**Financial Management Assessment Questionnaire[[1]](#footnote-1)**

**(Note: This questionnaire should be used as a tool only to gather information relevant for assessing financial management capacity of executing and implementing agencies. It may be used selectively for second subsequent projects, or periodic financing reports. Additional questions may be required as deemed fit).**

| **Topic** | **Response** | **Potential Risk Event** |
| --- | --- | --- |
| **1. Executing / Implementing Agency** |  |  |
| 1.1 What is the entity’s legal status / registration? |  |  |
| 1.2 How much equity (shareholding) is owned by the Government? |  |  |
| 1.3 Obtain the list of beneficial owners of major blocks of shares (non-governmental portion), if any.[[2]](#footnote-2) |  |  |
| 1.4 Has the entity implemented an externally-financed project in the past? If yes, please provide details. |  |  |
| 1.5 Briefly describe the statutory reporting requirements for the entity. |  |  |
| 1.6 Describe the regulatory or supervisory agency of the entity. |  |  |
| 1.7 What is the governing body for the project? Is the governing body for the project independent? |  |  |
| 1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project? |  |  |
| 1.9 Does the entity have a Code of Ethics in place? |  |  |
| 1.10 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed? |  |  |
| **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, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable. |  |  |
| 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? |  |  |
| 2.3 Are the disbursement methods appropriate? |  |  |
| 2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity? |  |  |
| 2.5 In which bank will the Imprest Account (if applicable) be established? |  |  |
| 2.6 Is the bank in which the imprest account is established capable of −   * 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? |  |  |
| 2.7 Is the ceiling for disbursements from the imprest account and SOE appropriate/required? |  |  |
| 2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB? |  |  |
| 2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB’s Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU’s administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure. |  |  |
| 2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity’s policy and arrangements for managing foreign exchange risk. |  |  |
| 2.11 How are the counterpart funds accessed? |  |  |
| 2.12 How are payments made from the counterpart funds? |  |  |
| 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? |  |  |
| 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? |  |  |
| **3. Staffing** |  |  |
| 3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart. |  |  |
| 3.2 Will existing staff be assigned to the project, or will new staff be recruited? |  |  |
| 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. |  |  |
| 3.4 Is the project finance and accounting function staffed adequately? |  |  |
| 3.5 Are the project finance and accounting staff adequately qualified and experienced? |  |  |
| 3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)? |  |  |
| 3.7 What is the duration of the contract with the project finance and accounting staff? |  |  |
| 3.8 Identify any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment. |  |  |
| 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. |  |  |
| 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? |  |  |
| 3.11 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)? |  |  |
| 3.12 What is training policy for the finance and accounting staff? |  |  |
| 3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years. |  |  |
| **4. Accounting Policies and Procedures** |  |  |
| 4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (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? |  |  |
| 4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained? |  |  |
| 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. |  |  |
| 4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements? |  |  |
| 4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences? |  |  |
| 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? |  |  |
| 4.7 Describe any previous audit findings that have not been addressed. |  |  |
| ***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? |  |  |
| 4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated? |  |  |
| ***Budgeting System*** |  |  |
| 4.10 Do budgets include physical and financial targets? |  |  |
| 4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance? |  |  |
| 4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget? |  |  |
| 4.13 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact? |  |  |
| 4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval? |  |  |
| 4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets? |  |  |
| 4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets? |  |  |
| 4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?    Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?  Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects?  What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way? |  |  |
| ***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? |  |  |
| 4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment? |  |  |
| 4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized? |  |  |
| ***Policies And Procedures*** |  |  |
| 4.21 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project? |  |  |
| 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? |  |  |
| 4.23 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability? |  |  |
| 4.24 Is the accounting policy and procedure manual updated regularly and for the project activities? |  |  |
| 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? |  |  |
| 4.26 Are there written policies and procedures covering all routine financial management and related administrative activities? |  |  |
| 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? |  |  |
| 4.28 Are manuals distributed to appropriate personnel? |  |  |
| 4.29 Describe how compliance with policies and procedures are verified and monitored. |  |  |
| ***Cash and Bank*** |  |  |
| 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. |  |  |
| 4.31 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments? |  |  |
