

Financial Management Assessment

Project Number: 51107-003
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Sri Lanka: Health System Enhancement Project –
Additional Financing

CONTENTS

	Page
I. INTRODUCTION	1
II. BRIEF PROJECT DESCRIPTION	1
III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT	3
IV. PROJECT FINANCIAL MANAGEMENT SYSTEM	5
V. DISBURSEMENT ARRANGEMENTS	13
VI. RISK ASSESSMENT	15
VII. PROPOSED TIME BOUND ACTION PLAN	17
VIII. SUGGESTED FINANCIAL MANAGEMENT COVENANTS	18
IX. CONCLUSION	19

ABBREVIATIONS

ADB	–	Asian Development Bank
AF-HSEP	–	Health System Enhancement Program – Additional Financing
AGD	–	Auditor General Department
APFS	–	audited project financial statements
CFO	–	Chief Financial Officer
CIGAS	–	computerized integrated government accounting system
COVID-19	–	coronavirus disease
COPE	–	Committee on Public Enterprises
DMA	–	Department of Management Audit
FMA	–	financial management assessment
HSEP	–	Health System Enhancement Program
ITMIS	–	Integrated Treasury Management Information System
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
NAO	–	National Audit Office
PFM	–	public financial management
PIU	–	project implementing unit
PMU	–	project management unit
PSC	–	project steering committee
RECOVER	–	Recovery Project Under the Asia Pacific Vaccine Access Facility
QPR	–	quarterly project process report

EXECUTIVE SUMMARY

The Asian Development Bank (ADB) has an ongoing Health System Enhancement Project (HSEP) in Sri Lanka which was approved in October 2018. The coronavirus disease (COVID-19) pandemic has placed the public health system in Sri Lanka under tremendous pressure. The Government of Sri Lanka has requested for an additional financing for HSEP (AF-HSEP) of \$110 million loan from ADB and \$5 million Japan Fund for Poverty Reduction (JFPR) grant to further expand the health system enhancement initiatives.

The financial management assessment (FMA) was conducted in June 2021 and prepared in accordance with ADB's Financial Management Technical Guidance Note: Financial Management Assessment. The FMA evaluated the financial management capacity of the Ministry Health, Nutrition, and Indigenous Medicine (MOHNIM), presently re-designated as Ministry of Health (MOH) as the executing agency and the existing project implementing units (PIUs) in the four provinces as implementing agencies. This report builds on the FMA conducted in May 2021 for the recently processed loan on Responsive COVID-19 Vaccines for Recovery Project Under the Asia Pacific Vaccine Access Facility (RECOVER) supplemented with discussions with the government counterparts and drawing lessons from the ongoing ADB experience in Sri Lanka.

MOH and the four provinces have experience in implementing donor-funded projects including those funded by ADB. The ongoing HSEP has an established staff capacity. Both the project management unit (PMU) at ministry level and PIUs at the provincial level are adequately staffed. Financial management consultant support will be supplemented. The financial management arrangements for AF-HSEP will be streamlined through advance and sub-accounts to be managed centrally at MOH level. A centralized financial management arrangement was opted for efficiency as the expenditures for AF-HSEP such as COVID-19-related responses, medical equipment, computer, and information technology system, contracts for civil works, and consultants hiring can be done centrally. This is to limit the additional implementation burden to the PIUs. AF-HSEP accounting, reporting, and auditing will be centrally arranged.

Overall, the MOH-PMU and PIUs have satisfactory performance with regards to compliance with ADB's financial management requirements. All the actions outlined in the agreed HSEP financial management action plan including the establishment of management and implementing units, recruitment of an internal auditor, procurement of an accounting software, set up of a separate fixed asset register, etc. have been complied with as at the date of this assessment. The HSEP currently has an adequate financial management implementation arrangement. The AF-HSEP will build on the HSEP implementation arrangements, capacity, systems, reporting, and processes in place.

The overall pre-mitigation financial management risk for the AF-HSEP is *moderate*. The financial management risk is rated moderate due to the budget allocation for AF-HSEP has not yet been made. This may cause possible delays in the release of budget funds impacting project implementation. This financial management risk will be mitigated through (i) establishment of a separate budget code and timely budget allocation for the additional financing scope, and (ii) regular monitoring and reporting of the counterpart financing which will be reported as part of the quarterly progress reports. The FMA concludes that with the risk mitigation measures and the adoption of the financial management action plans, the financial management systems are acceptable for the proposed AF-HSEP project.

I. INTRODUCTION

1. The Asian Development Bank (ADB) has an ongoing Health System Enhancement Project (HSEP) in Sri Lanka for \$60 million, approved in October 2018 and became effective on 5 February 2019 with an indicative closing date on 31 May 2024. The coronavirus disease (COVID-19) pandemic has placed the public health system in Sri Lanka under tremendous pressure. The Government of Sri Lanka has requested for an additional financing for HSEP (AF-HSEP) of \$110 million from ADB to further expand the health system enhancement initiatives.
2. As part of the original loan financial due diligence procedures, a financial management assessment (FMA) was conducted to evaluate the institutional arrangements, capacity, controls, systems, procedures, and measures required to implement the project.
3. This report builds on the recently conducted financial due diligence procedures for Sri Lanka, Responsive COVID-19 Vaccines for Recovery Project under the Asia Pacific Vaccine Access Facility (RECOVER)¹ in May 2021 and the financial management performance of HSEP. The Ministry of Health, Nutrition, and Indigenous Medicine (MOHNIM), presently re-designated as Ministry of Health (MOH) is the executing agency for both HSEP, AF-HSEP and RECOVER.
4. The FMA update was conducted in June 2021 and prepared in accordance with ADB's Financial Management Technical Guidance Note: Financial Management Assessment² and Financial Due Diligence: A Methodology Note.³ The FMA evaluated the financial management capacity of the MOH as the executing agency and the PIUs as the implementing agencies. The financial management arrangements for AF-HSEP were streamlined for effective and efficient implementation arrangements. Unlike the original financing, the provincial PIUs will not manage sub-accounts financed through AF-HSEP.
5. The due diligence was conducted through: (i) discussion with the government counterparts, (ii) desk review, (iii) evaluation of the ongoing HSEP project performance, (iv) review of recently conducted FMA, (v) completion of FMA questionnaire, (vi) interviews with the government counterparts, and (vii) drawing lessons from ongoing ADB experience in Sri Lanka.

II. BRIEF PROJECT DESCRIPTION

6. **Ongoing project.** Under the HSEP, ADB is providing \$37.5 million in loan financing from ADB's ordinary capital resources and \$12.5 million in grant financing from ADB's special funds resources. HSEP's impact is to ensure a healthier population with access to a more comprehensive primary health care (PHC) system. The project outcome is to ensure that efficiency, equity, and responsiveness of the PHC system is improved. The ongoing project has three outputs: (i) primary health care enhanced in Central, North Central, Sabaragamuwa, and Uva provinces; (ii) health information system and disease surveillance capacity strengthened; and (iii) policy development, capacity building, and project management supported.

¹ ADB. 2021. [*Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Democratic Socialist Republic of Sri Lanka for the Responsive COVID-19 Vaccines for Recovery Project Under the Asia Pacific Vaccine Access Facility*](#). Manila; and ADB. 2020. [*ADB's Support to Enhance COVID-19 Vaccine Access*](#). Manila.

