

# Financial Management Assessment

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Project Number: 52025-001  
September 2020

**Proposed Loan**  
**People's Republic of China: Yunnan Sayu River**  
**Basin Rural Water Pollution Management and**  
**Eco-Compensation Demonstration Project**

## **CURRENCY EQUIVALENTS**

(as of 5 August 2020)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1434
\$1.00	=	CNY6.9736

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
FMA	–	financial management assessment
FMAQ	–	financial management assessment questionnaire
LCG	–	Ludian County Government
PMO	–	project management office
PRC	–	People’s Republic of China
YPPD	–	Yunnan Provincial Finance Department
ZCG	–	Zhaotong City Government
ZCFB	–	Zhaotong City Finance Bureau
ZDG	–	Zhaoyang District Government

## **NOTE**

In this report, “\$” refers to United States dollars.

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## **A. Executive Summary**

1. The financial management assessment (FMA) was carried out to the three implementing agencies: the Yudong Reservoir Water Resources Protection Committee Office (YWPCO) of the Zhaotong City Government (ZCG), the Zhaoyang District Government (ZDG), and the Ludian County Government (LCG). A project management office (PMO) was established in the ZCG (physically located in the YWPCO), and a local PMO was established in each of the ZDG and LCG.

2. A finance division of each implementing agency was the subject of the FMA. Their institutional capabilities to employ its financial resources, financial policies and procedures, budgeting and reporting capabilities, number and quality of staff, and types of materials and equipment have been all reviewed and assessed to assure that an effective and efficient project financial management mechanism will be in place before project implementation. The implementing agencies often implement public infrastructure projects; and so, their financial staff are quite familiar with basic practices related to project accounting and financing. Each of the staff has attended at least a two-year college, and most of them have got an accounting related certificate. The finance divisions have written job descriptions which define duties, responsibilities, lines of supervision, and limits of authority for staff. They regularly receive professional training organized by the local finance bureau at least once a year. Each finance staff signs a 3- to 5-year contract with the implementing agency and renew it afterwards. Basically, the finance divisions are able to assign qualified and experienced persons to be involved in the implementation of the ADB project.

3. Each of the implementing agencies has set up an accounting system which maintains a separate project account and records for all expenditures incurred under the project. All reports and supporting documents on all transactions will be stored and retained in defined systems which are easily accessible by authorized users and are available for audit inspection. The internal control methods for preparation and approval of transactions include segregation of duties, timely inspection, cross-checking, multi-level approvals, etc. In accordance with their financial regulations, once any fraud, waste, or misuse of property is found, written notice or oral report is to be made to the senior management. Standard contracts used by the implementing agencies for civil works and other large procurements all include anticorruption clauses. The implementing agencies do not have an internal auditor, which is the usual case in governments in the People's Republic of China (PRC); but various external audit and inspection arrangements make up for the lack of internal audit. An existing automated accounting software is capable of generating project financial reports required for both external and internal uses. Regular back-ups of all accounting systems and appropriate security measures over backed-up data are in place.

4. The Yunnan Provincial Finance Department (YFPD) will maintain and operate an advance account of the project and will be responsible for disbursements of the ADB loan to the Zhaotong City Finance Bureau (ZCFB). The YFPD has many years of experiences in such activities and general financial oversight of internationally funded projects. There will be always be coordination among pertinent agencies of the central government, provincial government, ZCG, ZDG, and LCG.

5. Some shortcomings exist in aspects of job rotation, physical asset management, document processing, etc.; but generally, each of the implementing agencies have established a sound financial management system in terms of staffing, accounting policies and procedures, reporting and monitoring, and information system. All the implementing agencies have experience in managing engineering projects and accounting skills and comply with ADB's standards for project accounting and financial management. Except for the ZDG which has been implementing

two World Bank-funded projects, the other two implementing agencies—the YWPCO and the LCG—both do not have experience in financial management of foreign-financed projects. The staff assigned to the project must be trained on ADB’s disbursement guidelines and procedures, project accounting requirements, contract management, financial monitoring, and report preparation. The overall pre-mitigation financial management risk level of the project is rated *moderate*.

## B. Introduction

6. The FMA was carried out in accordance with ADB’s Guidelines for the Financial Management and Analysis of Projects,<sup>1</sup> and ADB’s Financial Due Diligence--A Methodology Note.<sup>2</sup> The instrument used for the FMA is ADB’s FMA questionnaire (FMAQ). The completed FMAQs are presented in the Appendices 1–3.

7. The general objective of the FMA of the implementing agencies is to ensure that they are financially capable of efficiently and effectively implementing the proposed project. The specific assessment objectives are to (i) develop criteria to decide whether the implementing agencies’ institutional capacities for financial management are sufficient to justify ADB’s approval of the project, (ii) identify implementing agencies’ specific development needs for financial management, and (iii) assist in setting appropriate project organization management and coordination arrangements for financial management and reporting.

8. The FMA is a review of implementing agencies’ financial and managerial systems. The primary concern was how the systems can optimize financial and economic benefits from project investments. Each implementing agency’s capacity to achieve the results mainly depends on its structural and managerial abilities to effectively and efficiently employ its resources and on the extent of resources mobilized in the forms of financial budgets, the number and quality of staff, and the extent and types of materials and equipment. As a general approach, the following steps have been taken for the FMA:

- (i) **Analyzed implementing agencies’ structural and managerial frameworks for financial management.** This included analysis of how accounting functions are distributed and distinguished; and how roles, responsibilities, and authorities as key lines of command are delineated and assigned. It also examined major administrative systems and procedures relating to planning and budgeting processes, accounting procedure, cash control process, management information, and monitoring systems.
- (ii) **Assessed institutional resources.** This included identification of number, qualifications and experiences of the financial management staff, assessment of budget adequacy to support financial management activities, and evaluation of functionality of the accounting information system.
- (iii) **Analyzed performance shortfalls.** Efforts have been made to identify financial management performance deficiencies in aspects of resource availability and competence, validity of the processes and formalities, and potential risks in the internal control.

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<sup>1</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

<sup>2</sup> ADB. 2009. *Financial Due Diligence A Methodology Note*. Manila.

(iv) Specifically, the FMA recommended capacity development measures to ensure that the implementing agencies are able to meet the project's financial management requirements. It was agreed that the implementing agencies would strengthen their financial management capabilities to manage the project, including (a) undertaking training, particularly on ADB's policy and procedural requirements; and (ii) seeking external financial management assistance, as needed.

9. The following investigation works were done to provide a basis for the assessment: (i) review of national policies for projects financed by international aid agencies or foreign governments; as well as the executing and implementing agencies' rules on general accounting, auditing, and financial management; (ii) completion of the FMAQ based on interviews with heads of the finance divisions of the implementing agencies and the Director of the PMO; and (iii) observations of the implementing agencies' current practices in accounting, reporting, and internal control .

### **C. Executing and Implementing Agencies**

#### **C-1. Zhaotong City Government, including the Yudong Reservoir Water Resources Protection Committee Office**

10. The ZCG is the executing agency of the project and has previous experiences in preparation and implementation of projects funded by the World Bank and foreign governments. The YWPCO of the ZCG is one of the three implementing agencies. The PMO was established in the ZCG (physically located in the YWPCO). The PMO is responsible, on behalf of the ZCG, for daily coordination and management of project implementation.

11. The finance division of the YWPCO will be in charge of overall financial management during project implementation. Its duties include supervision of project financial management statuses of the ZDG and LCG, inspection of project accounting and financial statement, consolidation and submission to the ZCFB of the loan withdrawal applications, dealing with emergency events related to the project's funding and financial management, etc.

#### **1. Organizational legal status and institutional arrangement**

12. The YWPCO is an agency of the ZCG. The departments under the YWPCO are for water resources protection administration; water resources project management; water information; engineering and construction; technology, assets, and finance; reservoir administration; irrigated area administration; safe control; business development; and general office administration. The current organizational structure of the YWPCO can meet project management requirements.

13. The YWPCO often implements engineering and construction projects related to water resources management; and so, its finance staff is familiar with project accounting and funding. However, the YWPCO does not have experience in internationally funded projects. The YWPCO has assigned highly qualified and experienced persons to be involved in project implementation.

#### **2. Staffing**

14. There are four people in the finance division of the YWPCO, all of whom have attended at least a two-year college; and most of them have received an accounting-related certificate. Since the YWPCO often has ongoing capital projects, its finance staff are mostly proficient in handling project accounting. The YWPCO has written job descriptions that define duties, responsibilities,

lines of supervision, and limits of authority for staff. The ZCFB sponsors training courses for all accounting and finance personnel in the public sector once or twice a year. Each finance staff signs a 3- to 5-year contract with the YWPCO and renew it afterwards. The finance division does not have personnel transfer mechanism within the division, which needs attention from an internal control point of view.

### **3. Accounting policies and procedures**

15. The ZCG has an accounting system that will maintain a separate project account and records for all expenditures incurred under the project. Subsidiary ledgers are adequate for the reconciliation of accounts with the general ledger. Clear segregations in the allocation of financial management duties have been established. All reports and supporting documents on all transactions are stored and retained in a defined system and are easily accessible by authorized users and made available for audit inspection.

16. Processing of claim invoices for payment involves comparison of quantities, prices, and terms in purchase orders and receipts. All invoices are dated, reviewed, and approved; but not stamped. Apart from the generally adopted accounting standards and rules, the ZCG has formulated their own internal accounting and finance regulations which cover routine financial management and related administrative activities. It will set up a financial management manual specifically for the project before the project implementation begins.

17. Almost all payments are made using bank cheques or bank transfers. Even so, a cashbook is maintained, and bank reconciliation is undertaken at the end of each month. The ZCG has a system of safeguards to protect assets from fraud, waste, and abuse. No asset should be handled by only one person. Appropriate checks and approvals are in place. In accordance with their financial regulations, once any fraud, waste, or misuse of property is found, written notice or oral report is encouraged to be made to the senior management. Standard contracts for civil works and other large procurements all include anticorruption clauses.

### **4. Internal and external audits**

18. The ZCG does not have an internal audit department which is the usual case in government agencies in the PRC. All accounts are audited annually by an independent external auditor. Meanwhile, it is subject to periodic financial inspection by finance staff from higher authorities (e.g., YPFD). The audit is carried out in accordance with auditing standards and requirements of the PRC. The various external audit and inspection arrangements make up for the lack of internal audit.

