

Assessment of Financial Management Systems in Bank-Financed Investment Operations - World Bank



Objective and features

1. Objective

The assessment of financial management systems aims to: (1) support borrowing countries in improving their financial management performance and enhancing their capacity, and (2) contribute to providing reasonable assurance on the use of the WB proceeds in investment operations.

2. Institutional coverage

Implementing agency level at national or subnational government.

3. Technical coverage

The Investment Policy Financing (IPF) defines financial management arrangements in IPF projects as the planning and budgeting, accounting, internal control, funds flow, financial reporting, and auditing arrangements of the borrower and entity or entities responsible for project implementation.

4. Application method

Custodian.

Methodology



5. Methodology

Policies and procedures for assessment of financial management systems follow a principle-based approach to determine risks and identify mitigating actions, if needed. It uses the concept of residual risk to determine risks after mitigating measures to ensure the performance of the financial management functions during the operation cycle. It informs the Operations Bank Risk System, Systematic Operations Risk-Rating Tool (SORT).

The principles underpinning the financial management work are focus on quality, risk-based approach, development orientation, and use of the country's financial management systems, consideration of fraud and corruption in risk, harmonization with donor partners, adequate communication, and integration into task teams.

6. Benchmarking system

Narrative evaluation. It provides a ranking of the fiduciary risks to be managed as high, substantial, moderate, or low across planning and budgeting, accounting and reporting, treasury and funds flow, internal control and internal audit, external audit and oversight, and staffing and legal framework.

Key risk elements are identified in each of the above listed areas and risk ratings are recorded on a regular basis along with mitigation measures.

7. Linkage to PEFA framework

Coverage of fiduciary areas are also covered by the PEFA methodology at system level.

8. Complementarity with PEFA framework

The tool can provide information on PFM elements at agency or program level, which is not included at PEFA level.

Development and use



9. Development and coordination

Financial management directives, policies, and procedures were developed to guide the financial management fiduciary work for IPF operations and to define the roles and responsibilities of financial management specialists during the project cycle. The applicable financial management directive, policies, and guidance were developed by WB's Operations Policy and Country Services (OPCS) department. The fiduciary responsibility over the use of funds for investment operations falls on the borrower/recipient of World Bank financing, as stipulated in related World Bank policies and directives, and the general conditions applicable to investment operations.

The applicable financial management directive, known as the Financial Management Manual, was last updated in February 2017. This manual is complemented by procedures and guidelines applicable to financial management issues in specific contexts. The Financial Management Manual also covers the use of country systems to be used for WB projects in order to scale up the development impact, increase the country's ownership, build capacities, facilitate donor harmonization, and increase cost effectiveness.

The principles imbedded in financial management policies encourage harmonization with development partners where WB seeks out opportunities for delegated cooperation (in which one donor relies on the work of others) and ensure that, as far as possible, common arrangements are agreed among all donors and the government, particularly when multiple donors are cofinancing the same project or program.

10. Assessment management

A financial management assessment is required to inform the Disbursement and Information Letter (DFIL). An operation cannot be negotiated and approved by the Board without a DFIL. The Financial Management System, where financial management risk and performance are recorded, is integrated with the World Bank's SORT.

Application of the tool follows a quality assurance process based on identified risks to ensure compliance and consistency. The quality assurance process is enforced and recorded in the WB's financial management system to record financial management assessments, quality assurance reviews, update performance and risks during implementation and compliance of operational reporting requirement with intermediate unaudited financial reports and annual audited financial reports.

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

Financial management assessments are used by the WB management to inform actions at the operation level and ensure that the financial management arrangements of an investment operation meet the bank's requirements and are maintained during the entire project cycle. For each operation, WB requires the borrower to maintain acceptable financial management arrangements during the project which, as part of the overall arrangements for implementing the operation, provide reasonable assurance that the proceeds of the loan are used for the intended purposes. The financial management arrangements rely on the borrower's existing institutions and systems to the degree possible.

12. Sequencing with other tools

Fiduciary assessments can use the findings from PFM diagnostics such as PEFA assessment.

13. PFM capacity building

Capacity-building activities could be identified as part of the risk mitigation measures and as part of project implementation activities.

14. Tracking of changes and frequency of assessments

Financial management arrangements are assessed during project preparation and routinely monitored with changes in risk and mitigation measures tracked during the entire project cycle. The assessment is conducted once during project preparation and updated during implementation as needed to record the project financial management performance and update the assigned risk. The frequency of the update depends on the risk assigned, with higher risk requiring more frequent supervision.

15. Resource requirements

Timeframe and resources depend on the complexity and size of the operation. Every investment operation has a financial management specialist assigned to carry out and update the assessment.

Transparency



16. Access to methodology

The directives and policies are publicly [available](#). The applicable Financial Management Manual and guidance notes provide details and instructions on how to apply the principles imbedded in the financial management policies. SORT guidelines on which the assessment methodology is structured is [available](#).

17. Access to assessment results

WB maintains an internal repository. Financial management assessments are not published and are for internal use by WB only. A summary description of the assessments is included in the Project Documents that are publicly available in the WB website.