

## **FINANCIAL MANAGEMENT ASSESSMENT**

### **A. Introduction**

1. This Financial Management Assessment (FMA) has been performed with the Administrative Council of the Infrastructure Fund (CAFI) as the Executing Agency (EA) and the Ministry of Public Works (MPW) as the Implementing Agency (IA). The primary objective of the assessment is to evaluate that the EA and the IA have adequate financial management system to properly manage and control the program as the IA.

2. The FMA has been prepared in accordance with Asian Development Bank's (ADB) Guidelines for the Financial Management and Analysis of Projects (2005), the Financial Due Diligence - a Methodology Note (2009) and the Financial Management Technical Guidance Note (2015).<sup>1</sup> This FMA incorporates the Financial Management Internal Control and Risk Management Assessment required by the Guidelines. The process is designed to assess (i) fund-flow arrangement, (ii) staffing, (iii) accounting and financial reporting system, (iv) financial information system, and (v) internal and external audit arrangements for the project, in order to estimate the potential risk in each category. It also includes provision of risk mitigation measures for the identified risk factors. The assessment was based on the results of the FMA questionnaire, discussions with officers from the MPW and information available from previous FMA reports.

### **B. Project Description**

3. The Government of Timor-Leste (the government) has requested financing from ADB for the project to establish water supply and sanitation systems in Lospalos, Same and Viqueque cities of Timor-Leste. The project will support the establishment of water supply systems, septage treatment plants and public toilets in these three cities. MPW is responsible for the implementation of the project. The system will supply water to domestic, institutional, and commercial consumers. The project is expected to commence operations in 2026. The project will also build the capacity of MPW; the Municipal Water, Sanitation, and Environment Services (SMASA); and the newly established state-owned water utility, Bee Timor-Leste, in service delivery, planning, financial management, and operation and maintenance (O&M). The total project cost is approximately \$62.5 million.

### **C. Country-level Financial Management Issues**

4. ADB's Timor-Leste's Country Partnership Strategy (CPS) for 2016–2020 notes that despite recent progress, public sector capacity remains limited. Recent assessments identified significant weaknesses in the systems for planning, implementation, and O&M of public investments. These weaknesses create a risk that public investment will fail to address the key constraints to inclusive growth and will undermine long-term fiscal sustainability.

5. Country Public Financial Management (PFM) arrangements were assessed in 2018 by the World Bank using the Public Expenditure Financial Accountability (PEFA) Assessment 2018,

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<sup>1</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila; and ADB. 2015. *Financial Management Technical Guidance Note*. Manila.

Performance Measurement Framework.<sup>2,3</sup> The assessment noted that in the 4 years between the earlier assessment done in 2013 to 2018, PEFA score has improved in 7 of the 28 indicators whereas in case of 9 indicators, the performance has deteriorated. The key indicators which improved over the past few years include (i) expenditure out-turn compared to budget; (ii) extent of unreported Government operations; (iii) transparency of inter-governmental fiscal relations; (iv) oversight of aggregate fiscal risk; (v) scope and frequency of debt sustainability analysis; (vi) recording and management of cash balances, debt and guarantees; (vii) effectiveness of internal control for non-salaried expenditure; and (viii) effectiveness of internal audit. The key indicators which deteriorated include (i) aggregate revenue out-turn as compared to budget; (ii) medium term planning; (iii) effectiveness of payroll controls; (iv) timeliness and regularity of accounts reconciliation; (v) quality and timeliness of annual financial statements; (vi) legislative scrutiny of annual budget law; and (vii) legislative scrutiny of external audit reports. On a standalone basis, out of 31 indicators, good PFM practice is visible in 16 indicators (rating of C to A) whereas in case of 15 indicators, the performance has been weak (D or D+).

6. Despite some improvements, substantial weaknesses in the PFM system diminished the relative strength of the Ministry of Finance (MOF). Budget planning and implementation capacity of line ministries are still weak, internal audit is almost non-existent, budget coverage is incomplete, and an independent external auditor is missing. Multi-year budgeting, development of sectoral investment strategies, orderliness of the budget process, and procurement remain a concern with regard to the overall effectiveness of the public financial management.

7. The government has been taking several reform measures to improve PFM during the past few years. Some of the recent initiatives include (i) fiscal reform; (ii) performance management reform and (iii) program-based budgeting. These are on-going reforms and are expected to improve Timor-Leste's PFM significantly in the future.

