



KINGDOM OF CAMBODIA
Nation Religion King

Royal Government of Cambodia

**STANDARD OPERATING PROCEDURES
ON
FINANCIAL MANAGEMENT

FOR
ALL EXTERNALLY FINANCED
PROJECTS/PROGRAMS IN CAMBODIA**



Updated Version: December 2019

Prepared by the Ministry of Economy and Finance



ព្រះរាជាណាចក្រកម្ពុជា
ជាតិ សាសនា ព្រះមហាក្សត្រ

រាជរដ្ឋាភិបាលកម្ពុជា

លេខ: ១៨១ អនក្រ.បក

អនុក្រឹត្យ

ស្តីពី

**ការដាក់ឱ្យប្រើប្រាស់នីតិវិធីរួមសម្រាប់គ្រប់គ្រងការរៀបចំ និង
តាមដានការអនុវត្តគម្រោងហិរញ្ញប្បទានពីដៃគូអភិវឌ្ឍន៍**

រាជរដ្ឋាភិបាល

- បានឃើញរដ្ឋធម្មនុញ្ញនៃព្រះរាជាណាចក្រកម្ពុជា
- បានឃើញព្រះរាជក្រឹត្យលេខ នស/រកត/០៩១៨/៩២៥ ចុះថ្ងៃទី០៦ ខែកញ្ញា ឆ្នាំ២០១៨ ស្តីពីការតែងតាំង
រាជរដ្ឋាភិបាលនៃព្រះរាជាណាចក្រកម្ពុជា
- បានឃើញព្រះរាជក្រមលេខ នស/រកម/០៦១៨/០១២ ចុះថ្ងៃទី២៨ ខែមិថុនា ឆ្នាំ២០១៨ ដែលប្រកាសឱ្យ
ប្រើច្បាប់ស្តីពីការរៀបចំ និងការប្រព្រឹត្តទៅនៃគណៈរដ្ឋមន្ត្រី
- បានឃើញព្រះរាជក្រមលេខ នស/រកម/០១៩៦/១៨ ចុះថ្ងៃទី២៤ ខែមករា ឆ្នាំ១៩៩៦ ដែលប្រកាសឱ្យប្រើ
ច្បាប់ស្តីពីការបង្កើតក្រសួងសេដ្ឋកិច្ច និងហិរញ្ញវត្ថុ
- បានឃើញព្រះរាជក្រមលេខ នស/រកម/០៥០៨/០១៦ ចុះថ្ងៃទី១៣ ខែឧសភា ឆ្នាំ២០០៨ ដែលប្រកាសឱ្យ
ប្រើច្បាប់ស្តីពីប្រព័ន្ធហិរញ្ញវត្ថុសាធារណៈ
- បានឃើញព្រះរាជក្រមលេខ នស/រកម/០១១២/០០៤ ចុះថ្ងៃទី១៤ ខែមករា ឆ្នាំ២០១២ ដែលប្រកាសឱ្យប្រើ
ច្បាប់ស្តីពីលទ្ធកម្មសាធារណៈ
- បានឃើញអនុក្រឹត្យលេខ ៤៨៨ អនក្រ.បក ចុះថ្ងៃទី១៦ ខែតុលា ឆ្នាំ២០១៣ ស្តីពីការរៀបចំ និងការប្រព្រឹត្ត
ទៅនៃក្រសួងសេដ្ឋកិច្ច និងហិរញ្ញវត្ថុ
- បានឃើញអនុក្រឹត្យលេខ ៧៥ អនក្រ.បក ចុះថ្ងៃទី២៥ ខែឧសភា ឆ្នាំ២០១៧ ស្តីពីការកែសម្រួលអនុក្រឹត្យលេខ
៤៨៨ ចុះថ្ងៃទី១៦ ខែតុលា ឆ្នាំ២០១៣ ស្តីពីការរៀបចំ និងការប្រព្រឹត្តទៅនៃក្រសួងសេដ្ឋកិច្ច និង ហិរញ្ញវត្ថុ
- យោងតាមសំណើរបស់រដ្ឋមន្ត្រី ក្រសួងសេដ្ឋកិច្ច និង ហិរញ្ញវត្ថុ

សម្រេច

មាត្រា ១.-

ដាក់ឱ្យប្រើប្រាស់នីតិវិធីរួម សម្រាប់គ្រប់គ្រងការរៀបចំ និងតាមដានការអនុវត្តគម្រោងហិរញ្ញប្បទានពីដៃគូ
អភិវឌ្ឍន៍នានា ដូចមានខ្លឹមសារភ្ជាប់មកជាមួយអនុក្រឹត្យនេះ ជំនួសនីតិវិធីរួមបច្ចុប្បន្នកម្មសម្រាប់ការអនុវត្តគម្រោង

ហិរញ្ញប្បទានពីដៃគូអភិវឌ្ឍន៍ ដែលបានដាក់ឱ្យអនុវត្តដោយអនុក្រឹត្យលេខ ៧៤ អនក្រ.បក ចុះថ្ងៃទី២២ ខែឧសភា ឆ្នាំ២០១២។

មាត្រា ២.-

នីតិវិធីរួម ដែលត្រូវបានដាក់ឱ្យប្រើប្រាស់ក្រោមអនុក្រឹត្យនេះ រួមមាន៖

- ១ - នីតិវិធីរួមសម្រាប់ការគ្រប់គ្រងគម្រោង
- ២ - នីតិវិធីរួមសម្រាប់ការគ្រប់គ្រងហិរញ្ញវត្ថុគម្រោង
- ៣ - នីតិវិធីរួមសម្រាប់ការគ្រប់គ្រងលទ្ធកម្មគម្រោង

ក្រោមក្របខ័ណ្ឌហិរញ្ញប្បទានពីដៃគូអភិវឌ្ឍន៍នានានៅកម្ពុជា។

មាត្រា ៣.-

រដ្ឋមន្ត្រីទទួលបន្ទុកទីស្តីការគណៈរដ្ឋមន្ត្រី រដ្ឋមន្ត្រីក្រសួងសេដ្ឋកិច្ច និង ហិរញ្ញវត្ថុ រដ្ឋមន្ត្រី និងរដ្ឋលេខាធិការ គ្រប់ក្រសួងស្ថាប័នពាក់ព័ន្ធ ត្រូវអនុវត្តអនុក្រឹត្យនេះឱ្យមានប្រសិទ្ធភាពខ្ពស់ ចាប់ពីថ្ងៃចុះហត្ថលេខានេះ តទៅ។

ថ្ងៃ ៤ ខែ មិថុនា ឆ្នាំកុរ ឯកស័ក ព.ស. ២៥៦៣
រាជធានីភ្នំពេញ, ថ្ងៃទី ២២ ខែ មិថុនា ឆ្នាំ២០១៩



សម្តេចអគ្គមហាសេនាបតីតេជោ ហ៊ុន សែន

បានយកសេចក្តីគោរពជម្រាបជូន

សម្តេចអគ្គមហាសេនាបតីតេជោនាយករដ្ឋមន្ត្រី

សូមហត្ថលេខា



អគ្គបណ្ឌិតសភាចារ្យ

អូន ព័ន្ធមុនីរ័ត្ន

កន្លែងទទួល៖

- ក្រសួងព្រះបរមរាជវាំង
- អគ្គលេខាធិការដ្ឋានក្រុមប្រឹក្សាធម្មនុញ្ញ
- អគ្គលេខាធិការដ្ឋានព្រឹទ្ធសភា
- អគ្គលេខាធិការដ្ឋានរដ្ឋសភា
- ខុទ្ទកាល័យសម្តេចអគ្គមហាសេនាបតីតេជោ
- នាយករដ្ឋមន្ត្រី
- ខុទ្ទកាល័យសម្តេច ឯកឧត្តម លោកជំទាវ
- ឧបនាយករដ្ឋមន្ត្រី
- ដូចមាត្រា ៣
- រាជកិច្ច
- ឯកសារ-កាលប្បវត្តិ

[Unofficial Translation]

KINGDOM OF CAMBODIA

NATION RELIGION KING

Royal Government of Cambodia

No. 181 ANK.BK

SUB-DECREE

On

**Promulgating the Standard Operating Procedures
for Implementing All Externally Financed Projects/Programs**

The Royal Government of Cambodia

- Having seen the Constitution of the Kingdom of Cambodia.
- Having seen the Royal Decree No. NS/RKT/0918/925, dated September 6, 2018 on the Formation of the Royal Government of Cambodia.
- Having seen the Royal Kram No. NS/RKM/0618/012, dated June 28, 2018 on promulgating the law on the Organization and Functioning of the Council of Ministers.
- Having seen the Royal Kram No. NS/RKM/0196/18, dated January 24, 1996 on Promulgating the Law on the Establishment of the Ministry of Economy and Finance.
- Having seen the Royal Kram No. NS/RKM/0508/016, dated May 13, 2008 on Promulgating the Law on the Public Finance System.
- Having seen the Royal Kram No. NS/RKM/0112/004, dated January 14, 2012 on Promulgating the Law on the Public Procurement.
- Having seen the Sub-Decree No. 488/ANK/BK, dated October 16, 2013 on the Organization and Functioning of the Ministry of Economy and Finance.
- Having seen the Sub-Decree No. 75/ANK/BK, dated May 25, 2017 on Amendment of Sub-Decree No. 488, dated October 16, 2013 on the Organization and Functioning of the Ministry of Economy and Finance.
- Pursuant to the request of the Minister of Economy and Finance.

Hereby Decides

Article 1:

Promulgate the Standard Operating Procedures for Implementing All Externally Financed Projects/Programs as attached to this Sub-Decree to replace the Updated Standard Operating Procedures for Implementing All Externally Financed Projects/ Programs, which was promulgated by Sub-Decree No.74 ANK.BK, dated May 22, 2012.

Article 2:

The Standard Procedures for Implementing All Externally Financed Projects/ Programs promulgated under this Sub-Decree comprise of:

- 1- Standard Operating Procedures on Project Management for All Externally Financed Projects/Programs in Cambodia.
- 2- Standard Operating Procedures on Financial Management for All Externally Financed Projects/Programs in Cambodia.
- 3- Standard Operating Procedures on Procurement for All Externally Financed Projects/ Programs in Cambodia.

Article 3:

Minister in charge of the Cabinet of the Council of Ministers, Minister of Economy and Finance, Ministers and Secretaries of State of all concerned Ministries and Institutions shall implement this Sub-Decree effectively from the date of signature herein.

Signed and sealed in Phnom Penh on 2nd December 2019

Prime Minister

Samdach Akka Moha Sena Padei Techo HUN SEN

Have submitted to Samdach Akka Moha Sena Padei Techo HUN SEN for signature

Signed and Sealed

AUN Pornmoniroth
Deputy Prime Minister
Minister of Economy and Finance

Recipients:

- Ministry of the Royal Palace
- Secretariat General of Constitutional Council of Cambodia
- Secretariat General of Senate
- Secretariat General of National Assembly
- Cabinet of Samdach Akka Moha Sena Padei Techo HUN SEN, Prime Minister
- Cabinet of Deputy Prime Ministers
- As Article 3
- Archives-Chronicles

ABBREVIATIONS:

ACCA	= Association of Chartered Certified Accountants
ACLEDA	= Association of Cambodian Local Economic Development Agencies/ Bank
ADB	= Asian Development Bank
AIR	= Asset and Inventory Register
APFS	= Annual Project Financial Statement
ASYCUDA	= Automated System for Customs Data
AWPB	= Annual Work Plan and Budget
BC & CoA	= Budget Classification and Chart of Accounts
BCC-1	= Budget Circular 1
BCC-2	= Budget Circular 2
BSP	= Budget Strategic Plan
BSRS	= Budget System Reform Strategy
BWG	= Budget Working Group
CB	= Capacity Building
CB	= Cash Book
CDC	= Council for the Development of Cambodia
GDCE	= General Department of Customs and Excise
CDCF	= Cambodia Development Cooperation Forum
CHQ	= Cheque/ Check
CIAS	= Cambodian International Accounting Standards
CoA	= Chart of Accounts
COFOG	= Classification of Functions of the Government
CPPC	= Contract Progress Payment Certificate
CPR	= Contract Payment Receipt
CR	= Contract Register
CSAA	= Cambodian Standards on Auditing and Assurance
DA	= Designated Account
D&D	= Decentralization and De-concentration
DBC	= Department of Bilateral Cooperation/GDICDM
DLP	= Defects Liability Period
DMC	= Department of Multilateral Cooperation/ GDICDM
DMCs	= Developing Member Countries
DMFAS	= Debt Management and Financial Analysis System
DP	= Development Partner
DV	= Disbursement Voucher
EAs	= Executing Agencies
ECE	= Early Childhood Education
EDC	= Electricité Du Cambodge
EF	= Education Facilities
EFT	= Electronic Fund Transfers or 'E-Transfers'
FM	= Financial Management
FMIS	= Financial Management Information System
FMM	= Financial Management Manual
FMR	= Financial Management Report
FR	= Friendly
GDIA	= General Department of Internal Audit/ MEF
GDICDM	= General Department of International Cooperation and Debt Management/ MEF

GFIS	= Grant Financial Information System
GJ	= General Journal
GL	= General Ledger
IAASB	= International Auditing and Assurance Standards Board
IAs	= Implementing Agencies
ICR	= Internal Control Report
IDA	= International Development Association
IFAC	= International Federation of Accountants
IIA	= Institute of Internal Auditors
IPSAS	= International Public Sector Accounting Standards
INTOSAI	= International Organization of Supreme Audit Institutions
ISA	= International Standards of Auditing
IT	= Information Technology
JV	= Journal Voucher
LC	= Letter of Credit
LFIS	= Loan Financial Information System
LMs	= Line Ministries
MAFF	= Ministry of Agriculture, Forestry and Fisheries
MCS	= Management Control Systems
MDBs	= Multilateral Development Banks
ML	= Management Letter
MOI	= Ministry of Interior
MOP	= Ministry of Planning
MOWRAM	= Ministry of Water Resources and Meteorology
MPWT	= Ministry of Public Works and Transport
MR	= Material
MRD	= Ministry of Rural Development
MTBF	= Medium-Term Budget Framework
MTFF	= Medium-Term Fiscal Framework
MTO	= Money Transfer Order
MEF	= Ministry of Economy and Finance
NAA	= National Audit Authority
NBC	= National Bank of Cambodia
NCDD	= National Committee for Sub-National Democratic Development
NSDP	= National Strategic Development Plan
OMC	= Office of Multilateral Cooperation/ DMC
PAD	= Project Appraisal Document
PAM	= Project Administration Manual
PCB	= Petty Cash Book
PCO	= Project Coordination Office
PCMU	= Project Coordination and Monitoring Unit
PCPV	= Petty Cash Payment Voucher
PCR	= Project Completion Report
PDD	= Project Design Document
PDO	= Project Development Objectives
PDOF	= Provincial Department of Finance
PFM	= Public Financial Management
PFMRP	= Public Financial Management Reform Program
PIMF	= Public Investment Management Framework
PIP	= Public Investment Program
PIU	= Project Implementation Unit
PM	= Procurement Manual
PMO	= Project Management Office
PMT	= Project Management Team

PMU	= Project Management Unit
PPC	= Phnom Penh Capital
PPM	= Procurement and Program Management
PPP	= Project Procurement Plan
PT	= Project Team
PV	= Payment Voucher
RA	= Request for Advance
RAA	= Reconciliation of Amount Advance
RGC	= Royal Government of Cambodia
RRP	= Report and Recommendations to the President
SAA	= Sub-Advance Account
SMLD	= Semi-Monthly Listing of Loan Disbursements
SMT	= Sub-Management Team
SOE	= Statement of Expenditure
SOPs	= Standard Operating Procedures
SR	= Security Register
UACS	= Uniform Account Code Structure
UPS	= Uninterruptible Power Supply/or Source
VAT	= Value-Added Tax
WA	= Withdrawal Application
WB	= World Bank
YTD	= Year-To-Date

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1. INTRODUCTION

1.1. Introduction

The Royal Government of Cambodia (The Government) launched the Public Financial Management Reform Program (PFMRP) in 2004 with the objective of gradually transforming the public financial management system of Cambodia to align with good international practices and standards. The PFMRP is designed as a comprehensive and long-term undertaking, sequenced in four platforms and four stages.

The Government has made major accomplishments over the past years, including achieving the first stage of reform (2005-2008) focused on the platform of “Budget Credibility” and the second stage (2009-2015) on “Financial Accountability” platform. The third stage (2016-2020) on “Budget-Policy Linkages” platform is nearing completion and preparation for the implementation of the fourth stage (2021-2025) focusing on “Performance Accountability” platform has been completed.

The Budget System Reform Strategy (BSRS) 2018-2025 (the Strategy), which was approved by the Government on 12 January 2018, has set out the road map for achieving Performance Accountability. The Strategy sets the directions for gradually changing the budget system from a centralized and input-based system to a decentralized result/performance-based system. The reforms under the Strategy encompasses changes to key components of the budget cycle, including budget planning (medium-term and annual budget formulation), budget implementation (budget execution and control mechanism), and monitoring and evaluation (accounting records, reporting, monitoring, and audits).

The Government has adopted the Cash Basis of Cambodian Public Accounting Standards for implementation in all ministries, public institutions, provincial departments, and externally-financed projects/programs. The Ministry of Economy and Finance (MEF) has issued the Prakas № 545, dated the 6th of June 2019. However, this is not applicable to the Sub-National Administrations, Public Enterprises and Public Administration Establishments. The MEF has also issued the Announcement № 034, dated the 28th of January 2020 requiring the implementation of the Cash Basis of Cambodian Public Accounting Standards for all projects financed by the Development Partners (DPs) from 01 January 2020.

This Standard Operating Procedures on Financial Management (referred to as “**the FMM**”) incorporates the relevant reforms under the Budget System Reform Strategy 2018-2025 and provides the implementing rules and regulations for financial management under all externally financed projects/programs which include loans, credits and grants financed by both the Multilateral Development Banks (MDBs) and Bilateral DPs under the purview of the MEF.

The FMM forms part of the updated Standard Operating Procedures for implementing all externally financed projects/programs promulgated under Sub-Decree № 181/ANK.BK, dated 2 December 2019, and must be read in conjunction with the Standard Operating Procedures on Project Management (referred to as “**the PMM**”) covering the identification, preparation, implementation, monitoring and evaluation of projects, and the Standard Operating Procedures on Procurement (referred to as “**the Procurement Manual**”) covering the implementing rules and regulations for procurement under the externally financed projects.

1.2. Purpose

The purpose of the Financial Management Manual (FMM) is to prescribe the financial management policies and procedures of the Royal Government of Cambodia (hereafter referred to as the Government) to ensure the transparency and accountability of public expenditure leading to the efficient and effective implementation of projects and programs financed by the Development Partners that come under the purview of the MEF and the achievement of the development objectives of these projects.

The FMM is intended to assist the Executing and Implementing Agencies (EAs/IAs) of the projects financed by the Development Partners to establish and maintain effective and efficient financial management and to serve as a basis for the preparation of a specific Financial Management Manual for each Project in cases when the development of such a manual is deemed necessary.

1.3. Applicability of the Standard Operating Procedures on Financial Management

The FMM provides guidance on all areas of financial management from financial policies and standards, budgeting, financial accounting systems and procedures, financial reporting and auditing, as well as the Government Chart of Accounts (CoA) approved under the MEF Prakas № 1212, dated 23 November 2017. During the Project/Program's implementation, the reporting and recording of the CoA will henceforth be mandatory. In case there is requirement by the Government Policy in due course, the concept of digital economy (E-System) will be introduced in the FMM through appropriate amendments. Project Teams should use this Manual as appropriate to their situation.

All financial management functions will be gradually delivered through streamlined business processes by the **Financial Management Information System (FMIS)**, which is an integrated system that will cover *budget formulation, budget execution, accounting, reporting, monitoring and audits*. It will automate the budget preparation process, facilitate the transfer of approved budget allocations to budget entities, and will gradually become the main tool for managing and controlling expenditures of the Line Ministries (LMs). The disbursement procedures will be fully automated and controlled and verified through the FMIS.

The regulations prescribed under the FMM are mandatory for financial management in all externally financed projects and programs with the explicit condition that the mandatory regulations of the DP, as agreed in the legal Financing Agreements, will prevail over the provisions in the FMM when there is any conflict between the two.

The financial management for projects implemented under the Public Private Partnership (PPP) model is governed by a separate set of Standard Operating Procedures for PPP and therefore this FMM will not be applicable to financial management of PPP projects. This Manual also does not apply to projects financed by the private sector.

The FMM does not apply to projects implemented by the sub-national administrations as defined under the Law on De-concentration and Decentralization. These comprise the administrations of the capital city and provinces, administrations of municipalities/ khan(s)/ districts, administrations communes and sangkat(s). The decentralized projects implemented by these sub-national authorities follow the Handbook on Financial Management Activities for Externally

Financed Decentralized and De-concentrated Projects in the Kingdom of Cambodia issued by the National Committee for Sub-National Democratic Development (NCDD) and NCDD Guidelines.

Aside from these sub-national projects that fall within the responsibility of the NCDD, as described above, the de-concentrated projects, which are the central Government sector projects implemented and administered at provincial and district levels by the Provincial Departments that are the provincial branches of the central Line Ministries, are obliged to follow the provisions of the FMM, which applies to all national Ministry-administered projects.

1.4. *Overriding Principle*

The overriding principle, applicable to all the three manuals comprising the SOP for implementing externally financed projects/programs is to ensure that the Line Ministries and other Government agencies are aware of their roles, and must take full responsibility being held accountable for their actions in financial management operations in public investment projects in their areas of mandate, as defined under the Law establishing them and the related Sub-Decrees on their functions. The roles and responsibilities of the relevant Line Ministries and Government agencies are clearly defined in the FMM.

The MEF has an important role and responsibility in public financial management, which is defined in the Law on Establishment of the Ministry of Economy and Finance (Royal Kram № NS/RKM/0196/18), dated 24 January 1996, and the Sub Decree № 75/ANK/BK, dated 25 May 2017, on Amendment of Sub-Decree № 488 of 16 October 2013, on Organization and Functioning of the Ministry of Economy and Finance.

1.5. *Users of the FMM*

The EAs/IAs should ensure that all project personnel are familiar with the financial policies and procedures set out in this FMM and the specific requirements of the DPs. This Manual should be used for all DP-funded projects in Cambodia unless exempted by the MEF to do so.

The desired impact of this Financial Management Manual will only be achieved if regular training is provided to all personnel who will be involved in the use of this Manual. The MEF with the assistance of various DPs has conducted regular training programs on the use of this FMM. The MEF will ensure that such training programs will continue to be provided to the EAs and IAs.

The FMM is published for the use of Government staff involved in the financial management of projects and programs financed by the DPs, as well as for the use of DPs, Suppliers, Contractors and Consultants, development practitioners, non-governmental organizations and civil society.

1.6. *FMM Update/ Changes to the FMM*

The General Department of International Cooperation and Debt Management (GDICDM) in the MEF is responsible for providing guidance, clarification and interpretation on the FMM to the users.

The FMM will be updated periodically by the MEF to reflect lessons learned and any changes to the relevant Government policies, procedures and regulations

2. PROJECT IMPLEMENTATION ARRANGEMENTS

2.1. *Project Cycle*

The Government has promulgated the Sub-Decree on Public Investment Management Framework (PIMF) which sets out the guiding principles and procedures for preparing, selecting, and implementing all public investment projects in Cambodia. The PIMF is the Government Policy and Strategy for the reform of public investment in Cambodia governed by the Sub-Decree on the PIMF. The purpose of the PIMF is to have a common framework for comprehensive and connected public investment management to ensure that Public Investment is managed efficiently and effectively. All investment projects are required to follow six steps in the Project Cycle, namely, Project Identification and Pre-selection (Project Concept Stage); Project Preparation, Pre-budgeting and Appraisal Stage; Project Selection and Budgeting (Project suitable for funding and source of funding - National Budget, external financing by the DPs or through the Public-Private Partnership (PPP)); Project Implementation and Monitoring; Asset Registry and Service Delivery (formal transfer of new-completed assets to the entity responsible and subsequent use to deliver public service); and Project Completion and Evaluation Stage.

The steps in the Project Cycle for externally financed projects are essentially the same as those prescribed under the PIMF Sub-Decree but there is the additional requirement for the approval of the Project by the DP before the financing (Budget) can be made available. The selection process leading to the Government's Public Investment Program (PIP) is described in detail in the Standard Operating Procedures (SOP) on Project Management for all externally financed projects/ programs in Cambodia. After a Project is identified in the PIP, the steps in the Project Cycle for externally financed projects consist of: Project Pre-selection, Project Preparation, Project Appraisal, Loan Negotiations and Approval, Project Implementation, Project Completion; and Post-evaluation. These are described below which also highlights the financial management aspects that are undertaken in the relevant step.

2.1.1. **Project Identification**

A pipeline of projects, normally for a three-year rolling program, is identified during periodic consultations between the Government and the respective DPs. This is usually preceded by a study of Cambodia's economic situation and its plans and priorities as well as the strategic priorities of the DPs during a country programming mission of the DPs and formalized in a document like the Country Partnership Strategy or the Country Assistance Program.

2.1.2. **Project Preparation**

A fact-finding mission of the DP obtains detailed information on all aspects of the proposed Project, including the feasibility of the Project, to justify processing to the next stage. Often the preparatory work is undertaken through a project preparatory technical assistance funded by the concerned DP. During project preparation, the EA and the financial management arrangements for the Project are identified and the financial management capability of the EA is thoroughly assessed.

