

ADB TA No. 8950-UZB

THIRD CAREC CORRIDOR 2 KARAKALPAKSTAN ROAD PROJECT

Funded by:
Asian Development Bank

Executing Agency:
The Committee for Roads under Ministry of Transport of the Republic of Uzbekistan

Implementing Unit:
Program Management Unit on behalf of the Committee of Roads

FINANCIAL MANAGEMENT ASSESSMENT

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List of Abbreviations

ADB	Asian Development Bank
APFS	Audited Project Financial Statements
CAREC	Central Asia Regional Economic Cooperation
CRU	Control Revision Unit
CPS	Country Partnership Strategy
CR	Committee of Roads
EA	Executing Agency
EAP	Externally Aided Project
FMA	Financial Management Assessment
FMR	Financial Monitoring Report
GAAP	Generally Accepted Accounting Principles
GOU	Government of Uzbekistan
IA	Implementing Agency
IAS	International Accounting Standard
ISA	International Standards for Auditing
IPC	Interim Payment Certificate
MFF	Multi-tranche Financing Facility
MOF	Ministry of Finance
MOT	Ministry of Transport
NAS	National Accounting Standard
PMU	Project Management Unit
RRF	Republican Road Fund
ROU	Republic of Uzbekistan
SOE	Statement of Expenditure
SPS	Safeguard Policy Statement
TOR	Terms of Reference
UZS	Uzbek currency SUM

I. EXECUTIVE SUMMARY

1. The Financial Management Assessment (FMA) was conducted by an International Financial Management Specialist of Sheladia Associates Inc. USA during February 2019 in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects and Financial Due Diligence: a Methodology Note, and Technical Guidance Notes.¹²³ The assessment was an updating on the FMA for the Kashkadarya Regional Road Project, carried out during June 2016. The FMA considered the capacity of the PMU, including funds-flow arrangements, governance, staffing, budgeting, accounting and financial reporting systems, internal control procedures, financial information systems, and internal and external auditing arrangements.

2. The assessment has been carried out as a part of the due diligence of the proposed Karakalpakstan Road Project (Project) for ADB financing. Most of the staff of existing PMU implementing the Kashkadarya Regional Road Project is expected to join the Project PMU. The fiduciary assessment of the existing PMU is carried out to determine the degree to which the financial management arrangements are adequate to manage fiduciary risks and provide reasonable assurance that ADB funds will be used for their intended purpose, once existing PMU staff join Project PMU. The FM assessment found that: i) PMU has the required policies and procedures in place except for comprehensive financial management procedures manual, and that (ii) the compliance with the Loan agreement L3355-UZB for timely audited project financial statement (APFS) submission has been complied with 2 months delay for FY2018 while being deferred for the FY2016 and FY2017. The assessment also identified the following risk areas: (i) weak financial management capacity at PMU which may lead to delays in APFS submission deadlines compliance, (ii) missing financial management procedures manual, and (iii) absence of Internal Audit function. As a result, the overall financial management risk is assessed as moderate.

3. The identified risks will be mitigated in the Project PMU by: (i) hiring of additional FM specialist, (ii) providing PMU staff training on ADB disbursement and financial management procedures and requirements, (iii) adoption of financial management procedures manual, (iv) ensuring quarterly internal audits, (v) quarterly financial reporting, as well as (vi) appointment of APFS auditor for the period of 5 years. Moreover, PMU will maintain separate books of accounts for the project and the project financial statements will be audited annually by an auditor acceptable to ADB, following auditing standards acceptable to ADB.

II. INTRODUCTION

4. The Third CAREC Corridor Road Investment Program was proposed as a Multi-Tranche Financing Facility (MFF) to rehabilitate 364 km of international corridor highways in the Republic of Karakalpakstan (240 km), Khorezm (47 km) and Kashkadarya (77 km) regions of Uzbekistan. A critical step in the development of the CAREC Corridor initiative, the Investment Program was to provide the last "missing link" in connecting the CAREC corridors to the international border with Kazakhstan. The initial MFF program originally contained three tranches. Due to the envisaged implementation schedule Tranche 1, the Kashkadarya Regional Road Project was considered as standalone project. It was decided that the initial Tranche 2 will also be

¹ ADB. 2005. Financial Management and Analysis of Projects. Manila. Available: <http://www.adb.org/Documents/Guidelines/Financial/default.asp>

² ADB. 2009. Financial Due Diligence: A Methodology Note. Manila. Available: <http://www.adb.org/documents/financial-due-diligence-methodology-note>

³ ADB: 2015. Financial Management Technical Guidance Note <https://www.adb.org/sites/default/files/page/82468/financial-management-assessment.pdf>

implemented as a standalone project, the Karakalpakstan Road Project, and therefore the remaining initial Tranche 3 would be a standalone project as well. The executing agency is the Committee for Roads (CR) under Ministry of Transport (MOT) of the Republic of Uzbekistan (ROU).

5. The assessment has been carried out as a part of the due diligence of the proposed Karakalpakstan Road Project for ADB financing. The Project PMU will be implementing the project on behalf of CR. The fiduciary assessment of CR, and in particular the existing PMU is carried out to determine the degree to which the financial management arrangements are adequate to manage fiduciary risks and provide reasonable assurance that ADB funds will be used for their intended purpose.

III. PROJECT DESCRIPTION

6. The Karakalpakstan Road Project will comprise: (i) the reconstruction of 240 km of the A380 highway between Kungrad and Daut-Ata, (ii) supply of weigh bridges, (iii) development of Intelligent Transport System (ITS), (iv) road safety interventions and (v) supply of equipment for road maintenance. The proposed project will lead to enhanced regional trade on the CAREC Corridor 2 between Uzbekistan and Kazakhstan. The outcome will be improved travel time and efficiency on the reconstructed section of the A320 highway. The reconstructed highway section will comprise of two-lane single carriageway. This road will be last mile connectivity on the CAREC Corridor 2 and will provide a trade access to the Caspian Sea.

IV. Country AND SECTOR FINANCIAL MANAGEMENT ISSUES

7. At the country level, Uzbekistan has a long history of borrowing from ADB since 1995 and has received 70 loans totaling \$7.4 billion, including two private sector loans totaling \$225 million, and \$87.3 million in technical assistance grants from ADB. Cumulative Lending, Grant, and Technical Assistance Commitments by ADB to Uzbekistan amount to \$7.52 billion.⁴

8. ADB's Country Partnership Strategy 2019-23 (CPS) notes that Uzbekistan has embarked on significant reforms since early 2017, aiming to improve the lives of ordinary citizens, enable business development, and open up to neighbors.⁵ The new government aspires to modernize the country and to move it toward upper middle-income status. CPS aims to support this reform agenda through investment financing, policy support, and capacity development. The country operations business plan (COBP), 2020–2022 for Uzbekistan extends the validity of the CPS and is consistent with recent government initiatives. Despite the substantial changes since 2017, Uzbekistan needs to improve its performance in governance—e.g., effectiveness, rule of law, and accountability—and create an enabling environment for private sector development (PSD) and competition. The Budget code of the ROU regulates the budgeting process in Uzbekistan. The National Accounting Standards defines the general accounting principles, role and responsibilities of the organizations, accounting practices and procedures, and financial reporting requirements in Uzbekistan.

