

FINANCIAL MANAGEMENT ASSESSMENT

A. Executive Summary

1. The financial management assessment (FMA) is conducted in accordance with Asian Development Bank's (ADB) Guidelines for the Financial Management and Analysis of Projects (2015), Financial Due Diligence: A Methodology Note, and Technical Guidance Note: Financial Management Assessment. The FMA assesses the financial management capacity of Xiangtan Municipal Government (XMG) as executing agency (EA) and implementing agency (IA), and Transport Bureau, Housing and Urban-rural Construction Bureau, Water Resource Bureau, Ecology and Environment Bureau, Development and Reform Commission, Municipal Health Commission, Jiuhua Industrial Zone, and Big Data Center under the municipality, which would be closely involved in project implementation. The assessment covers funds-flow arrangements, staffing, accounting and financial reporting systems, internal and external auditing arrangements, and financial information systems. The assessment was conducted between September 2019 and February 2020.

2. The assessment showed EA/IA and project implementation units (PIU) have satisfactory financial management capability to (i) record required financial transactions and balances, (ii) provide regular and reliable financial statements and monitoring reports, and (iii) safeguard financial and non-financial fixed assets.

3. The assessment identified the main financial management risks as:

- (i) implementation risk - lack of familiarity with ADB disbursement procedures and requirements which could delay project implementation;
- (ii) compliance risk - lack of familiarity with ADB financial management requirements, particularly on accounting, reporting and auditing, which may delay project reporting and detail identification of issues on the use of loan proceeds;
- (iii) financing risks/delays in provision of or inadequate counterpart funds which could delay project implementation; and
- (iv) operational risk/inadequate experience in building some project components such as cloud-based transport information system that could impact project progress and quality of the services to be provided after project completion.

4. The overall financial management risk-rating of the project before considering mitigating measures is moderate.

5. The identified financial management risks will be closely monitored during project implementation. The financial management action plan is as follows (Table 11):

Table 1: Proposed Action Plan for Financial Management

Action	Responsibility	Timing
1. Training on ADB financial management requirements, including disbursement, accounting, asset registration and management, auditing procedures, foreign exchange and interest rate risk management	EA/PMO/PIUs/Xiangtan Finance Bureau /Xiangtan Audit Bureau/ADB	1 month before loan effectiveness

Action	Responsibility	Timing
2. Recruitment of experienced consultants and skilled accountants to enhance the operational capacities	EA/PMO/PIUs	1 month before first disbursement
3. Completing staff deployment in appropriate financial management positions with English language support	EA/PMO/PIUs	1 month before first disbursement
4. Development of financial management manuals	EA/PMO/PIUs/Xiangtan Finance Bureau	Before loan effectiveness date
5. Close monitoring to timely identify potential issues in counterpart funding.	EA/PMO/PIUs/Xiangtan Financial Bureau /ADB	At least once per year during project implementation
6. Clear institutional arrangements and coordination mechanisms	EA/PIUs/Xiangtan Financial Bureau	Before loan effectiveness.
7. Methodologies for managing foreign exchange and interest rate risks	EA/PIUs/Xiangtan Financial Bureau	Before loan effectiveness.

ADB = Asian Development Bank, EA = executing agency, PIU = project implementation unit, PMO = project management office,.

Source: Asian Development Bank.

6. It was agreed that the EA/IA and PIUs will further enhance their capabilities by (i) setting up clear institutional arrangements and co-ordination mechanisms; (ii) completing staff deployment in appropriate financial management positions with English language support; (iii) developing methodologies for managing foreign exchange and interest rate risks; and (iv) undertaking more training, particularly on ADB policy and procedures.

B. Introduction

7. The FMA was performed on Xiangtan Municipal Government (XMG) as project EA and IA, and Transport Bureau, Housing and Urban-Rural Construction Bureau, Water Resource Bureau, Ecology and Environment Bureau, Development and Reform Commission, Municipal Health Commission, Jiuhua Industrial Zone, and Big Data Center under the municipality as the PIUs. The Project Organization Chart is in Annex 1.

8. This assessment is carried out based on the financial management assessment questionnaires (FMAQs) (Annex 3) completed by the EA/IA and PIUs with the support of Transaction Technical Assistance (TRTA) consultants. The assessment also considered ADB's Country Partnership Strategy 2016–2020.

C. Project Description

9. The project will complement XMG's efforts to transform Xiangtan from a carbon intensive, heavily polluting city to a low-carbon, climate resilient, and livable one, which comprises (i) a project loan to invest in priority infrastructure, and (ii) a policy-based loan to support necessary policy reforms of the municipal government to enable Xiangtan's successful low-carbon transformation. The expected project outputs are: (i) low-carbon and resilient infrastructure transformation demonstrated; (ii) information and knowledge platforms established for informed decision making and behavior changes; (iii) policy loan; and (iv) capacity building and program management enhanced.

