

## **FINANCIAL MANAGEMENT ASSESSMENT**

### **EXECUTIVE SUMMARY**

The financial management assessment (FMA) was conducted in 2019 and updated in 2021 in accordance with the Asian Development Bank's (ADB) Guidelines: Technical Guidance note on Financial Management Assessment (2015).

Urban Development and Housing Department (UDHD) under the Government of Jharkhand (GOJ) will be the executing agency and Jharkhand Urban Infrastructure Development Company Limited (JUIDCO) will be implementing agency for Jharkhand Urban Water Supply Improvement Project (JUWSIP). JUIDCO will manage the ADB loan funds, project accounts, and consultancy work along with its project management unit (PMU) and project implementation units (PIUs).

The FMA considered the capacity of JUIDCO, including review of funds flow arrangement, staffing, accounting and financial reporting system, financial information system, and internal and external auditing arrangements.

PMU based in JUIDCO will be responsible for all day-to-day management of JUWSIP, including but not limited to: (i) preparing an overall project implementation plan and detailed work program; (ii) providing overall monitoring and guidance on implementation; (iii) monitoring and supervising all management activities; (iv) preparing project progress and project completion reports; (v) preparing financial planning and budgeting; and (vi) ensuring full compliance to ADB's policies and regulations, including safeguards.

The PIUs under JUIDCO, to be located in four project towns will be responsible for: (i) preparing subproject appraisal reports; (ii) supervising the contractors, project management consultants and PMU consultants; (iii) planning, implementing, and monitoring public relations activities, gender mainstreaming activities, community participation activities, and safeguards compliance activities; (iv) preparing and submitting periodic progress reports; and (v) assisting PMU in maintaining and updating the project performance monitoring system and submitting of supporting documentation to the PMU.

The overall Project financial management risk is assessed as "Substantial". The major risks identified during the assessment include: (i) JUIDCO has limited experience in implementing externally funded projects such as the World Bank, but no experience in ADB funded projects, (ii) some finance and accounts staff positions are still vacant in the PMU and PIU, (iii) there was a significant delay in issuing the entity audit report covering fiscal year 2019 and the previous three entity audits have been qualified, and (iv) there is scope for improving the efficiency of JUIDCO's internal audit function. These risks will be mitigated through the following: (i) filling the vacant accounts positions in the PMU and PIUs; (ii) providing training in ADB's financial management requirements, disbursement procedures, and systems; (iii) including comprehensive financial information in the quarterly project progress reports submitted to ADB; (iv) strengthening of JUIDCO's internal audit function; and (v) resolving the entity level audit observations. Moreover, JUIDCO has approved an ADB specific financial management procedures and will maintain separate books of accounts for the project in accordance with governments accounting standards and the project financial statements will be audited annually by an auditor acceptable to ADB.

## I. INTRODUCTION

1. The financial management assessment (FMA) was conducted in 2019 and updated in 2021 in accordance with the Asian Development Bank's (ADB) Guidelines: technical Guidance note on Financial Management Assessment (2015). The FMA considered the capacity of Jharkhand Urban Infrastructure Development Company Limited (JUIDCO), including review of funds flow arrangement, staffing, accounting and financial reporting system, financial information system, and internal and external auditing arrangements.

2. The FMA was conducted based on the following: (i) making use of the financial management questionnaire; (ii) desk review of past audit reports and other documents; (iii) interviews conducted with the staff of the implementing agency; and (iv) studying financial management assessments and financial management arrangements of selected ongoing ADB and World Bank projects in the country and in the sector. Due to the coronavirus disease (COVID-19) travel restriction, the updates of the financial management assessment in 2021 was done remotely.

3. The FMA report includes the following sections: (i) brief project description, (ii) overview of country and sector financial management issues, (iii) detailed financial management assessment, (iv) proposed disbursement arrangements, (v) summary of the risk assessment, and (vi) a proposed time bound action plan. Additional details are outlined in the appendices.

## II. BRIEF PROJECT DESCRIPTION

4. The project is aligned with the following impact: sustainable cities that are spatially, economically, and socially inclusive developed.<sup>1</sup> The project will have the following outcome: water supply services and urban governance in project towns improved.

5. Output 1: Water supply infrastructure in four project towns improved. The project will finance water supply infrastructure investments in four project towns. The infrastructure investments involve construction and 5 years of performance-based O&M of piped water supply systems in project towns comprising (i) four water treatment plants with climate-resilient features and a combined capacity of 275 million liters per day meeting the Indian drinking water quality standard (IS:10500); and (ii) 940 kilometers of water distribution network connected to about 115,000 households to provide continuous water supply, with the share of nonrevenue water reduced from the current level of 45% to less than 20%. The water supply will have universal coverage, including households (a) below poverty line, (b) comprising scheduled caste and/or scheduled tribe members, and (c) disabled persons in the project areas.

6. Output 2: Institutional capacity for sustainable urban service delivery and urban governance improved. The physical investments will be complemented with targeted institutional and financial reforms and capacity building to create an institutional framework for the ULBs in Jharkhand to replicate and follow. These include:

- (i) a sustainable water sector asset management strategy, including a volumetric tariff-based user charges policy prepared and implemented in project towns;
- (ii) an urban reforms policy on strengthening own-source revenues of ULBs prepared with three key actions implemented in project towns;
- (iii) information technology-enabled systems for water service delivery and administration adopted in Ranchi through use of a supervisory control and data

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<sup>1</sup> GOJ. 2014. [Jharkhand Vision and Action Plan 2021](#). Ranchi.

