

Financial Management Assessment

June 2018

Lao PDR: Climate-Friendly Agribusiness Value
Chains Sector Project

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ACRONYMS

ADB	-	Asian Development Bank
DAFO	-	District Agriculture and Forestry Office
DPIU	-	District Project Implementation Unit
DOPC	-	Department of Planning and Cooperation
EA	-	Executing Agency
FMA	-	Financial Management Assessment
GACAPII	-	2 nd Governance and Anticorruption Action Plan
GMS	-	Greater Mekong Subregion
IFAD	-	International Fund for Agriculture Development
LDH	-	Loan Disbursement Handbook
LICPA	-	Lao Institute of Certified Public Accountants
MAF	-	Ministry of Agriculture and Forestry
MOF	-	Ministry of Finance
NPMO	-	National Project Management Office
ODA	-	Overseas Development Assistance
PAFO	-	Provincial Agriculture and Forestry Office
PAM	-	Project Administration Manual
PFM	-	Public Financial Management
PFS	-	Project Financial Statement
PIC	-	Project Implementation Support Consultants
PIU	-	Project Implementing Unit
PPIU	-	Provincial Project Implementation Unit
SAO	-	State Audit Organization
SOE	-	Statement of Expenditure
TOR	-	Terms of Reference

EXECUTIVE SUMMARY

1. The Financial Management Assessment (FMA) was conducted in accordance with the Asian Development Bank (ADB) guidelines. The FMA covers the Ministry of Agriculture and Forestry (MAF) as the executing agency and the Provincial Agriculture and Forestry Office (PAFO) of participating provinces as the implementing agencies. The objective of the assessment was to determine whether the entities implementing the project have acceptable financial management arrangements that can comply with ADB accounting and reporting requirements. Previous FMA for MAF and participating PAFOs was completed in preparation for the ADB loan to Lao PDR: Northern Smallholder Livestock Commercialization Project.

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

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

4. The MAF and participating PAFOs have extensive experience in the implementation of externally funded projects, including those funded by ADB. Mitigating measures to address the shortcomings include: (i) experienced and qualified staff shall be appointed in the NPMO and PPIUs; they will be trained in ADB procurement guidelines, project accounting and reporting requirements; support and training will be provided by a procurement consultant and a financial management consultant, members of the project implementation support consulting team; (ii) ADB bidding, procurement and disbursement guidelines will be used; (iii) project financing plan has been formulated to limit government contribution to salaries of government counterpart staff and office space to ensure affordable counterpart financing; (iv) ADB funds flow arrangements, which have been tested in prior projects and proven successful, will be used; (v) accounting policies and procedures consistent with generally accepted accounting principles will be used and financial reporting shall be in accordance with ADB requirements; (vi) NPMO will recruit an external auditor whose qualifications, experience and TOR are acceptable to ADB; annual external audit will be in accordance with international auditing standards; and (vii) regular

backups of all financial, accounting and project related data and appropriate security measures over backed-up data shall be in place. With risk mitigation measures, the overall risk level for the project is assessed as moderate.

I. INTRODUCTION

1. The Financial Management Assessment (FMA) was conducted in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects¹ (the guidelines) and the publication, Financial Due Diligence, A Methodology Note.² The instrument used for the assessment was ADB's financial management assessment questionnaire (Appendix 1).

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

3. The FMA incorporates a summary Financial Management Internal Control and Risk Assessment required by the guidelines (Table 3). The FMA covers the Ministry of Agriculture and Forestry (MAF) as the executing agency and the Provincial Agriculture and Forestry Office (PAFO) of participating provinces as the implementing agencies. Previous FMA for MAF and participating PAFOs was completed in preparation for the ADB proposed loan to Lao PDR: Northern Smallholder Livestock Commercialization Project.

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

II. PROJECT DESCRIPTION

5. The proposed Climate-Friendly Agribusiness Value Chains Project will invest in pro-poor and inclusive agricultural value chains in three countries of the Greater Mekong Subregion (GMS), namely, the Kingdom of Cambodia, the Lao Peoples Democratic Republic (Lao PDR) and the Republic of the Union of Myanmar. In overall terms, the Project aims to enhance rural household incomes and agricultural competitiveness by (i) providing improved critical production and post-harvest infrastructure; (ii) reducing energy costs to agribusinesses by promoting bio-energy use and sustainable biomass management; and (iii) improving agribusiness policy and capacity support services.

6. In Lao PDR, the project's output activities will target agribusiness investments in areas where the country is deemed to have a comparative advantage in the production and marketing of the core selected commodities of rice and vegetables, viz (i) the rice value chain in

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

² ADB. 2009. *Financial Due Diligence A Methodology Note*. Manila.

Khammouane, Savannakhet, and Saravan provinces (ii) the vegetable value chain in Champasak, Sekong, and Vientiane provinces.

7. The project will have three outputs: (i) Critical agribusiness value chain infrastructure improved and made climate-resilient; (ii) Climate smart agriculture and agribusiness promoted; and (iii) Enabling environment for climate-friendly agribusiness enhanced. The project will target Khammouane, Saravan and Savannakhet provinces for improving rice value chains and Champasak and Sekong provinces as well as Vientiane Capital region for improving the vegetable value chains.

8. The project is estimated to cost \$46.23 million (Table 1).

Table 1: Project Investment Plan (\$ million)

Item	Amount
A. Base Costs^{a, b}	
1 Critical agribusiness value chain infrastructure improved and made climate-resilient	25.89
2 Climate smart agriculture promoted	4.63
3 Enabling environment for climate-friendly agribusiness enhanced	1.92
Project management activities	7.58
Sub-total (A)	40.01
B. Contingencies^c	6.22
Total (A+B)	46.23

^a Includes taxes and duties of \$4.05 million to be financed by ADB.

^b In the 4th quarter 2017 prices.

^c Physical contingencies computed at 10% for civil works and equipment, and 5% for the other expenditure categories. Price contingencies on foreign currency costs computed at 1.5% between 2018 and 2020, and 1.6% thereafter. Price contingencies on foreign currency costs computed at 1.5% in 2018, 2.0% in 2019, and 2.5% thereafter; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

Source: Asian Development Bank.

9. The government has requested a grant not exceeding \$40.50 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. Sector lending modality is appropriate for this project as the government has a sector development plan (footnote 1) and has demonstrated adequate capacity to implement the plan. Overall sector policies are adequate but need improvement to enable the growth of agribusinesses. The modality enables the government to identify and finance additional subprojects while continuing to execute necessary policy reforms in implementation of the sector development plan.

10. The financing plan is presented in Table 2 below.

Table 2: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	40.50	87.6
Government of Lao PDR	0.74	1.6
Beneficiaries	4.99	10.8
Total	46.23	100.00

Source: Asian Development Bank.

Note: The Green Climate Fund is expected to approve \$30 million in grant to cofinance the project, which will be administered by ADB. Upon such approval, the administration of cofinancing will be processed following applicable ADB procedures.

Table 2 - Detailed Cost Estimates by Expenditure Category

	Amount	% of Base Cost
A. Base Costs ^{a, b}		
Civil Works	12.44	31.1%
Equipment (Public), Materials, Supplies, Office Operations and Vehicle	5.33	13.3%
Equipment (Private)	10.75	26.9%
Training, Workshops, Studies, Policy Development	5.51	13.8%
Consulting Services	5.33	13.3%
Government Staff	0.65	1.6%
Subtotal (A)	40.01	100.0%
B. Contingencies ^c		
Physical	3.25	8.1%
Price	2.97	7.4%
Subtotal (B)	6.22	15.5%
Total Project Costs (A+B)	46.23	115.5%

Note: Figures may not sum due to rounding.

^a Includes taxes and duties of \$4.05 million to be financed by ADB

^b Base costs in 4th quarter 2017 prices

Physical contingencies computed at 10% for civil work and equipment, and 5% for the other expenditure categories;

^c price contingencies computed at 1.5% between 2018 and 2020, and 1.6% thereafter for foreign currency costs; 1.5% in 2018, 2.0% in 2019, and 2.5% thereafter for local currency costs; conversion between currencies assumes purchasing power parity.

Source: Asian Development Bank estimates.

III. COUNTRY ISSUES

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

A. Public Financial Management

12. In 2010, PFM arrangements in Lao PDR were assessed by the World Bank using the PFM Performance Measurement.³ Table 1 is a summary of the results of this assessment. Indicators are scored from A to D, with A indicating better performance.

³ World Bank. 2010. *The Lao People's Democratic Republic Public Expenditure and Financial Accountability, Public Financial Management Assessment*. Washington, D.C. (June).

Table 3: Summary of 2010 Performance Measurement Framework

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

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

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

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

14. The external audit oversight function by the State Audit Organization (SAO) is improving. The new State Audit Law 2007 enhances its independence by having the SAO report to the

National Assembly rather than the Prime Minister as previously. ADB has provided technical assistance to strengthening the capacity of the SAO focusing on improving the audit of public sector procurement practices.⁴ The majority of ADB financed projects in Lao PDR are audited by the SAO. While this provides an opportunity for continuous capacity building, there have been recent reports of delayed submission of ADB-financed project's Audited Financial Statements due to the SAOs heavy workload, compounded by insufficient staffing and attrition of experienced auditors.