8. Recognizing the weaknesses of the current public financial management system, ADB CPS for 2016–2020 indicates that ADB will help strengthen systems for public financial management, procurement, and corruption prevention. It also notes that as the public sector delegates maintenance and service delivery functions to the private sector, it must build capacity in contract management. ADB loans and technical assistance will pay particular attention to these demands, including regulatory needs.

## **D. Project Financial Management System**

9. The CAFI is the EA for the project as supported by the Major Project Secretariat (MPS). The MPS is overall in charge of reviewing budget proposals, submission to the budget committee and attending budget hearings for projects that will be financed under the Infrastructure Fund. It also serves as a project steering committee as project implementation issues are referred to it for resolution.

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<sup>2</sup> Under the Public Expenditure Financial Accountability (PEFA) framework, performance is assessed in relation to eight dimensions of public financial management: (i) budget reliability; (ii) transparency of public finance; (iii) management of assets and liabilities; (iv) policy based fiscal strategy and budgeting; (v) predictability and control in budget execution; (vi) accounting, recording, and reporting; and (vii) external scrutiny and audit.

<sup>3</sup> World Bank 2020. Timor-Leste. *Public Expenditure and Financial Accountability Assessment 2018. Public Financial Management Performance Report.*

10. PW has been the IA for a number of projects in various sectors including transport, water supply and sanitation in the past.<sup>4,5,6</sup> However, as MPW's capacity is inadequate in the areas of financial management and project management, projects have always been managed through project management units (PMU).

11. The fiscal year (FY) for the central government is from 1 January to 31 December. For MPW and other central ministries and departments, the government has a highly centralized payments and payroll system located in the MOF. MOF installed a financial management and information system (FMIS) called 'Free Balance' financial software. All transactions are processed by MOF Treasury staff. Accounting and reporting is done on a cash basis and consolidated financial statements are produced by MOF. Access to the Free Balance system by line ministries is provided by a network but it enables them to read only the data in respect of transactions that the MOF Treasury Directorate has actually input. Payroll is managed by a separate system known as 'CHRIS' which also currently represents the personnel management system for the government.

12. MPW has limited financial autonomy with regard to financing and procurement which requires prior approval of MOF or the CAFI (in the case of projects involving funding from the Infrastructure Fund including this project). MPW is responsible for preparing an annual action plan (AAP) to feed into budget preparation which is intended to serve as a link between the Strategic Development Plan and annual budget. Budgets are prepared for all major activities so that budget allocations may be compared with actual expenditures. Progress against the annual action plan is recorded in Quarterly Reporting Matrices. MPW is required to submit financial statements for MOF to prepare consolidated government financial statements. The finance department also prepares monthly financial reports which are submitted to the management within MPW to assist planning and decision-making activities.

13. **Project Implementation Structure.** A PMU would be formed in MPW to manage the implementation of the project and would be supported by Project Supervision Consultants (PSC). The PSC would include finance and accounting staff to assist the PMU in submission of documents to ADB as also in preparation and submission of Audited Project Financial Statements (APFS).

14. **Funds Flow.** A combination of direct payment and advance account methods would be used for disbursement of ADB loan and the Global Environment Facility grant. Direct payment by ADB would be used to pay contractors and consultants, wherever possible. ADB would also transfer funds to the government through advance accounts for certain other expenditure. All payments would be approved by the PMU based on invoices and contractors and consultants would then be paid. MPW would open two separate bank accounts in a Bank acceptable to ADB for deposit of advance account funds for both the loan and grant. In some earlier projects financed by ADB, instances have been highlighted of delayed payments to consultants. In order to avoid such situations in this project, it has been agreed that payments would be made within the

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<sup>4</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Republic of Timor-Leste for the Road Network Upgrading Sector Project*. Manila.

<sup>5</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Republic of Timor-Leste for the Dili to Baucau Highway Project*. Manila.

<sup>6</sup> ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grants to the Democratic Republic of Timor-Leste for the Baucau to Viqueque Highway Project*. Manila.

timelines stipulated in the guidelines issued by International Federation of Consulting Engineers (FIDIC). A detailed Funds Flow diagram is enclosed as Appendix A.