- acquisition (SCADA) system for water supply operation, and mapping of assets, properties, and revenue database on geographic information system;
- (iv) training of relevant staff on (a) design and implementation of urban services, including response to climate risks; (b) institutional development, urban governance, revenue generation, financial planning, and operational dimensions; and (c) inclusion of gender equality and inclusive social features in urban services; and;
  - (v) improved awareness on (a) behavior change activities focusing on water conservation, health, sanitation, and hygiene; (b) the spread of epidemics or pandemics such as COVID-19; and (c) opportunities for prospective jobs in construction and O&M. The project will provide vocational training for employable job skills in construction and O&M of water supply assets to at least 100 community members (including 50 women).

7. **Project Cost and financing.** The estimated project cost amounts to \$160 million which will be financed through an ADB loan of \$112 million and government counterpart financing of \$48 million.

8. **Implementation arrangements.** JUIDCO through its project management unit (PMU) will have the overall responsibility for project's financial arrangements including budgeting, flow of funds, internal controls, accounting, financial reporting, and audit arrangements. The PMU will: (i) maintain separate accounts under the project, (ii) prepare annual and quarterly financial reports for the entire project, (iii) prepare and follow-up on withdrawal applications submitted to ADB, (iv) submit audited project financial statements to ADB within 6 months after the fiscal year, and (v) ensure that internal and external audit observations are resolved in a timely manner. In addition to the PMU, four project implementation units (PIUs) will be established in each of the project sites to supervise implementation. The PIUs will be responsible for: (i) preparing subproject appraisal reports; (ii) supervising the contractors and project management consultants; (iii) planning, implementing, and monitoring public relations activities including gender mainstreaming, community participation, and safeguards compliance; (iv) preparing and submitting periodic progress reports; (v) collecting and submitting of supporting invoices and other supporting documentation as required to the PMU for further processing of project accounts to PMU; and (vi) obtaining statutory clearances. All project payments will be executed by the PMU. No funds will be transferred to the PIU or ULB level. After completion of project assets, these will be handed over to the respective ULB for O&M.

### III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES

9. To date three public expenditure and financial accountability assessments have been carried out in India of which two have been made public: one at the national level in 2010 and the other at subnational level (Himachal Pradesh state) in 2009. According to the national level assessment, public financial management (PFM) areas such as: (i) credibility of the budget; (ii) budget comprehensiveness and transparency; and (iii) policy-based budgeting as well as subareas including: (a) predictability in the availability of funds for commitment of expenditures; (b) timeliness and regularity of accounts reconciliation; and (c) quality and timeliness of annual financial statements, appear to be performing relatively well. However, other important subareas such as: (i) effectiveness of internal audit; (ii) transparency, competition, and complaints mechanisms in procurement; and (iii) scope, nature, and follow-up of external audit require further strengthening.

10. As the public expenditure and financial accountability assessment is by now partly outdated, and most of the ADB project are implemented at the state level for which no PFM assessment are available, it is important to draw lessons from the past performance of the ADB portfolio. In accordance with the ADB working paper *Funds Flow, Accounting, and Audit in India (2013)*, ADB projects make extensive use of the country's PFM systems, including the following:

- (i) Government entities and state-owned enterprises (SOEs) follow national accounting standards. Government entities follow the Indian Government Accounting Standards - cash basis, formulated by the Government Accounting Standards Advisory Board;
- (ii) All external assistance including ADB's project are included in the Central budget and in the state budget. All funds disbursed by ADB are first received in the Consolidated Fund of India by Controller of Aid, Accounts and Audit (CAAA). Central sector entities withdraw the funds through their respective budget appropriations while for state sector entities, the Plan Finance Division in the Department of Expenditure authorizes a transfer to the state treasury account maintained with the Reserve bank of India; and
- (iii) All ADB projects are audited by the Comptroller and Auditor General (CAG) or a private firm empaneled by the CAG. The CAG maintains a list of empaneled audit firms and rotates auditors from time to time. Moreover, ADB has agreed with CAG and Department of Economic Affairs (DEA) on an Audit Terms of References (TORs), which are being used for all projects.

11. Despite of the overall robustness of the country PFM systems and practices, the following risks have been noted as part of some ongoing ADB projects:

- (i) In some cases, financial staff are rotated every 2–3 years and continuous training in ADB's financial management requirements and financial management systems is required;
- (ii) The financial reporting and the project financial statements do not include all information required by ADB;
- (iii) Audited project financial statements are submitted with a delay;
- (iv) No management letter is provided a part of the audited project financial statements (APFS);
- (v) The approval of the audited entity financial statements may be considerably delayed beyond the statutory requirements; and
- (vi) State treasury releases ADB funds to the executing agency/implementing agency with a delay or in tranches when funds are disbursed using advance fund method, which may lead to delays in project implementation.

12. Furthermore, the ADB's India country partnership strategy 2018–2022 identified the executing agency/implementing agencies capacity to handle multidisciplinary tasks on interdepartmental coordination (such as for statutory requirements) and governance in terms of compliance and enforcement in project operations as matters of potential concern. These risks will need to be continuously monitored during project preparation and throughout implementation.

#### **IV. PROJECT FINANCIAL MANAGEMENT SYSTEM**

##### **A. Overview**

13. JUIDCO is responsible for executing Jharkhand Urban Water Supply Improvement Project (JUWSIP) on behalf of Urban Development and Housing Department (UDHD) . The FMA was

conducted in 2019 and updated in 2021 for the implementing agency (JUIDCO), which houses the PMU, and all PIUs, focusing on fund flows, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring, and internal and external audit. The FMA draws on FMA questionnaires completed by the JUIDCO, and subsequent discussions and review with their officials. The purpose of this FMA is to ensure that adequate financial management arrangements are in place for the project. Project assets will be transferred to ULBs after construction for their O&M.

