



**CROWN AGENTS**  
ACCELERATING SELF-SUFFICIENCY & PROSPERITY

# FINANCIAL MANAGEMENT OF DEVELOPMENT PROJECTS

13 – 24 May 2019



# Programme Introduction

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## Course Aim

This course provides a detailed look at the financial management components within the project life cycle and provides an overview of the tools available for assessing financial management systems. It covers budgeting, accounting policies, financial management staffing considerations, procurement and contract management, audit and internal controls.

**Objectives** – by the end of this course, you will be able to:

- Adopt appropriate systems for managing projects and finances
- Assess weaknesses in your own financial systems
- Draw up and maintain financial plans and project financial accounts and reports
- Align financial management of procurement in accordance with international best practice
- Evaluate risks and establish an appropriate financial control environment

**Course Time-table** – see hand-out



# Daily Agenda

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## Day 7

1. Evaluating PFM – Other Tools
2. Value for money
3. Monitoring & Evaluation
4. Group work - M&E



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Financial Management of Development Projects

21 May 2019

# **EVALUATING PUBLIC FINANCIAL MANAGEMENT: OTHER TOOLS**

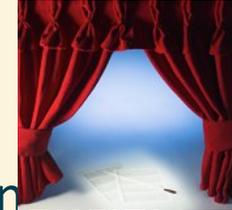


# Session Introduction

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## Session Aim

- Identify and discuss tools available for assessing the robustness of project financial management systems



**Session Learning Objectives** – by the end of this course, you will be able to:

- Understand the key international assessment tools available for the evaluation of project financial management systems
- Appreciate the evaluation process of the PEFA framework and other international assessment tools



# Session Agenda

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**Our Learning Journey** – how we will achieve our objectives:

1. Project-specific systems assessments
2. Sector (country system) assessments
3. Governance and anti-corruption assessments (GAC)
4. How auditors assess risks (ISA 315)
5. Session close



# Beyond PEFA – Other country PFM assessment tools

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PEFA won't give a full story. Perhaps see if drill-down assessments have been done in-country such as:

- IMF's Fiscal Transparency Code and Evaluation (FTE)
- IMF's PPP Fiscal Risk Assessment Model (P-FRAM)
- IMF's Public Investment Management Assessment (PIMA)
- World Bank's BOOST Initiative to Promote Open Budgets
- World Bank's Debt Management Performance Assessment (DeMPA)
- Tax Administration Diagnostic Assessment Tool (administered by a partnership similar to PEFA)
- Global Initiative for Fiscal Transparency (GIFT)
- OECD DAC & World Bank's Methodology for Assessing Procurement Systems (MAPS)
- INTOSAI's SAI Performance Measurement Framework (SAI PMF)



## Reminder:

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### Tools to assess country PFM systems

- PEFA PFM PMF
- Other country PFM drill-down tools

### Tools to assess project-specific FM systems

- Project-specific systems assessments
- Sector (country system) assessments
- Governance and anti-corruption assessments (GAC)
- How auditors assess risks (ISA 315)



# Project-specific systems assessments

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## Entity-level financial management assessment questionnaire

1. Implementing Entity
2. Funds Flow
3. Staffing
4. Accounting Policies & Procedures
5. Internal Audit
6. External Audit
7. Reporting & Monitoring
8. Information Systems

Used by many development agencies. Is based on World Bank methodology. Results typically used in overall project risk rating e.g. The World Bank's Operational Risk Assessment Framework (ORAF).



# Project-specific systems assessments

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## ***1. Implementing Entity***

1.1 What is the legal status/registration of the entity?

1.2 Has the entity implemented a Bank-financed project in the past?

1.3 What are the statutory reporting requirements for the entity?

1.4 Is the governing body for the project independent?

1.5 Is the organizational structure appropriate for the needs of the project ?



# Project-specific systems assessments

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## ***2. Funds Flow***

2.1 Describe the funds flow arrangements.

2.3 Have there been major problems in the past in receipt of funds by the entity?

2.4 In which bank will the Special Account be opened?

2.8 How are the counterpart funds accessed?

2.10 If part of the project is implemented by communities or NGOs, does PIU have the capacity to track the use of project proceeds by such agencies?

2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labour), are proper guidelines formulated to record and value the labour contribution?



# Project-specific systems assessments

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## **3. Staffing**

3.1 What is the organizational structure of the accounting department? Attach an organization chart.

3.2 Identify the accounts staff, including job title, responsibilities, educational background and professional experience.

3.3 Is the project finance and accounts function staffed adequately?

3.4 Is the finance and accounts staff adequately qualified and experienced?

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 ?

3.12 What is training policy for the finance and accounting staff?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

- 4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions? Will the project use the entity accounting system?
- 4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?
- 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 and in balance?
- 4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

### ***Segregation of Duties***

4.7 Are the following functional responsibilities performed by different units or persons: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?

4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?

4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

### ***Budgeting System***

4.10/4.11 Do the budgets lay down physical and financial targets in sufficient detail to provide a meaningful monitoring tool?

4.12 Are actual expenditures compared to the budget with reasonable frequency, and are significant variations explained?

4.13 Are approvals for variations from the budget required in advance or after the fact?

4.15/4.16 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets and are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals ?



# Project-specific systems assessments

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## 4. Accounting Policies and Procedures

### Payments

4.17 Do invoice processing procedures provide for:

- Copies of purchase orders and receiving reports to be obtained directly from issuing departments?
- Comparison of invoice quantities, prices, and terms, with those indicated on the purchase order and with records of goods actually received?
- Comparison of invoice quantities with those on the receiving reports?
- Checking the accuracy of calculations?