15. **Staffing.** Financial management capacity is very limited in MPW. Earlier experience with multiple ADB projects<sup>7</sup> has indicated the inadequacy of financial management system in MPW, evidenced by non-maintenance of accounting records as per internationally accepted accounting standards, inadequate reporting and delayed submission of Audited Project Financial Statements. Consequently, the project implementation as also financial management activities of the project would be delegated to the PMU proposed to be formed for this purpose. The PMU would be supported by a PSC. The PMU is expected to have representatives from the government and would be responsible for various aspects of project implementation, including (i) preparation of an overall implementation plan and annual budgets; (ii) overall interagency coordination; (iii) management of the bidding processes; (iv) management of the capacity development activities; (v) project financial management; (vi) project safeguards plan implementation; (vii) consolidation, review, and submission of regular progress and financial reports to ADB and the MPW; (viii) having the annual project financial statements audited and submission of the same to ADB and (ix) monitoring and evaluation of project outputs and results. Consequently, with a view to improve FM systems, it is now proposed to stipulate a loan covenant for recruitment of an International Finance Specialist as part of the PSC to support the PMU in improving FM.

16. **Planning and Budgeting.** Every year, the line Ministries submit their budget proposals for the next financial year (January to December) to the government. The consolidated budget for Timor-Leste is then submitted to Parliament after its approval by the Council of Ministries. The State Budget for Timor-Leste for the ensuing financial year is published in December after the approval of the same by the Parliament. Financial reports are prepared in accordance with the Budget and Financial Management Law. Under the new system, the government has now ceased the practice of carrying over funds from previous years' budgets which have been unspent. This new system represents a move towards achieving better compliance with international accounting standards. Budget for the project would be prepared every year based on implementation schedule and would be submitted to the Government for inclusion in the Country budget. Once approved by the Government, the PMU would monitor the budget utilization. The requirement of counterpart funds would also be included in the budget. Regular review of expenditure will be conducted and a budget vs actual analysis will also be done. The relationship between physical progress and disbursement would also be analyzed.

17. **Accounting Policies and Procedures.** The government adopted the full cash basis of the International Public Sector Accounting Standards (IPSAS) in 2012. MOF uses computerized financial management information system software known as Free Balance, which was introduced by the United Nations Transitional Administration of East Timor (UNATET). Until recently, appropriations, the General Ledger, Procurement, and Assets modules were included in the system. The payroll system was also integrated into Free Balance, which has reduced the need to input the same data several times, reducing the likelihood of errors.

18. Only MOF can fully utilize Free Balance, since other ministries including MPW have only read-only access to the system. This means that line ministries are required to maintain shadow ledgers to record financial transactions, which are not reconciled with MOF data. As a result, the

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<sup>7</sup> ADB. 2017. *Project Procurement Related Review. Road Network Upgrading Project. Road Network Upgrading (Sector) Project*. Manila.

current system does not allow the complete tracking of line ministry transactions. MOF is currently in the process of expanding access to FMIS which will allow line ministries to directly input data into the system which is expected to improve audit trails, increase monitoring of expenditure and revenue performance, improve cash management and control of error and fraud through an increased ability to analyze expenditure trends. However, until the MPW computer system is fully integrated into the government network, it will not be possible for finance staff to have complete access to Free Balance, and duplicate records will have to be maintained in Excel. Restricted access also limits the ability of management within MPW to gain full access to financial statements which would assist with planning and decision-making processes.

19. While MPW accounting systems are generally sufficient to handle basic government accounting procedures, the accounting staffs do not have experience preparing financial statements or reports that conform to international accounting standards. In accordance with the government practices, project accounts would also be maintained on cash basis. The project financial statements would be prepared by the PMU and after audit by the independent auditors, the same would be submitted to ADB by MPW. To enable adherence of project financial statements to international accounting standards, a project accounting software would be procured and implemented in PMU and an International Financial Specialist would be recruited as part of PSC to support PMU in this regard.

20. **Internal controls.** As per the PEFA report 2018, segregation of functions between authorization, payment and recording is prescribed throughout the expenditure process. Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for most types of expenditure. Payment rules and procedures are strictly enforced through the Government Resource Planning system. Payment statistics are closely monitored by the Directorate General (DG), Treasury. PMU will follow the same internal control system (segregating of functions, enforcement of payment rules and procedures and expenditure controls) followed by the Government in incurring expenditure. PSC would assist PMU in this regard.