14. **Organization.** JUIDCO, is an existing autonomous entity of the Government of Jharkhand (GOJ), was established as a public limited company in the year 2013 under the provisions of the Companies Act, 2013 (previously the Act of 1956) by GOJ.<sup>2</sup> JUIDCO provides a complete end-to-end solution for the promotion of urban infrastructure development, from the concept to commissioning of the projects. The FMA notes that the JUIDCO is experienced in implementing various urban infrastructure projects funded by state and the Government of India and that JUIDCO has an institutional set up appropriate for the implementation of the project. However, JUIDCO has limited experience in implementing externally financed projects including ADB funded projects. In 2018, the World Bank approved a loan of \$147 million to finance the Jharkhand Municipal Development Project, which is expected to enhance JUWSIP's capacity to implement externally funded projects by the time the ADB financed project will become effective (estimated date June or July 2021). The FMA notes that due to the COVID-19 pandemic, the World Bank financed project has experienced some implementation delays in 2020.

15. **Budgeting and funds flow arrangements:** Funds for Project, the Government of India will make the loan available to GOJ on back-to-back funding basis and GOJ will provide the funding to JUIDCO (PMU and/or PIU) through budgetary grants as shown in Appendix 1. The project will also access GOJ's counterpart funds from UDHD through PMU. Based on the supporting documentation provided by the PIUs, the PMU will prepare the withdrawal claims and/or replenishment requests and submit to ADB for reimbursement through CAAA of Ministry of Finance of the Government of India. The ULBs will receive the assets created under the project on a grant basis.

16. The proposed project is included in the GOJ approved budget of 2020–2021 under a separate budget line. The requirement of budgeting and timely release of counterpart funding would be included as one of the assurances to be given by GOJ under proposed loan agreement.

17. **Budgeting system.** The budget of JUIDCO is prepared based on the estimated sanctions, disbursements for the year by the Government of India and GOJ. The Project Director (Finance), JUIDCO prepares the yearly financial budget with inputs from Project Director (Technical). The budget is approved by the Managing Director and Board of Directors of JUIDCO. The JUIDCO receives funds from GOJ, which allocates necessary budget for project activities. The budget is prepared in detail for all significant activities and provides benchmark for budget variance analysis. Comparison between budget and actual is carried out every 6 months.

18. **Staffing.** JUIDCO's accounts section is adequately staffed with qualified accountants. The PMU includes the position of a senior manager (finance & administration) who will be assisted by a manager (finance) and an assistant manager (finance). All these positions are already filled with qualified staff. In addition, each of the four PIUs (Ranchi, Hussainabad, Jhumri Telaiya, etc.) will have one accountant position who will be responsible for collecting and reviewing the necessary

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<sup>2</sup> Government of Jharkhand holds 100% of shares in JUIDCO. Nine shares held by various secretaries of the government departments in official capacity.

financial information and forwarding it to the PMU for further processing. The position of the PIU accountants are currently vacant and will need to be filled from the JUIDCO's existing pool of accountants or newly hired accountants, by loan effectiveness. The PIUs and PMU will also receive continuous support from the JUIDCO's pool of existing accountants as required. Furthermore, it is recommended that an additional financial management specialist will be hired as a consultant to support the PMU (indicative TORs include in Appendix 2) to comply with ADB's reporting requirements.

## **B. Personnel, Accounting Policies and Procedures, Internal Control, Internal and External Audit**

19. **Accounting policy and procedures.** An accrual-based accounting system is already in place. The financial statements of JUIDCO are prepared under the historical cost convention on an accrual basis and in accordance with applicable accounting standards issued by the Institute of Chartered Accountants of India (ICAI). However, for the World Bank financed project, the separate project accounts will be maintained on cash basis of accounting, following the government accounting standards and it is expected that the same will be applied to the ADB financed project. There are adequate controls, and the accounting records are retained on permanent basis. As part of the World Bank financed project, JUIDCO had developed a financial Management manual which also contains a World Bank specific chapter. As part of the project design, an ADB specific financial management chapter was also developed, and it was approved by the JUIDCO board in November–December 2020. The financial management chapter outlines the detailed roles and responsibilities of the PMU and PIUs to ensure full compliance with ADB's requirements.

20. **Segregation of duties.** The current system ensures adequate segregation of duties of staff in JUIDCO as laid down in the delegation of power and finance management manual of JUIDCO, approved by Board of Directors of JUIDCO. The Project Director- Technical and Project Director- Finance jointly authorizes all project expenditure and payments, as per the limits prescribed in delegation of power. However, the delegation of power would require amendment to effect authorization of payments directly from the PMU for JUWSIP.

21. **Payments.** All payments for goods and services are being done from JUIDCO, Ranchi. The payments are made against invoices submitted for payments and due verification. The Project Director- Finance, jointly with Project Director- Technical and Project Director (Administration) are the authorized signatories for all payments from banks and Chairman and Managing Director is sole signatory for all payment from the state treasury accounts.

22. **Internal audit.** There is no in-house internal audit system in JUIDCO. Instead, the internal audit for JUIDCO is outsourced to an independent firm of chartered accountants. Quarterly internal audit reports are prepared but the same has not been reviewed by the Board of Directors. In order to strengthen the internal control environment, JUIDCO will ensure that the outsourced internal audit function includes the ADB financed project in its audit plan for the whole project implementation period. JUIDCO will also ensure that the internal auditor will report quarterly to the JUIDCO's audit committee. The audit committee will include the Project Director and it will consider key issues pointed out by the auditors and ensure timely resolution of observations by JUWSIP project management.

