



Public Financial Management Reform Project

*under the Multi-Donor Trust Fund Grant Agreement No. TF054547-KH between
the Government of the Kingdom of Cambodia and
the International Development Association (IDA)*

*Audited financial statements
for the period ended 31 December 2006*

Ernst & Young

 **ERNST & YOUNG**

Public Financial Management Reform Project

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for the period ended 31 December 2006*

Public Financial Management Reform Project

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Public Financial Management Reform Project

STATEMENT OF MANAGEMENT'S RESPONSIBILITY OVER FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The management of the Public Financial Management Reform Project ("the Project") is responsible for its financial statements as at 31 December 2006 and for the period from 1 September 2005 to 31 December 2006 ("the period") which give a true and fair view of:

- the financial position of the Project;
- the funds received and expended for the period;
- the activities of the special account for the period and the balance of the account as at 31 December 2006; and,
- the funds withdrawn for the period.

In preparing these financial statements, management is required to:

- select suitable accounting policies and then apply them consistently in accordance with the International Public Sector Accounting Standards and the term of the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH between the Government of the Kingdom of Cambodia and the International Development Association and,
- make judgements and estimates that are reasonable and prudent.

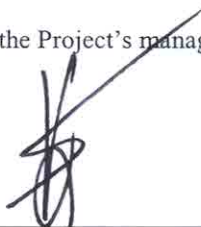
Management confirms that they have complied with the above requirements in preparing the financial statements.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Project and to ensure that the accounting records comply with the applicable accounting system. They are also responsible for safeguarding the assets of the Project and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

APPROVAL OF THE FINANCIAL STATEMENTS

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Project as at 31 December 2006, the funds received and expended, the activities of the Special Account and the funds withdrawn for the period then ended, in accordance with the accounting policies described in Note 2 and comply with the related financing agreements.

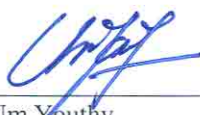
On behalf of the Project's management:



H. E. Aun Porn Moniroth
Secretary of State
Chairman of Reform Committee



Dr. Sok Saravuth
Reform Committee Secretariat Manager



Mr Um Youthy
Office Manager

Phnom Penh City, Kingdom of Cambodia

16 May 2008

Reference: 11461/11106

AUDITORS' REPORT
on the financial statements of the Public Financial Management Reform Project
as at 31 December 2006 and for the period then ended
(under the Multi-Donor Trust Fund Grant Agreement
No. TF054547-KH between the Government of the Kingdom of Cambodia and
the International Development Association)

To: The Reform Committee Secretariat

We have audited the accompanying financial statements of Public Financial Management Reform Project ("the Project") which comprise the balance sheet as at 31 December 2006, the statement of special account, the statement of sources of funds and expenditures and the notes thereto for the period from 1 September 2005 to 31 December 2006 ("the period"), as set out on pages 3 to 13. The financial statements are the responsibility of the management of the Project. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2006 and of the funds received and expended, the activities of the Special Account for the period then ended in conformity with the accounting policies set out in Note 2 and comply with the related financing agreements.


Ernst & Young Indochina Ltd.
Phnom Penh, Kingdom of Cambodia

16 May 2008

Public Financial Management Reform Project

Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
between the Government of the Kingdom of Cambodia and the International Development Association

BALANCE SHEET As at 31 December 2006

Currency: US\$

	Notes	Ending balance
ASSETS		
Cash		
Multi – Donor Trust Fund	3, 9.1	158,217
Others	3	100
		<u>158,317</u>
Advances	4	<u>6,577</u>
TOTAL ASSETS		<u>164,894</u>
LIABILITIES AND EXCESS OF SOURCES OF FUNDS OVER EXPENDITURES		
Liability		
Other payable		100
Excess of Sources of Funds over Expenditures		<u>164,794</u>
TOTAL LIABILITIES AND EXCESS OF SOURCES OF FUNDS OVER EXPENDITURES		<u>164,894</u>