2.1.3. Project Appraisal

During project appraisal, the Project's soundness and viability is assessed. All aspects of the Project Proposal and the sector/sub-sector to which it relates are analysed. A more in-depth examination of the financial arrangements including the financial management organisational structure and staffing, funds flow, budgeting, accounting systems and procedures, financial management system and procedures, reporting and auditing arrangements, is undertaken. Any identified weaknesses in the financial management arrangements are discussed and an action plan developed to address the weaknesses and included in the Project design.

2.1.4. Loan Negotiations and Approval

After the project appraisal has been completed and the Project has been found by the DP to be suitable for financing, formal Loan negotiations take place. When negotiations are successfully completed, the proposed Project is submitted for approval of the Board of Directors of the concerned DP. Upon approval of the proposal, a Credit/Grant/Loan or Technical Assistance Agreement is signed by the representative of the DP and the Government which is represented by the Minister of Economy and Finance.

2.1.5. Project Implementation

Normally, after the signing of the Agreements, a period of time is allowed for a Credit/Grant/Loan or Technical Assistance Agreement to become effective to enable project preparation works to be undertaken to get the Project ready to commence implementation. Project preparation work includes selecting and recruiting Consultants, preparing detailed designs, tender documents, inviting bids, evaluating bids, awarding the contract, and procuring equipment. As this preparation work may take some time to complete, the concerned DP may approve the Government's request to undertake advance procurement action during the appraisal stage of the Project to expedite project implementation. The DPs encourage the EAs to request and obtain approval for any advance action at an early stage, as this will help to expedite project implementation activities once the Agreement is approved. After a Project is declared effective, the implementation proceeds.

2.1.6. Project Completion

Once a Project is complete, the Project Bank Accounts are closed, the Final Financial Statements are prepared and audited and a Project Completion Report (PCR) is prepared.

2.1.7. Post Evaluation

A post evaluation mission is undertaken by the concerned DP at an appropriate interval after project completion. The mission reviews the preparation, design, appraisal, and implementation aspects of the Project, the costs and benefits, and the outcome of the Project in relation to its initial objectives. The mission also identifies lessons learned from the Project. The mission's findings, together with the PCR, form the basis of the Project Performance Audit Report.

2.2. *Financial Management Arrangements*

Before a Project can be declared effective, the following key financial management arrangements must be in place for the Project:

- Financial responsibilities defined;
- Financial organisational structure decided, and key financial staff recruited and trained;
- Financial accounting and financial management systems, processes and procedures developed and made operational;
- Funds flow arrangements defined;
- Banking arrangements decided;
- Compliance in full of the Government's CoA, as described above, is confirmed¹.

The longer-term goal of the Government is to have all Development Projects and Programs follow the unified Financial Management System of the Government, as agreed under the Public Financial Management (PFM) Reform arrangements, which will be achieved in a phased manner and over time.

¹ The purpose of the CoA is to ensure compliance with the Governments requirements relating to the collection of data in an acceptable format, to ensure that it can be used for the purposes of meeting individual project or program requirements, as well as wider applications as needed. The CoA was developed based on the MEF's 2017 instructions and guidelines.

3. FINANCIAL MANAGEMENT RESPONSIBILITIES

Financial management of projects is the responsibility of the Borrower and within the Government the main agencies/bodies responsible for project financial management are:

- Ministry of Economy and Finance (MEF);
- Executing Agency (EA) or Implementing Agency (IA);
- Project Management Team (PMT) or Project Management Unit/Office (PMU/O) or Project Implementing Unit (PIU). Henceforth described collectively as the PMU.

3.1. *Ministry of Economy and Finance*

The MEF, on behalf of the Government, has overall responsibility for overseeing the financial performance of donor-funded projects and promoting and supporting improved portfolio performance. Specific responsibilities of the MEF are:

- Developing and maintaining policies, the SOPs and supporting Manuals for the DP-financed projects.
- Identifying and designating the EA for the DP-financed projects and providing appropriate authorities and delegations to the EA and Project Teams.
- Ensuring appropriate bank accounts are established with the National Bank of Cambodia and other acceptable financial institutions.
- Monitoring authorized bank account signatories.
- Proper budgeting for Counterpart Funds and making Counterpart Funds available to projects on a timely basis. Also sharing the Counterpart Funds arrangements and other information with the DPs, as necessary.
- Support and advice to the EAs in establishing and implementing sound accounting and financial management systems and procedures, as well as satisfactory internal and external auditing arrangements, provided by the General Department of Internal Audit and other divisions of the MEF, responsible for maintaining the Government accounting system based on the PFM RP.
- Processing, Monitoring, and providing guidance on, withdrawal and replenishment applications by the EAs. Project Teams must provide the MEF with completed Loan Withdrawal Application together with the Disbursement Tracking Form and bank statements with reconciliations for the Designated and Advance Accounts, and Counterpart Funds Accounts. The MEF will sign the Withdrawal Application as an authorized signatory for Reimbursement, Replenishment, Direct Payment and Special Commitment.
- Participating, as a committee member, in procurement activities of projects to ensure compliance with the guidelines and provisions governing the contractual relationship between the Government and the DP and to assess and agree contract payment schedules for cash management purposes. Reference, in this regard, is also given to the relevant contents of the Procurement Manual (PM) update, particularly, in Chapter 6, Procurement Roles and Responsibilities and Chapter 7, Procurement Committees.

- Monitoring and evaluating the financial performance of projects and portfolio performance.
- Regularly reporting the financial performance of projects to the Government, other relevant stakeholders and the general public.
- Promoting and facilitating the exchange of information between projects and the EAs.
- Coordinating training and learning opportunities for the EAs and Project Teams.
- Monitoring and keeping track of all financial management workshops and training activities to ensure quality and relevance.
- During the formulation of project and program budgets, providing assistance to Line Ministry staff to ensure that budgets are accurately prepared in accordance with the Budget Process Guidelines issued by the MEF and the Council for Development of Cambodia (CDC).
- Oversee internal audit functions through the General Department of Internal Audit, the MEF, including providing guidance, training and support to the Internal Audit Departments of individual Line Ministries.

3.2. *Executing Agency*

The EAs (hereafter use of the EA includes the IA), which are normally the Line Ministries (LMs), have primary responsibility for ensuring projects are implemented in accordance with project plans and that resources are used efficiently, effectively and only for project purposes. The EA's Department of Financial Planning and Decision Making or Department of Accounting will carry this fiduciary responsibility in practice and are accountable for all financial management aspects of projects, for which they must ensure there is compliance with all financial management covenants and other obligations as articulated in the Credit/Grant/Loan or Technical Assistance Agreements. Specific responsibilities are:

- Ensuring properly qualified, trained and experienced staff are appointed to carry out financial management functions when establishing the project management structure (PMU/PMO; PIU); henceforth described as PMU.
- Ensuring appropriate Project Bank Accounts are established and signatories are maintained up-to-date.
- Maintaining proper financial accounting and management systems and procedures acceptable to the EA and the MEF and suitable to the nature of the Project.
- Ensuring that funds are used for the purposes intended.
- Implementing comprehensive and effective internal controls for project financial operations.
- Managing and safeguarding project assets.
- Preparing and submitting timely Withdrawal Applications to the MEF for Direct Payments, Reimbursement, Special Commitment, Disbursement Tracking Forms and Replenishment of project funds.
- Monitoring financial performance of projects and timely decision making to address variances to plans/budgets. To ensure that the monitoring and management control of project expenditures are robust, particular emphasis must be placed on explaining

any discrepancies or variations in the comparison of actual costs vs. budgets, through an in-depth analysis. The purpose of the Budget monitoring process is to ensure that the project finances are efficiently managed, so any deviation from planned spending should be thoroughly analysed and explained to both the Project Management hierarchy and the funding DP. The Project Management Team must also take appropriate action to address any identified discrepancies or unusual variations from budgets.

- Ensuring compliance with the project financial reporting requirements.
- Monitoring audit results (of both internal and external audits) and ensuring appropriate response and timely actions are taken in relation to audit findings and recommendations. The EA management and the financing DPs must also be kept fully informed of all audit observations and any follow up actions identified and taken, in a timely manner.
- Contributing to the centralised information centre and the knowledge base on projects maintained by the MEF.
- **Project Management Team** (PMU as previously defined) set up within the EA, is accountable for the financial management activities of projects and also for ensuring compliance with all financial covenants and other obligations in the Loan/Credit/Grant and Technical Assistance Agreements. Specific responsibilities are:
 - Managing and administering the financial affairs of the Project.
 - Ensuring compliance with the financial covenants of the project agreements and the policies, regulations and procedures of the Government and the funding DP.
 - Establishing and maintaining project budgets to support the mobilization of resources needed in a timely manner, and as a project management support tool.
 - Managing the Project Bank Accounts and flow of funds.
 - Establishing, maintaining and operating the project accounting and financial management systems and procedures with appropriate and sound internal control mechanisms.
 - Administering the financial transactions of the project and maintaining proper accounts and records for the Project in accordance with the Government's CoA.
 - Undertaking all disbursement functions, tasks and activities of the Project, in strict conformity with the guidelines and systems and procedures governing disbursements from the project account(s) and the use of project resources.
 - Prepares applications for withdrawal and replenishment and submits the applications together with the Disbursement Tracking Form through the relevant Department of the MEF (Department of Multilateral Cooperation or the Department of Bilateral Cooperation) to the DPs for payment, reimbursement or replenishment.
 - Generating and distributing financial reports, evaluations and information necessary for effective and responsible financial management.
 - Monitoring the financial performance of the Project and taking timely actions to address variances to plans. Any variances from approved budgets must be fully analysed, and reasons for such variances clearly explained in the Quarterly Financial Progress Reports.

- Preparing/compiling the Project Annual Financial Statements.
- Facilitating the audit (both internal and external) of the Project's Financial Statements and financial operations and taking prompt action on all audit observations and findings.
- Preparing and issuing all scheduled and non-scheduled reports on the project's financial matters to the EA, MEF and DP.

4. PLANNING AND BUDGETING

4.1. *Project Planning and Budgeting*

Development projects are described by a range of plans, from the overall Project Strategic Plan down to detailed Implementation Plans. Budgeting is the process of estimating the financial requirements of these plans, identifying sources of funds and adopting measures to ensure that such funds are made available on time. Both planning and budgeting continue throughout the life of the Project. The Government has implemented Program Budgeting in all Line Ministries and Agencies and the budgets for projects are now included as part of the Budget of the relevant program.

4.1.1. Budget Timescales

Project budgets can be estimated for a range of different timescales. In general, the shorter the timescale, the more detailed the Budget can be. The most commonly used budget timescales are shown below.

Whole Life of the Project: →	When an externally financed Project is approved, it is accompanied by a budget for the whole life of the Program of which the Project is a component. The Program is usually broken down into Annual Estimates and broad Expenditure Categories. During this phase the operating costs for the longer-term sustainability of the Program/ Project must also be considered, and appropriate arrangements made for its funding.
Three-years Budget: →	Three years is the period chosen by the Government for its Medium-Term Budget Plans. As part of the Annual Budget preparation process, the Government prepares a three-year Medium-Term Budget Framework (MTBF), which is guided by a Medium-Term Fiscal Framework (MTFF). The MTBF forms the basis for the preparation of a three-year Budget Strategic Plan by the Line Ministries. Hence the budgets for projects are prepared for a three-year time horizon. Since externally financed investment projects account for a high proportion of the Government's capital expenditure, it is important that project three-year estimates are included in these plans.
Annual Budget: →	The standard period for allocation of funds to agencies and projects is one year. The Government approves its Annual Financial Law (i.e. the Annual Budget) for the period from January to December each year and the EA prepares the Budget for same period. Some DPs may use a different time line for its Budget, in which case the projects financed by such DPs may need budget annual figures based on their time line.
Quarterly/Monthly Estimates: →	Funds requirements for a Project are unlikely to be evenly spread over a one-year period. It is therefore important to forecast funds requirements in advance on at least a quarterly basis, and preferably monthly. These estimates are normally called 'Cash Budgets' / 'Disbursement Projections'.
Estimates for Specific Tasks or Activities: →	Each activity carried out by a Project will be made up of several tasks. A good budgeting system will estimate the costs of these tasks and activities to justify the Cash Budgets and Annual Estimates. See 'Bottom-up' Budgeting below.

4.1.2. Budget Requirements by Different Project Stakeholders

An externally financed Project will report to two major stakeholder types: The Government and the DP(s). Although these stakeholders are interested in the same ultimate development results, and attempts are being made to harmonise their reporting requirements as much as possible, Project Implementation Teams must prepare and provide the specific reports required by both the Government and the respective DPs.

Differences in project budgeting requirements between the Government and the DPs may arise from differences in the reporting cost categories used, or differences between the time periods required for budgets and cash forecasts. There will be no problem to the Project provided that (i) it chooses its Budget Classification and Chart of Accounts in a way that is able to satisfy all reporting requirements; and (ii) it prepares its Budget in sufficient detail to allow at least quarterly analysis. The Budget Classification is covered briefly below and in detail in Chapters 7 and 8 of this Manual.

Note that it is a mistake to think that the DP is only interested in the Budget for the Grant or Loan funds and that the Government is only interested in the Counterpart Funds. Both the Government and the DP are interested in the Budget for the whole Project, distinguishing Loan/Grant funds from Counterpart Funds.

For some projects there can be other stakeholder groups. Budget reports to these groups will depend on the rules set out in the original project authorization documentation.

Finally, it is important that budgeting is not carried out just because it is required by the Government or the DPs. The Finance Officer's job is to budget *proactively*, generating information that is useful for decision making, in order to achieve the Project Development Objectives (PDO). Usually this means that the Project Budget cost information is collected and held by the Project Finance Officer in much greater detail than is needed by the Government or the DP. The Budget must also be a 'living plan' and will change (within the allowed rules) in response to its own performance and to external events.

4.1.3. Budget Classification

The Budget Classification is a set of numbered tags used to analyse budgeted receipts and payments/sources and uses of funds into categories. The same item of receipts and payments/sources and uses of funds can be tagged under several different 'dimensions' of the Budget Classification. For example, expenditure of Five (5) Million Cambodian Riel on bricks might be classified as follows²:

² The Government has developed an extended budget classification, described in outline in Chapter 8 of this manual. The example given in Clause 4.1.3 uses *example* codes, except for the Government Economic Code, which comes from the Chart of Accounts 2017.

Dimension of classification	Description of dimension	Example code number	Example code description
Government Economic	Nature of Income or Expenditure	61052	Building Maintenance Services
DP Disbursement Category	Nature of Income or Expenditure	01	Civil Works
Funding	Source of Funds	31101	World Bank-Loan
Project Component	Project Component	0203	Component 2 Activity 3
Geographical	Location Receiving the Benefit of the Expenditure	12	Phnom Penh

Using a comprehensive series of dimension tags enables the same budget to be presented to different stakeholders using their required categories for income and expenditure.

It is essential that the Project Budget Classification uses the same codes as its accounting system. These must be designed together as the 'Budget Classification and Chart of Accounts' (BC & CoA), usually just referred to as the 'Chart of Accounts' (CoA).

The principles for designing the CoA are covered in Section 8.1 of this Manual, and the complete proposed CoA used by the Government is shown in **Appendix 2**.

4.1.4. Top-down and Bottom-up Budgeting

Budgeting is a process in which desired plans are compared with available funds and other resources and the best solution is proposed.

From the point of view of a Project, the budgets received from the DP (External Funds) and the Government (Counterpart Funds) are '*Top-down*' Budgets, which represent cash limits (also called '*ceilings*') for each Category of Expenditure.

The Project must respond by building plans for activities, which cost no more than these ceilings. This is called '*Bottom-up*' Budgeting. If the Finance Officer does not construct a proper Bottom-up Budget, the Project is likely to keep spending money until it runs out, without any clear idea of whether it is doing the right things to achieve its objectives.

Thus, during the set-up phase of a Project, it is essential that the Finance Officer (i) designs the Project BC & CoA; and (ii) prepares budgets in sufficient detail to assist Project Management to act effectively. A good Finance Officer will not only

prepare the Bottom-up Budgets but will also assist in the process of prioritising project outputs by showing costs under different operational assumptions.

4.1.5. Revisions to Budgets

Even when budgets have been carefully prepared, there will be times when they need to be revised to adapt to changing circumstances. In most cases there will be no additional funds available, but it may be possible to transfer funds from one Budget Category to another. This is known as 'reallocation of funds' and will be covered by clear rules set by the funds provider.

The DP sets the rules for Grant/Loan funds and the Government sets the rules for Counterpart Funds. The funds provider specifies definitions of categories within which the Project can transfer funds without applying for permission, but outside which permission must be given by the funds provider.

For the DP, the categories within which expenditure can be varied without seeking permission are specified in the Loan/Grant Agreement. For the Government, the rules are covered by the MEF regulations.

When funds are successfully transferred from one Budget Category to another, the Budget must be updated, but the original Budget must not be lost. As a matter of practicality, material budget changes cannot be made too often, but there is a need to ensure that the Project is running with a realistic up-to-date Budget.

4.2. *Integration of Project Budgets with Ministry/Sector Budgets*

It is important that projects are viewed as the Government investments with clear connections to Sector and Ministry Strategic Plans. For this reason, the Government is especially concerned that project plans and budgets are integrated within the Budget submissions received from the Ministries.

Although projects are executed by different mechanisms from other Ministry operations, it is essential that project information is communicated to the Ministries so that consolidated reports can be made at the following levels:

- Sector Strategic Plan;
- Ministry Budget Strategic Plan (three-year forecasts);
- Ministry Annual Budget (incorporated in the Financial Law, which comprises: i) Annual Financial Law; ii) Amended Annual Financial Law; and iii) Post Budget Execution Law); and
- Ministry Quarterly and Annual Budget Execution/Accounting Reports.

The Budget Execution/Accounting Reports are dealt with later in the Manual. This Chapter considers integration of plans and budgets.

4.2.1. Projects Linked to National and Sector Strategies

At the strategic level, the Project Plan is contained within the Project Appraisal Document (PAD)³ and other documents, such as the Procurement Plan and Project Administration Manual (PAM) which form part of the Loan/Credit/Grant Agreement for the Project. The exact names of these documents vary with the Development Partner.

The strategic objective of the Project is described in the Project Appraisal Document and is linked to the National Strategic Development Plan (NSDP) 2019-2023 and the Government's Rectangular Strategy. It will also be linked to the Development Partner's Country and Sector Strategies.

4.2.2. Integration of Project Budgets with PIP and Ministry/Sector Budgets

The Public Investment Program (PIP) is the Government's main mechanism for identifying and listing specific projects and activities to achieve the broader sectoral goals and targets specified in the NSDP. In turn, the Government's Rectangular Strategy and the NSDP are the two main documents that drive the Government's Development Agenda. The PIP is prepared on a three-year rolling program basis and is developed and approved prior to the commencement of the Government's Budget Cycle. For this to occur, the PIP process begins well in advance of the Budget Cycle, as described in the updated Manual on Project Management of the Standard Operating Procedures (SOP):

- a. In October each year, the Ministry of Planning (MOP) requests the Line Ministries and other Government institutions to prepare their PIP plans, based on the project performance outcomes of the previous year.
- b. In the period from November to January, the Line Ministries and other Government institutions prioritize and select their Project Proposals for submission to the MOP.
- c. In February, the MOP prioritizes the Project Proposals submitted, in line with the policy priorities of the Government as articulated in the NSDP. Within the same month, a Draft PIP is also prepared and submitted to an Inter-Ministerial Meeting for discussion.
- d. In March, the Draft PIP is approved by the Council of Ministers.
- e. The PIP approved by the Council of Ministers is then submitted to the MEF for the inclusion in the Annual Budget, and for preparation of requirements to enable the CDC to mobilize resources from the DPs, through the Annual Aid Appeal from the Cambodia Development Cooperation Forum (CDCF).
- f. The Government Annual Budget preparation process begins in the first week of April and concludes with Royal Assent of the Annual Finance Law by 25 December. For a detailed description of the steps in this process, please refer to the relevant Chapters of the Government SOP and of this FMM.
- g. Following the adoption of the Annual Finance Law, which includes the PIP, by the Council of Ministers, the CDC then uses the PIP as the basis on which

³ A generic name for this type of document is not yet adopted, and various DPs have their own titles; e.g. PAD is the WB terminology, while for ADB projects it is the Report and Recommendations to the President (RRP), while other Development Partners also have different names.

to appeal and mobilize aid resources, including from bilateral, multilateral and NGOs sources to finance and implement identified project and program activities. This activity is carried out through the CDCF, and it is the responsibility of the CDC to inform the MEF of the outcomes of the DP pledges following the CDCF meeting.

This Financial Management Manual is especially concerned with ensuring that information on development project plans and budgets is integrated into the Government's Medium-Term and Annual Budgets. This means:

- (i) Inclusion of project three-year forward estimates within the three-year Budget Strategic Plan; and
- (ii) Inclusion of Project Annual Budgets within the Financial Law.

This integration will normally be carried out at the Ministry level, which means that Project Budget estimates must be available at the appropriate time and in the appropriate format for inclusion in the implementing Ministry's Budget Strategic Plan (BSP) and Annual Budget. The three-year estimates included in the PIP can be used as a basis for the figures included in the BSP. Some more detailed estimates/breakdowns of the figures will probably be needed and, as described in the example in Section 4.3 below, the financial estimates must be classified in accordance with the Government Chart of Accounts. The PIP should contain a detailed breakdown of project estimates using the Governments Chart of Accounts.

4.2.3. Budget Calendar of the Government of Cambodia

To understand the key dates, at which project budgets need to be integrated with the Ministry budgets, it is necessary to be aware of the Government Budget Calendar. As stated in the Law of the Public Finance System (May 2008), Article 39, the Budget Calendar has three phases:

- 1. Preparation of the Budget Strategic Plan (BSP) (March to May);
- 2. Preparation of the Budget Package (June to September);
- 3. Budget Approval (October to December).

1: Preparation of the Budget Strategic Plan

First week of March	The MEF prepares the Medium-Term Macroeconomic Framework and Public Finance Policy for the approval of the Government. This process is developed considering the MTFF and MTBF. The Government is moving towards this strategy by 2020.
First week of April	The MEF issues the BSP Circular to the Ministries, Institutions, similar public entities and Sub-National Administrations, giving instructions for preparation of the BSP, including standard forms to be submitted.
May 15	Deadline for the submission of BSP by the Ministries, etc. to the MEF.

2: Preparation of the Budget Package

First week of June	The MEF issues the Annual Budget Circular to the Ministries, Institutions, similar public entities and Sub-National Administrations, giving instructions for preparation of the Budget Package, including standard forms to be submitted.
July 15	Deadline for the submission of Budget Packages by the Ministries, etc. to the MEF.
August	Discussion and defence of budgets between the MEF and Ministers, heads of institutions and similar public entities, and Governors of all provinces and cities.
September	The MEF finalizes the Revenue and Expenditure Budget and prepares a draft Financial Law.

3: Budget Approval (approval of the Financial Law)

First week of October	The MEF sends a draft Financial Law to the Council of Ministers for review and approval.
First week of November	The Financial Law is sent to the National Assembly for adoption.
First week of December	The Financial Law is sent to the Senate for adoption and final approval by the King before December 25.

By examining the above calendar, it can be seen that the key time periods during which the Project must provide budget information to the Implementing Ministry are:

- | | |
|---|--------------|
| • For the Budget Strategic Plan: | April |
| • For the Annual Budget: | June |

4.2.4. Integrating the Project Budget with the Ministry BSP and Annual Budget

Each Ministry has a Budget Working Group (BWG), which comprises representatives from (i) Department of Administration and Finance; (ii) Department of Planning; and (iii) Project Management Units/Project Implementation Units/ (PMU/PIU). The BWG coordinates preparation and submission of the BSP and the Annual Budget to the MEF.

The Ministry BSP and Annual Budget preparation will be carried out according to a clear time frame, based on the submission timetable in Clause 4.2.3 above.