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

B. Management and Skills Capacity

16. The overall quality of accounting education and training in Lao PDR does not meet demand to produce qualified professional accountants and auditors needed to support the rapid sustainable development of the country. The Lao Institute of Certified Public Accountants (LICPA) lacks capacity to operate effectively, and there is no system of oversight of auditors or accountants practicing in Lao PDR. The LICPA does operate a CPA certification scheme, but this program falls short of compliance with IFAC International Education Standards. No university in Lao PDR provides a specific accountancy degree program. There is a lack of provision of required accountancy training and skilled local professionals. As a result, there are currently few local accountants with internationally recognized qualifications working in either the public or private sector. Countrywide, there are 40 accounting firms operating in Lao PDR, including three local offices of the large international accounting firm networks.⁵

17. Procurement capacity is also limited with no professional procurement stream within the government.⁶ Financial management and procurement capacity development is therefore required as a matter of priority. If this deficiency is not addressed in a comprehensive manner it will increasingly constrain progress with the PFM reforms, including proper governance accountability at the national and subnational levels, and as a result diminish Lao PDR's competitiveness.

C. Country Environment

18. **Governance.** The system of governance within Lao PDR is characterized by centralized decision making, limited transparency and public service (especially at the subnational level),

⁴ ADB. Lao People's Democratic Republic: Strengthening the Capacity of the State Audit Organization Project. <https://www.adb.org/projects/42226-012/main>.

⁵ World Bank. 2009. *Report on the Observance of Standards and Codes, Lao PDR*.

⁶ IDA and IFC. 2012. *Country Partnership Strategy for Lao People's Democratic Republic for the Period FY2012-FY2016*.

weak capacity and a slowly evolving legal and judicial system.⁷ Lao PDR's governance performance is well below the ASEAN average on most key indicators except political stability (Table 2). Similarly, among a pool of 215 countries included in the World Bank's Worldwide Governance Indicators,⁸ in 2014, Lao PDR was among the weakest in governance and was listed either in the lowest or second lowest quintile for all indicators except political stability.

Table 4: ASEAN Governance Indicators 2014

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

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

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

19. **Procurement.** Procurement procedures in Lao PDR are regulated under Decree No. 03/PM and its associated implementing rules and regulations (IRR) 0063/MOF (2004) and 0861/MOF (2009). The Ministry of Finance (MOF) Procurement Manual (2009) prepared by MOF's Procurement Monitoring Office (PMO) provides further guidance on procurement procedures. The legal framework governing procurement is generally based on World Bank standards and deals separately with works, goods and consulting services. The legal framework is explicit and comprehensive. Article 12 of IRR 0063/MOF clearly states that in the case of conflicting provisions, the procurement procedures of donor agencies/development partners take precedence over Decree No. 03/PM or its associated IRRs. As a result, ADB projects are designed and implemented in accordance with ADB's Procurement Guidelines. While procurement methods falling short of open competition have often been applied for government-financed procurement, this is unlikely for procurement under the project.

20. **Anti-Corruption.** Many of the features most commonly associated with systemic corruption exist in Lao PDR. The Freedom House report, *Freedom in the World 2012 – Laos*, noted that “*Corruption by government officials is widespread. Laws aimed at curbing graft are*

⁷ ADB. 2010. *Country Assistance Program Evaluation, Lao People's Democratic Republic: Sustainable Growth and Integration*. Manila.

⁸ The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries.

rarely enforced, and government regulation of virtually every facet of life provides many opportunities for bribery.”⁹ In 2017, the Transparency International Corruption Perception Index ranked Lao PDR at 135 of 180 countries assessed. Previously, the country had a rank of 145 in 2014 (pool of 174 countries), 160 in 2012 (pool of 176 countries), and 154 in 2010 (pool of 178 countries). The 2006 Anti-Corruption Law provides for criminal proceedings for fraud and corruption, and the government’s ratification of the United Nations Convention against Corruption in 2008 provides further impetus for the fight against corruption.

D. ADB Country Portfolio

21. As of 23 March 2018, the Lao PDR portfolio comprised 28 projects (42 loans and grants) worth \$729.38 million. Largest sectors are agriculture and natural resources (28%), transport (16%), and education (14%). Contract awards in 2017 totalled \$95.97 million (73% of the annual projection). As of 23 March 2018, contract awards reached \$12.35 million (6% of the annual projection of \$222.92 million). Disbursement in 2017 totalled \$64.50 million (83% of the annual projection). Disbursement as of 23 March 2018, is \$9.07 million (5% of the annual projection of \$183.04 million). It is expected financial projections for 2018 will be revised. ADBs sector divisions and the Lao PDR Resident Mission are assisting executing agencies accelerate contract awards and disbursement by supporting project start-up specialists, holding procurement, financial management and disbursement clinics for project staff, and providing direct advice on consultant recruitment procedures based on need.

IV. PROJECT FINANCIAL MANAGEMENT SYSTEM

A. Overview of the Executing and Implementing Entities

22. The executing agency for the project will be the Ministry of Agriculture and Forestry (MAF). MAF will delegate the responsibility for overall project coordination and management to its Department of Planning and Cooperation (DOPC). In turn, DOPC will establish a national project management office (NPMO) that will be responsible for project coordination and management, including financial management of project accounts, procurement of goods and works, recruitment of consultants, and monitoring and reporting.

23. In the six provinces of Vientiane, Khammouane, Savannakhet, Saravan, Champasak and Sekong, the implementing agencies will be the provincial agriculture and forestry offices (PAFO). A provincial project implementation unit (PPIU) will be established in each PAFO to be responsible for financial management at provincial level, and coordination and management of implementation of subprojects. The PPIU will also coordinate and supervise the work of the district project implementation units (DPIU).

24. To assist in implementation at the district level, district project implementation units (DPIU) will be established within participating district agriculture and forestry offices (DAFOs). The DPIUs will provide coordination and supervision of subproject activities at district level. In particular, they will be responsible to assist with: identification of associated initiatives during subproject feasibility; community development activities; coordination of resettlement activities; environment management activities; indigenous people development activities; gender action activities; and monitoring and reporting on physical progress of implementation.

⁹ Freedom House. 2012. *Freedom in the World 2012 – Laos*. <http://www.unhcr.org>

25. The full implementing arrangements are described in detail in the project administration manual (PAM).

B. Strengths

26. The MAF and participating PAFOs have extensive experience in the implementation of externally funded projects, including those funded by ADB.

27. Accounting regulations, policies and procedures issued by the Ministry of Finance for accounting of ODA projects are already in existence. These accounting regulations, policies and procedures will guide the NPMO/PPIU staff on how to maintain the project accounts in terms of accounting standards and method of accounting, prepare financial reports in their required formats, and the frequency these reports are prepared and submitted to concerned agencies and entities.

28. A PAM will be available to the NPMO/PPIU staff that will serve as a guide with regards the disbursement arrangements of the grant proceeds for the project in addition to ADB's Loan Disbursement Handbook (2017, as amended from time to time). Online training is available for project staff on disbursement policies and procedures at the ADB's website. This online training will build staff capacity to help ensure efficient disbursement and fiduciary control. All procurement and recruitment of consultants to be financed by the ADB grant will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The government's public procurement regulations (as acceptable to ADB) will be applied for packages procured using national competitive bidding and shopping procedures.

C. Weaknesses

29. Although the MAF and participating PAFOs have extensive experience in implementing externally financed projects, including those funded by ADB, the NPMO and PPIUs are still to be established. The experience and capacity of staff to be selected and assigned to the NPMO and PPIUs are not known. The NPMO and PPIUs will provide ADB with the terms of reference (TOR) and curriculum vitae (CV) of all of proposed key and professional staff for ADB's review and concurrence prior to assigning and staffing.

30. Project implementation consultants (PIC) will be recruited to support the NPMO and PPIUs implement the project. The PIC will provide a range of specialists (including an international and national Financial and Accounting Specialist) needed to meet the reporting and procedural requirements of ADB. The PIC will support the following activities:

- (i) undertake feasibility studies/investment reports, including technical assessments, financial and economic analysis subprojects, and preparation of safeguard documents;
- (ii) assist in the recruitment and supervision of all consultants;
- (iii) assist in the supervision of the construction work by serving as the "Employer's Representative";
- (iv) assist in project performance monitoring and evaluation; and
- (v) carry out training activities.

31. Apart from providing support in the financial management and accounting of the project, the financial and accounting specialists as member of the PIC will provide on-the-job training and classroom presentations to the accounts staff to build their capacity. The TOR of

the Financial and Accounting Specialists are outlined in Appendix 2. The complete list of specialists as members of the PIC is presented in the PAM.

D. Personnel, Accounting Policies and Procedures, Internal and External Audit

32. The NPMO and PPIU accounts staff are still to be selected and appointed. An experienced and qualified chief accountant, if available from within the accounts department of MAF, shall be seconded in NPMO to exclusively handle separate accounts and related records for the Project. Provincial accountants, one for each province, will be recruited to assist the PPIUs. The NPMO and PPIUs shall recruit experienced and qualified staff from recently completed externally funded projects or from outside. They must have a bachelor's degree diploma in accounting, finance, or related course, adequate enterprise or project accounting experience, preferably in foreign-assisted projects, above average proficiency in oral and written English, and good computer skills with sufficient knowledge of MS Word and Excel. Upon recruitment, they will be trained in ADB procurement, disbursement, and reporting procedures. They must be contracted several weeks before start of project implementation to undergo appropriate training in ADB procedures.

