

Supplementary Document 18:
Financial Management Assessment –
Rural Restructuring Agency

FINANCIAL MANAGEMENT ASSESSMENT OF THE RURAL RESTRUCTURING AGENCY

A. Introduction

1. The executing agency of the proposed Horticulture Value Chain Infrastructure Project (HVCIP) is the Rural Restructuring Agency (RRA). It was established in 1998 in accordance a Decree of Cabinet of Ministers.¹ It is responsible for the implementation of agricultural projects financed by international financial institutions (IFIs). The RRA was established under the Ministry of Agriculture and Water Resources (MAWR) in the form of an incorporated agency as part of the government to facilitate the implementation of certain agriculture projects. As part of the ongoing reforms, the MAWR was divided into the Ministry of Agriculture, and the Ministry of Water Resources in February 2018. The government issued a decree on 17 April 2018, which decides, among other things, to reorganize the RRA. Specifically, effective from 1 July 2018, the RRA and Center for Implementation of Investment Projects in Agriculture and Water Sectors will be merged to form the “Agency for Implementation of Projects in Agro-Industrial and Food Sectors.” The newly-established agency will be under the Cabinet of Ministers of the Republic of Uzbekistan. The decree also states that the new agency will be the legal successor of the RRA and the Center for Implementation of Investment Projects in Agriculture and Water Sectors on their rights, obligations and contracts. References to the current name RRA, and its parent organization MAWR will be used in the following sections until the changes are approved by the government and confirmed by ADB.

B. Corporate Governance

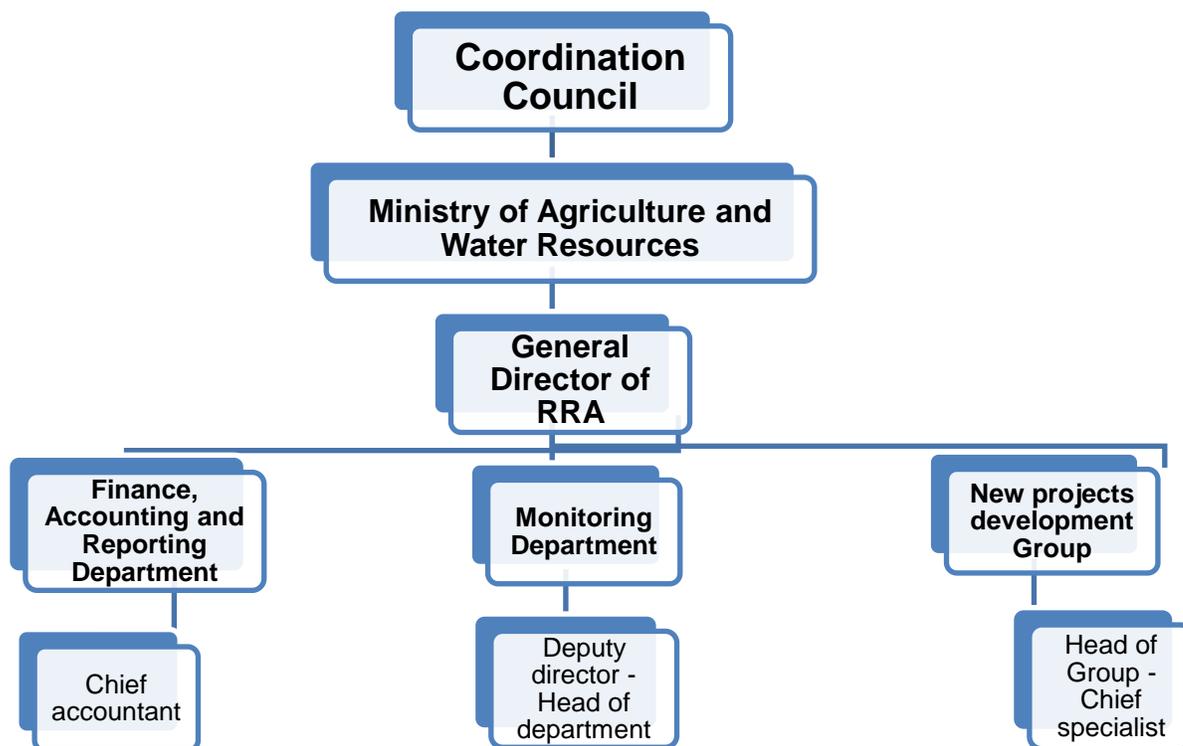
2. RRA is registered under the “other financial-credit institution” category under Uzbek legislation. Its sole owner is the government of Uzbekistan. As a unit under the MAWR it is regulated by and reports to the Ministry. It does not have a governance body such as a Board of Directors. However, in respect of the RRA’s function in the implementation of the MAWR projects financed by the IFIs, the government establishes a Coordination Council headed by the Prime Minister for such projects. Coordination Councils include the deputy ministers of economy, finance, and the MAWR, the chairperson of the State Committee on Nature Protection, the chairperson or deputy chairperson of the State Committee on Land Resources, Geodesy, Cartography and State Cadastre, and representatives of the Cabinet of Ministers, and the PFIs participating in IFI-financed projects.