21. **Internal Audit.** In the government, Internal audit function is lodged at the Office of the Internal Audit (GAI) under Ministry of Finance. The GAI is currently staffed with one national director, four internal auditors and one administrative staff, and its budget is centralized under the DG Corporate Services. GAI's annual audit plan and activities are established formally based on a risk-assessment approach but its implementation is subject to resource availability. As a result, not all identified high-risk units, including MPW, are provided internal audit services. However, with greater devolution of financial management powers to line ministries, there is a greater need for an effective internal auditing system. The International Finance Specialist of the PSC would diagnose the internal control system and develop an internal audit manual to support MPW to strengthen its internal audit function.

22. **Independent audit.** The Câmara de Contas (CdC) acts as the Supreme Audit Institution of Timor Leste and has a mandate to conduct financial audits of all Government entities. While Timor Leste has not adopted national accounting standards, CdC applies the International Standards of Supreme Audit Institutions (ISSAI) standards in most of its auditing exercises. Due to limited resources of CdC, its overall coverage is reported to amount to less than 80% of the revenue, expenditures, assets and liabilities of all Central Government entities. In view of the to the limited resources of CdC, MPW will engage independent external auditors acceptable to ADB to audit the project financial statements on an annual basis. This practice has also been followed

in the existing ADB financed projects. MPW will submit to ADB certified copies of audited annual project accounts as well as the auditor's report in English within 6 months of each financial year-end during implementation. The auditor will conduct the audit as per the terms of reference agreed with ADB.

23. **Safeguards over assets.** The PMU maintains the fixed assets register for the project. It is updated when the project purchases any new asset. All information related to whom it belongs to, locations, where/when are recorded completely. All assets are listed, numbering and rechecked every year.

24. **Reporting and Monitoring.** DG Treasury has been tasked to prepare consolidated financial reports of the Government of Timor Leste. As per PFM Law, quarterly financial reports are published. Some reports are published annually. The quarterly reports provide information against the programmatic structure (programme, sub-programme, activity) for both Central Government institutions as well as autonomous public agencies. The PMU will provide Quarterly Progress Reports (QPR) of this project in a format as agreed with ADB. The quarterly progress report (QPR) would include (i) introduction and basic data regarding the project, (ii) details regarding utilization of funds, (iii) project purpose and implementation progress, (iv) status of compliance with covenants, and (v) any major project issues and problems. The project would also submit the APFS to ADB within 6 months of end of the financial year. In order to improve the quality of FM submissions, apart from procuring an accounting software, a FM Specialist (International) would be engaged as part of the PSC team. MPW will prepare and submit to ADB a project completion report within 3 months of the completion of the project, and an investment project completion report after completion of all subproject components under the proposed project.

25. **Information Technology.** Timor-Leste has implemented an IFMIS that incorporates the PFM components of budgeting, accounting, procurement, contract management, asset management, and payroll computerized financial systems into one entity. The Government of TL has engaged the services of Free Balance Inc. as the software and service provider for the IFMIS system. Free Balance is run and managed by the DG, Treasury. The project would maintain its own accounting records. With a view to improve Financial management, it is proposed that the project procure an appropriate accounting software for preparation of Project Financial Statements (PFS) to ensure data integrity of the PFS.

26. **Risk Description and Rating.** The FMA reviewed two types of risks (i) inherent risks, i.e., risks outside the direct control of the entity's financial management, and (ii) control risk, i.e., risks concerning the internal functioning and control of the entity's accounts division. The following key risks have been identified. Based on the assessment, it is concluded that the overall project financial management risk, pre-mitigation, is Substantial. The result of risk management assessment is summarized in Table 1.

**Table 1: Financial Management Internal Control and Risk Assessment (FMICRA)**

<b>Risk Type</b>	<b>Risk Rating</b>	<b>Risk Description</b>	<b>Mitigation Measures</b>
<b>A. Inherent Risks</b>			
1. Country specific risks	Substantial	<p>Timor-Leste's PFM is substantially weak. As per PEFA 2018, budget planning and implementation capacity of line ministries are weak, internal audit is almost non-existent, budget coverage is incomplete, and an independent external auditor is missing. Multi-year budgeting, development of sectoral investment strategies, orderliness of the budget process, and procurement remain a concern with regard to the overall effectiveness of the public financial management.</p> <p>ADB's 2016–2020 Country Partnership Strategy for Timor-Leste also notes that despite recent progress, public sector capacity remains limited. Recent assessments also identified significant weaknesses in the systems for planning, implementation, and O&amp;M of public investments. These weaknesses create a risk that public investment will fail to address the key constraints to inclusive growth and will undermine long-term fiscal sustainability.</p>	<p>Various ADB TAs are in place to provide capacity building to strengthen PFM arrangements, including raising public accounting and auditing to international standards</p> <p>Other development partners are also pursuing PFM reforms in budgeting, public expenditure and PFM systems</p>
2. Entity specific risks	Moderate	MPW, even though it has implemented a number of externally assisted projects, lack adequate staff to manage both the implementation of the project as also financial reporting of the project.	<p>A PMU will be established and would be supported by a PSC with considerable prior experience of managing ADB-financed projects. MPW will be required to provide counterpart staff and technology transfer will be ensured.</p>

