

## FINANCIAL MANAGEMENT ASSESSMENT

### EXECUTIVE SUMMARY

#### I. Introduction

1. An updated financial management assessment (FMA) has been conducted for the four implementing agencies in accordance with Asian Development Bank (ADB)'s *Guidelines for the Financial Management and Analysis of Projects*<sup>1</sup> (the Guidelines) and ADB's Financial Due Diligence a Methodology Note<sup>2</sup> for the purpose of Bangladesh Emergency Assistance Project. The FMA was conducted for the four implementing agencies; (i) Local Government Engineering Department (LGED); (ii) Department of Public Health Engineering (DPHE); (iii) Road and Highways Department (RHD); and (iv) Bangladesh Rural Electrification Board (BREB). The FMA focuses on fund flows, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring, and internal and external audit. The purpose of this updated FMA is to ensure that adequate financial management arrangements are in place for the proposed project.

2. The FMA was conducted based on review of existing FMA of executing and implementing agencies, draws on lessons learnt during the implementation of past and existing projects, various sector level governance assessments, and interviews with implementing agency project management units (PMU) and other relevant government staff.

3. All executing and implementing agencies of the project have experience in implementing ongoing ADB funded projects. The implementing agencies have established accounting, reporting, and budgeting procedures in place in line with government regulations. However, the overall financial management risk is considered substantial; due to (i) risk of competent staff to be not assigned and trained on time; (ii) the internal audit function is weak; and (iii) lack of unified project reporting and monitoring system.

4. Risk mitigating measures to partially manage the weaknesses in the financial management process include:

- Dedicated and competent accounting staff are appointed to each of the project implementation units (PIUs);
- Technical assistance (TA) support for overall ongoing financial and accounting hand holding support, throughout project implementation;
- Training of PIU staff on government's and ADB's financial and procurement rules and guidelines;
- TA support for establishing adequate internal control systems of proposed PMU/PIU arrangement, including (i) development of an appropriate organogram with adequate segregation of duties and financial accounting manual; (ii) establishment of an independent and effective internal audit function; and (iii) development of unified web-based project monitoring and Management Information System (MIS) to monitor implementation, fund flows, and accounting;
- Capacity building of the project accounting staff to ensure that reporting and external audit of the project is completed on time to comply with ADB requirement;
- Ensuring timely resolution of audit issues on an ongoing basis;

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<sup>1</sup> ADB. 2015. *Financial Management Assessment-Technical Guidance Note*. Manila.

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

- Assurance by government on counterpart funding and budget allocation requirements for the project on an annual basis.

## **II. Country and Sector Financial Management Issues**

5. According to ADB's Country Partnership Strategy 2016–2020,<sup>3</sup> Bangladesh has achieved sustained growth of 6.3% per year since FY2007. Poverty has halved since 2000, meeting an important Millennium Development Goal target. The major challenges facing Bangladesh now includes: (i) accelerating the annual rate of growth to 7% and above to move closer to upper middle-income status; (ii) diversifying the economic base and creating new sources of growth; (iii) making growth more inclusive and reducing poverty by creating jobs and supporting rural development; (iv) increasing transparency and accountability by addressing institutional and policy weaknesses; and (v) reducing vulnerabilities to environmental degradation and climate change.

6. The country level issues relating to financial management are summarized from the Public Expenditure and Financial Accountability (PEFA) assessment conducted by the government in September 2015. Bangladesh has made positive strides in developing its Public Financial Management (PFM) systems since its last PEFA assessment in 2010. However, it is not often reflected in the scoring as implementation of initiatives are not complete in the various areas including procurement, internal audit, and external audit. As a result, weaknesses remain in the control environment and tax reconciliation, and inefficiencies in the budget system.

7. Overall, a renewed focus on PFM activities and continued emphasis on improving PFM processes and procedures has been observed. The scores of the PEFA indicators show improvement in 7 performance indicators; 14 remained the same; and 7 deteriorated. Except for credibility, comprehensiveness, and transparency of the budget, performance of the other aspect of the budget cycle has improved.

## **III. Project Financial Management System**

### **A. Overview**

8. The project will be implemented by implementing agencies that already have ADB projects under implementation, thus are knowledgeable of ADB policies and procedures. The executing and implementing agencies will be (i) LGED; (ii) DPHE; (iii) RHD; and (iv) BREB.