3. According to the decree by which it was established, the RRA is managed by a Director General appointed by the MAWR in agreement with the Cabinet of Ministers. The staffing and structure of RRA is also governed by the decree. All of the RRA expenses are financed from funds provided under the IFI projects in which RRA serves as executing agency. There is no separate funding from the state budget for the RRA.

4. The organization structure of the RRA is shown in Figure 1.

¹ Decree No. 356 of 19 August 1998 “About the measures for accelerating project implementation «Restructuring Rural enterprises of the Republic of Uzbekistan.”

**Figure 1: Rural Restructuring Agency Organization Chart
(as of 31 December 2017)**



Source: Rural Restructuring Agency.

C. Financial Management Assessment

1. General Financial Management Assessment

5. The RRA responded satisfactorily to the financial management assessment (FMA). The FMA included a review of ADB's Country Partnership Strategy, national legislation and government decrees, the FMA of the RRA prepared in relation to the ongoing Horticulture Value Chain Development Project (Loan 3471-UZB), RRA's internal policies and documents, the FMA questionnaire completed by RRA in relation to Loan 3471-UZB, as well as discussions with the RRA staff.

6. The RRA will serve as executing agency for the proposed Horticulture Value Chain Infrastructure Project (HVCIP). It will be responsible for submitting disbursement projections and withdrawal applications to ADB. It will also be responsible for collecting and retaining supporting project documents.

7. The RRA has implemented a number of IFI-funded projects, including ADB's Land Improvement Project, and the World Bank funded Rural Enterprise Support Projects (RESP I and RESP II). It is currently implementing ADB's loan 3471-UZB [(and its associated additional financing), for Board consideration in June 2018] and the World Bank Horticulture Development Project. Through these projects, the RRA has gained significant project implementation experience. It has experience in management of disbursements from ADB. The RRA's financial

management is considered appropriate for implementation of HVCIP. Overall, the financial management risk is assessed as medium.

2. Staff

8. RRA's PMO is headed by the Director General of the RRA and managed by the project manager. The PMO currently comprises 14 management and administration staff, of which two positions (General Director and Marketing Specialist) are vacant, and six technical staff of which one is vacant (Translator). These staff are assigned to the project. Job descriptions have been developed for all positions. The staffing of the RRA's PMO is adequate for implementation of HVCIP.