9. Uzbekistan's latest Public Expenditure and Financial Accountability Assessment (PEFA) was conducted in 2019.⁶ The Public Financial Management (PFM) evaluation showed good

⁴ ADB Member fact sheet: <https://www.adb.org/countries/uzbekistan/overview>

⁵ Country Partnership Strategy - <https://www.adb.org/sites/default/files/institutional-document/510251/cps-uzb-2019-2023.pdf>

⁶ Uzbekistan PEFA 2019: <https://pefa.org/assessments/summary/196>

monitoring mechanisms that ensure fiscal and budgetary control at a high operational level. It also demonstrated that mechanisms are in place to ensure fiscal stability and sustainability. Weaknesses identified in the areas of: (i) Annual Financial Reports (D+); (ii) Internal Audit (D+); and (iii) Transfers to subnational governments (D). Overall, PEFA assessment indicated that most aspects of the PFM system are functioning at a satisfactory level with a good fiscal discipline emphasizing the strength of country's upstream PFM system while downstream systems remained relatively weak.

10. Uzbekistan's PFM reforms until 2018 were conducted under the Public Finance Management Reform Strategy for 2007–2018, which envisaged developing medium-term budgetary framework (MTBF), government financial management information system (GFMIS), greater transparency of budget preparation and monitoring, and gradual move to international public-sector accounting standards (IPSAS), and implementation of government Finance Statistical Manual 2001 by 2018. However, the envisaged activities were partially completed. The budget has become a key vehicle for implementing aggregated fiscal policy with insignificant deviations of state budget primary expenditures from the approved budget. Progress was made in establishing treasury and the GFMIS and in budget execution.² Competition related to procurement was enhanced with the launch of e-procurement system, however comprehensive review of procurement laws has not been completed. Multiyear budget programming, implementation of risk analysis and audit approach, performance information on service delivery, publishing of all assets bought with public funds, issuance of more detailed budget execution reports and improving the financial independence of the Chamber of Accounts and scrutiny of the Parliament on budget proposals and executions are key areas that require improvements.

11. The government has been developing a revised PFM reform strategy with focus on budget preparation and execution, public sector accounting, treasury systems and improvements in the legal environment. The government adopted MTBF for budget preparation from 2020, adopted 12 national budget accounting standards based on IPSAS and preparing a roadmap for accrual based IPSAS implementation. It introduced internal audit units in 6 agencies/ministries and developed a new manual for internal audit. Other reforms include improvement of budget preparation by developing forecasts of the main macroeconomic indicators for 3-year budget forecasting, midterm fiscal strategy, strengthening treasury budget execution system by ensuring full coverage of all budget organizations, revising the law on procurement and establishing e-procurement portal. Reforming of GFMIS include conducting of IT audit and developing new modules for managing income and liabilities and moving to accrual basis reporting by 2025. Plans also include establishment of internal audit units in all central level budget uses by 2024, establishment of permanent rules of revenue sharing between the budgets of all level, streamlining the process of subsidies distribution. For fiscal transparency, regular publication of uses of State Trust Funds, local budgets, citizen's budget and fiscal risks reports is planned.

V. DETAILED FINANCIAL MANAGEMENT ASSESSMENT

A. Overview of the executing agency/implementing agency

12. The CR is a separate entity under the MOT and is the Executing Agency and Project Management Unit (PMU) is the Implementing Agency of the project. The project PMU will be established under CR to implement the project. The Republican Road Fund (RRF) was executing the following ADB funded projects under CAREC 1 and CAREC 2. Project No.42107- MFF No.0042-UZB Loan Numbers: 2635-UZB (Project 1), 2746-UZB (Project 2), and 2868-UZB (Project 3); and Project No.44483- MFF No.0059-UZB Loan Number: 2772-UZB (Project 1); 2965-UZB (Project 2) is now merged with CR of MOT. The current PMU staff, handling the Loan 3355-

UZB and Loan-3481-UZB is expected to be retained in the Project PMU and implement the Project for CR while being strengthened with additional financial management staff. In accordance with the Presidential decree dated on 14.02.2017 No. PD-4954, the functions of the employer on all projects, financed by International Financial Institutions were transferred to CR.

13. The Ministry of Transport of the Republic of Uzbekistan established in 2019 is a government body for the development and implementation of a unified state policy in the field of development of road, railway, air, river transport, subway, as well as road facilities.⁷ The Ministry carries out state regulation of the activities of organizations in the field of transport and the road sector through the adoption of legal acts, the issuance of licenses and permits, certification, and the implementation of an effective technical and tariff policy.

B. Strengths and Weaknesses

14. The main strength is that CR is identified by the law as the executing agency for all road sector projects funded by Multilateral Development Banks (MDBs). While Project PMU is not yet fully staffed, most of the existing PMU staff will be joining it to ensure institutional memory transfer. There is no Internal Audit System in PMU. Sub Control and Revision Unit (CRU) performs monthly review of Road Fund activities. The PMU lacks financial management capacity which led to 2 months delay in submission of APFS for the ongoing Kashkadarya Regional Road Project (Loan 3841-UZB) project.

C. Organization and Staffing

15. CR, the Executing Agency, is establishing a Project PMU for implementing the project on its behalf. The PMU will be headed by the Project Director and supported by Financial Management Expert, Accountant, Highway Engineer, Procurement specialist, Monitoring and Evaluation Expert, Lawyer, Secretary, Translator and Driver. The PMU may have additional staff for the additional work arising due to the proposed project. Organizational structure of the PMU is attached as Appendix-3.

16. The officers and senior level staffs in Finance and Accounts wings are posted to PMUs on contract basis normally till end of the project. The approved functional duties have adequate control to execute a transaction and recording of transaction. PMU doesn't have a financial management manual outlining details of financial management function and procedures.

17. The major activity involved in the project is civil works and consultancy services. Procurement of civil contractors/ consultants for the works are dealt by the Technical Section. Payment for the civil works contracts, goods and services are dealt by the PMU accountant. There is no Internal Auditor position or functionality.

18. In case of recruitment of new staff, training is required to be imparted in maintenance of the accounting records, to track the ADB assisted project expenditure and ADB policies and procedures. Training in ADB procedures is given once in a year and staffs also given local training in ROU accounting legislation, finance and taxation.

⁷ Presidential decree No. UP-5647 "On measures to fundamentally improve the system of state administration in the sphere of transport." dated 1 February 2019

D. Accounting Policies and Procedures

19. Project finances were managed on the basis of existing Uzbekistan Accounting Legislation, Finance Regulations, Tax Code, Budget Code and Civil Code. The existing regulations are having adequate control in place concerning the preparation and approval of transactions. Detailed chart of accounts is in place. Cost allocations are done on the basis of chart of account. Appropriation and allocations take place with the concurrence of Inter Ministry of Council. There is General Ledger and subsidiary ledger, maintained in 1C software, are reconciled. At present all supporting documents are kept in the PMU office for Audit and for future reference.