General instructions for preparing the BSP are in the BSP Guidelines issued by the MEF, which include the work of the BWG. These are supplemented by the BSP Budget Circular 1 (BCC-1) issued in the first week of April, which contains the BSP submission forms. These Guidelines and Circulars should be carefully

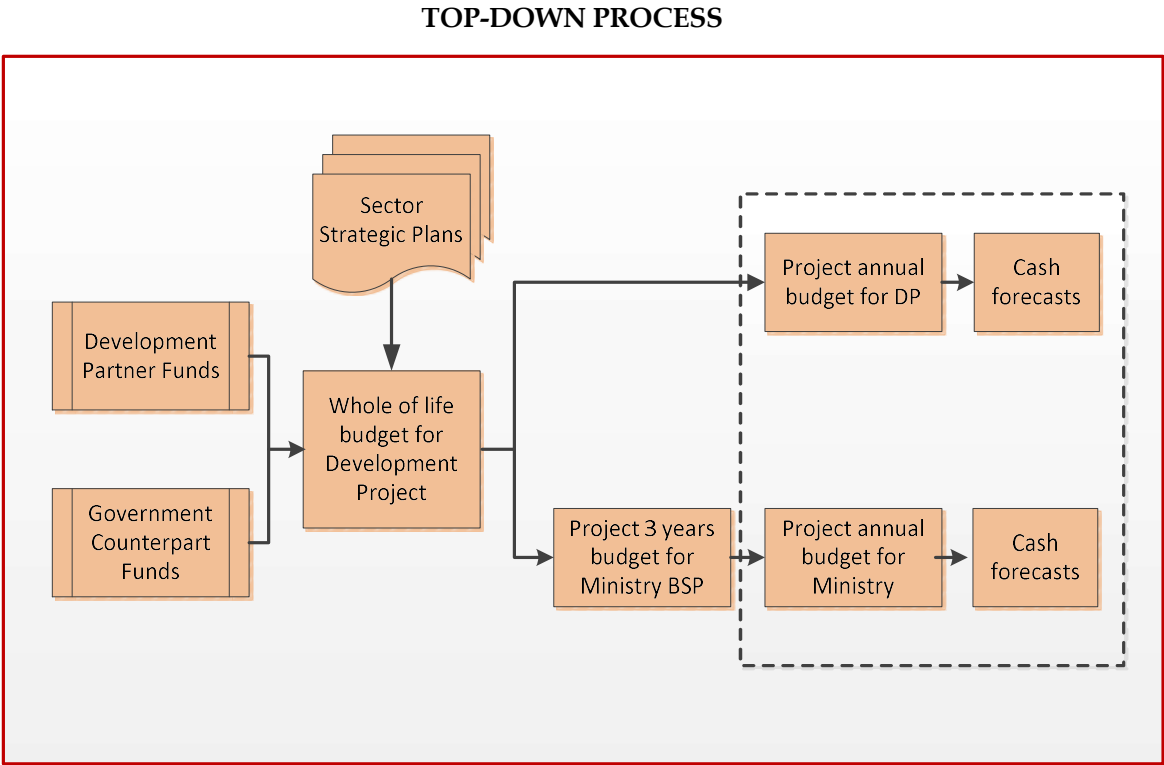
studied each year, as they will be progressively developed further, as the Budget Process is steadily reformed.

The Ministry’s BSP submission must contain a listing of all its investment projects, the budgets for which are included in the Plan. Some projects will have budgets for the full three years, while others will finish during the first or second year of the Plan. The information required for the BSP also includes targets for outputs and outcomes, as defined in the Guidelines. These can be taken from the project plans and adapted as necessary to the MEF’s requirements. Some projects will fit under the specific Ministry programs, whereas others will be self-standing.

In the same way, the instructions for preparing the Ministry’s Annual Budget are given in Budget Circular 2 (BCC-2) issued in the first week of June, which contains the Budget Submission Forms. For projects which are part of programs, the MEF’s Program Budgeting Guidelines will automatically apply. For other projects, the Program Budgeting Guidelines give a clear indication of the information, which the MEF requires, which again includes targets for outputs and outcomes as well as financial budgets.

To integrate the project figures with the BSP and Annual Budget, it will be necessary to express them in accordance with the Government Budget Classification. Thus, as stated before, it is important that during the set-up stage of the Project the BC & CoA is properly designed to allow for this (see Chapter 8).

Figure 4.1 Integration of the Project and Ministry Budgets



Note that the above diagram illustrates that, while there is only one integrated Budget for the Project, the budget figures can be presented in more than one way, and usually are. The Government will have its required format for the Budget and the DP will have its required format. Thus, the same total figures are presented in two different ways. This will be illustrated in Section 4.3 below.

4.2.5. The Annual Work Plan and Budget (AWPB)

The Project's Annual Budget must be based on an Annual Project Work Plan. Both the Work Plan and the Budget are prepared by the EA and endorsed by the Project Steering Committee (if applicable). After the endorsement, the EA includes the Project Budget in its budget submission to the MEF for review and approval of the Budget. Concurrently, the EA also obtains 'No objection' to the AWPB from the relevant DPs if that is required by the Financing Agreement of the DP. At this time, a summary of the funding requirements from the various funding sources, including the Government Counterpart Funds, are submitted separately to the MEF's General Department of International Cooperation and Debt Management (GDICDM). The AWPB should be finalized by November of each year and by the end of December the consolidated AWPB should be ready for implementation from the 1st of January.

4.2.6. Budget Administration

During the implementation phase the responsibility for the administration of the Budget rests with the "Budget Holder," the Head of the Department responsible for the administration of the approved Budget. During the implementation phase the Line Ministries will record and report in accordance with the CoA and the BSP. The reporting and recording will be done and coordinated with the BWG, which is a focal point and whose responsibility it is to consolidate and integrate all budgets and reports using the BSP and MTBF benchmarks.

4.2.7. Revision of Budgets

Budgets should be revised whenever there are major changes or variations in the Annual Work Plans or Overall Project Plans, as discussed under Clause 4.1.5 above. Approved variations or revisions of the Annual Work Plans, or Budgets must be promptly advised to the MEF and the Development Partner(s) for approval/endorsement.

4.3. *Producing an Integrated Project Budget - example*

The following example shows how a Project Budget, agreed with a Development Partner, can be re-formatted for reporting to both the DP and the Government, using their required classification codes.

Project ABC

Project ABC is set within one Ministry and consists of three Components:

Component 1: Increasing managerial and technical capacity;

Component 2: Demonstration of improved agricultural techniques;

Component 3: General management support.

The Project is financed by a Development Partner (DP) and by the Government Counterpart Funds.

The Annual Budget agreed with the Development Partner, using the DP's Budget Codes is shown in **Figure 4.2** below.

The Project Finance Officer is required to reformat this Budget so that it can also be used to report to the Government, using the Government's CoA Economic Items. This will enable the Project to be consolidated into the Ministry's overall Budget. The Government does not need to know details of costs of individual Project Components, but the DP does.

Figure 4.2: Project ABC – Annual Budget, US\$'000

DP code	Description	Total US\$'000	Development Partner, US\$'000				Government, US\$'000			
			Total	C1	C2	C3	Total	C1	C2	C3
1	Consultancy	784.45	784.45	340.00	327.20	117.25	-	-	-	-
11	Consultant's Remuneration	682.20	682.20	300.00	282.20	100.00	-	-	-	-
12	Consultant's Travel Costs	77.25	77.25	30.00	40.00	7.25	-	-	-	-
13	Translation Costs	25.00	25.00	10.00	5.00	10.00	-	-	-	-
2	Equipment	104.75	104.75	-	30.00	74.75	-	-	-	-
21	IT Systems	74.75	74.75	-	-	74.75	-	-	-	-
22	Vehicle	30.00	30.00	-	30.00	-	-	-	-	-
3	Capacity Building	267.85	242.85	167.85	75.00	-	25.00	-	25.00	-
31	Workshops, Seminars	167.85	167.85	167.85	-	-	-	-	-	-
32	On-site Demonstrations	50.00	50.00	-	50.00	-	-	-	-	-
33	Materials	50.00	25.00	-	25.00	-	25.00	-	25.00	-
4	Project Management Costs	66.25	41.25	-	-	41.25	25.00	25.00	-	-
41	Office Accommodation and Facilities	30.00	5.00	-	-	5.00	25.00	25.00	-	-
42	Administrative Support	36.25	36.25	-	-	36.25	-	-	-	-
5	Recurrent Costs	7.50	-	-	-	-	7.50	-	-	7.50
52	Maintenance of Computer Systems	7.50	-	-	-	-	7.50	-	-	7.50
	Total Base Cost	1,230.80	1,173.30	507.85	432.20	233.25	57.50	25.00	25.00	7.50
60	Contingencies	115.00	115.00	55.00	44.00	16.00	-	-	-	-
	Total Project Cost	1,345.80	1,288.30	562.85	476.20	249.25	57.50	25.00	25.00	7.50

To convert this Budget into the Government coding format, two steps are followed:

1. A detailed Budget Worksheet is prepared, in which the Budget is broken down into its smallest parts and costed by Economic Items. This is the same principle as costing program budgets, which are divided into sub-programs and activities and costed using Economic Items.
2. The figures in the Budget Worksheet are summarised by Economic Items, in the manner required by the Government.

To follow the workings in this example you will need a copy of the Government's Chart of Accounts (CoA) (which is amended from time to time), which gives the required Government codes for Economic Items.

STEP 1: Detailed Budget Worksheet

The worksheet produced by the Project Finance Officer is shown in **Figure 4.3**.

Figure 4.3: Project ABC – Detailed Annual Budget Worksheet, US\$'000

Account Code		Description	Total US\$'000	Development Partner, US\$'000				Government, US\$'000			
DP	Govt			Total	C1	C2	C3	Total	C1	C2	C3
11	61091	Consultant's Remuneration - National	232.20	232.20	100.00	92.20	40.00	-	-	-	-
11	61092	Consultant's Remuneration - International	527.25	527.25	230.00	230.00	67.25	-	-	-	-
12	61018	Translation Costs (other Services)	25.00	25.00	10.00	5.00	10.00	-	-	-	-
21	20054	IT Systems	74.75	74.75	-	-	74.75	-	-	-	-
22	21081	Vehicles	30.00	30.00	-	30.00	-	-	-	-	-
31	61103	Workshops, Seminars	100.00	100.00	100.00	-	-	-	-	-	-
31	61122	Per Diems	67.85	67.85	67.85	-	-	-	-	-	-
32	61103	On-site Demonstrations (Workshops)	20.00	20.00	-	20.	-	-	-	-	-
32	61051	Maintenance of Land	30.00	30.00	-	30.00	-	-	-	-	-
33	60033	Seeds and Plants	25.00	-	-	-	-	25.00	-	25.00	-
33	60034	Fertilizer	20.00	20.00	-	20.00	-	-	-	-	-
33	60058	Small Tools	5.00	5.00	-	5.00	-	-	-	-	-
41	61031	Rental of Office	20.00	-	-	-	-	20.00	20.00	-	-
41	21082	Office Equipment	10.00	5.00	-	-	5.00	5.00	-	-	5.00
42	61098	Salaries of Contract Staff	36.25	36.25	-	-	36.25	-	-	-	-
52	61057	Maintenance of Computer Systems	7.50	-	-	-	-	7.50	-	-	7.50
60	90000	Contingencies	115.00	115.00	55.00	44.00	16.00	-	-	-	-
Total Project Cost			1,345.80	1,288.30	562.85	476.20	249.25	57.50	20.00	25.00	12.50

This worksheet has been prepared by breaking down the contents of each of the DP's Cost Categories into the Government Economic Items. Thus:

- Consultant remuneration has been broken down into national (61091) and international (61092). Airfares for the international Consultant are better regarded as part of the overall cost of the international Consultant, then as travel expenses of the Project, and have therefore also been coded to 61092.
- Training for the Component 1 has been broken down into workshop costs (61103) and per diems (61122).
- For the Component 2, 'on site demonstrations' have been divided into workshops (61103) and land maintenance (61051). Materials have been included as seeds (60033), fertilizer (60034) and small tools (60058).
- 'Office accommodation and facilities' have been included as office rental (61031) and office equipment (21082).
- Translation costs have been shown as 'other Services' (61018). Other DP Cost Categories have a direct equivalent code in the Government Chart of Accounts.

This detailed Budget Worksheet will form the basis of the Chart of Accounts for the Project, as shown in Chapter 8 of this Manual.

STEP 2: Summary Budget for the Government

In order to present the Budget to the Ministry/Government all that is required is to group the costs by Economic Item and Source of Funds, as shown in **Figure 4.4**.

Figure 4.4: Project ABC - Budget presented to the Government, US\$'000

Note: In practice this Budget would need to be translated to the Cambodian Riel, but for ease of reconciliation it is left in US Dollars.

CoA Code	Description	Total	DP	Govt
		US\$'000	US\$'000	US\$'000
21081	Vehicles	30.00	30.00	-
21082	Office Equipment	10.00	5.00	5.00
20054	IT Systems	74.75	74.75	-
60033	Seeds and Plants	25.00	-	25.00
60034	Fertilizer	20.00	20.00	-
60058	Small Tools	5.00	5.00	-
61018	Translation Costs (other Services)	25.00	25.00	-
61031	Rental of Office	20.00	-	20.00
61051	Maintenance of Land	30.00	30.00	-
61057	Maintenance of Computer Systems	7.50	-	7.50
61091	Consultant's Remuneration - National	232.20	232.20	-
61092	Consultant's Remuneration - International	527.25	527.25	-
61103	Workshops, Seminars	120.00	120.00	-
61122	Per Diems	67.85	67.85	-
61098	Salaries of Contract Staff	36.25	36.25	-
90000	Contingencies	115.00	115.00	-
	Total Project Cost	1,345.80	1,288.30	57.50

4.4. *Converting Annual Budgets into Cash Flow Budgets/ Disbursement Projections*

Annual Budgets are only the starting point for obtaining the funds necessary for budget execution. An Annual Budget shows the total funds required for a whole year for each Expenditure Category. However, neither the Government nor the DP will advance these funds as an annual lump sum. They will be advanced as needed by the Project. It is therefore imperative that Annual Budgets are converted into Cash Flow Budgets, which can be shown when the funds will be required.

Cash Flow Budgeting is a critical element of ensuring that funds are available when required by the EAs. It involves estimating the amount and timing of payments for expenditures and of receipts for revenues. The estimate should be based on the estimated physical progress of activities and estimated timing of the related contract/operational expenditure claims and/or receipts.

The requirements of Development Partners for project cash budgeting are normally included in their Manuals on Project Management. In general, Quarterly Cash Budgets are required, to be updated each quarter. For Counterpart Funds, the Government require similar reports. Any changes to the Cash Flow Budgets must be advised to the MEF to help ensure that Counterpart Funds are available when required. It is imperative that the cash flow requirements for project activities are clearly communicated to the MEF, to ensure regular and timely cash flow is available for project implementation activities.

Since cash budgeting is a key tool for project management, it is recommended that, for internal management purposes, Cash Budgets are broken down into quarterly requirements, and updated quarterly or even more frequently.

4.5. *Project Funds Flow*

The flow of funds for projects from the Development Partner to the Government and the EA will be specified in the Credit/Loan/Grant or Technical Assistance Agreement and the Project Design Document of the Project. Funds flows within the EA are also specified in the PAD and PAM. Any variation to the endorsed flow of funds must be agreed by the EA (Project Team), the MEF and the DP prior to implementation. As part of the funds flow, the bank account requirements of the Project must be specified and agreed prior to the implementation of the Project.

4.6. *Local Taxation and Duties*

There are two aspects that need to be included in the FMM with regards to the calculation and payment of the Taxes and Duties. The first is in respect of the preparation of the Budget/ Cost Estimates and Financing Plan and the second is the actual payment of the taxes and duties, where applicable by Consultants and Contractors. The preparation of Cost Estimates and Financing Plan of the Project is covered in this Chapter of the FMM. The payments arrangements for taxes and Duties as applicable is covered in Chapter 11 of the FMM.

The total costs of all local taxes and duties payable for all development projects must be fully estimated and included in the Project/Program Cost Estimates of the development

projects/programs. The financing source for all local taxes, duties and other similar charges and levies, must also be shown in the Financing Plan and agreed to with the DP during the project preparation stage and prior to the approval of the Project by the DP.

4.6.1. Preparation of Cost Estimates

The preparation of the Project Cost Estimates is undertaken during the preparation phase of the Project and included in the Appraisal Report. This is explained in more detail in the SOP, which covers all aspects of project identification, preparation, approval and implementation. The detailed information on of Cost Estimates and the Financing Plan will also need to be included in the PAM which is prepared prior to the approval of the Project by the DP. The PMT and the EA must ensure, when preparing the Cost Estimates, that:

- All relevant local taxes, duties and other similar charges and levies that are required to be paid by Suppliers, Consultants and Contractors are included in the Cost Estimates to ensure an accurate record of the true overall cost of the Project; and the funding source for these has been identified in the Financing Plan. The financing of these taxes, duties and other charges levies by the DP will depend on its policy and will be specified in the Legal Loan/Financing Agreement. Some DPs allow financing from the proceeds of the Loan/Grant and some do not. The Financing Plan will therefore clearly specify the financing source for local taxes, duties, and other similar charges and levies. In case of financing by the Government, the costs will be included in the Counterpart Funds to be provided by the Government.
- After the Project is approved then all relevant taxes, duties and other similar charges that are required to be paid by Suppliers, Consultants and Contractors have been taken into consideration while preparing the Annual Project Budget. In case where the DP has agreed to finance them, the cost will be included in the relevant Supply, Works or Services procurement package. The estimate will already be included in the Project Procurement Plan. When the Government is responsible for financing them, the costs must be shown in the Counterpart Funds requirement for the year.

5. FINANCIAL POLICIES AND STANDARDS

5.1. *Fiscal Year and Reporting Periods*

The Government Financial Year is from January to December, which is divided into twelve (12) reporting periods (based on months). This is the accounting period, which is used for all financial transactions in the Government.

The Project EAs must identify the Project Financial Year that will apply and agree this with the MEF and the DP.

Whatever Financial Year is used by a Project, it must produce budget estimates for January to December when presenting figures for integration with the Ministry Budget Strategic Plan and the Annual Budget (see Chapter 4).

5.2. *Basis of Accounting and Accounting Standards*

The basis of accounting, accounting standards and any additional financial accounting policies/standards used by the Project must be specified in the Annual Financial Statements of the Project.

This Manual assumes that projects will use the cash basis of accounting for budgeting, accounting and reporting purposes. It assumes that where supplementary records of assets are kept, these are shown at cost and no depreciation is applied. To ensure compliance with the requirements, the MEF has issued Prakas No. 545, dated 6th June 2019, on the implementation of the Cash Basis Cambodian Public Sector Accounting Standard by the ministries, public institutions, provincial departments and DP-financed projects for preparation of the annual financial statements.

For projects, which use the modified cash basis or accrual basis of accounting, a supplementary set of Guidelines is available.

Best practice for 'General Purpose Financial Statements' of projects using the cash basis of accounting is now represented by the International Public Sector Accounting Standards (IPSAS) Cash Basis Standard issued by the International Federation of Accountants (IFAC). However, investment projects do not usually produce General Purpose Financial Statements and their reporting requirements for Annual Financial Statements are therefore governed by the specific needs of the MEF and the DP. In the preparation of its Financial Statements the Government uses the Cambodian International Accounting Standards (CIAS), which in turn are based on the International Accounting Standards issued by the IFAC. Financial Management Reports are covered in Chapter 19. These must be clarified during the set-up phase of the Project, in order for the Project Budget Classification and Chart of Accounts (BC & CoA) to be set up.

5.3. *Currency of Recording and Reporting*

Project Teams must record financial transactions and maintain the main project accounts and records in US Dollars. All prime financial reports must be in US Dollars. Subsidiary accounts, records and reports may be maintained in Cambodian Riel.

6. INTERNAL CONTROL

6.1. Overview

Internal control comprises all the policies and procedures adopted by management of the EAs to assist in achieving orderly efficient, and effective implementation of the Project, compliance with the Government and the DPs policies and rules, safeguarding of financial resources, complete and reliable processing, recording and reporting of financial transactions and events, timely issue of Financial Management Reports for monitoring and management decision making, and the early detection of fraud and error.

Internal control is aimed at:

- Ensuring that the accounts and records are reliable and complete;
- Ensuring that all funds for the Project are used in an economical, efficient and effective manner to achieve the Project Development Objectives;
- Securing compliance with legislative, statutory and project agreements' requirements and adherence to organizational policies; and
- Protecting assets, especially Cash Receipts, from being lost or stolen and safeguarding assets against wastage, fraud, improper use and inefficiency to protect the integrity of the system;
- Discouraging dishonesty through the implementation of systems and procedures that would make concealment of irregularities possible only through collusion of two or more persons and promoting disclosure and transparency.

6.2. Responsibility for Internal Control

The EA management, and in particular the Project Team appointed by the EA Management is responsible for developing, implementing and monitoring a sound system of internal controls. The maintenance of internal controls is the responsibility of the Project Management Team, which is charged with ensuring sound governance of project activities, to prevent fraud and corruption that must be followed for all DP-financed projects. In this regard the DPs financing the projects have their own Integrity Principles and Guidelines, which must be adhered at all times. Internal control practices are subject to regular audit by the Departmental Internal Audit Unit of the Line Ministry in accordance with the Guidelines issued by the General Department of Internal Audit of the MEF, which plays a more active and supportive role to ensure the proper internal control functioning, as a responsibility in the LMs. These are also subject to independent audit by the National Audit Authority (NAA) or external auditors recruited to carry out audit of externally financed projects, where required.

6.3. Critical Elements of Internal Control

The critical elements of internal control are:

6.3.1. Management Commitment to Effective Internal Control

Management must be committed to effective internal control. Management is responsible for maintaining and reviewing the control structures on a regular basis to ensure that all key controls are operating effectively and are appropriate. Management's attitude towards enforcement of controls will strongly influence the effectiveness of internal control.

6.3.2. Effective Organisational Controls

Operational controls include effective organisational structures, well-defined responsibilities and the segregation of duties and functions. There should be segregation of functions and separation of duties within finance functions and the accounting systems to help detect and prevent errors, fraud or misuse of funds. Clear specification of financial authorities and delegations is a critical part of effective organisation internal controls.

6.3.3. Capable, Trained and Honest Officers

The MEF and the EAs should engage qualified and experienced people. The EAs must ensure that both formal and informal (on-the-job) training is provided to staff to enable them to effectively carry out their assigned duties.

6.3.4. Clearly Understood Procedures and Documentation

Internal controls should be clearly documented in procedure manuals and job descriptions and these should be available to all relevant staff. All staff involved in accounting for expenditure, revenue, assets and liabilities must understand the Government and project policies, systems and procedures. Documents should be simple, easy to use and designed to ensure they will be filled out correctly to help reduce misinterpretation of information and errors.

6.3.5. Effective Management Controls

Management controls are concerned with planning, monitoring and decision making to enable the organisation to achieve its objectives and to ensure compliance with legal and contractual requirements. Management controls include preparation of plans (e.g. Corporate Plans, Functional and Work Plans, Annual Budgets, Procurement Plans), monitoring systems, regular reporting of progress against plans, variation analysis and timely decision making based on regular management information.

6.3.6. Effective Operational Controls

Operational controls are concerned with the completeness and accuracy of processing of financial transactions and events and are aimed at preventing and detecting errors. Operational controls include sequence checking, use of control totals, reconciliations and independent checks. Regular reconciliations of bank accounts and control accounts must be carried out to ensure that the accounting systems are functioning properly and the accounting data is always being accurately recorded and maintained.

6.3.7. Adequate Physical Controls

Physical controls are required to safeguard cash and other negotiable instruments (e.g. cheques) as well as inventories (where applicable) and assets. Controllable forms such as Receipt Books, Cheque Books, must be kept secure and records must be kept for issues and usage of assets. Physical assets must be safeguarded and properly maintained to retain their value and effectiveness. Given the wide use of computerization in the various accounting and recording activities, it is critical that very tight controls are maintained in the preservation and secrecy of passwords and other computer entry techniques and controls.

6.4. *Financial Delegations and Authorities*

The EAs, in conjunction with the MEF, must clearly define the financial delegations and authorities for project implementation to the Project Implementation Team. The delegations and authorities should be agreed between the EA and the MEF and documented in the Project FMM, as a supplement to the uniform Financial Management Manual if this is deemed necessary.

The following delegations and authorities are the minimum that should be addressed in establishing the financial arrangements and internal control system for projects:

- Authorized signatories for drawing funds from the Project Bank Account(s) and the signing requirements for payment withdrawals and Disbursement Tracking Forms.
- Authorized signatories for Credit/Grant Replenishment Withdrawal Applications and Disbursement Tracking Forms.
- Authorities to approve contracts for Civil Works, Goods and Services, including approval ceilings.
- Supervising receipt of Civil Works, Goods and Services.
- Authorities to teams or individuals as appropriate to certify the completion/acceptance of Civil Works, Goods and Services.
- Authorities to approve expenditure claims/vouchers, including approval ceilings.
- Authorities to approve Petty Cash expenditure claims and limits, within which Petty Cash funds can be used.
- Authorities to approve advances of funds and limits, within which such authorities can be exercised.
- Authorities to receive funds and clear instructions on the issuing of official receipts.

The financial delegations and authorities should operate in conjunction with administrative systems and controls. Administrative system controls consist of measures adopted by management to help promote operational efficiency and adherence to prescribed policies within the organisation, and achievement of its goals. Examples of administrative controls are the maintenance of employee personnel records and job descriptions to ensure that the employees are performing the correct duties, and these are within their capabilities; maintenance of travel records to support and verify claims for fares and per diems; maintenance of vehicle usage to ensure proper use of assets and operational expense claims.

The Project Team should review the nature of the activities of the Project and ensure that appropriate administrative authorities and delegations are defined to control the project activities in conjunction with the financial delegations and authorities and documented in the project arrangements.

6.5. General Financial Internal Controls

Financial controls consist of measures adopted by management to protect its assets and to ensure the accuracy and reliability of its accounting records and financial reports. Key internal controls to be implemented by Executing Agency are:

Competent and Reliable Personnel:

The internal control system relies on the people running it. Employees should be adequately trained and properly supervised with adequate checks and balances to enable them to carry out their duties and responsibilities effectively.

Separation of Functional Responsibilities:

A person should not have complete control of a transaction from beginning to end. There should be clear understanding as to who will approve, what is to be approved and the limitations of authorization. The Approving Officers should not have responsibility for posting or the ability to change accounting records. There should be a clear separation of roles of the requestor, receiver, and approver for every transaction. Again, given the wide use of computerization in the various accounting and recording activities, the entry of data by only authorized and trained personnel is now regarded as a key control measure.

Assignment of Responsibility for Every Function:

Employee responsibilities should be clearly defined to avoid overlapping or unassigned areas of responsibility (e.g. an organization chart should be prepared). The EA staff must know their responsibilities and whom they report to.