9. With respect to financial management, the RRA staff comprises a chief accountant and five financial management specialists. A different chief accountant and financial management specialist is assigned for each IFI project implemented by the RRA. The chief accountant has extensive knowledge and experience acquired from implementing ADB and World Bank financed projects. The chief accountant and the financial management specialists participated in fiduciary training held by World Bank in 2014. For implementation of HVCIP, financial management staff will consist of the chief accountant, who will act as the project accountant, and one financial management specialist. Both were hired by the RRA in 2017. Prior to working at the RRA, the chief accountant worked for Ipak Yuli Bank and the financial specialist worked in the private sector and for the state committee responsible for the development of tourism. Their tenure has been approved for the duration of Loan 3471 and their contracts will be renewed on an annual basis. The RRA's financial management staff are adequate in terms of skills, experience and number of personnel for implementation of HVCIP.

3. Accounting and Reporting

10. The RRA has well established accounting policy and procedures. National accounting standards are followed for tax and regulatory reporting. International Public Sector Accounting Standards (IPSAS) are followed for project reporting. Project accounting is maintained on a cash basis. The RRA uses the 1-C Enterprise (version 8.2) software to manage accounting and reporting on current projects. It is currently being used on Loan 3471 and will be used on Loan 3471's additional financing, and HVCIP. All transactions are made based on primary documents which are approved and signed by the management (Director General or his deputy). Transactions in the accounting system are pre-approved by the chief accountant. Accounting records under Loan 3471 are maintained in the currency of payment, as well as in the US dollar equivalent by applying the actual exchange rate used at the time of currency conversion. They include all necessary details, including individual payments under each contract, balances and transactions from the local currency designated/transit account, etc. Accounting data back-up is conducted every two weeks and backed-up data copied on to two memory sticks. One is kept in a safe in the RRA and the other in the office of the local franchisee of the 1-C software which also provides technical support on the 1-C system. All supporting documents are retained by the RRA in an internal archive on continuous basis.

11. The RRA's financial reporting capacity is adequate for HVCIP. The RRA has incorporated in the 1-C software withdrawal applications, statements of expenditure (SOE) summary sheets and interim financial reports (IFRs). Quarterly IFRs prepared for the World Bank Horticulture Development Project were reviewed and are reported to have been submitted on a timely basis

and found to be acceptable.² Other reports are prepared on request in Excel with data extracted manually from the 1-C software. Financial reports will be automated in 1-C beginning in 2018.

12. The RRA prepares annual project financial statements based on IPSAS with the assistance of its auditors. The RRA projects' accounts and data on utilization of funds are also checked by the Chamber of Accounts at request of the Ministry of Finance.

4. Planning and Budgeting

13. The RRA has acceptable budgeting and planning capacity. Budgets are prepared for each project implemented by the RRA. The RRA's monitoring department and the coordinators of individual project components are responsible for preparation, approval and oversight/monitoring of budgets. Annual budgets for IFI projects are prepared based on inputs received from the RRA procurement specialist, monitoring and evaluation specialist, financial management specialist, loan/grant specialist, irrigation and drainage specialist, chief accountant and other specialists responsible for individual project components. Annual budgets are prepared in December of the current year for the following year and submitted for concurrence to the IFI concerned. Following receipt of 'no objection' from the IFI annual budgets are signed by the project manager. Annual budgets are also submitted to the MOF for approval at the beginning of each year.

14. Actual expenditures are compared to budgets on a monthly basis. Limits installed in the 1-C software mean that overpayments are not possible.

5. Internal Control, Internal and External Audit

15. RRA's internal control system is adequate for the provision of timely information and reporting under existing projects. The Financial Management Manual documents accounting and financial reporting policies and procedures. It incorporates proper internal control procedures over cash transactions, including maximum allowed daily cash transactions, formally describes expenditure authorization, invoice approval, and payment processing procedures, and sets up clear back-up arrangements, reconciliation procedures of project records, and procedures for safeguarding assets. Formal reconciliation of the special and local accounts with the project records is done on a monthly basis, but informal reconciliation is done more frequently, usually upon receipt of bank statements from the RRA's bank.

16. The RRA does not have an internal audit function as it does not engage in commercial activity and does not have a board of directors to which it would report. Further, as the RRA is financed from IFI project funds, funding is generally not provided for internal audit.