D. Methodology

10. The following methodology was used for the financial management assessment:

- (i) Review the Country Governance Risk Assessment-People's Republic of China (October 2015);
- (ii) Prepare FMAQs for EA/IA and PIUs;
- (iii) Request the EA/IA and PIUs complete the FMAQs;
- (iv) Review submitted FMAQs;
- (v) Prepare flow of funds diagram;
- (vi) Assess risk situation;
- (vii) Identify control and inherent risks;
- (viii) Prepare proposed action plan for financial management; and
- (ix) Prepare financial management assessment report.

E. Review of Country Governance Risk Assessment-People's Republic of China

11. The project team reviewed the Draft Final Report of the Country Governance Risk Assessment-People's Republic of China (October 2015). The assessment found several governance risks in three principal areas: public financial management (PFM), procurement, and corruption risks. These risks are summarized as follows:

12. **Public financial management risks.** At the country level, PRC's reforms effectively address risks emanating from the public finance management system. Major risks for the achievement of development goals persist at the sub-provincial level, where the lack of capacity to implement PFM reforms in the core areas of accounting, reporting, internal audit and internal control, may both hamper effective financial control and constrain the shift of focus from inputs to results. ADB can mitigate this risk by reinforcing ongoing support in assessing and strengthen PFM capacity at sub-provincial levels in terms, e.g. through promoting skills training in accounting and reporting, knowledge sharing (accrual accounting and risk based internal control), and organizational reviews (internal audit).

13. The Country Governance Risk Assessment Report identifies the risk management plan (Table 2).

Table 2: Country Management Risk Assessment-PRC Risk Management Plan

High Risks	Risk Mitigation Actions	Indicators
Public Financial Management		
The lack of capacity at sub-provincial level to implement PFM reforms underway in the core areas of accounting, reporting, internal audit and internal control, may both hamper effective financial control and constrain the shift of focus from inputs to results.	Reinforce currently ongoing support in assessing and strengthen PFM capacity at sub-provincial levels in terms, e.g. through promoting skills training (accounting and reporting), knowledge sharing (accrual accounting and risk based internal control), and organizational reviews (internal audit)	<ul style="list-style-type: none"> ✓ Local level PFM capacity building strategy developed ✓ Local level PFM capacity building enhanced ✓ Number of certificates issued or renewed (where applicable) ✓ Number of recommendations of organizational reviews implemented

ADB = Asian Development Bank, PFM = public financial management.
Source: Asian Development Bank.

F. Financial Management Assessment Questionnaires Assessment and Risk Analysis

14. Based on the FMAQs completed by EA/IA and PIUs, the financial management was assessed as following.

15. The risk assessment considers the staffing, internal control, accounting and reporting policies and procedures, and auditing standards and arrangements of the EA/IA and PIUs. Based on the assessment, the overall project financial management pre-mitigation risk is considered moderate.

1. Inherent Risk

16. Inherent risk is the susceptibility of the project financial management system to factors arising from the environment in which it operates, such as country rules and regulations and entity working environment, assuming absence of any counter checks or internal controls (Table 3).

Table 3: Inherent Risk Assessment

Risk type	Risk Assessment	Risk Description	Mitigation Measures
Country-Specific Risks	L	Lack of adequate skills to implement the updated Accounting and Budget Law	ADB will work on the recommendations made in the CPS by encouraging the consistent use of IFRS in all projects
Entity-specific risks	M	Lack of familiarity with ADB disbursement procedures and requirements, and ADB financial management requirements, particularly on accounting, reporting and auditing, leading to delayed project implementation and reporting	Training on ADB financial management requirements, including disbursement, accounting and auditing, foreign exchange and interest rate risk management.
Overall Inherent Risk	M		

ADB = Asian Development Bank, CPS = Country Partnership Strategy, IFRS = International Financial Report System, L = low, M = medium.

Source: Asian Development Bank.

2. Control Risk

17. Control risk is the risk that the project's accounting and internal control framework are inadequate to ensure project funds are used economically and efficiently and for the purpose intended, and that the use of funds is properly reported (Table 4).

Table 4: Control Risk Assessment

Risk type	Risk Assessment	Risk Description	Mitigation Measures
1. Executing Agency	M	Project financial management policies and procedures are not in place	The project will adopt the generally accepted accounting principles in the PRC, specifically the “Accounting Methods for Projects Financed by the World Bank” issued by the Ministry of Finance. The EA/IA and PIUs will set up the project accounts, clear institutional arrangements and coordination mechanisms, and methodologies for managing foreign exchange and interest rate risks before loan effectiveness.
2. Funds Flow	L	Lack of familiarity with ADB disbursement requirements and procedures.	Training will be conducted before loan effectiveness to ensure EA/IA and PIU staff acquires required knowledge
3. Staffing	M	The staff are adequately qualified with lifetime employment but none of them have previous experience in financial management and are familiar with ADB loan management policies and procedures	Procedures and training on ADB loan management policies and procedures including procurement, disbursement and repayment policy need to be provided to enhance the professional capacity of relevant staff before implementing the project.
4. Policies and Procedures	M	EA/IA and PIUs have cash-based accounting system or both cash-based accounting system and accrual-based accounting system	Accrual-based accounting system will be trained to meet requirement of the project accounting system.
5. Internal Audit	M	EA/IA and PIUs has their internal audit unit.	Internal audit department will be set up and Training of the PRC Basic Government Auditing Standard will be provided.
6. External Audit	L	It is audited by Xiangtan Municipal Audit Bureau on an annual basis in accordance with the PRC Basic Auditing Standard	Audit will be delegated to Hunan Provincial Audit Office which is already experienced with ADB funded projects.
7. Reporting and Monitoring	L	The financial reports are prepared using budget accounting systems.	To be conducted in accordance with accrual-based accounting system established by the MOF and ADB project requirements.
8. Information Systems	L	The financial reports are not generated by the computer system in some PIUs	The EA/IA and PIUs will use stand-alone computerized accounting systems which produce financial statements automatically.
Overall Risk	M		