23. **External audit.** Annual financial statements of JUIDCO are subject to regular audit by an independent firm of chartered accountants. The external audit is conducted as per the auditing standard issued by the ICAI. The audit reports are generally issued within 6 months from the end

of financial year with the exception of the audit report covering the fiscal year (FY) 2018–2019 which was significantly delayed due to the late appointment of the auditor. The Audit process for FY2019–2020 has started but the report is not yet available due to the delays caused by COVID-19.

24. The Audit reports of 2016–2017, 2017–2018, and 2018–2019 were qualified and highlighted compliances issues.<sup>3</sup> The auditor gave a positive opinion on the internal controls over financial reporting. JUWSIP has developed an action plan to resolve the issues identified by the auditors and as of today all observations have been resolved or are in the process of being resolved. The financial statements of JUWSIP will be audited annually by an independent chartered accountant firm empaneled by CAG in accordance with international standards on auditing acceptable to ADB and the standard audit TORs agreed between ADB, DEA, and CAG. The APFS and a management letter will be submitted to ADB within 6 months after the end of the fiscal year.

### **C. Financial Reporting Systems, Including Use of Information Technology**

25. **Reporting and monitoring.** Financial statements (with supporting schedules) are prepared on a quarterly and annual basis as per ICAI's accounting standards. JUIDCO has prepared a project financial management manual, which is proposed to be adopted with appropriate changes for JUWSIP. There is a computerized financial management system at JUIDCO. Tally accounting software is installed and in use.

26. **Information management:** JUIDCO has established accounting, reporting, and budgeting procedures in line with the Companies Act 2013 and rules including government regulations. JUIDCO will ensure that the following financial information are included in the quarterly progress reports to be submitted to ADB within 45 days after the end of the quarter: (i) statement of sources and uses of funds by expenditure category; (ii) variance report (budgeted versus actual expenditures and financial versus physical progress report); (iii) list of signed contracts; (iv) reconciliation of project records and ADB disbursement data; and (v) follow-up status on: (a) financial management action plan; (b) compliance with financial loan covenants; (c) past external and internal audit observations related to the project; and (d) agreed actions from review missions.

27. **Supervision.** JUIDCO will be responsible for the overall supervision of JUWSIP. The Project Director, Deputy Project Director, and the Project Managers will be responsible for regular supervision of the project financial management. In addition, ADB will conduct annual review and implementation support missions and recommend corrective actions, if any. ADB will also review the financial management information included in the quarterly progress reports and the APFS and provide feedback to the project.

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<sup>3</sup> Summary of external audit qualifications FY2016–2017: (i) non-compliances of Value Added Tax and Professional Tax, (ii) non-deposit of Advance Tax, and (iii) non-compliances under the Companies Act. For FY2017–2018: (i) non-compliances of Value Added Tax, Goods and Service Tax, Professional Tax, Labor Cess, Royalty and Income Tax; (ii) non-adjustments of mobilization advances given to consultants and contractors; (iii) non-compliances under the Companies Act. For FY2018–2019: (i) vouchers not signed by proper authorities and not kept in a proper manner, (ii) tax invoice of agency income not provided, (iii) rental agreement not been renewed, (iv) advance register not maintained in a proper way, and (v) long outstanding advances.

28. **Strengths and weaknesses.** JUIDCO's financial management capacity includes the following strengths:

- (i) JUIDCO has past experience in implementing and managing urban projects financed by the government;
- (ii) An accrual based double entry accounting system is already established; and
- (iii) A computerized accounting system using Tally – Enterprise Resource Planning software is in place.

29. Similarly, following weaknesses are identified in JUIDCO's financial management system:

- (i) JUIDCO has limited experience in implementing externally or ADB funded projects;
- (ii) Some finance and accounts staff positions are still vacant in the PMU and PIU;
- (iii) There was a significant delay in issuing the entity audit report covering FY2019 and the three past entity audits have been qualified; and
- (iv) There is scope for improving the efficiency of JUIDCO's Internal audit function.

#### D. Disbursement Arrangements, Funds Flow Mechanism

30. **Disbursement of funds.** Project financing will consist of ADB loan and counterpart funds. ADB loan funds will be channeled to JUIDCO through the allocation of the state budget. Based on actual expenditures made during the project implementation, JUIDCO will support GOJ to claim reimbursements from ADB.

31. **Disbursement arrangements for ADB funds.** The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),<sup>4</sup> and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.<sup>5</sup> Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control. The JUIDCO through its PMU will be responsible for: (i) preparing disbursement projections, (ii) requesting budgetary allocations for counterpart funds, (iii) collecting all supporting document, and (iv) preparing and sending withdrawal applications to ADB.

32. **Advance fund procedure.** An advance account will be established and maintained by CAAA for the ADB loan. The JUIDCO through its PMU will be responsible for the preparation of liquidation/replenishment of the advance fund. The currency of the advance account is United States dollar. The advance account is to be used exclusively for the ADB's share of eligible expenditures. The CAAA, who established the advance account in its name, is accountable, and responsible for proper use of advances to the advance account. The sub-account will be maintained by the JUIDCO PMU receiving the Indian rupee from CAAA through the treasury of GOJ. The GOJ will ensure funds received from CAAA are transferred in full to the sub-advance account within 10 working days of the receipt of the advance or replenishment in the state treasury. No funds from the sub-advance account will be transferred to the PIUs or to the ULBs.

33. **Statement of expenditure procedure.**<sup>6</sup> The SOE procedure may be used for reimbursement of eligible expenditures. The ceiling of the SOE procedure is the equivalent of

<sup>4</sup> The handbook is available electronically from the ADB website (<http://www.adb.org/documents/loan-disbursement-handbook>).

<sup>5</sup> Disbursement eLearning. [http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning).