Separation of Asset Custodianship and Accounting:

The accounting function should be separated from the custody of assets (e.g. an employee who is entrusted to receive cash should not have access to the cash journals or ledgers).

Security Measures:

Techniques, procedures and measures should be employed to protect assets and ensure reliable accounting data and reports (e.g. use of mechanical devices such as vaults and cash registers; use of control accounts and subsidiary ledgers).

Supervision:

Internal regulations should provide clear lines of supervision responsibilities to all levels of staff and all types of transactions. For example, the Director or Manager of the EA is responsible for the supervision of setting up of annual estimated expenditures, approving of the annual reports etc. whilst the Finance Officer is responsible for the supervision for the proper recording of all transactions by subordinates, and the preparation of Financial Statements in accordance with the agreed format and standards.

Regular Independent Review:

Internal auditors should regularly review and evaluate the system of internal controls to determine whether it is functioning effectively as planned (e.g. internal auditors' findings and recommendations should be submitted to senior management for action, and to the DP funding the activity, where required, as soon as these reports have been prepared). In the Cambodian context, each Line Ministry has an Internal Audit Department, which carries out its work assignments under the overall supervision of the General Department of Internal Audit of the MEF. The general supervision and preparation of the Work Plan is also done under the guidance of the General Department of Internal Audit of the MEF, but the actual projects to be audited within each Ministry are selected by the Minister of each respective Ministry.

Control of Transactions:

Every transaction should be authorized, approved, executed and recorded according to prescribed procedures (e.g. staff are not free to procure without the approval of the Manager).

Serially Numbered Documents:

Organization documents should be serially numbered to check completeness of transactions (e.g. checks, invoices and vouchers should be serially numbered). A register should be kept of all serially numbered documents and they should be issued in sequence and its use regularly monitored to ensure that the sequence is strictly maintained. In cases where several branches or offices are involved the issue to each branch or office should be monitored through the control register to ensure that numbered documents are used strictly in sequence. The practice of using more than one check book at any location at any one time should be strictly prohibited. The physical location of all numbered documents should always be known and should be easily traceable. Internal auditors of Ministries should always do impromptu checks to ensure that the control features put in place are consistently followed.

Sequencing:

Accounting control system should be set up in such a manner that proper sequencing is followed with regards to payments, posting of transactions to ledgers etc. For example, payments should not be authorized or made before the Goods or Services, for which the payment relates to, have been received by the Project.

6.6. Transaction Processing Controls

With sound transaction processing internal controls, employees' duties are arranged, and records and procedures are designed to exercise effective controls over assets, liabilities, revenues and expenditures. Employees' work is divided so that no one employee performs a complete cycle of operations. As an example, an employee handling cash would not be assigned to post collections in the accounting records. The procedures to be followed must be defined and such procedures should require proper authorizations by designated officials for all actions to be taken. The table below summarises the general transaction processing, internal control objectives and internal control outcomes.

General Objective	Internal Control Outcome
Validity: →	Recorded transactions are valid, eligible, properly documented, conform to the Work Plan and Budget and are for purposes intended. The activity must have occurred.
Completeness: →	All valid transactions are recorded, and none omitted.
Authorization: →	Transactions are authorized according to the EA, Government policy and regulations and conform to the funding DPs procedures.
Classification: →	Transactions are properly classified in the accounts as per the Government CoA and categories of the DPs.
Accounting/Posting: →	Transaction accounting is completed.
Proper period: →	Transactions are recorded in a timely manner in accordance with the provisions of the Government regulations and the provisions of the FMM.

6.7. Computerised Accounting Systems Controls

With the use of computerised accounting systems, internal controls must encompass the security and back up of financial accounts and records. The key computerised accounting systems internal controls that must be adhered to are:

- Password Protection and Access Control
 - Password protection and access control should be properly implemented and maintained for all IT accounting systems.
- Back up Procedures
 - All IT systems/Accounting Software will be regularly (daily if possible) backed up at an independent site.
 - Procedures must be established to restore data and/or software following any operational disruption. Wide use is made of storing back up data in cloud-based systems but if used, due diligence needs to be exercised to ensure that these meet all other data security and access requirements.
 - Emergency procedures will be available to provide business continuity following loss of IT systems.
 - Daily printouts of daily transactions will be made checked and signed by the Project Finance Officer and filed for future reference.
- Virus Protection
 - All IT systems will be protected against the threat of software viruses.
 - Regular scan disk should be done at least once a week.

- Emergency Procedures
 - Electrical power systems supporting IT Equipment should have an appropriate UPS system in place together with backup batteries, which are automatically invoked following a power loss. Batteries will be able to provide power for enough time to allow an emergency generator to start up and run at full load.
 - Emergency procedures detailing what actions to take and including manual procedures to be followed in the event that IT systems are unavailable should be fully documented.
 - All staff should be aware of the documented emergency procedures. These will be tested, reviewed and updated at regular intervals.

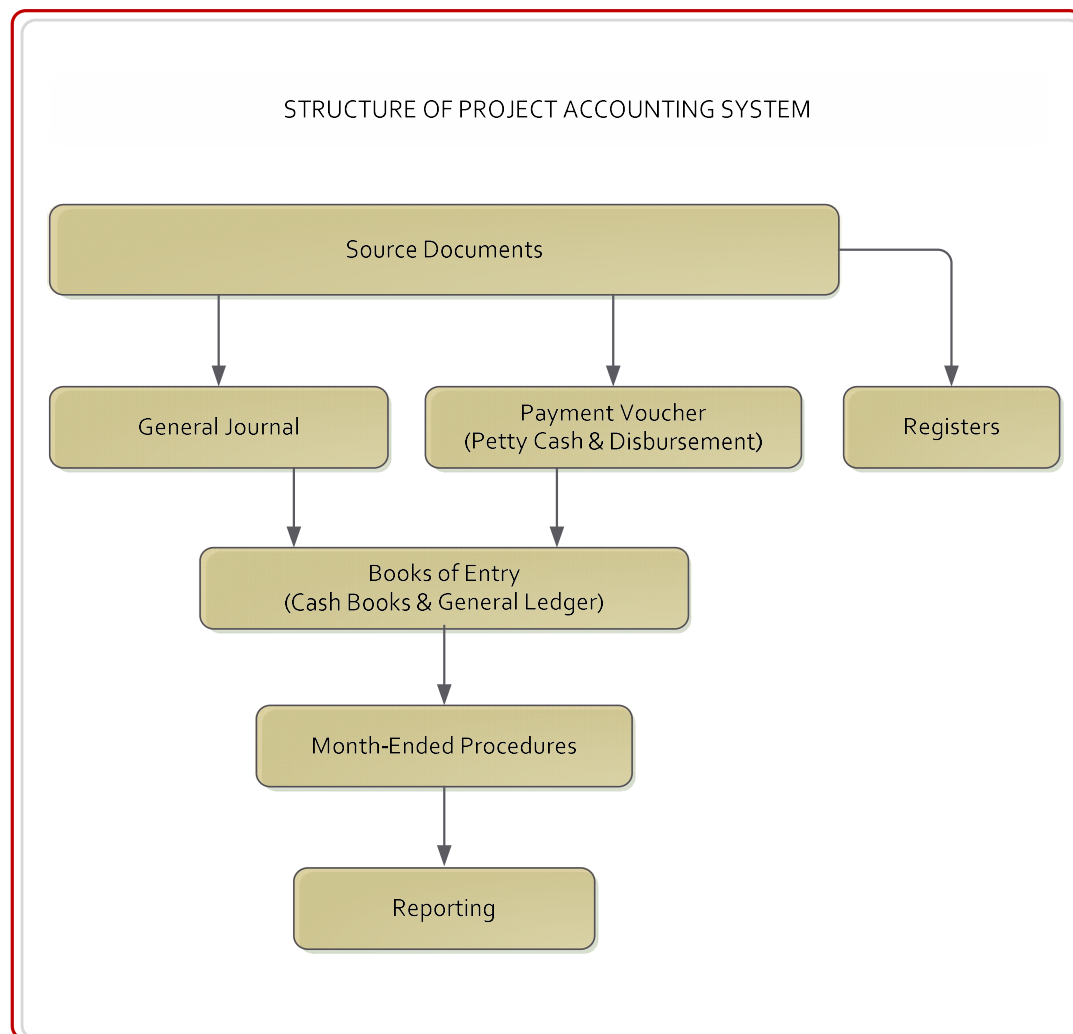
7. FINANCIAL ACCOUNTING SYSTEM

7.1. Overview

The primary objective of the financial accounting system is to record in a systematic and controlled manner the financial transactions and events of the Project and to report financial information for monitoring and controlling the project funds and project implementation.

The flow chart below shows the Components of a cash-based financial accounting system that keep a General Ledger, Cash and Petty Cash Accounts, Payroll, Advances and General Journals on the double entry book-keeping system. It also keeps memorandum records of Suppliers and Customers as well as Inventory and Fixed Assets at cost. For accrual-based systems, which is currently not used by the Government, see separate guidance notes, which must be followed.

Figure 7.1: Cash-based Financial Accounting System



7.2. Accounting System

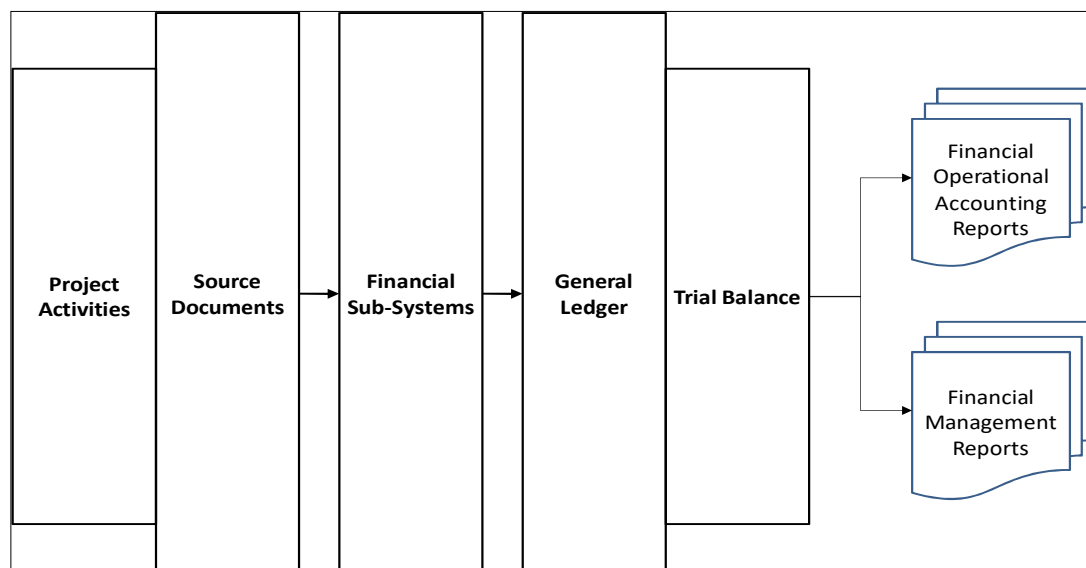
The accounting system that a Project uses may be a manual system, a computerised system or a combination of the two. The Government has already computerised a number of its accounting operations, and this trend is continuing. Different agencies currently use different types of mechanized or computerized accounting systems such as Quick Book, Peachtree Sage 50 and others. The Government is considering options for harmonizing its computerized accounting systems, noting that any system selected for posting project accounting transactions must be capable of handling account codes with a minimum of 13 digits, to align with the Government's recent introduction of a new CoA. Currently most projects have selected the Peachtree Sage 50 software accounting system, which is capable of accommodating account codes of up to 15 digits, but the Government has now decided that any accounting software system that is acquired by any Government Agency should be capable of handling coding of a minimum of 16 digits. All Government agencies are required to update to this level of capability so that the Government CoA can be fully utilized. All financial reporting must be done based on the CoA, as appropriate.

The Financial Accounting System encompasses:

- (i) Source documents;
- (ii) Financial sub-systems (Cash and Petty Cash Registers for receipts and payments, Payroll, Advances, Registers and General Journal);
- (iii) A General Ledger to record all transactions using the CoA on the double entry basis; and
- (iv) Optional Memorandum Records (Customers, Suppliers, Inventory, Fixed Assets).

Financial accounting data flows from the source documents to the General Ledger, is controlled using a double entry 'Trial Balance' and then is produced in financial reports, either in detail (Financial Operational Accounting Reports) or in summary (Financial Management Reports). The flow chart below demonstrates this flow.

Figure 7.2: Financial Accounting Data Flow



The flow of financial information is the same for both manual and computerised accounting systems. Transactions are initially recorded manually on source documents. The data from these source documents is then entered into the relevant sub-system accounting records (e.g. Cash Payments Register) and then transferred to the General Ledger. In the computerised accounting system, the source documents data is entered into the relevant module/menu window and the computer processes the information and performs the tasks of recording and printing journals, posting to the ledger accounts and determining account balances. Financial reports are prepared from the accounting data held in the sub-system records and ledgers. A statement of the minimum required specifications of a computerised accounting system that can be used on the Government externally financed projects is provided in **Appendix 2**.

7.3. Accounting Process

The major steps in the accounting process for a Project are summarised below:

1). Posting to Ledger Accounts - post debits and credits from the journals to the appropriate ledger accounts creating a record classified by accounts. (Upon entering of the transactions in the receipt and payment window of accounting software, all transactions are posted automatically in the General Ledger).

2). Prepare a Trial Balance - produce a Trial Balance from the General Ledger account balances and prove the equality of debits and credits in the ledger. (The accounting system will automatically generate a Trial Balance).

3). Make Month-end Adjustments - reconcile control accounts (e.g. Bank Accounts, Advances Accounts) and prepare adjusting General Journal entries and post to the ledger accounts (adjusting entries will be posted through the General Journal entry module of accounting software).

4). Prepare an Adjusted Trial Balance - again, produce a Trial Balance from the General Ledger account balances and prove the equality of debits and credits in the ledger. (The accounting system will automatically generate a Trial Balance).

6). Journalise and Post-Closing Entries - the closing entries clear the Revenue and Expense Accounts, making them ready for recording the transactions and events of the next accounting period.

5). Prepare Financial Reports and Financial Statements - an Income Statement/Statement of Sources and Use of Funds shows result of operation for the period. Balance Sheet is needed to show the financial position as of given period of time. (Financial Statements and other reports will be automatically generated).

7). Prepare an After-closing Trial Balance - this step ensures that the ledger remains in balance after posting of the closing entries (automatically the relevant accounts will be cleared to the Balance Sheet Accounts when the function of closing the accounting period is selected).

7.4. Primary Accounting Records

The primary accounting records that must be maintained within the financial accounting system of a Project are:

Cash Receipts Journal/Book
A record in date order of cash funds received by the Project in an accounting period, transactions are based on sequential numbering of official receipts and Bank Receipt Vouchers (in the accounting software this is equivalent to Receive Moneys/Make Deposit Function).
Cash Payments (Disbursements) Journal/Book
A record of expenditure transactions with dates, amounts and payees based on the sequential numbering of the Disbursement Vouchers and Cheques/Bank Transfer Authorities (in the accounting software this is equivalent to Make Payment Function or Task/Payment Function).
General Journal
Used to record non-cash transactions, such as Direct Deposits or Direct Payments or allocation of expenses or reclassification of expenses among the Project Components, to the General Ledger (in the accounting software, this is equivalent to General Journal Entry Window).
General Ledger
Transactions from the Cash Receipts Book, Cash Disbursements Book, General Journal Book are posted to the relevant ledger accounts. The ledger accounts are organised to identify the nature of the transaction and to enable summarising of financial data in the General Ledger (with computerised accounting software, transactions are automatically recorded in the relevant ledger account when the transaction/journal is entered).
Other registers and records are maintained to assist with managing and controlling the Project's financial activities and resources. Examples include Asset Registers, Inventory Registers, Contract Registers, Withdrawal Application Registers, Contract Securities Registers.

7.5. Source Documents

The financial transactions are recorded in the financial accounting system from source documents. These documents should be standard and allow for proper control such as authorization of transactions. The prime source documents of the financial accounting system are:

<p align="center">Bank Receipt Voucher</p> <p>Used to document the receipt of funds directly deposited to a bank account of the Project, usually from the WB/ADB (Loan/Credit/Grant disbursements) or the Bank (bank interest).</p>		
Dr	Bank Account	xxx
Cr	Liability/Equity/Funds Receipt Account	Xxx
<p align="center">Disbursement Voucher</p> <p>Used to record payment transactions where mode of payment is by Cheque/LC/Withdrawal slip. The funds are drawn from the Project Bank Accounts.</p>		
Dr	Asset/Liability/Expense Account	xxx
Cr	Cash in Bank/CA/Name of Bank	Xxx

<p align="center">Petty Cash Payment Voucher →</p>	<p>Used to record payment of transactions from Petty Cash funds of the Project. There is no direct posting of Petty Cash Vouchers to the General Ledger, the transactions are recorded in the Petty Cash Book and then the expenditures are summarised and posted at regular intervals to the ledger. Both the new Government policy, and the principles of good internal control require that the Petty Cash Account only be used for small payments, which are inconvenient to handle through credit or contract arrangements with Suppliers. For more detail, refer to the information covering Petty Cash in Chapter 13.</p>
<p align="center">General Journal →</p>	<p>Used to record non-cash transactions, which affect the Project's resources and obligations where there are no actual receipts or disbursements of funds. It is commonly used to record adjustments, reclassifications and settlement of cash advances.</p>
<p align="center">Cash Advance Form →</p>	<p>Used to record transactions of cash advance, which are treated as expenses, and they are reconciled /adjusted as required.</p>
<p align="center">Purchase Order →</p>	<p>Used to record official orders of Goods to Suppliers or Contractors. This procedure is not widely used in most projects of the Government, as the contract method of procurement is the preferred method of procurement in the Government public sector. However, there are some projects where this method of procurement is followed for purchasing of minor items. Please refer to the Procurement Manual for details of this procedure, where it is to be used.</p>

Supplementary documents that will support the primary source documents may include:

- Approved Payment Request – for Petty Cash funds
- Bank Credit Advice - for Bank Receipt Voucher
- Invoices, Statements of Account - for Disbursement Voucher

Appendix 1 provides samples of a range of forms and registers that are commonly used for externally funded projects of the Government. This list is only indicative and Project Teams may design their own forms that best suit their accounting and reporting needs.

8. GENERAL LEDGER SET UP AND MAINTENANCE

8.1. *Chart of Accounts (CoA)*

8.1.1. Definition of Chart of Accounts

The Chart of Accounts is a listing of the General Ledger accounts in the accounting system of organisation. It provides the structure for recording and controlling budget and accounting data and for summarising the data for monitoring and reporting.

The CoA will include all the codes included in the Budget Classification of the organisation (see FMM Chapter 4) plus additional codes that are used only for accounting. These additional codes are of two types:

- (i) Codes for analysing accounting transactions to a greater level of detail than the Budget; and
- (ii) Codes for assets and liabilities, including bank and cash accounts, expenses and deposits, which are not included in the Budget but are part of the double entry accounting system.

The CoA is analysed using all the dimensions included in the Budget Classification. The possible dimensions available are as shown below:

Dimension	Description of Dimension
Economic Classification	Nature of Income or Expenditure, Assets or Liabilities
Administrative Classification	Ministries, Directorates, Departments, Provinces, Institutions
Program Classification	Program, Sub-Program, Activity
Source of Funds	Government Funds, DPs, etc.
Projects	Project, Components/Outputs, Sub-Components
Geographical	Province, District, Commune
Function	Function and Sub-Function (sector benefitting from the transaction)

8.1.2. Government of Cambodia Chart of Accounts

Through the Letter No. 9534, dated 2nd December 2015, the MEF instructed all Government Executing Agencies and Implementing Agencies (the EAs and IAs) to develop a new CoA for projects. This was done in accordance with the introduction of a new structure, integrating the Government Economic Classification for use in all project accounting systems, and was promulgated further through the Government Standard Operating Procedures on Financial

Management for all externally financed projects/programs in Cambodia by the Sub-Decree No. 181 / ANK.BK, dated 2nd December 2019.

The CoA for the Government contained only the economic classification. It is a set of codes for assets, liabilities, revenue and expenditure, analysed using four digits: for Class, Chapter, Account and Sub-Account (SAA). In 2017, the Government introduced the new CoA, and instructions were issued to all Government EAs and IAs to conform to it.

<p>The CoA is subject to continuous review by the MEF, and Project Financial Managers should ensure that they have the latest version when they design the Project CoA. At the top level, the Classes are: →</p>	<p>Class 1: Current Assets Class 2: Fixed Asset Accounts Class 3: Capital and Equity Class 4: Current Liabilities Class 5: Long Term Liabilities Class 6: Recurrent Expenditure Accounts Class 7: Revenue Accounts</p>																		
<p>Chapters are two-digit codes within each Class. Thus, within Class 6 are the following Chapters of Recurrent Expenditure: →</p>	<table> <tr><td>60</td><td>Purchases</td></tr> <tr><td>61</td><td>Services</td></tr> <tr><td>62</td><td>Social Benefits</td></tr> <tr><td>63</td><td>Tax and Excises</td></tr> <tr><td>64</td><td>Personnel</td></tr> <tr><td>65</td><td>Subsidies and Socials Aids</td></tr> <tr><td>66</td><td>Financial Charges</td></tr> <tr><td>67</td><td>Exceptional Expenditures</td></tr> <tr><td>68</td><td>Depreciation Expenses</td></tr> </table>	60	Purchases	61	Services	62	Social Benefits	63	Tax and Excises	64	Personnel	65	Subsidies and Socials Aids	66	Financial Charges	67	Exceptional Expenditures	68	Depreciation Expenses
60	Purchases																		
61	Services																		
62	Social Benefits																		
63	Tax and Excises																		
64	Personnel																		
65	Subsidies and Socials Aids																		
66	Financial Charges																		
67	Exceptional Expenditures																		
68	Depreciation Expenses																		
<p>Accounts are four -digit codes within each Chapter. For example, in Chapter 60, Purchases, these are: →</p>	<table> <tr><td>6001</td><td>Maintenance Supplies</td></tr> <tr><td>6002</td><td>Administrative Supplies</td></tr> <tr><td>6003</td><td>Food and Agricultural Products</td></tr> <tr><td>6004</td><td>Clothing and Distinctions</td></tr> <tr><td>6005</td><td>Small Tools, Materials, Furniture and Equipment</td></tr> <tr><td>6006</td><td>Water and Energy</td></tr> <tr><td>6007</td><td>Sanitary and Health Products</td></tr> <tr><td>6008</td><td>Other Supplies</td></tr> </table>	6001	Maintenance Supplies	6002	Administrative Supplies	6003	Food and Agricultural Products	6004	Clothing and Distinctions	6005	Small Tools, Materials, Furniture and Equipment	6006	Water and Energy	6007	Sanitary and Health Products	6008	Other Supplies		
6001	Maintenance Supplies																		
6002	Administrative Supplies																		
6003	Food and Agricultural Products																		
6004	Clothing and Distinctions																		
6005	Small Tools, Materials, Furniture and Equipment																		
6006	Water and Energy																		
6007	Sanitary and Health Products																		
6008	Other Supplies																		
<p>Finally, Sub-Accounts are five-digit details within each Account. For example, in Account 6001, Maintenance supplies, the Sub-Accounts are: →</p>	<table> <tr><td>60011</td><td>Cleaning Supplies</td></tr> <tr><td>60012</td><td>Building Maintenance Supplies</td></tr> <tr><td>60013</td><td>Road Bridge Maintenance Supplies</td></tr> <tr><td>60014</td><td>Equipment Maintenance Supplies</td></tr> <tr><td>60015</td><td>Oil and Lubricants</td></tr> <tr><td>60018</td><td>Other</td></tr> </table>	60011	Cleaning Supplies	60012	Building Maintenance Supplies	60013	Road Bridge Maintenance Supplies	60014	Equipment Maintenance Supplies	60015	Oil and Lubricants	60018	Other						
60011	Cleaning Supplies																		
60012	Building Maintenance Supplies																		
60013	Road Bridge Maintenance Supplies																		
60014	Equipment Maintenance Supplies																		
60015	Oil and Lubricants																		
60018	Other																		

8.1.3. Designing the Chart of Accounts for a Project

The Government CoA provides an important input into the design of a Project CoA, because the Project will need to report to the Government using these codes. However, there are also other important factors to be taken into consideration when designing the Project CoA.

The design of the CoA becomes complicated, as the specific structure of the account codes for a Project must be able to provide different sets of accounting information to suit the different requirements of the DP and the Government. Reports for the Government will be aimed at integrating the Project with the Line Ministry's overall operations, and therefore must be presented using dimensions from the Government CoA. Reports to the DPs, however, may require substantially the same information, but there will also be additional requirements for reporting, using the DPs' pre-determined classifications. The reporting and recording of CoA will be done based on the specific nature of Project/Program (this means that the EA/IA can prepare the CoA by putting the number of digits of each segment as required by the nature of Project/Program).

The CoA structure for projects includes several segments for different purposes such as the Government Code, Disbursement Category Code, Output/Component Code, Geographic Code, Financier Code and other specific codes. In order to incorporate all segments together to establish a CoA for the Project, the following items need to be considered:

- a. Funds Flow Arrangements;
- b. Allocation and Withdrawal of Loan Proceeds Provisions;
- c. Cost Estimates by Outputs/Components;
- d. Cost Estimates by Financier;
- e. Government Budget Classification;
- f. Government Geographic Classification (*if required*);
- g. Procurement Plan of Goods, Works and Consulting Services;
- h. Contracts Awarded.

