been rolled out across all PPL projects.

### 1.2 Comingling of funds.
Funds may be used across projects and outside the budgeted designations. This risk is exacerbated by the cash flow constraints faced by PPL.

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Continued monitoring through the audit and PNRM oversight mechanisms. Reinforcement of guidelines around comingling of funds with the PMU and EA. Ensuring separate bank accounts are created for each source of funding; limiting the possibility of misuse through comingling.

### 1.3 Project Personnel
Staffing constraints within PPL mean that there are not enough finance staff with the Project division to implement the new PMU and there are existing vacancies throughout PPL FM division.

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PPL will establish a separate PMU for the PSDP Project. They will leverage the existing knowledge within the project division and ensure all FM staff hired receive adequate training in ADB disbursement requirements. PPL is actively engaged in recruiting to fill the current gaps with the Financial Group.

### 1.4 PPL Finance Personnel
Key positions are currently being recruited for including the Executive GM of Finance. With the high-level reform agenda being driven by these key personnel there is a risk that the incumbent staff take time to continue the work necessary.

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Continue to identify and recruit high quality finance staff to fill the required vacancies highlighted. We note that the current EGM has extended his contract with a view to provide significant and thorough handover to the replacement. We also note that the EGM will likely take a role on the KCH board where input and guidance will still be provided through the SOE oversight channel.

### 1.5 Underutilization of the Financial Reporting system
PPL reports under International Financial Reporting Standards (IFRS) and utilizes Oracle version 11. The lack of skilled operators and support staff means there is an increase in the use of manual journals and the potential for inaccurate reporting to occur. There are also increased inefficiencies by reverting to manual processes over utilization of automated functions, increasing the risk of human errors.

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PPL have identified the need to increase the level of training and utilization of the Oracle system. Implementing additional training and utilization specialist support is part of the Reform Agenda established by PPL senior management.
1.6 Internal Audit – There is an IA function that operates. However there are instances were recommendations are not implemented or effectively followed up. Increasing the risk that weaknesses identified may persist. It has also been identified that the there is limited understanding of the ADB processes and disbursements in the IA function. The board needs to approve the IA plan and ensure that ADB processes and projects form part of the yearly plan along with other internal and externally funded projects. The board needs to monitor the implementation of IA recommendations.

1.7 External Audit disclaimed opinions – Internal control breakdowns. PPL has produced disclaimed opinions since 2013. The current review has highlighted weaknesses in 3 key areas:
- Purchase to Pay
- Billing to Cash
- Asset/Capital management
The risk that internal controls remain weak and the potential for errors and mismanagement of funds and resources remains.

1.8 Cash flow constraints – PPL has been operating in a net loss position for several years. This puts additional stress on assets and operations and can lead to a deteriorating asset base and further losses into the future.

Overall Control Risk
High

Overall Combined Risk
High

B. PROPOSED ACTION PLAN

47. The following initial Financial Management Action Plan has been prepared based on the basic principles of sound financial management practices in the areas of (i) internal control, (ii) funds flow, (iii) accounting and financial reporting, and (iv) independent audits. This action plan will be updated annually based on discussions with the government as well as based on the results of the annual fiduciary reviews conducted. The below actions have been identified in conjunction with the Reform Agenda established by PPL management to address the longstanding weaknesses in the FM control environment. The below includes recommendations from the reporting conducted by external consultants for PPL to address those weaknesses. Timing of this project means we have been able to observe the Reform Agenda plan for over a year and comments as the relate to the mitigation actions are included. ADB also supports the Reform Agenda through the SOE Reform PBL Program which provides direct TA as well as strengthens the overall governance framework both within PPL and the
wider environment to also addresses some of inherent risks identified.