17. The RRA is not subject to statutory external audit, except for checks by the Chamber of Accounts at the request of MOF.³ RRA does not conduct activities other than implementation of IFI-financed projects and there is no funding for audits other than for special project financial statements. Audits of ADB and World Bank projects' financial statements are conducted on an annual basis by local audit firms licensed by the MOF. The audit of ADB's Land Improvement Project financial statements for 2013–2015⁴ were audited by Grant Thornton, an Uzbek member of the Grant Thornton International Ltd international network. The auditor issued unqualified opinions for all three years. There were no major accountability issues noted in the audit reports.

² These reports are not actually required by ADB.

³ A request to review reports prepared by the Chamber of Accounts was declined.

⁴ ADB's Land Improvement Project closed in 2015.

No audit reports on Loan 3471-UZB have been produced yet, as the project only commenced in April 2017. For the 2017 financial audit for Loan 3471-UZB, RRA has signed a contract with the auditing firm to conduct audit of its financial statements. Unqualified opinions were also issued on World Bank projects' financial statements.

6. Summary

18. A summary of the RRA's financial management strengths and weaknesses is in Table 1.

Table 1: RRA Financial Management Strengths and Weaknesses

Category	Strengths	Weaknesses
Staffing	Experienced in implementing IFI-financed projects	None
Financial accounting and reporting	Prior experience of implementing ADB projects	Lack of accounting staff professionally qualified in IPSAS
	Formalized policies and procedures	
	Financial management staff are experienced in accounting and reporting under IFI-financed projects	Lack of systemic staff training on IPSAS due to a lack funding
Planning and budgeting	Financial management staff are experienced in management of disbursements from ADB	The process of comparing actual and budgeted expenditures is not automated, but is in process
	The accounting system is fully functional and operating on Loan 3471-UZB. It is appropriate for HVCIP	
	Acceptable planning and budgeting capacity	
Internal control	Policies and procedures incorporate proper internal control procedures	One back-up is held in the office of the 1-C software franchisee firm, but the level of security is unknown
Internal audit	No internal audit function	No internal audit function as funding is not provided for the purpose project budgets
External audit	Reputable external auditor	None
	Unqualified audit opinions on project financial statements for 2013-2015 years	

HVCDP = Horticulture Value Chain Development Project, IFI = international financial institution, IFR = interim financial report, IPSAS = International Public Sector Accounting Standards, RRA = Rural Restructuring Agency, SOE = statement of expenditure.

Source: Asian Development Bank.

D. Risk Assessment

19. A risk assessment in respect of the RRA participation in HVCIP is in Table 2.

Table 2: RRA Risk Assessment

Risk	Risk Description	Risk Rating	Risk Mitigation
Inherent Risk			
Country Specific Risk	Macroeconomic stability and inflation	L	Government commitment to continuing economic reforms Inflation managed through effective demand management
	Public financial management, procurement, and institutional accountability	M	Risk Assessment and Risk Management Plan defined in Country Partnership Strategy 2012-2016 and COBP 2018-2020
	Public financial management - budget coverage is not fully comprehensive and development expenditures financed through external loans and grants are not included in the budget	M	Government is implementing a medium-term budgetary framework that will minimize off-budget expenditures, link overall budgeting to medium-term policy priorities, and improve the accounting of development spending
	Governance and regulation Enforcement of anti-corruption legislation	M	ADB support (through technical assistance) to government-led efforts for governance and regulatory improvements, and procurement reforms
	Falling demand for key exports such as oil, gold, and vehicles leading to tighter foreign exchange regime, which affects government capacity to repay foreign exchange borrowing	M	Support from ADB and other international financial institutions for government policy for diversification of the export base
	Difficult business environment. As of June 1, 2017, Uzbekistan ranked 74 of 190 countries in the World Bank <i>Doing Business 2018</i> ^a survey, compared with 87 in 2016. Critically, ranked 168 for trading across borders	M	Government efforts to improve business environment. Ranking in "trading across borders" has fallen from 159 in 2016 to 168 in 2017
Project Specific Risk	Horticulture export potential constrained by renewed access to Russian market for Turkish suppliers with higher quality products	H	Government policy to promotion horticulture exports through Uzagroexport Project support from ADB and other international financial institutions for horticulture sector development and exports