9. A dedicated PMU will be established in the executing agency consisting of managerial staff and technical experts assisted by project management consultants. A dedicated PIU will be established in the respective line departments headed by Project Implementation Director to implement the subprojects. PMU/PIU will ensure that the annual budget process complies with the government's time line for the annual budget planning cycle for the following fiscal year budget. This is to identify and ensure all counterpart funding and budget allocation requirements for the project on an annual basis.

### **B. Strengths**

10. The four implementing agencies for this project have significant experience in implementation of ADB financed projects and their staff is familiar with ADB financial management

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<sup>3</sup> Country Partnership Strategy-<https://www.adb.org/documents/bangladesh-country-partnership-strategy-2016-2020>.

procedures. LGED is currently implementing Loans 2462, 3142, 2695, 3550 and Loan 2542; DPHE is currently implementing Loan 3133 and Loan 3550; RHD is currently implementing Loan 2949 and Loan 3592; and BREB is currently implementing Loan 3522 and Loan 3350.

### **C. Weaknesses**

11. The dispersed implementation arrangements involving four government agencies (LGED, DPHE, RHD, BREB) and their PIUs, and the project management support consultants need to clearly establish the roles of each in the financial management of the projects.

12. The establishment of separate PMU requires the recruitment of a finance and administration officer and adequate accounts officers at each PIU. Currently, the project specific capacity and their knowledge of ADB financial procedures cannot be validated.

13. The current internal audit function is not very effective, due to lack of resources and focus on transaction level compliance in all ministries.

### **D. Personnel**

14. The government will ensure the appointment and retention of required staff at the PMU and PIU. A dedicated staff in these units will be responsible for the financial management and procurement functions. Ideally, personnel appointed will be experienced in ADB procedures. However, if this is not possible, then it is essential that arrangements are made between the government and ADB to ensure that required financial management training is provided to staff immediately upon appointment.

### **E. Accounting Policies and Procedures**

15. The project finances are managed based on the Bangladesh Accounting Standard (BAS), International Financial Reporting Standards (IFRS), and International Accounting Standards (IAS) on modified cash basis. The ministries have accounting policies and procedures documented. Overall internal controls in financial management is in place with segregation of duties and procedure. However, compliance with procedure is an issue as it is often circumvented by officers to expedite the workload.

### **F. Internal Audit**

16. The internal audit function is weak across the government. LGED has internal audit function carried out by the LGED internal audit unit. Staffs of the internal audit unit of LGED are qualified and experienced in audit and have received regular training. The internal audit program has been developed by LGED, and compilation of rules and regulations are in place. DPHE has no internal audit unit. However, one accountant from the Office of the Comptroller and Auditor General of Bangladesh (CAG's) office is posted in DPHE on a part-time basis. The accountant reviews all transactions. RHD has no internal audit unit but pre-audit is done by the accounts officer before making any payments in the PIU. BREB has an Internal Audit Department with only seven staff to cover countrywide BREB offices. The areas of concern include inadequate number of trained and qualified personnel, limited skill development, and training opportunities for existing personnel. These are to be addressed. In addition, BREB management should require internal audit reports for all major cost centers to be prepared and submitted regularly and reviewed by management with reporting on follow up.

## **G. External Audit**

17. The Foreign Audited Project Audit Directorate (FAPAD) at the Office of the Controller and Auditor General is mandated to conduct external audit of project funded by development partners. FAPAD conducts audit in accordance with Bangladesh Government Auditing Standards and the International Standard for Auditing. Audit reports are normally produced within 6 months after the end of fiscal year. Audit observations are categorized based on seriousness and followed-up based on the established process. However, it was observed that audit observations are not timely resolved in existing ADB projects. In addition to FAPAD's audit, only BREB's external audit is conducted by a firm of chartered accountants. The audit is carried out in line with Bangladesh Standard of Auditing (BSA).

18. For the project, the usual FAPAD's auditing process will be followed to provide external audit of the project financial reports and records. The audited project financial statement (APFSs) will be submitted in the English language to ADB within 6 months of the end of the fiscal year. The annual audit report should include a separate auditor's opinion on the use of the advance account, statement of expenditures, compliance with loan covenants and use of loan proceeds in accordance with the grant agreement for intended purposes. The government has been made aware of ADB's approach on delayed submission, and the requirements for satisfactory and acceptable quality of the audited APFSs.