20. CR follows Uzbekistan Government Accounting System. It is an accrual basis of accounting system and Uzbekistan National Accounting Standards (NAS) are followed. The NAS has been developed based on the IPSAS and the national accounting guidelines of the MOF. The existing Uzbekistan Accounting Legislation, Finance Regulations, Tax Code, Budget Code and Civil Code are ensuring staff accountability. Only Government is authorized to make changes in the policy and procedures. MOF is having separate departments to handle such cases.

21. The major component of the proposed project is civil works. The IPCs/ bills of the contractor are verified with reference to the BOQ agreed rates as per the Contract Agreement at various stages. In respect of goods and services, well established procedures are in place. Pay roll is approved by the director and payments are made by Finance and Accounts officers at the choice of the employee either in cash or in their bank accounts.

22. The Bank Account is operated with the joint signature of the director PMU and the Accounting Specialist. Bank Statements are reconciled on monthly basis. Accounting Software 1C is used to record the transactions. The supporting documents are kept in PMU office for Audit as well as for future reference.

23. The possibility of customizing the present software to allow the identification of expenditure (i) by donor/ source (ii) by project output (iii) by nature of expenditure and (iv) by method of withdrawal (direct payment, reimbursement, advance account etc.) to be considered.

24. The government procedures are followed to safeguard and protect assets from fraud, waste and abuse. There is physical inventory of fixed assets taken during annual audit.

E. Internal Audit

25. There is no Internal Audit unit within the structure of the CR. Sub Control and Revision Unit (CRU) of MOF perform monthly review of Committee of Roads activities. CRU is mainly concerned with inspecting the compliance of the entities with budget rules and regulations. CRU does not conduct value-for-money analysis and gap in internal control system. The existence of an effective independent Internal Audit function strengthens the overall internal control framework and reduces fiduciary risk. Full time ongoing accounting support and outsourcing of the internal audit function in PMU is recommended. Until such an arrangement is in place, a thorough pre-audit of vouchers may be done by a trained financial expert at PMU before making payment.

F. External Audit

26. The PMU created under the Committee of Roads for the proposed ADB financed project is to be audited by the independent external auditor acceptable to ADB. These audits are to be

carried out based on the International Standard of Auditing. The Terms of Reference for the auditing services shall be prepared by the PMU before beginning of the project implementation. The project is also subject to Government Audit by MOF, but only at the project completion, unless any major accountability issue is raised.

27. PMU shall maintain separate accounts for the Project and have such accounts and related financial statements audited annually by independent auditors acceptable to ADB and in accordance with the provisions of the Loan Agreement to be signed and as specified in the ADB guidelines.

28. The PMU will (i) maintain separate accounts and records for the Project; (ii) have such accounts 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 project financial statements and the report of the auditors relating thereto (including the auditors' separate opinions on the use of the loan proceeds and compliance with the financial covenants of the loan agreement) as well as a management letter (if prepared); and (iv) furnish to ADB such other information concerning such accounts and the audit thereof as ADB shall from time to time reasonably request.

G. Financial Reporting Systems

29. Financial Reporting should demonstrate the accountability of the CR/PMU and the resources entrusted to it and information useful for decision making by indicating whether resources were obtained and used in accordance with the legally adopted budget, in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities. It must provide information about the sources, allocation and uses of financial resources and how the CR/PMU financed its activities and met its cash requirements. It must also provide information that is useful in evaluating the CR/PMU's ability to finance its activities and to meet its liabilities and commitments. The effective reporting is providing information about the financial condition of the CR/PMU and also providing aggregate information useful in evaluating the Department's performance in terms of service costs, efficiency and accomplishments.

30. The PMU reports comply with the reporting requirements of the MOT, the MOF, the Tax Committee and other government body. Currently PMU prepares quarterly progress reports to ADB. In addition to this It is suggested to include supplementary financial and disbursement reports also along with the quarterly project progress report.

31. Timely reporting and quality information is essential for the timely monitoring of the project. PMU's financial reporting must provide information about the sources, allocation, end uses of financial resources and how PMU finance these activities and meets its cash requirements, as well as its ability to finance its activities, meet its liabilities and its commitments. PMU will submit to ADB its financial reports within 45 days after completion of each quarter, in both electronic and hard copy format. Table 1 records the agreed financial reporting arrangements for PMU. The quarterly financial progress reports are expected to include at least the following financial information: i) cash recipient and payments by financing source, ii) Cash payments by component output, iii) financial vs physical progress report (cumulative since the start of the project and for the fiscal year), iv) expenditure forecast for the next six months, v) list of signed contracts and vi)

status of Financial Management Action plan, compliance with financial loan covenants, as well as implementation status of external and internal audit observations.

Table 1: Financial Reporting Arrangements

Aspects	Arrangements
Reporting entities	The Committee of Roads and Ministry of Transport.
Legislative and regulatory basis for financial reporting	Since CR is a separate entity under the Ministry of Transport, the entity must prepare the financial statements as per Uzbekistan governmental regulations. PMU must prepare ADB's project financial statements separately following ADB's requirement in addition to Governmental Reporting.
Financial reporting standards	The Financial Statements are prepared based on the National Accounting Standard procedures and requirements. A suitably modified reporting system is recommended to have a supplemental report to satisfy ADB requirements.
Financial year	The standard annual reporting period is from 01 January to 31 December.
Currency	The currency of presentation is in Uzbek SUM and in US\$.
Language	The audited project financial statements will be presented in the English language.
Composition and preparation	The audited project financial statements will comprise: <ul style="list-style-type: none"> • Statement of Financial Position (Sources and Uses of Funds), • Statement of Comprehensive Income (income statement), • Statement of Uses of Fund by Project Activity, • Statement of Cash Flows, • Statement of Disbursement with detailed information by withdrawal applications on amounts claimed from ADB and amount disbursed by ADB • Statement of Advance Account, • Statement of accounting policies and explanatory notes, • Notes to the Financial Statements.
Arrangements for interim financial reporting	The project must submit quarterly progress report for the physical and financial progress made in the Financial Monitoring Report as part of the Project Quarterly Report, not later than 45 days from the end of each quarter.
Country specific circumstances (if applicable)	Since the CR is accountable to Ministry of Transport of Government of Uzbekistan, it follows all Government Rules and Regulations applicable in Government of Uzbekistan.

H. Information Systems

32. CR and the PMU are extensively using the information systems. Software like 1C, Bank Client and other software packages are widely used in PMU. Spread sheet is used to prepare financial report that cannot be generated through the existing software. All governmental reports are generated from the system. The software used is not a fully integrated Financial Management System software. Customization of the software with details required for ADB reporting requirements can be considered.