| 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? |  |  |
| 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? |  |  |
| 4.34 Are all reconciling items approved and recorded? |  |  |
| 4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official? |  |  |
| 4.36 Are there any persistent/non-moving reconciling items? |  |  |
| 4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices? |  |  |
| 4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose? |  |  |
| 4.39 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls. |  |  |
| ***Safeguard over Assets*** |  |  |
| 4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse? |  |  |
| 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? |  |  |
| 4.42 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts? |  |  |
| 4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled? |  |  |
| 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? |  |  |
| 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? |  |  |
| 4.46 Are assets sufficiently covered by insurance policies? |  |  |
| 4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets. |  |  |
| ***Other Offices and Implementing Entities*** |  |  |
| 4.48 Describe any other regional offices or executing entities participating in implementation. |  |  |
| 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. |  |  |
| 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? |  |  |
| 4.51 Does information among the different offices/ implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting system? |  |  |
| 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. |  |  |
| 4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts. |  |  |
| **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? |  |  |
| 4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor? |  |  |
| ***Other*** |  |  |
| 4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property? |  |  |
| **5. Internal Audit** |  |  |
| 5.1 Is there an internal audit (IA) department in the entity? |  |  |
| 5.2 What are the qualifications and experience of the IA staff? |  |  |
| 5.3 To whom does the head of the internal audit report? |  |  |
| 5.4 Will the internal audit department include the project in its annual work program? |  |  |
| 5.5 Are actions taken on the internal audit findings? |  |  |
| 5.6 What is the scope of the internal audit program? How was it developed? |  |  |
| 5.7 Is the IA department independent? |  |  |
| 5.8 Do they perform pre-audit of transactions? |  |  |
| 5.9 Who approves the internal audit program? |  |  |
| 5.10 What standards guide the internal audit program? |  |  |
| 5.11 How are audit deficiencies tracked? |  |  |
| 5.12 How long have the internal audit staff members been with the organization? |  |  |
| 5.13 Does any of the internal audit staff have an IT background? |  |  |
| 5.14 How frequently does the internal auditor meet with the audit committee without the presence of management? |  |  |
| 5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records? |  |  |
| 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)? |  |  |
| **6. External Audit – entity level** |  |  |
| 6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor? |  |  |
| 6.2 Are there any delays in audit of the entity? When are the audit reports issued? |  |  |
| 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? |  |  |
| 6.4 Were there any major accountability issues noted in the audit report for the past three years? |  |  |
| 6.5 Does the external auditor meet with the audit committee without the presence of management? |  |  |
| 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? |  |  |
| 6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents? |  |  |
| 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)? |  |  |
| 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? |  |  |
| **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? |  |  |
| 6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented? |  |  |
| 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? |  |  |
| 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? |  |  |
| 6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents? |  |  |
| 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)? |  |  |
| 6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented? |  |  |
| [For second or subsequent projects]  6.17 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? |  |  |
| **7. Reporting and Monitoring** |  |  |
| 7.1 Are financial statements and reports prepared for the entity? |  |  |
| 7.2 Are financial statements and reports prepared for the implementing unit(s)? |  |  |
| 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? |  |  |
| 7.4 Does the entity reporting system need to be adapted for project reporting? |  |  |
| 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? |  |  |
| 7.6 Are financial management reports used by management? |  |  |
| 7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations? |  |  |
| 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? |  |  |
| 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? |  |  |
| 7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners? |  |  |
| **8. Information Systems** |  |  |
| 8.1 Is the financial accounting and reporting system computerized? |  |  |
| 8.2 If computerized, is the software off-the-shelf, or customized? |  |  |
| 8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules? |  |  |
| 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? |  |  |
| 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? |  |  |
| 8.6 Can the system automatically produce the necessary project financial reports? |  |  |
| 8.7 Is the staff adequately trained to maintain the computerized system? |  |  |
| 8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data? |  |  |
| 8.9 Are there back-up procedures in place? |  |  |
| 8.10 Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups. |  |  |

1. This questionnaire should be administered by ADB staff or consultant (the Reviewer), and utilized only to obtain information, and to identify and describe potential risk events. Rating of risks should be carried out separately by assessing their likelihood and impact. [↑](#footnote-ref-1)
2. In such cases, consult OAI on the need for integrity due diligence on non-governmental beneficial owners. [↑](#footnote-ref-2)