² ADB. 2015. [*Financial Management Technical Guidance Note: Financial Management Assessment*](#). Manila.

³ ADB. 2009. [*Financial Due Diligence: A Methodology Note*](#). Manila.

7. The impact, outcome, and outputs of the ongoing project will be retained for the overall project, but with scaled-up and additional activities measured via revised and additional output indicators. The title of outputs 1 and 2 were adjusted to reflect the expanded scope and newly included activities.

8. The project outputs include the following:

9. **Output 1: Primary and secondary health care enhanced in Central, North Central, Sabaragamuwa, and Uva provinces.** The additional financing will replenish the funds for the activities under the ongoing project which were put on hold due to the reallocation for emergency COVID-19 response activities. These activities include (i) supporting the development of 44 primary health care (PHC) facilities; (ii) expanding the package of nutrition-related services to mothers and children with a special focus of most vulnerable population in the estate and rural areas in the four project provinces, and the renovation of the 127 field health centers; (iii) supporting the behavior change communications campaign for encouraging PHC utilization; and (iv) providing operational support to the province teams to improve the service delivery and management-related interventions under the PHC fund to support establishment of shared care clusters.

10. **Output 2: Health information, disease surveillance capacity, and COVID-19 response strengthened.** The additional financing for this output will replenish funding for the planned activity on (i) adopting health information technology (IT) for better continuity of care and disease surveillance within nine shared care clusters in the four most disadvantage provinces, and (ii) expanding the support to quarantine unit by further strengthening core capacity of selected ports of entry and the quarantine information management system under the ongoing project. The equipment requirements of above two activities could not be procured due to the reallocation for emergency COVID-19 response activities in 2020.

11. **Output 3: Policy development, capacity building, and project management supported.** The additional financing for the output 3 will (i) scale-up e-learning in the health sector to enable the implementation of continuous medical education through improving the e-learning infrastructure and the e-learning functions at the National Institute of Health Sciences (NIHS) and selected regional training centers (one center per province), improving the internet connectivity between NIHS and regional training centers, and developing gender responsive e-learning modules on defined technical areas; (ii) provide required technical consultants to the government to support policy development, capacity building, and project management, and (iii) provide additional project management and administrative costs to cover the proposed 24-month extension of the project completion date from 30 November 2023 to 30 November 2025 to complete civil works and other project activities that were delayed due to the pandemic.

12. **Status of HSEP implementation.** The project progress is “on track”. No significant issue was noted on compliance with financial management loan covenants, and all the financial management action plans designed in HSEP have been implemented (further discussion in Section IV below). As an immediate response to COVID-19, at the request of the government, through memos dated 25 March 2020 and 10 April 2020, ADB approved the reallocation of \$10 million loan proceeds and \$5 million grant proceeds from the project to support the government’s emergency COVID-19 pandemic response. This financing is being used to procure essential medical equipment, consumables, and civil works which are in line with project output 2.

III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT

13. The AF-HSEP was processed in accordance with ADB Staff Instructions on Business Processes for Additional Financing (Sovereign Operations) and is eligible for COVID-19 response fast-track business procedure.⁴ As indicated in Section I, this FMA report leveraged on the recently conducted financial management assessment for RECOVER which incorporates an assessment of country and sector financial management.⁵ The RECOVER FMA report concluded that the overall country financial management risk is moderate, and adequate public financial management (PFM) systems are in place.

14. **Public financial management.** Summarized below are the key points from RECOVER country and sector PFM assessments which are relevant for AF-HSEP assessment.

- (i) **Decentralized budgeting and accounting system.** There are established national laws and regulations governing financial management. Also, there are established system and procedures for budgeting and accounting in Sri Lanka, based on decentralized computerized accounting system (CIGAS). Accounts are consolidated upwards by submission of accounting records from each accounting unit.
- (ii) **Government initiative to strengthen PFM system.** The government has developed a new fully integrated web-based system, the Integrated Treasury Management Information System (ITMIS) which will be used for all government units with central database or server that allows real time online monitoring and reporting of information. ITMIS contains information on accounting, commitments, budget, and treasury operations. This government initiative will significantly enhance accountability, transparency, and reliability of financial information. ITMIS was piloted by the Ministry of Finance and Planning (MOF) in 2020 and is expected to be rolled out to other ministries and the provincial level by end of fiscal year (FY) 2021.⁶ The 2021 budget was executed using ITMIS. Despite the COVID-19 challenges, the rollout of ITMIS resumed in February 2021 and a total of 115 government agencies are currently using ITMIS.
- (iii) **Internal audit capacity improved.** The FMA for the original financing reported weak capacity of internal audit function. Based on the recent assessment for RECOVER, Sri Lanka has over the years introduced new and improved regulations and standards for internal controls and internal audit departments. Furthermore, the internal audit units have been strengthened through training and additional supervision provided by the Department of Management Audit (DMA). DMA regularly undertakes training of the internal audit staff based on the government internal audit guidelines that are in line with the International Standards for the Professional Practice of Internal Auditing.
- (iv) **External audit.** National Audit Office (NAO) is the country supreme audit institution. The audits are conducted in accordance with Sri Lanka Auditing Standards which are based on International Organization of Supreme Audit Institutions (INTOSAI) standards. The integrity and independence of the NAO also

⁴ ADB. 2021. *Memo on Health System Enhancement Project—Request to Process Additional Financing*. Manila

⁵ ADB. 2021. [Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Democratic Socialist Republic of Sri Lanka for the Responsive COVID-19 Vaccines for Recovery Project Under the Asia Pacific Vaccine Access Facility](#). Manila (additional information). page 3 linked document Financial Management Assessment report.

⁶ The roll out of ITMIS may be delayed. There are uncertainties on whether the target of end of fiscal year 2021 will be met given the current COVID-19 pandemic.

meets the standard requirements as guided by INTOSAI. Audit findings are reported to the Parliament.⁷ In addition, as part of the government transparency commitment, the audit reports are publicly available on the NAO website.

- (v) **ADB report on PFM system of Sri Lanka.** In 2018, ADB conducted a diagnostic review of the PFM system of Sri Lanka and identified risks related to delays in fund transfers and delays in submission of audited project financial statements (APFSs) to ADB.⁸ Notwithstanding the country's tight fiscal space, the government has provided the sector with adequate resources to support its annual requirements. During 2015 to 2020, the total government budget averaged annual growth rate is 5.8%, while the MOH budget as a percentage of total government budget is between 4.0% to 5.0% (4.3% on average). During 2015 to 2020, except for year 2017, there is a notable increasing trend in the MOHNIM and provincial budget allocation with compound annual growth rate of 5.2% and 8.7%, respectively. MOHNIM budget utilization rate is also commendable at 94.0%. The rising budgetary allocation demonstrates the government's strong commitment to strengthen the health care system in the country (footnote 5). On late submission of audited PFSs, refer to section IV of this report for project performance review. At the time of this assessment the project has submitted two audit reports of which the first one was submitted with a minor delay (4 days late).