I. Budgeting

33. The financial management cycle of budgeting, execution, accounting, and financial reporting mirrors and provides basic support to the project cycle of planning, implementation, recording results, and reporting. The Financial management supports the project management and helps assure that resources go towards the successful completion of the project and are not wasted.

34. Budgeting in CR/PMU is based on the Government System of Budgeting prescribed under the Budget Code of the Government. The Budget estimates are prepared by PMU and will be included in the CR budget and get approved from the MOF. There is a system to compare the actual expenditure with the budgeted expenditure on monthly and quarterly basis. Project Financial Expert and Monitoring Expert is responsible for the budgeting, monitoring and controlling the execution of the budget.

35. The CR is allocated funding from the state budget and is indirect beneficiary of the following: (i) compulsory budgetary contributions (mandatory charges for sale of products, works and services), (ii) Registration Fees and (iii) Transit of Vehicle fees. The rates of the collections and fees are set by the Presidents Resolution annually.

J. Disbursement Arrangements

36. The Loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time). The project is funded by ADB on direct payment to civil works contracts and consulting services, replenishment for ADB portion of UZS expenses and reimbursement basis for retroactive financing. The statement of expenditure (SOE) procedure will be used to reimburse eligible expenditure for payments. SOE records will be maintained and made readily available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

37. Pursuant to ADB's Safeguard Policy Statement (2009) (SPS) ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of Safeguard Policy Statement (SPS). All financial institutions will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list to all subprojects financed by ADB.

38. The PMU in CR will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting supporting documents as required by the ADB loan disbursement handbook, and (iv) preparing and sending withdrawal applications to ADB.

39. Before the submission of the first withdrawal application, PMU in CR, through ROU, 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.

40. Withdrawal applications and supporting documents will demonstrate, among other things, that the goods and/or services were produced in or from ADB members and are eligible for ADB financing.

41. CR/PMU will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting supporting documents, and (iv) preparing and sending withdrawal applications to ADB. Before the submission of the first withdrawal application, the CR shall 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 set by ADB's Loan Disbursement Handbook. Individual payments below this amount should be paid (i) by the executing agency and/or implementing agency and subsequently claimed to ADB through reimbursement, or (ii) through the Advance fund procedure, unless otherwise accepted by ADB.

42. All disbursements under ROU/CR financing will be carried out in accordance with regulations of the Government of Uzbekistan for the ROU component and ADB procedure followed for ADB component.

K. Funds Flow Mechanism

43. CR is the executing agency and PMU is the implementing agency, that will be responsible for implementing the project according to the loan agreement and project agreement. Program Management Unit was established under CR for implementing the project. Disbursement methods as outlined in ADB's Loan Disbursement Handbook (2017, as amended from time to time) will be adopted for the project. The PMU will adopt the reimbursement method for payments made under retroactive finance; direct payment method for the civil works contracts and consulting services; replenishment to US\$ Advance account for the payment made for local expenses like PMU expenses under ADB component. The total cost of the project will be partly funded by CR (non-eligible portion) and partly by the ADB Loan (eligible portion). Considering the ongoing CAREC projects, there may not be any problem in arranging the counterpart funding by the CR. It is reasonably considered that MOT shall be able to allocate and provide required funds without delay. In case of short fall in the CR resources GOU must supplement with the budgetary support. This needs to be addressed with a loan covenant for the government subsidy for the counterpart fund in case CR's income is not enough for the counterpart fund.

44. MOF of the Republic of Uzbekistan would make the Bank loan available to CR. After the budget is approved by the Cabinet of Ministers, CR can start incurring expenditure according to standard GOU practices.

45. Bank Account in UZS will be operated in Capital Bank in Tashkent by PMU for all reimbursable payments in UZS from ADB component like PMU expenses. CR (counterpart fund) payments if any will be made by the CR directly.

46. Detailed funds flow diagram given in **Appendix-3**

VI. Risk DESCRIPTION AND RATING

47. **Risk Analysis:** During the implementation phase, the CR might face some risks that can generally be divided in two main categories: (i) country level; and (ii) organization/project level. Financial management risks shall need to be considered and updated throughout the life of the Project and Risk mitigation measures shall also be updated accordingly. The Risk Assessment and Mitigation Measures are listed below:

Table 2: Financial Management and Internal Control Risk Assessment

Risk	Risk Assessment	Risk Description	Mitigation Measures or Action Plans
<i>Inherent Risk</i>			
1. Country-specific Risks	M	-Unavailability or delay in the release of counterpart funds may result in project delay.	-Commitment is required at MOF and CR level to ensure the timely disbursement of counterpart part funding.
2. Entity-specific Risks	M	-Experience of the CR as executing agency for the project	-The project will be implemented by CR through the existing PMU staff who is implementing the existing ADB projects. GOU also has experience in implementing several ADB financed projects and shall continue to maintain its support to PMU during project implementation.
3. Project-specific Risks	M	-Project costs may be impacted by COVID-19 pandemic effect on labor and materials availability. There is uncertainty of pandemic outbreak length and long-term effect on prices. The project activities and thus financial transactions might be significantly disrupted due to containment measures being adopted by the governments.	- A review of the cost estimates to be performed within 6 months from the date of loan effectiveness. Such review is expected to serve as a tool to re-assess the cost estimates within a reasonable timeframe and expectedly, better visibility of COVID-19 effects on project activities and costs.
<i>Overall Inherent Risk</i>	M		
<i>Control Risk</i>			
1. Implementing Entity	L	-Experience of the PMU staff who is proposed to manage and implement the proposed project.	-PMU staff under CR who is implementing the existing Kashkadarya Regional Road Project will be also engaged in implementing the proposed project.
2. Fund Flow	L	-Timely release of counterpart fund to the project	-CR shall ensure timely release of funds including counterpart funds to the project as per loan covenant. Timely availability of counterpart funds will be ensured by implementing the proposed fund flow arrangements. No systematic problems related to funds have been reported in the current projects handled. For ADB disbursement, direct payment method to civil works and consulting services, replenishment for the Advance Account payments, and reimbursement for the retroactive financing are proposed.

