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Financial Management Assessment

Asian Development Bank
Financial Management Assessment

WHY:
Effective financial management is a critical success factor for project sustainability. Irrespective of how well a particular project or program is designed and implemented, if the executing or implementing agency does not have the capacity to effectively manage its financial resources, the benefits of the project are unlikely to be sustainable.

WHAT:
The financial management assessment (FMA) includes a review of the executing/implementing agency’s (EA/IA) systems for financial and management accounting, reporting, auditing and internal controls. In addition, the FMA involves a review of the EA/IA disbursement and cash flow management arrangements. The FMA is not an audit. It is a review designed to determine whether or not the EA/IA financial management arrangements are considered capable of and adequate for recording all transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding the entity’s assets, and are subject to audit (of substance and form acceptable to ADB). Issues or weaknesses identified during the FMA should be taken into consideration either through project design (i.e. including a component to strengthen financial management systems) or the development of project implementation arrangements (i.e. including a project administration/management office within the entity with necessary financial management skills and/or procedures).

WHEN:
The FMA should be completed as part of project preparation. The FMA should be completed as early as possible, preferably during project preparation, to allow for early detection and resolution of issues. If a PPTA is used to prepare the project, the initial results of the FMA should be included in the mid term report of the PPTA.

HOW:
The broad approach to a FMA is as follows:
- Review country diagnostic assessments completed by ADB or development partners.¹
- Determine if a FMA has been completed by another donor. If so review and update if necessary.
- If a FMA has not been completed for the EA/IA, the EA/IA, supported by PPTA consultants, should complete the financial management assessment questionnaire (FMAQ).
- Based on the results of the questionnaire, determine what, if any, additional review/follow up is warranted.
- Identify issues or risks associated with the entity’s financial management systems and determine the most appropriate risk mitigation measures to be adopted as part of project design and/or project implementation arrangements.
- The results of the FMA should be noted in the RRP.

WHO:
The FMA is the responsibility of the Project Team although this work could be undertaken by consultants under the supervision of the Mission Leader and/or financial management specialist assigned to the project. The initial assessment may involve review of entity procedures, reports etc, many of which may be prepared in a language other than English. It is therefore suggested that the FMAQ be completed by domestic consultants (assigned to the PPTA, or engaged as staff consultants under a PPN process).

DELEGATED COOPERATION:
Through the OECD-DAC and the MDB Working Group on Financial Management Harmonization, bilateral development partners and MDBs have agreed on the concept of delegated cooperation, essentially this is a willingness to accept the diagnostic work of others. The goal of harmonization is to reduce the administrative burden on DMCs. To that end, only one FMA should be completed for each executing or implementing agency. If a FMA has been completed by another donor, this can be relied upon (provided it is up to date and ADB is comfortable with the methodology employed).

FOR FURTHER INFO:
Guidelines for the Financial Governance and Management of Investment Projects Financed by ADB

¹ Including: Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Report (CPAR), Country Governance Assessment (CGA) and Diagnostic Study on Accounting and Audit (DSAA)