ADB = Asian Development Bank, EA = executing agency, IA = implementing agency, L = low, M = medium, MOF = Ministry of Finance, PIU= project implementation unit, PRC = People's Republic of China.

Source: Financial Management Assessment Questionnaires

3. Project Financial Management System

18. The project financial management approach will adopt the overall financial management systems and procedures.

Strengths

19. The project benefits from strong institutional capacity and staffing are as follows:
- (i) The project will adopt the “National Accounting System” and the “Accounting Methods for Projects Financed by the World Bank” issued by the Ministry of Finance, and will use computerized accounting systems at IA and PIU levels to automatically generate financial statements.
 - (ii) Staffing – A Financial Control and the manager of accounting department of HPG will monitor the financial management activities in relation to the ADB funded project. The EA/IA and PIUs will dispatch financial human resources experienced in managing large projects.

Weaknesses

20. The project is susceptible to the following weaknesses:
- (i) Cash-based accounting system not meeting requirement of the project accounting system; and
 - (ii) Lack of familiarity with ADB requirements and procedures.

G. Executing Agency, Implementing Agencies and Project Implementing Units

21. The Xiangtan Municipal Government (XMG) is the EA and IA, and Transport Bureau, Housing and Urban-rural Construction Bureau, Water Resource Bureau, Ecology and Environment Bureau, Development and Reform Commission, Municipal Health Commission, Jiuhua Industrial Zone, and Big Data Center under the municipality as project implementing units (PIUs). The project organization structure is shown in Annex 1.

H. Funds Flow Mechanism

22. The PRC is the borrower of the ADB loan for financing the project. On behalf of the borrower, the Ministry of Finance (MOF) will relend the loan to the HPG, which will on-lend the loan to XMG. XMG intends to request a US dollar currency loan with 25 years maturity and 5 years grace period. Interest and commitment fee during construction period will not be capitalized and will be borne by XMG. HFD will open an Advance Account and XMG will open its own dedicated sub-project accounts in a commercial bank to manage counterpart contributions in line with the Loan Agreement. Detailed fund flow chart is presented in Annex 2.

I. Personnel

23. There are three staff at least including director, accountant and cashier for the project in EA/IA and PIUs. The financial staff of EA/IA and PIUs is government civil servants with lifetime employment and experience for finance and accounting. They have at least a two-year college degree or above and have obtained the basic accountant certificates and are adequately qualified.

Even so, they will need training to familiarize with ADB project-related disbursement guidelines and procedures, project accounting requirements, project and contract management, financial monitoring and report preparation. Additionally, somebody with good English needs to be arranged to support the financial people, especially at the early stage of project implementation.

J. Accounting Policies and Financial Reporting

24. EA/IA has promulgated various rules and regulations group-wide on accounting and financial management covering establishment of accounts, accounting procedures, financial statement preparation, fixed assets management, investment project evaluation, financial risk management, cash management and control, cash disbursement approval, significant economic incident reporting, financial settlement and reporting for construction projects, financial guarantee management, travel expenditure management, internal auditing structure and procedures, etc.

25. The PIUs will adopt Accounting Methods for Projects Financed by the World Bank (reference No. 2000 [13]) to set up the project accounts and records by funding source for all expenditures incurred on the project. Subsidiary ledgers will also be maintained to facilitate reconciliation of accounts with the general ledger and bank records. All reports and supporting documents on all transactions will be stored and retained on a semi-permanent basis and will be accessible by authorized users and made available for audit inspection. The PIUs will prepare individual project financial statements and submit to the EA/IA for consolidation. Annual project financial statements will be prepared using the accrual basis of accounting.

26. EA/IA and PIUs have a standardized cash-based or accrual-based accounting system following PRC national accounting standards. There are clear policies and procedures, lines of responsibility and segregation of duties. All transactions are approved by authorized officials and recorded by an office accountant. Records are archived permanently.

K. Budgeting System

27. The financial department of EA/IA is in charge of summarizing the preliminary budgets and making an overall annual budget for approval by people's congress. The detailed project budgets are usually formulated by the relevant departments other than the Accounts Department, but the accounting staff need to make sure the costs are incurred within the budget. The ADB project budgets will be prepared annually by the responsible project persons and will include physical and financial targets. Budget monitoring reports present a comparison between budgeted and actual amounts, and highlight budget variances.