Risk	Risk Assessment	Risk Description	Mitigation Measures or Action Plans
3. Staffing	M	-Dedicated finance and accounting staff for the PMU	-Dedicated finance and accounting staff will be made available at the PMU on contract basis renewed till end of the project. All other vacant position should be filled before start of the project. Additional staffing may be required to handle the existing and proposed work load. Capacity augmentation with new staff may be considered to the existing organization structure to have more internal control and internal system. Financial management and disbursement ADB procedures and policies training will further improve PMU staff capacity.
4. Accounting Policies and Procedures	M	-Updating the accounting policies and procedures.	-Accounting policies and procedures to be updated and to include role and responsibility of the staff working in PMU. Supplement policies (including financial management manual) with project specific procedures including reporting templates and TOR to ensure ADB requirements are met at all levels.
5. Internal Audit	S	-Internal Audit Function requires strengthening	-CRU performs monthly review of activities but is not so effective. Full time ongoing accounting support and outsourcing of the internal audit function in PMU is required. Until such an arrangement is in place, a thorough pre-audit of vouchers may be done by a trained financial expert at PMU before making payment.
6. External Audit	H	-Considerable delay in submitting APFS in the ongoing project.	There was a considerable delay in submitting APFS to ADB in the ongoing project No. 3355-UZB. PMU financial management capacity needs to be strengthened and all relevant PMU staff trained on ADB financial management procedures and requirements.
7. Reporting and Monitoring	M	-Frequency and timeliness of periodic financial reporting require strengthening.	-PMU will be required to issue quarterly financial reports within 45 days after the reporting period in a format agreed with ADB, including physical and financial progress and disbursement reports.
8. Information Systems	M	-Optimal use of technology in the finance and accounts wing for the preparation of accounts and reporting requirements should be explored.	-The present software 1C may be fine-tuned to get maximum details required including the accounting of direct payment by ADB.
Overall Control Risk	M		

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

48. The disbursement and budgeting mechanisms are adequate. However, the overall financial management risk is rated as 'Moderate' due to a lack of effective internal audit function, lack of detailed accounting and financial reporting manuals other than Government code rules.

VI. TIME BOUND FM ACTION PLAN

49. Based on the identified risks, the below action plan is recommended.

Table 3: FM Action Plan

Key risks and Agreed action	Responsibility	Timeframe
1. Fill all vacant position as per the proposed organogram in the PMU.	PMU/CR	Before first Loan disbursement
2. Training to be provided in ADB financial management policies and procedures	ADB	Before Loan effectiveness
3. Supplement FM policies with project specific procedures including financial management manual, reporting templates, and ToRs to ensure ADB's requirements are met at all levels.	PMU/CR	Before Loan effectiveness
4. Modify the chart of accounts to allow the project to track receipts and payments separately for the project.	PMU/CR	Before Loan effectiveness
5. All project records and supporting documentation filed centrally, backed up regularly and made available for auditors and ADB for inspection staff as necessary.	PMU	Throughout the life of the project.
6. Issue quarterly financial reports in a format acceptable to ADB submission to ADB within 45 days after the end of the reporting period. Quarterly financial reports should include a supplementary review of the road network financial sustainability analysis to assess budgeted operations and maintenance costs adequacy.	PMU/CR	Throughout the life of the project.
7. Proactive use ADB's LFIS as well as national systems to track WAs and reconcile ABD and project records. Follow up on any discrepancies.	PMU/CR	Throughout the life of the project
8. Engagement of an Internal Audit firm to conduct quarterly internal audits and reporting to the audit review committee within 45 days after the end of the reporting period.	CR	Before first loan disbursement
9. Appointment of External Auditor acceptable to ADB and agree with the auditor on the audit timeline to ensure timely submission of the audit report and management letter.	CR	By loan effectiveness
10. A review of the cost estimates to re-assess COVID-19 effects on project activities and costs.	PMU/CR	Within 6 months from the date of loan effectiveness

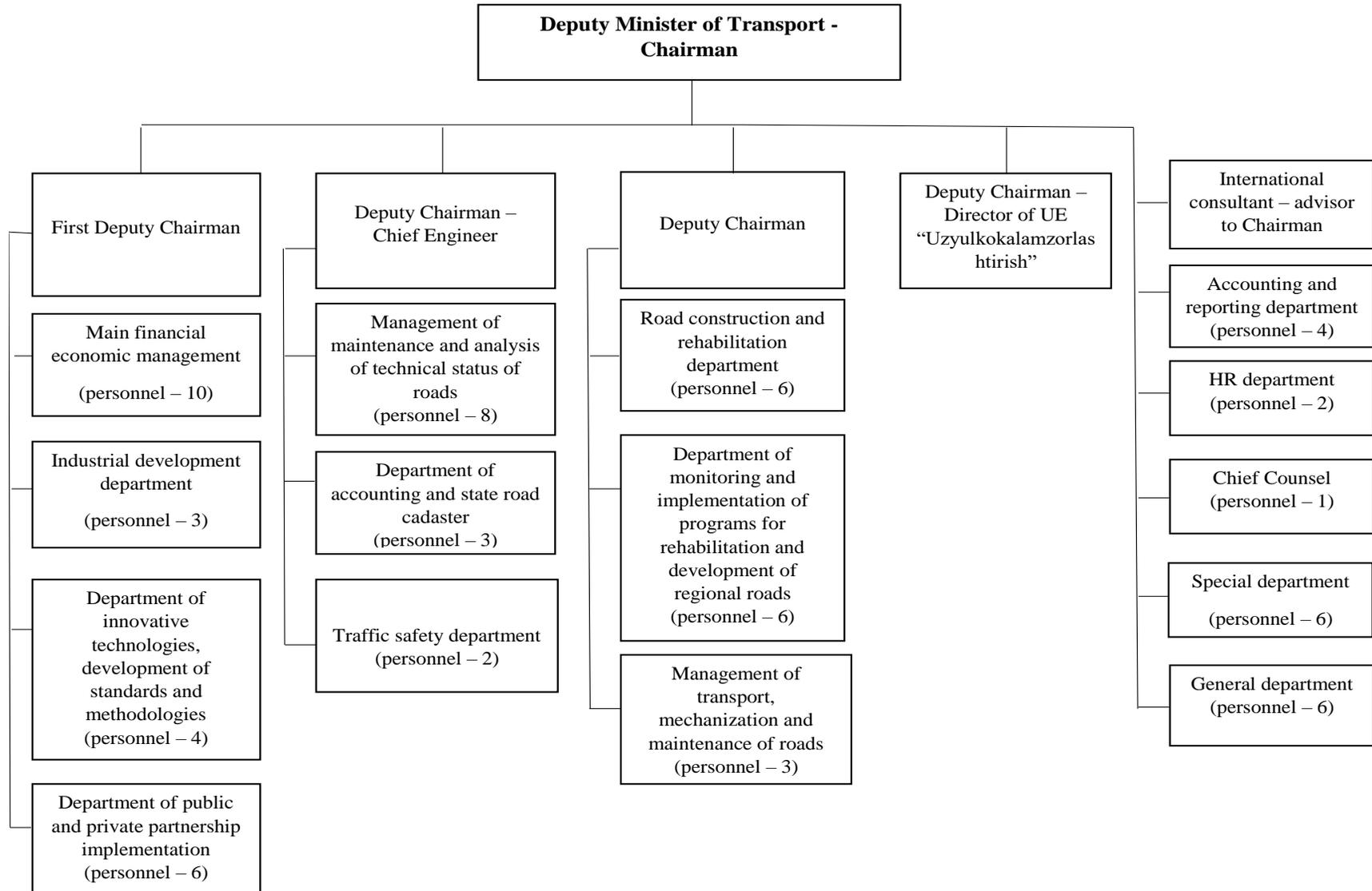
VII. SUGGESTED COVENANTS

50. Schedule 5 of the legal agreement shall require the implementation of the Financial Management Action Plan as stipulated in the Project Administration Manual. For effective implementation of the project, it is required to follow up and review with CR and PMU, the implementation status of the recommendations on Financial Management. ADB review missions will review the status on a half yearly basis and suggest remedial measures.