## **H. Financial Reporting and Monitoring**

19. The financial reports of LGED and DPHE are prepared in accordance with Generally Accepted Accounting Principles and the BAS. Financial statements are prepared on monthly and annual bases using a computerized accounting system called Unified Financial Management System (UFMS). The RHD follows reporting requirements of the RTHD, MRTB, the Ministry of Finance, the tax authorities, and other government bodies and Bangladesh Financial Reporting Standards. In addition to the annual report, quarterly reports are prepared for ADB. BREB has not substantially implemented an ADB project between 2008 and 2014. But currently BREB is implementing two large projects with ADB funding and has received sufficient training on ADB's policies and procedures and training on procurement, project financial management, and disbursement procedures conducted by BRM Project Management Unit and Disbursement Unit. BREB's strengths of the financial management system are: (i) financial reports are generated on time even though accounts are prepared manually on spreadsheets; (ii) existence of a Chart of Accounts, Accounts Manual and Internal Audit Manual; and (iii) existing software for warehouses as well as payroll management. However, the following weaknesses have been observed: (i) manual preparation of monthly accounts; and (ii) lack of computerized fixed asset records.

## **I. Information Systems**

20. The government is working on the development of Integrated Budgeting and Accounting System (iBAS++), which should strengthen accounting and recording, and internal control upon full implementation. The ministries use their own software for accounting and reporting. However, some reports are prepared manually with excel spreadsheet. The accounts departments of LGED and DPHE use UFMS to generate the various reports and financial systems. Reports not generated under this system are prepared using excel. RHD is planning to implement the system (iBAS++) at the PIU level. Currently, required data are entered by the chief accounts officer of the RTHD. There is a manual contract management system in place for the project. BREB has appointed a World Bank consultant for computerization of its accounting system by end of

Financial Year 2018. Additionally, BREB has an IT department which has already organized the computerization of two of its systems (warehouse and payroll). Integration and update of equipment record card (ERC) system with fixed asset and GIS system would be supported under the BREB roadmap.

#### J. Fund Flow Mechanism

21. Fund Flow mechanisms are given in the PAM. Project funds will be disbursed in accordance with the Loan Disbursement Handbook (2017, as amended from time to time). executing and implementing agencies will ensure that ADB fund will be separately administered and maintained from counterpart fund.

#### IV. Risk Description and Rating

22. The FMA considered inherent risks and control risks. The key risks identified are presented in the table below:

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

<b>Risk</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Mitigation Measures or Action Plans</b>
<b><i>Inherent Risk</i></b>			
1. Country-specific Risks	S	Overall PFM system continues have issues in control environment, fragmentation of budget.	ADB will continue dialogue with GOB to monitor PFM activities and provide necessary support to improve its PFM performance.
2. Entity-specific Risks	S	Multiple entities are responsible for the execution and implementation of this project.	A clear organizational structure will be prepared, specific terms of reference, and reporting/monitoring system will be developed for PMU/PIU staff and the design and supervision consultants.
<b>Overall inherent risk: SUBSTANTIAL</b>			
<b><i>Control Risk - LGED</i></b>			
1. Implementing Entity	M	LGED has a good track record in implementing ADB funded projects.	A PMU/PIU with adequate staff will be established.

<b>Risk</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Mitigation Measures or Action Plans</b>
2. Fund Flow	S	(i) Timely release of counterpart fund for the project.  (ii) ADB advance fund might be used for unintended purpose at the field level.	(i) Firm commitment from the MOF for the timely release of counterpart part fund will reduce the risk of allocation and delayed release of funds. Direct payment mechanism is to be used for major foreign component payments for contractors and suppliers for ADB share.  (ii) LGED will give assurance that ADB fund will be separately administered and maintained from counterpart fund.  (iii) ADB reserves the right to randomly audit all the project subaccounts.  (iv) Subaccounts are subject to external audits by Foreign Audited Project Audit Directorate (FAPAD) and project internal audits.
3. Staffing	S	Competent finance and accounting staff dedicated for the project might not be assigned on time.	Government commitment and budget allocation for dedicated accounting staff in PMU and PIU with prior experience in ADB projects.
4. Accounting Policies and Procedures	M	Lack of well documented policies and procedures for the project.	Existing government policies and procedures are followed. The specific accounting/reporting procedures for the project will be established with support from FM expert under TA.
5. Internal Audit	S	LGED may not have sufficient resources to perform the internal audit function for this project	LGED will give assurance that adequate internal audit staff will be assigned to this project.
6. External Audit	L	The audit of the project financial statements should be done in accordance with the International Standards on Auditing and by the independent auditor acceptable to ADB.	The current arrangement of having the audit done by FAPAD of Comptroller and Auditor General (CAG) is acceptable to ADB. implementing agencies need to ensure FAPAD audited report is submitted within 6 months from the fiscal year end.
7. Reporting and Monitoring	S	Reporting system is in place at the respective implementing agencies level. However, financial reporting arrangement will need to be set up for the project.	The financial reporting procedure and format to be developed with support from FM expert under the TA.
8. Information Systems	L	LGED is currently using an adequate IT system.	Not applicable.