4.18 Are all invoices stamped “PAID”, dated, reviewed and approved, and clearly marked for account code assignment?

4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

### ***Policies And Procedures***

4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?

4.23 Is the accounting policy and procedure manual updated for the project activities?

4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy, or procedure to be used by the entity?

4.26 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?

4.27 Are manuals distributed to appropriate personnel?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

### ***Cash and Bank***

4.29 Indicate names and positions of authorized signatories in the bank accounts.

4.30 Does the project maintain an adequate, up-to-date cash book, recording receipts and payments?

4.31 Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?

4.32 Are bank and cash reconciled on a monthly basis?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

### ***Safeguard over Assets***

4.35 Is there a system of adequate safeguards to protect assets from fraud, waste, and abuse?

4.36 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?

4.38 Are there periodic physical inventories of fixed assets and stocks?

4.39 Are assets sufficiently covered by insurance policies?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

### ***Other Offices and Implementing Entities***

4.40 Are there any other regional offices or executing entities participating in implementation?

4.41 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?

4.42 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?

4.43 Are periodic reconciliations performed among the different offices/implementing agencies?



# Project-specific systems assessments

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## ***4. Accounting Policies and Procedures***

### ***Other***

4.44 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?



# Project-specific systems assessments

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## ***5. Internal Audit***

- 5.1 Is there an internal audit department in the entity?
- 5.2 What are the qualifications and experience of audit department staff?
- 5.3 To whom does the internal auditor report?
- 5.4 Will the internal audit department include the project in its work program?
- 5.5 Are actions taken on the internal audit findings?



# Project-specific systems assessments

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## ***6. External Audit (1 of 2)***

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 according to the International Standards on Auditing?

6.4 Were there any major accountability issues brought out in the audit report of the past three years?

6.5 Will the entity auditor audit the project accounts or will a separate auditor will be appointed to audit the project financial statements?



# Project-specific systems assessments

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## ***6. External Audit (2 of 2)***

6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?

6.7 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?

6.8 Has the project prepared acceptable terms of reference for an annual project audit?



# Project-specific systems assessments

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## ***7. Reporting and Monitoring***

7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?

7.4 Does the reporting system need to be adapted to report on the project components?

7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress?

7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?

7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?



# Project-specific systems assessments

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## ***8. Information***

7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?

8.1 Is the financial management system computerized?

8.2 Can the system produce the necessary project financial reports?

8.3 Is the staff adequately trained to maintain the system?

8.4 Does the management organization and processing system safeguard the confidentiality, integrity, and availability of the data?



# Governance & Anti-Corruption

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- Awareness given profile of the “C” word
- “The primary objective of governance and anti-corruption work at the project level is to improve the development impact of Bank financed projects. While it is not feasible to protect projects completely against risks of fraud and corruption, task teams are expected to identify and mitigate risks that are likely to have a material impact on the project outcomes and to act in response to indicators of corruption”
- GAC Principles:
  - Strengthening country systems is the preferred approach
  - Staying engaged in high risk situations
  - Mainstreaming monitoring and supervision of GAC risks

*Governance and Anti-Corruption Good Practice Notes For Financial Management Specialists: Project Preparation And Project Implementation Support*



# Typical FM Risk Mitigation Measures (1/2)

<i>FM capacity building</i>	<i>Third party monitoring &amp; assurance</i>	<i>Modified funds flow</i>	<i>Use of Remedies</i>
Strengthened internal controls Finance Manuals Systems automation Staffing and training	Expanded scope of external financial audit: <ul style="list-style-type: none"><li>• Geographical coverage</li><li>• Internal controls testing</li><li>• Verification of existence</li></ul>	Elimination of cash transactions	Pre-determined, graduated Bank responses to fraud and corruption including partial suspension of disbursements and reimbursement.
Strengthened internal audit Procedures Staffing and training	Special purpose audit and assurance engagements	Direct transfers to implementing units and project beneficiaries	Client initiated remedies.



## Typical FM Risk Mitigation Measures (2/2)

<i>FM capacity building</i>	<i>Third party monitoring and assurance</i>	<i>Modified funds flow</i>	<i>Use of Remedies</i>
Assistance to NGOs, CBOs etc. to meet FM benchmarks for handling project funds.	Use of fiduciary agents to compensate for weak client capacity and high corruption risk	Selection of implementing agencies tied to FM capacity and qualification criteria.	
Support for community oversight of project finances.	Community level disclosure of project budgets, funds release and utilization (community notice boards and web-based disclosure).		



# Individual and Group work

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- Consider your own project
- Consider entity-level financial management assessment questionnaire (*Handout - FMA Guidelines Annex A*)
- Identify issues which you need to address in your own projects or do not understand
- Group discussion



## How auditors assess risks

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### Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment (*ISA 315*)

- Understand the entity and its environment
- Understand the entity's internal control
- Identify and assess risk of material misstatement
- A very good read in terms of understanding how to document and assess risks (*andout - 2010-iaasb-handbook-isa-315*).



# Session close

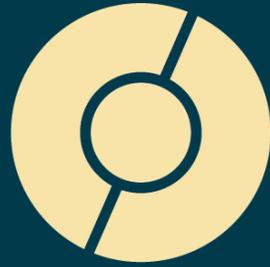
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Let's wrap up the session:

- Recap of key learning
- Final questions?
- Revisit session objectives – achieved?
- Application of learning – update your action plans
- What's next?



**THANK YOU /**



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