<sup>6</sup> SOE forms are available in Appendix 7B and 7D of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

\$100,000 per individual payment. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. Reimbursement and liquidation of individual payments in excess of the SOE ceiling should be supported by full documentation when submitting the withdrawal application to ADB.

## V. RISK DESCRIPTION AND RATING – INCLUDING THE FINANCIAL MANAGEMENT AND INTERNAL CONTROL RISK ASSESSMENT

34. The FMA has considered two types of risks: (i) inherent risks, i.e., risks outside the direct control of the entity financial management; and (ii) control risks, i.e., risks concerning the internal functioning and control of the entity's accounts division. The main risks and mitigation actions are summarized in the table below.

**Table 1: Financial Management Inherent and Control Risk Assessment**

Risk	Risk Assessment	Proposed Mitigation Measures
<b>A. Inherent Risks</b>		
1. Country-Specific Risks (India)	<p style="text-align: center;"><b>MODERATE</b></p> <ul style="list-style-type: none"> <li>• The financial standards and capacity in the Government of India's public and private sector are sound. India has a strong accounting profession although most levels of the government still use a cash basis of accounting.</li> <li>• In some states, there have been instances of delay in the release of counterpart funds by the state government.</li> </ul>	<ul style="list-style-type: none"> <li>• Not applicable</li> </ul>
2. Entity-Specific Risks (JUIDCO, GOJ)	<p style="text-align: center;"><b>SUBSTATNTIAL</b></p> <ul style="list-style-type: none"> <li>• In GOJ, there are institutional mechanism and legislative framework for budgeting, accounting, and audit in a time bound manner.</li> <li>• JUIDCO is relatively new entity which is still being set up.</li> <li>• Most recent audited entity financial statements were qualified.</li> <li>• Lack of experience in implementing externally financed projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Financial management capacity building and mitigation actions to be incorporated in the project as listed below.</li> <li>• ADB specific financial management procedures were developed as part of the project design and approved by JUIDCO as part of its financial management manual.</li> </ul>
3. Project Specific Risks	<p style="text-align: center;"><b>SUBSTANIAL</b></p> <ul style="list-style-type: none"> <li>• Decentralized project activities in four different locations.</li> </ul>	<ul style="list-style-type: none"> <li>• The construction of Project assets will be managed by JUIDCO. A PIU will be established in each of the project sites. The constructed assets will be handed over to the respective ULB for operation and maintenance.</li> </ul>
<b>Overall Inherent Risk</b>	<b>MODERATE</b>	
<b>B. Control Risks – JUIDCO</b>		
1. Implementing Entity	<b>MODERATE</b>	

Risk	Risk Assessment	Proposed Mitigation Measures
	<ul style="list-style-type: none"> <li>JUIDCO will be responsible for implementation of JUWSIP.</li> <li>JUIDCO has implemented several projects funded by under Central and State but lacks experience in externally/ADB financed projects.</li> </ul>	<ul style="list-style-type: none"> <li>A PMU and four PIUs are established to implement the project.</li> <li>The existing financial management arrangements to be strengthened and supplemented as outlined below.</li> </ul>
2. Funds Flow	<p style="text-align: center;"><b>SUBSTANTIAL</b></p> <ul style="list-style-type: none"> <li>JUIDCO has no prior experience in ADB's disbursement procedures or systems.</li> <li>Delays in receipt of funding from GOJ.</li> </ul>	<ul style="list-style-type: none"> <li>Training to be provided in ADB disbursement procedures and systems.</li> <li>All payments will be made centrally by the PMU and no funds will be transferred to PIUs or ULBs.</li> <li>All financial documentation retained centrally by JUIDCO.</li> <li>The project to take advantage of the advance fund disbursement procedure.</li> <li>SOE threshold of \$100,000.</li> <li>GOJ advances funds to JUIDCO for estimated expenditure on quarterly basis. Assurances to be sought that GOJ will provide government funding within 15 days in a timely fashion.</li> <li>Assurances to be sought that GOJ will provide government funding in a timely fashion.</li> </ul>
3. Staffing	<p style="text-align: center;"><b>SUBSTANTIAL</b></p> <ul style="list-style-type: none"> <li>The PMU and PIUs are not yet fully staffed, and the following positions are still vacant: senior manager (finance) in the PMU and accountant in each of the four PIUs.</li> <li>Lack of experience in ADB financial management procedures and systems.</li> </ul>	<ul style="list-style-type: none"> <li>Commitment from GOJ and JUIDCO to set up and staff the PMU and PIUs with adequate and qualified accounts staff by loan effectiveness.</li> <li>Systematic training to be provided in ADB's financial management requirements and disbursement procedures and systems.</li> <li>An ADB specific financial management procedures /chapter has been developed which is to be used as a reference guide by the accounts staff.</li> </ul>
4. Accounting Policies and Procedures	<p style="text-align: center;"><b>MODERATE</b></p> <ul style="list-style-type: none"> <li>Policies and procedures are still being set up.</li> <li>JUIDCO uses Indian accounting standards -accrual basis of accounting as laid down by ICAI.</li> <li>COA and financial management manual require adjustments to accommodate ADBs requirements.</li> </ul>	<ul style="list-style-type: none"> <li>ADB specific financial management procedures /chapter was developed as part of the processing to strengthen the existing procedures.</li> <li>The COA and accounting software to be adjusted to enable JUIDCO to maintain separate books of account for the project.</li> <li>Handover of assets to ULBs need to be well documented.</li> </ul>
5. Internal Audit	<p style="text-align: center;"><b>SUBSTANTIAL</b></p> <ul style="list-style-type: none"> <li>The Internal audit of JUIDCO is conducted by an outsourced audit firm of chartered accountants. However, the review and enforcement of the audit</li> </ul>	<ul style="list-style-type: none"> <li>The JUIDCO internal audit function to include the project in its audit plan and report quarterly to the audit committee.</li> </ul>