Supplemented Section

15. **Health sector.** The health system in Sri Lanka is funded by the Consolidated Fund. MOH is responsible for policy formulation, health strategic planning, financial management, monitoring and supervision, and exercise a high degree of influence and control over the decentralized institutions. There are reporting channels between provinces and the central ministry. Provincial councils and local government entities are entrusted with healthcare delivery of preventative and primary curative services. The sector has demonstrated strong performance on maternal care, child-care, and control of communicable disease. However, key challenges faced by the health system in Sri Lanka are (i) the ageing population; (ii) like other countries in the world, combating and containing the unprecedented scale of COVID-19 disease; and (iii) the country's low tax revenue and reduced fiscal space to expand public expenditure on health.

16. **Governance Indicator.** Good governance is critical for public funds accountability and transparency. Figure 1 below shows the performance of Sri Lanka on World Bank's Worldwide Governance Indicators (WGI) in comparison with the average performance of countries in South Asia.⁹ The WGIs captures six key dimension of governance and measures the quality of governance in over 200 countries. With zero being the lowest and 100 being the highest possible score, Sri Lanka performance remains weak on governance. Yet, the country scores above the South Asia regional average on all the six indicators in 2019. There is notable improvement between 2014 to 2019 on Voice and Accountability Indicator with Sri Lanka Percentile Rank of 28.08 in 2014 to 43.84 in 2019. All other indicators improved between 2014 to 2019, except for Government Effectiveness and Regulatory Quality.

⁷ Article 154(6) of the Constitution states that the Auditor General "shall within 10 months after the close of each financial year and as and when he deems it necessary report to Parliament on the performance and discharge of his duties and functions under the Constitution".

⁸ ADB. 2018. [Public Financial Management System—Sri Lanka](#). Manila.

⁹ The World Bank. 2021. [Worldwide Governance Indicators](#).

Figure 1: Worldwide Governance Indicator Performance

Source: World Bank Worldwide Governance Indicator.

17. **Control over corruption.** The Corruption Perception Index ranked 180 countries by their perceived level of public sector corruption. With one being the best and 180 being the worst country to tackle corruption effectively. Sri Lanka ranked 94 out of 180 countries worldwide on corruption perception index for 2020, with Bangladesh ranked at 146, Nepal at 117 and India at 86.¹⁰ With the election of a new President, there is a new Policy approved by the Cabinet of Ministers which sets higher level policies including efforts to combat corruption in the country. In addition, there are existing dedicated legislation and institutional framework for anticorruption. The dedicated legislation are the Bribery Act, Declaration of Assets and Liabilities Law, and Commission to Investigate Allegations of Bribery and Corruption (CIABOC) Act. In addition, there are independent oversight committees such as Committee on Public Finance, Committee on Public Enterprises (COPE) and Committee on Public Accounts (COPA). Auditors' General reports are presented to Parliament through these two standing committees, COPE and COPA.

IV. PROJECT FINANCIAL MANAGEMENT SYSTEM

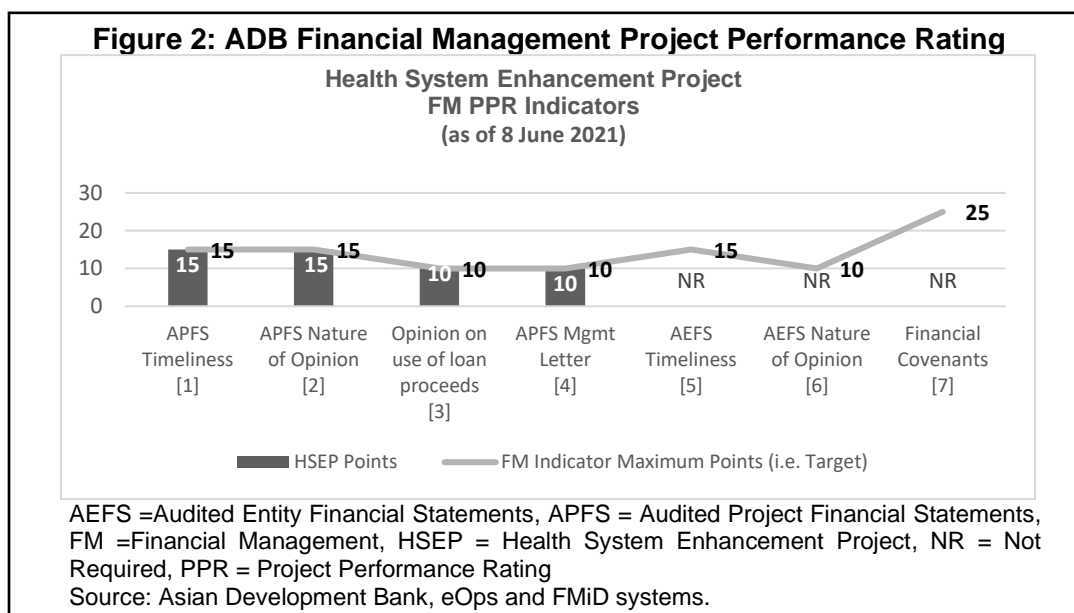
18. The financial due diligence for RECOVER was conducted in May 2021 and reviewed the financial management capacity of the MOH. There are no significant changes in MOH between

¹⁰ Transparency International. [Corruption Perception Index](#).

May 2021 and the date of this assessment report. Thus, this section draws from the RECOVER. Further, it is supplemented by an update on the FMA conducted for the HSEP original financing, review of financial management mitigation measures proposed for HSEP and an assessment of adequacy of financial management arrangements in HSEP for purposes of AF-HSEP.

A. Performance of the ongoing Health System Enhance Project

19. **Compliance with financial reporting and audit requirements of ADB.** MOH has an established PMU and four PIUs for HSEP. Overall, the PMU has performed adequately with regards to ADB's financial management requirements. At the time of this assessment the project has submitted two audit reports of which the first one was submitted with a minor delay (4 days late). The audit was conducted by NAO in accordance with Sri Lanka Auditing Standards (SLAS) which is aligned with the International Standards for Supreme Audit Institutions. The auditor issued an unqualified opinion on the PFS, the use of funds for the intended purpose as well as on the use of statement of expenditure (SOE) and the advance fund procedures. In addition, there are auditors' findings in the management letter report which are meant to strengthen the systems and processes for the project. MOH-PMU has demonstrated strong commitment to ensure adequate controls, processes and procedures are in place, all comments from the auditors were addressed by MOH-PMU, and there are no auditors' findings in the management letter report that remains unresolved in the following fiscal year. The financial management project performance rating for HSEP is marked "on-track." The following are the financial management performance based on each financial management project performance rating indicators.



20. **Implementation of HSEP financial management action plans.** The project has implemented all the actions outlined in the agreed financial management action plan including the recruitment of an internal auditor, procurement of an accounting software, set up of a separate fixed asset register, etc.¹¹ In addition, the PMU is also submitting quarterly progress reports in a timely manner and in the format required by ADB.

¹¹ The action of engaging an external financial management consultant on an intermittent basis, to support capacity building of PMU and PIU staff was removed.