33. The NPMO and PPIUs will adhere to accounting principles consistent with International Accounting Standards and sound financial management requirements during the implementation of the project. All will be required to maintain separate project records and accounts adequate to identify the: (i) goods and services financed from grant proceeds; (ii) financing resources received; (iii) expenditures incurred on each component of the project; and (iv) counterpart funds received and expended.

34. As required by ADB's Guidelines for the financial management and analysis of projects, International Public Sector Accounting Standard for cash-based accounting will be applied for project reporting.

35. MAF internal audit (inspection) department effectiveness has been limited by the lack of capacity, funding, and staff. The internal audit department also does not have independence from management. Adequate internal control procedures and timely annual external audit are mandatory for the project during implementation.

36. The NPMO will cause the detailed consolidated project accounts to be audited in accordance with international standards on auditing by an auditor acceptable to ADB. The audited accounts will be submitted in the English language to ADB within 6 months of the end of the fiscal year by the executing agency. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. Appendix 3 contains the draft TOR for the independent audit of project financial statements.

E. Financial Reporting, Use of Information Technology

37. The NPMO will prepare and submit to ADB quarterly project progress reports, which will include: (i) a narrative description of progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. The NPMO will prepare and submit to ADB a project completion report within 6 months of the completion of the project.

38. The NPMO and PPIUs will undertake regular backups of all financial, accounting and project related data and appropriate security measures over backed-up data shall be in place.

F. Disbursement Arrangements, Funds Flow Mechanism

39. The ADB grant proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time), and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available at: http://wpqr4.adb.org/disbursement_elearning. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

40. For ADB grant funds, payment methods are generally through direct payment and advance fund procedure.

41. **Advance Fund Procedure.** To ensure the timely release of grant proceeds and to expedite project implementation, the government will, immediately upon project effectiveness, open and maintain an advance account for the grant at the Bank of Lao. MOF will be responsible for establishing, managing, replenishing, and liquidating the advance account. The currency of the advance account is the US dollar. The advance account is to be used exclusively for ADB's share of eligible expenditures. These will be used to meet national level project costs including consulting services contracts and subproject works. The total outstanding advances 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 six months. The advance account will be replenished in accordance with standard procedures outlined in the ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). The MOF, who established the advance account in its name, is accountable and responsible for proper use of advances to the advance account, including advances to the sub-accounts.

42. The request for the initial and additional advance to the advance account should be accompanied by an Estimate of Expenditure Sheet setting out the estimated expenditures for the forthcoming six months of project implementation. Supporting documents for every liquidation and replenishment of the advance account are: (a) Statement of Account (Bank Statement) where the advance account is maintained; and (b) the Advance Account Reconciliation Statement reconciling the abovementioned bank statement against the EA's records.

43. Funds in the advance account will be used to establish advances in six sub-accounts. Sub-accounts will be established in a commercial bank. These will be opened and managed by the NPMO and the five PPIUs in the provinces of Khammouane, Savannakhet, Saravan, Champasak and Sekong. Expenditures of Vientiane will be under the NPMO sub-account. The sub-accounts are to be used exclusively for ADB's share of eligible expenditures. Sub-accounts are intended to provide cash resources for the operations of the NPMO and PPIUs, and will be liquidated and replenished with the submission of sufficient documents as outlined in ADB's *Loan Disbursement Handbook*.

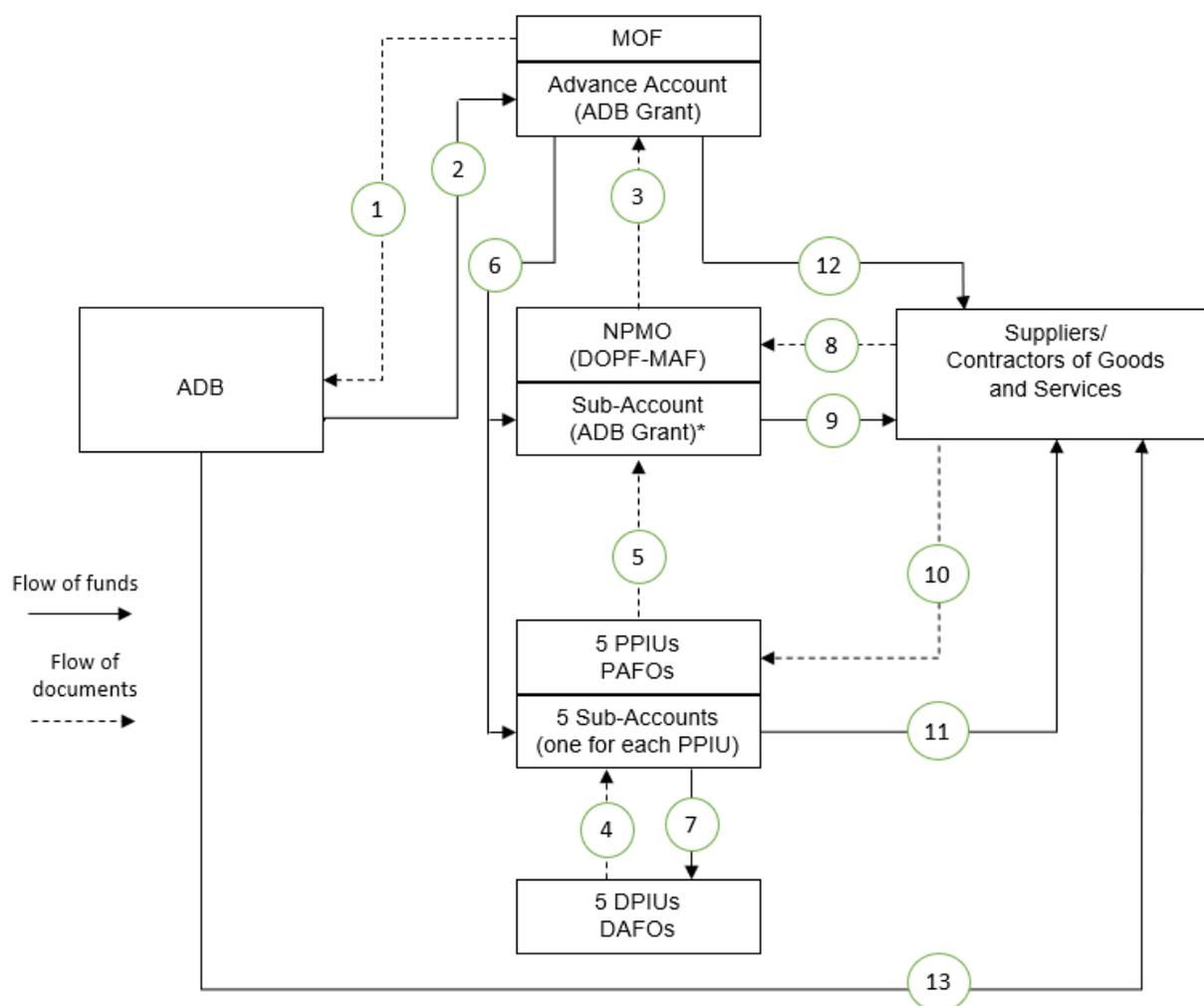
44. **Statement of Expenditures Procedure.** The SOE procedure may be used for reimbursement of eligible expenditures or liquidation/replenishment of advances to the advance accounts. The ceiling of the SOE procedure is the equivalent of \$50,000 per individual payment. All supporting documents and records should be maintained and made readily available for inspection 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 of individual payments in excess of the SOE ceiling should be supported by full documentation when submitting the withdrawal application to ADB. NPMO will be responsible for ensuring that SOEs are operated in accordance with ADB's requirement.

45. Before the submission of the first withdrawal application, the MOF should submit to ADB sufficient evidence of the authority of the person(s) 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 US\$100,000. Individual payments below this amount should be paid (i) by the executing agency/implementing agency and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB.

46. **Funds Flow.** Figure 1 shows the funds flow diagram for the project.

Figure 1: Funds Flow Diagram



47. The funds flow arrangements for the project are summarized below:

- 1) MOF submits to ADB withdrawal applications for advances, replenishments, and liquidations of the advance account;
- 2) ADB deposits advances and replenishments to the advance account;
- 3) NPMO submits to MOF, for review and approval, requests for advances, replenishments, and liquidations of sub-accounts; NPMO also endorses to MOF claims of suppliers and contractors for payment from advance accounts;
- 4) DPIU submits to PPIU requests for advances, replenishments, and liquidation of expenses;
- 5) PPIU submits to NPMO, for review and approval, requests for advances, replenishments, and liquidations of sub-account; PPIU also endorses to NPMO claims of suppliers and contractors for payment from advance accounts;
- 6) MOF deposits advances and replenishments to sub-accounts;
- 7) PPIU deposits advances and replenishments to DPIUs;
- 8) Suppliers and contractors submit claims to NPMO; For the matching grant scheme, the participating agribusiness enterprise will submit a proof of their contribution to NPMO (after FME verification);
- 9) NPMO processes and pays claims for NPMO costs eligible for ADB financing from the sub-account; For the matching grant scheme, NPMO will pay the suppliers and contractors from the sub-account (after FME verification);
- 10) Suppliers and contractors submit claims to PPIU;
- 11) PPIU processes and pays claims for PPIU costs eligible for ADB financing from the sub-account;
- 12) MOF pays suppliers and contractors for claims eligible for ADB financing from the advance accounts;
- 13) ADB directly pays suppliers and contractors for claims eligible for ADB financing after receipt of MOF requests for direct payment and required supporting documents.