L. Safeguarding of Assets

28. Subsidiary records of fixed assets and stocks are kept up-to-date and reconciled with control accounts periodically. The EA/IA and PIUs will conduct annual physical inventory of all assets. Some transport vehicles, stocks, and other fixed assets are covered by commercial insurance, covering loss, fire and others. During construction contractors will be responsible for insurance of and will cover worker compensation for losses due to accidents apart from compensation for property. Safeguards are in place to protect assets from fraud, waste and abuse and periodic inventories are carried out.

29. It has been confirmed that all assets created under the project will be owned and looked after to maintain effective performance over time by XMG.

M. Internal and External Audit

30. EA/IA and PIUs have their own internal audit unit. The consultant has mentioned the risk it may cause and PIUs have agreed to take correcting action so that the internal auditing can play a sound role in assuring normal financial management procedures and policies to the project.

31. EA/IA and PIUs are audited by Xiangtan Municipal Audit Bureau on an annual basis in accordance with the PRC Basic Auditing Standard. No significant error, inconsistency or unsolved issue has been found in the audit reports of EA/IA and PIUs over the past five years.

N. Reporting and Monitoring

32. The project financial reports will be prepared using budget accounting software systems and are submitted on a monthly, quarterly and annual basis. The reports will highlight the physical and financial progress of projects being undertaken. During project implementation, financial reports will be prepared and submitted to Hunan Provincial Financial Department, Ministry of Finance and ADB quarterly progress reports for individual outputs. The financial report will be used for monitoring progress of project implementation and compare actual expenditure with budgeted and programmed allocations.

O. Information Systems

33. A computerized accounting system used for the accounting records, payment financial statement including balance sheet, income statement and cash flow statement. The financial reports are generated by the computer system rather than manually. The financial data and the operational information have not been inter-connected in the system, and reconciliations are realized by regular manual checks.

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

P. Financial Capacity Assessment Results

35. Table 5 below summarizes the assessment results on the financial management capacities. Skills in general financial management practices such as bookkeeping, statutory reporting, and project budgeting and costing are sufficiently acquired. Skills in computerized accounting system and payment processing. Internal auditing, project modeling and evaluation, management accounting and reporting and fixed asset management need enhancement.

Table 5: Financial Capacity Assessment Summary

Skills Required	Current Level	Comments
Financial accounting (bookkeeping)	High	Staff skills in this area are available.
Entity treasury (debt financing, investment, cash management)	High	Financing mechanism is well under control.
Statutory reporting	High	Financial reports are regularly prepared. No obvious problem has been found by the auditor. But there is no understanding of the financial reporting requirements for ADB funding.

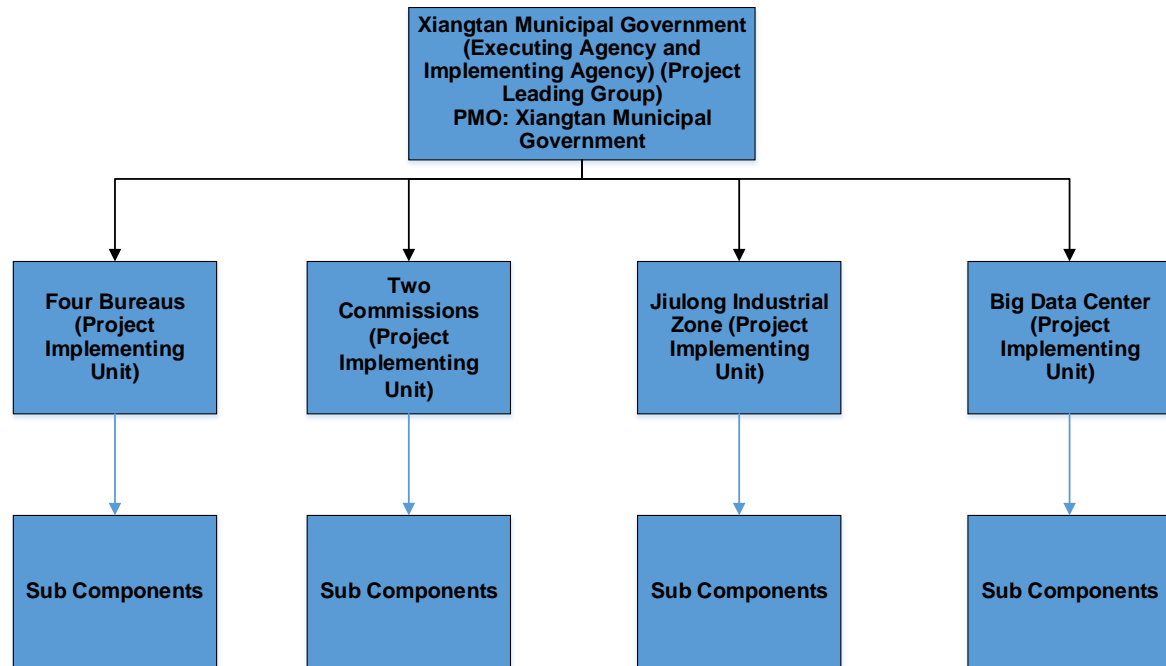
Skills Required	Current Level	Comments
Accounting system	Medium	Cash-based accounting system used by EA/IA and some PIUs do not meet project accounting requirement.
Computerized accounting	High	The accounting system has been fully computerized.
Management accounting and reporting	Medium	The management and operation are comparatively complex and management accounting needs to be improved.
Budgeting	High	The budget system is running well.
Project budgeting and costing	High	Each project has a budget and is renewed every year. Budget control is well in place. Project costing is conducted as a routine work.
Financial modeling and project evaluation techniques	Medium	Project evaluations are usually outsourcing to external consultants.
Internal control and audit	Medium	The internal control is done mainly through the computerized accounting system. The internal audit is regular and effective.
Fixed Asset Management	Medium	Fixed Asset Management capacity building that enables XMG to maintain the performance of project created fixed assets over the long term. This should build upon existing accounting practices that register and reconcile XMG asset records.