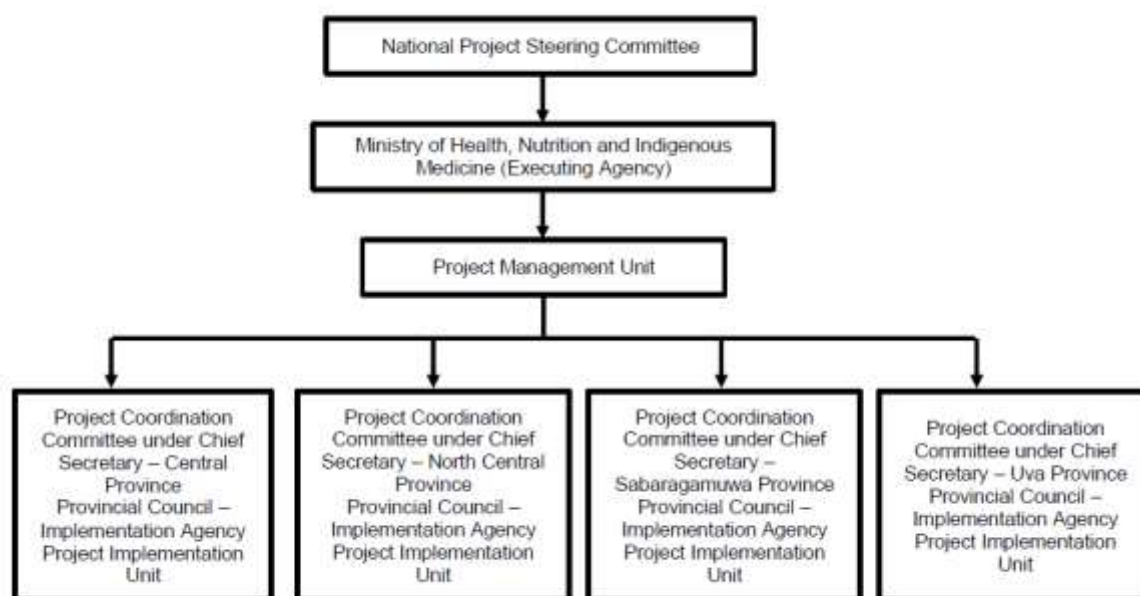
Additional Financing—Health System Enhancement Project Implementation Arrangements

21. The financial management arrangements for AF-HSEP were streamlined for effective and efficient implementation arrangements. There are three outputs for the AF-HSEP, the financial management for all the three outputs will be arranged centrally through MOH-PMU. Unlike the original financing, the provincial PIU will not manage sub-accounts at provincial level for AF-HSEP.

22. There is no change in the project organizational structure. The MOH remains the project's executing agency. The PMU was established in the MOH and PIUs were established in each of the four provinces which are responsible for project implementation for the original loan. Leveraging on the experience and capacity of the existing PMU and PIUs, the same will be used for AF-HSEP, and will be supplemented if needed. Detailed terms of reference of the PMU and PIUs were included in the HSEP project administration manual.

23. The project management structure shown in **Figure 3** remains appropriate for the scope of the original and additional financing, there is no updates or changes required.

Figure 3: Project Management Structure



Source: Asian Development Bank

24. **Project Oversight Committee.** The national Project Steering Committee (PSC) has been formed. The PSC oversees the project and provides overall guidance on strategies and measures envisaged under the project. The PSC is also responsible to undertake periodic review of HSEP project performance. The PSC is chaired by the MOH Secretary, supported by Project Director of MOH-PMU. The PSC members include Additional Secretary, Ministry of Provincial Councils and Local Government; Director General, Health Services; deputy director generals and directors, planning and other relevant divisions; representatives from Department of External Resources, National Planning Department, Department of Project Management and Monitoring, National

Budget Department, and Ministry of Hill Country New Villages, and other relevant members decided by secretary of MOH.

25. The auditor has reported that based on Management Service Circular No. 01/2019 of 5 March 2019, the PSC shall meet at least once every two months, yet, the PSC had met only once in 2019. The management rebutted the finding, as the project was only effective in February 2019 and since effectiveness date, three meetings were held, nonetheless, still short as compared to planned arrangements. Given the scale of activities and further financing for the project, the PSC oversight function will be more critical and should operate as intended.

26. **Provincial Project Coordination Committees.** The Project Coordination Committees at provincial level have been formed under the chairmanship of the Chief Secretaries of each provincial council.

27. **MOH PMU staffing.** The staff capacity for the project (both PMU and PIUs) are regularly reviewed and reported as part of the quarterly project progress report (QPR). Currently the PMU is adequately staffed and includes a finance manager and two finance officers. The contract of the financial staff is on full-time basis for one year and renewal is based on satisfactory performance. The PMU account staff have received regular training and support from ADB and as a result they are familiar with ADB's financial reporting and audit requirements and disbursement procedures and systems (including Client Portal for Disbursement [CPD] and Loan Financial Information System). The MOH-PMU constitutes of project director, project finance manager, procurement specialist, project coordinator, monitoring and evaluation officer, IT specialist, internal auditor, and project secretary.

28. Consistent with the proposal in RECOVER, due to the increasing scale of activities and financing, to further strengthen the financial management capacity of the PMU, it is recommended that an additional financial management staff is engaged to support with the preparation of withdrawal applications, financial reports, and for ensuring timely submission of APFS to ADB. The same supplemented financial management staff, together with the existing PMU, will support the financial management activities of the ongoing project, additional financing, and RECOVER.

29. **PIU staffing.** Based on the HSEP project design, the PIU in each of the four provinces shall constitute of deputy project director, project accountant, procurement officer, project engineer, district project officers, and a project secretary. Currently, the PIUs are adequately staffed. All positions proposed for four provinces as part of the project design are filled. If there are unfilled position, this is reported as part of the QPR. In addition to the position agreed with ADB, for each of the provinces (Central, North Central, Sabaragamuwa, and Uva) the government added 9 part-time positions for regional director of health services, 4 part-time positions for monitoring and evaluation officer, and 4 full-time project assistants. This shows government strong commitment for the health sector.

Executing Agency: Ministry of Health

30. MOH is a cabinet ministry of the Government of Sri Lanka. The MOH is headed by the Minister of Health and supported by state ministers. The high-ranking official include the Secretary (Ministry of Health) Director General of Health Services, separate Deputy Director Generals for investigation, admin, logistics, etc. as well as a Chief Finance Officer. The MOH is responsible for policy formulation, health planning, and monitoring and supervision of services related to preventive, promotive, curative, and rehabilitative services. It also provides technical guidance to

the provincial health management and ensures continued availability of medical and non-medical supplies and human resources.

31. **Organization and staffing.** The Finance and Accounts Sections in the MOH is headed by the chief finance officer (CFO) I, who is assisted by CFO II and CFO III. CFO I is the overall in-charge for all finance and accounting related activities in the MOH. CFO II is responsible for hospital accounts, payments, and accounting-related activities in all accounting units. A team of accountants assists the CFO II. CFO III is responsible for stock verification, budgeting, and book-keeping. A team of chief accountants and other accountants assists the CFO III in discharging her responsibilities.

32. **Budgeting.** All government spending programs, including donor-funded projects, must be included in central budget and have proper clearance from Department of National Planning and the Cabinet of Ministers. Budget preparation in Sri Lanka derives its legal framework from the Constitution. At the PMU level, there is a well-defined budgeting system in place and project budgets are prepared with sufficient details and they include physical and financial targets. Actual expenditures are compared with budgeted amounts on a frequent basis and budget variations need to be approved in advance. The approval and oversight of the budget are the responsibility of the project finance manager, project director, Chief Finance Officer, MOH, and Department of National Budget. The budget preparation cycle for the upcoming year starts in August, the draft budget is submitted to MOH in October for review and subsequently it is approved by MOF as part of the budget discussions in November. Budget revisions and supplementary budgets are normally approved in June.

