

FINANCIAL MANAGEMENT ASSESSMENT

A. Summary

1. This financial management assessment (FMA) was conducted in March 2021, in accordance with the Asian Development Bank's (ADB) guidelines for the Financial Management and Analysis of Projects, Financial Due Diligence: A Methodology Note, and Financial Management Technical Guidance Note on Financial Management Assessment.¹ The assessment was based on ADB's financial management assessment questionnaire (Annex 1) and previous FMAs of the Ministry of Health (MOH).

2. The scope of this FMA was to assess the financial management capacity of the executing agency and project implementation unit (PIU). The assessment includes review of funds flow arrangements, staffing, accounting policies and procedures, internal and external auditing arrangements, reporting and monitoring, and financial information systems.

3. MOH is the executing agency, and MOH's Department of Public Health Policy Implementation and the National Center for Communicable Diseases are the implementing agencies. MOH has experience in preparation, implementation, and management of projects funded by the international donor organizations, including ADB, Government of Australia, Government of Belgium, the Export-Import Bank of Korea (Korea Eximbank), United Nations Development Programme, and the World Bank. The PIU will be established within MOH to implement this project that will be funded from the Japan Fund for Poverty Reduction (JFPR) and administered by ADB. The Ministry of Finance (MOF) and MOH are responsible for financial management of the project, including advance account management, disbursements, preparation of project financial reports and requests in compliance with ADB and MOF requirements, and providing counterpart funds for the project. The PIU will be responsible for daily coordination and management of project implementation. The PIU will have a qualified financial specialist contracted to work on the project.

4. Although MOH has few financial staff with significant experience in ADB projects, MOH supervises PIUs for the ADB-funded fourth and fifth health sector development projects, whose staff include a financial specialist with the experience in and knowledge of project financial management and reporting in compliance with the ADB requirements.² MOH accounting policies and procedures, internal and external controls, audit arrangements, and reporting system are adequate, although the MOH internal audit team was only established in December 2020. Even though MOH has implemented ADB projects since 1993, the PIU staff for this project will require training and support on ADB policies and procedures, including financial management, disbursement, and project management. Further, the financial specialist recruited for the PIU should have at least 5 years of experience in financial management for ADB or other international financial institution-funded projects.

5. The MOF and MOH are responsible for the pass-through advance account and local currency account of the project, withdrawal applications, and disbursements. These are administered by the PIU under the direction of MOH.

¹ 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: Financial Management Assessment](#). Manila.

² ADB. [Mongolia: Fourth Health Sector Development Project](#); and ADB. [Mongolia: Fifth Health Sector Development Project](#).

6. Table 1 summarizes the inherent and control risks of the project.

Table 1: Summary of Inherent and Control Risks

Risks Considered	Risk Level without Mitigation	Risk Management Measures
Country-specific risk <ul style="list-style-type: none"> • Predictability and control in budget execution are weak. On the other hand, accounting, reporting, recording, and external scrutiny and audit receive relatively strong ratings. 	Moderate	<ul style="list-style-type: none"> • ADB shall continue to support the government's effort to improve the public financial management system through capacity development during project implementation.
Entity specific risks <ul style="list-style-type: none"> • Understanding of roles between the executing agency and PIU • Lack of financial management capacity to provide assistance to PIU 	Low	<ul style="list-style-type: none"> • A clear organizational structure of the executing agency is already established in relation to the existing projects. The separation of roles and responsibilities between the executing agency and PIU are clear. • Work plans of core activities for the executing agency and PIU personnel are well developed. • The PIU will have an experienced financial specialist. • The executing agency and PIU will conduct training and capacity building on financial management, where necessary.
Project specific risk <ul style="list-style-type: none"> • The financial specialist should be a qualified accountant with experience in financial management with ADB or other IFI-funded projects. 	Moderate	<ul style="list-style-type: none"> • A qualified financial specialist experienced in ADB or other IFI-funded projects should be recruited into the PIU.
Overall inherent-related risk: Moderate		
Implementing entity <ul style="list-style-type: none"> • Experience of executing agency in implementing ADB projects 	Low	<ul style="list-style-type: none"> • MOH has implemented ADB projects since 1993. • ADB will provide training on financial management to the PIU in Q3 2021.
Funds flow <ul style="list-style-type: none"> • Understanding of and adherence to ADB disbursement requirements and procedures 	Low	<ul style="list-style-type: none"> • Separate accounts will be maintained for activities financed by this project and will be audited by the external auditor each year.
Staffing <ul style="list-style-type: none"> • MOH has few accounting staff that have significant experience with ADB requirements 	Substantial	<ul style="list-style-type: none"> • Training on ADB's disbursement procedures and financial management will be provided to the executing agency and PIU in Q3 2021.
Accounting policies and procedures <ul style="list-style-type: none"> • Adequacy of accounting policies and procedures for the project • Accounting policies might not meet ADB standards and accounting procedures used by the PIU might not follow the adopted standard 	Low Low	<ul style="list-style-type: none"> • MOH has accounting policies and procedures for ongoing projects. • MOH has accounting policies and procedures for the fourth and fifth health sector development projects and these will be transferred to the JFPR project.^a • The fourth and fifth health sector development