V. RISK DESCRIPTION AND RATING

48. The summary Financial Management Internal Control and Risk Assessment presented in Table 3 was completed based on the International Standard on Auditing 400: *Risk Assessment and Internal Control* and ADB guidelines.¹⁰

¹⁰ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

Table 5: Financial Management, Internal Control and Risk Assessment and Mitigation Management Plan

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Inherent Risk		
1. Country Specific - Weak PFM system, particularly accounting, budget preparation and execution, cash planning and performance measurement.	High	ADB, World Bank and other development partners continue to support ongoing efforts to strengthen PFM arrangements, through technical assistance and lending.
Shortage of skills in financial management, including financial analysis, management accounting, financial reporting and audit.	High	Ongoing and planned efforts by ADB, World Bank and other development partners to support PFM reforms and capacity building in all PFM aspects.
Malpractice and abuse of PFM rules by employees.	Moderate	Since 2007, significant progress has been made in strengthening the State Audit Organization (SAO). The new State Audit Law 2007 enhances its independence by having the SAO report to the National Assembly. Staffing has been doubled and regional offices opened outside Vientiane. The SAO has already started capacity-building activities to improve financial audits with support from development partners. An action plan for 2009–2020 focuses on building its capacity and defining its resource requirements with support from development partners. ^a
2. Entity Specific – MAF coordination of its various departments and other ministries	Moderate	The PAM provides the roles and responsibilities of the implementing agencies (lead technical oversight) of the activities of the project. In addition, consultants (PIC/FME) will be engaged to ensure guidance is given on the implementation of the project.
Overall Inherent Risk		
	Substantial	
Project Risk		
1. Implementing entity - NPMO and PPIUs yet to be established and capacity of staff, to implement externally financed projects, to be assigned is not known.	High	CVs of proposed key personnel to be assigned to NPMO and PPIUs will require ADB's prior approval. In addition, the PIC will provide a range of specialists (including an international and a national financial management and accounting specialist) to guidance in project implementation.
2. Funds flow - Funds may not reach intended beneficiaries in a timely manner.	Moderate	ADB disbursement arrangements, which have been tested in prior ADB projects and proven successful, will be used.
3. Staffing - NPMO and PPIUs have limited staff capability in financial management, accounting, budgeting, internal controls and financial reporting.	Substantial	Experienced and qualified chief accountant shall be appointed in NPMO. Provincial accountants will be recruited for each PPIU. Staff will be trained in ADB project accounting and reporting requirements. Support and training will be provided by financial management and accounting specialists, as part of the project implementation consultants.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
4. Accounting policies and procedures - Maintenance of project accounts does not meet ADB requirements.	Moderate	Accounting system will adhere to generally accepted accounting principles and international standards. Separate project accounts will be used to identify the: (i) goods and services financed from loan proceeds; (ii) financing resources received; (iii) expenditures incurred on each component; and (iv) counterpart and co-financier funds received and expended.
5. Internal audit – Limited funding, staff and capacity in the Internal Audit department at MAF and provinces.	Substantial	MAF to ensure budget allocation, appoint qualified staff and develop adequate internal control procedures and timely annual audit for the project during implementation.
6. External audit - Delay in the submission of externally audited project accounts due to heavy workload of the SAO; annual audit may not meet ADB requirements.	Substantial	NPMO will recruit an external auditor whose qualifications, experience, and TOR are acceptable to ADB; external audit will be in accordance with international auditing standards.
7. Reporting and monitoring - Unreliable reports due to errors and limited staff capability in ADB financial reporting requirements.	Moderate	Experienced and qualified staff shall be appointed/recruited in the NPMO and PPIUs respectively. Staff will be trained in ADB project accounting and reporting requirements. Support and training will be provided by financial management and accounting specialists, as part of the project implementation consultants.
8. Information systems -Accounting data not adequately safeguarded.	Moderate	NPMO and PPIUs will undertake regular backups of all financial, accounting and project related data and appropriate security measures over backed-up data shall be in place.
Overall Project Risk	Substantial	
Overall (Combined) Risk	Substantial	

ADB = Asian Development Bank, FME = financial management entity, MAF = Ministry of Agriculture and Forestry, NPMO = national project management office, PAFO = provincial agriculture and forestry office, PFM = public financial management, PIC = project implementation consultants, PPIU = provincial project implementation unit, SAO = State Auditing Organization, TOR = terms of reference.

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

Source: Asian Development Bank

VI. PROPOSED TIME-BOUND ACTION PLAN

49. The proposed time-bound action plan is outlined below.

Table 6: Time-Bound Action Plan

Weakness	Mitigation Action	Responsibility	Timeframe
<ul style="list-style-type: none"> • Coordination from NPMO of MAF as EA and with IAs from MAF, PAFOs, DAFOs, and others 	<ul style="list-style-type: none"> • Clear roles and responsibilities are detailed in PAM. 	EA/NPMO/MOF	One month after grant negotiation.
<ul style="list-style-type: none"> • Safeguard of vehicles, motorcycles, equipment for workshops, laboratory, and solar power 	<ul style="list-style-type: none"> • Inventory list must be set up with accountability. • A sound inventory management is required via trainings for IAs. 	NPMO/PIC	3 months from the mobilization of the PIC.
<ul style="list-style-type: none"> • Most proposed PPIUs do not have accounting system to record financial transactions and prepare the required financial reports. 	<ul style="list-style-type: none"> • The accounting system shall be set up and training will be provided for the project accountants at PPIUs 	NPMO/PIC	3 months from the mobilization of the PIC.
<ul style="list-style-type: none"> • Delays and incomplete submission of the un-audited annual project financial statements 	<ul style="list-style-type: none"> • MAF and PPIU financial and accounting staff will be trained on financial reporting and requirements needed for submission to external auditor 	MAF/NPMO/PIC	By the 9 th month of project effectiveness.
<ul style="list-style-type: none"> • Limited capacity of the project staff at the NPMO on budget execution, accounting, reporting and auditing. 	<ul style="list-style-type: none"> • International and National Financial Management and Accounting Specialists will be recruited to provide this support to the NPMO. In collaboration with LRM, they will train accountants of EA/IA on budget execution, accounting, reporting, and auditing. • Training on project management, financial management, SOP and project fund flows shall be provided to the project staff in EA and IAs. • Training on ADB disbursement procedures, including online training, will be provided to EA and IA staff; and project staff involved in disbursements will be required to undertake the training to help ensure efficient disbursement and fiduciary control. 	MAF/NPMO/PIC	Starting 3 months from project effectiveness and will be a continuing activity to ensure staff are updated of the latest practice.

Weakness	Mitigation Action	Responsibility	Timeframe
<ul style="list-style-type: none"> Limited staff, funding, capacity and quality in internal audit. 	<ul style="list-style-type: none"> MAF will allocate budget and appoint qualified audit specialist. MAF staff will be trained regularly on internal audit procedures. MOF will ensure that MAF will include the project to be subject to internal audit to ensure that the organization's Internal Audit Unit carries out regular reviews of the internal control processes. Training on audit will be provided. 	MAF/MOF/ADB	<p>By the 6th month of project effectiveness.</p> <p>By end of Year 1.</p>
<ul style="list-style-type: none"> Quality of external audit reports remains a concern. 	<ul style="list-style-type: none"> MAF to hire a well qualified external auditor 	MAF/ADB	Within 1 year of project effectiveness

ADB = Asian Development Bank, DAFO = District Agriculture and Forestry Office, EA = executing agency, IA = implementing agency, MAF = Ministry of Agriculture and Forestry, MOF = Ministry of Finance, PIC = project implementation consultants, PAFO = Provincial Agriculture and Forestry Office, NPMO = national project management office, PIC = project implementation consultants, PPIU = provincial project implementation unit, TOR = terms of reference.

VII. SUGGESTED FINANCIAL MANAGEMENT COVENANTS

50. The following are the suggested covenants related to financial management:

- (i) The government shall provide adequate funds in a timely manner from provincial budgets to implement the maintenance management plan of public infrastructure facilities provided by the project;
- (ii) The provinces shall ensure that the provincial recurrent costs accruing to the public infrastructure facilities provided by the project will not result in a net reduction to the annual PAFO budget for capital and or maintenance program;
- (iii) The NPMO and PPIUs shall (i) maintain, or cause to be maintained, separate accounts for the project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request;
- (iv) The government shall enable ADB, upon ADB's request, to discuss the financial statements for the project and the financial affairs related to the project from time to time with the auditors appointed by the NPMO and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the NPMO unless the NPMO shall otherwise agree.

VIII. CONCLUSION

51. The financial management assessment indicates that the project-specific risks, which are generally substantial, can be reduced to moderate with the appropriate mitigation measures. These mitigation measures involve the appointment of experienced and qualified staff to the NPMO and PPIUs, technical support from PIC and training in ADB procedures. The financial management arrangements of the project can comply with ADB accounting and reporting requirements.