Risk Type	Risk Rating	Risk Description	Mitigation Measures
Overall Inherent Risk	Substantial		
B. Control Risk			
1. Implementing agency	Substantial	MPW has implemented a number of ADB financed projects. However, inadequate and non-qualified staff, absence of an accounting software for preparation of project financial statements and non-adherence to internationally accepted accounting standards etc. are areas where comprehensive institutional effort is required. In the past these shortcomings have resulted in preparation of poor-quality project financial statements and late submission of audited project financial statements.	1.A new project accounting software incorporating international accounting standards will be procured and implemented in the PMU. This condition will be stipulated in the FMAP. 2.An international finance specialist is proposed to be recruited as part of the PSC team to assist the PMU in improving the quality of project financial statements. This specialist would also provide training in FM areas to the PMU staff.
2. Funds flow	Moderate	<b>1.Implementation of project.</b> MPW have adequate experience in managing funds flow for implementation of ADB projects. All contractor payments would be made directly by ADB. Certain delays in payment to consultants was experienced in some earlier projects.  <b>2.Operation and Maintenance of project assets.</b> Inadequate budgetary allocation for operation and maintenance of project assets could be a risk.	1.It is proposed to stipulate covenant that MPW would make payment to the consultants within a period of ____ days of submission of invoice.  2.The construction contractor is expected to operate and maintain the project assets for a period of 2 years after which period the government would take over the functioning. The O&M expenditure for this 2-year period is included in the project cost and



Risk Type	Risk Rating	Risk Description	Mitigation Measures
			hence no issue is envisaged in this regard.
3. Staffing	Substantial	MPW, even though it has implemented a number of externally assisted projects, lack adequate staff to manage the financial aspects of the project, especially in the areas of disbursement and financial reporting. This could lead to delays in submission of financial reports, as has happened in the past	<p>1. PMU will be established at MPW and supported by PSC.</p> <p>2. To ensure that project financial statements are prepared in accordance with acceptable international accounting standards, the PSC would include an International Finance Specialist to help prepare project financial statements.</p> <p>3. The PMU will be supported by a dedicated accountant who will be complemented by a national consultant with sufficient accounting background and experience.</p> <p>4. Extending full training and capacity building support for strengthening the capacity of MPW in ADB disbursement procedures and submission of financial reports.</p>
4. Accounting Policies and Procedures	Moderate	The capacity of MPW staff to provide financial reporting in accordance with international standards is weak.	Develop a project-specific financial management manual for the PMU and provide financial

<b>Risk Type</b>	<b>Risk Rating</b>	<b>Risk Description</b>	<b>Mitigation Measures</b>
			management training to the MPW PMU.
5. Internal Audit	Substantial	Weak capacity of The Office of Internal Audit (GAI) (of the MOF) which has jurisdiction over all the public institutions but does not have the resources to effectively fulfil its responsibilities. Hence no internal audit has been conducted of the MPW.	The International Finance Specialist of the PSC would diagnose the internal control system and develop an internal audit manual to support MPW to strengthen its internal audit function.
6. External Audit	Substantial	Lack of timely audit process could lead delays in submission of audited project financial statements to ADB. The quality of the APFS was under expectation.	External auditor will be hired to audit the project financial statement. TOR of the external auditor will be confirmed by ADB.
7. Financial reporting	Moderate	The quality of financial statements and reports prepared are not of the required quality. The reports were also not submitted within due dates in the past. Absence of usage of accounting software for reporting is one of the key reasons for such delays	The project will support the procurement and implementation of an accounting software.
8. Information System	Substantial	Back-up of financial data are infrequent and not secure.	Regular backups of all accounting systems and appropriate security measures over backed-up data should be put in place.
<b>Overall Control Risk</b>	<b>Substantial</b>		
<b>Overall Combined Risk</b>	<b>Substantial</b>		

ADB = Asian Development Bank, EA = Executing Agency, FMAP = Financial Management Action Plan, GAI = Office of Internal audit, MOF = Ministry of Finance, MPW = Ministry of Public Works, O&M = Operation and Maintenance, PEFA = the Public Expenditure Financial Accountability, PFM = public financial management, PSC = Project Supervision Consultant, PMU = Project Management Unit, TA = Technical Assistance, TOR = terms of reference.