Risks Considered	Risk Level without Mitigation	Risk Management Measures
		<p>projects' PIU provides financial management that follows International Public Sector Accounting Standard-accrual procedures. That PIU also follows generally accepted accounting principles, specifically accounting methods for projects financed by ADB. The above procedures will continue in the JFPR project.</p> <ul style="list-style-type: none"> • ADB will provide training to the PIU in Q3 2021 on ADB accounting policies and procedures.
<p>Internal audit</p> <ul style="list-style-type: none"> • Capacity in the internal audit department of MOH requires improvement as the staff are new; the internal audit team was created in December 2020. 	Substantial	<ul style="list-style-type: none"> • The internal audit department will assess the financial performance of the PIU annually. ADB will review the first audit of the PIU in 2021 and will provide advice on improving future audits.
<p>External audit</p> <ul style="list-style-type: none"> • Provide a thorough review of compliance with accounting regulations and financial covenants • Timely provision to ADB of audited annual project accounts 	<p>Low</p> <p>Low</p>	<ul style="list-style-type: none"> • Independent external auditors acceptable to ADB and the government will be engaged to audit the project accounts and check compliance with financial covenants on an annual basis. • Project financial statements and audit reports are submitted to ADB, who will retain the right to verify the project's financial accounts.
<p>Reporting and monitoring</p> <ul style="list-style-type: none"> • Regular financial reports are produced that are generally suitable for user needs but may need modifications to meet ADB requirements 	Moderate	<ul style="list-style-type: none"> • The PIU financial specialist will assist the executing agency to prepare comprehensive progress reports (including financial progress) to ADB on a quarterly basis. • Financial reporting complies with ADB and Ministry of Finance requirements.
<p>Information systems</p> <ul style="list-style-type: none"> • Financial software will be used for this project • Information system of MOH is secure and back up of financial data is done on a regular and timely basis 	<p>Low</p> <p>Low</p>	<ul style="list-style-type: none"> • The PIU will use CTS and ACOULOUS accounting softwares for budgeting, accounting, internal controls, and reporting in line with project activities. • Financial records will be backed up on a regular basis to a server located outside the PIU office and MOH.
Overall Control Risk Assessment: Moderate		
Overall Combined Risk: Moderate		

ADB = Asian Development Bank, IFI = international financial institution, JFPR = Japan Fund for Poverty Reduction, MOH = Ministry of Health, PIU = project implementation unit, Q = quarter.

^a ADB. [Mongolia: Fourth Health Sector Development Project](#); and ADB. [Mongolia: Fifth Health Sector Development Project](#).

Source: ADB.

7. The overall pre-mitigation financial management risk of the project at the appraisal stage is concluded to be *moderate*. A ranking of *moderate* risk requires the documentation and identification of risks. The most significant identified risks in financial management are that MOH

does not have financial staff who have significant experience in ADB projects, MOH just established an internal audit team in December 2020, and the PIU requires a qualified accountant experienced in ADB project accounting procedures.

8. This suggests that there are potential risks that the (i) accounts and procurement for the project may not be managed to a high standard; (ii) financial systems and procedures may not meet ADB requirements, especially in financial reporting and auditing; (iii) executing and implementing agencies and PIU financial specialist may not receive expert financial guidance; and (iv) training may not be provided to the executing agency and PIU as needed.

9. MOH agreed to implement an action plan provided in Table 2 and in the project administration manual to mitigate the noted risks and these actions will be monitored during project implementation.³

Table 2: Financial Management Action Plan

Risk	Activities to Mitigate	Responsibility	Timeline
<ul style="list-style-type: none"> Financial management staff in MOH do not have significant ADB financial management expertise. Thus, financial systems and procedures, especially financial reporting and auditing, may not meet ADB requirements; and financial management staff in the PIU may not be able to receive guidance from existing financial management staff in MOH, who are experienced with financial management for ADB projects. 	<ul style="list-style-type: none"> ADB will review financial management performance and provide assistance and training to PIU and MOH accounting staff. MOH will recruit a qualified PIU financial specialist under the project. 	ADB and MOH	<ul style="list-style-type: none"> Review of financial management in Q3 2021 and Q4 2021 by an ADB finance specialist, who can then provide training and mentoring to financial management staff in the PIU and MOH. Financial specialist to be contracted in Q3 2021 prior to grant effectiveness.
<ul style="list-style-type: none"> The MOH internal audit team was only established in December 2020 and may not have significant experience with ADB audit standards and project financial management procedures. 	<ul style="list-style-type: none"> An ADB finance specialist will review the first MOH internal audit of the project and will provide guidance on how future audits can be improved. 	ADB	<ul style="list-style-type: none"> ADB will review the draft internal audit prepared by MOH and provide feedback and guidance by Q4 2021.

³ Project Administration Manual (accessible from the list of linked documents in Appendix 2 of the Grant Assistance Report).

Risk	Activities to Mitigate	Responsibility	Timeline
Reporting and Monitoring <ul style="list-style-type: none"> Regular financial reports are produced and are suitable for user needs. 	<ul style="list-style-type: none"> Accounting and financial reporting software will be procured and used for the project's accounting and financial records and reports, supported by maintenance of hardcopy ledgers and records. 	MOH and PIU	<ul style="list-style-type: none"> At the time of grant effectiveness and recruitment of the PIU.
Implementing Entity <ul style="list-style-type: none"> Project financial management policies and procedures are adequate. 	<ul style="list-style-type: none"> The PIU will develop detailed accounting procedures to ensure effective management and control of the grant funds and assets. This action plan will be regularly reviewed and/or updated during project implementation to ensure the project responds dynamically to risks (at least semiannually during grant review missions) 	ADB, MOH, and PIU	<ul style="list-style-type: none"> Commencing from the inception mission or within 3 months of grant effectiveness to the final review mission.
<ul style="list-style-type: none"> MIS system for financial management in MOH accurately captures and reports data. 	<ul style="list-style-type: none"> Audit of the MIS system to be conducted by a third-party expert in MIS systems. 	ADB	<ul style="list-style-type: none"> Audit to be completed in Q3 2021, or within 3 months after grant effectiveness.
Funds Flow <ul style="list-style-type: none"> Understanding of and adherence to ADB disbursement requirements and procedures. 	<ul style="list-style-type: none"> ADB will provide financial training and mentorship to the executing agency as needed 	ADB	<ul style="list-style-type: none"> Starting after grant negotiations and as needed during implementation.

ADB = Asian Development Bank, MIS = management information system, MOH = Ministry of Health, PIU = project implementation unit, Q = quarter.