### **5. Reporting and monitoring**

19. The ZCG's financial reports including income statement, balance sheet, and cashflow statement are prepared using an accounting software system and are submitted on a semiannual and annual basis. The existing automated accounting software is capable of generating reports required for both external and internal use. In addition, all relevant staff has been trained and are familiar with the system, although supplementary training in reporting requirements for the ADB-financed project will be provided.

## **C-2. Zhaoyang District Government**

### **1. Organizational legal status and institutional arrangement**

20. The ZDG and LCG will implement Outputs 1–3. The ZDG is a local government agency and their governing body is the ZCG. The ZDG has been implementing two World Bank-funded projects; and so, it is relatively easy to implement the ADB project. The ZDG will be obligated to provide counterpart funds, sign the ADB loan re-lending agreement, carry out overall project implementation management, and execute the operation and maintenance after project completion. A local PMO has been set up in the Zhaoyang District Water Resources Bureau to play the managerial role on behalf of the ZDG. Experienced persons have been assigned for the ADB project implementation.

### **2. Staffing**

21. There are six staff members in the finance division of the Zhaoyang District Water Resources Bureau. All of them have attended at least a two-year college, and most of them have received an accounting-related certificate. Two staff members of the finance division (finance manager and deputy manager) will be involved in the financial works for the ADB-funded project. They regularly receive professional training organized by the Zhaoyang District Finance Bureau at least once a year. Each finance staff signs a 3- to 5-year contract with the ZDG and renew it afterwards. The finance division does not have personnel transfer within the division, which does not follow general financial rule. The Zhaoyang District Water Resources Bureau has written position job descriptions that clearly define the duties and responsibilities for all finance staff.

22. Generally speaking, the ZDG has sound financial management and accounting skills; and complies with ADB's standards for project accounting and financial management. However, the ZDG do not have experience in financial management for foreign-financed projects. The staff who will be assigned to the project should be trained in ADB's disbursement guidelines and procedures, project accounting requirements, project and contract management, financial monitoring, and report preparation.

### **3. Accounting policies and procedures**

23. The ZDG has set up an accounting system that will maintain a separate project account and records for all expenditures incurred under the project. Control methods for preparing and approving transactions include segregation of duties, timely inspection, cross checking, multi-level approvals, etc. Subsidiary ledgers are adequate for the reconciliation of accounts with the general ledger. All reports and supporting documents on all transactions are stored and retained on a semi-permanent basis (retention periods are specified in national financial regulations) in a defined system and are easily accessible by authorized users and are available for audit inspection.

24. The ZDG practices annual and multi-year budgeting, which mainly cover recurrent expenditure. Project budgeting is prepared separately by lower-level project entities. Budget monitoring reports present a comparison between budgeted and actual amounts, and highlight budget variances. Budgets for the ADB project will be prepared annually by responsible project staff and will include physical and financial targets. The ZDG's higher-level managers will approve the final budget, which will then be forwarded to higher-level agencies for their endorsement.

25. Processing of claim invoices for payment involves comparison of quantities, prices and terms in purchase orders and receipts. All invoices are dated, reviewed, and approved; but not stamped. The fact that invoices are not stamped is a loophole in the process; and so, it has been agreed that normal practices, including stamping, should be resumed. Control methods are in place for the preparation of payroll, while changes to the payroll are properly approved by the ZDG.

26. Starting from 1 January 2019, all ZCG agencies and public institutions were supposed to adopt the Government Accounting System that is a totally new accounting rule. Previous cash basis is to be replaced by an accrual basis of accounting. The regulations have an adequate chart of accounts to properly account for and report on project activities and disbursements. Moreover, cost allocations to various funding sources are made accurately in accordance with established agreements. The ZDG's finance staff have been trained in the usage of the new accounting system.

27. Apart from generally adopted accounting standards and rules, the ZDG has formulated its own internal accounting and finance regulations which cover routine financial management and related administrative activities. It will set up a financial management manual specifically for the project before the project implementation begins.

28. Currently, almost all transactions are done through bank transfers without use of cash payments. Even so, a cashbook is maintained; and bank reconciliation is undertaken at the end of each month. Cash received is deposited to the relevant bank account on the same day.

29. The ZDG has an established system of safeguards to protect assets from fraud, waste, and abuse. Subsidiary records of fixed assets and stocks are kept up-to-date and reconciled with control accounts periodically. However, the physical inventory of fixed assets and stocks is not frequently undertaken as their major fixed assets include the office building and office supplies. No insurance has been paid for the physical assets.

30. Within half a month after yearend, a financial report for each ongoing project is prepared, verified, and approved. The report links financial data with information on the project's physical progress, including project expenditures to date; comparison of actual expenditures with budgets; expenditures by project components; explanations on significant discrepancies; and existing problems during the reporting period.

#### **4. Internal and external audit**

31. The ZDG does not have an internal audit department which is the usual case in government agencies in the PRC. Its accounts are audited annually by an independent external auditor. The audit is carried out in accordance with auditing standards and requirements of the PRC. The various external audit and inspection arrangements make up for the lack of internal audit.

32. The National Audit Department of the PRC will be the designated official auditor for all ADB-funded projects. It will authorize the Yunnan Provincial Audit Department to be responsible for the actual auditing of the project. The audit will be carried out in accordance with the auditing standards and requirements of the PRC. The Yunnan Provincial Audit Department through the PMO will submit to ADB the auditor's report and management letter in English within 6 months from each financial yearend for project implementation period.

## **5. Reporting and monitoring**

33. Project financial reports are prepared using an accounting software system and are submitted on a semiannual and annual basis. The reports highlight physical and financial progress of projects. For this project, the ZDG will prepare and submit to ADB progress reports for individual outputs, which will include (i) a narrative description of progress made during the reporting period; (ii) changes in the implementation schedule; (iii) problems or difficulties encountered; and (iv) activities to be undertaken in the next reporting period. The ZDG will also prepare and submit to ADB a project completion report within 3 months of the project completion. Consolidated project financial statements will be prepared annually in accordance with applicable PRC laws, guidelines, and regulations that are generally consistent with internationally recognized accounting principles and practices.

## **6. Information system**

34. The existing automated accounting software is capable of generating project reports required for both external and internal use. In addition, all relevant staff have been trained and are familiar with the system, although supplementary training in reporting requirements for the ADB project will be provided. Regular back-ups of all accounting systems and appropriate security measures over backed-up data are in place.

### **C-3. Ludian County Government**

#### **1. Organizational legal status and institutional arrangement**

35. The LCG, another implementing agency, is a local government agency; and their governing body is the ZCG. It does not have any previous experience in dealing with internationally funded projects. The LCG will provide counterpart funds, sign the ADB loan re-lending contract, carry out overall project implementation management, and execute the operation and maintenance after project completion. A local PMO has been set up in Investment Service Center, newly established under the direct leadership of the LCG. The functions of the Investment Service Center include provision of assistance, support, and related services to enterprises established by domestic and foreign investors in the Ludian County; coordination and communication works for investment promotions and business developments by the LCG; and guidance to the Ludian International Investment Promotion Association.

36. The local PMO will consist of experienced personnel to be dispatched from related line agencies such as the Water Resources Bureau, Agriculture Bureau, Forest Bureau, Rural Housing and Construction Bureau, Land and Natural Resources Bureau, etc. to be consistent with various project components.

#### **2. Staffing**

37. The finance division of the Ludian County Water Resources Bureau will be responsible for accounting and financial works of the local PMO. There are five staff in the finance division. All of them have attended at least a two-year college. Two staff members of the finance division (finance manager and deputy manager) will be involved in the financial works for the ADB-funded project. They regularly receive professional training organized by the Ludian County Finance Bureau at least once a year. Each finance staff signs a 3- to 5-year contract with the LCG and renew it afterwards. The finance division does not have personnel transfer mechanism within the division, which does not follow general financial management rule. The finance division does not have

written position descriptions which define the finance staff's duties and responsibilities. It has been strongly suggested to the LCG that the above-mentioned fundamental shortcomings should be remedied as early as possible.

38. As a public agency, the Ludian County Water Resources Bureau possess moderate financial management and accounting skills and reached ADB's standards for project accounting and financial management. But they do not have experience in financial management for foreign-financed projects. The staff who will be assigned to the project should be trained in ADB's disbursement guidelines and procedures, project accounting requirements, project and contract management, financial monitoring, and report preparation.

### **3. Accounting policies and procedures**

39. The LCG has set up an accounting system that will maintain a separate project account and records for all expenditures incurred under the project. Control methods for preparing and approving transactions include separation of staff in charge of different functions, timely inspection, cross-checking, multi-level approvals, etc. Subsidiary ledgers are adequate for the reconciliation of accounts with the general ledger. All reports and supporting documents on all transactions are stored and retained in a defined system and are easily accessible by authorized users and made available for audit inspection.

40. The budgeting system in the Ludian County Water Resources Bureau is incomplete and needs to be strengthened. The LCG has been notified that the budgets for the ADB project should be prepared annually by responsible project staff and should include physical and financial targets. Processing of claim invoices for payment involves comparison of quantities, prices, and terms in purchase orders and receipts. All invoices are dated, reviewed, and approved. The fact that the invoices are not stamped is a loophole in the process; and so, it has been agreed that normal practices, including stamping, should be resumed.

41. Starting from 1 January 2019, all LCG government agencies and public institutions were supposed to adopt the Government Accounting System, which is a totally new accounting rule. Previous cash basis is to be replaced by an accrual basis of accounting. The regulations have an adequate chart of accounts to properly account for and report on project activities and disbursement. The LCG's finance staff has been trained in the usage of the new accounting standards.

42. Apart from the generally adopted accounting standards and rules, the LCG has formulated its own internal accounting and finance regulations, covering routine financial management and related administrative activities. It will set up a financial management manual specifically for the project before the project implementation begins.

43. Currently, almost all transactions are done through bank transfers without use of cash payments. Even so, a cashbook is maintained; and bank reconciliation is undertaken at the end of each month. Cash received is deposited to the relevant bank account on the same day.