The basic principle for a Project CoA is that it must enable production of:

- (i) All reports required by the Government, the DPs and any other major stakeholders, using the classification codes (categories) required by each stakeholder; and
- (ii) All financial analysis needed by the Project Manager to run the Project efficiently and effectively.

Before designing the Project CoA, the Project Finance Officer should make draft designs for all required reports. These will include Budgets, Disbursement Reports, Monthly, Quarterly and Annual Reports against Budget, with analysis by Source of Funds, Project Component and Economic Items. See Chapter 19 of the FMM for coverage of project reports.

Reports for the Government will be aimed at integrating the Project with the Ministry operations and therefore must be presented using dimensions from the Government Chart of Accounts. Reports to Development Partners may require substantially the same information but there will be additional requirements for reporting using the DP's requirements.

8.1.4. Expenditure Categories

During the implementation phase, PMU in its reporting structure must report in accordance with the CoA categories. It is essential that all major reports are designed in draft before the Project CoA is finalised, otherwise some requirements may be left out of the analysis. It is also a good idea, at the start of a Project, to think about possible reports that may not have been requested but which might prove useful in the future. For example, there may be no immediate requirement to report costs by geographic location, but if it is possible that this might be required in the future, it will be essential to include the geographic dimension in the CoA.

8.2. Continuation of Examples: Project ABC

8.2.1. Structure of the Chart of Accounts for Project ABC

Refer to the example in Section 4.3: Project ABC. The Project CoA can be derived from the detailed Budget Worksheet (**Figure 4.3**).

The dimensions used in this Worksheet are:

- DP Codes;
- Government Economic Classification;
- Project Component;
- Source of Funds.

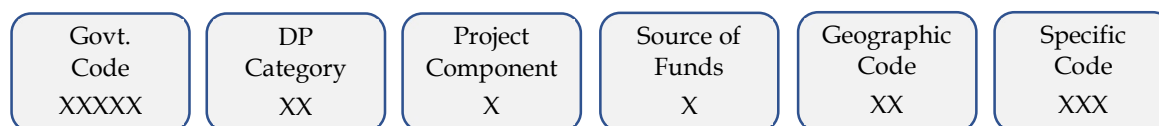
The DP Codes and the Government Economic Classification are two numbering systems for describing the same dimension (Economic Classification). Either:

- both coding systems are built into the CoA; or
- only the Government codes are built into the CoA and mapping rules are developed to convert the Government classification to the DP classification.

The example below assumes that both coding systems are built into the CoA.

The structure of the CoA for Project ABC can be designed as in **Figure 8.1** below. Each 'X' refers to a digit in the CoA.

Figure 8.1: Project ABC – Chart of Accounts Structure



8.2.2. Population of the Chart of Accounts for Project ABC

The items in the detailed Budget Worksheet are given CoA codes, and additional account codes are added for required accounting items not in the Budget (bank, cash, etc.).

The Chart of Accounts is then populated, giving the full detailed code to each type of transaction, as shown in **Figure 8.2** on the next page.

Notes to Figure 8.2

In this illustration:

- In addition to the codes used in the Budget, additional Government and DP codes are required for 'Project Government Funds', 'Grant received from the DP' and bank accounts for the DP Funds and the Government Counterpart Funds. These code numbers have been assumed for this example. In practice, the Government codes will need to be agreed with Treasury to ensure that the information will be presented to the Government in the correct way.
- Funding from the DP Grant or Loan has been given the code '2' or '3' and funding from the Government has the code '1'.
- Component numbers are 1, 2 or 3, and a 0 in this segment means that the Project Component does not apply.
- Note that every applicable combination of CoA segments has a separate CoA code line. For example, there are three lines for 'translation costs', one for each Component (1, 2 or 3) and all are funded by the Development Partner (fund 1). But, because in this example no translation costs will be funded by the Government, there are no CoA codes for this combination.

Figure 8.2: Project ABC - Chart of Accounts

CoA Code (Govt.-DP-Component-Funds)	Description
75111-00-0-1	Project RGC Funds
75042-00-0-2	Grant from DP
50021-00-0-3	Loan/Credit from DP
21081-22-2-3	Vehicles
21082-41-3-3	Office Equipment
21083-21-3-3	IT Systems
21084-22-3-3	Furniture
11010-00-0-1	Project Bank Account - RGC Funds
11030-00-0-2	Project Bank Account - DP Grant
11030-00-0-3	Project Bank Account - DP Loan/Credit
13015-00-0-3	Cash on Hand - DP Funds
60033-33-2-1	Seeds and Plants
60034-33-2-3	Fertilizer
60058-33-2-3	Small Tools
61018-13-1-3	Translation Costs
61018-13-2-3	Translation Costs
61018-13-3-3	Translation Costs
61031-41-1-1	Rental of Office
61051-32-2-1	Maintenance of Land
61057-52-3-1	Maintenance of Computer Systems
61091-11-1-3	National Consultant's Services
61091-11-2-3	National Consultant's Services
61091-11-3-3	National Consultant's Services
61092-12-1-3	International Consultant's Services
61092-12-2-3	International Consultant's Services
61092-12-3-3	International Consultant's Services
61103-31-1-3	Workshops, Seminars
61103-32-2-3	On-site Demonstration (Workshops)
61122-31-1-3	Per Diems
61098-42-3-3	Services of Contractual Staff
69081-60-2-3	Contingencies

8.2.3. Use of the Chart of Accounts for Accounting

All transactions are accounted for using the double entry accounting system, either computerised or manual, and using the CoA to classify them. The accounting system allows accumulation of transactions under each CoA code and can then be used to produce a variety of reports.

For example, suppose the following transactions are incurred at the start of the Project (for convenience, dates and transaction references have been omitted):

CoA Code	Description	DR	CR
75111-00-0-1	Opening Balance Project Counterpart Funds		10,000.00
11010-00-0-1	Project Bank Account - Counterpart Funds	10,000.00	

50021-00-0-3	Loan received from DP		25,000.00
11030-00-0-3	Project Bank Account - DP	25,000.00	

Payments from Project Bank Account – Government Counterpart Funds:

61031-41-1-1	Rental of Office	2,000.00	
61033-33-2-1	Seeds and Plants	5,000.00	
61057-52-3-1	Maintenance of Computer Systems	1,000.00	
11010-00-0-1	Project Bank Account - Government Funds		8,000.00

Payments from Project Bank Account - Development Partner:

61018-13-1-3	Translation Costs - Component 1	1,500.00	
21082-41-3-3	Office Equipment - Component 3	3,000.00	
60058-33-2-3	Small Tools - Component 2	2,000.00	
61092-12-3-3	Consultants' Services (international) - Component 3	1,500.00	
21081-22-2-3	Vehicles - Component 2	15,000.00	
11030-00-0-3	Project Bank Account - DP		23,000.00

The transactions are entered into the accounting system and, at any time, a Trial Balance will show a listing of the account balances:

Figure 8.3: Project ABC – Trial Balance

CoA Code	Description	DR	CR
11010-00-0-1	Project Bank Account – Govt Counterpart Funds	2,000.00	
11030-00-0-3	Project Bank Account – DP	2,000.00	
21081-22-2-3	Vehicles	15,000.00	
21082-41-3-3	Office Equipment	3,000.00	
50021-00-0-3	Loan received from DP		25,000.00
60058-33-2-3	Small Tools	2,000.00	
61018-41-1-1	Translation Costs	1,500.00	
61031-41-1-1	Rental of Office	2,000.00	
61033-33-2-1	Seeds and Plants	5,000.00	
61057-52-3-1	Maintenance of Computer Systems	1,000.00	
61092-12-3-3	International Consultants' Services	1,500.00	
75111-00-0-1	Opening Balance Project Govt Counterpart Funds		10,000.00
Total		35,000.00	35,000.00

By selecting the funds number (1 or 2 or 3), the transactions financed by the Government or by the DP Grant or DP Loan can be shown separately. For example, the Trial Balance for the DP-financed transactions is shown in **Figure 8.4**.

Figure 8.4: Project ABC – Trial Balance, selected for the DP-funded items

CoA Code	Description	DR	CR
11030-00-0-3	Project Bank Account – DP	2,000.00	
21081-22-2-3	Vehicles	15,000.00	
21083-41-3-3	Office Equipment	3,000.00	
50021-00-0-3	Loan received from DP		25,000.00
60058-33-2-3	Small Tools	2,000.00	
61018-13-1-3	Translation Costs	1,500.00	
61092-12-3-3	International Consultants' Services	1,500.00	
Total		25,000.00	25,000.00

In the same way, transactions for any of the Project Components can be selected.

At any point in time, the results can easily be summarised in the format of Financial Statements required by either the Government, or by the DP. These

normally take the form of presentation of actual results against Budget, showing variances (under or overspends). A simple example is shown in **Figure 8.5**.

Figure 8.5: Project ABC – Results to date against Budget

COA code	Description	DP funded				Govt. funded			
		Actual to date	Annual budget	Balance Remaining	% spent	Actual to date	Annual budget	Balance Remaining	% spent
21081	Vehicles	15.00	30.00	15.00	50.0%				
21082	Office Equipment	3.00	5.00	2.00	60.0%	-	5.00	5.00	0.0%
21083	IT Systems	-	74.75	74.75	0.0%				
61033	Seeds and plants					5.00	25.00	20.00	20.0%
60034	Fertilizer	-	20.00	20.00	0.0%				
60058	Small tools	2.00	5.00	3.00	40.0%				
61018	Translation costs	1.50	25.00	23.50	6.0%				
61031	Rental of office					2.00	20.00	18.00	10.0%
61051	Maintenance of land	-	30.00	30.00	0.0%				
61057	Maintenance of computer systems					1.00	7.50	6.50	13.3%
61091	National Consultant	-	232.20	232.20	0.0%				
61092	International Consultant	1.50	527.25	525.75	0.3%				
61103	Workshops, Seminars	-	120.00	120.00	0.0%				
61122	Per diem	-	67.85	67.85	0.0%				
61098	Contractual staffs	-	36.25	36.25	0.0%				
90000	Contingencies	-	115.00	115.00	0.0%				
	Totals	23.00	1,288.30	1,265.30	1.8%	8.00	57.50	49.50	13.9%

8.3. Documentation and Review of the Project CoA

The Chart of Accounts structure for the Project should be documented as supplementary information to this FMM, and guidelines on the use of the account codes should be provided to all relevant staff of the Project.

The CoA should be reviewed regularly to ensure that it adequately supports the financial management and internal control requirements of the Project. A review of the Chart of Accounts should be undertaken prior to the start of each Financial Year based on the Annual Work Plans and Annual Budgets of the Project.

Modifications to the CoA must be controlled by the Project Finance Officer responsible for the Project's finances being responsible for approving any required modifications, in line with the Government approved CoA.

8.4. Transition to the Government Approved Chart of Accounts

All projects starting after the publication date of this FMM are expected to adopt the principles of integration of the Project with the Ministry budgets described in Chapters 4 and 8, and will therefore need to design their CoA in the manner described above.

8.5. General Journal Sub-System

8.5.1. System and Procedures

General Journals:

- Used for making adjustments to the accounting records.
- Correcting errors in the accounting records.
- Recording accrued receipts and payments, assets and liabilities.

8.5.2. Key Internal Controls

General Controls:

- Adequate segregation of duties between the Preparing, Approving and Posting Officers.
- All journals and supporting documents filed and controlled.
- Adequate management review and reconciliation of journals posted to the general and costing ledgers.

Processing Controls:

- An appropriately Authorized Officer must approve all General Journals for posting to the ledgers.
- All General Journals posted to the ledgers must be sequentially numbered and are processed accurately, completely and only once.
- Journals are processed into the proper accounting period.
- Adequate explanatory information and supporting documents are provided for each General Journal.

Computerised Accounting Controls:

- Access to the journal posting function and data is restricted to authorized personnel.
- Adequate system audit trails are produced and monitored.

9. BANK ACCOUNTS

9.1. *Bank Accounts Operations*

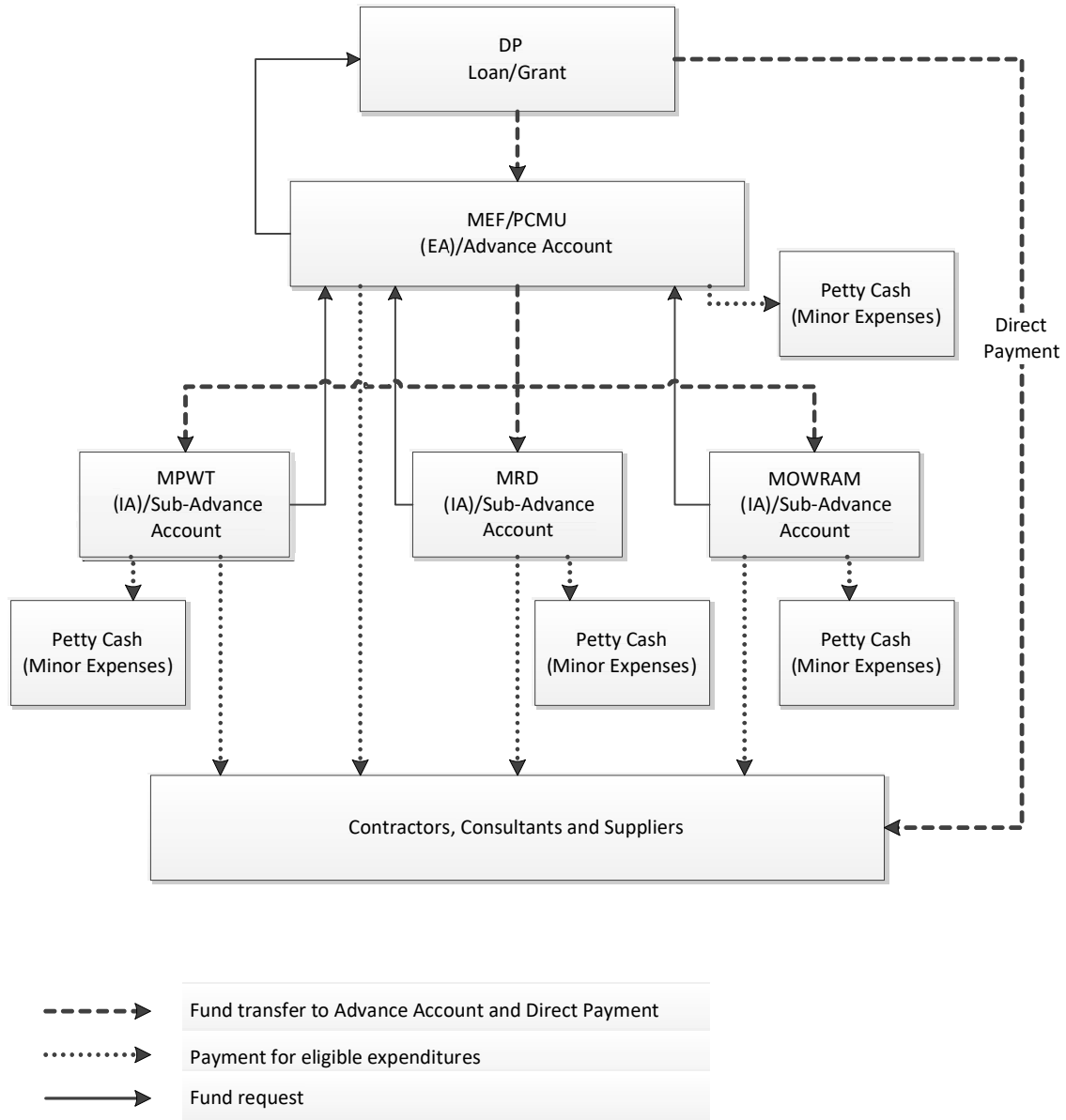
Separate bank accounts are maintained for the DPs Loan/Credit/Grant funds and for the Government Counterpart Funds. The project accounts can be opened at any Bank acceptable to both parties (the DPs and the Government). These accounts are called Designated or Advance Accounts⁴, and are Current Accounts or Checking Accounts, not Savings Accounts. For the Government Counterpart Funds, the current bank accounts are called Project Bank Accounts or Counterpart Funds Account. Where retroactive financing arrangements have been agreed to during project formulation for a Project then the MEF also opens a special Retroactive Finance Account. Some EAs also maintain two other types of accounts. They are “Pass-Through Account” and “Pooled Account”⁵. The Pass-Through Account is the mechanism, designed to pass through funds from the DP to the National Bank of Cambodia (NBC) to the EA. Some DPs are also using the concept of a “Pooled Account”. Through this Pooled Account funds received from several DPs are channelled to the EA/IAs of one particular Project. More details on the use of these “special types of accounts” are explained below. Please refer to **Figure 9.1** below for the arrangements of Pass-Through Account, Pooled Accounts and other bank account forms being used for the DP-financed projects referred to above. The accounts that have been opened for the operation of the project activities will be used by the Authorized Project Officers to carry out all project banking activities. The levels of authority for officials operating these bank accounts will be delegated by the Minister of Economy and Finance.

⁴ Some DPs have different names for bank accounts. For example, ADB refers to ‘Advance Accounts’, and the World Bank and the Government also use other names for some special types of accounts, such as ‘Pass Through Account’ and ‘Pooled Account’ for some projects. There are clear templates for the use of these special types of accounts, which should be referred to when necessary, following particular requirements of the DP’s Disbursement Handbook(s).

⁵ The DPs so far are not using the ‘Pass-Through Account’.

**Figure 9.1: Funds Flow and Banking Arrangement Diagram
Disbursement Arrangements**

The Project Coordination and Monitoring Unit (PCMU) representing the MEF will establish an Advance Account for the Project at the NBC, immediately after the Loan Effectiveness. Three Sub-Advance Accounts (one for each of the PIU/MPWT, PIU/MRD, and PIU/MOWRAM respectively) will also be established at the NBC. The EA, which established the Advance Account in its name, is accountable and responsible for proper use of advances to the Advance Account including advances to the Sub-Advance Accounts. Below is the overall funds flow diagram for the Project:



Funds Flow

To directly access funds from the World Bank, a Designated Account (DA) at the NBC is established for the Project Coordination Office (PCO) in the Ministry of Interior (MOI), while the Ministry of Agriculture, Forestry and Fisheries (MAFF), and the two Sub-Management Teams (SMTs) in Siem Reap and Phnom Penh Capital (PPC) would create project accounts at commercial banks, which would act as Advance Accounts of each entity, to have sufficient funds to implement their respective activities and provide full financial reports to the PCO for reporting back to the MEF and the World Bank. Below is the overall funds flow diagram for the Project:

The purpose of the separate bank accounts is to facilitate disbursements of the Loan/Credit/Grant from the DPs and the Counterpart Funds from the Government.

The bank accounts must only be established at financial institutions approved by the MEF and which are acceptable to the DPs. The selected financial institution should have the following capabilities and facilities:

- be financially sound;
- be audited regularly and receive satisfactory audit reports;
- be authorized to maintain the account in the currency agreed between the DP and the Government;
- be able to execute a large number of transactions promptly;
- be able to perform a wide range of banking services satisfactorily;
- be able to execute foreign exchange and local currency transactions;
- be able to provide reliable and timely Bank Statements monthly and on request;
- be part of a satisfactory correspondent banking network; and
- charge reasonable fees for its services.

Bank accounts must be in the name of the Project or the Government (Borrower). Bank accounts should be in a currency that is stable and convertible, or the Cambodian Riel.

The standard currency that is being used in recording project transactions is the USD, United States Dollar. Any transactions expressed in Cambodian Riel (KHR) should be converted into the US Dollar at the prevailing exchange rate declared by the National Bank of Cambodia and confirmed by the MEF on the date of the transaction.

9.2. *Designated or Advance Accounts*

Loan/Credit/Grant funds from the DPs must be held in the Designated or Advance Account and these accounts must be used exclusively for the payment of project expenditures as defined in the Loan/Credit and Grant Agreements. It is the Government requirement that the DA must be maintained at the NBC or at other approved financial institution acceptable to both the Government and the DP ⁶, in the name of the Borrower

⁶ The Government now allows these accounts to be maintained at certain commercial banks, especially at the provincial level. It is also a Government requirement that all funds coming from the DPs must be channeled through the NBC through a 'Pass-Through Account'.

(usually the MEF of the Government). The MEF may delegate authority to the EA to carry out transactions covering project expenditures.

The Designated or Advance Account will have an authorized allocation/ceiling and an initial withdrawal advance, which are set out in the Loan/Credit/Grant Agreements of the Project. The total amount of funds held in the Designated or Advance Account must not exceed the authorized allocation/ceiling.

All expenditures from the DA must be by bank transfer or cheque and may be in Cambodian currency (Riel) or foreign currency. Bank cheques made payable as Cash are not allowed⁷. Project payments to a Supplier for amounts in excess of what is stipulated in the Loan/Credit or Grant Agreement cannot be made from the Designated or Advance Accounts – Commitment or Direct Payment procedures must be used in such cases.

Applications to replenish the Designated or Advance Account must be submitted to the DP regularly, preferably monthly (but not less than quarterly) or when the amounts withdrawn equals twenty percent (20%) of the initial advance, whichever comes first. The policies and procedures for the replenishment of the Designated or Advance Account and for Commitment and Direct Payment procedures are set out in the Loan/Credit/Grant Withdrawal Chapter.

9.3. Sub-Designated Accounts

Sub-Designated Accounts may be opened at approved financial institutions including approved commercial banks (which the MEF allows in areas where there are no NBC branches) to facilitate access to funds for projects, which have geographically dispersed activities or activities/project components being undertaken by various agencies.

The conditions for setting up and operating Sub-Bank Accounts are set out in the Loan/Credit/Grant Agreements of the Project and/or the Disbursement Letter from the DPs. Sub-Advance Accounts are funded from the main Project Designated or Advance Account. Templates of funds flow arrangements from some DPs using Sub-Bank Accounts are also available from the MEF. The EA/IA must ensure that where Sub-Bank Accounts are maintained, the bank accounts are reconciled monthly and the Bank Reconciliation must be submitted to the PMU with the Request for Reimbursement.

9.4. Counterpart Funds/Project Bank Accounts

The Counterpart Funds/Project Bank Account must be maintained by the EA at the NBC or other approved financial institution including commercial banks in areas where there are no NBC branches. Replenishment and Withdrawal Applications are made direct to the MEF by the EA, when approved funds are transferred from the National Budget of the Government to the Project's Counterpart Funds Project Account.

9.4.1. Retroactive Financing Bank Account

In instances where the MEF and the Project Team agrees with the DP that retroactive financing will be provided for certain expenditures incurred for the Project between Project Appraisal and Loan Effective Dates, and then in such

⁷ Cheques must be issued in the name of the Suppliers, Contractors and Consultants.

situations the MEF opens a Special Bank Account for this purpose and deposits the required amount into that account. Once the Loan becomes effective, the MEF withdraws from the Loan Account the actual expenditures incurred to the maximum of the amount agreed between the DP and the Government and replenishes the amount to the MEF and closes this Special Bank Account.

9.5. *Authorized Signatories*

Following the effectiveness of the Loan/Credit/Grant Agreement the MEF would be designated as the Borrower of the Loan on behalf of the Government and therefore as the authorized signatory to certify the eligibility of expenditures and submit withdrawal applications to the DPs on behalf of the Government. With the approval of the MEF, Officers of the EA could also be made the authorized signatories. The MEF and the EA shall establish a Designated or Advance Account with the NBC or another acceptable commercial bank along with the required authorized signatories for these accounts.

The terms and conditions for opening and operating the Project Bank Accounts should be acceptable to the DP.

The authenticated specimen signatures of the authorized signatories are required to be submitted to the DP before any disbursements shall take place. If there are changes to the authorized signatories, the EA and the Project Team has the responsibility of informing the DP of the changes and must provide the updated specimen signatures together with the relevant approvals for the change in authorized signatories.

9.6. *Bank Reconciliations*

9.6.1. Overview

The quality of financial information for the Project depends on the integrity of data held in the General Ledger. This in turn relies upon accurate capturing and entry of data into the ledger. Reconciliation of bank accounts is one of the most critical internal control features used to guarantee the accuracy of data being captured and entered into the ledgers and to safeguard the cash holdings.

Bank reconciliations involve reconciling the accounting record balance of a bank account as recorded in the Project Ledger to the balance of the bank account as shown on the Bank Statements at the end of each month or any selected specific date provided by the relevant financial institution.

9.6.2. Key Internal Controls

- Reconciliations must be conducted at least monthly for each bank account of the Project within ten (10) working days after the month-end. Bank Statements should be received at least once a month from the relevant financial institution.
- Officers responsible for Project Bank Accounts must ensure that the monthly reconciliation of each account within three weeks of the end of each month.
- Every reconciliation must be checked and approved by one of the authorized signatories of the bank account or the Chief Finance Officer of the Project.

- Reconciliations and supporting documents must be retained for management control and audit purposes.
- Project Team must forward the approved monthly reconciliations to the MEF after the end of each month together with copies of relevant Bank Statements and cash-book records.
- Reconciliations must reconcile the Bank Statement closing balance to the ledger account or ledger/cash-book closing balance for the bank account as at the end of the month. All transactions shown on the Bank Statement must be traced back to the relevant cash transactions in the Project's accounting ledgers. Any differences between the two balances or in transaction amounts or items (e.g. unknown deposits or withdrawals) must be promptly followed up and action taken to resolve the treatment of these differences. Unknown transactions should be promptly reported to the relevant financial institutions for explanation and/or correction.
- Bank reconciliations for the Advance Account and Sub-Advance Account must always be submitted together with the Request for Reimbursement and Replenishment of the Designated or Advance Account.