Source: ADB.

B. Introduction

10. The primary objective of the project is to strengthen the capacities of Mongolia to respond to the ongoing outbreak of coronavirus disease (COVID-19) by providing resources and training support that will help strengthen its capacity for: (i) conducting reverse transcription polymerase chain reaction tests, (ii) administering COVID-19 vaccines to target populations compliant with infection prevention and control protocols, (iii) ensuring complete uptake of immunization services, and (iv) undertaking post-immunization surveillance. The activities under this initiative will address the government's need to fill in the laboratory equipment gaps in hospitals and improve the knowledge of vaccinators, and health care and non-health care workers about COVID-19 vaccines. The project will build upon ADB's strong and long-lasting partnership with the government in the health sector of Mongolia, including recently approved and ongoing support for the COVID-19 response.

11. The impact of the project will be morbidity and mortality of COVID-19 reduced. The outcome will be COVID-19 detection and containment strengthened.

12. This FMA was conducted through working discussions held with the MOH officials in Ulaanbaatar in March 2021. The ADB's FMA questionnaire was used as the basis for discussions. The FMA considered the capacity of the executing and implementing agencies, including funds flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements.

1. Country Financial Management Issues

13. The latest Public Expenditure and Financial Accountability (PEFA) assessment for Mongolia was published in 2015.⁴ The report concluded that the state of public financial management in Mongolia is uneven when compared to other less developed countries. In the area of credibility of budget, there is high variation between the actual revenue and expenditure outturns and the approved budget. Predictability and control in budget execution remain a weak area. On the other hand; accounting, reporting, and recording; and external scrutiny and audit receive relatively strong assessment marks.

14. Table 3 summarizes the key results of the PEFA assessment. Budget credibility has low scores of C or D. Predictability and control in budget execution are also with low scores of C or D. Accounting, reporting, and recording has high scores of A or B. Other areas receive some high scores and some low scores.

2. Executing Agency

15. **Institutional arrangements and staffing.** MOH, as the executing agency, will be responsible for financial management of this project. In addition to its experience in managing projects financed by international donor organizations, MOH's Finance and Investment Division receives regular professional education in accounting, financial management, and procurement.

16. **Funds flow arrangements.** A pass-through account ("zero balanced account") will be established at the State Bank, and the US dollar advance account and local currency sub-accounts will be established in the Treasury Single Account following the Budget Law of Mongolia. The proposed establishment of an advance account and sub-accounts will be confirmed with MOF. One sub-account for project investments is administered by MOF and MOH to finance the project investments. Another sub-account (PIU account) is administered by the MOH and PIU to finance the PIU's operations costs (Figure 1).

17. ADB grant proceeds will be disbursed in accordance with the procedures set out in ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). Pursuant to ADB's Safeguard Policy Statement (2009), ADB funds may not be applied to the activities described in the ADB Prohibited Investment Activities List set forth in the Appendix 5 of the Safeguard Policy Statement.

18. The MOF and MOH are the co-signatories on the project pass-through and advance accounts.⁵ The replenishment of all project funds to the advance account in US dollar at the

⁴ World Bank. 2015. *Mongolia Public Expenditure and Financial Management Report*. Washington, DC.

⁵ In accordance with MOF requirements of 2020.

Treasury Single Account will be done upon request to ADB. The replenishment request is based on ADB's disbursement requirements.

19. The total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months. MOH, through the PIU, may request for initial and additional advances to the advance account through the pass-through account based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed through the account for the forthcoming 6 months.⁶ The PIU will disburse these monthly operating funds as authorized. MOH, through the PIU, can transfer money from the advance account to the local currency account at the Treasury Single Account. The provision of project funds in two currencies will help hedge against foreign exchange risks.

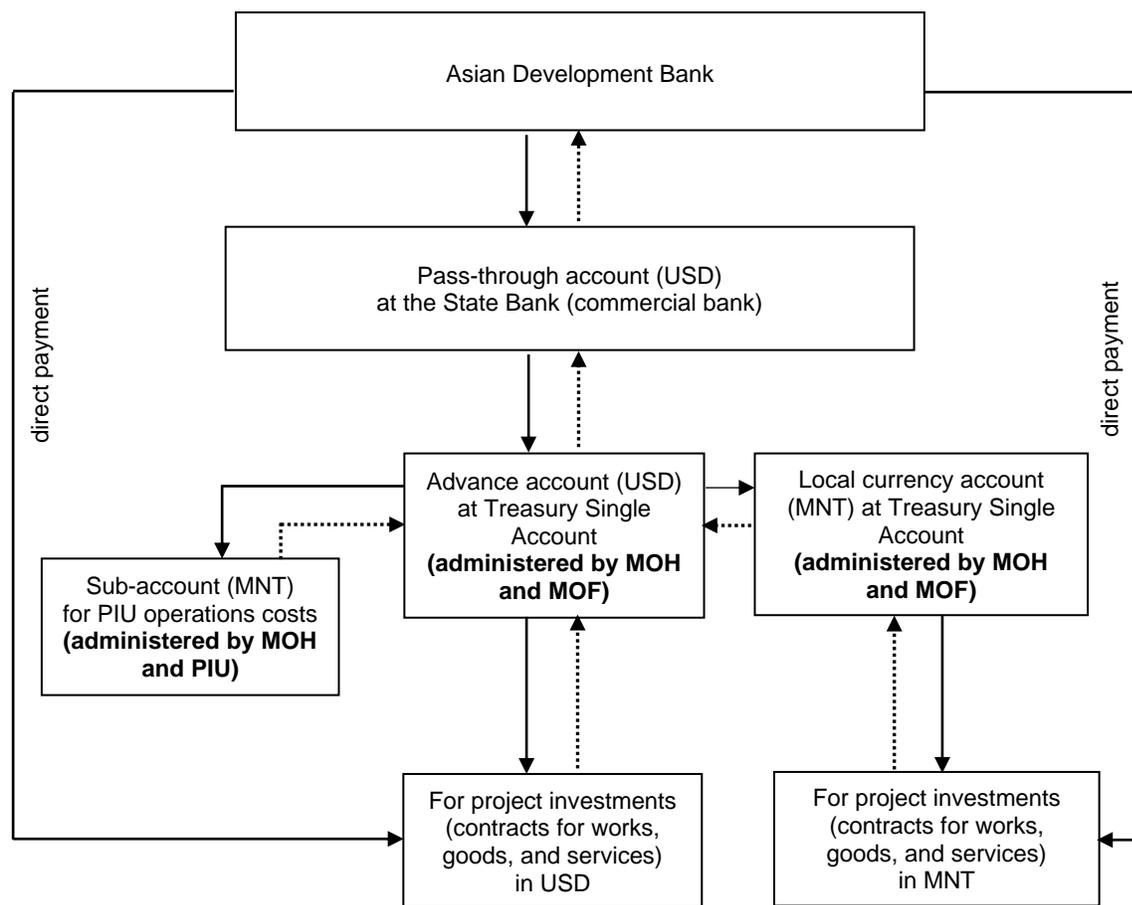
⁶ Estimate of Expenditure sheet is available in Appendix 8A of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