Mr Um Youthy
Office Manager



Dr. Sok Saravuth
Reform Committee Secretariat Manager

16 May 2008

Public Financial Management Reform Project


Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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STATEMENT OF SOURCES OF FUNDS AND EXPENDITURES for the period from 1 September 2005 to 31 December 2006

Currency: US\$

	Notes	Actual cumulative	Budget (Note 2)	Variance
SOURCES OF FUNDS				
Multi-Donor Trust Fund	9.3	1,840,562	N/A	N/A
Counterpart fund account	5	35,152	N/A	N/A
Policy and Human Resource Development Grant	6	24,069	N/A	N/A
TOTAL SOURCES OF FUNDS		1,899,783	N/A	N/A
EXPENDITURES BY COST CATEGORY	7, 8			
Salary and allowance		1,111,796	1,143,115	31,319
Consulting fees and expenses		231,477	2,615,557	2,384,080
Training		119,715	233,400	113,685
Workshops/seminars		47,251	244,530	197,279
Office fit out		7,076	13,239	6,163
Office equipment		199,598	1,196,317	996,719
Office supplies		10,318	9,394	(924)
Communication		4,211	3,876	(335)
Miscellaneous		3,547	1,922	(1,625)
TOTAL EXPENDITURES BY CATEGORY		1,734,989	5,461,350	3,726,361
EXCESS OF SOURCES OF FUNDS OVER EXPENDITURES		164,794	N/A	N/A
EXPENDITURES BY COMPONENT	7, 8			
Budget strengthening component				
Budget formulation		175,037	1,016,593	841,556
Budget execution		131,797	461,605	329,808
Revenue management		42,231	446,556	404,325
Procurement		26,087	134,101	108,014
Internal audit		6,053	142,655	136,602
Capacity strengthening		164,790	1,617,233	1,452,443
		545,995	3,818,743	3,272,748
Merit-based payment initiative		1,111,796	1,143,115	31,319
Operating expenses		77,198	64,644	422,294
TOTAL EXPENDITURES BY COMPONENT		1,734,989	5,461,350	3,726,361


Mr. Um Youthy
Office Manager


Dr. Sok Saravuth
Reform Committee Secretariat Manager

16 May 2008

Public Financial Management Reform Project

Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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STATEMENT OF SPECIAL ACCOUNT for the period from 1 September 2005 to 31 December 2006

Currency: US\$

ASSETS	Notes	Ending balance
A. Sources of funds	9.3	1,840,562
Special account		1,840,562
B. Uses of funds	7	1,675,768
Salary and allowance		1,076,644
Consulting fees and expenses		231,477
Training		119,715
Workshops/seminars		23,182
Office fit out		7,076
Office equipment		199,598
Office supplies		10,318
Communication		4,211
Miscellaneous		3,547
Surplus of funds		164,794
<i>Represented by:</i>		
Advances	4	6,577
Petty cash	3	52
Special account	3	158,165
		164,794



Mr. Um Youthy
Office Manager



Dr. Sok Saravuth
Reform Committee Secretariat Manager

16 May 2008

Public Financial Management Reform Project

*Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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NOTES TO THE FINANCIAL STATEMENTS for the period ended 31 December 2006

1. PROJECT BACKGROUND

On 11 August 2005, the Government of the Kingdom of Cambodia represented by the Ministry of Economy and Finance ("MEF") and the International Development Association ("IDA") signed a Multi-Donor Trust Fund ("MDTF") Grant Agreement (No. TF 054547) to cooperate in financing the Public Financial Management Reform Project ("the Project").

The Project commenced in September 2005 and will run for ten years with funding coming from:

- MDTF TF054547-KH administered by the World Bank with funds being contributed by the donor partners of Great Britain and Australia in 2005 and 2006, and the European Commission ("EC") and Sweden from 2006 onwards. Other donor partners may fund the Project through the MDTF in the future.
- Royal Government of Cambodia counterpart funds for the Merit Based Payment Incentive (MBPI) scheme/component of the Project.
- Donor partners' direct funding of inputs to the Project (these funds and expenditures are managed by the donor partners. These funds are not managed by the MEF.