ADB = Asian Development Bank, EA = executing agency, IA = implementing agency, PIU = project implementation unit, XMG = Xiangtan Municipal Government

Source: Asian Development Bank

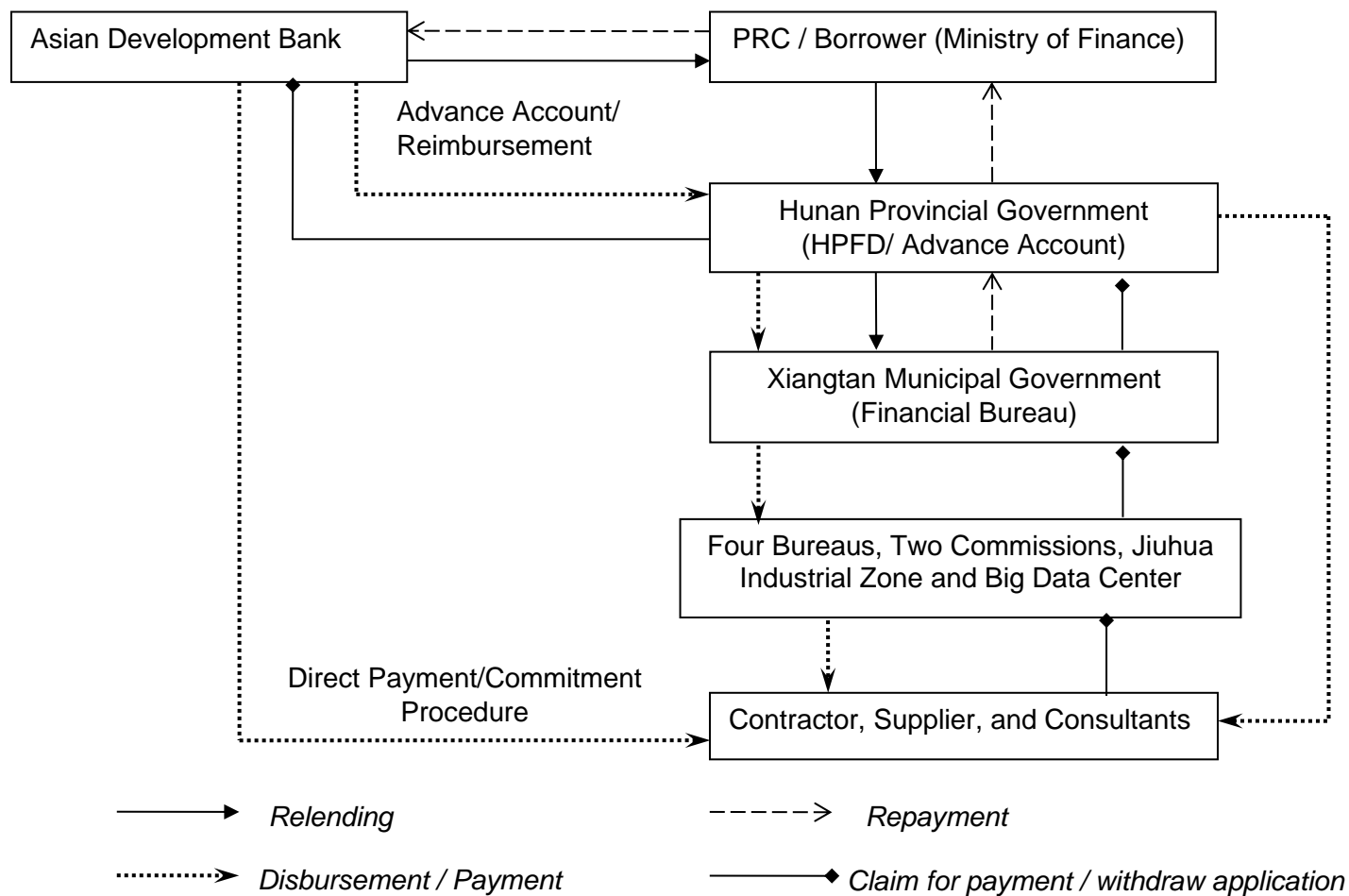
Q. Conclusion

36. EA/IA and PIUs have satisfactory financial management capability to (i) record required financial transactions and balances, (ii) provide regular and reliable financial statements and monitoring reports, and (iii) safeguard financial assets, but none of them have previous experience in financial management and are familiar with ADB loan management policies and procedures. Taking account into existing circumstances of finance and accounting of EA/IA and PIUs, overall financial management risk-rating of the project at appraisal stage is moderate.