Table 3: Summary of Public Expenditure and Financial Accountability Assessment in 2015

	A. PFM RESULTS: Budget credibility	Score
PI-1	Aggregate expenditure out-turn compared with original approved budget	D
PI-2	Deviations in budgetary expenditure compared with approved budget	C+
PI-3	Deviations in aggregate revenue out-turn compared with original budget	D
PI-4	Stock and monitoring of expenditure payment arrears	C
	B. KEY FEATURES OF ALL STAGES: Comprehensiveness and transparency	
PI-5	Budgetary classification	C
PI-6	Comprehensiveness of information included in budgetary documentation	A
PI-7	Extent of unreported government operations	D+
PI-8	Transparency of inter-governmental fiscal relations	A
PI-9	Oversight of aggregate fiscal risk caused by other public sector bodies	C+
PI-10	Public access to key fiscal information	A
	C. BUDGETARY CYCLE	
	C(i) Policy-based budgeting	
PI-11	Orderliness and participation in the annual budget process	A
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C
	C(ii) Predictability and control in budget execution	
PI-13	Transparency of taxpayers' obligations and liabilities	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+
PI-15	Effectiveness of tax collection	C+
PI-16	Predictability in availability of funds for commitment of expenditure	D+
PI-17	Recording and management of cash balances, debt and guarantees	C
PI-18	Effectiveness of payroll controls	D+
PI-19	Competition, value for money and controls in procurements	D+
PI-20	Effectiveness of internal controls on non-salary expenditure	D+
PI-21	Effectiveness of internal audit	C+
	C(iii) Accounting, recording and reporting	
PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	A
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statement	C+
	C(iv) External scrutiny and audit	
PI-26	Scope, nature and follow-up of external audit	B+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	D+

20. The minimum value per withdrawal application is set in accordance with ADB's *Loan Disbursement Handbook*. Individual payments below the amount should be paid (i) by the executing agency and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before requesting disbursements.

Figure 1: Funds Flow Arrangements



—————> flow of funds

.....> payment requests and withdrawal applications

MOF = Ministry of Finance, MOH= Ministry of Health, MNT = togrog, PIU = project implementation unit, USD = United States dollar.

Source: Asian Development Bank.

21. **Accounting policies and procedures.** The accounting policies and procedures used by MOH are designed for recording fiscal funds receipts and payments. These policies and procedures follow the Mongolian government budget and accounting system.

22. **Segregation of duties.** A sound control system has been established by the executing agency. Following this system, the justification of all payments to be made by the PIU will be reviewed by the PIU project coordinator and then approved by the MOH. Transactions will be documented by the PIU financial specialist. Custody of assets involved in the transaction will be under the appropriate inventory keeper in MOH.

23. **Budgeting system.** The overall budget system of MOH follows the government fiscal budget system. The executing agency's overall budget is prepared on the basis of different department budgets and proposed to MOF. The MOH budget is approved by Parliament within the portfolio of the Minister of Health. The PIU will be responsible for preparing the annual project budget.

24. **Cash and bank.** The executing agency has an effective cash management system. The State Secretary of MOH, or his delegate, is the authorized signatory of all State Treasury accounts managed by MOH. The cash and bank statements are reconciled on a monthly basis. The cash management system of MOH will be applied to the advance account under this project.

25. **Internal and external audit.** MOH has an internal monitoring and evaluation department and an internal audit division that was established in December 2020. The department prepares annual internal audit plans based on risk scoring, and audits departments and MOH agencies according to the plan. Internal audit reports are prepared, and recommendations are provided to the audited agencies.

26. Every year MOH is audited by the Mongolia National Audit Office (MNAO) or an independent auditor appointed by MNAO. The MOH-administered projects are audited by an independent auditor approved by ADB. The fiscal budget implementation is the main area to be audited. This audit is conducted according to national auditing standards.

27. Per ADB requirements, projects financed by ADB in Mongolia are to be audited by an external auditor once a year. The audit will be carried out following the auditing standards and requirements of ADB. The PIU will submit to ADB the auditor's report and management letter in English within 6 months (30 June) of each fiscal year-end (31 December) during the project implementation period.

28. **Reporting and information system.** Project financial reports, as part of the progress reports, will be prepared by the PIU using financial software and submitted to ADB on a quarterly and annual basis. The reports will highlight the physical and financial progress of the project. Under this project, the PIU will continue submitting the reports to ADB on the quarterly and annual basis. The reports will include (i) narrative description of progress made during the reporting period, (ii) changes in the implementation schedule, (iii) problems or difficulties encountered, and (iv) activities to be undertaken in the next reporting period.