Example of an appropriate reconciliation format is set out below:

Ministry of _____ _____ Project					
<i>BANK RECONCILIATION STATEMENT</i> <i>as at 31 July 2018</i>					
<u>Bank Name:</u>					
<u>Account N°:</u>					
				Amount (USD)	Amount (USD)
1	Balance as per Bank Statement 31 July 2008				30,723.32
2	Less: Unpresented Cheques	Date	DV N°	CHQ N°	
		24-Jul-18	DV/18/112	14066	1,152.95
		31-Jul-18	DV/18/113	13259	1,564.39
		31-Jul-18	DV/18/114	13260	3,600.70
		31-Jul-18	DV/18/115	14079	2,309.30
3	Add: Deposit not credit by Bank				
	Deposut in transit				2,000.00
	Transfer in transit				20,000.00
					8,627.34
4	Adjusted bank balance, 31 July 2008				22,000.00
					44,095.98
5	Balance per cash book, 31 July 2008				44,195.98
6	Less: Bank charges				150.00
7	Add bank interest				50.00
8	Adjusted book balance, 31 July 2008				44,095.98

Prepared by: _____

Reviewed by: _____

Approved by: _____

Note: The 'Balance as per Bank Statement' must agree to the balance shown on the Bank Statement received from the financial institution. No adjusting or balancing items should be included in the reconciliation to make it balance. Differences in the balances or transaction items amounts must be investigated and the nature and treatment of them resolved prior to the completion of the reconciliation. Evidence supporting these reconciling items should be attached to the bank reconciliation and retained.

9.6.3. Closing of Project Accounts

The EA is required to close the project accounts and ensure that all outstanding payments to Consultants, Contractors, and other expenses are all settled. In the case of Contractors, the EA must ensure that it is holding the retention money as provided for in the Contract or has an irrevocable Bank Guarantee to cover the retention from a reputable bank in Cambodia, where such a provision is included in the terms and conditions of the signed Contract.

The EA will take action to close the various bank accounts that have been operational for the project implementation activities. Prior to closing the accounts, a proper reconciliation of all accounts will be done, and the accounting records updated.

All advances from the DP must be liquidated and unused funds must be returned. All Project Bank Accounts are closed, and the DP advised of the closure.

Once all outstanding payments to Contractors, Consultants and Suppliers for claims made have been approved and sent to the DP for payment; and after the DP has made the final payments, the Loan/Credit/Grant Account is closed in both the Government's books and that of the respective DP.

10. RECEIPTS AND DEBTORS

10.1. Overview

The EAs and Project Teams must implement and maintain proper control over receipts of funds and moneys owed to the Project by debtors. The following types of moneys may be received by projects:

- Moneys from the sale of Goods or Services (e.g. fees for the sale of contract tender documents, fees for the issue of land titles, etc.);
- Repayment of unused advances of project moneys;
- Contract securities (e.g. Bid Securities, Performance Securities);
- Deposit of Loan/Credit/Grant funds into the Designated or Advance Accounts or deposit of Counterpart Funds into the Project Bank Account;
- Bank interest ⁸;
- Proceeds from the sale of Bidding and Tender Documents ⁹.

The EA and the Project Team are responsible for ensuring:

- Official receipts are promptly issued for all moneys received (except for Loan/Credit/Grant and Counterpart Funds deposits and bank interest), receipts are sequentially numbered and controlled. Locations of all numbered receipts are logged and subject to audit checks.
- Receipts and project monies are securely safeguarded until deposited into the appropriate bank account.
- Staff members are appointed with the appropriate authorizations to receive and account for project moneys.
- Proper internal controls are operating to properly account for and to regularly bank project receipts.
- Cash Books are properly prepared in a timely manner.
- Revenue is posted in a timely manner into the respective ledgers.
- Revenue is correctly classified and posted to the appropriate revenue account codes in the ledgers.
- Timely production and issue of the Revenue Budget Comparison Reports. Any variations are thoroughly analysed and promptly reported to relevant authorities for appropriate corrective action as needed.
- Performance against budgets is monitored by the management (where applicable), and all variations are thoroughly analysed and reported to relevant authorities for appropriate corrective action as needed. It has been observed that this important budget control tool is not currently been rigorously acted upon.

⁸ In Cambodia currently, no interest is being paid on Designated or Advance Accounts.

⁹ The actual sale process of Bidding and Tender documents is covered in detail in the PM.

10.2. Key Internal Controls

10.2.1. General Controls

- Adequate segregation of duties:
 - cash receipting and debtors;
 - receipting and checking of receipting, bank lodgements and cash on hand;
 - receipting and certifying of Cash Books and posting receipts.
- Proper appointment and functioning of Cashiers under predetermined guidelines.
- Safeguarding and control of official receipt forms.
- Safeguarding and proper control of cash and cheques.
- Adequate management information is produced to monitor the receipting of project monies and posting of receipts into the accounting records.
- Adequate management information is produced and used to monitor performance against Budgets for Source of Funds (where applicable). Any deviations and variations from Budget are thoroughly analysed and promptly reported to relevant authorities for corrective action as needed.

10.2.2. Processing Controls

- Official numbered receipts are issued for monies received by the Project.
- Receipts are processed promptly, in the correct accounting period and only once.
- Timely and regular banking of receipts and reconciliation of cash on hand (includes cheques).
- Approval of all receipt postings by properly Authorized Officer.
- Proper checking of receipts, bank deposit receipts and receipt ledger postings.
- Regular and timely reconciliation of bank accounts.

10.2.3. Computerised Accounting System Controls

- Safeguarding of the receipting system passwords.
- Forms and other documentation used in the receipting system are regularly reviewed and amendments are approved by an Authorized Officer.
- Access to the receipting and posting functions and data is restricted to authorized personnel.
- Adequate system audit trails are produced and monitored.
- Agency or Departmental Internal Audit Unit officials must do system checks, using auditing models which are now readily available and widely used, to detect fraud and misappropriation.

10.3. Procedures

10.3.1. Monies Received by the Project Team

- Receive payment and promptly issue numbered official receipt to the Payee.
- Prepare the Bank Deposit Form detailing the moneys to be banked.
- The Bank Deposit Form, receipts and cash on hand must be checked by the Finance Officer who must initial or sign the Bank Deposit Form to acknowledge the check.
- Perform the banking.
- Check the Bank Deposit Receipt after banking to confirm its correctness.
- Post each receipt to the Project Ledger accounts.
- File the receipts (including cancelled receipts) and Bank Deposit Receipts.

10.3.2. Deposits into the Bank Accounts

All monies received for the Project must be deposited in the appropriate bank account on the first available banking day after the receipt of the money, except for the proceeds from the sale of tender/bid documents.

Monies received from the sale of Tender Documents should be initially deposited into the “Counterpart Funds Bank Account” and subsequently transferred to the Government Budget Bank Account No. 000000013535 (or as officially changed and notified by the MEF from time to time) with the National Bank of Cambodia. Proper control features should be put in place to ensure that all funds received for sale of Tender documents are promptly accounted for.

Duties should be segregated, meaning that the person recording the receipt should not be the same as the person depositing the cash to the bank account. Additionally, a person independent of recorder and depositor responsibilities should reconcile the deposit to the General Ledger. If there are only two people in the department, the reconciliation should be performed by the person collecting the receipts.

Please refer to **Figures 10.1 to 10.3** for examples of forms used for the sale of tender documents. On these forms, the Procurement Officer records the sale on a Sales Register (10.2 Sale of Tender Documents Sheet), and the Finance Officer issues the official receipts (10.1 Receipt of Payment) and records the receipts of cash (10.3 Sale of Tender Documents Register). The Project Manager reviews both Registers and must ensure that records are reconciled.

The Project Team must submit to the MEF a record of the sale of the bid documents and the deposit of the proceeds from the sale into the above Government Budget Bank Account. The MEF must consolidate these deposits into a report.

Figure 10.1: Samples of Forms Used for the Sale of Tender Documents

KINGDOM OF CAMBODIA NATION RELIGION KING	
Ministry _____	
Implementing Agency _____	
Project No.: _____	
Name of Project _____	
RECEIPT OF PAYMENT	
Date: _____	Receipt No.: _____
- Full Name of Payer:	
- Name of Company:	
- Address of Company:	
- Bid No.:	
- Description of Bid:	
- Amount Receipts:	
- Amount in words:	
Paid by:	Received by:
_____ (Company representative)	_____ (Finance Officer)

Figure 10.2: Samples of Forms Used for the Sale of Tender Documents (continued)

<p style="text-align: center;">KINGDOM OF CAMBODIA NATION RELIGION KING</p> <p>Ministry _____ Implementing Agency _____ Project No.: _____ Name of Project _____</p> <p style="text-align: center;">SALE OF TENDER DOCUMENTS SHEET</p> <p style="text-align: right;">No.: _____</p>									
Bid No.:			Description of bid:						
No.	Date	Company	Address	Tel. No.	Fax. No.	E-mail	Authorized Representative	Amount	Receipt No.
<p style="text-align: right;">Total:</p>								<p style="text-align: center;">=====</p>	
Prepared by:			Reviewed by:			Approved by:			
<p style="text-align: center;">_____ (Procurement Officer)</p>			<p style="text-align: center;">_____ (Project Manager)</p>			<p style="text-align: center;">_____ (Project Director)</p>			

Figure 10.3: Samples of Forms Used for the Sale of Tender Documents (continued)

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____

Implementing Agency _____

Project No.: _____

Name of Project _____

SALE OF TENDER DOCUMENTS REGISTER

as at

No.	Bid No.	Description of Bid	No. of tender documents	Unit price (USD)	Total Receipts (USD)	Paid into National Budget Account No.: 000000013535			Balance (USD)
						Date	Voucher No.	Amount (USD)	
Total					-			-	

Prepared by:

Finance Officer

Reviewed by:

Project Manager

Approved by:

Project Director

11. CONTRACT EXPENDITURE AND OTHER PROJECT EXPENDITURES

11.1. Overview

Contract and other project expenditures must be in accordance with the DPs and the Government procurement regulations and procedures, which are set out in the Procurement Manual (Refer to PM Chapter 20 on Contract Management). Once a Contract is signed, all payments must be made strictly in conformity with the financial terms and conditions specified in the signed Contract. A separate detailed Contracts Register must be maintained for each Contract. All important details pertaining to the Contract must be recorded in this Register. These would include such details as Contractor's full name and address, total value of the Contract, special terms and conditions of the Contract, construction schedule, performance and security bonds requirements, details of approved contract variations and other relevant details. All other contract related registers, ledgers and reports specified in this Chapter should be subsidiary to the Contract Register to ensure completeness and integrity of information.

Contracts involve several special features, which require specialized financial accounting and management treatments, these features are:

- Bid Securities;
- Performance Securities;
- Advance Payments (if used);
- Retention Monies;
- Taxation Arrangements;
- Price Adjustment Arrangements.

11.2. Procedures

11.2.1. Bid Security

At the bidding stage of contracting, the EA may request Bidders to deposit a Bid Bond (also called a Bid Security or Bid Guarantee Deposit) or a Bid Securing Declaration at the time of submission of their Bids to help ensure only genuine Bidders participate in the contract bidding process and to obtain a commitment from the Bidders to the terms of their Bid. After the successful Bidder has been selected, the Bid Bonds must be returned to each Bidder.

In case of Bid Security, this may be paid via a bank check or by irrevocable Bank Guarantee in favour of the EA and must be recorded in the Contract Security Register of the Project. In case of Bid Securing Declaration, this must also be recorded. The following details must be recorded in a Securities Register:

- Bidders Name.
- Form of Security such as; Bank Check or Bank Guarantee or Bid Securing Declaration.
- Name of the Issuing Bank and their reference in case of Bank Guarantee.

- Amount of Security.
- Date of Cheques or Guarantee.
- Validity Date.
- Type of Security (Bid/Performance).
- Currency of Security.
- Date of Receipt/Expiry Date.

Bid Securities must be kept in a safe and secured place to be returned to the Bidders after a successful Bidder has been selected.

A Contractor who withdraws his/her Bid during the validity period and/or refuses to accept the award of a Contract when and if awarded will forfeit their Bid Security. The Contractor may also be excluded from bidding for other contracts supported by the Project for a period of time.

Bid Securities must be returned to each Bidder after the Contract is signed with the successful Bidder. For Cash Bid Securities the EA must prepare a Disbursement Voucher (DV) and post the payment to the General Ledger against the Bid Securities Ledger Account.

The return/payment of Bid Securities must be recorded in the Contract Security Register:

- Payment Date.
- Disbursement Voucher No.
- Interest on Late Payments (if applicable).
- Penalty Payments (by Contractors).
- In cases where Bid Bonds are forfeited, the forfeited amount is kept by the Project and is initially deposited in the Government Counterpart Contribution Account and subsequently transferred to the Governments Consolidated Funds. Proper records must be maintained for all forfeited Bid Securities.
- The Miscellaneous Receipts Accounts should be explained by way of a note to the financial accounts.

11.2.2. Performance Security

A Performance Security (or Performance Bond) may be obtained from the Contractor when the Contract is signed to help ensure that the Contractor commences and completes the work under the terms of the Contract. The size of this Performance Security will be specified in the terms and conditions of the signed Contract. The Performance Security will be returned upon the satisfactory completion of the Contract and in accordance with the conditions specified in the Contract.

The Performance Security is in the form of a Bank Guarantee in favour of the EA and must be recorded in the Contract Security Register of the Project. The following details must be recorded:

- Contractor/Suppliers Name;
- Name of the Issuing Bank and their Reference;
- Amount and Currency of Security;
- Date of the Bank Guarantee; and
- Validity Period and Expiry Date.

The Bank Guarantee provided as Performance Security must be kept secured by the Project Team.

A Performance Security must be returned to the Contractor after the satisfactory completion of the Contract and in accordance with the conditions specified in the Contract.

The return of Performance Securities must be recorded in the Contract Security Register:

11.2.3. Advance Payments

For Consultant Services and Civil Works, an advance payment may be made to the Contractor or Consultant to provide funds for initial materials, investment, or mobilization which will be specified in the terms and conditions of the signed Contract. Advance payments of contract monies must be recovered from future payments to the Contractor or Consultant. When advance payments are given, they should be covered by a Bank Guarantee that should be provided by the Contractor or Consultant.

No advance payments are made for Individual Consultants. However, in the case of international Individual Consultants, advance payment for per diems and accommodation for a period of one calendar month or for the duration of the assignment, whichever is lower, can be made upon their arrival and reporting to the duty station. This advance payment is paid at the same time as the payment of the reimbursement of their travel related expenses after arrival at duty station. No Bank Guarantee is required for such an advance payment from international Individual Consultants.

Advance payments must be recorded in the Contracts Register. The following details must be recorded:

- Contractor/Consultant's Name.
- Form of Security for the Advance Payment.
- Name of the Issuing Bank and their Reference.
- Amount and Currency of Guarantee.
- Date of the Guarantee.
- Validity Period and Expiry Date.

When an advance payment is made to the Contractor or Consultant, the amounts to be paid from the DPs Loan/Credit/Grant and Counterpart Funds components are determined separately.

The advance payment must be posted to the Expense Account on the Contract Account in the General Ledger.

The advance payment may be recovered as follows:

- The total amount of advance payment is deducted from the first contract payment to the Contractor or Consultant; or
- Proportional amounts of the total advance payment are deducted from future payments to the Contractor or Consultant in the amounts specified in the Contract.

When a payment is made to the Contractor or Consultant for satisfactory completion of Works or Services, the advance payment is recovered, and the respective amount is recorded into the Expense Account on the Contract Account in the General Ledger.

Advance payments must be recovered in full before the final payments under the Contract are made to the Contractor or Consultant.

All advance payments are covered by a Bank Guarantee from the Recipient.

11.2.4. Retention Monies in Construction Contract

Contractors may be required to guarantee their work for a period, starting from the date of completion of the work and agree to make good, at their own expense, any defect that appears during that time due to quality of materials or workmanship. For this purpose, a portion of each payment due to the Contractor is deducted and retained with the EA. The amount of the retention money is specified in the terms and conditions of the signed Contract.

11.2.5. Withholding of Retention Money

Retention money will be deducted from each interim progress payment made to a Contractor which will be specified in the Contract. This is generally specified as a percentage of the interim progress payments. Retention is intended to act as a guarantee against defects, unsatisfactory or incomplete Works which the Contractor fails to rectify within the Defects Liability Period after the completion of the Works and issuance of the Completion Certificate. The Defects Liability Period is specified in the Contract and is normally for a period of twelve (12) months after the completion of the Works. When this period has expired, the retention money is returned to the Contractor. However, fifty percent (50%) of the retention money may be released on the issuance of the Completion Certificate prior to the expiration of the Defects Liability Period if this is specified in the Contract and the balance of fifty percent (50%) at the end of the Defects Liability Period if any portion is not used by the EA to rectify the any defects that the Contractor has failed to rectify. In the case that the EA has used part or all of the retention monies, this is deducted before the retention monies is released/paid.

Retention moneys must be proportionately assigned between the DPs Loan/Credit/Grant and Counterpart Funds components.

Retention moneys are recorded in the General Ledger, both as an asset and a liability of the Project when they are withheld from the Contractor's payment. When the contract payment is posted to the General Ledger, only the actual amount paid to the Contractor is recorded as expenditure. The retention moneys withheld are credited to the Liability Account, 'Retention on Contracts' to recognize the liability to the Contractor and to recognize that expenditure has been deferred, a sub-ledger 'Retention & Securities' is debited. This procedure applies when accrual basis of accounting is used. However, in Cambodia where the Government uses a cash accounting system, no posting of the Liability Account is made to the General Ledger, but the amount owed to the Contractor by way of retention is recorded in the Contract Register.

11.2.6. Payment of Retention Monies

When the Defects Liability Period (DLP) as specified in the Contract, has expired and if there are no defects or they have been rectified by the Contractor, the retention monies will be returned to the Contractor. In the event that there are defects in the Works during this period, retention monies will not be returned until the defects are rectified satisfactorily by the Contractor.

If the Contractor fails or refuses to remedy the defects identified at the time of issuance of the Completion Certificate and/or during the DLP, the retention money is not returned. The EA will arrange for the remedial Works to be carried out either through its own Force Account Works or a Contractor and the cost incurred in carrying the remedial Works will be deducted from the retention money. Any balance remaining after this deduction, will be paid to the Contractor after the remedial Works are completed to the satisfaction of the EA. If there is insufficient amount in the retention money to pay for the costs of the remedial Works, the EA will claim and recover the excess amount from the Performance Security. The EA and GDICDM/MEF must ensure that the Bank Guarantee for the Performance Security is valid for thirty (30) calendar days, or the time period specified in the Contract, beyond the last date of the DLP.

As clarified in 11.2.5, fifty percent (50%) of the total retention money can be released after the issuance of the Completion Certificate and before the expiry of the DLP. The completion of Works will be determined by the designated "Engineer" or the "Contract Project Manager" under the Contract, who will visit the construction site, inspect the Works and certify that the Works are satisfactorily completed. The Contractor will be required to submit a claim for the payment of the fifty percent (50%) of the total retention money and attach a copy of the Completion Certificate, issued by the designated "Engineer" or the "Contract Project Manager" under the Contract, as the supporting document. The Project Finance Officer will initiate the process of the release of the retention monies. The DPs do not allow Project Completion Dates to be extended because of the delay in retention payments.

When fifty percent (50%) of the total retention money is paid after the issuance of the Completion Certificate, the balance of the retention money (fifty percent (50%)) is paid at the expiry of the DLP after a final Taking-Over Certificate is issued by the EA after the Inspection and Acceptance Committee has completed the inspection of the final Works before taking over of the constructed asset as clarified in Chapter 18, Paragraph 18.10.6 of the SOP on Procurement. The

Contractor will need to submit a copy of the Taking-Over Certificate as the supporting document with the claim for this payment.

In some cases, the fifty percent (50%) balance of the retention monies may be released before the expiry of the DLP in exchange for an irrevocable/on-demand Bank Guarantee if there is such a provision specified in the terms and conditions of the Contract. A sample of an irrevocable Bank Guarantee is in **Appendix 5**. In such cases the original copy of the Bank Guarantee is kept in the safe custody of the EA and a copy submitted to the GDICDM/MEF for the processing of payment. If there are no defects or if all the defects have been satisfactorily remedied by the Contractor, the original Bank Guarantee is returned to the Contractor after the Taking-Over Certificate is issued by the EA. The Contractor will request for the return of the Bank Guarantee in writing and submit the Taking-Over Certificate as the supporting document. If the Contractor fails or refuses to remedy the defects within the defect notification period specified in the Conditions of Contract and issued by the EA, the Project Manager will cash the Bank Guarantee to the full amount and retain the amount in the Project Bank Account and inform the GDICDM/MEF in writing. There is no requirement for any advance notice to be provided to the Contractor for cashing the Bank Guarantee.

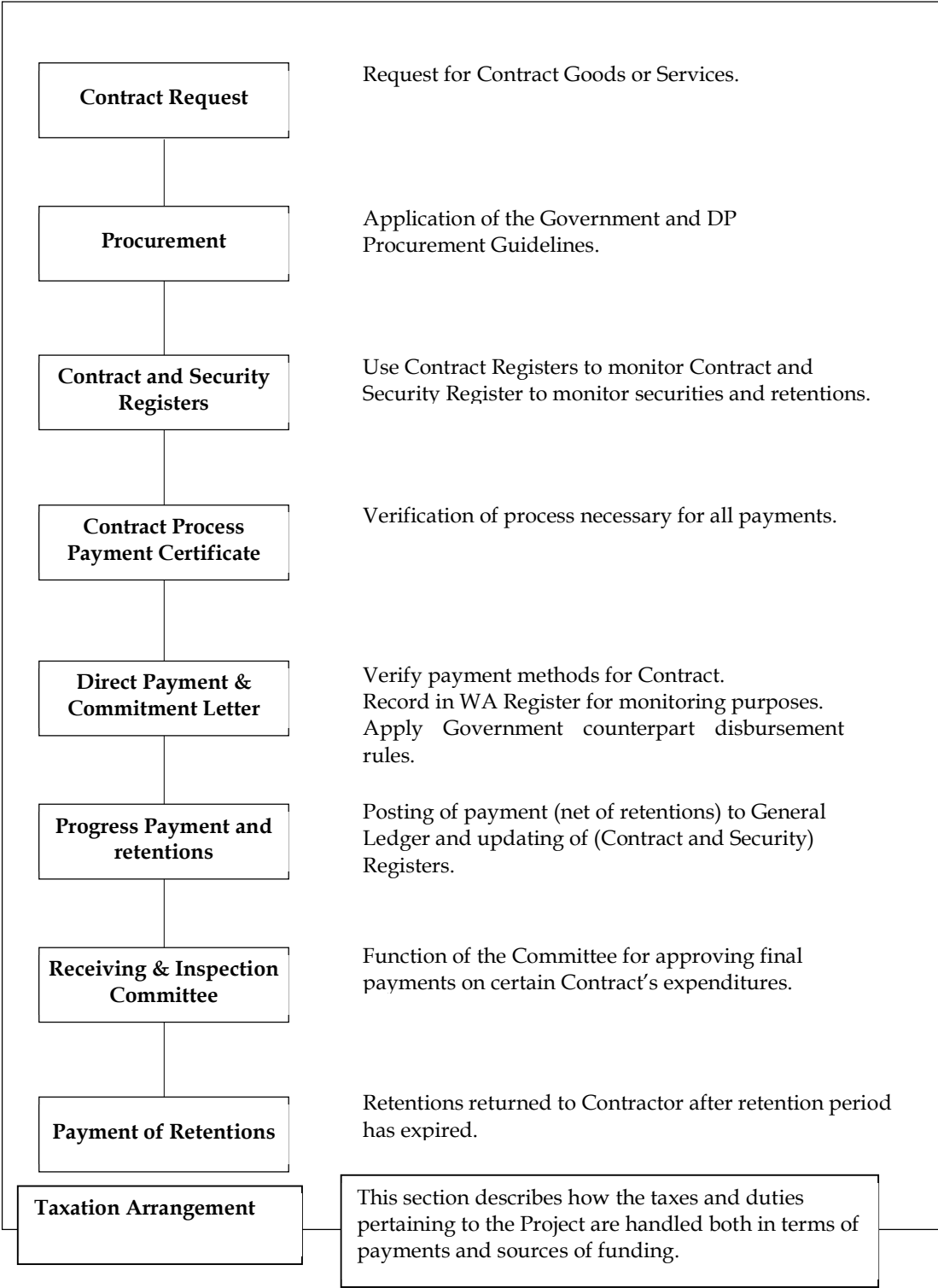
The Contract Project Manager or an authorized representative of the EA must carry out an inspection of the defective Works at least sixty (60) calendar days before the expiry of the DLP and prepare a report detailing the lack of remedying of the defects by the Contractor. The EA will arrange for the remedial Works to be carried out either through its own Force Account Works or a Contractor and the cost incurred in carrying the remedial Works will be paid from the amount cashed under the Bank Guarantee. If any balance is remaining after paying for the remedial Works, the EA will inform the Contractor, in writing, detailing the remedial Works carried out, the costs incurred and the remaining balance and request the Contractor to submit a claim for the payment of the remaining balance. In case there is insufficient amount in amount cashed from the Bank Guarantee to pay for the costs of the remedial Works, the EA will claim and recover the excess amount from the Performance Security. The EA and GDICDM/MEF must ensure that the Bank Guarantee for the Performance Security is valid for thirty (30) calendar days beyond the last date of the expiry of the DLP.