44. The LCG has an established system of safeguards to protect assets from fraud, waste, and abuse. Subsidiary records of fixed assets and stocks are kept up-to-date and reconciled with control accounts periodically. However, as a weak point, fixed assets and stocks are rarely inspected for timely repair and maintenance, which is against good asset management principles. No insurance has been paid for the physical assets. Since the ADB project will mostly build public infrastructures, the LCG has been advised that its physical asset management capacity needs to

be enhanced through training and learning from advanced peers.

45. Within half a month after yearend, a financial report for each ongoing project is prepared, verified, and approved. The report links financial data with information on project's physical progress, including project expenditures to date, comparison of actual expenditures with budgets, expenditures by project components, explanations of significant discrepancies, and problems existing during the reporting period.

#### **4. Internal and external audit**

46. The LCG does not have an internal audit department, which is the usual case in government agencies in the PRC. Its accounts are audited annually by an independent external auditor. The audit is carried out in accordance with auditing standards and requirements of the PRC. The various external audit and inspection arrangements makes up for the lack of internal audit.

47. The National Audit Department of the PRC will be the designated official auditor for all ADB-funded projects. It will authorize the Yunnan Provincial Audit Department to be responsible for the actual auditing of the project. The audit will be carried out in accordance with auditing standards and requirements of the PRC. The Yunnan Provincial Audit Department through the PMO will submit to ADB the auditor's report and management letter in English within 6 months from each financial year-end, for project implementation period.

#### **5. Reporting and monitoring**

48. Project financial reports are prepared using an accounting software system and are submitted on a semiannual and annual basis. The reports include balance sheet, summary of sources and uses of funds by project component, implementation of agreements, and designated account statement. The reports highlight physical and financial progress of project components being undertaken. For this project, the LCG will prepare and submit to ADB progress reports for individual outputs. The LCG will also prepare and submit to ADB a project completion report within 3 months from the project completion. Consolidated project financial statements will be prepared annually in accordance with applicable PRC laws, guidelines, and regulations that are generally consistent with internationally recognized accounting principles and practices.

#### **6. Information system**

49. The existing automated accounting software is capable of generating project reports required for both external and internal use. In addition, all relevant staff have been trained and are familiar with the system; although supplementary training in reporting requirements for the ADB project will be provided. Regular back-ups of all accounting systems and appropriate security measures over backed-up data are in place.

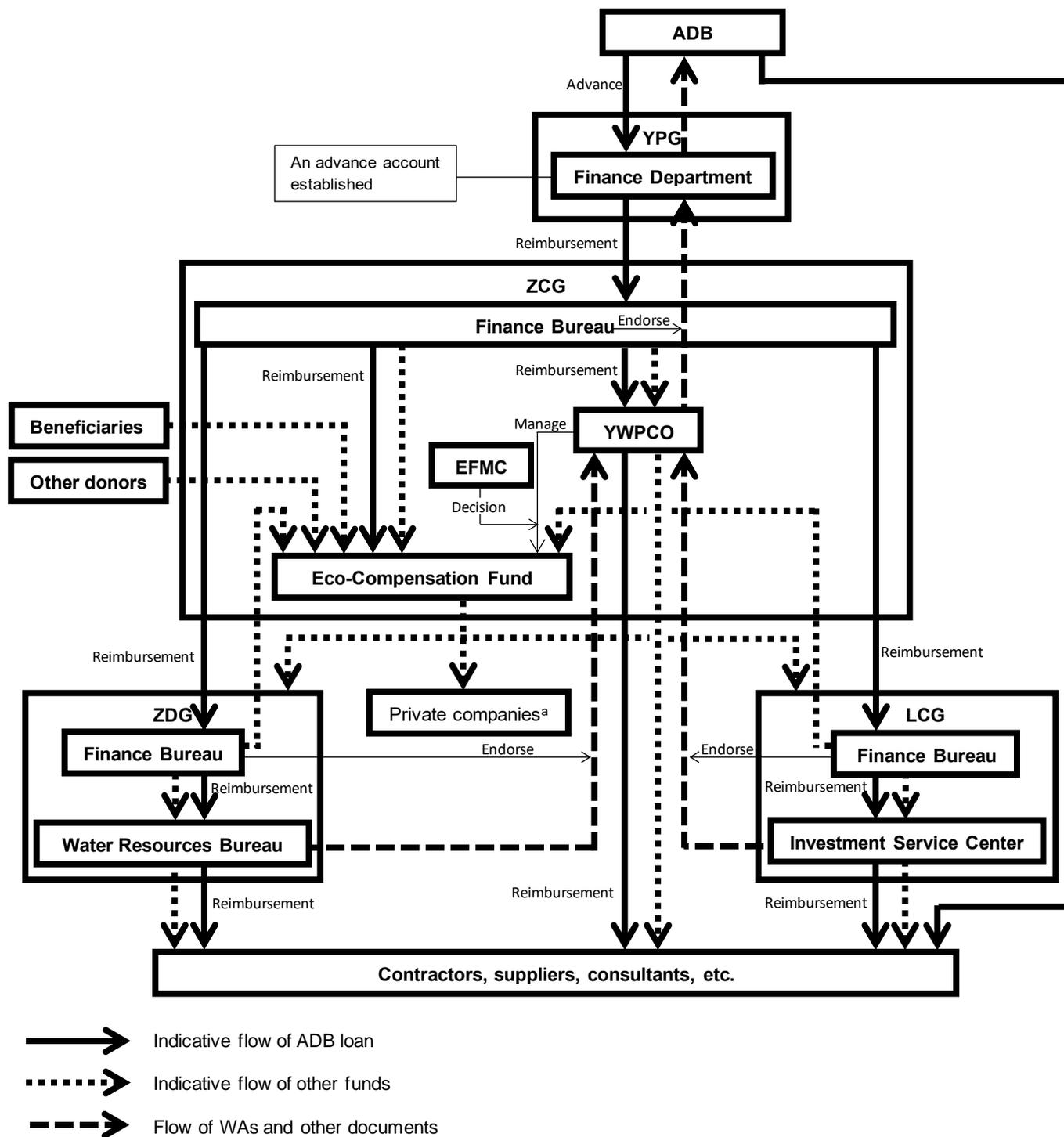
#### **C-4. Fund Flow Arrangement**

50. The loan agreement will be signed between ADB and the PRC through the Ministry of Finance. Onlending arrangements (or subsidiary loan agreements) for the loan will be signed between the Ministry of Finance and the Yunnan Provincial Government through the YPFD; and then, between the YPFD and the ZCG through the ZCFB. Finally, the loan will be on-lent from the ZCG to the ZDG and LCG through their respective finance bureaus. The YPFD will maintain and operate an advance account of the project and will be responsible for disbursements of loan. The

YPFD has many years of experience in these activities and general financial oversight of the ADB- and World Bank-funded projects. There will always be coordination among pertinent agencies of the central government, provincial government, and the ZCG, ZDG, and LCG.

51. The ADB loan will be basically disbursed from time to time upon applications to the advance account. The flow of withdrawal applications is as follows: (i) the local PMOs prepare the withdrawal applications for the ZDG and LCG; obtain endorsement of the withdrawal applications from the Finance Bureaus of the ZDG and LCG, respectively; and then, submit them to the PMO; (ii) the PMO reviews and endorses the withdrawal applications submitted by the local PMOs; (iii) the PMO prepares the withdrawal applications for the YWPCO; (iv) the PMO submits the withdrawal applications to the YPFD; (v) the YPFD reviews and endorses the withdrawal applications; and (vi) the YPFD submits the withdrawal applications to ADB. The flow of disbursement is as follows: (i) ADB, after confirming that the submitted withdrawal applications are acceptable to ADB, disburse the requested loan amount into the advance account; (ii) the YPFD disburses the requested loan amounts into the respective bank accounts of the YWPCO and the Finance Bureaus of the ZDG and LCG; (iii) the ZDG and LCG Finance Bureaus disburse the requested loan amounts to the respective bank accounts of the ZDG Water Resources Bureau and the LCG Investment Service Center; and (iv) the YWPCO, the ZDG Water Resources Bureau, and the LCG Investment Service Center will then process the payment of the claims submitted by the contractors, suppliers, consultants, etc. The counterpart funds will be released from the YWPCO's Finance Division and the Finance Bureaus of the ZDG and LCG to the PMO, the ZDG Water Resources Bureau, and the LCG Investment Service Center, respectively. Fund flow arrangement is shown in Figure 1.





ADB = Asian Development Bank, EMF = eco-compensation management committee, LCG = Ludien County Government, PRC= People's Republic of China, YWPCO = Yudong Reservoir Water Resources Protection Committee Office, YPG = Yunnan Provincial Government, ZCG = Zhaotong City Government, ZDG = Zhaoyang district Government

<sup>a</sup> Private company to operate a wastewater treatment plant and conduct solid waste management based on contracts with the ZDG and LCG

Figure 1: Fund Flow Diagram of the Project

## D. Risk Assessment

52. The following risk assessments are based on the above description of existing circumstances, staffing, and procedures; and assume proposed risk mitigation measures are put into effect. The assessment also examined if accounting and internal controls are adequate to ensure that project funds are used economically and efficiently, and for the purpose intended; and that the use of the funds is properly reported. Particular weaknesses are the low understanding of and adherence to ADB's financial management policies and procedures and the current financial management arrangements of the implementing agencies. The results of the risk assessment for inherent and control risks are in Table 1 and Table 2, respectively.

### 1. Inherent risk

53. Inherent risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country roles and regulations and entity working environment (assuming absence of any counter checks or internal controls).