29. The PIU will set up the project performance management system to ensure adequate project monitoring and reporting. This system is used to prepare the project progress and completion reports. The executing agency, with PIU's support, is responsible for the project completion report to be prepared within 3 months of the completion of the project.

30. **Conclusion.** The executing agency currently administers the ADB-funded fourth and fifth health sector development projects (footnote 2). The executing agency has appropriate institutional arrangements and a sound financial management system. But the MOH does not have a financial specialist with significant experience in ADB-funded projects, and so cannot provide comprehensive advice and guidance to the PIU financial specialist. The internal audit team is new and not in a good position to pick up on ADB project accounting procedures and standards. A financial specialist with at least 5 years of experience on project accounting and financial reporting with ADB or other international financial institution will be recruited into the project PIU.

3. Risk Assessment

31. The risk assessment considered the staffing, internal control, accounting and reporting policies and procedures, and auditing standards and arrangements of MOH. Based on the

assessment, the overall financial management pre-mitigation risk is *moderate*. The risks and mitigation measures are in Table 1 and describe below:

- (i) **Inherent risk.** 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).
- (ii) **Control risk.** Control risk is the risk that the project's accounting framework proves inadequate to ensure project funds are used economically and efficiently for the purpose intended, and that the use of the funds is properly recorded.

4. Action Plan

32. Table 2 contains an action plan that will mitigate the identified risks in financial management for the overall project. These actions have been agreed with MOH and ADB.

FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE

Topic	Response	Potential Risk Event
1. Executing / Implementing Agency		
1.1 What is the entity's legal status / registration?	The state central administrative organization, which was established by the resolution of the State Great Khural (the Parliament of Mongolia).	Low
1.2 How much equity (shareholding) is owned by the Government?	The Ministry of Health (MOH) is a ministry under the Central Government of Mongolia.	N/A
1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.	N.A.	N/A
1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes. MOH has implemented several externally financed projects, such as the ADB-funded Fourth and Fifth Health Development Projects, and has been administering the Improving Access to Health Services for Disadvantaged Groups Investment Program (footnote 4), Korean EXIM Bank project on "Establishment of the National Diagnostic Center", Belgium Government concessional loan project on "Establishment of Western Regional Diagnostics and Medical Center in Khovd <i>aimag</i> ", Australian project on "Upgrade of Hospital Equipment of the Cancer Center, Maternity Child Research Center, and Hospital No.1", and other projects funded by the UNDP, World Bank and others.	Low
1.5 Briefly describe the statutory reporting requirements for the entity.	MOH follows the Budget Law (2011), International Public Sector Accounting Standards (IPSAS), Accounting Law (2015), Law on Public Auditing (2003). It reports directly to the Central Government.	Low
1.6 Describe the regulatory or supervisory agency of the entity.	The MOF and the Mongolian National Audit Office (MNAO) and State Great Khural.	Low
1.7 What is the governing body for the project? Is the governing body for the project independent?	The MOH will be the governing body for the project.	Low
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	MOH has the Ministerial Secretariat and five departments, including public administration and management department, legal policy department, health sector economic policy implementation department, medical care policy implementation and coordination department, public health care policy implementation and coordination department, and monitoring and evaluation department. Investment and finance divisions are under the health sector economic policy	Moderate

Topic	Response	Potential Risk Event
	implementation department. The senior accountant and transaction accountant work at the public administration and management department.	
1.9 Does the entity have a Code of Ethics in place?	Law on Regulating Public and Private Interests in Public Service and Preventing Conflicts of Interest (2012), Government Resolution No.33 of 2019 "Code of ethics of public administration and public service personnel" and MOH Order on Improving Discipline (2015).	Low
1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	The major violation regards a former Health Minister who was arrested in November 2015 and accused of corruption. He remains under investigation.	Moderate
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, the EA, implementing agency, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	See diagram and description in the Fund Flow Arrangements section.	Low
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. The statement-of-expenditure (SOE) procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the advance account and also direct payment to suppliers. MOH checks and monitors and then submits to MOF.	Low
2.3 Are the disbursement methods appropriate?	Yes, these are done according to the ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time).	Low
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	No major problems in the past. The MOH has implemented several ADB-funded projects and has not encountered major problems.	Low
2.5 In which bank will the Advance Account (if applicable) be established?	According to Article 35 of the Budget Law (2011), the Advance account should be opened at the Treasury Single Account.	Low

Topic	Response	Potential Risk Event
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? 	Yes. The Treasury Single Account is capable of: <ul style="list-style-type: none"> • Executing foreign and local currency transactions (through State Bank) • Issuing and administering letters of credit (LC) • Handling a large volume of transactions • Issuing detailed monthly bank statements promptly 	Low
2.7 Is the ceiling for disbursements from the Advance Account and SOE appropriate/required?	Disbursement level will be determined by the disbursement plan.	Low
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes. The PIU will have a financial specialist who is fully experienced in managing disbursements from ADB.	Moderate
2.9 Does the PIU have adequate administrative and accounting capacity to manage the Advance account 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.	Yes. The PIU will have a financial specialist to manage the advance account, sub-accounts, and SOE.	Moderate
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	The MOH has no explicit policy for managing foreign exchange (FOREX) risk. The FOREX risk is considered low because the Mongolian togrog (MNT) has shown a persistent tendency in the mid- and long-term to depreciate against the USD. Also, all contracts from this project will be awarded within a year.	Low
2.11 How are the counterpart funds accessed?	Not applicable. MOF will exempt the project from paying VAT taxes on goods. MOH will provide only in-kind contributions.	N/A
2.12 How are payments made from the counterpart funds?	Not applicable. The government will provide counterpart funds in terms of tax and duty exemptions. See above	N/A