Risk	Risk Description	Risk Rating	Risk Mitigation
Institution Specific Risk	No specific risk	L	On-going monitoring to confirm status during implementation
Overall Inherent Risk		M	
Control Risk (Entity Level)			
Internal Control	Confidential financial back-up data is kept with the 1-C software franchisee firm with an unknown level of security	M	Conclude a confidentiality agreement with the 1-C franchisee providing technical support to RRA Ensure the 1-C franchisee implements secure storage for RRA data
Funds Flow	No specific risk	L	Monitoring by ADB review missions
Budgeting	The process of comparing actual and budgeted expenditures is not automated	M	Include comparison of actual and budgeted expenditure in the accounting system (Implemented as of April 2018)
Staffing	No specific risk	L	Monitoring by ADB review missions
Financial Accounting and Reporting	Lack of accounting staff professionally qualified in IPSAS Lack of systemic staff training on IPSAS due to a lack funding	M	Include IPSAS training for chief accountant and financial management specialist (Implemented as of April 2018)
Internal Audit	There is no internal audit function	M	All transactions under IFI-financed projects are reviewed during external audit
External Audit	No specific risk	L	Monitoring by ADB review missions
Reporting and Monitoring	No specific risk	L	Monitoring by ADB review missions
Information Systems	No specific risk	L	Monitoring by ADB review missions
Overall Control Risk for Executing Agency		M	

IFI = international financial institution, IFR = interim financial report, IPSAS = International Public Sector Accounting Standards, RRA = Rural Restructuring Agency, SOE = statement of expenditure.

H = high; L= low; M = medium.

Source: Asian Development Bank.

E. Financial Management Action Plan

20. Table 3 outlines the proposed financial management action plan for the RRA under loan 3471-UZB. It should be noted that these actions have been complied with under the Horticulture Value Chain Development Project as of April 2018.

Table 3: Rural Restructuring Agency Financial Management Action Plan

Risk Description	Risk	Action Item	Period	Responsibility
The process of comparing actual and budgeted expenditures is not automated	M	Include comparison of actual and budgeted expenditure in the accounting system	Q1 2018	RRA
Lack of accounting staff with professional qualification in IPSAS	M	Recruit IPSAS qualified accounting staff and/or support existing accounting staff to obtain IPSAS qualification/certification	Q1 2018	RRA
No systematic staff training in IPSAS	M	Develop and implement training plan for external and internal training on IPSAS for accounting staff.	Q1 2018	RRA

IPSAS = International Public Sector Accounting Standards, M = medium, RRA = Rural Restructuring Agency.
Source: Asian Development Bank.

ADB Financial Management Assessment Questionnaire For Executing Agencies

Financial Management Assessment Questionnaire⁵

(Note: This questionnaire should be used as a tool only to gather information relevant for assessing financial management capacity of executing and implementing agencies. It may be used selectively for second subsequent projects, or periodic financing reports.

Additional questions may be required as deemed fit).

Topic	Response	Potential Risk Event
1. Executing / Implementing Agency		
1.1 What is the entity's legal status / registration?	Other financial-credit institution	
1.2 How much equity (shareholding) is owned by the Government?	100%	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any. ⁶	Government is the only beneficial owner	
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes. RRA currently serves as PIU for the IBRD Horticulture Development Project. In the past it implemented ADB project "Land improvement in Bukhara, Navoi and Kashkadarya regions" and WB projects "Rural enterprise support project" Phase I and Phase II	
1.5 Briefly describe the statutory reporting requirements for the entity.	RRA present tax reports to local tax authorities on quarterly basis. Besides it has monthly and quarterly reporting to local statistics bodies, MOF, MAWR, semi-annual - to World Bank.	
1.6 Describe the regulatory or supervisory agency of the entity.	RRA is regulated by Ministry of agriculture and water resources. It is not subject to supervision by external bodies.	
1.7 What is the governing body for the project? Is the governing body for the project independent?	The project will be governed by General director of RRA.	

