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I- What is Financial Management?

Process of planning and controlling financial resources to achieve optimum economic and financial benefits from an investment. The main elements of financial management system are:

- Planning and budgeting
- Internal control
- Accounting system
- Financial reporting
- Auditing
II- Why we need a good Financial Management system?

- Provides the comfort needed by the lenders, borrower country and donor community.

- Provides information to manage project and monitor project progress.

- Reduces an eliminates frauds and corruptions in project.

- Article III, Sec.5(B), of the Bank’s Articles of Agreement: The Bank should make arrangements to ensure that borrowers use loan Proceeds:

- Only for the purpose intended
- With due attention to economy and efficiency
III- World Bank Policies and Guidelines on Project Financial Management (con’t)

- Policies and Guidelines to facilitate compliance with Art.Iii, Sec.5(B):
  Operational Policy 10.02 (OP 10.02)
  Bank Procedures 10.02 (BP 10.02)

Guidelines

- FARAH
- LACI Implementation Handbook
- The Project Financial Management Manual
- Guidelines on Assessment of Financial Management Arrangement in Bank projects
- Guidelines on Assessing and Designing accounting system and Accounting software.
- Financial Monitoring Reports-Guidelines to Borrowers
- Others…
III- World Bank Policies and Guidelines on Project Financial Management (con’t)

- OP 10.02

Authoritative source of the Bank’s project financial management requirements

Describe the minimum FM requirements for every Bank-financed project.

Requires projects to:

- maintain adequate financial management systems
- prepare annual audited financial statements
- have the financial statements audited and submitted to the Bank

Describe the remedies available to the Bank in the event of non-compliance

- If the Bank does not receive acceptable audited FS, audited SA
- If the audited FS reveal major deficiencies in internal controls
- If there is inadequate evidence that funds have been used for eligible expenditure
III- World Bank Policies and Guidelines on Project Financial Management (con’t)

- BP 10.02

1. Describe application of OP 10.02 in the project cycle
2. Recognise the CFAA as a starting point
IV- When we should perform Financial Management activities?

- At stage Preparation, Appraisal and Approval

1. Each project should have adequate Financial Management system
2. Bank staff should assess the current system of the project and if not yet adequate should come up with an Action Plan for remedial action.
3. If no system is in place should advise on the design and come up with timetable for implementation that proposed system.
IV- When we should perform Financial Management activities?(con’t)

- At stage of Implementation
  - Project Implementing Entity should maintain a sound FM system.
  - Appropriate audit arrangement should be made and provide audited FS on timely basis.
  - FM system should be monitored throughout implementation process
V- How to strengthen Financial Management practices?

1- Planning and budgeting

- Should have realistic plan
- Should harmonise planning and reporting information
- Should have close link between plan and relevant processes of project
- PIU should monitor timeliness and costs including procedures for remedial actions when required
V- How to strengthen Financial Management practices?(con’t)

2- Internal control

- Suitable authorization procedure
- Segregation of duty
- Safeguarding of assets
- Independent verification
- Monitoring
- Reconciliation
V- How to strengthen Financial Management practices?(con’t)

3- Accounting system

- Chart of accounts
- Accounting policy
- Bookkeeping procedure
- Accounting software
- Supporting document
- Financial report system
- System interface
V- How to strengthen Financial Management practices? (con’t)

4- Financial reporting

- Financial reporting for Bank-funded projects: Project financial statement (audited), periodic financial reports (unaudited).
- Financial reporting of implementing entities (audited)
- Deadline for receiving audited financial statements (6 months after the year end).
V- How to strengthen Financial Management practices? (con’t)

5- Auditing

- Selection process of auditor
- Output of auditor: Financial Statement and Management Letter.
- Follow-up of audit findings.
VI- Recent changes to Project Financial Management procedures

1- What is Changing

*FM Assessments* – More structured, risk-based, approach. Better linkage to CFAA.