Topic	Response	Potential Risk Event
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?	Not applicable.	N/A
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 or material), are proper guidelines and arrangements formulated to record and value the labor or material contributions at appraisal and during implementation?	Not applicable.	N/A
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	The MOH has a finance division under the health sector economic policy implementation department. The division is in charge of all accounting, financial, budgeting, and economic matters. There is no separate accounting department. The finance division has 10 staff (head of division, 1 senior accountant and budget analyst, 3 budget specialists, 3 officers in charge of State Treasury and loans, 1 financial specialist in charge of performance, and 1 transaction accountant). The senior accountant, transaction accountant and inventory keeper work under the structure of public administration and management department.	Moderate
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	A new PIU staff with experience in financial management and reporting of ADB-funded projects will be recruited by the EA.	Low
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background, and professional experience. Attach job descriptions and CVs of key existing accounting staff.	One financial specialist will be appointed to the PIU. See Annex 3 for TOR of the financial specialist.	Low
3.4 Is the project finance and accounting function staffed adequately?	The MOH is staffed adequately and the PIU will be as well.	Low

Topic	Response	Potential Risk Event
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Yes. The work qualification and requirements are indicated in MOF Decree No.196 of 2015 "Organizing, administering and monitoring project implementation units funded by external government loans".	Low
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Yes.	Low
3.7 What is the duration of the contract with the project finance and accounting staff?	MOH staff are contracted on a yearly basis and the contract can be extended based on performance evaluation by internal audit. One PIU financial management specialist will be engaged for the duration of the project.	Low
3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	One PIU financial management specialist will work for this project.	Low
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.	One PIU financial management specialist will work for this project. See Annex 3 for the TOR of the financial specialist.	Low
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	Low
3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Staff at operational level at MOH have a low turnover rate.	Low
3.12 What is training policy for the finance and accounting staff?	Annual training plan. ADB's CTL and PFFM will conduct annual training for the PFM specialists of the ADB-funded projects.	Low
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	In accordance with the annual training plan, accounting staff attend continuing education and development programs that are taught by the MOF, MNAO, and other professional accounting authorities.	Low
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	Since June 2020, MOH has been using a new tailored web-based accounting software CTS for all accounting transactions, financial statements and asset registration and	Low

Topic	Response	Potential Risk Event
allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	reporting. The software is used for budget performance reporting and financial reports. E-statement of the State Treasury is used for all public organizations, projects and programs for the purpose of budget consolidation. The PIU uses ACULOUS financial software.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, officers of finance divisions prepare transactions in accordance with invoices and other supporting documents. The senior accountant of the public administration and management department reviews and approves the transactions. The transactions are executed by the State Treasury Fund. There are two specialists who are responsible for checking of the documents and interbank transactions and payments. First signature on a payment slip is approved and signed by the State Secretary or PIU Coordinator if the signatory right is transferred to him. PIU is in-charge of all costs related to the project, based on budget annually approved by the MOF and the EA MOH.	Low
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.	Not applicable.	N/A
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes.	N/A
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes. This will be done in accordance with <i>International Public Sector Accounting Standards (IPSAS)</i>	Low
4.6 Describe the EA'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 in a defined system that allows authorized users easy access?	Yes. Soft and hard copies of the accounting and financial reporting documents are filed and retained in accordance with the "Law on Archive" and are easily accessible by authorized users. Retention periods specified in the law are longer than the ADB requirement. According to Article 23 of the Law, documents of the MOH shall be retained for 15 years.	Low

Topic	Response	Potential Risk Event
4.7 Describe any previous audit findings that have not been addressed.	Audit findings were addressed.	Low
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?	Yes. (i) An authorization to execute a transaction is provided by the senior accountant. (ii) Transactions will be documented by the transaction accountant. (iii) Custody of assets involved in the transaction is under the inventory keeper.	Low
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes. MOH receives requests for purchase of goods and services from its departments and agencies. These requests are reviewed and reflected in the state budget. After the budget is approved by Parliament, State secretariat of the MOH approves the procurement plan.	Low
Budgeting System		
4.10 Do budgets include physical and financial targets?	Objectives are set forth and implemented in accordance with program-based budget planning. Budgets include mainly financial targets. Under the project, physical and financial targets will be included.	Moderate
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes. Budgets are prepared by line item in the template recommended by MOF.	Low
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Budget disbursement is monitored on a monthly basis.	Low
4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Expenditures in excess of budget are not allowed.	Low
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No variation in the budget can be incurred without prior approval of MOF.	Low
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	MOH receives proposals from its departments, agencies and other subsidiaries, and proposes a unified MOH budget to MOF. Final approval of the budget is by the Parliament based on the proposals from MOF.	Low

Topic	Response	Potential Risk Event
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?	Project budget process stands separate from budget process of overall MOH. The project budget and disbursement will be done with the project disbursement and procurement plans, and S-curve.	Low
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Yes, project plans and budget are based on the realistic and valid assumptions in compliance with the envisaged activities. Funds are usually spent according to plan however physical targets are not always included.</p> <p>In the past, there has been some delays in releasing the funding because of the time needed for the processes through the MOF.</p> <p>In the previous ADB-funded Fourth and Fifth Health Development Projects (footnote 4), the government faced issues in funding the counterpart amount. For this grant project, the government will provide counterpart funding as tax and duty exemptions.</p> <p>No. No cases of over- or underbudgeting occurred in the last 3 years.</p>	Moderate
Payments		
4.18 Do invoice-processing procedures require: (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? (v) Checking authenticity of invoices and supporting documents?	Yes (i-v). MOH follows regulations and procedures for the government procurement.	Low
4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes. This is a standard part of the accounting procedures of state organizations in the country.	Low