33. Based on the above, the adequacy and timeliness of budget release including counterpart funds will need to be monitored by ADB through QPRs to be prepared by the PMU. In addition, the assurance and action are required from the government on sufficient counterpart funds are provided to the project from its budget for each fiscal year and in a timely manner.

34. **Expenditure controls.** The MOF has the overall responsibility for public finance administration in the country. At project level, expenditures are controlled by the line Ministry. Project expenditures are subject to scrutiny by internal and external auditors. In addition, the Parliament through its various committees exert control over public expenditures. The Parliamentary COPA reviews and examines the audit reports of ministries and departments. COPA may call ministries and officers to answer findings or questions on auditor's report. In addition, ADB regularly reviews project performance through submissions of QPR and APFS. After reviewing the QPRs and audited reports, ADB may ask the executing and implementing agencies to explain the issues noted from the reports. Findings and recommendations are also discussed during fact finding missions.

35. **Accounting.** MOH through its PMU maintains separate project accounts and records for the project by funding source. There will be one set of consolidated project financial reports for HSEP and AF-HSEP. For projects, the Sri Lanka Accounting Standards (which is consistent with International Financial Reporting Standard/International Accounting Standard [IFRS/IAS]) will be used as the basis of accounting and the government rules and regulations (which are well documented), as the internal control framework. The government's financial regulations provide a clear segregation of duties. All invoices are stamped, paid, and dated and duly approved. Moreover, in accordance with the government policy the financial records are kept for at least five years.

36. **Fixed asset management.** MOH maintains a fixed asset register which is updated monthly. All assets are labelled and are subject to annual physical verification. The physical inventory is reconciled with the fixed asset register annually and discrepancies are analyzed. The disposal of assets requires approval and is subsequently documented. Under HSEP, a fixed asset register is maintained by the PMU until the assets are handed over by the PIUs to the hospitals. The hospitals maintain manual inventory books and confirm the receipt of the equipment to the PMU by issuing a receipt order referring to the inventory book page.

37. The use of the Fixed Asset Register module in CIGAS is mandatory according to government regulations but as it still faces some technical problems, some entities and hospitals still maintain manual asset registers. Output 1 of AF-HSEP will support the same provinces as that of the original loan. Output 2 will be supporting line ministry hospitals. The PMU and PIUs have implemented all the financial management action plans for the original financing including the set-up of a separate fixed asset register. The AF-HSEP will leverage on the existing systems and procedures of the original loan.

38. For medical supplies there is an advanced computerized system (Medical Supplies Management Information Systems, as known as PRONTO XI) in use by Epidemiology Unit/MOH and the Medical Supplies Unit up to the 26 Regional Medical Supply Division.

39. **Financial reporting.** The PMU will prepare QPRs and annual financial statements in a format agreed with ADB. The latest QPR (Q1-2021), for HSEP, was submitted in April 2021 and included the following important information: i) Contract awarded and Contracts to be awarded; ii) Quarterly Financial Progress (Disbursement); iii) Cumulative Financial Progress; iv) Status of Final Accounts and Audit Report; v) Status of PMU and PIU Staffing including FM/accounts positions; vi) Implementation Progress/physical progress, Major Project Problems and Proposed Actions; vii) Status/compliance with legal Covenants; viii) Status of Financial Management Action Plan; and, ix) Reconciliation of project books and ADB disbursement records (Q4-2020).

40. Apart from ADB's legal requirement for preparation and audit of project financial statements (PFSs), the Financial Regulation 626 requires submission of annual PFSs to donors. APFSs are sent by the Auditor General to the Secretary of MOH, who then forward this to ADB. HSEP PFSs are prepared in accordance with accounting standards applicable for public sectors in Sri Lanka and are based on accrual accounting. The target date for preparing the PFS is 2 months after the end of each fiscal year. The format of the PFSs follows the standard format used for most externally financed projects in Sri Lanka and included the key financial statements and the Notes to the Financial Statements as required in the accounting standards. The ADB audit review for FY2019 APFS noted differences between the APFS and the ADB's disbursement records.¹² This was immediately clarified by MOH, and explanations and reconciliations were provided to ADB.

41. **Information systems.** MOH records its transactions in a computerized accounting and budgeting system, the CIGAS software, which is expected to be replaced by ITMIS by end of FY2021.¹³ In addition to using CIGAS, the MOH accountants still maintain manual books of accounts in parallel, which may lead to unnecessary effort in reconciliation. In accordance with the agreed financial management action plan, the PMU has installed a standalone software (Quick Books)¹⁴ to record the project financial transactions. Based on a report generated by the

¹² This was as part of the APFS review.

¹³ The roll out of ITMIS may be delayed because of COVID-19 pandemic.

¹⁴ Quick Books is also used by World Bank-financed projects implemented by MOH.

PMU, the project transactions are also input in the CIGAS software by the MOH accounting department. The PMU software can record expenditures by financing source, process data and generate some financial reports. However, manual intervention in excel is still required when generating the PFS in the agreed format. The accounting software can accommodate several different projects at the same time. Also, a separate system for capturing physical progress and the comparison of financial vs physical is done manually. The PMU has in place back up procedures and all data are stored online as well as in external hard drives. Based on experience in HSEP, ADB has no issue in obtaining information or data required for the project performance review.

42. Though AF-HSEP have similar outputs as that of HSEP, it is important that the PMU makes the necessary modifications to the chart of accounts and accounting software to ensure that AF-HSEP is included in the system and are separately monitored. Moreover, it is important that PMU actively uses ADB's disbursement systems (Loan Financial Information System and CPD) to monitor disbursements including direct payments and advances, replenishments and liquidation and conducts quarterly reconciliations between project records and ADB disbursement records to ensure that all transactions are captured and accurately reflected in the financial reports.

43. **Internal audit.** Financial Regulation 133 requires government agencies and departments engaged in development works to establish an internal audit unit. The DMA of MOF issued several circulars to guide the internal audit. In relation to internal audit of projects, the DMA has indicated that it is advisable for the internal audit unit of the ministries to include all projects in their internal audit plans. DMA Circular No. 5 (Guidelines for Internal Audit to Projects Funded by Foreign or Local Funds) sets out the guidelines for internal auditors in identifying the auditable aspects of the project.

44. MOH has an internal audit unit which covers all entities at the central level including the hospitals. Furthermore, the provincial councils have an internal audit unit covering all the sectors at the provincial level. The chief internal auditor of MOH has a direct reporting line to the Secretary of MOH and the Chief Internal Auditor in a province reports to the Chief Secretary. This arrangement ensures the functional independence of internal auditors. However, the internal audit units in MOH and across provinces are characterized by staff shortages and as agreed in the financial management action plan of the HSEP, an additional internal auditor has been engaged under the project. The internal auditor conducts internal audit of the PMU and the regional PIUs. The internal auditor reports to the project director on a quarterly basis and the reports contains a section on the status of past audit observations.