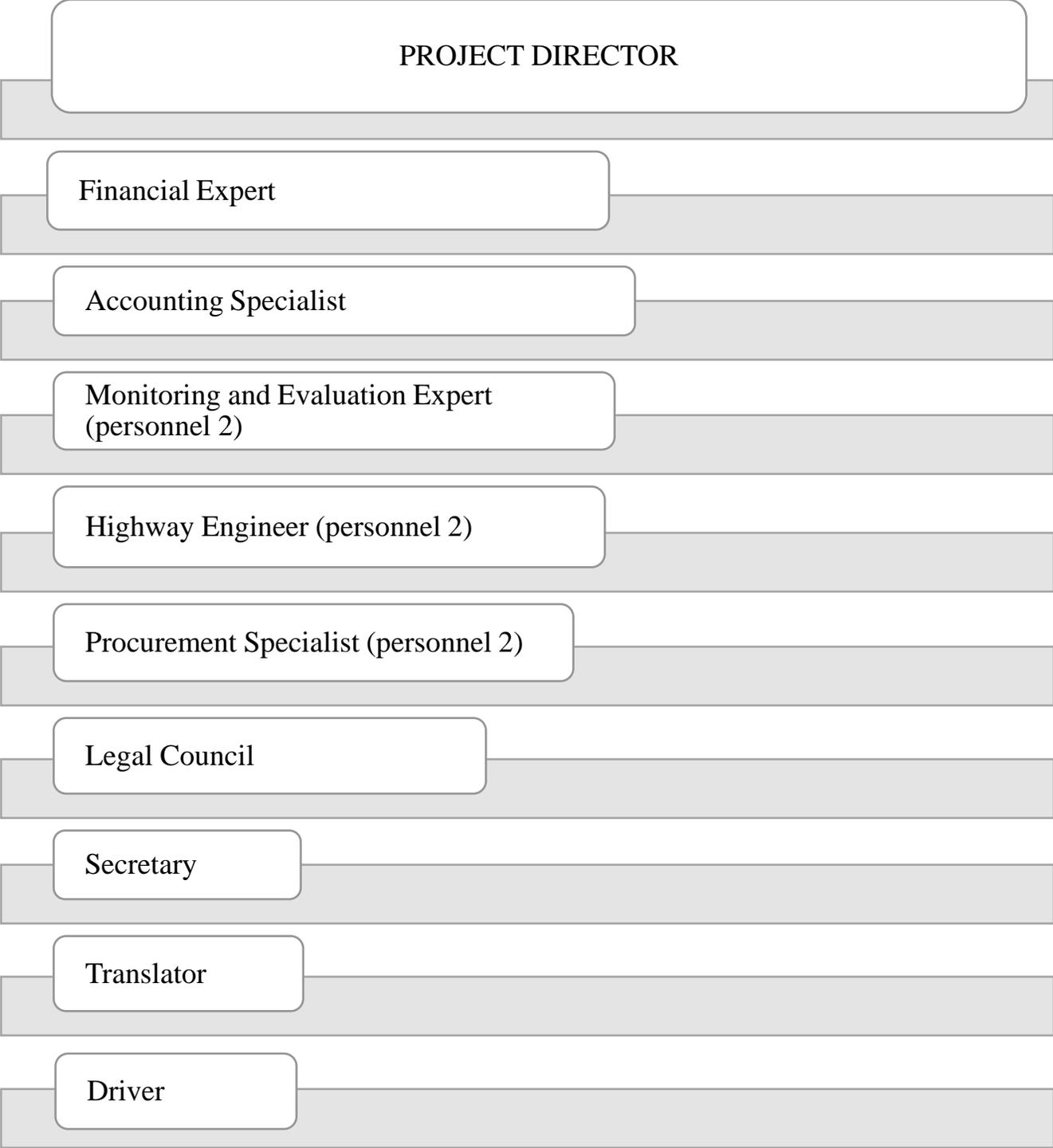
51. The following shall be conditions to the first disbursement: (a) CR has recruited an international audit firm to undertake rapid internal audits quarterly to ensure regular compliance; (b) CR has provided training to staff of the PMU on the following areas in relation to implementation of the project: procurement, financial management and reporting, safeguards monitoring and compliance, project monitoring and reporting, and other areas agreed with ADB; and (c) CR has recruited a financial accountant and procurement specialist for the Project, each

with qualifications and experience acceptable to ADB, and provided them with necessary training to perform their assigned roles in the implementation of the project.

Organizational structure of State Committee for roads under Ministry of Transport of Republic of Uzbekistan