APPENDIX 1: FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
1. Executing / Implementing Agency								
1.1 What is the entity's legal status / registration?	MAF is a line ministry of the Government of Lao PDR (GOL) responsible for agriculture and forestry	PAFO is a provincial government department established under MAF functionally; under the administrative control of the Provincial Governor	PAFO is a provincial government department established under MAF functionally; under the administrative control of the Provincial Governor	PAFO is a provincial government department established under MAF functionally; under the administrative control of the Provincial Governor	PAFO is a provincial government department established under MAF functionally; under the administrative control of the Provincial Governor	PAFO is a provincial government department established under MAF functionally; under the administrative control of the Provincial Governor	PAFO is a provincial government department established under MAF functionally; under the administrative control of the Provincial Governor	
1.2 How much equity (shareholding) is owned by the Government?	100% owned	100% owned	100% owned	100% owned	100% owned	100% owned	100% owned	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ¹¹	None	None	None	None	None	None	None	
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes; projects funded by ADB, IFAD and other donors.	Yes; projects funded by ADB, IFAD and other donors.	Yes; projects funded by ADB, IFAD and other donors.	Yes; projects funded by ADB and IFAD and other donors.	Yes; projects funded by ADB and IFAD and other donors.	Yes; projects funded by ADB and IFAD and other donors.	Yes; projects funded by ADB and IFAD and other donors.	
1.5 Briefly	Lao PDR	Lao PDR	Lao PDR	Lao PDR	Lao PDR	Lao PDR	Lao PDR	

¹¹ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
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.								
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. The Ministry of Finance will manage the foreign exchange risk of the project	No. The Ministry of Finance will manage the foreign exchange risk of the project	No. The Ministry of Finance will manage the foreign exchange risk of the project	No. The Ministry of Finance will manage the foreign exchange risk of the project	No. The Ministry of Finance will manage the foreign exchange risk of the project	No. The Ministry of Finance will manage the foreign exchange risk of the project	No. The Ministry of Finance will manage the foreign exchange risk of the project	
2.11 How are the counterpart funds accessed?	Through the MOF for central level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	Through the DOF for provincial level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	Through the DOF for provincial level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	Through the DOF for provincial level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	Through the DOF for provincial level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	Through the DOF for provincial level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	Through the DOF for provincial level expenses; counterpart funds will only be in-kind (e.g. staff salaries, provision of office space)	
2.12 How are payments made from the counterpart funds?	Payments will be made based on approved budget and in compliance with	Payments will be made based on approved budget and in compliance with established	Payments will be made based on approved budget and in compliance with established	Payments will be made based on approved budget and in compliance with established MOF guidelines	Payments will be made based on approved budget and in compliance with	Payments will be made based on approved budget and in compliance with	Payments will be made based on approved budget and in compliance with established MOF guidelines	

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
proposed organizational structure of the accounting department? Attach an organization chart.	established. Please refer to the PAM for the proposed structure	established. Please refer to the PAM for the proposed structure	established. Please refer to the PAM for the proposed structure	established. Please refer to the PAM for the proposed structure	established. Please refer to the PAM for the proposed structure	established. Please refer to the PAM for the proposed structure	established. Please refer to the PAM for the proposed structure	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Qualified staff from recently completed other projects, if available, or qualified new staff will be recruited for the project	Qualified staff from recently completed other projects, if available, or qualified new staff will be recruited for the project	Qualified staff from recently completed other projects, if available, or qualified new staff will be recruited for the project	Qualified staff from recently completed other projects, if available, or qualified new staff will be recruited for the project	Qualified staff from recently completed other projects, if available, or qualified new staff will be recruited for the project	Qualified staff from recently completed other projects, if available, or qualified new staff will be recruited for the project	Qualified staff from recently completed other projects, if available, or qualified new staff will be recruited for the project	
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.	Chief Accountant - overall responsibility for NPMO finance and accounting; formal accounting qualifications and experience	Chief Accountant - overall responsibility for PPIU finance and accounting; formal accounting qualifications and experience	Chief Accountant - overall responsibility for PPIU finance and accounting; formal accounting qualifications and experience	Chief Accountant - overall responsibility for PPIU finance and accounting; formal accounting qualifications and experience	Chief Accountant - overall responsibility for PPIU finance and accounting; formal accounting qualifications and experience	Chief Accountant - overall responsibility for PPIU finance and accounting; formal accounting qualifications and experience	Chief Accountant - overall responsibility for PPIU finance and accounting; formal accounting qualifications and experience	None are certified public accountants
3.4 Is the project finance and accounting function staffed adequately?	The NPMO is still to be established	The PPIU is still to be established	Accounting function not adequately staffed					
3.5 Are the project finance and accounting staff adequately qualified	The NPMO is still to be established	The PPIU is still to be established	Staff recruited are not adequately					

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
and experienced?								qualified and experience d
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	The NPMO is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	Staff recruited not familiar with ADB procedures and disbursement guidelines
3.7 What is the duration of the contract with the project finance and accounting staff?	One year and renewable each year until project completion	One year and renewable each year until project completion	One year and renewable each year until project completion	One year and renewable each year until project completion	One year and renewable each year until project completion	One year and renewable each year until project completion	One year and renewable each year until project completion	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	The NPMO is still to be established Chief Accountant shall be appointed at project start	The PPIU is still to be established Chief Accountant shall be appointed at project start	The PPIU is still to be established Chief Accountant shall be appointed at project start	The PPIU is still to be established Chief Accountant shall be appointed at project start	The PPIU is still to be established Chief Accountant shall be appointed at project start	The PPIU is still to be established Chief Accountant shall be appointed at project start	The PPIU is still to be established Chief Accountant shall be appointed at project start	
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job	Chief Accountant – overall responsibility for NPMO finance and accounting; bachelor's degree diploma with	Chief Accountant – overall responsibility for PPIU finance and accounting; bachelor's degree diploma with experience	Chief Accountant – overall responsibility for PPIU finance and accounting; bachelor's degree diploma with experience	Chief Accountant – overall responsibility for PPIU finance and accounting; bachelor's degree diploma with experience in accounting,	Chief Accountant – overall responsibility for PPIU finance and accounting; bachelor's degree diploma with	Chief Accountant – overall responsibility for PPIU finance and accounting; bachelor's degree diploma with	Chief Accountant – overall responsibility for PPIU finance and accounting; bachelor's degree diploma with	

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
descriptions.	experience in accounting, computer literate and use of MS Excel and MS Word	in accounting, computer literate and use of MS Excel and MS Word	in accounting, computer literate and use of MS Excel and MS Word	computer literate and use of MS Excel and MS Word	experience in accounting, computer literate and use of MS Excel and MS Word	experience in accounting, computer literate and use of MS Excel and MS Word	computer literate and use of MS Excel and MS Word	
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?	The NPMO is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	The PPIU is still to be established	
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Not applicable; the NPMO is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	
3.12 What is training policy for the finance and accounting staff?	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules; staff	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules; staff undergoes training when	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules; staff undergoes training when	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules; staff undergoes training when	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules; staff	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules; staff	Upon hiring, staff undergoes training on budget preparation & planning, and accounting for receipts & disbursements according to MOF rules; staff undergoes training when	

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
	undergoes training when new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	undergoes training when new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	undergoes training when new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	new regulations are introduced; staff attends training in donor agency accounting & financial reporting procedures from time to time	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Not applicable; the NPMO is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	Not applicable; the PPIU is still to be established	
4. Accounting Policies and Procedures								
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement	The NPMO is still to be established. The project will use a separate accounting system that is dedicated to the recording of project financial	The PPIU is still to be established. The project will use a separate accounting system that is dedicated to the recording of project financial transactions including the	The PPIU is still to be established. The project will use a separate accounting system that is dedicated to the recording of project financial transactions including the	The PPIU is still to be established. The project will use a separate accounting system that is dedicated to the recording of project financial transactions including the	The PPIU is still to be established. The project will use a separate accounting system that is dedicated to the recording of project	The PPIU is still to be established. The project will use a separate accounting system that is dedicated to the recording of project financial	The PPIU is still to be established. The project will use a separate accounting system that is dedicated to the recording of project financial transactions including the	

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	A chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	A chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	A chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	A chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	A chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	A chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	A chart of accounts will be developed to properly account for and report on project activities and disbursement categories.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	The NPMO is still to be established. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	The PPIU is still to be established. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	The PPIU is still to be established. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	The PPIU is still to be established. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	The PPIU is still to be established. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	The PPIU is still to be established. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	The PPIU is still to be established. Yes, cost allocations to the various funding sources will be made accurately and in accordance with established agreements.	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	The NPMO is still to be established. Yes, the General Ledger and subsidiary ledgers will be reconciled	The PPIU is still to be established. Yes, the General Ledger and subsidiary ledgers will be reconciled monthly and	The PPIU is still to be established. Yes, the General Ledger and subsidiary ledgers will be reconciled monthly and	The PPIU is still to be established. Yes, the General Ledger and subsidiary ledgers will be reconciled monthly and	The PPIU is still to be established. Yes, the General Ledger and subsidiary ledgers will be reconciled	The PPIU is still to be established. Yes, the General Ledger and subsidiary ledgers will be reconciled	The PPIU is still to be established. Yes, the General Ledger and subsidiary ledgers will be reconciled monthly and	