Topic	Response	Potential Risk Event
4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes. As above.	Low
Policies and Procedures		
4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Accrual basis in accordance with the National Accounting Law, Budget Law, Guidelines for MOH Accounting Policy Document and relevant rules.	Low
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?	IPSAS will be applied for project reporting.	Low
4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes, the project will follow the Mongolian Accounting Law and IPSAS.	Low
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	The accounting policy and procedure manual will be aligned with Mongolia's Accounting Law and IPSAS.	Low
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	New accounting policies can only be developed in line with the Accounting Law and public accounting regulations of Mongolia.	Low
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes. MOH complies with the Law on Public Organization Management and Finance, Accounting Manual for Public Organizations, and Guidelines for MOH Accounting Policy Document.	Low
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. Mongolia's Glass Account Law, Anti-Corruption Code, Law on Regulating Conflict of Interest and Preventing from Conflict of Interest in Public Services define these procedures.	Low
4.28 Are manuals distributed to appropriate personnel?	Yes.	Low
4.29 Describe how compliance with policies and procedures are verified and monitored.	External financial audits are conducted once a year.	Low
Cash and Bank		

Topic	Response	Potential Risk Event
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys, or equivalent for online transactions.	The signatories are: (i) Ts. Erdembileg, State Secretariat of MOH; (ii) G. Tuvshintugs, Senior Accountant. MOH does not have USB keys and online transactions.	Low
4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes. In accordance with the Accounting Law and relevant public accounting regulations, all receipts and documents backing all transactions and payments and cashbook must be recorded.	Low
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Receipts are collected by the accountants at the time of transaction according to Finance Minister's Resolution No.276 of 2012. Cash is handled by the inventory keeper at the Public administration Department. The inventory keeper reconciles the cash balance with the accountants on monthly basis.	Low
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. The bank accounts are reconciled and cash on hand is physically verified and reconciled with the cash books monthly.	Low
4.34 Are all reconciling items approved and recorded?	Yes.	Low
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes.	Low
4.36 Are there any persistent/non-moving reconciling items?	No.	Low
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes.	Low
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No. The ceiling of MOH cash balance is MNT1 million in 2020. Therefore, it is not possible to have a large cash balance.	Low
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 USB keys and online transactions are used in MOH.	Low
Safeguard over Assets		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Inventory and procured goods are tagged and recorded by the inventory keeper under supervision of the accountant. Each employee is issued with a card, on which assets allocated to him/her is recorded. The grant-funded assets will be properly tagged and regularly checked during the grant review	Low

Topic	Response	Potential Risk Event
	missions.	
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. The MOH maintains the Fixed Asset Register, which is updated bi-annually. The register records ownership of assets. MOH has no assets under lien, or encumbered, or have been pledged.	Low
4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes, through CTS software.	Low
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Yes. Twice a year. Yes, properly labeled.	Low
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, by an inventory counting commission appointed by the State Secretariat.	Low
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?	List of assets proposed for disposal is created after bi-annual inventory counting. The list is reviewed by a commission consisting of representatives from several stakeholders. The assets are disposed upon approval by the commission. Steps are taken immediately locate lost assets. If the asset cannot be located, person in charge of the asset is held responsible for payment.	Low
4.46 Are assets sufficiently covered by insurance policies?	Yes. The key assets are vehicles owned by MOH, and these are covered by insurance with an insurer selected through competitive bidding.	Moderate
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Same as 4.45 above.	Low
Other Offices and Implementing Entities		
4.48 Describe any other regional offices or executing entities participating in implementation.	Not applicable.	N/A

Topic	Response	Potential Risk Event
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.	Not applicable.	N/A
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?	Not applicable (see above).	N/A
4.51 Does information among the different offices/implementing	Yes. All departments and agencies of MOH use the same accounting and reporting system.	Low
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?	Not applicable.	N/A
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.	Advance account and sub-accounts will be managed by the PIU financial management specialist under the direction of MOF and MOH.	Low
4.53 If any sub-accounts (under the Advance Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts.	Not applicable.	N/A
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?	Yes. MOH keeps contract-wise accounting records, which are consistent with physical outputs/deliverables of the contract. Contract payments are done by a schedule specified in a contract.	Low
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	Yes, on quarterly basis	Low
Other		

Topic	Response	Potential Risk Event
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?	PIU staff will be trained on ADB rules on anti-corruption and reporting measures. The relevant advice has been provided to the EA during the project processing meetings, and will be regularly reminded during the project review missions.	Low
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	The MOH has a Department of Monitoring and Evaluation (M&E). The Department has an M&E division and Internal audit division. Internal audit division was separated from M&E department & established in December 2020.	Low
5.2 What are the qualifications and experience of the IA staff?	Internal audit division has 5 staff (including the head of Division, 2 auditors in charge of finance, 1 auditor in charge investment, 1 auditor of projects/programs). Staff has 5-18 years of experience in risk management, finance, law, and other fields.	Moderate
5.3 To whom does the head of the internal audit report?	The head of department directly reports to the Minister of Health.	Low
5.4 Will the internal audit department include the project in its annual work program?	Yes.	Low
5.5 Are actions taken on the internal audit findings?	Yes, internal audit findings are addressed at MOH.	Low
5.6 What is the scope of the internal audit program? How was it developed?	The audit program is developed based on a 3-years strategic plan of internal audit. Audit will be also conducted based on risk assessments of agencies and departments.	Low
5.7 Is the IA department independent?	Yes.	Moderate
5.8 Do they perform pre-audit of transactions?	No.	Low
5.9 Who approves the internal audit program?	The internal audit program is approved by the Minister of Health.	Low
5.10 What standards guide the internal audit program?	International standards on Internal audit, as contained in IPSAS.	Low
5.11 How are audit deficiencies tracked?	These are tracked and reported based on evidence.	Low
5.12 How long have the internal audit staff members been with the organization?	The internal audit staff have more than 5-18 years of experiences in relevant fields.	Low
5.13 Does any of the internal audit staff have an IT background?	No. There is a need for an internal auditor with IT background as the division is responsible for the Glass account and other MIS systems	Moderate