Another alternative arrangement for the withdrawal of retention money from Loan/Grant funds could also be through the use of an Escrow Account, an account which can only be operated jointly by the Contractor and the EA. This is used only on exceptional case with the prior approval of the MEF. Under this arrangement the funds equivalent to the retention payment can be withdrawn from the Loan/Credit/Grant Account ahead of the due date, and deposited into the newly opened Escrow Account, where the funds will remain until the due date, which is the date of the expiry of the DLP. On that date, or thereafter on satisfactory completion of the Project and issuance of the Taking-Over Certificate by the EA after the Inspection and Acceptance Committee has completed the inspection of the final Works before taking over the constructed asset, the funds can be withdrawn from the Escrow Account and paid to the Contractor. Escrow Account can also be used for payment of Audit fees that maybe incurred after the completion of the Project but before the Loan Closing Date.

The payment of retention monies to the Contractor is recorded in the Project’s General Ledger.

Figure 11.1 below shows the various steps involved in the contract procedure.

Figure 11.1: Summarized Flowchart of Contract Expenditure Procedures



11.2.7. Payment of Taxation Arrangements

The Government works on the overall principle that its General Department of Taxation will collect full taxes, duties and other levies on all development projects and programs being undertaken in Cambodia which come under the purview of the MEF, irrespective of who is financing or paying such taxes, duties and other levies. All taxes and duties payable by Consultants and Contractors are clearly articulated in the Consultants and Contractors bidding documents and subsequently in their respective Contracts which is a legally binding document. The treatment of local taxes, duties and other similar charges and levies specified in the Legal Loan/Financing Agreement will be reflected in the bidding documents and the attached Draft Contract approved by the DP. The Contract with the winning Bidder will clearly spell out what taxes are paid by the Consultant or Contractor and what is paid by the Government.

- When the local taxes, duties and other similar charges and levies are eligible for financing from the proceeds of the Loan/Grant and specified as such in the Legal Loan/Financing Agreement, the Suppliers/Contractors/Consultants will normally pay for these and claim the same in their invoices. The payments are reimbursed to them through the Withdrawal Application for (i) direct payment submitted by the PMU through the MEF to the DP or (ii) reimbursement in case the Government has paid the same, in which case the reimbursement is provided to the Government by the DP.
- In some cases, where the Legal Loan/Financing Agreement provides for tax exemptions, particularly for Grants, and the bidding and contract documents specify this, the Government may provide a Tax Exemption Certificate to the Suppliers/Contractors/Consultants.
- When the local taxes, duties, and other similar charges and levies are not eligible for financing from the proceeds of the Loan/Grant, the Government will pay the same from the Counterpart Funds allocated for the Project by the Government from its own domestic resources. In such cases, the PMU must ensure that the Withdrawal Applications submitted to the DP for direct payment or reimbursement exclude cost for the local taxes, duties, and other similar charges and levies.

11.2.8. Payment for Price Adjustments

The provision of price adjustment is normally included in Civil Works and Consulting Services Contracts with long completion periods. The purpose of the price adjustment provision is to protect both the Contractor/Consultant and the Government against price fluctuations.

Where a price adjustment provision is included in a Contract, a formula will be specified in the Contract to calculate the adjustments for payments. The formula will comprise of a non-adjustable component and an adjustable component covering the major cost components of the contract like labour, materials and equipment, which will be represented by a co-efficient based on their respective weight in the cost of inputs. The prices of the major cost components may either

increase or decrease and hence, it is not necessary that the application of the price adjustment formula will always result in increased contract price as it may decrease also.

All payments for price adjustment must be made in accordance with the specified formula. Normally, the processing of price adjustments commences from the 13th month of the Construction/Services period, which will be specified in the contracts. The Claims for Price Adjustments will be included in the Monthly Invoice or Monthly Interim Payment Certificates (IPC) in case of Works contracts. Consultants and Contractors must clearly identify the Claim for Price Adjustment as a separate item with supporting documents to substantiate the correct application of the price adjustment formula.

The EA and the MEF must review the calculation for price adjustment to determine if it is in compliance with specified formula and the supporting documents to verify the current price of the major cost components (labour, materials and equipment). Payments for price adjustment may increase if current prices increase and decrease if the current price of the major cost components like construction materials decrease. It is therefore necessary that the EA and the MEF check the calculation for price adjustment carefully before approval of the payment as Contractors have a tendency not to include Price Adjustment Claim in the IPC when there is a fall in the current price of materials.

11.2.9. Payments to Contractors

11.2.9.1. Payment from Designated/ Advance and Counterpart Funds Account

Contractor submits a Claim for Interim Progress Payments, based on progress of work completed and in accordance with the terms of the Contract, to the EA. The Contractor prepares a Contract Progress Report.

The EA's designated Project Manager of the Contract or the designated Engineer verifies and certifies that the quantity of work completed, the quality of materials used, and the quality of workmanship is in accordance with the Contract. The Project Manager /Engineer will also check that the construction is in accordance with the technical specifications and compliance with any instructions given to the Contractor and will prepare a Contract Progress Status Report. Based on this Contract Status Report and the certification by the Project Manager or the Engineer, an Interim Payment Certificate will be generated. This Interim Payment Certificate together with all the supporting documents will be submitted to the PMU Project Director/Manager for his/her approval. The authorized Payment Certificate and the Contractor's Claim are given to the Project Finance Officer to process the payment.

The Bank Transfer Order needs to be applied regardless the required amounts. However, the Bank Cheque may be applied for payments up to a maximum amount of One Hundred Thousand USD (US\$100,000) for the DP funds; Fifty Thousand USD (US\$50,000) for the RGC Counterpart Funds and any amount which is transferred from the Advance Account of the MEF to the Sub-Advance Account of the EA/IA. Any respective amount above One Hundred Thousand USD (US\$100,000) and Fifty

Thousand USD (US\$50,000) will need to use the Bank Transfer Order to minimize the transfer risk.

The Project Financial Officer has to prepare a Bank Transfer Order or a Bank Cheque accordingly and DV by attaching all approved Interim Payment Certificate(s) and supporting documents. The Contractor/Supplier's information is required related to the Bank Account and address for processing the Bank Transfer Order/Bank Cheque.

The approved Bank Transfer Order is submitted to the Bank for processing fund transfer from the DA to the Contractor/Supplier's account.

The Direct Payment will be applied as required and acceptable to the MEF/DP.

The payment is posted to the General Ledger based on the DV and supporting documents.

The Contract Register is updated for the payment and the outstanding balance (amount committed but not yet paid).

Payment documentation with a copy of the cheque is filed with the Contract Register.

11.2.10. Payment of Other Project Expenses

Aside from contract payments, there are also payments made for other expenditures for the Project, which are not covered by contracts. Examples of such expenditures are the incremental operating and administrative costs such as electricity, water, telephone (fixed lines) and expenses for training and workshops. When utility bills are received, they should be checked and verified by the Accounting Department, that the expenses are project related and are reasonable. For control purposes such expenditures should be budgeted for in the Project Expenditure Budget for the year. These payments must be properly authorized by the Project Manager and the Finance Officer before payments are made. Payments should normally be made by check, and only in exceptional circumstances may cash payments be authorized by the Finance Officer. Actual expenditures for such items must be compared against budgets and any significant variations should be properly analysed and reported to Management through the monthly accounts, allowing corrective measures to then be taken as necessary. Eligible expenses for training and workshops will be specified in the PAM, or in the relevant approval paper approving the holding of a workshop. Loan/Grant proceeds cannot be used for any ineligible expenses as defined by the funding DP.

11.2.11. Minor Purchases

There are no formal instructions in Cambodia regarding the use of a purchase order system, because this procedure is seldom used for project related purchases in Cambodia. However, there are some projects, which do make use of purchase orders for acquiring minor items from the local market. In such situations the

Project Director/Project Manager should ensure that proper procedures with adequate controls are set up for the use of the purchase order system. The Project Director/Project Manager should issue clear instructions in this regard, with authorization limits and types of items that may be acquired using this procedure. The Procurement Manual provides further details on this procedure if it were to be used. To include these expenditures in the project accounts, the invoices and receipts received for such purchases, should be approved by the Project Director/Project Manager, before posting to the ledger accounts. Supporting documents such as a copy of the purchase order and receiving report must be attached to the Invoice, when the Invoice is presented for approval.

12. PAYROLL EXPENDITURE

12.1. Overview

To achieve successful implementation of activities, the EAs and Project Teams may be required to engage personnel for the duration of the Project or may be required to pay allowances or supplements for additional project work undertaken by existing Government employees. Some projects may also pay performance allowances to Government employees engaged in project activities based on performance standards and targets. When there are on-going Payroll Expenditures for a Project, the PMU must establish a proper Payroll or Allowance Payment sub-system to effectively manage and control such payments. The system may be manual or computerised and should provide for regular calculation and payment of the Payroll or related expenses to project personnel, as well as providing complete and accurate records in support of the payments and their disbursements and posting to the accounting ledgers of the Project.

The EAs and PMU are responsible for ensuring:

- The engagement of employees is properly approved in accordance with the SOP Manual or project specific guidelines, terms and conditions or other relevant instructions or approvals and there is proper contract documentation supporting the engagement of project staff;
- Allowances are based on approved project specific guidelines, terms and conditions or other relevant instructions or approvals;
- Salaries, wages and/or allowances are paid from the appropriate funding source (the DP Funds or the Government Counterpart Funds);
- Proper records of attendance, leave, overtime and performance (for performance related allowances) are maintained;
- Consultants and Contractual staff must all submit time sheets or have valid contracts specifying their remuneration or allowances, which must be approved by the supervising or the designated Coordinating Officer. This becomes the basis of proof for work performed and payment and no other supporting documents are required unless the Contract specifies otherwise. For example, in lump sum payment contracts, the payments are based on outputs and not time inputs;
- Payroll information and authorities are submitted in a timely manner;
- Payroll authorities are checked and certified for payment by a properly delegated Officer of the Project;
- Controlled distribution and acquittal of cash pays, and distribution of payslips/payment advices to the project staff; and
- Timely monitoring of the cost of Payroll Expenditure compared to Project Budgets and Annual Budgets.

12.2. Key Internal Controls

12.2.1. General Controls

- Adequate segregation of duties:
 - Approval of Payroll authorities and payment transactions;
 - Input/recording of Payroll transactions to the Payroll sub-system;
 - Checking of completeness and accuracy of Payroll transactions processed.
- Adequate management information is produced and used to manage the Payroll expenditures and entitlements of project personnel.

12.2.2. Payroll Processing Controls

- Approval of all Payrolls is done by properly Authorized Officers.
- Payroll transactions are prepared and processed only based on approved Payroll authorities.
- Payroll transactions are processed completely, accurately and only once.
- Prompt and timely processing and payment of Payroll entitlements on a regular cycle of payment.
- Payroll transactions are posted accurately and in the proper accounting period.
- Reconciliation of payments before disbursement of each pay cycle.
- Payroll payments are made to the correct person preferably through direct bank credit. Sometimes, especially in the rural areas, payments are made to the Employees Authorized Agent. In such situations the Recipient must be properly identified.
- Acquittal of cash payments and prompt investigation of unclaimed pays or complaints.
- Regular and timely review of Payroll Expenditures by the Project Management and finance staff.

12.2.3. Computerised System Controls

- Systematic/periodic data used in the Payroll sub-system is regularly reviewed and any changes are approved by an Authorized Officer.
- Access to Payroll processing functions and data is restricted to authorized personnel, and protected by a password control system, as appropriate.
- Any computerized Payroll system should have secure and proper back up arrangements at another location.

12.3. Procedures

For each person engaged with a standard pay entitlement (e.g. standard salary, wage or allowance) each pay cycle, record the person's name, personal details and pay entitlement in the Project Payroll Register and Payroll sub-system.

For each person engaged with a variable pay entitlement (e.g. wages based on hours worked or allowances) must complete a Timesheet or Operational Forms/Reports for the work performed.

The Timesheet must specify the dates and hours worked that are to be paid, similarly for allowances based on performance, the relevant quantities or outputs of work performed must be specified. The Timesheets/Allowance Forms must be approved by an Authorized Supervisor and forwarded in a timely manner to the finance section of the Project.

Each Pay Period:

Calculate the pay of each eligible person from the details in the Payroll Register (for standard pays and allowances) or from the approved Timesheets/Allowance Forms. With computerised accounting systems, enter the relevant pay data and run the Payroll and the system will calculate the pays.

Time Sheet/ Daily Time Record:

A Time Sheet must be used as a reliable basis for the Payroll computation, record of dates, times, absences, leave forms are necessary information for Payroll computation.

Employment Contract:

This serves as a basis for determining the eligible members of the Project. These contracts are the basis for payments of Services that has been rendered for the Project.

Payroll Calculation:

Calculation of Payroll entitlements must be prepared by a person not connected with the preparation of the Payroll Cheques or with the distribution of the pay entitlements. This calculation must be based on the provisions stipulated in the employment contract or other approved project instructions or guidelines.

Payroll Register:

The Register should show details of the staff Payroll computation. It must be prepared on monthly basis by the person as mentioned above for confidentiality purposes. The List should show the following:

- Gross Pay;
- Allowances;
- Tax Deductions;
- Advances/if any;
- Other Deductions; and
- Net Pay.

Payslips:

Payslips are the acknowledgment of the pay received from the Project. Payslips must be given to each employee showing each pay period, salary rates, taxes, other deduction and net pay.

Payment Procedures:

After the Payroll Register has been approved by the Project Director, the payment shall follow. The use of Bank Payroll Facility, such as direct credit to the Payees (Employees) Account, is the safest and convenient payment method to be used for Payroll by the Project. If payments are to be made in cash because bank direct credit systems cannot be used in particular situations, e.g. because of remote location, then a proper and secure identification system must be used to ensure that the correct person has been paid.

13. PETTY CASH

13.1. Overview

13.1.1. Definition of Petty Cash

To avoid confusion on the use of the Petty Cash Fund, it is best to start this Chapter with an accounting definition of Petty Cash:

“Petty Cash is a small amount of cash on hand that is used for paying small amounts owed, rather than writing a check or raising a purchase order. Petty Cash is also referred to as Petty Cash Fund. The person responsible for Petty Cash is known as the Petty Cash Custodian”.

Some examples for using Petty Cash include paying for postal carrier; reimbursing an employee a small amount for urgent supplies purchased; paying a small amount for bakery Goods delivered for agency’s early morning tea meeting etc. Aside from paying for these kinds of minor expenses out of Petty Cash, the overriding principles of good governance and good internal control accounting practices suggest that the Project’s or Agency’s requirements should be sourced through contractual arrangements from Suppliers and service providers.

13.1.2. Petty Cash Management

Petty Cash must be managed in accordance with Petty Cash Instructions formulated by the Project Finance Officer. These instructions should specify the maximum Petty Cash Advance, normally this amount should not exceed One Thousand USD (US\$1,000) with a maximum single payment limited to Five Hundred USD (US\$500) from a Petty Cash Advance unless specific approval for higher limits from the Project Management and the MEF have been obtained. Custodians of Petty Cash Advances must be clearly defined together with the processes for transferring Petty Cash Advances between responsible Officers of the Project during periods of absence. Proper measures must be implemented to safeguard Petty Cash Advances and there must be no mixing of Petty Cash Advances and personal moneys.

13.1.3. Exceptions

As already noted, the clear rule to follow is that Petty Cash must only be used for minor expenditure incurred for project purposes. If good reasons exist however, such as for smoother implementation of project activities given the remoteness of project sites for example, exceptions to these rules can and should be made, provided the office handling this activity has the capacity and capability to do so. Such exceptions must however be considered in a manner that carefully assesses the risks and benefits of such a deviation from best practice, and if approved, be authorized on a case by case basis by the MEF to the Project Director. In instances when more than Five Hundred USD (US\$500) of expenditure is approved from the Petty Cash than in such situations three (3) quotations should be obtained before authorizing such payments.

13.2. Key Internal Controls

The following internal controls must be in place:

- Standard approved forms must be used for Petty Cash use and management;
- Petty Cash advances must be regularly reconciled with the Petty Cash Account and balanced regularly (at least monthly);
- There must be segregation of duties between approval of Petty Cash payments and the custodianship of Petty Cash Advances;
- Petty Cash will only be reimbursed for expenses where receipts have been obtained or other acceptable documentation is provided;
- Irregular spot cash counts of the Petty Cash Float must be carried out by a finance official and evidenced;
- Separate Petty Cash Floats must not be mixed. The cash and documentation must be maintained separately;
- Petty Cash advances payment must be adjusted within a specified period of time and this should be set by the Project Finance Officer in the instructions on the use of Petty Cash Fund; and
- Petty Cash balances need to be kept in a secure and safe place.

13.3. Procedures

Petty Cash procedures are set out in this Chapter for:

- Setting up a Petty Cash Fund;
- Using Petty Cash;
- Replenishing a Petty Cash Fund;
- Closing a Petty Cash Fund.

13.3.1. Setting up a Petty Cash Fund

A Petty Cash Fund Request, a Disbursement Voucher and a Cheque are processed for the initial Petty Cash Fund. The Petty Cash Fund Request must set out the following:

- Purpose of the Petty Cash Fund;
- Name and position of the Cashier/Petty Cash Fund Holder;
- Amount of the Petty Cash Fund;
- Maximum single Petty Cash transaction limit;
- Types of minor expenditure that the Petty Cash Fund can be used for;
- Types of expenditure that Petty Cash Fund must not be used for; and
- Cash count, reconciliation and reimbursement frequencies.

The Petty Cash Fund Request and Disbursement Voucher are approved by the appropriately delegated Officers.

The cheque is signed by the appropriate cheque signatories.

The cheque is cashed by the Cashier/ Petty Cash Fund Holder.

The initial Petty Cash Fund is posted to the General Ledger Petty Cash Account.

A Petty Cash Book is set up and the advance is recorded. The Petty Cash Book is maintained by the Cashier/ Petty Cash Fund Holder. All transactions are recorded in the Petty Cash Book as they occur and a running balance of the remaining funds of the Petty Cash Fund is calculated.

13.3.2. Using Petty Cash

A Petty Cash Payment Voucher (PCPV) with supporting documents such as an original Receipt or Invoice, approved must be signed and dated by the Applicant requesting payment.

The PCPV must be completed by the Cashier/ Petty Cash Fund Holder, who enters the correct account code(s), and sequentially numbers the PCPV then the Finance Officer checks supporting documents.

The PCPV is approved by a relevant delegated Officer.

When approved, the payment from the Petty Cash Fund may be made by the Cashier/ Petty Cash Fund Holder who must obtain the signatures of the Recipients on the PCPV as evidence of them receiving the cash.

The Cashier/ Petty Cash Fund Holder records the expenditure in the Petty Cash Book and files the PCPV.

At regular intervals (daily or weekly), the Petty Cash Float must be reconciled, and the expenditure posted to the General Ledger:

- The PCB balance must be reconciled to the cash funds and PCPV held.
- The Petty Cash expenses in the PCB must be summarised by account and a posting summary must be prepared.
- If the balance of the Petty Cash Float is less than the amount that has been determined by the Finance Officer in the Petty Cash Instructions, then action should be taken to replenish the Petty Cash Float (see below).

After review and approval of the reconciliation and the posting summary by the relevant delegated Officer, the expenditure from the Petty Cash posting summary is posted to the relevant ledger accounts.

13.3.3. Replenishing Petty Cash

Replenishment of Petty Cash Fund should be made when the balance in Petty Cash Fund falls to a predetermined limit of the original Petty Cash Fund as set out by the Project Finance Officer.

The Finance Officer prepares a Disbursement Voucher and Cheque for the Replenishment of the Petty Cash Fund and submits them to the Project Director for approval.

The Project Director approves the DV.

The Cheque is signed by the authorized signatories.

The DV is posted to the General Ledger.

13.3.4. Closure of Petty Cash Fund

When a Petty Cash Fund is no longer required, then the Petty Cash Fund must be reconciled, expenditure posted, and the balance of funds held repaid into the appropriate bank account.

The PCB balance must be reconciled to the cash funds and PCPV held. The Petty Cash expenses in the PCB must be summarised by account and a posting summary must be prepared.

If there are any funds remaining of the Petty Cash Float, then an official receipt must be prepared and the posting journal for crediting the balance of the funds to the Petty Cash General Ledger Account to reduce the balance of that account to 0.00. The reconciliation, posting summary and receipt and Receipt Posting Journal must be reviewed and approved by the Project Director.

14. ADVANCES

14.1. Overview

Cash advances may be made for approved project expenditure where it is not practical or efficient for payments to be made for expenses by Invoice or Contract. Whilst it may be preferable to make advance payments by means of issuing checks, this may not always be possible especially when the expenditures are incurred in provinces and rural areas. In such situations, advances in cash are permitted.

Cash advances must be controlled and managed by the Finance Officer in the PMU to ensure proper acquittal of expenses are incurred within a period of ten (10) working days after the close of the event for which the advances were given.

14.2. Key Internal Controls

Cash advances must be approved by properly delegated Officers.

A Cash Advance Register must be maintained for all cash advances.

Cash advances payment must be adjusted with full documentation of expenses incurred from advances within a limited time period. This time limit for adjusting expenditure is set at ten (10) working days. Deviation from this rule should only be allowed by the Project Manager, on being provided with sound reasons as to why there should be an exception but not exceed beyond thirty (30) working days.

There must be timely review and accounting for cash advance expenditure in the project's accounting records.

Cash advances must not be made to project personnel or agencies which have failed to adjust previous cash advances within the prescribed time limit. It must be clearly made known to all staff that no new advances will be entertained to any staff member who has an outstanding un-adjusted advance. The maximum number of days allowed for adjustment of advances payment is ten (10) working days. If there is good reason for the delay in adjustment the maximum number of thirty (30) working days can be allowed for making adjustment of advances provided this is approved by the Project Director /Manager.

14.3. Procedures

14.3.1. Payment of Advances

The following procedures apply to advance payments from the Designated or Advance Accounts or Counterpart Funds/Project Bank Accounts:

- The Applicant completes a Request for Advance Payment (RAP) and submits it to the Finance Officer.
- The Finance Officer reviews the RAP and submits it to the Project Director/Manager for approval.

- The Project Director/Manager reviews and approves the RAP and returns it to the Finance Officer.
- The Finance Officer prepares a Disbursement Voucher, has it approved by the Project Director/Manager and arranges for the check to be processed.
- The approved check is provided to a person who is in charge of advance, then the Finance Officer posts the advance payment to the General Ledger by **Dr. Expense Account** and **Cr. Bank Account**; and records the advance payment in the Advances Register.

14.3.2. Adjustment of Expenditure

The Applicant must complete the Reconciliation of Amount Advanced (RAA) and attach all supporting expenditure receipts.

The Finance Officer reviews the RAA and the Project Director/Manager approves.

The Finance Officer prepares the relevant forms and processes it through the accounting system to reconcile/adjust the previous advance payment. The approved RAA with full supporting documents are required to be attached with the Disbursement Voucher. If the advance payment provided exceeds the amount of actual expenditures then the excess funds are refunded immediately by the Recipient to the Finance Officer, who will provide an official receipt for the refunded balance. The Finance Officer posts the refunded balance to the General Ledger by **Dr. Bank Account** and **Cr. Expense Account**; and updates it into the Advances Register.

15. ASSETS

15.1. *Overview*

Fixed Assets are assets that are intended for use for a longer-term period in the operation of a Project. The Government at present does not define what constitutes a fixed asset but in practice generally items purchased in a “Goods Category” and which will last for a longer time period (i.e. more than twelve (12) months) is normally capitalised.

15.2. *Key Internal Controls*

The levels of control should be adequate to ensure their physical existence and adequacy in the financial records.

The Fixed Asset Register must exist and be maintained by every project outlet in order to establish levels of control on the movement and disposal of assets. The Register must be updated with all fixed assets additions and disposals.

Physical verification must be conducted periodically (at least once a year) in order to determine the actual existence of the asset and its condition.

Each capitalized asset should be assigned an identification number code (e.g. asset stickers) in order to establish ownership and accountability.

Purchase of assets shall only be made when the Request for Purchase Form has been approved by the Project Director. This Form shall be attached to the Disbursement Voucher when the payment will be executed.

In cases where assets are to be transferred, a transfer form will be completed and approved by the Head of the EA/IA or his/her Authorized Representative. This form will be attached in the Journal Voucher for entering into the General Journal Entry.

General Ledger must be periodically reconciled against the actual quantities in the Asset Register in order to establish accurate financial records on fixed assets.

15.3. *Procedures*

15.3.1. **Certificate of Acceptance or Receiving Report**

This is used to signify Actual Delivery of Goods/ Actual Receipt of Assets ordered by the Project to the Suppliers. The quantity and condition of the Goods ordered are being checked to verify that they are in accordance with the specifications of the Goods that were agreed upon, and that were stipulated in the Contract or Purchase Order (where a purchase order system is in use). The person who received the Goods or items, after checking all the requirements and specifications indicated in the Purchase Contract should affix his signature in the Invoice as evidence of actual receipt. In line with internal control procedures referred to above there must be a clear segregation between the requestor, receiver and recorder of assets.

15.3.2. Issuance Slip

This is to formally document the actual issuance of the fixed asset to the Direct User. Each Issuance Slip should be formally signed by the Direct User to signify the receipt of the asset issued by the Project. The purpose of this is to establish proper accountabilities. This activity is particularly important in the issuance of moveable assets like laptop computers, calculators and other portable tools.