The total cost of the Programme is estimated at US\$ 7,035,000, of which the MEF will provide financial contribution to the Merit Based Pay Initiative with an annual percentage contribution as follows:

2006	2007	2008	2009	2010	2011
11%	11%	15%	20%	26%	35%

The Public Financial Management Program starts in the perspective that it will provide support for activities at the Government level in Financial Management, aimed at establishing the framework for a professional civil service, in which officials will be able to maintain Public financial management standards without depending on continuous external advice.

The Project is implemented by the MEF and is managed by the Reform Committee Secretariat ("RCS") of the MEF.

The Project's activities are divided into six main and complementary components:

- Budget Formulation
- Budget Execution Systems and Processes
- Revenue Management
- Procurement
- Internal Audit
- Institutional Strengthening

Public Financial Management Reform Project

*Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the period ended 31 December 2006

1. PROJECT BACKGROUND (continued)

These components are briefly discussed below:

Part A: Strengthen the recipient's capacity to formulate, execute and monitor its budget.

- Budget formulation: Strengthen the recipient's capacity to formulate and integrate its budget, including: (a) improving budget coverage by capturing currently off budget revenues and expenditures; (b) strengthening the control over expenditures, especially the formulation of wage and capital budgets; (c) developing the medium term macroeconomic-fiscal framework; including revenue forecasting capacity; (d) strengthening debt forecasting, financing analysis, and payment management; (e) redesigning the budget and account classification system; and (f) piloting a program based budget structure.
- Budget Execution Systems and Processes: Support the modernization of the recipient's budget and treasury management systems and process, including (a) establishing an integrated financial management information system; (b) developing a plan for a new streamline budget execution process; (c) widening the scope of payment through the banking system including payment for tax collection and payment to civil servants and contractors; (d) strengthening cash management; (e) strengthening commitment control and mid-year budget review process; (f) strengthening post-budget supplementary expenditure control and asset management; (g) developing an information and communications management strategy and plan in MEF; (h) building MEF's capacity to carry out expenditure tracking surveys; and (i) redesigning the budget cycle.
- Revenues Management: Strengthen the recipient's tax and non-tax revenues administration, including (a) developing a revenue mobilization policy for national and sub-national levels; (b) developing and implementing tax revenue collection and enforcement policy; and (c) strengthening the capacity of tax department for, inter alia, registering, assessing, collecting, and auditing tax revenues, and providing services to taxpayers.
- Procurement: Strengthen the recipient's procurement system, including: (a) developing a new procurement law; (b) reviewing procurement sub-decrees and development of harmonized related procedures (c) decentralizing the procurement to line ministries and province; (d) carrying out a capacity building program for procuring entities and contractors; and (e) developing an information and performance monitoring system in the public procurement.
- Internal Audit: Strengthen the recipient's capacity to carry out internal audit including establishing arrangements for managing internal audit standards and review.
- Institutional Strengthening: Strengthen MEF's overall capacity, including: (a) developing MEF's capacity to provide in-house training; (b) assessing and reorganizing MEF institutional structure; and (c) strengthening RCS's capacity to implement the program, including the development and implementation of a communication strategy.

Part B: Merit-Based Pay Initiative Program

- Implement the recipient's Merit-Based Pay Initiative Program through out the provision of MBPI allowances to selected MEF staff.
- Implement reforms in MEF's personnel management, including the establishment of merit-based selection and promotion, and performance management.

Public Financial Management Reform Project

Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
between the Government of the Kingdom of Cambodia and the International Development Association

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the period ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Project's financial statements are expressed in the United States dollar (US\$). These financial statements are prepared by the RCS in accordance with International Public Sector Accounting Standards in the preparation of the financial statements which are set out below. The Project maintains its accounting records in US\$.

The financial statements present sources and uses of funds, and the related financial information in relation to the IDA fund withdrawals and disbursements from the Project's Special Account together with the corresponding counterpart funds as specified under the Multi-Donor Trust Fund Grant Agreement between the MEF and the IDA.

Recognition of Funds from IDA

Funds are recognized as sources when cash is debited to the Project's Special Account managed by RCS rather than when committed or budgeted.