Annex 1: Project Organization Structure

PMO = project management office.

Annex2: Draft Flow of Funds



ADB = Asian Development Bank, HPFD = Hunan Provincial Finance Department, PRC = People's Republic of China

Annex 3: Summary of Completed Financial Management Assessment Questionnaires

		Xiangtan Financial Bureau (as representative of XMG, EA/IA)	Four Bureaus, Two Commissions, Jiulong Industrial Zone and Big Data Center under the Municipality (PIUs)
	Topic	Response	Response
1. Executive/Implementing Agency			
1.1	What is the entity's legal status/registration?	Independent legal status 006214202	All PIUs with Independent legal status
1.2	How much equity (shareholding) is owned by the Government?	No	No
1.3	Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any	No	No
1.4	Has the entity implemented an externally financed project in the past - if so, please provide details?	No	No
1.5	Briefly describe the statutory reporting requirements for the entity.	Final accounting reports of revenue and expenditure at end of a year	Balance sheet, income statement and cash flow at end of a year
1.6	Describe the regulatory or supervisory agency of the entity.	Xiangtan municipal government	Xiangtan municipal government
1.7	What is the governing body for the project? Is the governing body for the project independent?	Xiangtan financial Bureau	Financial bureau, development and reform committee
1.8	Obtain current organizational structure and describe key management personnel. Is the organizational structure appropriate for the needs of the project?	It has the organizational structure appropriate for the needs of the project based on the organization chart provided	They have the organizational structure appropriate for the needs of the project. All PIUs provided their the organization charts
1.9	Does the entity have a Code of Ethics in place?	Yes	Yes
1.10	Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	No	No

2. Funds Flow Arrangements			
2.1	Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers, to the government, EA/IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	See Annex 2: Fund Flow Diagram	See Annex 2: Fund Flow Diagram
2.2	Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes	Yes
2.3	Are the disbursement methods appropriate?	Yes	Yes
2.4	What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	No	No
2.5	In which bank will the Advance Account (if applicable) be established?	No advance account is proposed	No advance account is proposed in all PIUs
2.6	Is the bank in which the advance account is established capable of– <ul style="list-style-type: none"> • Executing foreign and local currency transactions? • Issuing and administering letters of credit (LC)? • Handling a large volume of transaction? • Issuing detailed monthly bank statements promptly? 	No advance account is proposed	No advance account is proposed in all PIUs
2.7	Is the ceiling for disbursements from the imprest account and SOE appropriate/required?	No advance account is proposed	No advance account is proposed in all PIUs
2.8	Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	No	No
2.9	Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	No, but will learn and be trained	No, but will learn and be trained

2.10	Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Yes	No
2.11	How are the counterpart funds accessed?	Xiangtan municipal Government will provide counterpart fund	Xiangtan municipal Government will provide counterpart fund
2.12	How are payments made for the counterpart funds?	See annex 2: Fund Flow Diagram	See annex 2: Fund Flow Diagram
2.13	If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	Yes	Yes
2.14	Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	No	No
3. Staffing			
3.1	What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	Director, accountant, cashier in financial division	Each PIUs has its financial division with director, accountant, cashier
3.2	Will existing staff be assigned to the project, or will new staff be recruited?	Existing staff	Existing staff will be assigned in six PIUs (Housing and Urban-rural Construction Bureau, Water Resource Bureau, Ecology and Environment Bureau, Development and Reform Commission, Jiuhua Industrial Zone, and Big Data Center) and new staff will be recruited in two PIUs (Transport Bureau and Municipal Health Commission)
3.3	Describe the existing or proposed accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	Accountant: 4 year college with work experience	All PIUs provided CVs of key accounting staff with at least two year college and work experience.
3.4	Is the project finance and accounting function staffed adequately?	Yes	Yes
3.5	Is the finance and accounts staff adequately qualified and experienced?	Yes, they are adequately qualified and experienced	Yes

3.6	Are the project accounts and finance staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	No, but will be trained	No, but will be trained
3.7	What is the duration of the contract with the finance and accounts staff?	The staff are government affiliates officials with longtime.	The staff are government affiliates officials with longtime.
3.8	Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	No need	No need
3.9	For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	No new staff	New staff will be recruited with 4 year college and work experience in two PIUs (Transport Bureau and Municipal Health Commission)
3.10	Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers and staff?	Yes	Yes
3.11	What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	No	No
3.12	What is training policy for the finance and accounting staff?	National accounting standards for administrative institutions	National accounting standards for administrative institutions
3.13	Describe the list of training programs attended by finance and accounting staff in the last 3 years.	According to need	According to need
4. Accounting Policies and Procedures			
4.1	Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes	Yes, they have an accounting system established by the MOF
4.2	Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	Yes