45. As part of the project, it is recommended that MOH ensures that all entities receiving assets under the project (e.g., MOH, selected hospitals, etc.) undertake frequent internal audits and inspections of the fixed asset management and systems to ensure proper controls are in place and timely information can be generated. Based on review of HSEP quarter (Q) 4 2020 QPRs, though internal audit staff has been recruited for the project, MOH has yet to setup the Project Internal Audit Review Committee as required under audit circular DMA/PRF/10/2019/01.¹⁵ As of the date of this assessment, the Project Internal Audit Review Committee for HSEP has been constituted. Internal audit findings will be reported as part of QPRs.

46. **External audit.** Article 154 of the Constitution mandates the auditor general to audit public funds. MOH is audited by NAO. The latest financial audit publicly available covered FY2018 and

¹⁵ Department of Management Audit. 2019. [Circular No. 1 \(Reference No. DMA/PRF/10/2019/01\)](#). Colombo.

the Auditor General issued a qualified opinion.¹⁶ MOH has in place an audit management review committee which meets every quarter to follow-up on the status of the audit observations. The committee also includes members from the NAO and the externally financed projects. In accordance with its mandate, NAO conducts the audit of the HSEP PFSs. To date, HSEP has submitted two APFS covering FY2018 and FY2019. The first audit report was received with a slight delay (4 days late) while the second APFS was received on time but only due to the COVID-19 blanket extension provided by ADB. It is possible there may be minor delays in submission of APFS in the future. The QPRs provide update on the status of Final Accounts and Audit Reports, and Q1 2021 QPR reported that the project financial statements for 2020 were submitted to NAO on 1 March 2021. However, due to another wave of COVID in the country, there was a national lockdown, which has delayed the audit of FY 2020 APFS, that was due to ADB on 30 June 2020. The PIU has provided a copy of the unaudited 2020 financial statements in the interim.

47. **Auditing standards adopted.** The auditing standards adopted by NAO is the SLAS which is aligned with international standards. The audit for HSEP was conducted in accordance with SLAS and the auditor issued an unqualified opinion on the PFS, the use of funds for the intended purpose as well as on the use of SOE and the advance fund procedures. The management letter contained some audit observations including PSC had not met as often as required, delays in procurement process, board surveys related to personal protective equipment had not been completed on time, the human resource development committee had not conducted the required meetings, etc. The audit observations are being resolved typically before the next audit and the PMU is also included in the quarterly audit management review committee meetings. At the time of the FMA all audit recommendations have been implemented.

48. In accordance with ADB's requirements, the audit arrangements of HSEP will also apply to the proposed additional financing. The PMU will cause the project financial statements to be prepared and submit them for audit by NAO and ensure the APFS and the Management Letter are submitted to ADB within six months after the end of the fiscal year.

49. **ADB fund flow arrangements.** The proposed fund flow arrangements follow the existing arrangements in the country wherein advance accounts are maintained in the Central Bank of Sri Lanka (CBSL). The executing agency shall submit to ADB evidence of authority of the person who can sign and approve the withdrawal applications. All disbursement methods as indicated in ADB Loan Disbursement Handbook (2017, as amended from time to time) may be used for the project, reimbursement method, direct payment, advance account procedures, and commitment procedures. The executing agency has experience in ADB disbursement requirements. The PMU staff has also attended ADB trainings on disbursements procedures.

50. **HSEP advance account arrangements.** The fund flow arrangements for the original financing are in accordance with what have been prescribed in the project administration manual. There is no issue on compliance with ADB's disbursements procedures. There are total of 17 bank accounts (different account for each funding source) maintained by PMU and PIUs for the project. Reconciliations were performed on monthly basis for each bank account. Fund flow between PMU and PIUs were timely managed and reconciled.

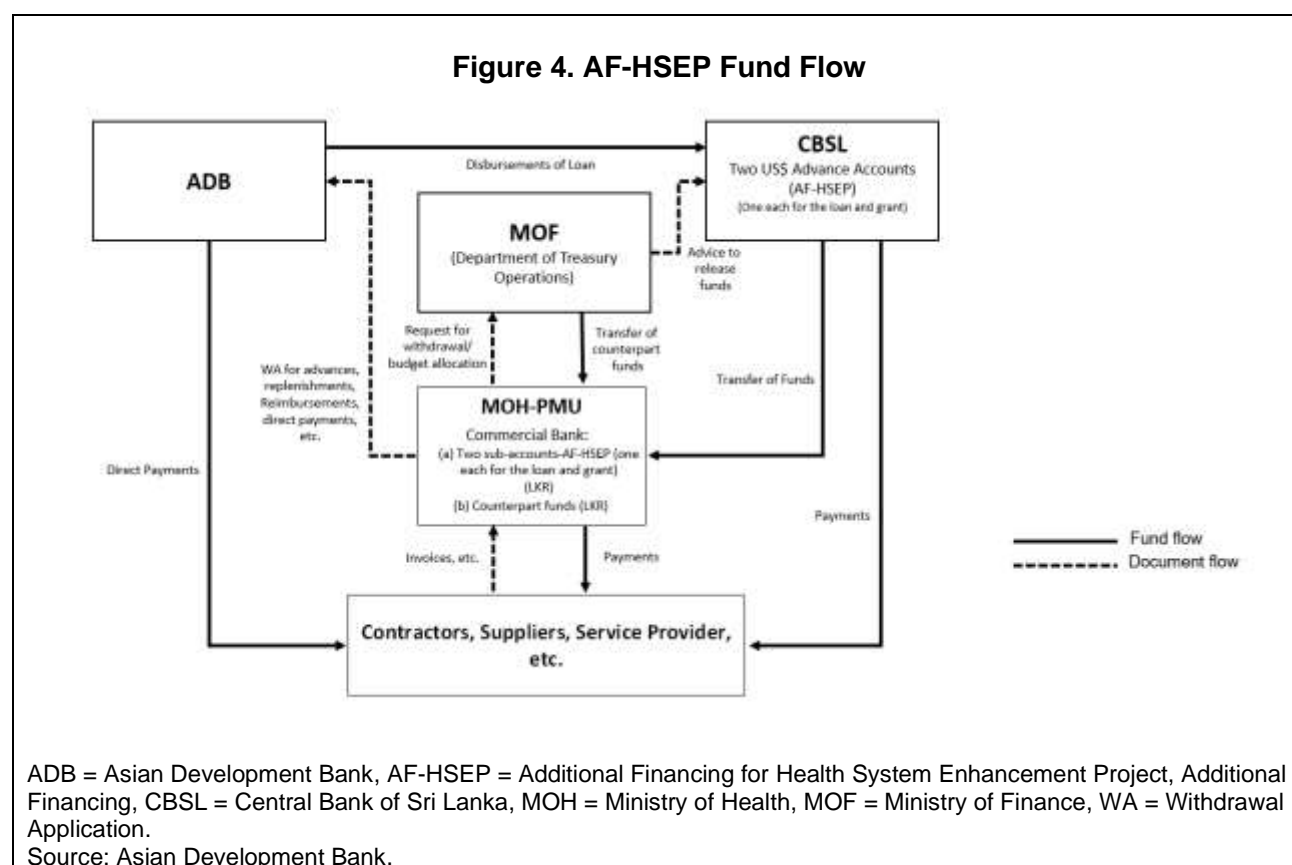
51. The proposed fund flow for AF-HSEP has been streamlined, unlike the original financing, funds will be centrally managed at the ministry level. There will be no delegated sub-accounts to

¹⁶ The audit observations included: Non-compliance with government regulations and circulars, some misstatements in the statement of cash flow statement and statement of financial position, certain registers were not up to date, improper and unauthorized transactions, etc.