<b>Risk</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Mitigation Measures or Action Plans</b>
<b>Overall control risk (LGED): <i>SUBSTANTIAL</i></b>			
<b>Control Risk – DPHE</b>			
1. Implementing Entity	M	DPHE has a good track record in implementing ADB funded projects.	A PMU/PIU with adequate staff will be established.
2. Fund Flow	S	(i) Timely release of counterpart fund to the project.  (ii) ADB advance fund might be used for unintended purpose at the field level.	(i) Firm commitment from the MOF for the timely release of counterpart part fund will reduce the risk of allocation and delayed release of funds. Direct payment mechanism is to be used for major foreign component payments for contractors and suppliers for ADB share.  (ii) DPHE will give assurance that ADB fund will be separately administered and maintained from counterpart fund.  (iii) ADB reserves the right to randomly audit all project subaccounts.  (iv) Subaccounts are subject to external audits by FAPAD and project internal audits.
3. Staffing	S	Competent finance and accounting staff dedicated for the project might not be assigned on time.	Government commitment and budget allocation for dedicated accounting staff in PMU and PIU with prior experience in ADB projects.
4. Accounting Policies and Procedures	M	Lack of well documented policies and procedures for the project.	Existing government policies and procedures are followed. The specific accounting/reporting procedures for the project will be established with support from FM expert under TA.
5. Internal Audit	H	DPHE has no internal audit division. One accountant from the Office of the Controller and Auditor General is posted on a part-time basis for internal audit.	DPHE will give assurance that adequate internal audit staff will be assigned to this project.
6. External Audit	L	The audit of the project financial statements should be done in accordance with the International Standards on Auditing and by the independent auditor acceptable to ADB.	The current arrangement of having the audit done by FAPAD of CAG is acceptable to ADB. implementing agencies need to ensure FAPAD audited report is submitted within 6 months from the fiscal year end.
7. Reporting and Monitoring	S	Reporting system is in place at the respective IA's level. However, financial reporting arrangement will need to be set up for the project.	The financial reporting procedure and format to be developed with support from FM expert under the TA.

<b>Risk</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Mitigation Measures or Action Plans</b>
8.Information Systems		DPHE is currently using an adequate IT system.	Not applicable
<b>Overall control risk (DPHE): <i>SUBSTANTIAL</i></b>			
<b>Control Risk – RHD</b>			
1. Implementing Entity	M	RHD has a good track record in implementing ADB funded projects.	A PMU/PIU with adequate staff will be established.
2. Fund Flow	M	(i) Timely release of counterpart fund to the project.	(i) Firm commitment from the MOF for the timely release of counterpart part fund will reduce the risk of allocation and delayed release of funds. Direct payment mechanism is to be used for major foreign component payments for contractors and suppliers for ADB share.  (ii) All expenditures are subject to external audits by FAPAD.
3. Staffing	S	Competent finance and accounting staff dedicated for the project might not be assigned on time.	Government commitment and budget allocation for dedicated accounting staff in PMU and PIU with prior experience in ADB projects.
4. Accounting Policies and Procedures	M	Lack of well documented policies and procedures for the project.	Existing government policies and procedures are followed. The specific accounting/reporting procedures for the project will be established with support from FM expert under TA.
5. Internal Audit	S	RHD has no internal audit division. Pre-audit is done by the accounts officer before making any payments in the PIU.	RHD will give assurance that adequate internal audit staff will be assigned to this project.
6. External Audit	L	The audit of the project financial statements should be done in accordance with the International Standards on Auditing and by the independent auditor acceptable to ADB.	The current arrangement of having the audit done by FAPAD of CAG is acceptable to ADB. implementing agencies need to ensure FAPAD audited report is submitted within 6 months from the fiscal year end.
7. Reporting and Monitoring	S	Reporting system is in place at the respective IA's level. However, financial reporting arrangement will need to be set up for the project.	The financial reporting procedure and format to be developed with support from FM expert under the TA.
8.Information Systems	M	RHD is not currently optimizing the use of technology in the finance and accounts wing for the preparation of accounts and reporting requirements.	RHD will implement IBAS, which is the government system for recording transactions.
<b>Overall control risk (RHD): <i>SUBSTANTIAL</i></b>			
<b>Control Risk – BREB</b>			
1. Implementing Entity	M	BREB has a good track record in implementing ADB funded projects.	A PMU/PIU with adequate staff will be established.