4.3	Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes	Yes, the chart of accounts is currently adequate to properly account for and report on project activities and disbursement categories (charts of accounts provided by all PIUs)
4.4	Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	Yes, all cost allocations to the various funding sources are made accurately and in accordance with established agreements
4.5	Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes	Yes, the General Ledger and subsidiary ledgers are reconciled
4.6	Describe the EA/IA's policy for retention of accounting records including supporting documents (e.g. ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes, all accounting and supporting documents are retained on a permanent basis in a defined system that allows authorized users easy access	Yes, all accounting and supporting documents are retained on a permanent basis in a defined system that allows authorized users easy access
4.7	Describe any previous audit findings that have not been addressed.	No	No
Segregation of Duties			
4.8	Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction, (iv) reconciliation of bank accounts and subsidiary ledgers?	(i) Yes (ii) Yes (iii) Yes (iv) Yes	Yes
4.9	Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	Yes
Budgeting System			
4.10	Do budgets include physical and financial targets?	Yes	Yes
4.11	Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	Yes

4.12	Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes, the actual expenditures are compared with the budget	Yes, the actual expenditures are compared with the budget
4.13	Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	In advance	In advance
4.14	Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	Yes	Yes
4.15	Who is responsible for preparation and approval of budgets?	The financial division prepares and people's congress approves the budgets	Financial staff prepare the budgets
4.16	Describe the budget process, Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes	Yes
4.17	Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals? Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA/IA to absorb/spend released funds? Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects? What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?	(i) yes (ii) yes (iii) yes (iv) yes (v) yes (vi) no (vii) no	(i) yes (ii) yes (iii) yes (v) yes (vi) No (vii) no in all PIUs
Payments			
4.18	Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes	Yes

4.19	Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	Yes
4.20	Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	Yes
Policies and Procedures			
4.21	What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Cash-based accounting system	Cash-based accounting system in four PIUs (Water Resource Bureau, Ecology and Environment Bureau, Development and Reform Commission, and Big Data Center), and both cash-based accounting system and accrual -based accounting system in four PIUs Housing and Urban-rural Construction Bureau, Transport Bureau and Municipal Health Commission, and Jiuhua Industrial Zone)
4.22	What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	National accounting standards for administrative institutions	National accounting standards for administrative institutions
4.23	Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes	Yes
4.24	Is the accounting policy and procedure manual updated for the project activities?	Yes	According to need
4.25	Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes	Yes
4.26	Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes, the Accounting Law has clearly defined it.	Yes, the Accounting Law has clearly defined it.
4.27	Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	Yes

4.28	Are manuals distributed to appropriate personnel?	Yes	Yes
4.29	Describe how compliance with policies and procedures are verified and monitored.	Yes, the Accounting Law has clearly defined it	Yes, the Accounting Law has clearly defined it.
Cash and Bank			
4.30	Indicate names and positions of authorized signatories in the bank accounts include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	Different person for authorized signatories, for bank passwords and for USB keys	Professional director, accountant or cashier for authorized signatories and bank passwords and USB keys in all PIUs
4.31	Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	Yes
4.32	Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	Yes
4.33	Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes every month	Yes, every month
3.34	Are all reconciling items approved and recorded?	Yes	Yes
4.35	Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	Yes
3.36	Are there any persistent/non-moving reconciling items?	No	No
3.37	Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	Yes
3.38	Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No	No
4.39	For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	No online transactions	No online transactions in six PIUs (Housing and Urban-rural Construction Bureau, Water Resource Bureau, Ecology and Environment Bureau, Development and Reform Commission, Municipal Health Commission,

			and Big Data Center) and different person possess USB keys and passwords in two PIUs (Transport Bureau and Jiuhua Industrial Zone) having online transactions.
Safeguard over Assets			
4.40	Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes	Yes
4.41	Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes	Yes, the register is updated monthly
4.42	Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes	Yes
4.43	Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Yes	Yes
4.44	Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Yes	Yes
4.45	Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Yes	Yes
4.46	Are assets sufficiently covered by insurance policies?	Some assets	Some assets
4.47	Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	According to national accounting standards for administrative institutions	According to national accounting standards for administrative institutions
Other Offices and Implementing Entities			
4.48	Describe any other regional offices or executing entities participating in implementation.	Xiangtan municipal government is executing agency and implementing agency	Eight entities under the municipality are implementing units

4.49	Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	Financial management system for performing accounting and financial management functions	All PIUs provided staff, their roles and responsibilities in performing accounting and financial management functions
4.50	Has the project established segregation of duties, controls and procedures for flow of funds and financial information, accountability, and reporting and audits in relation to the other offices or entities?	No, but will	No, but will
4.51	Does information among the different offices/implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system?	No, but will	No, but will
4.52	Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	Yes	Yes
4.53	If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	No	No
Contract Management and Accounting			
4.54	Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	No contract-wise accounting records	No contract-wise accounting records
4.55	If contract records are maintained, does the agency reconcile them regularly with the contractor?	No contract-wise accounting records	No contract-wise accounting records
Other			
4.56	Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Yes	Yes