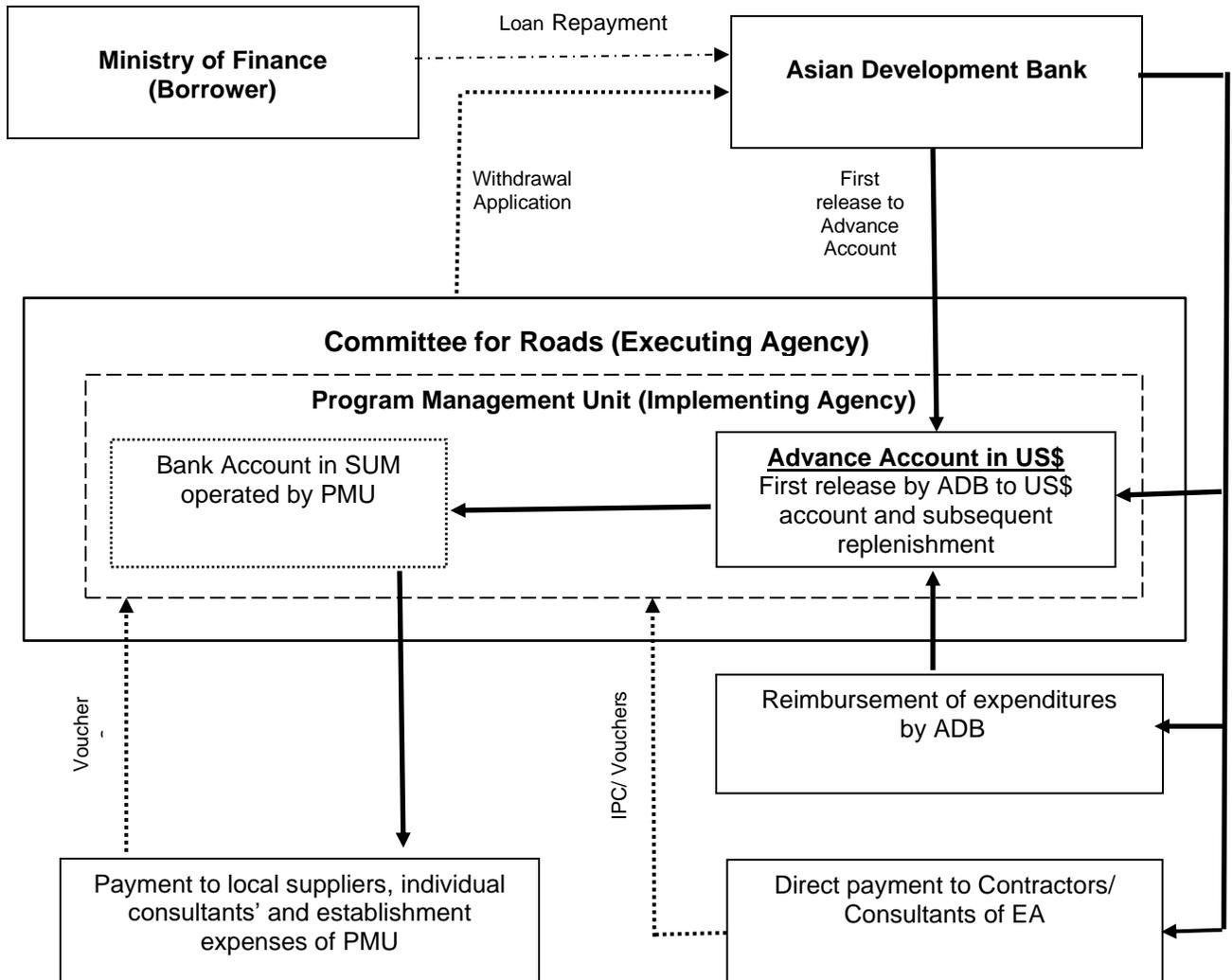


Organizational Structure of Program Management Unit



THE REPUBLIC OF UZBEKISTAN
 State Committee of Roads
 Program Management Unit

FUND FLOW CHART



-➔ Document flow.
- ➔ ADB's Fund flow to the project

Financial Management Assessment Questionnaire

Karakalpakstan Road Project

Topic	Response
1. Executing / Implementing Agency	
1.1 What is the entity's legal status / registration?	The Committee of Roads (CR) is a separate entity under the Ministry of Transport (MOT) is the Executing and Implementing Agency of the project. PMU will be established under CR as the implementing agency of the project. In accordance with the Presidential decree dated on 14.02.2017 No. PD-4954, the functions of the employer on all projects, financed by International Financial Institutions were transferred to CR. Previous projects were executed by Republican Road Fund.
1.2 How much equity (shareholding) is owned by the Government?	Not applicable.
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.	Not applicable.
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	No. RRF under the MOF was handling the MFF 1 and MMF 2 of the ongoing ADB funded project
1.5 Briefly describe the statutory reporting requirements for the entity.	The CR reports to MOT, Ministry of Finance and also send its reports to Ministry of Economy (MOE), the State Tax Committee and other governmental bodies. The PMU which is under CR supporting the project implementation submits quarterly progress reports to ADB.
1.6 Describe the regulatory or supervisory agency of the entity.	Ministry of Transport (MOT).
1.7 What is the governing body for the project? Is the governing body for the project independent?	It is a unit under Ministry of Transport of the Republic of Uzbekistan. MOT is independent government authority.
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Yes. PMU will be established with support staff to support CR.
1.9 Does the entity have a Code of Ethics in place?	Yes, ROU government employee code of ethics is applicable.
1.10 Describe (if any) any historical issues' reports of ethics violations involving the entity and management. How were they addressed?	Existing ADB projects have no problem in the implementation of the project in the past.
2. Funds Flow Arrangements	
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	MOF through MOT of the Republic of Uzbekistan would make the Bank loan available to CR. After the budget is approved by the Cabinet of Ministers, CR can start

Topic	Response
	incurring expenditure according to standard GOU practices.
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Arrangement of funds transfer from ADB to Contractors and consultants on direct payment; ADB to Advance Account for replenishment and also for reimbursement for retroactive financing. The arrangement is satisfactory.
2.3 Are the disbursement methods appropriate?	Yes.
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Existing ADB projects have no funds flow problem in the implementation of the project in the past.
2.5 In which bank will the Advance Account (if applicable) be established?	To be opened in reputable bank in Uzbekistan. Most likely it would be a Capital Bank.
2.6 Is the bank in which the Advance Account is established capable of – <input type="checkbox"/> Executing foreign and local currency transactions? <input type="checkbox"/> Issuing and administering letters of credit (LC)? <input type="checkbox"/> Handling a large volume of transaction? <input type="checkbox"/> Issuing detailed monthly bank statements promptly?	a) yes. b) yes. c) yes. d) yes.
2.7 Is the ceiling for disbursements from the Advance Account and SOE appropriate/required?	Yes.
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	PMU has not been established yet. It will be established in accordance with ADB procedures and legislation of the Republic of Uzbekistan.
2.9 Does the PIU have adequate administrative and accounting capacity to manage the advance account fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes. PIU will have an accountant and expert in finance who will perform in accordance with SOE procedures.
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	The foreign exchange risk is borne by the GOU.
2.11 How are the counterpart funds accessed?	Counterpart funding will be arranged by Ministry of Finance of RU.
2.12 How are payments made from the counterpart funds?	Payments are released by MoF for the GOU share, if any, to the contractors and consultants.
2.13 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Not Applicable.

Topic	Response
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	No.
3. Staffing	
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Proposed organization structure of accounting department is attached.
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	New staff will be recruited with some staff from existing PMU being moved to the Project PMU.
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.	The officers and senior level staffs in Finance and Accounting will be hired on contract basis normally till end of the project.
3.4 Is the project finance and accounting function staffed adequately?	Yes. The staffing will be increased on need base.
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes. Adequately qualified and experienced Candidates will be chosen for the project finance and accounting staff.
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Candidates, trained in ADB procedures, will be preferred during staffing of PMU.
3.7 What is the duration of the contract with the project finance and accounting staff?	The Finance and Accounts Staff will be hired on contract basis till the end of the project.
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	The positions will be contracted after establishment of PIU.
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	Yes. Will prepare on posting.
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes.
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	N/A. New PMU will be formed.
3.12 What is training policy for the finance and accounting staff?	Necessary basic training would be organized to the staff. Training in ADB procedures are organized once in a year. Staff also take local training in RU accounting legislation, finance and taxation.
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	N/A.
4. Accounting Policies and Procedures	

Topic	Response
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Project finances were managed on the basis of existing Uzbekistan Accounting Legislation, Finance Regulations, Tax Code, Budget Code and Civil Code.
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	The existing regulations are having adequate control in place concerning the preparation and approval of transactions.
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Detailed chart of accounts is in place.
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Cost allocations are done on the basis of chart of account. .
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	There is General Leger and subsidiary ledger and maintained in 1C software and reconciled.
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g., ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	All supporting documents will be kept in the PMU office for Audit and for future reference.
4.7 Describe any previous audit findings that have not been addressed.	No audit findings have not been addressed.
Segregation of Duties	
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes. The Approved functional duties have adequate control to execute a transaction and recording of transaction.
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, with the limited staff in place. The major activity involved in the project is civil works and consultancy services. Procurement of civil contractors/ consultants for the works is dealt by the Technical Section. Payment for the civil works, goods and services are dealt by the Accounts and Finance wing in the project.
Budgeting System	
4.10 Do budgets include physical and financial targets?	Yes. Annual budget includes financial targets for projects.
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes. At the time of calling tenders verification is done for the allocation.