Topic	Response	Potential Risk Event
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	The committee should meet twice a year, also can meet on ad hoc basis.	Moderate
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?	Yes, some issues related to incorrect recording in relevant accounts are identified in past.	Moderate
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)?	None	High
6. External Audit – entity level		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. MNAO conducts an audit once a year.	Low
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No delays. MOH provides financial statements to MNAO by 25 January. The audit report is available by 25 February of the following year.	Low
6.3 Is the audit of the entity conducted in accordance with the International Standards on Auditing, or the International Standards for Supreme Audit Institutions, or national auditing standards?	Yes. The audit is conducted in accordance with the national and international auditing standards.	Low
6.4 Were there any major accountability issues noted in the audit report for the past three years?	No.	Low
6.5 Does the external auditor meet with the audit committee without the presence of management?	Yes	Low
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	Low
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	No.	Low
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)?	Yes.	Low

Topic	Response	Potential Risk Event
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.	Low
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?	An external auditor is engaged under the project each year. An auditor acceptable to ADB will be appointed by MNAO.	Low
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.	Low
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?	An auditor acceptable to ADB will be appointed by MNAO.	Low
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	Yes. MNAO selects external auditors for auditing per the ADB requirements. ADB, in consultation with MOF, will prepare the TOR in accordance with the requirements.	Low
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No.	Low
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)?	Yes.	Low
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No.	Low
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 material issues noted.	Low

Topic	Response	Potential Risk Event
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the entity?	Yes, financial statements and reports are prepared through CTS accounting software. Five statements are prepared: Statement of Financial Position, Income Statement, Statement of Cash Flows, Statement of Changes in Equity, and Statement of Budget Performance	Low
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Yes, the PIUs prepare the financial statements on behalf of the EA and IAs. PIU has ACOULOUS software for salary and financial statements.	Low
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Financial statements and reports are prepared on a quarterly basis as required from the public organizations in Mongolia. Yes.	Low
7.4 Does the entity reporting system need to be adapted for project reporting?	Project financial statements are prepared by the PIU financial specialist using ACOULOUS software automatically.	Low
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes, finance specialists of PIUs are responsible for reporting and financial statements. They also prepare USD account statements in Excel accordance with ADB regulations and Loan Disbursement Handbook.	Moderate
7.6 Are financial management reports used by management?	Yes, accountants provide monthly reports to management.	Low
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes, on a monthly basis.	Low
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?	Yes. The MOH reports are prepared automatically by the CTS accounting software.	Low
7.9 Does the financial 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?	Yes. CTS software enables to control financial data on daily basis.	Low
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes. See 1.4	Low

Topic	Response	Potential Risk Event
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	Yes.	Low
8.2 If computerized, is the software off-the-shelf, or customized?	The web-based CTS software is custom designed and approved by the MOF.	Low
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	The software is integrated and used by all departments.	Low
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?	Project financial data is integrated into the MOF as it uses same accounting software ACOULOUS used for public organizations.	Low
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?	Both MOH and PIU software directly generates periodic financial statements.	Low
8.6 Can the system automatically produce the necessary project financial reports?	Yes	Low
8.7 Is the staff adequately trained to maintain the computerized system?	Yes	Low
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes. At the MOH, only the accountant and inventory keeper have access passwords.	Low
8.9 Are there back-up procedures in place?	Yes, on daily basis back-ups in CTS software.	Low
8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	No online storage now. But it is possible as the CTS is web-based software. Staff keeps their computer back-up data on their own on yearly basis as the archive does not keep soft data.	Substantial

Source: Asian Development Bank.

STAFF OF FINANCE AND INVESTMENT DEPARTMENT

№	Staff name	Position
1	T. Khongorzul	Head of Finance Division
2	L. Munkhtsetser	Budget specialist (Provincial health organizations and special funds)
3	Х.Батчимэг	Budget specialist (Ministerial agencies)
4	N. Uriankhaich	Budget specialist (Sectoral wage policy and budgets for municipal health organizations)
5	G. Amarjargal	Finance specialist in charge of performance
6	U. Sukhdari	Officer in charge of sectoral investment, financing, loan and aid issues
7	K. Bayarjargal	Officer in charge of internal audit of State Treasury
8	Ch. Вамуукхуу	Officer in charge of payments through State Treasury
9	O. Burmaa	Budget senior analyst and accountant
10	A. Khandmaa	Transaction accountant of Ministerial portfolio
11	G. Tuvshintugs	Senior accountant
12	E. Erdenetsetseg	Transaction accountant

TERMS OF REFERENCE FOR FINANCIAL SPECIALIST IN THE PROJECT IMPLEMENTATION UNIT

Position: Financial specialist

Duration: 2021–2024

Duty Station: Ulaanbaatar, Mongolia

Duties:

The financial specialist will be part of the PIU and will be stationed in the Ministry of Health. The financial specialist will be responsible for all matters of financing, accounting, and office operational tasks and will report to the PIU project coordinator.

Tasks related to financial specialist

- Manage financial accounting of the project expenditures and ensure project accounts are properly and timely documented and accurate,
- Prepare withdrawal applications,
- Establish effective financial and accounting controls,
- Compile and prepare project financial progress reports and any other activity required to manage financial operations as required by the Asian Development Bank and the Government in English and Mongolian,
- Prepare the project budgets and monitor expenditure and funds flow,
- Assist in the day-to-day management of the project,
- Maintain administrative and financial files external and internal for audits,
- Maintain general good working conditions in the project office, and
- Undertake any other tasks deemed necessary in conjunction with the successful implementation of this assignment.

General requirements and qualifications

- Advanced educational degree (Bachelor's or higher) in accounting and economics;
- Preferably, would have 5 years of hands-on financial management (including accounting) experience on Asian Development Bank projects or similar;
- Good communication skills and ability to work under pressure and maintain an effective team work;
- Good command of oral and written English is required; and
- Ability to work well in diverse team environment and self-motivated.