**Table 1: Summary of Inherent Risk**

Risk Exposure	Risk Level without Mitigation	Remarks/Risk Mitigation	Risk Level with Mitigation
<b>A. Country-Specific Risks</b>			
(i) Frequently changing of national accounting standards and financial management rules.	M-L	Such changes are unexpected, while occasional modifications or additions are inevitable. Formal training on such changes will be conducted by governments' financial institutions to concerned government agencies .	L
(ii) Inefficiency in governments' budgeting processes which affect counterpart funding or project maintenance expenditures.	S-M	Governments committed in advance to counterpart funding, strict multi-year fiscal budgeting, and closer contacts with finance bureaus at the city and district/county levels.	M
(iii) Weakness in governments' approval procedures which delay loan disbursement process.	M-L	Prepare high-quality loan withdrawal applications. Be familiar with the government's way of doing things.	L
<b>B. Entity-Specific Risks</b>			
(i) Weak coordination between the executing and implementing agencies.	M	Conduct regular meetings and frequent reporting. Establish an emergency mechanism.	M-L
(ii) Poor coordination among different agencies within an implementing agency.	M	Appoint the local PMO members from all relevant agencies. Grant high authority to the local PMOs. Establish an accountability system.	L

<b>Risk Exposure</b>	<b>Risk Level without Mitigation</b>	<b>Remarks/Risk Mitigation</b>	<b>Risk Level with Mitigation</b>
(iii) Implementing agencies' financial statements do not reflect their true financial status or performance.	M-L	Provide strong, objective, and capable consulting services. Conduct effective audit. Conduct cautious and informative ADB missions.	L
(iv) Implementing agencies' organizational structures do not suit with project implementation.	S-M	Conduct close cooperation among different agencies with supervision by the local PMOs. Provide effective external professional support.	M
(v) The finance divisions of the implementing agencies are in a weak position to exert influence on financial issues.	S	Provide strong support and coordination from senior administration. Raise awareness of finance divisions' roles. Involve finance staff in key activities.	M-L
<b>C. Project-Specific Risks</b>			
(i) The project composition, locations, or implementation will create some special difficulties to financial management.	M	Finance staff pay attention to project progress, efficiently communicate with engineers, and regularly visits fields.	M-L
(ii) The PMO and local PMOs lack experience with foreign-funded projects.	M	Provide training to be provided in the following areas: · ADB's disbursement procedures; · budget preparation and management; and · project accounting and reporting. Leverage and make available experience from the previous World Bank project.	M-L
(iii) The project's independent accounting system lags behind or poorly interconnects with the implementing agencies' existing system after project completion.	M	Make sure the project accounting records are fully integrated with the existing systems and all data are transferred to the implementing agencies.	L
<b>Overall Pre-mitigation Inherent Risks Assessment</b>			<b>M</b>

ADB = Asian Development Bank, H = high, L = low, M = moderate, PMO = project management office, S = substantial.  
Source: ADB.

## 2. Control risk

54. Control risk is the risk that the project's accounting and internal control framework proves inadequate to ensure project funds are used economically and efficiently for the purpose intended, and that the use of the funds is properly recorded.

**Table 2: Summary of Control Risk**

<b>Risks Considered</b>	<b>Risk level Without Mitigation</b>	<b>Risk Management Measures</b>	<b>Risk level With Mitigation</b>
(i) Implementing entity: <ul style="list-style-type: none"> <li>The PMO and local PMOs lack of authority to control project activities</li> </ul>	S	The project leading group and local project leading groups play more role in project implementation.  Strong support is provided from higher-level authorities.	M
(ii) Fund flow: <ul style="list-style-type: none"> <li>Poor interpretation of and adherence to ADB's guidelines in disbursement and withdrawal of project funds by the implementing agencies</li> </ul>	M	The implementing agencies liaise regularly with ADB to ensure that ADB's guidelines are followed.  Conduct inter-agency coordination at all levels to discuss loan disbursement performance.  Provide effective training on ADB's disbursement policies.	M-L
(iii) Staffing: <ul style="list-style-type: none"> <li>High staff turnover and staff's inadequate financial management skills</li> <li>Accounting staff's lack of experience in ADB's requirements</li> </ul>	M	Appoint staff with project accounting experiences.  Conduct internal personnel transfer.  Experienced finance staff of the executing agency oversees disbursement.  Consultants provide guidance and support.	M-L
(iv) Accounting policies and procedures: <ul style="list-style-type: none"> <li>Accounting policies and procedures for the project are inadequate.</li> <li>Accounting rules are not strictly followed.</li> </ul>	S	Improve implementing agencies' financial management policies and procedures for projects in advance of loan effectiveness, drawing on experience in the earlier World Bank project.  External experts provide strong support.  Conduct regular inspections, and establish strong accountability system.	M
(v) Internal audit: <ul style="list-style-type: none"> <li>No internal audit in place</li> </ul>	M	Intensify external audit to compensate for this control weakness.	M-L
(vi) External audit <ul style="list-style-type: none"> <li>Avoidance to disclose serious problems</li> <li>Delay in delivery of audited financial statements</li> </ul>	S	Establish a separate accounting system for the ADB project from existing ones.  Appoint independent and reputable external auditor.  Prepare well for annual auditing.	M
(vii) Reporting and monitoring: <ul style="list-style-type: none"> <li>Poorly prepared financial report</li> </ul>	S	Consultants provide effective training on project financial statements and adequate assistance.  The executing agency attaches high	M

Risks Considered	Risk level Without Mitigation	Risk Management Measures	Risk level With Mitigation
<ul style="list-style-type: none"> <li>Weak monitoring capacity for project implementation</li> </ul>		attention to the project. Have regular meetings with the provincial government. Officers from provincial and municipal agencies visit the project sites frequently.	
(viii) Information systems: <ul style="list-style-type: none"> <li>Frequent problems with information system</li> </ul>	M	The financial management assessment concluded that the existing systems are adequate.	L
<b>Overall Pre-mitigation Control Risk Assessment</b>			<b>S-M</b>

ADB = Asian Development Bank, H = high, L = low, M = moderate, PMO = project management office, S = substantial.  
 Source: ADB.

55. Overall pre-mitigation financial management risk of the project at the appraisal stage is moderate. The identified risks in financial management should be closely monitored during project implementation. Besides the above-mentioned risks, no other significant weaknesses were identified.

## E. Action Plan

56. This section summarizes necessary actions identified as a result of the FMA for managing the risks associated with the project.

57. The proposed actions are in Table 3.

**Table 3: Financial Management Action Plan**

No.	Action to be Taken	Responsible Party	Timeline
1	Undertake measures for job rotation, physical asset inventory, insurance on assets, etc.; and revise relevant policies	ZCG, LCG, and ZDG, especially finance bureaus	Immediately after the TRTA
2	Designate finance staff who understand project accounting	ZCG, LCG, and ZDG, especially finance bureaus	Before loan effectiveness
3	Establish a separate accounting mode specifically for the project	Accounting staff of the PMO and LPMOs	Before loan effectiveness
4	Develop a comprehensive financial policies and procedures manual in the PMO to guide staff activities; and ensure staff accountability, including a requirement for the PMO to endorse all payments requested by the LCG and ZDG.	PMO with external assistance	Before loan effectiveness
5	Modify written job descriptions of the finance staff to reflect project responsibilities	Accounting staff of the PMO and LPMOs	Before loan effectiveness
6	Prepare project budget, covering the full project implementation period; and update this on an annual basis. The starting point for the preparation of the initial budget should be the project forecasts agreed between the YPG, ZCG, and ADB at loan	Accounting staff of the LPMOs; together with engineers of the LPMOs and	Before loan effectiveness

No.	Action to be Taken	Responsible Party	Timeline
	negotiations; and as subsequently recorded in the PAM. The budget should include physical and financial targets.	accounting staff and engineers in the PMO	
7	Provide start-up financial management consulting support to the ZCG, LCG, and ZDG, particularly the PMO and LPMOs, to assist them in the above tasks	Individual consultant for initial project management support, project management support consultant team	Consultants on board
8	Conduct regular liaison between the ZCG, LCG, ZDG, and ADB to ensure that ADB's guidelines are followed	Accounting staff of the PMO	After loan effectiveness
9	Put in place regular inter-agency coordination at all levels to discuss the portfolio performance of the project	Accounting staff of the PMO	After loan effectiveness
10	Conduct workshop training and on-the-job training on ADB's disbursement procedures and ADB's project accounting and financial reporting requirements for staff of the ZCG, ZDG, and LCG responsible for accounting for the project.	Financial specialist of project management support consultant team	Consultant on board
11	Maintain separate accounts for all project outputs financed by ADB and the governments	Accounting staff of PMO and LPMOs	After loan effectiveness
12	Verify invoice and supporting documents, prepare and submit loan withdrawal applications, and disburse funds	Accounting staff of PMO and LPMOs	After loan effectiveness
13	Conduct prompt financial reporting to project stakeholders after the end of each accounting period	Accounting staff of the PMO and LPMOs	After loan effectiveness
14	Prepare financial section of quarterly project progress reports	Accounting staff of the PMO	After loan effectiveness
15	Monitor compliance with loan covenants, including submission of audited project accounts	Accounting staff of the PMO	After loan effectiveness
16	Put in place regular back-up of all accounting systems and appropriate security measures over back-up data	Accounting and IT staff of the PMO and LPMOs	After loan effectiveness
17	Training on physical asset management	LCG and ZDG	After loan effectiveness

ADB = Asian Development Bank, IT = information technology, LCG = Ludian County Government, LPMO = local project management office, PAM = project administration manual, PMO = project management office, TRTA = transaction technical assistance, YPG = Yunnan Provincial Government, ZCG = Zhaotong City Government, ZDG = Zhaoyang District Government.  
Source: Asian Development Bank.

## FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

### Yunnan Sayu River Basin Rural Water Pollution Management and Eco-Compensation Demonstration Project

#### Zhaoyang District Water Resources Bureau

QUESTION	ANSWER
<b>1 Background Information</b>	
1.1 Name of agency	Finance Department, Zhaoyang District Water Bureau
1.2 Project component that agency is responsible for	Outputs 1–3
1.3 Name of person responsible for filling this form	Zhaojun Zhai (13466203673)
1.4 Position and title of person responsible for filling this form	Manager, Finance Department
1.5 Nature of agency's responsibility for the project (check all that apply)	<input checked="" type="checkbox"/> Provide counterpart funding <input checked="" type="checkbox"/> Sign a follow on loan contract for ADB funds <input checked="" type="checkbox"/> Management of project construction <input checked="" type="checkbox"/> Project operation and maintenance <input checked="" type="checkbox"/> Financial management of project <input type="checkbox"/> Generate funds from tariffs, taxes or other sources to service the ADB loan <input type="checkbox"/> Other – describe
<b>2 Implementing agency</b>	
2.1 What is your agency's legal status and registration?	Government agency
2.2 What is your agency's governing body?	Zhaoyang District
2.3 What is the governing body's relationship to government?	n.a.
What are the legal reporting requirements for your agency with respect to finance?	Annual financial statement
2.4 Describe your agency's organizational structure? (please attach an organization chart)	The departments under Zhaoyang District Water Bureau are : water resource protection administration, water resource project management, water information, engineering and construction, accounting & finance, security and safe, and general office.
2.5 Has your agency implemented an externally financed project in the past? If yes, please provide details?	No
2.6 Has or will your agency establish a project management office?	<input checked="" type="checkbox"/> Yes, already have project office <input type="checkbox"/> Yes, will set up project office <input type="checkbox"/> No

QUESTION	ANSWER
2.7 If the ADB loan is approved, what staffing changes will you make to assist with project implementation?	Ms. Chaojun Zhai, the manager of finance management, and Ms. Minghan Liu, the accountant.
2.8 Does the project have written job descriptions that define duties, responsibilities, lines of supervision, and limits of authority for staff?	<input checked="" type="checkbox"/> Yes – have already prepared these <input type="checkbox"/> Written job descriptions are being or will be prepared <input type="checkbox"/> No
<b>3 Funds flow arrangements</b>	
3.1 Describe how ADB funds will be disbursed to your agency.	ADB loan will be mostly disbursed to the contractors through the advance account managed by the Provincial Finance Bureau.
3.2 Are arrangements to transfer the proceeds of the loan to your agency satisfactory?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No –briefly explain why not
3.3 Describe any past problems experienced in receiving investment funds from funding sources?	No.
3.4 Does your agency have experience in the management of loans from ADB, the World Bank or other aid agencies?	<input type="checkbox"/> Yes – briefly describe <input checked="" type="checkbox"/> No
3.5 Does your agency have experience managing foreign exchange risks?	<input type="checkbox"/> Yes – briefly describe <input checked="" type="checkbox"/> No
3.6 If your agency is responsible for providing counterpart funds answer the next 2 questions	<input type="checkbox"/> Responsible <input checked="" type="checkbox"/> Not Responsible
◆ How will you provide counterpart funds? What is their source?	
◆ How will payments be made from counterpart fund?	
3.7 How will tariffs be used to help fund the project?	n.a.
<b>4 Staffing</b>	
4.1 What is your agency's organizational structure for accounting and finance? Please attach an organization chart.	The staff composition is illustrated below.

QUESTION	ANSWER		
4.2 Identify key finance and accounting staffs including job title, responsibilities, educational background and professional certification.			
Staff	Job title	Main responsibilities	Training and Certification
Zhaojun Zhai	Manager	Overall management	Two-year college, mid-level accountant
Minghan Liu	Accountant	Book-keeping and accounting statement	Four-year college; junior-level accountant
Jumei Xia	Accountant	Project accountant	Two-year college, mid-level accountant
Zhangxiang Li	Accountant	Book-keeping and accounting statement	Four-year college; junior-level accountant
Weiwei Pu	Accountant	Recurrent	Four-year college; junior-level accountant
Peilian Fan	Cashier	Cash management	Four-year college; junior-level accountant
4.3 Indicate key project finance and accounts staff positions not filled yet, and the estimated date of appointment.	No.		
4.4 If the ADB loan is approved, what staffing changes will you make to assist with project finance and accounting?	See Section 1.8		
4.5 Are accounts and finance staffs trained in ADB procedures?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
4.6 What is training policy for the finance and accounting staff?	The district Finance Bureau sponsors training courses for all accounting and finance personnel in the public sector almost once a year.		
4.7 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.		
4.8 What is the duration of the work contract for project finance and accounts staff?	3-5 years		
4.9 At what frequency are personnel transferred?	No regular transfer. This is a weak point.		

QUESTION	ANSWER
<b>5 Accounting policies and procedures</b>	
<b>5.1 General policies</b>	
◆ Will the Project use your agency accounting system?	Yes.
◆ Describe how your agency accounting system will record project financial transactions.	Original certificate – journal entry – cross check – general ledger – accounting statement
◆ Describe controls in place for preparing and approving transactions.	Separations of staff in charge of different functions; timely inspection; cross check, multi-level approvals.
◆ Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes
◆ Describe the system for storing and accessing accounting documents and materials?	The accounting materials are properly stored for certain years as required by the rule and no access to them is allowed without permission by the accounting manager.
◆ Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>5.2 Segregation of duties</b>	
◆ Who is responsible for the following (give name and title):	
(i) authorize transactions;	Chaojun Zhai, Manager
(ii) record transactions;	Minghan Liu, Accountant
(iii) maintain custody of assets involved in transaction	Relevant departments
◆ Are responsibilities for ordering, receiving, accounting for, and paying for goods and services separated?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No –briefly describe how they are not separated

QUESTION	ANSWER
<p>◆ Are bank reconciliations prepared by someone other than those who make or approve payments?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p><b>5.3 Budgeting system</b></p>	
<p>Are annual budgets based on physical and financial targets?</p>	<p><input checked="" type="checkbox"/> Yes – with financial targets only <input type="checkbox"/> Yes – with physical and financial targets <input type="checkbox"/> No</p>
<p>◆ Are multiple year financing plans prepared for capital expenditures?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>◆ Are budgets used to monitor and control the performance of individual departments and units?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>◆ How frequently are actual expenditures compared to the budget?</p>	<p><input type="checkbox"/> at least once every month <input type="checkbox"/> once every 2 to 3 months <input type="checkbox"/> once every 4 to 6 months <input checked="" type="checkbox"/> once every 6 to 12 months <input type="checkbox"/> never</p>
<p>◆ What happens if there are significant variations from the budget?</p>	<p>A clear explanation on the variation must be submitted and approved by the original authority before the variation is realized.</p>
<p>◆ Are approvals for variations from the budget required in advance?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>◆ How are budgets prepared and approved?</p>	<p>The general budget is usually prepared by the finance department through consultation with various departments and referring to the historical records.</p>
<p>◆ Who is involved and what is the basis for setting budgets?</p>	<p>The finance department takes the lead and coordinates other departments. The basis is business forecast.</p>
<p><b>5.4 支付</b></p>	
<p>◆ During invoice-processing procedures are:</p>	
<p>(i) Copies of purchase orders and receiving reports obtained directly from issuing departments?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>

QUESTION	ANSWER
(ii) Comparison made of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) Comparison of invoice quantities with those indicated on the receiving reports?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iv) Checking the accuracy of calculations?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are all invoices:	
(i) dated, reviewed and approved,	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) stamped PAID upon payment,	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No - This is another negligence.
(iii) marked for account code assignment?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ What controls exist for the preparation of the payroll?	The payroll is prepared on the basis of the relevant rule set by the Finance Bureau and has to be reviewed by the senior management.
◆ How are changes to the payroll authorized?	Only the Finance Bureau can change the payroll.
<b>5.5 Policies and procedures</b>	
◆ What accounting regulations are adopted?	The Government Accounting Standards
◆ What is the basis of accounting regulation adopted (e.g., cash, accrual)?	Accrual basis
◆ Does the project have a policies and procedures manual for accounting?	<input type="checkbox"/> Yes, already have a project policies and procedures manual <input checked="" type="checkbox"/> No but will set up a project policies and procedures manual <input type="checkbox"/> No
◆ Are there written policies and procedures covering routine financial management and related administrative activities?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Who has a copy of the policies and procedures manual?	All finance staff

QUESTION	ANSWER	
◆ How do policies and procedures define conflict of interest and provide safeguards to protect the organization from them?	A staff member is not permitted to deal with the financial transaction where his or her relatives are directly involved in.	
◆ How are new accounting principles, policies or procedures implemented within the entity?	Frequent trainings are conducted.	
<b>5.6 Cash and bank</b>		
◆ Indicate names and positions of authorized signatories in the bank accounts.	Name	Stamp
	n.a.	Cashier
	n.a.	Accountant
	n.a.	Finance Department
◆ Does the organization maintain an up-to-date cashbook, recording receipts and payments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ What are the controls for the following activities:	Currently almost all transactions are done through bank transfers without cash movement.	
(i) collection of revenues		
(ii) timely deposit of receipts		
(iii) recording of receipts		
◆ Are bank and cash reconciled on a monthly basis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ Are unusual items on the bank reconciliation reviewed and approved by a responsible official?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ How quickly are receipts deposited?	On the same day	

QUESTION	ANSWER
<b>5.7 Safeguard over assets</b>	
Describe the system to record assets and protect them from fraud, waste and abuse?	No asset should be handled by only one person. Appropriate checks and approvals must be in place.
◆ Are subsidiary records of fixed assets and stocks kept up to date?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are subsidiary records of fixed assets and stocks reconciled with control accounts?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ How frequent are physical inventories of fixed assets and stocks?	<input type="checkbox"/> at least once a year <input checked="" type="checkbox"/> every 2 to 3 years <input type="checkbox"/> every 3 to 5 years <input type="checkbox"/> less frequently <input type="checkbox"/> never
◆ Are assets covered by insurance policies?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No This should be notified.
<b>5.8 Other offices and implementing entities</b>	
Identify agencies under your supervision or control that are responsible for project implementation or finance?	None
◆ In relation to these other agencies, has the project established controls and procedures for:	
(i) flow of funds	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) financial information	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) accountability	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iv) audits	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are periodic reconciliations performed among the different offices/implementing agencies?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>5.9 Other</b>	
Describe the options available to employees, beneficiaries and others for reporting suspected fraud, waste or misuse of project resources or property?	Written notice sent to and orally report to the senior management.

