

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE PERIOD FROM 7 NOVEMBER 2013 TO 31 DECEMBER 2014

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT

Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

PROJECT INFORMATION

PROJECT MANAGEMENT: H.E Dr. Aun Pornmoniroth, Chairman of the Project
Dr. Sok Saravuth, Secretary General Secretariat
Mr. Tes Putheara, Office Manager

IMPLEMENTING AGENCY: Secretariat, Steering Committee of the Public
Financial Management Reform “GSC”
Ministry of Economy and Finance

PRINCIPAL BANKER: National Bank of Cambodia

AUDITORS: BDO (Cambodia) Limited

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
*Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal
Government of Cambodia and the International Development Association*

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PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT

Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

PROJECT MANAGEMENT'S REPORT

The Project Management hereby submits the report together with the audited financial statements of Public Financial Management Modernisation Project ("the Project") under the Ministry of Economy and Finance ("MEF") for the financial period from 7 November 2013 to 31 December 2014.

Responsibility of the Project Management in respect of the financial statements

The Project Management is responsible to ascertain that the financial statements of the Project for the year ended 31 December 2014 are prepared, in all material respects, in accordance with the basis of preparation and accounting policies set out in Note 2 to the financial statements. In preparing these financial statements, the Project Management is required to select suitable accounting policies and then apply them consistently.

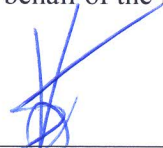
The Project Management is responsible for ensuring that proper accounting records are kept which enable the financial statements to be prepared in compliance with accounting policies set out in Note 2 to the financial statements as well as in accordance with the terms of the financing agreement for the Multi-Donor Trust Fund Grant Agreement Number TF015434 between Royal Government of Cambodia ("RGC") and the International Development Association ("IDA"). The Project Management is 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.

The Project Management assumes the responsibility to provide, and has provided, the auditors with all accounting records, supporting and other documents, minutes, and any other pertinent information and explanations, either orally or in writing, necessary for the audit.

Statement by the Project Management

In the opinion of the Project Management, the financial statements set out on pages 4 to 17 are prepared, in all material respects, in accordance with the basis of preparation and accounting policies described in Note 2 to the financial statements and the related financing agreements.

Signed on behalf of the Project Management



Dr. Aun Pornmoniroth
Minister, Ministry
of Economy and Finance
Chairman of PFMRS



Dr. Sok Saravuth
Secretary General
Secretariat of PFMRS



Mr. Tes Putheara
Office Manager

Phnom Penh, Cambodia
Date: 8 June 2015

INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT

Report on the Financial Statements

We have audited the accompanying financial statements of Public Financial Management Modernisation Project ("the Project") under the Ministry of Economy and Finance ("MEF"), which comprise statement of financial position as at 31 December 2014, statement of sources of funds and expenditures, and statement of designated accounts for the financial period from 7 November 2013 to 31 December 2014 and a summary of significant accounting policies and other explanatory explanation, as set out on pages 4 to 17.

The financial statements of the Project on accumulative basis to 31 December 2014 were not audited.

Project Management's Responsibility for the Financial Statements

The Project Management is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies set out in Note 2 to the financial statements, and for such internal controls as the Project Management determines are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Project's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Project Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF
PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT (continued)**

Opinion

In our opinion, the financial statements of the Project for the period from 7 November 2013 to 31 December 2014 are prepared, in all material respects, in accordance with the basis of preparation and accounting policies set out in Note 2 to the financial statements.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of preparation and accounting policies adopted by the Project. The financial statements are prepared to assist the Project to meet its financial reporting requirements. As a result, the financial statements may not be suitable for another purpose.

Lim Seng Siew

Partner

BDO (Cambodia) Limited

Certified Public Accountants

Phnom Penh, Cambodia

Date: 8 June 2015

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
*Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal
 Government of Cambodia and the International Development Association*

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	31 Dec 2014 US\$
ASSETS		
Cash and bank balances		
Multi-donor trust fund	3	19,717
Royal Government of Cambodia (“RGC”) - Counterpart fund	3	<u>130,717</u>
		<u>150,434</u>
TOTAL ASSETS		<u><u>150,434</u></u>
FUND BALANCE		<u><u>150,434</u></u>

The accompanying notes form an integral part of the financial statements.