PIUs for AF-HSEP scope. This is also to limit the additional implementation burden to the PIUs. The 17 bank accounts for the original financing were administratively difficult to monitor and maintain. For AF-HSEP, the government opted to centralize the financial management and procurement arrangements for efficiency during project implementation as the expenditure for COVID-19 related responses, medical equipment, computer and IT system, contracts for civil works, and consultants hiring can be done centrally.

52. The PMU will, through MOH, request the transfer of government funds as per the approved budget. The counterpart funds will be deposited to a counterpart funds account maintained in a commercial bank. To facilitate the cash flow of the government, the MOH through MOF will establish an advance account in USD at the CBSL in the name of the project one each for the loan and grant. In addition, a sub advance accounts in SLR will be established in a commercial bank and will be operated by the PMU. In case larger amounts need to be paid to the contractors, the PMU will submit withdrawal applications to ADB for direct payment. Since the PMU is currently implementing an ADB-financed project its accounts staff has valuable experience with ADB's disbursement procedures including the operation of the advance account and statement of expenditure procedures. However, the assessment noted that the PMU sometimes experiences delays in receiving counterpart funding, especially for expenditures in USD. ADB finances 100% of the project expenditures related to foreign expenditures.

53. The proposed fund flow diagram for AF-HSEP is presented below.



V. DISBURSEMENT ARRANGEMENTS

54. **Disbursement Arrangements for ADB Funds.** The ADB loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time),¹⁷ and detailed arrangements agreed upon between the government and ADB. The MOH through its PMU will be responsible for (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting all supporting documents, and (iv) preparing and sending withdrawal applications to ADB. Online training for project staff on disbursement policies and procedures is available.¹⁸ Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

55. **Direct payments.** Direct payment procedures may be used for large contracts under the project. Suppliers, contractors, or consultants are required to submit approved invoices and other supporting documentation to ADB in accordance with the ADB's Loan Disbursement Handbook (2017, as amended from time to time).

56. **Advance fund procedure.** Advance accounts shall be established and maintained by the MOH-PMU for the ADB loan. The currency of the advance accounts from ADB to CBSL is US dollar. In addition, a sub-accounts will be established and maintained by MOH-PMU for receiving the funds from the advance account. The advance accounts and the sub-advances account are to be used exclusively for ADB's share of eligible expenditures. The MOH-PMU, which established the advance and the sub-advance account in its name, is accountable and responsible for proper use of funds from the advance account including advances to the sub-advance account. Moreover, a separate account shall be maintained for counterpart funding.

57. The total outstanding advance to the advance accounts should not exceed the estimate of ADB's share of expenditures to be paid through the advance accounts for the forthcoming 6 months. The MOH-PMU may request for initial and additional advances to the advance account based on an estimate of expenditure sheet setting out the estimated expenditures to be financed through the account for the forthcoming 6 months.¹⁹ Supporting documents should be submitted to ADB or retained by MOH-PMU in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time) when liquidating or replenishing the advance accounts.

58. **Statement of expenditure procedure.**²⁰ The SOE procedure may be used for reimbursement of eligible expenditures and liquidation of the advance accounts. The ceiling of the SOE procedure is the equivalent of \$100,000 per individual payment. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. MOH-PMU will be responsible for preparing liquidation and replenishment of the advance fund. Procedures for establishing and operating the advance accounts and SOE procedures are detailed in the ADB's Loan Disbursement Handbook (2017, as amended from time to time).

59. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each

¹⁷ The handbook is available electronically from the ADB website. <http://www.adb.org/documents/loan-disbursement-handbook>.

¹⁸ Disbursement eLearning. http://wpqr4.adb.org/disbursement_elearning.

¹⁹ Estimate of expenditure sheet is available in Appendix 8A of ADB's Loan Disbursement Handbook (2017, as amended from time to time).

²⁰ Statement of Expenditure forms are available in Appendix 7B and 7D of ADB's Loan Disbursement Handbook (2017, as amended from time to time).

authorized person. The minimum value per withdrawal application is stipulated in the ADB's Loan Disbursement Handbook (2017, as amended from time to time). The borrower should ensure sufficient category and contract balances before requesting disbursements. Use of ADB's CPD system is mandatory for submission of withdrawal applications to ADB.²¹

60. **Disbursement arrangements for counterpart funds.** All disbursements under government financing will be carried out in accordance with the regulations of the Government and accounting principles acceptable to ADB. MOH-PMU is responsible for requesting budgetary allocations for counterpart funds and establishing and maintaining a separate account for counterpart funding.

VI. RISK ASSESSMENT

61. As part of ADB's due diligence procedures, the following key risks have been identified.

Table 1: Financial Management Internal Control and Risk Assessment

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Inherent Risk		
Country Specific		
Public Financial Management. Overall, the government has adequate PFM systems in place. However, there is scope for improving compliance with the national systems and regulations as well as the FM capacity at various levels. Also, an ADB report on the PFM systems of Sri Lanka identified risk related to timely availability of project funds. ²²	Substantial	ADB to closely monitor the ongoing PFM reforms and initiatives including the launch of the Integrated Treasury Management Information System (ITMIS). Budgetary allocations, budget details and progress of budget utilization were included in HSEP QPRs. Closely monitoring of budgetary allocations and project activities to reduce country-specific risk in the project will also be performed for AF-HSEP.
Entity Specific		
The involvement of multilayer (ministry and provinces) agencies complicates the overall project implementation process.	Moderate	A high-level national Project Steering Committee under the Chairmanship of the Secretary of MOH was formed for HSEP, the same will monitor and oversee AF-HSEP. The Provincial Level Project Coordination Committees under the Chairmanship of the Chief Secretary were formed at the respective Province for HSEP, and the same will monitor AF-HSEP.
Overall Inherent Risk	Moderate	
Project Risk		
Staffing. The extended scale of activities and financing may overstretch the capacity of the MOH-PMU.	Moderate	The PMU and PIUs were formed for HSEP, fully staffed, and has satisfactory FM track record in complying with ADB's FM and disbursement requirements.

²¹ The CPD facilitates online submission of withdrawal application to ADB, resulting in faster disbursement. The forms to be completed by the Borrower are available online.

²² ADB. 2018. *Public Financial Management System – Sri Lanka*. Manila.