Recognition of Counterpart Funds

Funds are recognized as sources when cash is withdrawn from the State Treasury or when payments are transferred directly from the State Treasury to the Project's National Bank Account.

Recognition of expenditure

Except for direct payment by IDA, expenditure under each component is recognized when documents substantiating the Project's transactions are submitted and approved by the IDA.

Equipment

Equipment procured is recognized as expenditure when received or when handed-over from the contractors or suppliers upon the respective acceptance and approval by the RCS.

Foreign exchange differences

Disbursements and withdrawals in foreign currencies (other than US\$) are converted into US\$ at the prevailing exchange rates declared by the National Bank of Cambodia ruling at the date of transactions. Monetary items denominated in foreign currencies are translated into US\$ for reporting purposes at the closing exchange rate prevailing at the reporting date. Foreign exchange differences are presented as a separate line in the statement of sources of funds and expenditures.

Budget

The budget for the statement of sources of funds and expenditures for the period from 1 September 2005 to 31 December 2006 is provided for comparison and reference purposes only.

3. CASH

Currency: US\$

	MDTF	Other sources
Petty cash	52	-
Cash in bank	158,165	100
TOTAL	158,217	100

Public Financial Management Reform Project

Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the period ended 31 December 2006

4. ADVANCES

The amount represents the outstanding advances paid to a government officer in relation to the preparation needed for seminars and workshops.

5. COUNTERPART FUNDS

	US\$
Counterpart funds budgeted and approved for the Project during the period	35,152
Less: refund of unutilised budget	-
Counterpart funds recognized as income during the period	35,152

For each fiscal year, the counterpart funds are budgeted and approved for the Project by the MEF.

6. Policy and Human Resource Development ("PHRD") Grant

	US\$
Fund budgeted and approved for the Project during the period	50,000
Less: refund of unutilised budget	(25,931)
Counterpart funds recognized as income during the period	24,069

7. EXPENDITURES BY COST CATEGORY

Currency: US\$

	MDTF Special Account	PHRD Grant	Counterpart Funds	Total
Salary and allowance	1,076,644	-	35,152	1,111,796
Consulting fees and expenses	231,477	-	-	231,477
Training	119,715	-	-	119,715
Workshops/seminars	23,182	24,069	-	47,251
Office fit out	7,076	-	-	7,076
Office equipment	199,598	-	-	199,598
Office supplies	10,318	-	-	10,318
Communication	4,211	-	-	4,211
Miscellaneous	3,547	-	-	3,547
TOTAL	1,675,768	24,069	35,152	1,734,989

Public Financial Management Reform Project

Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the period ended 31 December 2006

8. EXPENDITURES BY COMPONENT

Currency: US\$

	<i>MDTF Special Account</i>	<i>PHRD Grant</i>	<i>Counterpart Funds</i>	<i>Total</i>
Budget Strengthening Component				
Budget formulation	175,037	-	-	175,037
Budget execution	131,797	-	-	131,797
Revenue management	42,231	-	-	42,231
Procurement	26,087	-	-	26,087
Internal audit	6,053	-	-	6,053
Capacity strengthening	163,540	1,250	-	164,790
Merit-Based Payment Initiative	1,076,644	-	35,152	1,111,796
Operating expenses	54,379	22,819	-	77,198
TOTAL	1,675,768	24,069	35,152	1,734,989

9. SPECIAL ACCOUNT AND WITHDRAWAL APPLICATIONS

9.1 Statement of Special Account

Currency: US\$

	<i>Notes</i>	<i>Amount</i>
Beginning balance		-
<i>Add:</i>		
Total amount advanced by the World Bank during the period		1,840,562
Total amount refunded to cover ineligible disbursements		-
<i>Deduct:</i>		
Total payments for previous years' payables balance		-
Total amount withdrawn for expenditures during the period		1,682,345
Ending balance as at 31 December 2006	3	158,217

Public Financial Management Reform Project

Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the period ended 31 December 2006