⁵ This questionnaire should be administered by ADB staff or consultant (the Reviewer), and utilized only to obtain information, and to identify and describe potential risk events. Rating of risks should be carried out separately by assessing their likelihood and impact.

⁶ In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners.

Topic	Response	Potential Risk Event
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Attached. RRA is managed by the General Director (CEO). Key management personnel also include deputy general director and chief accountant. Each project implemented by RRA has own organizational structure. The organizational structure under this ADB project is appropriate for the needs of the project.	
1.9 Does the entity have a Code of Ethics in place?	No.	
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	N/a	
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.	Refer to Project Administration Manual (PAM).	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes.	
2.3 Are the disbursement methods appropriate?	Yes.	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	There were no problems.	
2.5 In which bank will the Imprest Account (if applicable) be established?	Ipak Yuli Bank	
2.6 Is the bank in which the imprest account is established capable of – <ul style="list-style-type: none"> • Executing foreign and local currency transactions? • Issuing and administering letters of credit (LC)? • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 	Yes Yes Yes Yes	

Topic	Response	Potential Risk Event
2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	As per the project budget.	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes. The proposed staff implemented ADB project "Land improvement in Bukhara, Navoi and Kashkadarya regions".	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest 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. The proposed staff implemented ADB project "Land improvement in Bukhara, Navoi and Kashkadarya regions".	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	No.	
2.11 How are the counterpart funds accessed?	No counterpart is envisaged.	
2.12 How are payments made from the counterpart funds?	N/a	
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?	N/a. The project funds will not flow to NGOs or communities	
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.	The current accounting department consists of chief accountant and 5 financial specialists. Each project implemented by RRA has chief accountant who serves as project	

Topic	Response	Potential Risk Event
	accountant and one financial specialist. These two positions are proposed as accounting staff under this project also.	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	The existing staff us assigned to the project. The project staff as per the project budget includes 14 management and administration staff (2 positions – General Director and Marketing Specialist are vacant) and 6 technical staff (1 position – Translator – is vacant).	
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.	Both existing and proposed accounting staff consists of chief accountant and financial specialist. Both of them work in RRA for 5 years. Their job descriptions and CVs are attached.	
3.4 Is the project finance and accounting function staffed adequately?	Yes.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes.	
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes (under the ADB project on “Land improvement in Bukhara, Navoi and Kashakdarya regions”).	
3.7 What is the duration of the contract with the project finance and accounting staff?	The staff is approved for the duration of the project (5 years). The contracts are renewed on annual basis.	
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	All project finance and accounting staff is contracted.	
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.	No new project finance and accounting staff to be hired under the project.	
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	The accounting staff is working for 5 years already, so the turnover rate for the last 5 years is zero.	

Topic	Response	Potential Risk Event
(including terminations, resignations, transfers, etc.)?		
3.12 What is training policy for the finance and accounting staff?	Finance and accounting staff undergo trainings envisaged under the projects which are implemented by RRA. No additional trainings due to no budget.	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Trainings organized by WB and ADB in frame of projects implemented by RRA.	
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 categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes. RRA uses 1C:Enterprise (version 8.2) system which also will be used for the project accounting. It allows proper recording of project financial transactions.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes. All transactions are made based on the primary documents which are approved and signed by the responsible management (general director and his deputy). Transactions in the system are prior approved by the chief accountant.	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes. Attached.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes.	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes.	