QUESTION	ANSWER
<p>◆ Will representatives of the municipal discipline investigation bureau be involved in project bidding and construction activities?</p>	<p><input type="checkbox"/> YES <input checked="" type="checkbox"/> NO</p>
<p>◆ Do contracts let by your agency for civil works and other large procurements include anticorruption clauses and safeguards.</p>	<p><input checked="" type="checkbox"/> YES <input type="checkbox"/> NO</p>
<b>6 Reporting and monitoring</b>	
6.1 Are financial statements prepared for your agency?	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
6.2 How often are financial statements prepared?	Annually
6.3 How quickly are the financial statements prepared at year end?	Half a month
6.4 Will the financial reporting system need to be adapted to report on the project components?	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
6.5 Does the reporting system have the capacity to link financial information with information on the physical progress of engineering project's?	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
6.6 Describe procedures and controls used to ensure that the physical project data can be compared and coordinated with the financial data?	Regular checking and reconciliations between finance staff and engineering people.
6.7 Are there financial management reporting requirements for existing engineering projects that specify:	
(i) what reports are to be prepared	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
(ii) what the reports are to contain	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
(iii) how the reports are to be used	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
6.8 What information do the financial management reports for engineering projects contain? (check all that apply)	<p><input checked="" type="checkbox"/> Total project expenditures to date  <input checked="" type="checkbox"/> Comparison of actual expenditures with budgets  <input type="checkbox"/> Comparison of actual expenditures with work completed  <input checked="" type="checkbox"/> Expenditures by project component</p>

QUESTION	ANSWER
	<input checked="" type="checkbox"/> Explanations of significant variances of expenditures from budgets <input type="checkbox"/> Other – describe
6.9 Describe a recent action taken by management in response to information provided in a financial management report?	None
6.10 Are financial statements and reports prepared directly by an automated accounting system or are they prepared manually?	<input type="checkbox"/> prepared by an automated accounting system <input checked="" type="checkbox"/> prepared manually <input type="checkbox"/> both ways used
<b>7 Internal audit</b>	
7.1 there an internal auditor or audit department in your agency?	<input type="checkbox"/> 6.2-6.5 Yes - answer questions 6.2 to 6.5 <input checked="" type="checkbox"/> No - go to section 7
7.2 What are the qualifications and experience of audit department staff?	
7.3 To whom does the internal auditor report?	
7.4 Will the internal audit department audit the project?	<input type="checkbox"/> Yes <input type="checkbox"/> No
7.5 Describe the most recent actions taken in response to the internal audit findings?	
<b>8 External audit</b>	
8.1 Is your agency financial statement audited each year by an independent non-government auditor?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
8.2 How soon following the financial year end are audit reports issued?	6 months
8.3 Is the audit of the entity conducted according to the International Standards on Auditing?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – What standard is used?
8.4 Please provide the audit reports for the past three years.	<input type="checkbox"/> Provided <input checked="" type="checkbox"/> Not provided – relevant
8.5 Will your agency auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	<input type="checkbox"/> agency auditor <input checked="" type="checkbox"/> another auditor

QUESTION	ANSWER
8.6 Describe recommendations made in the most recent audit reports or management letters?	None
8.7 Which of the recommendations identified in question 7.6 have you implemented?	No relation to the finance work.
8.8 Is the project subject to any kind of audit from an independent government entity in addition to the external audit?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>9 Information systems</b>	
9.1 Is the financial management system computerized?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
9.2 Can the system produce the necessary project financial reports?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
9.3 What training has the staff received to operate the system?	Operation of the accounting software
9.4 What controls are there to safeguard the confidentiality, integrity and availability of data in the information system?	Password, cross checking, isolated storage

## FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

### Yunnan Sayu River Basin Rural Water Pollution Management and Eco-Compensation Demonstration Project

#### Ludian County Water Resources Bureau

QUESTION	ANSWER
<b>0 Background Information</b>	
0.1 Name of agency	Finance Department, Ludian County Water Bureau
0.2 Project component that agency is responsible for	Outputs 1–3
0.3 Name of person responsible for filling this form	Yisong Zheng
0.4 Position and title of person responsible for filling this form	Manager, Finance Department
0.5 Nature of agency's responsibility for the project (check all that apply)	<input checked="" type="checkbox"/> Provide counterpart funding <input checked="" type="checkbox"/> Sign a follow on loan contract for ADB funds <input checked="" type="checkbox"/> Management of project construction <input checked="" type="checkbox"/> Project operation and maintenance <input checked="" type="checkbox"/> Financial management of project <input type="checkbox"/> Generate funds from tariffs, taxes or other sources to service the ADB loan <input type="checkbox"/> Other – describe
<b>1 Implementing agency</b>	
1.1 What is your agency's legal status and registration?	Government agency
1.2 What is your agency's governing body?	Ludian County
1.3 What is the governing body's relationship to government?	n.a.
What are the legal reporting requirements for your agency with respect to finance?	Annual financial statement
1.4 Describe your agency's organizational structure? (please attach an organization chart)	The departments under Ludian County Water Bureau are : water resource protection administration, water resource project management, water information, village water station supervision, accounting & finance, security and safe, and general office.
1.5 Has your agency implemented an externally financed project in the past? If yes, please provide details?	No
1.6 Has or will your agency establish a project management office?	<input checked="" type="checkbox"/> Yes, already have project office <input type="checkbox"/> Yes, will set up project office <input type="checkbox"/> No
1.7 If the ADB loan is approved, what staffing changes will you make to	Mr. Yisong Zheng, the manager of finance management, and Ms. Jiahong Deng, the accountant.

QUESTION	ANSWER		
assist with project implementation?			
1.8 Does the project have written job descriptions that define duties, responsibilities, lines of supervision, and limits of authority for staff?	<input type="checkbox"/> Yes – have already prepared these <input type="checkbox"/> Written job descriptions are being or will be prepared <input checked="" type="checkbox"/> No. This is a weak point.		
<b>2 Funds flow arrangements</b>			
2.1 Describe how ADB funds will be disbursed to your agency.	ADB loan will be mostly disbursed to the contractors through the advance account managed by the Provincial Finance Bureau.		
2.2 Are arrangements to transfer the proceeds of the loan to your agency satisfactory?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No –briefly explain why not		
2.3 Describe any past problems experienced in receiving investment funds from funding sources?	No.		
2.4 Does your agency have experience in the management of loans from ADB, the World Bank or other aid agencies?	<input type="checkbox"/> Yes – briefly describe <input checked="" type="checkbox"/> No		
2.5 Does your agency have experience managing foreign exchange risks?	<input type="checkbox"/> Yes – briefly describe <input checked="" type="checkbox"/> No		
2.6 If your agency is responsible for providing counterpart funds answer the next 2 questions	<input type="checkbox"/> Responsible <input checked="" type="checkbox"/> Not Responsible		
◆ How will you provide counterpart funds? What is their source?			
◆ How will payments be made from counterpart fund?			
2.7 How will tariffs be used to help fund the project?	n.a.		
<b>3 Staffing</b>			
3.1 What is your agency's organizational structure for accounting and finance? Please attach an organization chart.	The staff composition is illustrated below.		
3.2 Identify key finance and accounting staffs including job title, responsibilities, educational background and professional certification.			
Staff	Job title	Main responsibilities	Training and Certification
Yisong Zheng	Manager	Overall management	Four-year college
Changchan Cai	Deputy Manager	Accounting	Two-year college
Jiahong Deng	Accountant	Book-keeping and accounting statement	Four-year college

QUESTION	ANSWER		
Xiangbo Ma	Accountant	Book-keeping and accounting statement	Two-year college
Rong Xiao	Cashier	Cash management	Two-year college
Yonglan Ding	Cashier	Cash management	Two-year college
3.3 Indicate key project finance and accounts staff positions not filled yet, and the estimated date of appointment.	No.		
3.4 If the ADB loan is approved, what staffing changes will you make to assist with project finance and accounting?	Yisong Zheng, Jiahong Deng		
3.5 Are accounts and finance staffs trained in ADB procedures?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
3.6 What is training policy for the finance and accounting staff?	The County's Finance Bureau sponsors training courses for all accounting and finance personnel in the public sector almost once a year.		
3.7 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?	No.		
3.8 What is the duration of the work contract for project finance and accounts staff?	3-5 years		
3.9 At what frequency are personnel transferred?	No regular transfer. This is a weak point.		
<b>4 Accounting policies and procedures</b>			
<b>4.1 General policies</b>			
◆ Will the Project use your agency accounting system?	Yes.		
◆ Describe how your agency accounting system will record project financial transactions.	Original certificate – journal entry – cross check – general ledger – accounting statement		
◆ Describe controls in place for preparing and approving transactions.	Separations of staff in charge of different functions; timely inspection; cross check, multi-level approvals.		
◆ Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes		
◆ Describe the system for storing and accessing accounting documents and materials?	The accounting materials are properly stored.		

QUESTION	ANSWER
<p>◆ Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<b>4.2 Segregation of duties</b>	
<p>◆ Who is responsible for the following (give name and title):</p>	
(iv) authorize transactions;	Yisong Zheng, Manager
(v) record transactions;	Jiahong Deng, Accountant
(vi) maintain custody of assets involved in transaction	Relevant departments
<p>◆ Are responsibilities for ordering, receiving, accounting for, and paying for goods and services separated?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No –briefly describe how they are not separated</p>
<p>◆ Are bank reconciliations prepared by someone other than those who make or approve payments?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<b>4.3 Budgeting system</b>	
<p>Are annual budgets based on physical and financial targets?</p>	<p><input checked="" type="checkbox"/> Yes – with financial targets only <input type="checkbox"/> Yes – with physical and financial targets <input type="checkbox"/> No</p>
<p>◆ Are multiple year financing plans prepared for capital expenditures?</p>	<p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>
<p>◆ Are budgets used to monitor and control the performance of individual departments and units?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>◆ How frequently are actual expenditures compared to the budget?</p>	<p><input type="checkbox"/> at least once every month <input type="checkbox"/> once every 2 to 3 months <input type="checkbox"/> once every 4 to 6 months <input checked="" type="checkbox"/> once every 6 to 12 months <input type="checkbox"/> never</p>
<p>◆ What happens if there are significant variations from the budget?</p>	<p>A clear explanation on the variation must be submitted and approved by the original authority before the variation is realized.</p>
<p>◆ Are approvals for variations from the budget required in advance?</p>	<p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>◆ How are budgets prepared and approved?</p>	<p>The budget for the bureau is usually prepared by the finance department. No project budget is conducted. This</p>