Risk	Risk Assessment	Risk Description	Mitigation Measures or Action Plans
2. Fund Flow	S	<p>(i) Timely release of counterpart fund to the project.</p> <p>(ii) ADB advance fund might be used for unintended purpose at the field level.</p>	<p>(i) Firm commitment from the MOF for the timely release of counterpart part fund will reduce the risk of allocation and delayed release of funds. Direct payment mechanism is to be used for major foreign component payments for contractors and suppliers for ADB share.</p> <p>(ii) BREB will give assurance that ADB fund will be separately administered and maintained from counterpart fund.</p> <p>(iii) ADB reserves the right to randomly audit all project subaccounts.</p> <p>(iv) Subaccounts are subject to external audits by FAPAD and project internal audits.</p>
3. Staffing	S	Competent finance and accounting staff dedicated for the project might not be assigned on time.	Government commitment and budget allocation for dedicated accounting staff in PMU and PIU with prior experience in ADB projects.
4. Accounting Policies and Procedures	M	Lack of well documented policies and procedures for the project.	Existing government policies and procedures are followed. The specific accounting/reporting procedures for the project will be established with support from FM expert under TA.
5. Internal Audit	S	BREB's internal audit department is understaffed and given the number of offices. The internal auditors need training to improve their skills.	Capacity building of existing personnel and hiring of auditors with experience are required. Capacity building support can be organized with the assistance of ICAB in the ongoing financial year. Personnel with experience in public sector auditing need to be recruited to the internal audit and a plan of action needs to be prepared by BREB's Human Resources Department.

<b>Risk</b>	<b>Risk Assessment</b>	<b>Risk Description</b>	<b>Mitigation Measures or Action Plans</b>
6. External Audit	L	The audit of the project financial statements should be done in accordance with the International Standards on Auditing and by the independent auditor acceptable to ADB.	The current arrangement of having the audit done by FAPAD of CAG is acceptable to ADB. implementing agencies need to ensure FAPAD audited report is submitted within 6 months from the fiscal year end.
7. Reporting and Monitoring	S	Reporting system is in place at the respective implementing agency's level. However, financial reporting arrangement will need to be set up for the project.	The financial reporting procedure and format to be developed with support from FM expert under the TA.
8. Information Systems	M	The size and the nature of the organization requires that record keeping of its resources is carried out with the help of computers, so that custodianship of the assets can be ensured and monitored efficiently. At present two vital systems of the organization, accounting and fixed asset recording are done manually.	BREB has appointed a World Bank consultant for computerization of its accounting system by end of Financial Year 2018. Additionally, BREB has an IT department which has already organized the computerization of two of its systems, warehouse and payroll. Integration and update of equipment record card system with fixed asset and GIS system would be supported under the BREB roadmap.
<b>Overall control risk (BREB): SUBSTANTIAL</b>			
<b>Overall control risk (ALL): SUBSTANTIAL</b>			

ADB = Asian Development Bank; BREB = Bangladesh Rural Electrification Board; CAG = Comptroller and Auditor General; FAPAD = Foreign Audited Project Audit Directorate; FM = financial management; H – High; IA = implementing agency; IBAL = Low; S = Integrated Budgeting and Accounting System; IT = information technology; LGED = Local Government Engineering Department; M = Moderate; MOF = Ministry of Finance; PFM = Public Financial Management; PIU = Project implementation unit; PMU = Project Management Unit; RHD = Road and Highways Department; S = Substantial; TA = technical assistance.