Risk	Risk Assessment	Proposed Mitigation Measures
	observations and recommendations is partly inefficient.	<ul style="list-style-type: none"> <li>JUIDCO to ensure that the audit committee of JUIDCO will meet on a quarterly basis.</li> <li>The Project Director must ensure timely resolution of internal audit observations and periodically report on their status.</li> </ul>
6. External Audit (project level)	<p style="text-align: center;"><b>MODERATE</b></p> <ul style="list-style-type: none"> <li>JUIDCO has no previous experience in externally funded or ADBs audit requirements and timelines which may result in delays in submitting the audit report and non-compliance with ADB's audit requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Project audit to be done by an independent firm of chartered accountants empaneled by the CAG in accordance with international standards on auditing and agreed TORs between DEA, ADB, and CAG.</li> <li>The Auditor is to be sensitized in ADB's audit requirements and the agreed TORs between DEA, ADB, and CAG.</li> <li>Audit report and management letter to be submitted to ADB within 6 months after the end of the fiscal year.</li> </ul>
7. External Audit (entity level)	<ul style="list-style-type: none"> <li>The CAG empaneled independent firm of chartered accountant conducts the audit of JUIDCO.</li> <li>The CAG has additional constitutional mandate to conduct external audits.</li> <li>There was a significant delay in issuing the entity audit report for FY2018–2019.</li> <li>The audit opinion in 2016–2017, 2017–2018, and 2018–2019 was qualified.</li> </ul>	<ul style="list-style-type: none"> <li>JUIDCO must ensure that the entity financial statements are audited in accordance with the statutory requirements and resolve the internal control- and non- compliance issues that resulted in a qualified audit opinion in the past 3 years.</li> <li>The audited External audit report is to be submitted to ADB within 1 month after the approval.</li> </ul>
8. Reporting and Monitoring	<p style="text-align: center;"><b>SUBSTANTIAL</b></p> <ul style="list-style-type: none"> <li>Routine reports are produced from the Accounting System – others are prepared on spreadsheets with figures extracted from the accounting system.</li> <li>Lack of experience in the reporting requirements of an externally funded/ADB project.</li> <li>Variance reports (budgeted vs actuals and physical vs financial progress) not produced or tracked.</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive financial information to be included in the quarterly progress reports to be submitted to ADB within 45 days after the end of the quarter.</li> <li>Detailed financial reports in the agreed format may be annexed to the quarterly progress reports.</li> </ul>
9. Information Systems	<p style="text-align: center;"><b>MODERATE</b></p> <ul style="list-style-type: none"> <li>JUIDCO's accounts are computerized but not able to produce all financial reports (e.g., variance reports) as required by ADB and as a result some reports may need to create manually.</li> </ul>	<ul style="list-style-type: none"> <li>The reporting systems are to be finetuned to automate financial reports required by ADB including variance reports to the extent possible.</li> <li>JUIDCO to make use of ADB financial management systems including the CPD and the LFIS to track withdrawal applications and reconcile project books</li> </ul>

Risk	Risk Assessment	Proposed Mitigation Measures
		of accounts and with ADB's disbursement records.
<b>Control Risk</b>	<b>Substantial</b>	
<b>Project financial Management risk</b>	<b>Substantial</b>	

ADB = Asian Development Bank, CAG = Comptroller and Auditor General, COA= Charter of Accounts, CPD= client portal for disbursements, DEA= Department of Economic Affairs, FY = fiscal year, GOJ= Government of Jharkhand, ICAI= Institute of Chartered Accountants India, JUIDCO= Jharkhand Urban Infrastructure Development Company Limited, JUWSIP= Jharkhand Urban Water Supply Improvement Project, LFIS = loan financial information systems, PIU= project implementation unit, PMU= project management unit, SOE= statement of expenditure, TOR = terms of reference, ULB= urban local body.

## VI. PROPOSED TIME BOUND ACTION PLAN

35. In order to address the identified financial management risks and to further strengthen the financial management arrangements of the project, a financial management action plan is required to be implemented. The financial management action plan presented in Table 2 below summarizes the agreed action, responsible entity, and agreed completion dates.

**Table 2: Agreed Financial Management Action Plan**

Areas	Agreed action	Responsibility	Timeframe
Staffing	-Fill (i) the senior manager (finance) position in the PMU, and (ii) the accountant positions in the respective PIUs to ensure adequate staffing throughout project implementation.	JUIDCO	(i) Already recruited, and (ii) by loan effectiveness.
	-Provide training in ADB's procedures and systems (LFIS, CPD, etc.).	ADB	Within the first quarter of project implementation
Accounting	-Modify the chart of accounts and/or the accounting software to allow the project to track receipts and payments separately for the project and to ensure expenditures categories used in the financial reports are consistent with the expenditure categories used in the PAM.	JUIDCO	By loan effectiveness
	-File all project records and supporting documentation centrally in JUIDCO, to facilitate backed up regularly and made available for auditors and ADB for inspection staff, as necessary.	JUIDCO	Throughout project implementation
Internal audit	Include the project in the audit plan of JUIDCO's Internal audit function reporting to the audit committee on a quarterly basis.	JUIDCO	Continuous
External audit - project level	-Engage a CAG empanelled CA firm to undertake the annual audit of the project financial statements using the audit TORs agreed between CAG, ADB, and DEA.	JUIDCO	Within one-quarter after loan effectiveness
	-Submit APFS including a management letter to ADB.	JUIDCO	Within 6 months after the end of the fiscal year