5. Internal Audit			
5.1	Is there an internal audit department in the entity?	Yes	Yes in all PIUs
5.2	What are the qualifications and experience of the EA/IA staff?	With qualifications and experience	With qualifications and experience
5.3	To whom does the internal auditor report?	Leader, finance supervisor	Leader, finance supervisor
5.4	Will the internal audit department include the project in its work program?	Yes	Yes
5.5	Are actions taken on the internal audit findings?	Yes	Yes
5.6	What is the scope of the internal audit program? How was it developed?	All assets	All assets
5.7	Is the IA department independent?	Yes	Yes
5.8	Do they perform pre-audit of transactions?	According to need	Yes
5.9	Who approves the internal audit program?	Leaders	Leader, finance supervisor
5.10	What standards guide the internal audit program?	National standards	National standards
5.11	How are audit deficiencies tracked?	Following the tracks and correcting	Following the tracks and correcting
5.12	How long have the internal audit staff members been with the organization?	3 years at least	
5.13	Does any of the internal audit staff have an IT background?	Yes	Some have
5.14	How frequently does the internal auditor meet with the audit committee without the presence of management?	According to need	Yes
5.15	Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Yes	Yes
5.16	Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Not sufficient knowledge and understanding, but they will learn and be trained	Not sufficient knowledge and understanding, but they will learn and be trained

6. External Audit- entity level			
6.1	Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes, municipal audit bureau	Yes, municipal audit bureau
6.2	Are there any delays in audit of the entity? When are the audit reports issued?	No, in every year	No, in every year
6.3	Is the audit of the entity conducted according to the International Standards on Auditing or the International Standards for Supreme Audit Institutions, or national auditing standards?	National auditing standards	National auditing standards
6.4	Were there any major accountability issues brought out in the audit report of the past three years?	No	No
6.5	Does the external auditor meet with the audit committee without the presence of management?	According to need	Yes
6.6	Has the entity engaged the external audit firm for any non-audit engagements (e.g., consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No	No
6.7	Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No	No
6.8	Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	A little	No
6.9	Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No	No
External Audit- Project level			

6.10	Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Municipal audit bureau	Municipal audit bureau
6.11	Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No	No
6.12	Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Yes	Yes
6.13	Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA/IA and the auditor?	Yes	Yes
6.14	Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	Yes	Yes
6.15	Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Not sufficient knowledge and understanding, but they will learn and be trained	Not sufficient knowledge and understanding, but they will learn and be trained
6.16	Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	No
6.17	[For second or subsequent projects] Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	No	No
7. Reporting and Monitoring			
7.1	Are financial statements and reports prepared for the entity? In accordance with which accounting standards?	National Accounting Standards	National Accounting Standards
7.2	Are financial statements prepared for the implementing unit?	Yes	Yes

7.3	What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Yes, every year	Yes, every month
7.4	Does the entity reporting system need to be adapted for project reporting?	Yes	No, but will (Transport Bureau, and Development and Reform Commission)
7.5	Has the project established financial management reporting responsibilities that specify what reports to be prepared, the report content, and purpose of the reports?	Yes	Yes
7.6	Are financial management reports used by management?	Yes	Yes
7.7	Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	Yes
7.8	How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Financial reports are prepared according to requirement of MOF	Financial reports are prepared according to requirement of MOF
7.9	Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	No	Yes
7.10	Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes	Yes
8. Information Systems			
8.1	Is the financial management system computerized?	Yes	Yes
8.2	If computerized, is the software off-the-shelf, or customized?	Yes, software standalone(Zhong Ke Jiang Nan)	Yes, software standalone (Xin Zhong Da, Zhong Ke Jiang Nan)
8.3	Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Financial Internal Network	Financial Internal Network

8.4	How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Manual entry	Manual entry in six PIUs (Housing and Urban-rural Construction Bureau, Transport Bureau, Municipal Health Commission, Jiuhsia Industrial Zone, and Big Data Center) and automatic entry in others (Water Resource Bureau, Development and Reform Commission)
8.5	Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Yes	Yes
8.6	Can the system produce the necessary project financial reports?	No	Yes in two PIUs (Housing and Urban-rural Construction Bureau and Jiuhsia Industrial Zone) and no in the others
8.7	Is the staff adequately trained to maintain the system?	No	Yes in five PIUs (Housing and Urban-rural Construction Bureau, Transport Bureau, Municipal Health Commission, Jiuhsia Industrial Zone and Big Data Center) and no in the others
8.8	Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	Yes in all PIUs
8.9	Are there back-up procedures in place?	No	Yes in five PIUs (Housing and Urban-rural Construction Bureau, Transport Bureau, Municipal Health Commission, Jiuhsia Industrial Zone, and Big Data Center) and no in the others
8.10	Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	No	Yes in two PIUs (Jiuhsia Industrial Zone, and Big Data Center) and no in the others

ADB = Asian Development Bank, EA = executing agency, IA = implementing agency, LDH = Loan Disbursement Handbook, NGO = nongovernment organization, PIU = project implementation unit, XMG = Xiangtan Municipal Government.