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	finance							
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	The NPMO is still to be established. Units responsible of the different components submit budget details based on planned project activities for consolidation by NPMO finance and approval by DOPC Director	The PPIU is still to be established. Units responsible of the different components submit budget details based on planned project activities for consolidation by PPIU finance and approval by PAFO Director	The PPIU is still to be established. Units responsible of the different components submit budget details based on planned project activities for consolidation by PPIU finance and approval by PAFO Director	The PPIU is still to be established. Units responsible of the different components submit budget details based on planned project activities for consolidation by PPIU finance and approval by PAFO Director	The PPIU is still to be established. Units responsible of the different components submit budget details based on planned project activities for consolidation by PPIU finance and approval by PAFO Director	The PPIU is still to be established. Units responsible of the different components submit budget details based on planned project activities for consolidation by PPIU finance and approval by PAFO Director	The PPIU is still to be established. Units responsible of the different components submit budget details based on planned project activities for consolidation by PPIU finance and approval by PAFO Director	
4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	The NPMO is still to be established. Yes, these will be based on PPTA consultants' estimates, vetted by project implementation consultants and approved	The PPIU is still to be established. Yes, these will be based on PPTA consultants' estimates, vetted by project implementation consultants and approved by steering	The PPIU is still to be established. Yes, these will be based on PPTA consultants' estimates, vetted by project implementation consultants and approved by steering	The PPIU is still to be established. Yes, these will be based on PPTA consultants' estimates, vetted by project implementation consultants and approved by steering committees and	The PPIU is still to be established. Yes, these will be based on PPTA consultants' estimates, vetted by project implementation consultants and approved by steering committees and	The PPIU is still to be established. Yes, these will be based on PPTA consultants' estimates, vetted by project implementation consultants and approved	The PPIU is still to be established. Yes, these will be based on PPTA consultants' estimates, vetted by project implementation consultants and approved by steering committees and	

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
procedures are verified and monitored.								
Cash and Bank								
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Payments are approved by DOPC; authorized signatories are NPMO Director and DOPC Deputy Director	Authorized signatories are PPIU Project Director and PAFO Director	Authorized signatories are PPIU Project Director and PAFO Director	Authorized signatories are PPIU Project Director and PAFO Director	Authorized signatories are PPIU Project Director and PAFO Director	Authorized signatories are PPIU Project Director and PAFO Director	Authorized signatories are PPIU Project Director and PAFO Director	
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	The NPMO is still to be established. Yes, adequate and up-to-date cashbook will be maintained during project implementation	The PPIU is still to be established. Yes, adequate and up-to-date cashbook will be maintained during project implementation	The PPIU is still to be established. Yes, adequate and up-to-date cashbook will be maintained during project implementation	The PPIU is still to be established. Yes, adequate and up-to-date cashbook will be maintained during project implementation	The PPIU is still to be established. Yes, adequate and up-to-date cashbook will be maintained during project implementation	The PPIU is still to be established. Yes, adequate and up-to-date cashbook will be maintained during project implementation	The PPIU is still to be established. Yes, adequate and up-to-date cashbook will be maintained during project implementation	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	ADB transfers funds to the advance account maintained at the MOF; MOF transfers funds to sub-accounts	MOF transfers funds to a sub-account maintained by the PPIU; controls exist in accordance with MOF guidelines and procedures and ADB guidelines	MOF transfers funds to a sub-account maintained by the PPIU; controls exist in accordance with MOF guidelines and procedures and ADB guidelines	MOF transfers funds to a sub-account maintained by the PPIU; controls exist in accordance with MOF guidelines and procedures and ADB guidelines	MOF transfers funds to a sub-account maintained by the PPIU; controls exist in accordance with MOF guidelines	MOF transfers funds to a sub-account maintained by the PPIU; controls exist in accordance with MOF guidelines	MOF transfers funds to a sub-account maintained by the PPIU; controls exist in accordance with MOF guidelines and procedures and ADB guidelines	

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	maintained by the NPMO and PPIUs; controls exist in accordance with MOF guidelines and procedures and ADB guidelines				and procedures and ADB guidelines	and procedures and ADB guidelines		
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	The NPMO is still to be established. Bank account will be reconciled on a monthly basis	The PPIU is still to be established. Bank account will be reconciled on a monthly basis	The PPIU is still to be established. Bank account will be reconciled on a monthly basis	The PPIU is still to be established. Bank account will be reconciled on a monthly basis	The PPIU is still to be established. Bank account will be reconciled on a monthly basis	The PPIU is still to be established. Bank account will be reconciled on a monthly basis	The PPIU is still to be established. Bank account will be reconciled on a monthly basis	
4.34 Are all reconciling items approved and recorded?	The NPMO is still to be established. All reconciling items will be approved and recorded.	The PPIU is still to be established. All reconciling items will be approved and recorded.	The PPIU is still to be established. All reconciling items will be approved and recorded.	The PPIU is still to be established. All reconciling items will be approved and recorded.	The PPIU is still to be established. All reconciling items will be approved and recorded.	The PPIU is still to be established. All reconciling items will be approved and recorded.	The PPIU is still to be established. All reconciling items will be approved and recorded.	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	The NPMO is still to be established. All unusual items on bank	The PPIU is still to be established. All unusual items on bank reconciliation	The PPIU is still to be established. All unusual items on bank reconciliation	The PPIU is still to be established. All unusual items on bank reconciliation	The PPIU is still to be established. All unusual items on bank	The PPIU is still to be established. All unusual items on bank	The PPIU is still to be established. All unusual items on bank reconciliation	

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Assets								
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	The NPMO is still to be established. During project implementation, assets will be appropriately labeled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets	The PPIU is still to be established. During project implementation, assets will be appropriately labeled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets	The PPIU is still to be established. During project implementation, assets will be appropriately labeled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets	The PPIU is still to be established. During project implementation, assets will be appropriately labeled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets	The PPIU is still to be established. During project implementation, assets will be appropriately labeled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets	The PPIU is still to be established. During project implementation, assets will be appropriately labeled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets	The PPIU is still to be established. During project implementation, assets will be appropriately labeled and recorded; Fixed Asset Register will be maintained and updated regularly; regular physical counts will be conducted and reconciled with registers; only authorized personnel will be allowed access and use of the assets	
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated	The NPMO is still to be established. During	The PPIU is still to be established. During project	The PPIU is still to be established. During project	The PPIU is still to be established. During project	The PPIU is still to be established. During	The PPIU is still to be established. During	The PPIU is still to be established. During project	

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monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	project implementation, Fixed Asset Register will be maintained and updated regularly	implementation, Fixed Asset Register will be maintained and updated regularly	implementation, Fixed Asset Register will be maintained and updated regularly	implementation, Fixed Asset Register will be maintained and updated regularly	project implementation, Fixed Asset Register will be maintained and updated regularly	project implementation, Fixed Asset Register will be maintained and updated regularly	implementation, Fixed Asset Register will be maintained and updated regularly	
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	The NPMO is still to be established. During project implementation, subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts regularly	The PPIU is still to be established. During project implementation, subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts regularly	The PPIU is still to be established. During project implementation, subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts regularly	The PPIU is still to be established. During project implementation, subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts regularly	The PPIU is still to be established. During project implementation, subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts regularly	The PPIU is still to be established. During project implementation, subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts regularly	The PPIU is still to be established. During project implementation, subsidiary records of fixed assets, inventories and stocks will be kept up to date and reconciled with control accounts regularly	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	The NPMO is still to be established. During project implementation, there will be periodic physical	The PPIU is still to be established. During project implementation, there will be periodic physical inventories of	The PPIU is still to be established. During project implementation, there will be periodic physical inventories of	The PPIU is still to be established. During project implementation, there will be periodic physical inventories of fixed assets,	The PPIU is still to be established. During project implementation, there will be periodic physical	The PPIU is still to be established. During project implementation, there will be periodic physical	The PPIU is still to be established. During project implementation, there will be periodic physical inventories of fixed assets,	

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	inventories of fixed assets, inventories and stocks; these assets will be appropriately labeled	fixed assets, inventories and stocks; these assets will be appropriately labeled	fixed assets, inventories and stocks; these assets will be appropriately labeled	inventories and stocks; these assets will be appropriately labeled	inventories of fixed assets, inventories and stocks; these assets will be appropriately labeled	inventories of fixed assets, inventories and stocks; these assets will be appropriately labeled	inventories and stocks; these assets will be appropriately labeled	
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?	The NPMO is still to be established. During project implementation, there will be reconciliation of physical inventories of fixed assets, inventories and stocks with their respective registers and discrepancies will be analyzed and resolved	The PPIU is still to be established. During project implementation, there will be reconciliation of physical inventories of fixed assets, inventories and stocks with their respective registers and discrepancies will be analyzed and resolved	The PPIU is still to be established. During project implementation, there will be reconciliation of physical inventories of fixed assets, inventories and stocks with their respective registers and discrepancies will be analyzed and resolved	The PPIU is still to be established. During project implementation, there will be reconciliation of physical inventories of fixed assets, inventories and stocks with their respective registers and discrepancies will be analyzed and resolved	The PPIU is still to be established. During project implementation, there will be reconciliation of physical inventories of fixed assets, inventories and stocks with their respective registers and discrepancies will be analyzed and resolved	The PPIU is still to be established. During project implementation, there will be reconciliation of physical inventories of fixed assets, inventories and stocks with their respective registers and discrepancies will be analyzed and resolved	The PPIU is still to be established. During project implementation, there will be reconciliation of physical inventories of fixed assets, inventories and stocks with their respective registers and discrepancies will be analyzed and resolved	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps	MOF regulations and procedures will be followed on asset disposal,	MOF regulations and procedures will be followed on asset disposal, approval, recording, repair of	MOF regulations and procedures will be followed on asset disposal, approval, recording, repair of broken	MOF regulations and procedures will be followed on asset disposal, approval, recording, repair of broken	MOF regulations and procedures will be followed on asset disposal,	MOF regulations and procedures will be followed on asset disposal,	MOF regulations and procedures will be followed on asset disposal, approval, recording, repair of broken	