*Reporting* – FMR replaces PMR
  - Simpler, more Flexible
  - Customized to better fit borrower systems and the way projects are managed and monitored
  - Disbursement information only included if disbursements are report-based

*Governance* – Clarified roles of regional FM staff vis-à-vis the Loan Department (Disbursements)

*Bank’s Internal Signoff* - on Assessments and Report-Based Disbursements simplified
VI- Recent changes to Project Financial Management procedures (con’t)

2- What is NOT Changing?

- Requirement for all projects to have:
- An FM and Procurement Capacity Assessment
- Periodic reporting on fiduciary aspects of project implementation
- Project Audit Policies and Procedures
- Choice as to Mode of Disbursement
VI- Recent changes to Project Financial Management procedures (con’t)

3- How were changes decided?

Based on two Extensive Reviews
Included consultations with:
- Bank staff at all levels
- Borrowers in many countries
VI- Recent changes to Project Financial Management procedures (con’t)

4- Timing and Impact of the Changes

Projects appraised:

- Pre-July 1998 are not affected
- July 1, 1998 – December 31, 2001 will have option to convert to new procedures
- After January 1, 2002 required to submit the new FMRs as agreed at negotiations
VII- Financial Monitoring Reports (FMRs)

1- General
PMR vs. FMR
Underlying principles
- Funds are used for intended purposes
- Project implementation is on track
- Budgeted costs will not be exceeded
- Reports aligned with borrower systems as far as possible
- PMR-based disbursement is no longer the main overriding objective of the reports
VII- Financial Monitoring Reports (FMRs) 
(con’t)

2- Content of FMRs

(i) Introductory narrative discussion of developments and progress

(ii) Financial Reports

- Sources and Uses of funds (period and cumulative)
- Uses of funds by project components (budgeted and actual, period and cumulative)
- Format agreed between Project Accountant and the Bank’s FMS. Some countries may use common formats across projects
VII- Financial Monitoring Reports (FMRs) (con’t)

2- Content of FMRs (con’t)

(iii) Physical Progress Reports
- Linkage of financial information with Output indicators or contract status for key activities
- **Outcome** indicators generally not reported in FMRs
- Narrative information may be complement, or even substitute, tabular information. *Format should be agreed between project management, task team leader, and financial management specialist prior to negotiations*
VII- Financial Monitoring Reports (FMRs) (con’t)

2- Content of FMRs (con’t)

(iv) Procurement Reports

- Generally for contracts not subject to prior review but above a certain threshold
- Format more standardized than other reports – based on procurement process. Bank TTL or Procurement staff should agree with borrower as to range of contracts to be reported
VII- Financial Monitoring Reports (FMRs) (con’t)

3- FMRs and Project Preparation

- Project Appraisal – Bank, borrower, determine format and content of FMRs
- Negotiations – Bank, borrower agree the format and content of FMRs
- Ability to produce FMRs should be in place by effectiveness
- First FMR produced after first full period
- NO standardized formats for FMRs. *Borrowers to agree with the Bank on format and content that is consistent with the FMR Guidelines*
VII- Financial Monitoring Reports (FMRs) (con’t)

4- Scope and Frequency

- Scope – encompasses total project and not just Bank financed portion
- Currency of FMRs – normally in the currency used for maintaining books of accounts
- Frequency – flexible, normally quarterly. At least semi-annually
- Submission – within 45 days
VII- Financial Monitoring Reports (FMRs) (con’t)

5- Disbursement and Audit Issues

- Borrower choice of disbursement mode - Bank must agree
- Disbursement information only included if disbursements are report-based
- FMRs not the same as audited annual financial statements (FMRs are NOT audited). But financial reports in FMRs should have similar format and content to annual audited financial statements
VII- Financial Monitoring Reports (FMRs) (con’t)

6- Documentation Requirements For Report-Based Disbursement

- FMRs
- Source of supply information
- Breakdown of aggregate disbursements by legal disb. category and disb. percentage
- SA reconciliation statement
- SA bank statement
- Forecast of expenditures for the next two FMR reporting periods. Calculation of disbursement request based on above information.