Topic	Response	Potential Risk Event
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 accounting files and data base are archived each 10 days on disc and retained outside of RRA (with its outsourced technical support firm which is 1C franchisee firm). All supporting documents are retained in RRA internal archive (on continuous basis).	
4.7 Describe any previous audit findings that have not been addressed.	All audit findings have 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.	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes.	
Budgeting System		
4.10 Do budgets include physical and financial targets?	Yes.	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Budgets are prepared in frame of each project implemented by RRA, since it has no government funding or other commercial activities.	
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Yes, on monthly basis.	
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance.	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No.	

Topic	Response	Potential Risk Event
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Monitoring department and project components' coordinators.	
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?	Budgets are approved for each project implemented by RRA. There is no other RRA budgets since it is not commercial entity and no government funding. Information is collected from the various specialists of RRA on each project component, then consolidated and approved by the general director.	
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes.</p> <p>No.</p> <p>No.</p> <p>N/a.</p>	
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?	N/a.	
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system	All invoices dated, reviewed and approved, recorded into system under special account code as per COA.	

Topic	Response	Potential Risk Event
correctly, and clearly marked for account code assignment?		
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes. Monthly timesheets are prepared, reviewed and approved prior to payroll. The general director issues an order for changes to the payroll so the changes are authorized.	
Policies And Procedures		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Accrual – for reporting based on National accounting standards (to tax authorities, regulating bodies). Cash method – under the projects.	
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	National accounting standards are followed for tax and regulatory reporting. IPSAS are followed for the project reporting.	
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes.	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes.	
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	Yes.	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	There accounting policy used by RRA, besides each project has PAM.	
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes.	
4.28 Are manuals distributed to appropriate personnel?	Yes.	
4.29 Describe how compliance with policies and procedures are verified and monitored.	RRA does not have internal audit service. Compliance is checked by the general director, his deputy and chief accountant during day-to-day activities.	

Topic	Response	Potential Risk Event
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.	First signatory: 1) General Director – Nasriddin Najimov, and 2) Deputy General Director – Bakhtiyor Kamalov. Second signatory: 1) Chief Accountant – Gulnora Gubieva, and 2) Chief accountant of HVCDP – Samadullo Hasanov.	
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes, however there is no cash transactions and cash office. Salaries are transferred to plastic cards. Other transactions are by bank transfer only.	
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?	RRA is not a bank so does not disburse loans or attract deposits. It does not conduct commercial activities, it serves primarily as PIU for IFIs and MAWR projects. So it is not involved in collection and depositing of cash.	
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?	RRA does not have cash office and no cash on hand.	
4.34 Are all reconciling items approved and recorded?	N/a.	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	N/a.	
4.36 Are there any persistent/non-moving reconciling items?	N/a.	
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	USB keys and passwords are kept by chief accountant (who is the authorized user). Official receipts and invoices are kept in the accounting department in the locked cabinets.	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No cash balances.	
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 chief accountant. No written rules.	
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or	Accounting policy and job descriptions (which are mandatory to be signed by the staff) include	

Topic	Response	Potential Risk Event
protect assets from fraud, waste and abuse?	provisions on responsibility of staff for fraud, waste and abuse (responsibility in accordance with local legislation).	
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. It is updated at each purchase of FA. RRA is the sole owner. RRA is not a bank or licensed financial institution, so it cannot disburse loans and attract deposits.	
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes.	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Yes, on annual basis.	
4.44 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes.	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	In accordance with NAS#5.	
4.46 Are assets sufficiently covered by insurance policies?	No.	
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	In accordance with NAS#5.	
<i>Other Offices and Implementing Entities</i>		
4.48 Describe any other regional offices or executing entities participating in implementation.	No other offices or executing entities.	
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.	No other offices or executing entities.	

Topic	Response	Potential Risk Event
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?	No other offices or executing entities.	
4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	No other offices or executing entities.	
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.	No other offices or executing entities.	
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No other offices or executing entities.	
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?	As per PAM.	
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	No.	