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immediately taken to locate lost, or repair broken assets?	approval, recording, repair of broken assets, etc.	broken assets, etc.	assets, etc.	assets, etc.	approval, recording, repair of broken assets, etc.	approval, recording, repair of broken assets, etc.	assets, etc.	
4.46 Are assets sufficiently covered by insurance policies?	Vehicles and equipment will be covered during implementation according to donor stipulations; civil works and equipment will be covered by contractors during construction; once assets are transferred as public assets, government will accept the risk and acts as its own insurer	Vehicles and equipment will be covered during implementation according to donor stipulations; civil works and equipment will be covered by contractors during construction; once assets are transferred as public assets, government will accept the risk and acts as its own insurer	Vehicles and equipment will be covered during implementation according to donor stipulations; civil works and equipment will be covered by contractors during construction; once assets are transferred as public assets, government will accept the risk and acts as its own insurer	Vehicles and equipment will be covered during implementation according to donor stipulations; civil works and equipment will be covered by contractors during construction; once assets are transferred as public assets, government will accept the risk and acts as its own insurer	Vehicles and equipment will be covered during implementation according to donor stipulations; civil works and equipment will be covered by contractors during construction; once assets are transferred as public assets, government will accept the risk and acts as its own insurer	Vehicles and equipment will be covered during implementation according to donor stipulations; civil works and equipment will be covered by contractors during construction; once assets are transferred as public assets, government will accept the risk and acts as its own insurer	Vehicles and equipment will be covered during implementation according to donor stipulations; civil works and equipment will be covered by contractors during construction; once assets are transferred as public assets, government will accept the risk and acts as its own insurer	
4.47 Describe the policies and procedures in identifying and maintaining fully	MOF regulations and procedures will be followed	MOF regulations and procedures will be followed in identifying and	MOF regulations and procedures will be followed in identifying and	MOF regulations and procedures will be followed in identifying and maintaining	MOF regulations and procedures will be followed	MOF regulations and procedures will be followed	MOF regulations and procedures will be followed in identifying and maintaining	

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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.	The NPMO is still to be established. During project implementation, the NPMO will handle periodic reconciliation and consolidation. NPMO will handle consolidated project reporting and audit arrangements	The PPIU is still to be established. During project implementation, the PPIU will send periodic project reports to NPMO; NPMO will handle periodic reconciliation and consolidated project reporting and audit arrangements	The PPIU is still to be established. During project implementation, the PPIU will send periodic project reports to NPMO; NPMO will handle periodic reconciliation and consolidated project reporting and audit arrangements	The PPIU is still to be established. During project implementation, the PPIU will send periodic project reports to NPMO; NPMO will handle periodic reconciliation and consolidated project reporting and audit arrangements	The PPIU is still to be established. During project implementation, the PPIU will send periodic project reports to NPMO; NPMO will handle periodic reconciliation and consolidated project reporting and audit arrangements	The PPIU is still to be established. During project implementation, the PPIU will send periodic project reports to NPMO; NPMO will handle periodic reconciliation and consolidated project reporting and audit arrangements	The PPIU is still to be established. During project implementation, the PPIU will send periodic project reports to NPMO; NPMO will handle periodic reconciliation and consolidated project reporting and audit arrangements	
4.53 If any sub-accounts (under the Advance Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	The NPMO is still to be established. Qualified and experienced staff will be recruited. The staff will be trained in ADB disbursement procedures, including sub-account	The PPIU is still to be established. Qualified and experienced staff will be recruited. The staff will be trained in ADB disbursement procedures, including sub-account administration	The PPIU is still to be established. Qualified and experienced staff will be recruited. The staff will be trained in ADB disbursement procedures, including sub-account administration	The PPIU is still to be established. Qualified and experienced staff will be recruited. The staff will be trained in ADB disbursement procedures, including sub-account administration	The PPIU is still to be established. Qualified and experienced staff will be recruited. The staff will be trained in ADB disbursement procedures, including sub-account	The PPIU is still to be established. Qualified and experienced staff will be recruited. The staff will be trained in ADB disbursement procedures, including sub-account	The PPIU is still to be established. Qualified and experienced staff will be recruited. The staff will be trained in ADB disbursement procedures, including sub-account administration	Recruited staff have no experience in ADB disbursement procedures and administration of advance and sub-accounts.

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	administration				administration	administration		
Contract Management and Accounting								
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	The NPMO is still to be established. During project implementation, it will maintain contract-wise accounting records and keep them up-to-date.	The PPIU is still to be established. During project implementation, it will maintain contract-wise accounting records and keep them up-to-date.	The PPIU is still to be established. During project implementation, it will maintain contract-wise accounting records and keep them up-to-date.	The PPIU is still to be established. During project implementation, it will maintain contract-wise accounting records and keep them up-to-date.	The PPIU is still to be established. During project implementation, it will maintain contract-wise accounting records and keep them up-to-date.	The PPIU is still to be established. During project implementation, it will maintain contract-wise accounting records and keep them up-to-date.	The PPIU is still to be established. During project implementation, it will maintain contract-wise accounting records and keep them up-to-date.	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	The NPMO is still to be established. During project implementation, the contract records will be reconciled regularly with the contractors	The PPIU is still to be established. During project implementation, the contract records will be reconciled regularly with the contractors	The PPIU is still to be established. During project implementation, the contract records will be reconciled regularly with the contractors	The PPIU is still to be established. During project implementation, the contract records will be reconciled regularly with the contractors	The PPIU is still to be established. During project implementation, the contract records will be reconciled regularly with the contractors	The PPIU is still to be established. During project implementation, the contract records will be reconciled regularly with the contractors	The PPIU is still to be established. During project implementation, the contract records will be reconciled regularly with the contractors	
Other								
4.56 Describe project arrangements	ADB requirements	ADB requirements	ADB requirements	ADB requirements on	ADB requirements	ADB requirements	ADB requirements on	

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and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?								
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	
[For second or subsequent projects] 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?	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	Not applicable; the project has not started yet	
7. Reporting and Monitoring								
7.1 Are financial statements and reports prepared for the entity?	Yes							
7.2 Are financial	The NPMO is	The PPIU is	The PPIU is	The PPIU is still	The PPIU is	The PPIU is	The PPIU is still	

Topic	Response MAF / NPMO	Response Vientiane PAFO / PPIU	Response Khammouane PAFO / PPIU	Response Savannakhet PAFO / PPIU	Response Saravan PAFO / PPIU	Response Champhasak PAFO / PPIU	Response Sekong PAFO / PPIU	Potential Risk Event
statements and reports prepared for the implementing unit(s)?	still to be established. Yes, financial statements and reports will be prepared for the project during implementation	still to be established. Yes, financial statements and reports will be prepared for the project during implementation	still to be established. Yes, financial statements and reports will be prepared for the project during implementation	to be established. Yes, financial statements and reports will be prepared for the project during implementation	still to be established. Yes, financial statements and reports will be prepared for the project during implementation	still to be established. Yes, financial statements and reports will be prepared for the project during implementation	to be established. Yes, financial statements and reports will be prepared for the project during implementation	
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?	Monthly reports will be prepared timely for use by management	Monthly reports will be prepared timely for use by management	Monthly reports will be prepared timely for use by management	Monthly reports will be prepared timely for use by management	Monthly reports will be prepared timely for use by management	Monthly reports will be prepared timely for use by management	Monthly reports will be prepared timely for use by management	
7.4 Does the entity reporting system need to be adapted for project reporting?	Government reporting system for ODA projects as well as ADB reporting requirements will be adapted for the project	Government reporting system for ODA projects as well as ADB reporting requirements will be adapted for the project	Government reporting system for ODA projects as well as ADB reporting requirements will be adapted for the project	Government reporting system for ODA projects as well as ADB reporting requirements will be adapted for the project	Government reporting system for ODA projects as well as ADB reporting requirements will be adapted for the project	Government reporting system for ODA projects as well as ADB reporting requirements will be adapted for the project	Government reporting system for ODA projects as well as ADB reporting requirements will be adapted for the project	Recruited staff not familiar with ADB reporting requirements
7.5 Has the project established financial management reporting responsibilities that	These will be contained in the PAM in compliance with ADB	These will be contained in the PAM in compliance with ADB	These will be contained in the PAM in compliance with ADB	These will be contained in the PAM in compliance with ADB reporting	These will be contained in the PAM in compliance with ADB	These will be contained in the PAM in compliance with ADB	These will be contained in the PAM in compliance with ADB reporting	

