Financial Management Assessment (FMA) - Asian Development Bank

Objective and features

1. Objective

   FMA aims to assess the capacity of executing and implementing agencies and their financial management systems to implement ADB-financed operations.

2. Institutional coverage

   Project level, executing and implementing agency level at national and subnational level (in subnational country).

3. Technical coverage

   FMA assesses the capacity of executing and implementing agencies and their systems for planning and budgeting, accounting, internal controls, reporting, cash, and monitoring, and auditing.

4. Application method

   Custodian.

Methodology

5. Methodology

   The FMA approach entails a balance between the efficiency of the mitigation measures and the cost of implementing it. The assessment includes a risk mitigating matrix that determines when to mitigate the risks.

6. Benchmarking system

   FMA consists of a questionnaire that covers the following areas: fund flow arrangements; staffing; accounting policies and procedures; segregation of duties, budgeting, systems, payments, cash, and bank; safeguard over assets, other offices and implementing entities, contract management, and accounting; internal audit; external audit – entity level and project level; reporting and monitoring; information systems.

   Response to each question under each section is based on the evidence collected during the assessment. Part of the FMA approach entails risk assessment and monitoring and management strategies to address the identified risks.

   Risk: high; control or supervision; low; moderate; risk; medium; low; high; risk.

   FMA proposes risk-mitigation and management strategies to address the identified risks: high – risk monitoring recommended; low – risk documentation and identification.

7. Linkage to PFEA framework

   PFEA assessments are referred to as a source of information for FMA for relevant areas.

8. Complementarity with PFEA framework

   PFEA extends to identification of risk of fraud and corruption. FMA can be supported by PFEA for project level and implementing agency level.

Development and use

9. Development and coordination

   FMA has been developed to identify the risks within the executing and implementing agencies who are identified to implement projects financed by ADB. The ADN team works on implementing and monitoring agencies to identify the risks, agree on the mitigating actions, and support the agency in strengthening its financial management system.


   In conducting the assessment, the lead finance is responsible for the financial due diligence. Reports and subsequent recommendations are shared with ADB.

10. Assessment management

   An FMA is conducted after discussions with the executing and implementing agencies on the scope of the project. The following steps are followed to conduct an FMA:

   1. Desk review of existing PFM assessments followed by an on-site mission.
   2. Assessment of financial management systems and capacity of the executing and implementing agencies, including potential strengths and weaknesses and their ability to implement project documentation.
   4. Initial draft of the project's financial flow, accounting, reporting, control, and auditing arrangements.
   5. Development of appropriate measures to address and monitor the issue.

   FMA is performed by the Regional department project team, with support from consultants. In appropriate cases, the support of the Financial Management staff from the Procurement Unit and Financial Management Department may be sought.

   FMA costs are determined within the scope of the project and will be determined at a later stage. The cost of the assessment depends on the number of experts needed to conduct the assessment, which is determined by the number of experts available and activities to be conducted.

   FMA is a dynamic assessment and should be reviewed and updated regularly during implementation, particularly in relation to implementation of risk mitigation measures and capacity development initiatives.

   Some of the external information resources referred to during the FMA include PFEA reports (A01), Report on Observance of Standards and Codes – Accounting and Auditing (D14), financial management capacity assessments by WB or other multilateral or bilateral development partners, country procurement assessment reports, reports on websites (such as Bloomberg, and Standard and Poor), and consultation with stakeholders.

   Financial management capacity assessment procedures apply. There is an interdepartmental review process within ADB.

11. Use by the government and members of the PFM community

   FMA is an internal ADB tool which may be used:

   - Identify risks in executing and implementing agencies' financial management systems and/or practices that may lead to non-achievement or sub-optimal achievement of project outcomes and/or outputs.
   - Identify risks that could lead to the use of ADB resources for unintended purposes, whether due to legacy or inefficiencies.
   - Develop a practical risk management plan to address financial management risks as the project level that may, otherwise, adversely affect the achievement of project development outcomes; and.
   - Evaluate the adequacy of existing financial management arrangements for implementing ADB-supported projects, and if needed, propose modification and/or strengthening.

   FMA constitutes one of the four components of SIs' requirements for financial due diligence in relation to sovereign investment projects.

12. Sequencing with other tools

   A "C" rating in any of the PFEA's (A01) indicator can trigger a risk assessment in specific areas. Inputs from the SI PMF (B25) assessments are also used to identify areas that need to be strengthened.

13. PFM capacity building

   Based on the results of the gap analysis, the issues are identified, and measures are taken to strengthen the capacity of PFM functions (such as accounting and auditing) at agency level.

14. Tracking of changes and frequency of assessments

   Project teams should update the earlier FMA in the case of the second or subsequent tranches in a multitranches financing facility; for second or subsequent loans to the same executing or implementing agency. If the assessment findings are categorized as high risk, the assessment is updated twice a year. If it is categorized as medium risk, the FMA is updated once a year. The intensity of the mission during the update - site visit or desk review - is dependent on the risk identified during the initial FMA assessment. Even in the case of first-time executing or implementing agencies, diagnostic work performed by other development partners, if it is recent, may be updated. Each assessment update tracks the changes in the risk profile.

   Performed before ADB's financing operation, FMA is a level agency, project level type of assessment. FMA is to be conducted for all projects and for implementing agencies. During processing of the project, assessment is conducted, and risk is identified. Update of that risk assessment and mitigation measures are performed, that is, high risk requires a constant update at least twice a year and low risk requires an update every other year. There are other elements that influence the update of the assessment. Every year, ADB assesses each project and, when available, financial statements. Once these are submitted, and if those audits are qualified, then issues that arise there in the risk are identified and, accordingly, the risk management plan is updated.

15. Resource requirements

   An FMA cost can vary from USD1000 to USD2000. Factors that affect the cost of the assessment are complexity of the project, the number of executing and implementing agencies, and the number of experts needed to conduct the assessment. The time taken for an FMA depends on complexity, the number of implementing agencies, and the experience of implementing agencies in conducting externally funded projects. The cost of an FMA with medium complexity and two implementing agencies would take around three weeks.

   Implementation support and monitoring of the FMA could take three to five days every mission (desk review, site visit) depending on the capacity and performance of the implementing agency. The assessment requires an expert with prior experience in conducting FMA and knowledge in financial discipline (with chartered accounting or equivalent designation). Control and supervision of the FMA exercise rests with the ADB staff even though some of the work may be outsourced.

16. Access to methodology

   AOM Technical Guidance Note on Financial Management Assessment is available.

17. Access to assessment results

   The FMA conducted for all projects are available by querying for relevant search parameters on the AOM website.