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

STATEMENT OF SOURCES OF FUNDS AND EXPENDITURES
FOR THE PERIOD FROM 7 NOVEMBER 2013 TO 31 DECEMBER 2014

	Note	7 Nov 2013 to 31 Dec 2014 US\$	Cumulative to 31 Dec 2014 US\$ (unaudited)
SOURCES OF FUNDS			
Multi-donor trust fund		2,747,368	2,747,368
RGC - Counterpart fund	4	<u>209,010</u>	<u>487,102</u>
		<u>2,956,378</u>	<u>3,234,470</u>
EXPENDITURE BY CATEGORIES			
	5		
Goods		2,118	11,428
Consultancy services	7	575,252	580,142
Training and workshops	8	120,718	250,302
Incremental operating Costs	9	125,448	128,797
Supplement allowance/priority operating costs		155,107	155,107
Financial Management Information Systems Treasury System ("FMIS")		<u>1,958,260</u>	<u>1,958,260</u>
		<u>2,936,903</u>	<u>3,084,036</u>
Surplus of sources of funds over expenditures		19,475	150,434
Fund balance at beginning of period		<u>130,959</u>	-
Fund balance at end of period		<u><u>150,434</u></u>	<u><u>150,434</u></u>
EXPENDITURE BY COMPONENTS			
	6		
Mobilisation of revenue and MEF Steering Committee Secretariat Operations Support ("SCS")			
Mobilisation of revenue strategy support		51,117	51,117
SCS implementation support		336,661	483,794
Improving budget execution processes			
Budget execution process		1,958,260	1,958,260
FMIS implementation support		<u>590,865</u>	<u>590,865</u>
		<u>2,936,903</u>	<u>3,084,036</u>

The accompanying notes form an integral part of the financial statements.

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

STATEMENT OF DESIGNATED ACCOUNTS - MDTF
FOR THE PERIOD FROM 7 NOVEMBER 2013 TO 31 DECEMBER 2014

	Note	7 Nov 2013 to 31 Dec 2014 US\$	Cumulative to 31 Dec 2014 US\$ (unaudited)
SOURCES OF FUNDS			
Multi-donor trust fund			
Replenishment		382,748	382,748
Direct payment		<u>2,364,620</u>	<u>2,364,620</u>
		<u>2,747,368</u>	<u>2,747,368</u>
EXPENDITURE BY CATEGORIES			
	5		
Consultancy services		549,094	549,094
Training and workshops		115,117	115,117
Incremental operating costs		105,180	105,180
FMIS		<u>1,958,260</u>	<u>1,958,260</u>
		<u>2,727,651</u>	<u>2,727,651</u>
Excess of sources of funds over expenditures		<u>19,717</u>	<u>19,717</u>
REPRESENTED BY:			
Cash on hand	3	1,000	1,000
Bank at bank	3	<u>18,717</u>	<u>18,717</u>
		<u>19,717</u>	<u>19,717</u>

The accompanying notes form an integral part of the financial statements.

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

NOTES TO THE FINANCIAL STATEMENTS

1. PROJECT BACKGROUND

The Public Financial Management Modernisation Project (“the Project”) was established under the Multi-Donor Trust Fund (“MDTF”) Grant Agreement Number TF015434 signed on 7 November 2013 between the Royal Government of Cambodia represented by the Ministry of Economy and Finance (“MEF”) and the International Development Association (“IDA”) of the World Bank. The agreement became effective for implementation from 7 November 2013. The amount of funding under the financing agreement to be provided to the Project is US\$5,903,013, which details as follows:

Category	Amount of the Grant Allocated (expressed in USD)	% of expenditures to be financed (inclusive of tax)
(1) Consultants’ services, Goods, Training and Workshops, And Incremental Operating Costs under the Project	5,903,013	100%
TOTAL	5,903,013	

The Project started with the objective to enhance public financial management by strengthening:

- (i) revenue mobilisation and
- (ii) the budget execution processes through the implementation of the Financial Management Information System.