<b>Areas</b>	<b>Agreed action</b>	<b>Responsibility</b>	<b>Timeframe</b>
External audit – Entity level	-Follow-up and resolve the audit qualifications from FY2016–2017, 2017–2018, and 2018–2019.	JUIDCO	By loan effectiveness
	-Submit the AEFS to ADB annually within 1 month after the approval.	JUIDCO	Annually
Financial reporting	-Generate quarterly financial reports in a format agreed with ADB. Include comprehensive financial information and in the quarterly progress reports to be submitted to ADB.	JUIDCO	Within 45 days after each quarter
	-Prepare project financial statements in the format outlined in the audit TORs agreed between ADB, CAG, and DEA.	JUIDCO	Within 60 days after the end of the fiscal year
Information systems	-Adjust the accounting software and information systems to ensure project financial reporting is automated to the extent possible.	JUIDCO	Within the first quarter of project implementation

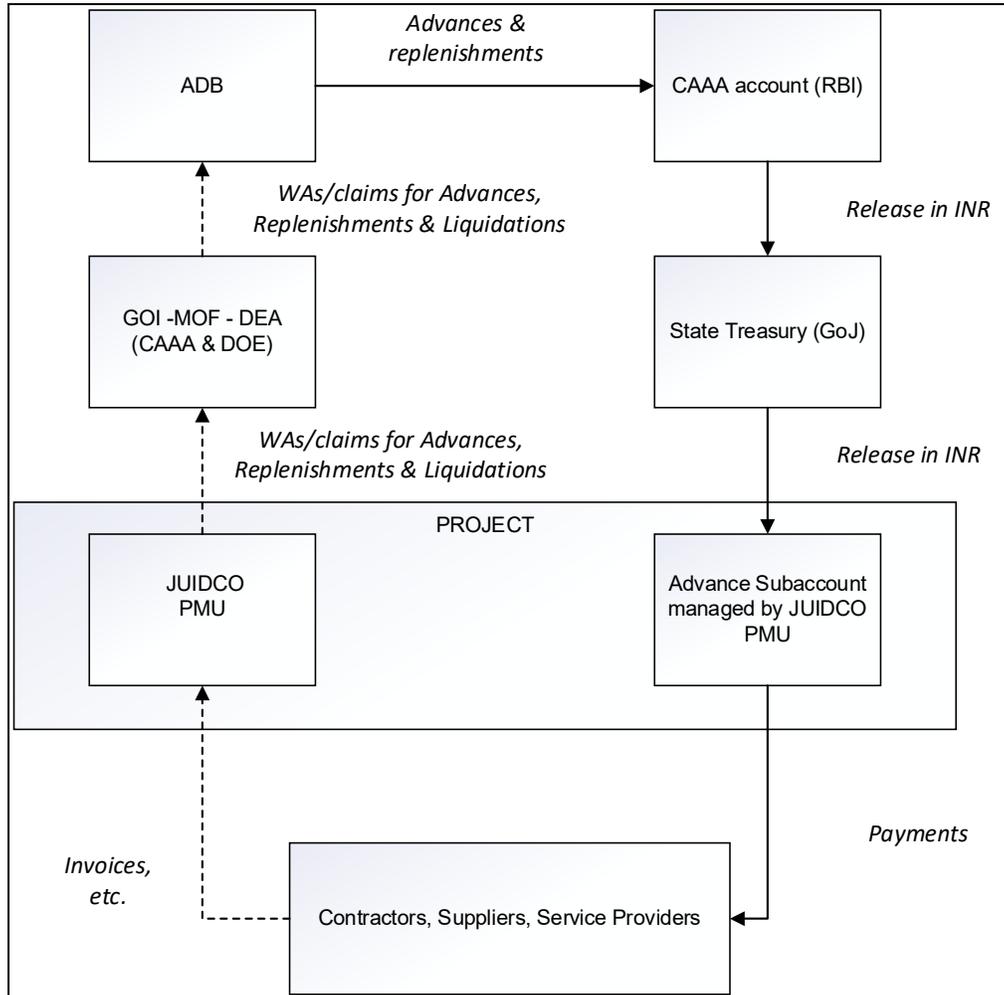
ADB= Asian Development Bank, AEFS= audited entity financial statement, APFS = audited project financial statements, CAG= Comptroller and Auditor General, CPD= client portal for disbursements, DEA= Department of Economic Affairs, FY = fiscal year, JUIDCO= Jharkhand Urban Infrastructure Development Company Limited, LFIS= loan financial information systems, PAM= project administration manual, PIU= project implementation unit, PMU= project management unit, TORs= terms of references.

## **VII. CONCLUSION**

36. JUIDCO is a relatively newly formed entity with little experience of externally funded projects. As a result, the overall financial management risk is assessed as substantial. However, given that the financial management action plan is implemented in a timely way the risk rating is expected to become moderate during the first year of the project implementation.