QUESTION	ANSWER
	is a significant negligence in project management.
◆ Who is involved and what is the basis for setting budgets?	The finance department takes the duty.
<b>4.4 支付</b>	
◆ During invoice-processing procedures are:	
(i) Copies of purchase orders and receiving reports obtained directly from issuing departments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) Comparison made of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) Comparison of invoice quantities with those indicated on the receiving reports?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iv) Checking the accuracy of calculations?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are all invoices:	
(i) dated, reviewed and approved,	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) stamped PAID upon payment,	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No - This is another negligence.
(iii) marked for account code assignment?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ What controls exist for the preparation of the payroll?	The payroll is prepared on the basis of the relevant rule set by the Finance Bureau and has to be reviewed by the senior management.
◆ How are changes to the payroll authorized?	Only the Finance Bureau can change the payroll.
<b>4.5 Policies and procedures</b>	
◆ What accounting regulations are adopted?	The Government Accounting Standards
◆ What is the basis of accounting regulation adopted (e.g., cash, accrual)?	Accrual basis
◆ Does the project have a policies and procedures manual for accounting?	<input type="checkbox"/> Yes, already have a project policies and procedures manual <input checked="" type="checkbox"/> No but will set up a project policies and procedures manual <input type="checkbox"/> No
◆ Are there written policies and procedures covering routine financial management and related administrative activities?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

QUESTION	ANSWER	
◆ Who has a copy of the policies and procedures manual?	All finance staff	
◆ How do policies and procedures define conflict of interest and provide safeguards to protect the organization from them?	A staff member is not permitted to deal with the financial transaction where his or her relatives are directly involved in.	
◆ How are new accounting principles, policies or procedures implemented within the entity?	Training and supervision are important for implementing new accounting policies and procedures.	
<b>4.6 Cash and bank</b>		
◆ Indicate names and positions of authorized signatories in the bank accounts.	Name	Stamp
	n.a.	Cashier
	n.a.	Director of the Water Bureau
	n.a.	Project entity
◆ Does the organization maintain an up-to-date cashbook, recording receipts and payments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ What are the controls for the following activities:	Currently almost all transactions are done through bank transfers without cash movement.	
(iv) collection of revenues		
(v) timely deposit of receipts		
(vi) recording of receipts		
◆ Are bank and cash reconciled on a monthly basis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ Are unusual items on the bank reconciliation reviewed and approved by a responsible official?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ How quickly are receipts deposited?	On the same day	
<b>4.7 Safeguard over assets</b>		
Describe the system to record assets and protect them from fraud, waste and abuse?	No asset should be handled by only one person. Appropriate checks and approvals must be in place.	
◆ Are subsidiary records of fixed assets and stocks kept up to	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	

QUESTION	ANSWER
date?	
◆ Are subsidiary records of fixed assets and stocks reconciled with control accounts?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ How frequent are physical inventories of fixed assets and stocks?	<input type="checkbox"/> at least once a year <input type="checkbox"/> every 2 to 3 years <input type="checkbox"/> every 3 to 5 years <input checked="" type="checkbox"/> less frequently <input type="checkbox"/> never
◆ Are assets covered by insurance policies?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No This should be notified.
<b>4.8 Other offices and implementing entities</b>	
Identify agencies under your supervision or control that are responsible for project implementation or finance?	None
◆ In relation to these other agencies, has the project established controls and procedures for:	
(i) flow of funds	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) financial information	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) accountability	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iv) audits	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are periodic reconciliations performed among the different offices/implementing agencies?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>4.9 Other</b>	
Describe the options available to employees, beneficiaries and others for reporting suspected fraud, waste or misuse of project resources or property?	Written notice sent to and orally report to the senior management.
◆ Will representatives of the municipal discipline investigation bureau be involved in project bidding and construction activities?	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO
◆ Do contracts let by your agency for civil works and other large procurements include anticorruption clauses and safeguards.	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO

QUESTION	ANSWER
<b>5 Reporting and monitoring</b>	
5.1 Are financial statements prepared for your agency?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.2 How often are financial statements prepared?	Annually
5.3 How quickly are the financial statements prepared at year end?	Half a month
5.4 Will the financial reporting system need to be adapted to report on the project components?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.5 Does the reporting system have the capacity to link financial information with information on the physical progress of engineering project's?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.6 Describe procedures and controls used to ensure that the physical project data can be compared and coordinated with the financial data?	Regular checking and reconciliations between finance staff and engineering people.
5.7 Are there financial management reporting requirements for existing engineering projects that specify:	
(i) what reports are to be prepared	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) what the reports are to contain	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) how the reports are to be used	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.8 What information do the financial management reports for engineering projects contain? (check all that apply)	<input checked="" type="checkbox"/> Total project expenditures to date <input checked="" type="checkbox"/> Comparison of actual expenditures with budgets <input type="checkbox"/> Comparison of actual expenditures with work completed <input checked="" type="checkbox"/> Expenditures by project component <input checked="" type="checkbox"/> Explanations of significant variances of expenditures from budgets <input type="checkbox"/> Other – describe
5.9 Describe a recent action taken by management in response to information provided in a financial management report?	None
5.10 Are financial statements and reports prepared directly by an automated accounting system or are they prepared manually?	<input checked="" type="checkbox"/> prepared by an automated accounting system <input type="checkbox"/> prepared manually <input type="checkbox"/> both ways used
<b>6 Internal audit</b>	
6.1 Is there an internal auditor or audit department in your agency?	<input type="checkbox"/> 6.2-6.5 Yes - answer questions 6.2 to 6.5 <input checked="" type="checkbox"/> No - go to section 7

QUESTION	ANSWER
6.2 What are the qualifications and experience of audit department staff?	
6.3 To whom does the internal auditor report?	
6.4 Will the internal audit department audit the project?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6.5 Describe the most recent actions taken in response to the internal audit findings?	
<b>7 External audit</b>	
7.1 Is your agency financial statement audited each year by an independent non-government auditor?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
7.2 How soon following the financial year end are audit reports issued?	6 months
7.3 Is the audit of the entity conducted according to the International Standards on Auditing?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – What standard is used?
7.4 Please provide the audit reports for the past three years.	<input type="checkbox"/> Provided <input checked="" type="checkbox"/> Not provided – relevant
7.5 Will your agency auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	<input type="checkbox"/> agency auditor <input checked="" type="checkbox"/> another auditor
7.6 Describe recommendations made in the most recent audit reports or management letters?	None
7.7 Which of the recommendations identified in question 7.6 have you implemented?	n.a.
7.8 Is the project subject to any kind of audit from an independent government entity in addition to the external audit?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>8 Information systems</b>	
8.1 Is the financial management system computerized?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
8.2 Can the system produce the necessary project financial reports?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
8.3 What training has the staff received to operate the system?	Operation of the accounting software
8.4 What controls are there to safeguard the confidentiality, integrity and	Password, cross checking, isolated storage

<b>QUESTION</b>	<b>ANSWER</b>
availability of data in the information system?	

## FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

### Yunnan Sayu River Basin Rural Water Pollution Management and Eco-Compensation Demonstration Project

#### Zhaotong City Yudong Reservoir Water Resource Protection Committee Office

QUESTION	ANSWER
<b>0 Background Information</b>	
0.1 Name of agency	Finance Department, Zhaotong City Water Resource Protection Commission Office
0.2 Project component that agency is responsible for	Output 4: Education, capacity, and public awareness for water pollution management strengthened
0.3 Name of person responsible for filling this form	Rude Gao (13887138340)
0.4 Position and title of person responsible for filling this form	Deputy manager, Finance Department
0.5 Nature of agency's responsibility for the project (check all that apply)	<input type="checkbox"/> Provide counterpart funding <input type="checkbox"/> Sign a follow on loan contract for ADB funds <input checked="" type="checkbox"/> Management of project construction <input type="checkbox"/> Project operation and maintenance <input checked="" type="checkbox"/> Financial management of project <input type="checkbox"/> Generate funds from tariffs, taxes or other sources to service the ADB loan <input type="checkbox"/> Other – describe
<b>1 Implementing agency</b>	
1.1 What is your agency's legal status and registration?	Public institution
1.2 What is your agency's governing body?	Water Bureau of Zhaotong City
1.3 What is the governing body's relationship to government?	n.a.
What are the legal reporting requirements for your agency with respect to finance?	Annual accounting settlement statement
1.4 Describe your agency's organizational structure? (please attach an organization chart)	The departments under Zhaotong City Yudong Reservoir Water Resource Protection Commission Office are : water resource protection administration, water resource project management, water information, engineering and construction, technology, assets & finance, reservoir administration, irrigated area administration, safe control, business development and general office.
1.5 Has your agency implemented an externally financed project in the past?	No.

QUESTION	ANSWER
If yes, please provide details?	
1.6 Has or will your agency establish a project management office?	<input checked="" type="checkbox"/> Yes, already have project office <input type="checkbox"/> Yes, will set up project office <input type="checkbox"/> No
1.7 If the ADB loan is approved, what staffing changes will you make to assist with project implementation?	Mr. Rude Gao, the deputy manager of finance management, and Ms. Hongyan Zhang, the accountant.
1.8 Does the project have written job descriptions that define duties, responsibilities, lines of supervision, and limits of authority for staff?	<input checked="" type="checkbox"/> Yes – have already prepared these <input type="checkbox"/> Written job descriptions are being or will be prepared <input type="checkbox"/> No
<b>2 Funds flow arrangements</b>	
2.1 Describe how ADB funds will be disbursed to your agency.	ADB loan will be mostly disbursed to the contractors through the advance account managed by the Provincial Finance Bureau.
2.2 Are arrangements to transfer the proceeds of the loan to your agency satisfactory?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No –briefly explain why not
2.3 Describe any past problems experienced in receiving investment funds from funding sources?	No.
2.4 Does your agency have experience in the management of loans from ADB, the World Bank or other aid agencies?	<input type="checkbox"/> Yes – briefly describe <input checked="" type="checkbox"/> No
2.5 Does your agency have experience managing foreign exchange risks?	<input type="checkbox"/> Yes – briefly describe <input checked="" type="checkbox"/> No
2.6 If your agency is responsible for providing counterpart funds answer the next 2 questions	<input type="checkbox"/> Responsible <input checked="" type="checkbox"/> Not Responsible
◆ How will you provide counterpart funds? What is their source?	
◆ How will payments be made from counterpart fund?	
2.7 How will tariffs be used to help fund the project?	n.a.