The Project consists of the following parts:

Part 1. Mobilization of Revenue and MEF Steering Committee Secretariat Operations Support

- A. Support the Recipient in the preparation of a revenue mobilization strategy
- B. Support the SCS in the management of the Project

Part 2. Improvement of Budget Execution Processes

- A. Strengthen the Recipient’s budget execution processes through:
 - (a) the deployment of an automated FMIS to computerize the financial operations of budget and treasury units at the MEF, General Department of the National Treasury (“GDNT”), and provincial treasuries; and
 - (b) the implementation of the uniform account code structure and the fulfillment of the requirements of cash basis International Public Sector Accounting Standards in MEF, line ministries, and all governmental budget entities.
- B. Provision of implementation support for the FMIS including, *inter alia*:
 - (a) building the capacity of the GDNT and the FMIS Project Management Working Group to oversee and monitor the FMIS implementation; and
 - (b) strengthening the capacities of the Ministry of Economy and Finance and providing support to staff to facilitate the transition to and be able to operate effectively in an automated environment.

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Project, which are expressed in United States Dollar (“US\$”), have been prepared in accordance with modified cash basis of accounting. Under this basis of accounting, fund received is recognised when received rather than when the right to receive it arises, and expenditure is recognised when it is paid rather than when incurred, except for the advance payments which are initially recognised as receivables and only recognised as expenditures when they have been liquidated by invoices supporting the related expenditures.

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 designated account together with the corresponding counterpart funds as specified under the Multi-Donor Trust Fund Grant Agreement No.TF015434 between the MEF of RGC and the IDA of World Bank.

2.2 Source of funds

Sources of funds consist of grants received from the MDTF through the IDA transferred directly to the Project’s designated account held at the National Bank of Cambodia. Funds received also comprise direct cash disbursements made by the IDA as well as counterpart funds from the RGC. These funds are accounted for when received.

2.3 Cash

Cash consists of cash and bank balances with insignificant risk of changes in values.

2.4 Funds from IDA

Funds from IDA is recognised as a source when cash is transferred to the Project’s designated account and when direct cash disbursements are made by the IDA. This fund is accounted for when received.

2.5 Counterpart fund

Counterpart fund is recognised as a source when cash is withdrawn from the National Treasury or when a payment is transferred directly from the National Treasury to the Project’s national bank account. Direct payment is recognised as a source when a payment is transferred directly from National Treasury to contractors.

2.6 Expenditures

Expenditures are recognised when payment is made rather than when it is incurred, except for advance payments to staffs, suppliers and contractors which are initially recognised as advances and recognised as expenditure when they are liquidated by presentation of supporting invoices.

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2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Direct payments

Direct payments represent payments made by the IDA directly to third party suppliers on behalf of the Project.

2.8 Equipment

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

2.9 Foreign exchange difference

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 in to US\$ for reporting purposes at the closing exchange rate prevailing at the reporting date.

2.10 Commitment and service charges

Commitment and service charges relating to the IDA are paid directly by the MEF and are not accounted for in the statement of sources of funds and expenditures and the statement of designated accounts.