### FUND FLOW DIAGRAM

#### Fund Flow under Advance fund procedure

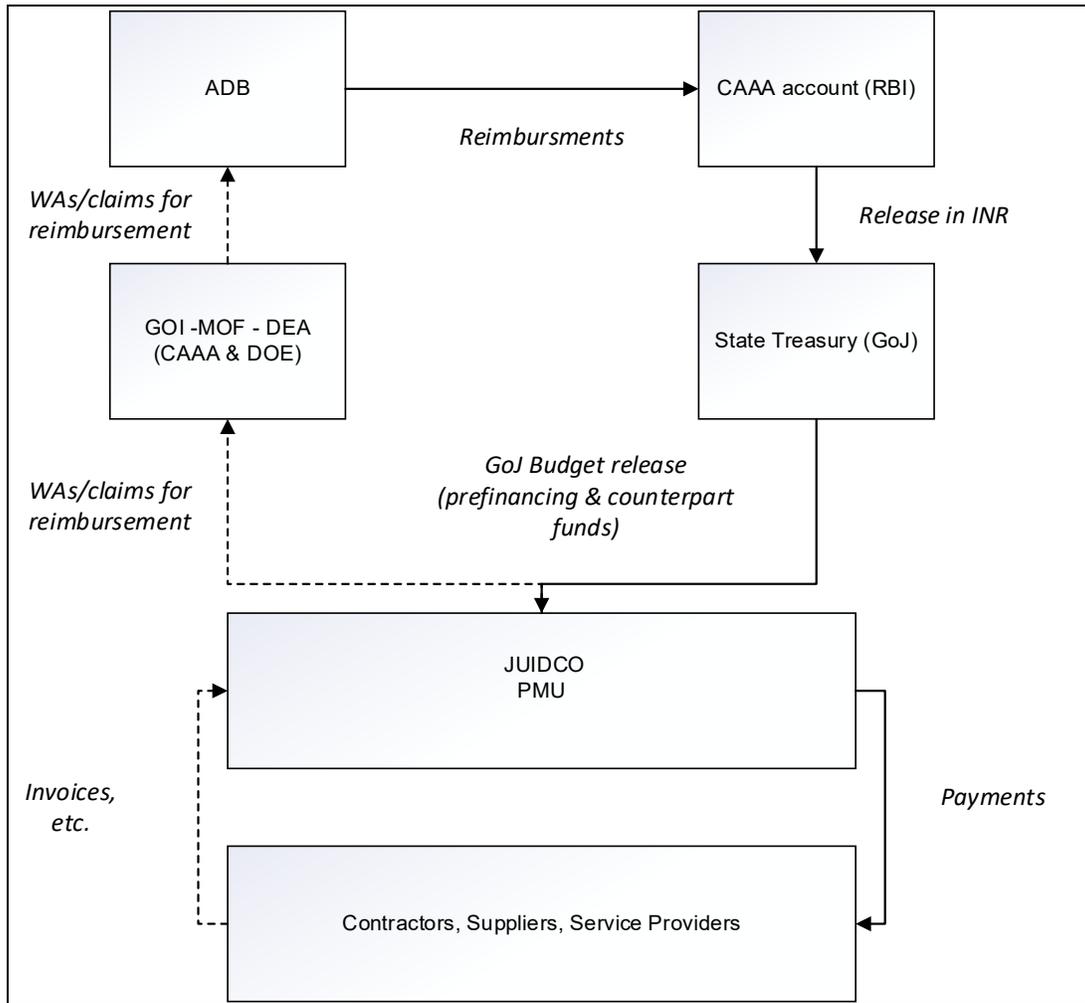


Funds Flow  →

Documents Flow  →

ADB = Asian Development Bank, CAAA= Controller of Aid Accounts and Audit, DEA= Department of Economic Affairs, GOI= Government of India, GOJ= Government of Jharkhand, DEA= Department of Economic Affairs, INR= Indian Rupee, JUIDCO= Jharkhand Urban Infrastructure Development Company Limited, MOF= Ministry of Finance, PMU= project management unit, RBI = Reserve Bank of India, WA= withdrawal application.

### Fund Flow under Reimbursement procedure



Funds Flow  →

Documents Flow  →

ADB = Asian Development Bank, CAAA= Controller of Aid Accounts and Audit, DEA= Department of Economic Affairs, GOI= Government of India, GOJ= Government of Jharkhand, INR= Indian Rupee, JUIDCO= Jharkhand Urban Infrastructure Development Company Limited, MOF= Ministry of Finance, PMU= project management unit, RBI = Reserve Bank of India, WA= withdrawal application.

**JHARKHAND URBAN WATER SUPPLY IMPROVEMENT PROJECT  
CONSULTANTS TO SUPPORT PROJECT MANAGEMENT UNIT(PMU-CONSULTANT)  
FINANCIAL MANAGEMENT SPECIALIST - DRAFT TORs**

**Qualifications:**

Chartered Accountant /Cost Accountant or Masters' degree in Finance with 15-year experience in project accounting and financial management systems including 5 years' experience in design, implementation and management of project accounting financial management aspects of ADB/multilateral funded projects.

**Detailed Tasks:**

- (i) Assist the PMU in maintaining separate accounts for the project;
- (ii) Support the PMU in preparing budget estimates for the project;
- (iii) Assist the PMU in: (a) preparing withdrawal applications; and (b) collecting and filing supporting documentation in accordance with ADB's disbursement procedures;
- (iv) Support the PMU in reconciling project accounts with ADB's disbursement data on a quarterly basis, as well as in conducting reconciliations of the advance account on a monthly basis;
- (v) Support the PMU and PIUs to improve and maintain robust internal controls;
- (vi) Support the PMU in addressing internal and external audit observations;
- (vii) Support the PMU to prepare quarterly financial reports and project financial statements in a format agreed with ADB;
- (viii) Support the PMU to customize the accounting software for project purposes and to automate project financial reporting to the extent possible;
- (ix) Assist the project in reviewing and improving the project specific Financial Management procedures manual/chapter as required;
- (x) In association with institutional development specialist, develop revenue enhancement models for ULBs and other innovative approaches for sustainable O&M of the projects;
- (xi) Assess the feasibility and devise a mechanism whereby the revenues generated are used (ring fencing of incomes) for O&M of the projects and develop a rational policy to support sites with lower revenue realization, and support implementing revenue improvement action plans for the ULBs; and
- (xii) Provide training and capacity building support for the financial management capacity of JUIDCO and specifically to the PMU and PIU's staff implementing the project.