**27. Financial management action plan.** Actions are recommended to address identified financial management challenges and related fiduciary risks (Table 2). ADB and the government

will discuss and agree on a financial management action plan prior to loan negotiations. The final agreed plan will be regularly reviewed for progress and updated when required. This will include addressing any identified new issues.

**Table 2: Financial Management Action Plan (FMAP)**

<b>Key Risks</b>	<b>Agreed Action</b>	<b>Responsibility</b>	<b>Timelines</b>
<b>Implementing agency</b> Weak project financial management systems of implementing agencies	The PMU will set up project financial management systems to record, document, and report project financial data, and appoint an external auditor to periodically audit such data as required by ADB, separate from those required under government regulations.	MPW	within three months of loan effectiveness
<b>Staffing</b> Shortage of staff skilled in financial management	An international financial management specialist will be recruited as part of the PSC to assist the PMU. ADB will provide training on ADB financial requirements and disbursement guidelines to the PMU.	ADB, PSC, PMU	within three months of loan effectiveness
<b>Internal Audit</b> Weak capacity of the Office of Internal Audit	The international financial management specialist of the PSC will develop an internal audit manual and provide training in audit control and procedures. The MPW will ensure that the government internal audit department includes the project in its annual internal audit program.	PSC, MPW	within three months of loan effectiveness, before three months of year end
<b>External Audit</b> Delay of external audit process and low quality of APFS	External auditor for the project financial statement will be outsourced. The terms of reference of the external auditor will be confirmed by ADB.	MPW	before three months of fiscal year end
<b>Reporting and Monitoring</b> Poor quality of financial reports	PSC will develop the financial reporting manual and guidelines in consultation with the Ministry of Public Works. PSC will provide training to MPW to improve capacity in financial management and accounting. An international finance specialist will be recruited as part of PSC to improve financial reporting.	MPW, PSC	within six months of loan effectiveness