3. CASH AND BANK BALANCES

	31 Dec 2014		
	MDTF	Counterpart	Total
	US\$	fund	US\$
		US\$	US\$
Cash at bank	18,717	130,717	149,434
Petty cash	1,000	-	1,000
	<u>19,717</u>	<u>130,717</u>	<u>150,434</u>

4. COUNTERPART FUND

	7 Nov 2013	Cumulative to
	to	31 Dec 2014
	31 Dec 2014	31 Dec 2014
	US\$	US\$
		(unaudited)
Unused funds from previous period	130,959	-
Funds received	209,010	487,102
Expense paid	<u>(209,252)</u>	<u>(356,385)</u>
Fund balance at end of period	<u>130,717</u>	<u>130,717</u>

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5. EXPENDITURES BY CATERGORIES

	7 Nov 2013 to 31 Dec 2014		
	MDTF US\$	Counterpart fund US\$	Total US\$
Goods	-	2,118	2,118
Consultancy services	549,094	26,158	575,252
Training and workshops	115,117	5,601	120,718
Incremental operating costs	105,180	20,268	125,448
Supplement allowance/priority operating costs	-	155,107	155,107
FMIS	1,958,260	-	1,958,260
	<u>2,727,651</u>	<u>209,252</u>	<u>2,936,903</u>
	Cumulative to 31 Dec 2014		
	MDTF US\$	Counterpart fund US\$	Total US\$ (unaudited)
Goods	-	11,428	11,428
Consultancy services	549,094	31,048	580,142
Training and workshops	115,117	135,185	250,302
Incremental operating costs	105,180	23,617	128,797
Supplement allowance/priority operating costs	-	155,107	155,107
FMIS	1,958,260	-	1,958,260
	<u>2,727,651</u>	<u>356,385</u>	<u>3,084,036</u>

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6. EXPENDITURES BY COMPONENTS

	7 Nov 2013 to 31 Dec 2014		
	MDTF US\$	Counterpart fund US\$	Total US\$
Mobilisation of revenue and MEF Steering Committee Secretariat Operation Support (“SCS”)			
Mobilization of revenue strategy support	51,117	-	51,117
SCS implementation support	132,325	204,336	336,661
Improving budget execution process			
Budget execution process	1,958,260	-	1,958,260
FMIS implementation support	585,949	4,916	590,865
	<u>2,727,651</u>	<u>209,252</u>	<u>2,936,903</u>
	Cumulative to 31 Dec 2014		
	MDTF US\$	Counterpart fund US\$	Total US\$
			(unaudited)
Mobilisation of revenue and MEF Steering Committee Secretariat Operation Support (“SCS”)			
Mobilization of revenue strategy support	51,117	-	51,117
SCS implementation support	132,325	351,469	483,794
Improving budget execution process			
Budget execution process	1,958,260	-	1,958,260
FMIS implementation support	585,949	4,916	590,865
	<u>2,727,651</u>	<u>356,385</u>	<u>3,084,036</u>

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7. CONSULTANCY SERVICES

	7 Nov 2013 to 31 Dec 2014 US\$	Cumulative to 31 Dec 2014 US\$ (unaudited)
National consultants	92,734	97,624
International consultants	482,518	482,518
	<u>575,252</u>	<u>580,142</u>

8. TRAININGS AND WORKSHOPS

	7 Nov 2013 to 31 Dec 2014 US\$	Cumulative to 31 Dec 2014 US\$ (unaudited)
Local and foreign training fees	1,372	130,956
Meeting and conference fees/Workshops	88,921	88,921
Transportation fees/Workshops	6,154	6,154
Mission fees/Workshops	11,076	11,076
Food and housing per diem/Workshops	13,195	13,195
	<u>120,718</u>	<u>250,302</u>

9. INCREMENTAL OPERATING COSTS

	7 Nov 2013 to 31 Dec 2014 US\$	Cumulative to 31 Dec 2014 US\$ (unaudited)
Advertising	6,994	6,994
Office supplies	14,107	14,107
Fuel expense	17,295	17,295
Repair and maintenance	12,032	12,032
Telecommunication	4,810	4,810
Other operating costs	70,210	73,559
	<u>125,448</u>	<u>128,797</u>

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT
Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

10. DESIGNATED ACCOUNTS AND WITHDRAWAL APPLICATIONS

10.1 Statement of designated accounts

	7 Nov 2013 to 31 Dec 2014 US\$
Multi-Donor Trust Fund	
Balance as at 7 November 2013	-
Add:	
Total amount advanced by the MDTF during the period	2,747,368
Deduct:	
Total amount withdrawn for expenditures during the period	2,727,651
Total amount returned to donors	-
	<hr/>
Balance as at 31 December 2014 (Note 3)	<u><u>19,717</u></u>