Topic	Response	Potential Risk Event
5.2 What are the qualifications and experience of the IA staff?	N/a.	
5.3 To whom does the head of the internal audit report?	N/a.	
5.4 Will the internal audit department include the project in its annual work program?	N/a.	
5.5 Are actions taken on the internal audit findings?	N/a.	
5.6 What is the scope of the internal audit program? How was it developed?	N/a.	
5.7 Is the IA department independent?	N/a.	
5.8 Do they perform pre-audit of transactions?	N/a.	
5.9 Who approves the internal audit program?	N/a.	
5.10 What standards guide the internal audit program?	N/a.	
5.11 How are audit deficiencies tracked?	N/a.	
5.12 How long have the internal audit staff members been with the organization?	N/a.	
5.13 Does any of the internal audit staff have an IT background?	N/a.	
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	N/a.	
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	N/a.	
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	N/a.	
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	There is no statutory requirement for regular audit of RRA financial statements. Only projects' financial statements (special purpose audits) are audited regularly by an independent auditor. The auditor is a local audit firm – Grant Thornton (not Big4) licensed by MOF. It is a member of international network Grant Thornton International Ltd. which provides assurance, tax and	

Topic	Response	Potential Risk Event
	advisory services. However, implementation of projects by RRA is checked from time to time by the Chamber of Accounts at request of MOF.	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Under WB and ADB projects' special purpose audits the audit reports are issued – on annual basis.	
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?	International Standards on Auditing.	
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No.	
6.5 Does the external auditor meet with the audit committee without the presence of management?	N/a.	
6.6 Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No.	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No.	
6.8 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes. The audit firm Grant Thornton has been for three years conducting audit of ADB project implemented by RRA.	
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?	There is no entity auditor since no statutory requirement on audit of financial statements of RRA. An auditor for audit of the project financial statements will be hired based on results of announced bid.	

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6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No.	
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	Yes, the Chamber of Accounts at request of MOF conducts checking on the utilization of project funds and implementation of the projects.	
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, the terms of reference for audit of financial statements for HVCDP was developed and sent for ADB approval.	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	N/a.	
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)?	Will be included in the bid requirements.	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	
6.17 [For second or subsequent projects] 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?	No, RRA prepares financial statements only for projects. It also prepares reports for tax and regulatory purposes.	
7.2 Are financial statements and reports prepared for the implementing unit(s)?	No, only for projects.	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as	Project financial statements are prepared on quarterly basis.	

Topic	Response	Potential Risk Event
to be useful to management for decision making?		
7.4 Does the entity reporting system need to be adapted for project reporting?	Yes.	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes.	
7.6 Are financial management reports used by management?	Yes.	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes.	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Financial reports are prepared yet directly by the automated accounting system 1C - only for World Bank projects implemented by RRA. Financial reports for ADB HVCDP are prepared now in Excel spreadsheet however planned to be prepared by automated accounting system starting from 2018.	
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes.	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes, RRA has experience in implementing World Bank and IFAD projects.	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	Yes, 1C: Enterprise, version 8.2	
8.2 If computerized, is the software off-the-shelf, or customized?	Off-the-shelf.	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Standalone.	
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module	Automatic data transfer.	

Topic	Response	Potential Risk Event
in the enterprise financial system with automatic data transfer, or does it entail manual entry?		
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?	Directly generating periodic financial statements –for World bank financed projects only. For ADB HVCDP requires manual intervention and use of Excel. However, starting from 2018 it is planned that the computerized software 1C will directly generate the financial statements for HVCDP.	
8.6 Can the system automatically produce the necessary project financial reports?	The system automatically produces project financial reports for World Bank projects. It is planned that it will produce financial reports for HVCDP also starting from 2018.	
8.7 Is the staff adequately trained to maintain the computerized system?	Yes.	
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes.	
8.9 Are there back-up procedures in place?	Yes.	
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Backup is done on memory stick every 10 days by the outsourced specialist of 1C franchisee firm which provides technical support. The backup is stored in that firm offsite of RRA and in safe deposit by project manager.	Risk of disclosure of confidential information to the third parties. It is unknown whether space of that firm has adequate fire, earthquake and calamity protection.