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confidentiality, integrity and availability of the data?								
8.9 Are there back-up procedures in place?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Offsite storage	Offsite storage	Offsite storage	Offsite storage	Offsite storage	Offsite storage	Offsite storage	

MAF = Ministry of Agriculture and Forestry; PAFO = Provincial Agriculture and Forestry Office; DOPC = Department of Planning and Cooperation; NPMO = National Project Management Office; PPIU = Provincial Project Implementation Unit; MOF = Ministry of Finance; DOF = Department of Finance; SAO = State Audit Organization; PAM = Project Administration Manual; IFAD = International Fund for Agriculture Development; ADB = Asian Development Bank

APPENDIX 2: TERMS OF REFERENCE FOR FINANCIAL MANAGEMENT AND ACCOUNTING SPECIALISTS

(Member of the Project Implementation Consultants)

Qualifications: The Specialist shall have tertiary qualifications in accounting or similar discipline, or its equivalent - CPA qualifications is preferred. **Experience:** The specialist shall have extensive experience (minimum 10 years) in designing and implementing accounting systems or similar projects in the region, preferably Lao PDR. The specialist must have good working knowledge of English, and work experience with any donor-funded project a distinct advantage. **Duties:** The specialist will advise and assist NPMO and PPIUs on overall accounting functions and activities of the Project. The specialist will assist the NPMO and PPIUs perform the following tasks:

- (i) Develop a suitable project accounting system, chart of accounts, and procure and adapt any necessary software to ensure an effective and efficient project accounting, monitoring and reporting system to project executing and implementing agency managers and ADB. The system will be capable of producing routine reports by which the Project's financial and physical progress can be monitored and evaluated;
- (ii) Ensure that financial transactions are, in all cases, recorded in project accounts accurately and on a timely basis and in accordance with ADB and Government requirements and agreed financial policies and procedures for the Project;
- (iii) Ensure that project expenditures on contract payments are made in accordance with the terms and conditions of the respective contracts and are adequately certified by duly authorized officials in relation to works completed and/or goods or services provided;
- (iv) Ensure that adequate internal control is established and maintained in terms of separation of responsibilities for processing and authorizing payments and in the management and accounting for project expenditures and assets;
- (v) Ensure that all financial records are retained for audit purposes and for review by ADB and Government until at least one year following project completion;
- (vi) Ensure that Project financial transactions are recorded in the accounts in accordance with Government regulations and ADB requirements and that records are reconciled periodically, at least on a monthly basis;
- (vii) Ensure that the Advance Account and Sub-Accounts to be established for the project in local commercial banks are administered in accordance with ADB requirements;
- (viii) Ensure that withdrawal requests for reimbursements from ADB are prepared and submitted to the Government and to ADB on a timely basis and in accordance with ADB procedures to replenish the Advance Account. Ensure that Statements of Expenditures (SOEs) supporting withdrawal requests accurately reflect qualifying project expenditures and that underlying documents that verify these expenditures are retained and available for review as required;
- (ix) Periodically, but at least quarterly, reconcile project records with ADB records relating to disbursements from ADB's Loan for all project components. Project

records and bank statements should be reconciled more frequently, at least monthly;

- (x) Ensure timely preparation and distribution of integrated quarterly financial management and project management reports and annual project financial reports and statements required by ADB, under the provisions of the Loan Agreement, as well as by the Government. Provide any special financial reports that may be required from time to time on specific aspects of project's financial progress or position as may be requested by ADB and/or the Government;
- (xi) Ensure that annual project budgets are consistent with agreed program activity levels and expenditures and that budgetary allocations for the project are available to meet projected cash flow requirements for contract payments, pending reimbursement by ADB, and for administrative expenditures of executing and implementing units;
- (xii) Ensure that project assets and inventories are safeguarded and revalued and verified periodically in accordance with the requirements of ADB and Government and to support annual Project financial audits;
- (xiii) Liaise effectively with auditors to ensure effective annual audits in accordance with ADB's requirements;
- (xiv) Conduct on-the-job training on project accounting and through classroom presentations; and
- (xv) Prepare progress reports for inclusion in the monthly, quarterly and annual progress reports to be prepared by NPMO.

APPENDIX 3: TERMS OF REFERENCE FOR INDEPENDENT AUDIT OF PROJECT FINANCIAL STATEMENTS

A. Objective

1. The objective of the audit of the Project Financial Statement (PFS) is to enable the auditor to express a professional opinion on the financial position of the project at the end of each fiscal year and of the funds received and expenditures for the accounting period ended mm/dd/yy, as reported by the PFS, [as well as an opinion on the Statement of Expenditures].
2. The project accounts (books of account) provide the basis for preparation of the PFS and are established to reflect the financial transactions in respect of the project, as maintained by the project implementing agency.

B. Scope

3. The audit will be carried out in accordance with International Standards of Auditing and will include such tests and controls as the auditor considers necessary under the circumstances. In conducting the audit, special attention should be paid to the following:
 - (a) All external funds have been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements are (-----name of loan agreement);
 - (b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
 - (c) Goods and services financed have been procured in accordance with the relevant financing agreements;
 - (d) All necessary supporting documents, records, and accounts have been kept in respect of all project ventures [including expenditures reported via SOEs or IAs]. Clear linkages should exist between the books of account and reports presented to the Bank.
 - (e) Where Advance Accounts have been used, they have been maintained in accordance with the provisions of the relevant financing agreements.
 - (f) The project accounts have been prepared in accordance with consistently applied International Accounting Standards and give a true and fair view of the financial situation of the project at mm/dd/yy and of resources and expenditures for the year ended on that date.

C. Project Financial Statements

4. The Project Financial Statements should include:
 - (a) Summary of Funds received, showing the ADB, project funds from other donors, and counterpart funds separately;

- (b) Summary of Expenditures shown under the main project headings and by main categories of expenditures, both for the current fiscal year and accumulated to date; and
- (c) Balance Sheet showing Accumulated Funds of the Project, bank balances, other assets of the project, and liabilities, if any.

5. As an annex to the Project Financial Statements, the auditor should prepare a reconciliation between the amounts shown as “received by the project from the ADB” and that shown as being disbursed by the Bank. As part of that reconciliation, the auditor should indicate the mechanism for the disbursement, i.e. Advance Accounts, Statements of Expenditures, or direct reimbursement.

D. Statements of Expenditures

6. In addition to the audit of the PFS, the auditor is required to audit all SOEs used as the basis for the submission of withdrawal applications. The auditor should apply such tests and controls as the auditor considers necessary under the circumstances. These expenditures should be carefully compared for project eligibility with the relevant financing agreements. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed against, these should be separately noted by the auditor. Annexed to the Project Financial Statements should be a schedule listing individual SOE withdrawal applications by specific reference number and amount. The total withdrawals under the SOE procedure should be part of the overall reconciliation of Bank disbursements described above.

E. Advance Accounts

7. In conjunction with the audit of the Project Financial Statements, the auditor is also required to audit the activities of the Advance Account associated with the Project. The Advance Accounts usually comprise

- (a) deposits and replenishments received from the Bank
- (b) payments substantiated by withdrawal applications
- (c) interest that may be earned from the balances and which belong to the borrower; and
- (d) the remaining balances at the end of each fiscal year.

8. The auditor must form an opinion as to the degree of compliance with the Bank's procedures and the balance of the Advance Account at year-end. The audit should examine the eligibility and correctness of financial transactions during the period under review and fund balances at the end of such a period, the operation and use of the IA in accordance with the financing agreement, and the adequacy of internal controls for this type of disbursement mechanism.

9. For this project, the Advance Accounts are referred to in [cite references] of the relevant financing agreements. Advance Accounts statements and the auditor's report should be attached with the Project Financial Statements.

Audit Opinion

10. Besides a primary opinion on the Project Financial Statements, the annual audit report of the Project Accounts should include a separate paragraph commenting on the accuracy and propriety of expenditures withdrawn under SOE procedures and the extent to which the Bank can rely on SOEs as a basis for loan disbursement. The financial statements, including the audit report, should be received by the Bank no later than six months after the end of the accounting period to which the audit refers. The auditor should submit the report to the borrower's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audited accounts and report to the Bank.

Management Letter

11. In addition to the audit reports, the auditor will prepare a "management letter," in which the auditor will:

- (a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
- (b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- (c) report on the degree of compliance of each of the financial covenants on the financing agreement and give comments, if any, on internal and external matters affecting such compliance;
- (d) communicate matters that have come to attention during the audit which might have a significant impact on the implementation of the project; and
- (e) bring to the borrower's attention any other matters that the auditor considers pertinent.

General

12. The auditor should be given access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor. Confirmation should also be obtained of amounts disbursed and outstanding at the Bank [and of amounts disbursed under [specify other donor, loan or grant, if any]]. Bank Project Officer can assist in obtaining these confirmations.

13. It is highly desirable that the auditor become familiar with a copy of the Bank's Guidelines on Financial Governance and Management of Investment Projects Financed by the Asian Development Bank, which summarizes the Bank's financial reporting and auditing requirements. The auditor should also be familiar with the Bank's Loan Disbursement Handbook. Both documents will be provided by the Project Officer.