PUBLIC FINANCIAL MANAGEMENT MODERNISATION PROJECT

Under the Multi-Donor Trust Fund Grant Agreement Number TF015434 between the Royal Government of Cambodia and the International Development Association

10. DESIGNATED ACCOUNTS AND WITHDRAWAL APPLICATIONS (continued)

10.2 Summary of withdrawal applications

Application of MDTF

Withdrawal application number	Date	Amount claimed for direct payment and replenishment						Total US\$
		Initial advance (recoveries) US\$	Goods US\$	FMIS US\$	Consultant services US\$	Trainings and workshops US\$	Incremental operating costs US\$	
2014								
Initial advance to designated account No. 1	27 February	100,000	-	-	-	-	-	100,000
Direct payment No 2	27 February	-	-	-	14,543	-	-	14,543
Direct payment No 3	20 March	-	-	880,017	-	-	-	880,017
Direct payment No 4	13 March	-	-	-	26,519	-	-	26,519
Direct payment No 5	22 May	-	-	-	41,132	-	-	41,132
Replenishment No 6	11 June	-	-	-	10,256	12,497	15,903	38,656
Direct payment No 7	8 July	-	-	-	38,419	-	-	38,419
Replenishment No 8	14 July	-	-	-	26,116	-	6,808	32,924
Direct payment No 9	4 August	-	-	61,963	-	-	-	61,963
Replenishment No 10	18 August	-	-	-	14,183	1,811	8,255	24,249
Direct payment No 11	15 September	-	-	-	47,765	-	-	47,765
Direct payment No 12	19 September	-	-	-	45,278	-	-	45,278
Replenishment No 13	7 October	-	-	-	14,770	1,097	18,260	34,127

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10. DESIGNATED ACCOUNTS AND WITHDRAWAL APPLICATIONS (continued)

10.2 Summary of withdrawal applications (continued)

Application of MDTF (continued)

Withdrawal application number	Date	Amount claimed for direct payment and replenishment						Total US\$
		Initial advance (recoveries) US\$	Goods US\$	FMIS US\$	Consultant services US\$	Trainings And workshops US\$	Incremental operating costs US\$	
2014								
Direct payment No 14	14 October	-	-	-	21,550	-	-	21,550
Direct payment No 15	14 October	-	-	172,364	-	-	-	172,364
Direct payment No 16	21 October	-	-	-	39,740	-	-	39,740
Direct payment No 17	12 November	-	-	-	31,634	-	-	31,634
Replenishment No 18	13 November	-	-	-	39,259	12,052	11,874	63,185
Direct payment No 19	21 November	-	-	843,916	-	-	-	843,916
Direct payment No 20	1 December	-	-	-	31,774	-	-	31,774
Replenishment No 21	4 December	-	-	-	7,623	75,494	6,491	89,608
Direct payment No 22	8 December	-	-	-	42,449	-	-	42,449
Direct payment No 23	26 December	-	-	--	25,556	-	-	25,556
		100,000	-	1,958,260	518,566	102,951	67,591	2,747,368

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11. COMMITMENTS

The Project has commitments which were contracted but not yet paid as at 31 December 2014, as follows:

	Period ended 31 Dec 2014		
	MDTF US\$	Counterpart fund US\$	Total US\$
Goods	-	44,500	44,500
Consultancy services	140,167	-	140,167
Training and workshops	1,584	-	1,584
Incremental operating costs	22,608	-	22,608
FMIS	7,430,629	-	7,430,629
	<u>7,594,988</u>	<u>44,500</u>	<u>7,639,488</u>

12. TAXATION CONTINGENCIES

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Cambodia substantially more significant than in other countries. The Project Management believes that it has adequately estimated its tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.