Topic	Response
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes. Expenditure for a particular work budget provision is looked into.
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	GOU rule follows for the variations in the budget.
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No. Any variation needs prior approval.
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	CR is responsible for preparation of the budget within feasibility study (FS)/ FS must be approved by Cabinet of Ministers of Uzbekistan.
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?	Established procedure is in place to plan Project activity and for the preparation of Budget.
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <ul style="list-style-type: none"> • Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds? • Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects? • What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way? 	The project plans and budgets are prepared on realistic basis and based on valid assumptions.
Payments	
4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?	Major component of the project is civil works. The IPCs/ bills of the contractor are verified with reference to the BOQ agreed rates as per the Contract Agreement at various stages. In respect of goods and services, well established procedures are in place.
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Established procedures are in place.
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Pay roll is approved by the director and payments are made by Finance and Accounts officers at the choice of the employee either in cash or in their bank accounts.
Policies and Procedures	
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	At present Uzbekistan Government Accounting System is followed in CR. It is an accrual basis of accounting system.
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector	Uzbekistan National Accounting Standards are followed.

Topic	Response
Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes. Existing Uzbekistan Accounting Legislation, Finance Regulations, Tax Code, Budget Code and Civil Code are followed ensuring staff accountability.
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes. Departmental Manuals are updated by the Government from time to time.
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes. Only Government is authorized to make changes in the policy and procedures. MOF is having separate departments to handle such cases.
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes, Finance Regulations, Tax Code, Budget Code covering financial management and related administrative activities.
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Policies and procedures are defined in the respective codes.
4.28 Are manuals distributed to appropriate personnel?	The present Finance Regulations, Tax Code, Budget Code are public documents and having access to all.
4.29 Describe how compliance with policies and procedures are verified and monitored.	The compliance policies and procedure are verified by the supervising officials during the course of the transactions and finally verified by the auditors.
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.	Bank account are operated by PMU with joint signature. Authorized signatories are Director PMU and Accounting Specialist.
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes.
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes.
4.33 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Bank Statements are reconciled on monthly basis.
4.34 Are all reconciling items approved and recorded?	Yes.
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes.
4.36 Are there any persistent/non-moving reconciling items?	No.
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes.

Topic	Response
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No.
4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	Only finance and accounting staff possess passwords for online transactions.
Safeguard over Assets	
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	There are adequate safeguards to protect assets.
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes. Register is up to date.
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes.
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labelled?	Yes.
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analysed and resolved?	Yes.
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	There are adequate safeguards to approve and record the disposal of each asset in the regulations of GOU.
4.46 Are assets sufficiently covered by insurance policies?	Goods procured under contract are not insured.
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	In accordance with accounting regulations of Uzbekistan, goods procured under contract are amortized over a number of years.
Other Offices and Implementing Entities	
4.48 Describe any other regional offices or executing entities participating in implementation.	No. The PMU will be based in Karakalpkstan with some administrative staff co-located at CR in Tashkent.
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	Not applicable.
4.50 Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	Not applicable.
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office uses the same accounting and reporting system?	Not applicable.
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project	Not applicable.

Topic	Response
reporting and auditing arrangements between these offices and the main executing/implementing agencies.	
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.	Not applicable.
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?	Yes.
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes.
Other	
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Uzbekistan Government Procedures will be followed in case of fraud waste or misuse of project resources or property.
5. Internal Audit	
5.1 Is there an internal audit (IA) department in the entity?	There is no Internal Audit System in PMU. Sub Control and Revision Unit (CRU) perform monthly review of the CR activities.
5.2 What are the qualifications and experience of the IA staff?	Not Applicable.
5.3 To whom does the head of the internal audit report?	Not Applicable.
5.4 Will the internal audit department include the project in its annual work program?	Not Applicable.
5.5 Are actions taken on the internal audit findings?	Not Applicable.
5.6 What is the scope of the internal audit program? How was it developed?	Not Applicable.
5.7 Is the IA department independent?	Not Applicable.
5.8 Do they perform pre-audit of transactions?	Not Applicable.
5.9 Who approves the internal audit program?	Not Applicable.
5.10 What standards guide the internal audit program?	Not Applicable.
5.11 How are audit deficiencies tracked?	Not Applicable.
5.12 How long have the internal audit staff members been with the organization?	Not Applicable.
5.13 Does any of the internal audit staff have an IT background?	Not Applicable.
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	Not Applicable

Topic	Response
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Not Applicable.
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Not Applicable.
6. External Audit – entity level	
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Financial statements are being audited by the independent auditor regularly. The auditor for the year 2019 is yet to be appointed.
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	In the previous project there is a delay in submission of APFS.
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes. The audit is conducted accordance with the International Standards on Auditing.
6.4 Were there any major accountability issues noted in the audit report for the past three years?	Not Applicable. The project is new with the new EA and IA.
6.5 Does the external auditor meet with the audit committee without the presence of management?	Not applicable as on date.
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	Not applicable.
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The external auditors will be appraised about enough knowledge and understanding of ADB's guidelines and procedures.
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No.
External Audit – project level	
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	PMU procures another auditor for audit services.
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No.
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	No.
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes. TOR is to be approved by EA and ADB.

Topic	Response
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No.
6.15 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes.
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.
[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?	N/A
7. Reporting and Monitoring	
7.1 Are financial statements and reports prepared for the entity?	Yes. It is a government reporting entity.
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes. PMU reports will be prepared.
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, Quarterly and Annually.
7.4 Does the entity reporting system need to be adapted for project reporting?	Not applicable.
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	To be designed.
7.6 Are financial management reports used by management?	Yes.
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes.
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes. 1C software having standard reporting module.
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Done manually.
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	RRF under the MOF was implementing ADB assisted projects in the past. The new project will be executed by the CR under Ministry of Transport
8. Information Systems	

Topic	Response
8.1 Is the financial accounting and reporting system computerized?	Yes. Software like 1C, Bank /client and Additional software used.
8.2 If computerized, is the software off-the-shelf, or customized?	Customized.
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Some are integrated and some are standalone.
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Using 1C software.
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	All governmental reports are able to generate from the system. Other reports are done through manually using spread sheets.
8.6 Can the system automatically produce the necessary project financial reports?	No.
8.7 Is the staff adequately trained to maintain the computerized system?	Yes. Trained staff will be posted.
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes.
8.9 Are there back-up procedures in place?	Yes.
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Online and offline.