<table>
<thead>
<tr>
<th>Weakness</th>
<th>Risk</th>
<th>Mitigating Action</th>
<th>Action already taken</th>
<th>Responsibility</th>
<th>Date</th>
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<tbody>
<tr>
<td>Project Delays</td>
<td>Outputs delayed</td>
<td>Establishment of a dedicated project management Division that will oversee all projects. Pre procurement will begin as soon as is practical. Continued Monitoring of CPD by PNRM</td>
<td>The Project Development Office has been established in Early 2021 and is headed up by Douglas Mageo former Acting MD. Recruitment is ongoing.</td>
<td>PPL/ PNRM</td>
<td>Project division to be operational by loan effectiveness 31 July 2021. Pre-procurement to be worked on as soon as is practical. CPD monitoring will be ongoing.</td>
</tr>
<tr>
<td>Commingling of funds</td>
<td>Potential for project funds to be used outside their scope.</td>
<td>The funds flow arrangement will be largely line with existing format. Separate accounts will be opened for every source of funding.</td>
<td>All current projects continue to keep and run separate accounts. The account can only be requested from Department of Finance once the loan is approved.</td>
<td>PPL/ PNRM</td>
<td>To be established by loan inception.</td>
</tr>
<tr>
<td>Project staffing</td>
<td>Inadequately experienced project staff increase the chance that outputs won’t be fulfilled.</td>
<td>The establishment of a PMU that utilizes high quality staff with relevant experience and leverages of existing ADB experience. All new staff to receive training in ADB processes.</td>
<td>The PMU will operate within the PDO. Staff already in the PDO have received CPD training during 2021.</td>
<td>PPL/ PNRM</td>
<td>PMU to be established by loan effectiveness 31 July 2021. Training will be ongoing in conjunction with PPL</td>
</tr>
<tr>
<td>PPL Staffing</td>
<td>The risk that current vacancies in the structure that need to be filled.</td>
<td>Finalize the revised structure of the finance team and complete the necessary hiring. Ensure all financial manuals are up to date and approved. This will allow for new staff to follow and roles to be clear of there are any changes.</td>
<td>Revised FM structure has already been approved in Q1 2021. Recruitment is ongoing. Several policy manuals have already been updated in 2020 including procurement, sales and reporting processes.</td>
<td>PPL</td>
<td>Revised structure to be complete by effectiveness and the hiring process to be underway, with a program to be complete within 12 months. ADB has provided TA support through the SOE Reform PBL and will continue to look for areas to support PPL. FM manuals update well underway, to be completed within 12 months.</td>
</tr>
<tr>
<td>Financial reporting system</td>
<td>Underutilization of the Oracle system reduces the accuracy and timeliness of financial reporting</td>
<td>Finalize the report the Oracle usage report and develop a strategy to maximize the system and appropriately train the users.</td>
<td>Restoration of several of the automated Oracle functions; accruals/reporting. ICT steering committee has been established. Recruitment of an Oracle expert is ongoing and delayed because of COVID 19.</td>
<td>PPL</td>
<td>Report to be issued by inception and training to be conducted and implemented within 12 months of loan effectiveness 31 July 2021.</td>
</tr>
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</table>
48. The following are the suggested to be included as part of the financial management covenants:
   a) PPL to mandate the IAD to include the Investment Program in its annual audit plan and to conduct regular audits of project accounts including reviews on the implementation of findings.
   b) Current ratio to be maintained above 1.2 by the financial year ending 31 December 2023, and 1.5 beyond that.
   c) the average overall accounts receivable shall not exceed at any time the equivalent of 2 months energy sales.
   d) PPL to engage consultants in Procurement, Oracle, Project Management to address these areas as outlined in the reform agenda.
   e) PPL should conduct targeted training of finance and accounting personnel on the Oracle system as required

C. CONCLUSION

49. The investment program will cover expansion and strengthening of transmission and distribution network to connect approximately 75,000 additional households by end of the program by taking increased grid penetration, enhance monitoring capabilities of PPL, replacing diesel generation in provincial centers with renewable energy sources mainly hydropower/solar and capacity development of power sector agencies. However, the results of the Financial Management and Internal Control Risk Assessment for the proposed Investment Program identified several financial management risks in staffing, reporting and monitoring, information systems, audits and funds flow. The inherent and control risks were assessed as high and as a result the overall combined risk is also high. Although several major financial management risks were identified, the proposed mitigating measures are sufficient for the satisfactory implementation of the Investment Program. The summary of the risks and mitigating measures are presented in the above action plan along with the relevant deadlines.