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
		<p>The capacity of the PMU will be further strengthened. Efficient coordination and flow of information between the different entities involved in the project implementation must be ensured.</p> <p>An additional FM staff will be hired to support the PMU for the additional financing and RECOVER Project. Continuous trainings on ADB's financial management and disbursements processes and procedures will be provided.</p>
<p>Fund flow. The budget allocation for AF-HSEP has not been transferred to MOH. Delays in allocation and release of budget may lead to inadequate project financing and implementation delays.</p>	Substantial	<p>A separate project budget head has been established with timely allocations of funds for HSEP. MOH has established separate advance accounts for loan and grant and the required sub-accounts were opened for HSEP.</p> <p>MOF to provide a firm commitment that budget allocation is transferred to MOH by loan effectiveness. MOF to also provide assurances that counterpart funds will be released in a timely manner. The availability of counterpart financing will be monitored regularly through QPRs.</p>
<p>Accounting policies and procedures. Risk of no separate accounting records for the project and non-compliance with prescribed accounting standards.</p>	Low	<p>MOH currently maintains separate accounting records for the projects and adopts the Sri Lanka Accounting Standards which are consistent with international accounting standards.</p> <p>No mitigation measures needed as the risk is low.</p>
<p>Reporting. Inadequate information in the financial reports may result to untimely detection and resolution of issues.</p>	Moderate	<p>The QPRs for HSEP included financial information details and were timely reported to ADB. Likewise, for AF-HSEP, comprehensive financial information will be part of the QPRs in a format agreed with ADB within 45 days after the end of each quarter.</p> <p>The PMU is to prepare the project financial statements within two months after the end of the fiscal year to ensure auditors can start the audit process on time.</p>
<p>Internal audit. Non-inclusion of AF-HSEP in the internal audit plan may result to weaknesses in internal controls not being detected.</p>	Moderate	<p>MOH currently has an internal audit unit. In addition, as part of HSEP project design an internal audit staff specifically for HSEP was hired.</p> <p>Internal audit unit shall include AF-HSEP in the internal audit plan and shall evaluate the effectiveness of controls and processes for the project. MOH and IAs shall promptly act on the observations and recommendations</p>

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
		of the internal audit unit as included in the internal audit report. All internal audit findings shall also be reported as part of QPRs.
External audit. Delays in submission of audited project financial statements to ADB.	Moderate	Similar to AF-HSEP, the PMU must liaise with NAO to ensure the proposed project is part of NAO's annual audit plan and that the audit process is commenced in a timely manner. The audit observations to be resolved in a timely manner. The status of audit observations to be included in the QPR.
Overall Project Risk	Moderate	
Overall (Combined) Risk	Moderate	

ADB = Asian Development Bank, AF-HSEP = Additional Financing for Health System Enhancement Project, DMA = Department of Management Audit, HSEP = Health System Enhancement Project, Original Financing, IA = Implementing Agency, ITMIS = Integrated Treasury Management Information System, MOH = Ministry of Health, NAO = National Audit Office, PIU = Project Implementing Units, PMU = project management unit, PFM = Public Financial Management, PFS = project financial statements, QPR = quarterly progress reports, SLAS = Sri Lanka Accounting Standards.

Source: Asian Development Bank.

VII. PROPOSED TIME BOUND ACTION PLAN

62. To address the identified FM risks the following actions outlined in the table below have been agreed with the government.

Table 2: Proposed Financial Management Action Plan

Key Risk Area	Risk Mitigating Activity	Timeline	Entity
Staffing and FM capacity support	Appoint an additional FM staff to support the PMU.	By loan effectiveness	MOH/PMU
	Provide training to PMU staff in ADB's FM and disbursement procedures and systems.	By loan effectiveness	ADB
Flow of funds	Establish a dedicated budget head* for the additional financing and transfer the required budget allocation to MOH/PMU.	By loan effectiveness	MOF
	Regular monitoring and reporting of the availability of counterpart financing will be part of the quarterly progress reports.	Quarterly	MOH
	Ensure timely release of counterpart funds.	Annually (by start of each fiscal year) throughout project implementation period	MOF
Internal audit	Include the project in the internal audit plan to ensure proper controls and processes are in place.	Q4-2021	MOH, Internal Audit Unit
	PIARC shall review and monitor implementation of the internal audit findings.	Annual and update on status of observations every quarter.	MOH/PIARC
	Internal audit observations and status of recommendations are to be included in the	Annual and update on status of	MOH

Key Risk Area	Risk Mitigating Activity	Timeline	Entity
	Quarterly Progress Reports submitted to ADB.	observations every quarter.	
External audit	Notify and coordinate with NAO to ensure the proposed AF-HSEP is part of NAO's annual audit plan	By loan effectiveness	MOH/ PMU
	Timely submission of unaudited project financial statements to NAO	On or before 31 March after each fiscal year (Annually during project implementation)	MOH/ PMU
	Timely submission of audit report and project financial statements to EA.	15 June after each fiscal year (Annually during project implementation)	NAO
	The APFS is submitted to ADB by due date	Annually and within 6 months after the end of the FY (30 June of each FY)	MOH/ PMU
Financial reporting	Include comprehensive FM information including detailed comparison of physical and financial progress, status of implementation of FM action plan, and status of resolutions of internal and external audit observations in the quarterly progress reports and submit to ADB.	Within 45 days from the end of each quarter	MOH/ PMU
Information systems	Modify the accounting software to accommodate the proposed AF-HSEP and its financing and expenditure structure.	By loan effectiveness	MOH/ PMU
	Ensure fixed asset registers are maintained for the project.	By loan effectiveness	MOH, PMU, PIUs

ADB = Asian Development Bank, AF-HSEP = Additional Financing for Health System Enhancement Project, APFS = audited project financial statements, FM = financial management, FY = fiscal year, MOH = Ministry of Health, MOF = Ministry of Finance, NAO = National Audit Office, PIARC = Project Internal Audit Review Committee, PMU = project management Unit, PFS = project financial statements, QPR = quarterly progress reports.

*A separate budget head will be created to ring-fence the project funding and expenditure for proper monitoring, accounting, reporting and audit.

Source: Asian Development Bank.

VIII. SUGGESTED FINANCIAL MANAGEMENT COVENANTS

63. The following financial covenants are to be considered in the Loan Agreement. The government shall:

- (i) maintain separate accounts and records for the project;
- (ii) prepare annual project financial statements in accordance with accounting principles acceptable to ADB;
- (iii) cause such project financial statements audited annually by independent auditors acceptable to ADB, in accordance with international standards for auditing or national equivalent acceptable to ADB;
- (iv) cause the auditors to prepare audit report and a management letter;
- (v) furnish to ADB, no later than 6 months after the end of each FY, copies of such APFS, audit report, and management letter; and

- (vi) sufficient counterpart funds are provided to the project from its budget for each fiscal year and in a timely manner.

IX. CONCLUSION

64. The government PFM system is in-place and well-functioning. MOH and the selected provinces have experience in implementing donor-funded projects including those funded by ADB. Both the executing agency and implementing agencies have experience in ADB's financial management and disbursements requirements, including managing advance and sub-accounts. The ongoing HSEP has an established staff capacity to implement the project. Both the PMU and PIUs are adequately staffed based on the current activities of the ongoing project. Yet, the scale of activities and financing of AF-HSEP may overstretch the current capacity of MOH, hence, an additional financial management staff will be supplemented for AF-HSEP scope. Overall, the executing agency and implementing agencies have performed adequately with regards to ADB's financial management requirements. All the actions outlined in the agreed HSEP financial management action plan including the recruitment of an internal auditor, procurement of an accounting software, set up of a separate fixed asset register, etc. have been complied with as at the date of this assessment. Though the additional financing scale is wider than the original loan, there are no new outputs or activities for the additional financing, the executing agency and implementing agencies have adequate experience in implementing the outputs and the financial management of AF-HSEP is centralized at MOH-PMU level. The additional financing will build on the project implementation arrangements, capacity, systems, reporting and processes in-place for the original financing.

65. The assessment indicates that with the risk mitigation measures and the adoption of the financial management action plan the financial management systems are acceptable for the proposed project.