9. SPECIAL ACCOUNT AND WITHDRAWAL APPLICATIONS (continued)

9.2 Reconciliation of Special Account

Currency: US\$

	Notes	MDT
Initial withdrawal		400,000
<i>Add:</i>		
Additional advance from World Bank in 2006		-
<i>Deduct:</i>		
Total amount recovered by World Bank		-
Total amount advanced to Special Account as at 31 December 2006		400,000
Ending balance of Special Account as at 31 December 2006		158,217
<i>Add:</i>		
Amount claimed but not yet credited as at 31 December 2006		235,206
Amount withdrawn but not yet claimed as at 31 December 2006		6,577
Total advance to Special Account accounted for as at 31 December 2006		400,000

Public Financial Management Reform Project

*Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH
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NOTES TO THE FINANCIAL STATEMENTS (continued)
for the period ended 31 December 2006

9. SPECIAL ACCOUNT AND WITHDRAWAL APPLICATIONS (continued)

9.3 Summary of Withdrawal Applications

Currency: US\$

	Date	Amount claimed for replenishment						Total
		Goods	Trainings and Workshops	Consultant Services	MBPI Allowance	Incremental Operating Cost	Others (initial grant)	
2005	12/05/2005	-	-	-	-	-	400,000	400,000
2006								
Application No 1	12/01/2006	5,713	-	5,000	385,915	1,842	-	398,470
Application No 2	10/02/2006	-	-	-	9,800	698	-	10,498
Application No 3	07/04/2006	-	23,477	48,399	61,092	643	-	133,611
Application No 4	07/04/2006	-	-	14,208	-	-	-	14,208
Application No 5	07/04/2006	-	24,850	3,700	9,800	772	-	39,122
Application No 6	26/05/2006	-	-	-	164,316	3,178	-	167,494
Application No 7	03/07/2006	50,144	5,964	17,325	9,800	887	-	84,120
Application No 8	10/08/2006	5,361	42,919	-	-	542	-	48,822
Application No 9	06/09/2006	107,212	23,085	16,714	232,793	2,666	-	382,470
Application No 10	01/12/2006	2,019	17,896	51,637	87,878	2,317	-	161,747
Application No 11	22/12/2006	-	-	-	-	-	-	(*)
		170,449	138,191	156,983	961,394	13,545	-	1,440,562
Total		170,449	138,191	156,983	961,394	13,545	400,000	1,840,562

(*) Not yet replenished as of 31 December 2006

Public Financial Management Reform Project

Under the Multi-Donor Trust Fund Grant Agreement No. TF 054547-KH between the Government of the Kingdom of Cambodia and the International Development Association

NOTES TO THE FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2006

10. COMPARISON OF ACTUAL EXPENDITURES FOR THE YEAR ENDED 31 DECEMBER 2006 WITH BUDGET

Currency: US\$

	<i>Actual</i>	<i>Budget</i>	<i>Variance</i>
EXPENDITURES BY COST CATEGORY			
Salary and allowance	1,111,796	1,143,115	31,319
Consulting fees and expenses	231,477	2,615,557	2,384,080
Training	119,715	233,400	113,685
Workshops/seminars	47,251	244,530	197,279
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Communication	4,211	3,876	(335)
Miscellaneous	3,547	1,922	(1,625)
TOTAL EXPENDITURES BY CATEGORY	<u>1,734,989</u>	<u>5,461,350</u>	<u>3,726,361</u>
EXPENDITURES BY COMPONENT			
Budget Strengthening Component			
Budget formulation	175,037	1,016,593	841,556
Budget execution	131,797	461,605	329,808
Revenue management	42,231	446,556	404,325
Procurement	26,087	134,101	108,014
Internal audit	6,053	142,655	136,602
Capacity strengthening	164,790	1,617,233	1,452,443
Merit-Based Payment Initiative	1,111,796	1,143,115	31,319
Operating Expenses	<u>77,198</u>	<u>499,492</u>	<u>422,294</u>
TOTAL EXPENDITURES BY COMPONENT	<u>1,734,989</u>	<u>5,461,350</u>	<u>3,726,361</u>

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