23. It is concluded that the overall pre-mitigation financial management risk of implementing agencies is substantial. The implementing agencies have agreed to implement an action plan to address the deficiencies. The financial management action plan is provided in Table 2. With the implementation of mitigation measures, it is expected that financial management capacity of implementing agencies for the project will be satisfactory.

## V. Proposed Action Plan

24. To mitigate the above risks, the following actions are discussed and agreed with the government:

**Table 2: Time-bound Action Plan**

<b>Area</b>	<b>Risk Mitigating Activity</b>	<b>Timeline</b>	<b>Entity</b>
Government counterpart fund	Grant assurance on timely release of counterpart funds (for tax and duties, land acquisition, resettlement costs and project management staff).	Grant agreement	MOF/LGED/DPHE/RHD/BREB
Staffing	For PIUs, staff with prior ADB project experience must be in place.	Before grant effectiveness	MOF/LGED/DPHE/RHD/BREB

Area	Risk Mitigating Activity	Timeline	Entity
	For each PIU, dedicated and competent accounting staff are appointed.		
Capacity support	FM consultant with accounting qualification to be recruited to provide support throughout project implementation.	Before grant effectiveness	ADB/LGED/DPHE/RHD/BREB
Detailed FM capacity assessment	FM consultant to conduct detailed FM capacity assessment and prepare detailed mitigation plans and action plans to address risk area for PMU/PIUs.	At the start of the project	LGED/DPHE/RHD/BREB
Training on ADB policies and procedures	Impart training to PMU/PIU staff (accounting, technical) who are involved in the ADB project.	Before grant effectiveness	ADB/LGED/DPHE/RHD/BREB
Accounting and reporting procedure	Develop an appropriate organogram with adequate segregation of duties and financial accounting manual with support of TA consultant.	At the start of the project	LGED/DPHE/RHD/BREB
Information system	A unified web-based project monitoring and MIS to be established by the PMU to monitor implementation, fund-flow, accounting, audit and reporting functions. The TA consultant will provide support.	At the start of the project	ADB/LGED/DPHE/RHD/BREB
Internal audit	Establishment of an independent and effective internal audit function with assistance of FM consultant under TA.	At the start of the project	LGED/DPHE/RHD/BREB
Periodic FM report	Prepare quarterly reports for the ADB project with financial and disbursement information as well as variance analysis of physical and financial progress. The report should include the status of FM action plan.	Every quarter	LGED/DPHE/RHD/BREB
APFS	APFS will be submitted to ADB within 6 months of the end of the fiscal year in the format acceptable to ADB. Audit observations and other issues from prior years to be resolved.	At the end of each financial year	LGED/BREB/RHD/DPHE/FAPAD

ADB = Asian Development Bank; APFS = audited project financial statement; BREB = Bangladesh Rural Electrification Board; FM = financial management; LGED = Local Government Engineering Department; MIS = management information system; MOF = Ministry of Finance; PIU = project implementation unit; PMU = Project Management Unit; RHD = Road and Highways Department; TA= technical assistance.

## VI. Suggested Financial Management Covenants / Supervision Plan

25. ADB and the government will jointly undertake reviews of the project at least twice a year. These reviews will include a review of the disbursement progress and status of financial management plan. A capacity development plan shall be executed by ADB on (i) financial management and reporting requirements; (ii) ADB Loan Disbursement procedures; (iii) anti-corruption training; and (iv) training on ADB procedures. Financial management experts will be engaged and funded by ADB's TA to monitor the project.

## VII. Conclusion

26. The assessment concludes that there are substantial financial management and internal control risks for the executing and implementing agencies for the project. Consequently, the project has proposed a series of targeted mitigation measures to manage and monitor these risks, especially to ensure transparency and accountability in project financial management and adherence to the government and ADB standards for financial management. However, it is expected that with the implementation of the proposed risk mitigating measures, the financial management capacity of the executing and implementing agencies will be further strengthened and will become satisfactory. Positive findings are that the executing and implementing agencies

have a sound record in implementing externally funded projects and programs and implementing agencies have experience with international donor projects.