QUESTION	ANSWER		
<b>3 Staffing</b>			
3.1 What is your agency's organizational structure for accounting and finance? Please attach an organization chart.	The staff composition is illustrated below.		
3.2 Identify key finance and accounting staffs including job title, responsibilities, educational background and professional certification.			
Staff	Job title	Main responsibilities	Training and Certification
Rude Gao	Deputy Manager	Overall management	Four-year college
Hongyan Zhang	Accountant	Bookkeeping and accounting statement	Four-year college; mid-level economist
Huifang Lu	Accountant	Bookkeeping and accounting statement	Four-year college; mid-level engineer
Jianhua Wu	Cashier	Cash management	Four-year college; mid-level economist
3.3 Indicate key project finance and accounts staff positions not filled yet, and the estimated date of appointment.	No.		
3.4 If the ADB loan is approved, what staffing changes will you make to assist with project finance and accounting?	See Section 1.8		
3.5 Are accounts and finance staffs trained in ADB procedures?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
3.6 What is training policy for the finance and accounting staff?	The municipal Finance Bureau sponsors training courses for all accounting and finance personnel in the public sector once or twice a year.		
3.7 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.		
3.8 What is the duration of the work contract for project finance and accounts staff?	3-5 years		
3.9 At what frequency are	No regular transfer. This is a weak point.		

QUESTION	ANSWER
personnel transferred?	
<b>4 Accounting policies and procedures</b>	
<b>4.1 General policies</b>	
◆ Will the Project use your agency accounting system?	Yes.
◆ Describe how your agency accounting system will record project financial transactions.	Original certificate – journal entry – cross check – general ledger – accounting statement
◆ Describe controls in place for preparing and approving transactions.	Separations of staff in charge of different functions; timely inspection; cross check, multi-level approvals.
◆ Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes
◆ Describe the system for storing and accessing accounting documents and materials?	The accounting materials are stored in a single room and no access to them is allowed without permission by the accounting manager.
◆ Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>4.2 Segregation of duties</b>	
◆ Who is responsible for the following (give name and title):	
(vii) authorize transactions;	Rude Gao, Deputy Manager
(viii) record transactions;	Hongyan Zhang, Accountant
(ix) maintain custody of assets involved in transaction	Relevant departments
◆ Are responsibilities for ordering,	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No –briefly describe how they are not separated

QUESTION	ANSWER
receiving, accounting for, and paying for goods and services separated?	
◆ Are bank reconciliations prepared by someone other than those who make or approve payments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>4.3 Budgeting system</b>	
Are annual budgets based on physical and financial targets?	<input checked="" type="checkbox"/> Yes – with financial targets only <input type="checkbox"/> Yes – with physical and financial targets <input type="checkbox"/> No
◆ Are multiple year financing plans prepared for capital expenditures?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are budgets used to monitor and control the performance of individual departments and units?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ How frequently are actual expenditures compared to the budget?	<input type="checkbox"/> at least once every month <input type="checkbox"/> once every 2 to 3 months <input type="checkbox"/> once every 4 to 6 months <input checked="" type="checkbox"/> once every 6 to 12 months <input type="checkbox"/> never
◆ What happens if there are significant variations from the budget?	A clear explanation on the variation must be submitted and approved by the original authority before the variation is realized.
◆ Are approvals for variations from the budget required in advance?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ How are budgets prepared and approved?	The general budget is usually prepared by the finance department through consultation with various departments and referring to the historical records.
◆ Who is involved and what is the basis for setting budgets?	The finance department takes the lead and coordinate other departments. The basis is business forecast.
<b>4.4 支付</b>	
◆ During invoice-processing procedures are:	

QUESTION	ANSWER
(i) Copies of purchase orders and receiving reports obtained directly from issuing departments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) Comparison made of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) Comparison of invoice quantities with those indicated on the receiving reports?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iv) Checking the accuracy of calculations?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are all invoices:	
(i) dated, reviewed and approved,	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) stamped PAID upon payment,	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No - This is another negligence.
(iii) marked for account code assignment?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ What controls exist for the preparation of the payroll?	The payroll is prepared on the basis of the relevant rule set by the Finance Bureau and has to be reviewed by the Finance Bureau before execution.
◆ How are changes to the payroll authorized?	Only the Finance Bureau can change the payroll as all the staff are in the public sector.
<b>4.5 Policies and procedures</b>	
◆ What accounting regulations are adopted?	The Government Accounting Standards
◆ What is the basis of accounting regulation adopted (e.g., cash, accrual)?	Accrual basis
◆ Does the project have a policies and procedures manual for accounting?	<input type="checkbox"/> Yes, already have a project policies and procedures manual <input checked="" type="checkbox"/> No but will set up a project policies and procedures manual <input type="checkbox"/> No
◆ Are there written policies and procedures covering routine financial management and related administrative	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

QUESTION	ANSWER	
activities?		
◆ Who has a copy of the policies and procedures manual?	All finance staff	
◆ How do policies and procedures define conflict of interest and provide safeguards to protect the organization from them?	A staff member is not permitted to deal with the financial transaction where his or her relatives are directly involved in.	
◆ How are new accounting principles, policies or procedures implemented within the entity?	Frequent trainings are conducted.	
<b>4.6 Cash and bank</b>		
◆ Indicate names and positions of authorized signatories in the bank accounts.	Name	Position
	Shuqing Chen	Director
	Zhaoyun Chen	Finance Manager
	Jianhua Wu	Cashier
◆ Does the organization maintain an up-to-date cashbook, recording receipts and payments?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ What are the controls for the following activities:	Currently almost all transactions are done through bank transfers without cash movement.	
(vii) collection of revenues		
(viii) timely deposit of receipts		
(ix) recording of receipts		
◆ Are bank and cash reconciled on a monthly basis?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ Are unusual items on the bank reconciliation reviewed and approved by a responsible official?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
◆ How quickly are	On the same day	

QUESTION	ANSWER
receipts deposited?	
<b>4.7 Safeguard over assets</b>	
Describe the system to record assets and protect them from fraud, waste and abuse?	No asset should be handled by only one person. Appropriate checks and approvals must be in place.
◆ Are subsidiary records of fixed assets and stocks kept up to date?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are subsidiary records of fixed assets and stocks reconciled with control accounts?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ How frequent are physical inventories of fixed assets and stocks?	<input checked="" type="checkbox"/> at least once a year <input type="checkbox"/> every 2 to 3 years <input type="checkbox"/> every 3 to 5 years <input type="checkbox"/> less frequently <input type="checkbox"/> never
◆ Are assets covered by insurance policies?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No This should be notified.
<b>4.8 Other offices and implementing entities</b>	
Identify agencies under your supervision or control that are responsible for project implementation or finance?	Zhaoyang District and Ludian County under the Project.
◆ In relation to these other agencies, has the project established controls and procedures for:	
(i) flow of funds	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(ii) financial information	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) accountability	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iv) audits	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
◆ Are periodic reconciliations performed among the different offices/implementing agencies?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>4.9 Other</b>	

QUESTION	ANSWER
Describe the options available to employees, beneficiaries and others for reporting suspected fraud, waste or misuse of project resources or property?	Written notice sent to orally report to the senior management.
<p>◆ Will representatives of the municipal discipline investigation bureau be involved in project bidding and construction activities?</p>	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO
<p>◆ Do contracts let by your agency for civil works and other large procurements include anticorruption clauses and safeguards.</p>	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO
<b>5 Reporting and monitoring</b>	
5.1 Are financial statements prepared for your agency?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.2 How often are financial statements prepared?	Annually
5.3 How quickly are the financial statements prepared at year end?	Half a month
5.4 Will the financial reporting system need to be adapted to report on the project components?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.5 Does the reporting system have the capacity to link financial information with information on the physical progress of engineering project's?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.6 Describe procedures and controls used to ensure that the physical project data can be compared and coordinated with the financial data?	Regular checking and reconciliations between finance staff and engineering people.
5.7 Are there financial management reporting requirements for existing engineering projects that specify:	
(i) what reports are to be prepared	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

QUESTION	ANSWER
(ii) what the reports are to contain	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(iii) how the reports are to be used	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
5.8 What information do the financial management reports for engineering projects contain? (check all that apply)	<input checked="" type="checkbox"/> Total project expenditures to date <input checked="" type="checkbox"/> Comparison of actual expenditures with budgets <input type="checkbox"/> Comparison of actual expenditures with work completed <input checked="" type="checkbox"/> Expenditures by project component <input checked="" type="checkbox"/> Explanations of significant variances of expenditures from budgets <input type="checkbox"/> Other – describe
5.9 Describe a recent action taken by management in response to information provided in a financial management report?	None
5.10 Are financial statements and reports prepared directly by an automated accounting system or are they prepared manually?	<input type="checkbox"/> prepared by an automated accounting system <input checked="" type="checkbox"/> prepared manually <input type="checkbox"/> both ways used
<b>6 Internal audit</b>	
6.1 Is there an internal auditor or audit department in your agency?	<input type="checkbox"/> 6.2-6.5 Yes - answer questions 6.2 to 6.5 <input checked="" type="checkbox"/> No - go to section 7
6.2 What are the qualifications and experience of audit department staff?	
6.3 To whom does the internal auditor report?	
6.4 Will the internal audit department audit the project?	<input type="checkbox"/> Yes <input type="checkbox"/> No
6.5 Describe the most recent actions taken in response to the internal audit findings?	
<b>7 External audit</b>	
7.1 Is your agency financial statement audited each year by an independent non-government auditor?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
7.2 How soon following the financial year end are audit reports issued?	10 months
7.3 Is the audit of the entity conducted according to the International Standards on	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No – What standard is used?

QUESTION	ANSWER
Auditing?	
7.4 Please provide the audit reports for the past three years.	<input type="checkbox"/> Provided <input checked="" type="checkbox"/> Not provided – relevant
7.5 Will your agency auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	<input type="checkbox"/> agency auditor <input checked="" type="checkbox"/> another auditor
7.6 Describe recommendations made in the most recent audit reports or management letters?	The areas mentioned by the audit report do not relate to the financial management works.
7.7 Which of the recommendations identified in question 7.6 have you implemented?	No relation to the finance work.
7.8 Is the project subject to any kind of audit from an independent government entity in addition to the external audit?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>8 Information systems</b>	
8.1 Is the financial management system computerized?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
8.2 Can the system produce the necessary project financial reports?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
8.3 What training has the staff received to operate the system?	Operation of the accounting software
8.4 What controls are there to safeguard the confidentiality, integrity and availability of data in the information system?	Password, cross checking, isolated storage