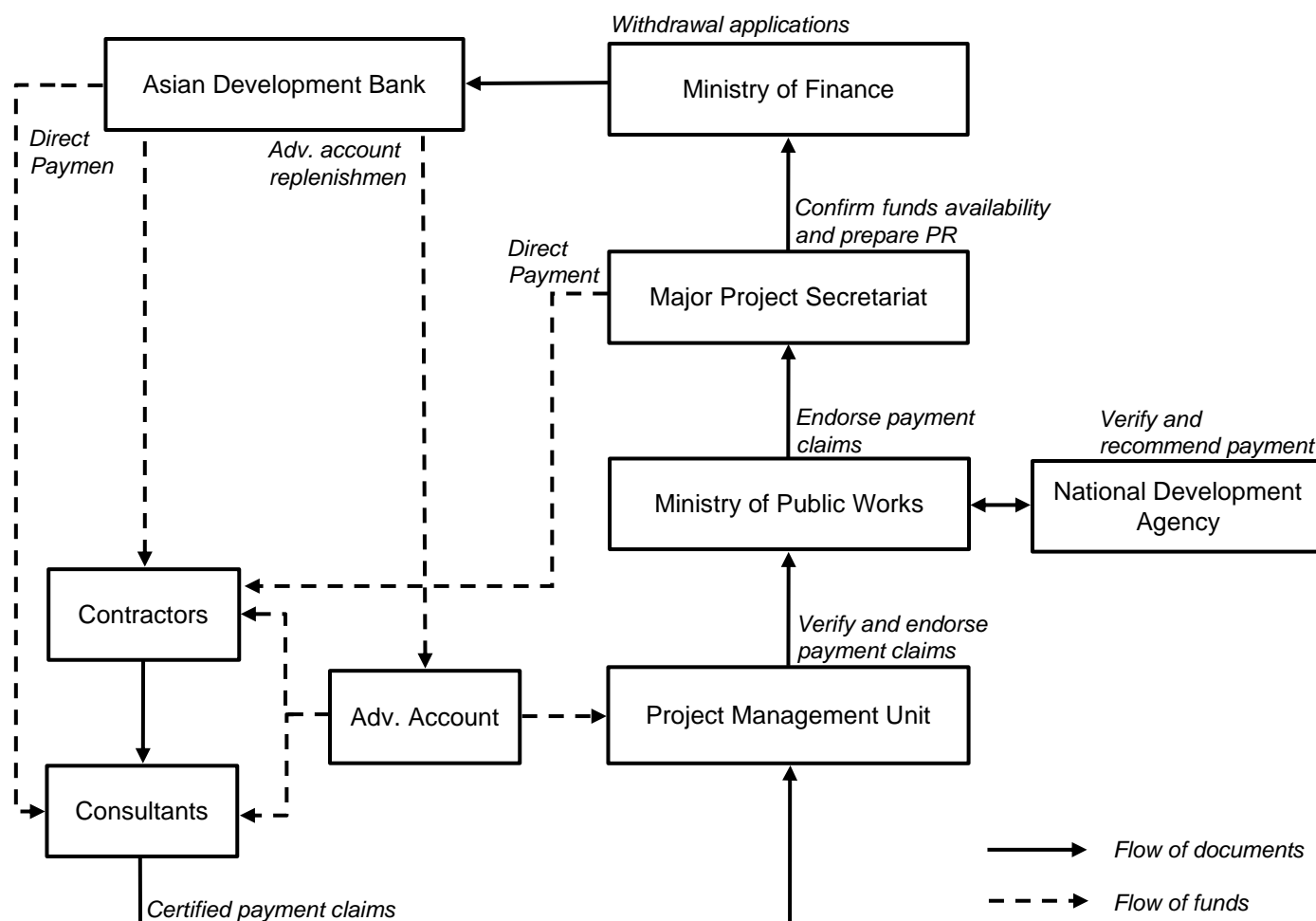
Key Risks	Agreed Action	Responsibility	Timelines
<b>Information Systems</b> Absence of accounting software and weak financial data backup systems	PSC will develop the financial reporting manual and guidelines in consultation with the Ministry of Public Works. PSC will provide training to MPW to improve capacity in financial management and accounting. An international finance specialist will be recruited as part of PSC to improve financial reporting.	MPW, PMU	within three months of loan effectiveness

ADB = Asian Development Bank, MPW = Ministry of Public Works, PSC = Project Supervision Consultants, PMU = Project Management Unit.

28. **Conclusion.** The financial management assessment indicates Substantial fiduciary risk. While some financial management weaknesses and shortcomings have been identified for the government, these can be effectively addressed through the proposed mitigation measures and actions, including engaging dedicated Finance Experts in the PMU and PSC. Based on these being fully and properly implemented, the financial management arrangements are considered adequate.

## Appendix A

## Fund Flow Diagram



ADB=Asian Development Bank, ADN = National Development Agency, CPV = cash payment voucher, GEF = Global Environment Facility, MOF = Ministry of Finance, MPW = Ministry of Public Works, PR = payment request.

## Fund Flow Arrangements:

1. Government of Timor-Leste through MOF signs the loan and grant agreement with ADB. GEF authorizes/provides the grant funds.
2. PMU submits requests through MPW to Treasury for approval of the advance account replenishments, direct payments, and reimbursements.
3. Treasury submits to ADB signed withdrawal applications for advance accounts replenishments, direct payments, and reimbursements.
4. ADB deposit advance accounts replenishments.
5. PMU processes and request approval through MPW to Treasury for disbursement from advance account.
6. Consultants submit contractors certified payment claims to PMU to be verified and endorsed for payment.
7. Consultants submit their payment claims to PMU to be certified and endorsed for payment.
8. PMU submit the payment claims and supporting documents from contractors and consultants through MPW to ADN for verification and payment recommendation.
9. After ADN recommendation, MPW submits the payment claims and supporting documents to MPS.
10. MPS confirm funds availability and pays directly claims of contractors and consultants from the counterpart funds portion.
11. MPS prepare payment request to Treasury for the ADB portion.
12. ADB pays directly claims of contractors and consultants after receiving from Treasury the signed withdrawal application and supporting documents.