15.3.3. Physical Verification of Assets

The Project Team must carry out periodic physical count of all assets. The items checked will include equipment, fixtures, furniture, tools, merchandise, computers, vehicles or Goods. This process is carried out to ensure that all assets are properly accounted for and to determine any losses.

This shall be conducted on year end basis. Surprise count shall also be performed depending on the circumstances.

The person who has conducted the physical count must sign on the physical count list as evidence of counting. After the counting they must prepare Fixed Asset Physical Count Summary, which should consist of the following information:

- Date of Disbursement Voucher;
- Asset Name;
- Asset Code;
- Location;
- Quantity;
- Direct Users;
- Remarks for any Unusual Items or Condition of the Asset.

Any missing, damaged or obsolete assets shall be identified and must be reported to the management immediately. Only with management approval, accounting records and the Asset Register should be amended. Please also read the Chapter on Asset Management of the SOP which covers this topic, especially in relation to the writing off of assets from the accounting records, or the Assets Register.

15.3.4. Asset Check Reconciliation

Reconciliation shall be performed between the actual quantities counted and the quantities shown based on last asset count plus quantities from new acquisitions. Any differences arising from the reconciliation shall be investigated and be reported to the management.

The Accounting Department should be given a copy of the asset reconciliation for proper financial records.

15.3.5. Labelling of Assets

Fixed assets like computers, cabinets, tables, equipment and other tangible assets should be stamped and tagged with asset stickers indicating the following:

- Type of Asset;
- Name of Direct Users;
- Location of the Asset;
- Asset Number.

The purpose of the tagging system is to establish identification of ownership, determination of location, for asset control and for proper identification of accountabilities.

15.3.6. Residual Assets at End of Project

All assets that have been acquired for a DP-funded Project and left over at the end of the Project are the property of the Government in accordance with established rules of the Government such assets are to be inventoried and handed over to the State Property Department within the MEF. It is this Department which is responsible for the disposal of assets as it deems appropriate.

15.3.7. Vehicle Logbook

The Government has recently introduced a logbook system for the control of the use of all Government vehicles. Henceforth all project vehicles are required to maintain a Logbook. Each trip made by the vehicle during each day will be recorded in the Vehicle Logbook. It will be the responsibility of the vehicle driver to maintain this Logbook on a daily basis. This Logbook will be submitted to the Project Administration staff at the end of each day for his/her review and approval.

The sample of Vehicle Log-Sheet is shown in **Figure 15.1** below.

Figure 15.1: Vehicle Log-Sheet

Ministry of
 Project No.:
 Project Name:

VEHICLE LOGSHEET

Vehicle No:

For the month:

Date	Time	Speedometer		Distance km	Fuel Purchase				Purpose of the trip
		Out	In		Quantity (Litre)		Coupon/Receipt		
					Fuel	Engine Oil	Price	No.	
Total									

Prepared by:

Cerified by:

 Driver

 Officer in Charge

16. DE-CONCENTRATED AND DECENTRALISED / SUB-NATIONAL SYSTEMS

16.1. Overview

Recognizing that the benefits of development in the Kingdom of Cambodia have not been equally distributed throughout the country in the past, the Government decided to establish new mechanisms to address this inequality. One of the key approaches taken to tackling development, inequality and poverty at the local level, was to establish a policy of “democratic development” as set out in the Strategic Framework for Decentralization and De-concentration (D&D) reforms, which was adopted by the Government in June 2005.

A key pillar of the D&D reforms was the promulgation of a new Organic Law, which established democratically elected Sub-National Councils, to take responsibility for sub-national development in the Kingdom of Cambodia. The Government specifically chose this approach to achieve broad-based and sustainable development, and to strengthen vital local economic foundations. Once these sub-national structures were established, the Government also decided that all decentralized projects in the Kingdom of Cambodia that were jointly financed by both the Government and the DPs, were to be implemented through the newly formed National Committee for the Sub-National Democratic Development (NCDD). The NCDD was formally established by the Royal Decree 0608/355, dated 18 August 2006.

Prior to the establishment of the NCDD, previous arrangements for the implementation of the projects at the sub-national level had existed and had worked well for many years. Amongst these predecessors were successful sub-national arrangements such as the SEILA Program, and others funded by various DPs and the Government. These groups had also over many years developed excellent instructive manuals and procedures. All prior arrangements were subsumed within the NCDD upon its formation and the Government decided that the NCDD should continue to use the pre-existing instructive manuals and procedures as a basis for its operations, with these being appropriately strengthened and modified as required.

In addition to these manuals and procedures, the Government in 2006 with assistance from some major DPs also developed a handbook on *Financial Management Activities for Externally Financed Decentralized and De-concentrated Projects in the Kingdom of Cambodia*. This Handbook remains valid although it has not been updated for some time and is also being used by the NCDD for the financial administration of Sub-National Projects. It is the Government’s intention to have this Financial Management Handbook updated in due course in the near future.

Aside from the Sub-National Projects that fall within the responsibility of the NCDD as described above, there are central Government sector projects that are administered at provincial and district levels by Provincial Departments, who are in turn aligned to the central Line Ministries. The following Section of the Manual outlines the financial management arrangements for this category of projects. These categories of projects are termed as ‘De-Concentrated Projects’. They are the projects, which are implemented through the Provincial branches of the Line Ministries with national responsibility. These Projects are obliged to follow the provisions of the FMM which applies to all national

Ministry-administered projects unlike the decentralized projects, which are administered under a different set of legislation, which must follow the rules and regulations of the NCDD and other relevant legislation.

In the case of central Government projects that are administered at the provincial level, a central unit with sub-units is normally established to gather financial information and data, in order to enable the preparation of the necessary financial reports.

All transactions shown in the financial books of accounts are governed by approved Annual Operating Budgets, and the FMM of the Project if a separate FMM has been prepared for the Project.

16.2. Financial Management Arrangements

Before project implementation can commence for any decentralized or de-concentrated Project, the following key financial management arrangements must be put in place:

- The financial management responsibilities at central and provincial levels must be clearly defined.
- The financial management organisational structure must be decided upon, and key financial management staff recruited and trained.
- The financial accounting and financial management systems, processes, and procedures, must be developed and made operational.
- The funds flow arrangements for the Project must be clearly articulated.
- The banking arrangements must be decided upon and made operational.

16.3. Financial Management Responsibilities

The financial management responsibilities of the various parties in the context of a DP-funded Project in the Government public sector, is described in Chapter 3 of this Manual. These responsibilities are also equally applicable to the Government programs relating to decentralised and de-concentrated projects and programs that are being implemented for the central Government Ministry by Provincial Departments.

16.4. Annual Work Plans and Budgets for De-Concentrated Projects and Programs

For projects and programs that are funded by the DPs, project staff are required to prepare in conformity with the Loan/Grant and Credit Agreements, an Annual Work and Financing Plan, and Annual Budgets. These documents set the expenditure allocations and receipt targets for the Project Components for the year, and the Project Budgets must be based on the Annual Work Plan.

The Annual Work Plan and Budgets require the approval of both the EA/IA, and the Project Steering Committee (if applicable). After approval, the Annual Work Plan and Budgets are submitted first to the MEF and then to the DPs for approval/endorsement. The Annual Work Plan and Budgets are prepared in conformity with the Government's Budget Preparation Cycle.

Budgets should be revised whenever there are major changes or variations in the Annual Work Plans or overall project plans. Approved variations or revisions of the Annual Work

Plans or Budgets must be promptly advised to the MEF, and the respective DP for approval/endorsement. The Budget revisions should be carried out in conformity with the Government Policy on review of Annual Budgets.

16.5. Government Budgeting for Decentralized Projects

The Line Ministries are not involved in formulating the Budgets, this responsibility rests with the Capital and Provincial, Municipal, District, Commune and Sangkat Councils, which have the responsibility to review and approve development plans and the Annual Budget Plan. Please refer to the Budget System Reform Strategy (2018-2025) for details on this activity.

16.6. Cash Flow Budgeting

Cash Flow Budgeting is a critical element of ensuring that funds are available when required by the EA/IA and involves estimating the amount and timing of payments for expenditures, and of receipts for funds received. The estimates should be based on the expected physical progress of activities, and the anticipated timing of the related contract/operational expenditure claims and/or receipts.

Each quarter the cash flow estimates for Counterpart Funds requirements must also be reviewed and updated. Any changes to the Cash Flow Budgets must be advised to the Provincial Department of Finance (PDOF) at the provincial level for provincially administered projects, or to the MEF for centrally administered projects. It is imperative that the cash flow requirements for project activities are clearly communicated to the PDOF or the MEF by the Project Team, to ensure that regular and timely cash flow is available for project implementation activities.

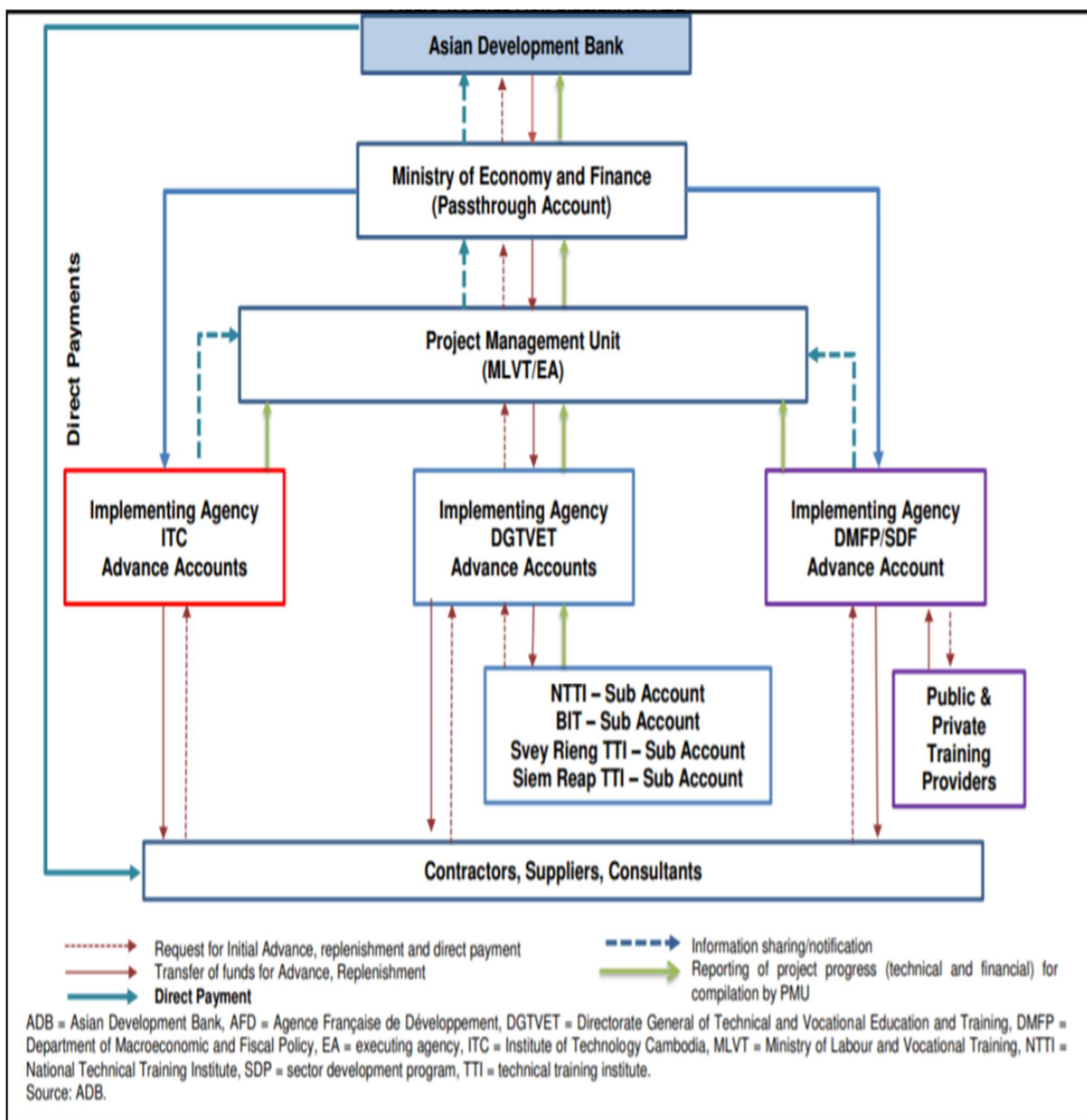
16.7. Project Funds Flow

The flow of funds for projects from the DPs to the Government and the EA/IA will be specified in the Project Appraisal Document (PAD), and in the Project Loan/Credit/Grant Agreements. Funds flow within the EA/IA is also specified in the PAD/PAM. Any variation to the endorsed flow of funds must be agreed by the EA/IA (Project Team), the MEF, and the DP, prior to implementation.

As part of the funds flow arrangements, the bank account requirements of the Project must be specified and agreed to prior to the implementation of the Project. For decentralized projects normally a Sub-Advance Account (SAA) is opened at the provincial level. This account is maintained by the Provincial Department responsible for the implementation of the Project, with reimbursement to the SAA from the Advance Account at the central Ministry level.

Refer to **Figure 16.1** for sample funds flow arrangement for provincial level projects.

Figure 16.1: Skills for Competitiveness Project – Funds Flow.



16.8. Financial Policies and Standards

16.8.1. Basis of Accounting and Accounting Standards

All decentralised and de-concentrated projects and programs in the Government use the cash basis of accounting.

16.8.2. Currency of Recording and Reporting

All decentralized and de-concentrated projects and programs funded by the DPs should record and maintain all financial transactions in the main project accounts in US Dollars. All prime financial reports must also be in US Dollars, but subsidiary accounts, records, and reports, may be maintained in Cambodian Riel.

16.8.3. Foreign Currency Translation

Any transaction in Cambodian Riel or other currency must be converted to the US Dollars, at the official daily exchange rate that is declared by the Provincial Branch of the NBC, on the day of the transaction.

For projects or programs with provincial, district, or commune operations, the source of the exchange rate that is to be used to convert the Cambodian Riel transactions into the US Dollars must be specified.

16.9. Procedures for De-Concentrated Projects

The following procedures are followed for de-concentrated projects.

Central Unit:

Computer-based accounting: Month to month submissions of financial reports of the sub-units will be recorded in the computer-based-accounting software of the central unit, in order to facilitate the financial reporting so as to establish controls on all the project activities of the various sub-units.

Appropriate documentation: Before recording the transactions incurred by the Project, comparison with the Budget Plan and counter check of the authenticity of the transactions reflected in the financial reports should be carried out.

Sub-Unit:

The implementing sub-units should have a set of books of account that are used for maintaining financial transactions:

Cash Book:

This is used to monitor cash position of the sub-unit; Cash Book should be updated daily. All transactions shown in the Cash Book should also be supported by approved and paid Vouchers. This system is being used by the remote provinces that use cash as the mode of paying their expenditures. Steps in preparing this can be shown in the Project Financial Management Manual if a separate Manual exists.

Bank Account Register:

This is used to monitor cash in bank position of the sub-unit, this is required to be updated daily, in order to avoid delays in the implementation of the Project. Steps in preparing this can be shown in the Project Financial Management Manual if a separate FMM exists. All transactions shown in this Bank Account Register should be supported by approved and paid Vouchers.

Filing System:

For the DP-funded project expenditure, the original copies of the Voucher and its supporting documents marked "Paid" should be sent to the central unit within the Ministry. This is for the convenience of visiting DP missions, who may need to examine the originals of project documents.

For project expenditure out of the Government Counterpart Funds, the original vouchers and supporting documents, marked "verified and paid with [date]", should be filed at the sub-units, unless records are kept centrally, in which case they are forwarded to the central unit for verification by the Project Finance Officer.

16.10. General Observation for Decentralized and De-Concentrated Projects

Aside from what has been described in this Chapter of the Manual, all other provisions of this Manual which are general in nature (e.g. internal control features, bank account operations, Petty Cash management etc.) apply equally to the administration of all externally assisted decentralized and de-concentrated projects.

16.10.1. Administration and Financial Management Responsibilities of Sub-National Projects and Programs

In this Chapter the functions and responsibilities of various types of Sub-National Projects and Programs have been described. In Summary the Financial Management Arrangements of Sub-National Projects are best summarized as follows:

- (i) In the category, where Sub-National Projects are administered by the Line Ministries either at central level or through their Provincial Departments or Agencies, then for the financial management arrangements in such situations they must follow the provisions of this FMM.
- (ii) In the category, where the responsibility of administration rests with the Sangkat or Commune level, then they must follow the financial management Rules, Regulations and Guidelines issued by the NCDD.
- (iii) In situations, where decentralized or de-concentrated projects have overlapping responsibilities both with the Line Ministries and /or Commune Sangkat, then in such situations it is recommended that a separate FMM be prepared for the financial administration of such projects/ programs.

17. LOAN/CREDIT/GRANT WITHDRAWALS

17.1. Overview

The Loan/Credit/Grant Withdrawals (Disbursements) refer to the withdrawal of funds to meet project expenditure. The disbursement of the Loan/Credit/Grant funds may be by:

- Special Commitment;
- Direct Payment;
- Advance Fund Procedure or Dedicated Designated Account;
- Reimbursement/Replenishment.

The withdrawal of Loan/Credit/Grant funds (Loan/Credit/Grants disbursements) must be carried out in accordance with the disbursement procedures of the respective DP. The EAs and their Project Teams must obtain and retain an up-to-date copy of the DPs Disbursement Handbook (as far as it is relevant to the Project) and the Disbursement Letter, and ensure that project staff members are trained in these procedures.

The EA is responsible for preparing and submitting Withdrawal Applications and the Disbursement Tracking Form (refer below) to the DP through the MEF.

Loan/Credit/Grant withdrawals may be made from:

- Designated or Advance Account - Initial Advance;
- Designated or Advance Account Replenishment;
- Reimbursement of eligible expenses Incurred;
- Direct Payment to Suppliers or Contractors;
- Commitment Letter;
- Disbursement Tracking Forms.

The Government in consultation with the major DPs has mandated the use of a 'Disbursement Tracking Form'. The purpose of this form is to enable the MEF and the DP to better monitor, evaluate and keep track of the disbursements pertaining to any Project/Program during its implementation. The form is used to compute the number of days that is taken to process the Project Disbursement Requests by the EA and at the MEF.

At the commencement of each Project/Program the EA together with the DP Team assesses the quarterly disbursement requirements of the Project and reviews them regularly for the total duration of project implementation period. The purpose of the review is to determine any changes that have taken place in the interim and the impact of such changes on the Disbursement Projections and pattern of implementation progress in the future. The Government can use the information for better planning of their Counterpart Funds requirements and assess progress on project implementation activities. From the information gathered by both the DPs and the Government, they can initiate timely corrective measures to improve project implementation activities and will expedite the realization of the Project Development Objectives. The preparation and

attachment of this form to the Loan Withdrawal Application is a compulsory requirement of all EAs. A sample “Disbursement Tracking Form” is shown in **Figure 17.1**.

In addition to the Disbursement Tracking Form in **Figure 17.1**, the Project Implementation Team, the Department of Multilateral Cooperation (DMC)/Department of Bilateral Cooperation (DBC)/MEF and the DP must maintain an internal tracking form showing the time taken (number of days) for completing each of the activities in processing of the Withdrawal Applications. The Government is in the process of formulating a set of Service standards using the existing data, against which the actual processing time, as indicated by the tracking form, can be compared; so that overtime improvements can be made in speeding up disbursements and achieving faster implementation of development projects.

In case of the Disbursement Tracking Form for Counterpart Funds shown in **Figure 17.2**, the Project Implementation Team and the DMC/DBC/MEF must maintain an internal tracking form showing the time taken (number of days) for completing each of the activities in processing of the Withdrawal Applications. Similar controls to those mentioned above will also be introduced for the tracking of the Government Counterpart Funds activities.

Figure 17.1: Disbursements Tracking Form for the DP Funds

DP FUND-DISBURSEMENT TRACKING FORM

Ministry of _____
 Project Name: _____
 For the year of _____
 Prepared date: _____

Loan/Credit/Grant No. : _____

No.	Withdrawal Application (WA) No.	Description of W/A for Advance, Replenishment, Direct Payment & C/L	Amount Requested (US\$)	Amount Received US\$	Differences: Amount Requested VS Amount Received: (\$US)	Project Management submitted for Director/Minister Approval (LM); (Date)	Project Management Received Approval from Director/Minister (LM); (Date)	Project Management submitted to MEF for approval: (Date)	Project Management received the request for clarification from MEF (Date)	Project Management sent back the clarification /support documents to MEF: (Date)	Project Management received approval from MEF Management: (Date)	Project Management submitted to DP Cambodia: (Date)	Project Management Received the request for clarification from DP: (Date)	Project Management sent back clarification / support document to DP (Date)	DP released the money: (Date)	Project Management /Contractor received the money (Date)-recorded in the BS of NBC	Number of Days at EA	Number of Days at MEF	Number of Days at DP	Remarks
A	B	C	D1	D2	D2-D1	E	F	G	H	I	J	K	L	M	N	O	I-E	J-I	N-K	P
		Services Standard (Working Days)															10	10	15	
Total			\$ -	\$ -	\$ -															

Figure 17.2: Disbursements Tracking Form for the Counterpart Funds

COUNTERPART FUND-DISBURSEMENT TRACKING FORM

Ministry of _____
 Project Name: _____
 For the year of _____
 Prepared date: _____

Loan/Credit/Grant No. : _____

No.	Withdrawal Application (WA) No.	Description of W/A for Advance, Replenishment, Direct Payment & C/L	Letter Date	Amount Requested (US\$)	Amount Received US\$	Differences: Amount Requested VS Amount Received: (\$US)	Project Management submitted for Director/Minister Approval (LM): (Date)	Project Management Received Approval from Director/Minister (LM): (Date)	Project Management submitted to MEF for approval: (Date)	Project Management received the request for clarification from MEF (Date)	Project Management sent back the clarification /support documents to MEF: (Date)	GDICD/MEF Approval: (Date)	MEF Issued Payment Order: (Date)	Project Management Contractor received the money (Date)-recorded in the BS of NBC	Number of Days at EA	Number of Days at MEF	Number of Days at GDNT & NBC	Remarks
A	B	C	D	E1	E2	E2-E1	F	G	H	I	J	K	L	M	J-F	L-J	M-L	N
		Services Standard (Working Days)													10	10	10	
Total				\$ -	\$ -	\$ -												

17.2. Key Internal Controls

The MEF and the EA, where applicable, are responsible for ensuring that authorized signatories for Withdrawal Applications are submitted to the DP well in advance of the filing of the first Withdrawal Application. Subsequently it is their responsibility to ensure that these authorized signatures are maintained and updated as required. The MEF and the EA must maintain the copy of the authorized signatories and the originals are provided to the DP.

Funds may only be withdrawn from the Loan/Credit/Grant Accounts for expenditures of the Project, which are authorized and are specified in the Project Loan/Credit/Grant Agreements.

Authorized expenditures are defined in the project agreements. Projects should set out the authorized and unauthorized expenditures, and expenditure percentages, for the Project in the PAM or Project Financial Management Manual, where necessary.

Withdrawal Applications must be signed by an authorized signatory or signatories.

Withdrawal Applications must be sequentially numbered starting with the number one.

Designated or Advance Accounts must not be used under any circumstances to finance the Government Counterpart Funds requirements. This would be contrary to the regulations of the DPs.

The Loan/Credit/Grant Accounts maintained by the DPs for the Government are available on the DPs website. It is the responsibility of the EA to regularly monitor this account and reconcile its content with that of the EAs and the MEF records. The EA should reconcile disbursement amounts on the Statement of Loan/Credit/Grant Disbursements for the project account(s) with the Disbursement Reports provided on the DPs website at least monthly.

17.3. Procedures

17.3.1. Designated or Advance Account Initial Advance

The Project Team completes the relevant Withdrawal Application Form (2 copies) for the initial advance, citing the Clause in the Loan/Credit/Grant Agreement that specifies the "authorized allocation" of the advance.

The maximum amount of the advance (authorized allocation) is specified in the Loan/Credit/Grant Agreement. The details of the procedures to be followed and the maximum advances that are allowable are covered in the DP's Disbursement Handbook. Advances will be provided to the EAs based on these Guidelines.

The Withdrawal Application (WA) Form must be signed by the authorized signatories and submitted to the DP.

The Withdrawal Application Form for advances must be supported by estimated expenditures for a specific period of time. The detail required by each DP is

described in its Disbursement Handbook. The WA henceforth will also be accompanied by a completed CoA Report based on the MEF instructions.

The Project Team records the WA in the WA Register.

The DP reviews the completed forms and disburses the advance for credit to the Project's Designated or Advance Account.

The Project Team should seek written advice of the funds receipt into the Designated or Advance Account from the relevant financial institution where the Designated or Advance Account is maintained.

When the written advice is received, the receipt of the funds should be recorded in the General Ledger and the WA Register should be updated.

Dr	Designated/Advance Account	xxx
Cr	DP s Loan/Credit/Grant Account	xxx

Example		
Received from the DP as initial advance for project expenses of Five Hundred Thousand USD (US\$500,000). The entry is posted to the ledger accounts are as follows:		
Dr	Designated/ Advance Account	US\$500,000
Cr	DP Loan/ Credit/Grant Receipts	US\$500,000
This posting will ensure that project accounts are consistent with those of the DP and Disbursement Summary.		

Figures 17.3 and 17.4 below provide the detailed steps that are to be followed for the processing of DP's advances and the Designated/ Advance Account structure.

Figure 17.3: Initial Advance from the DP

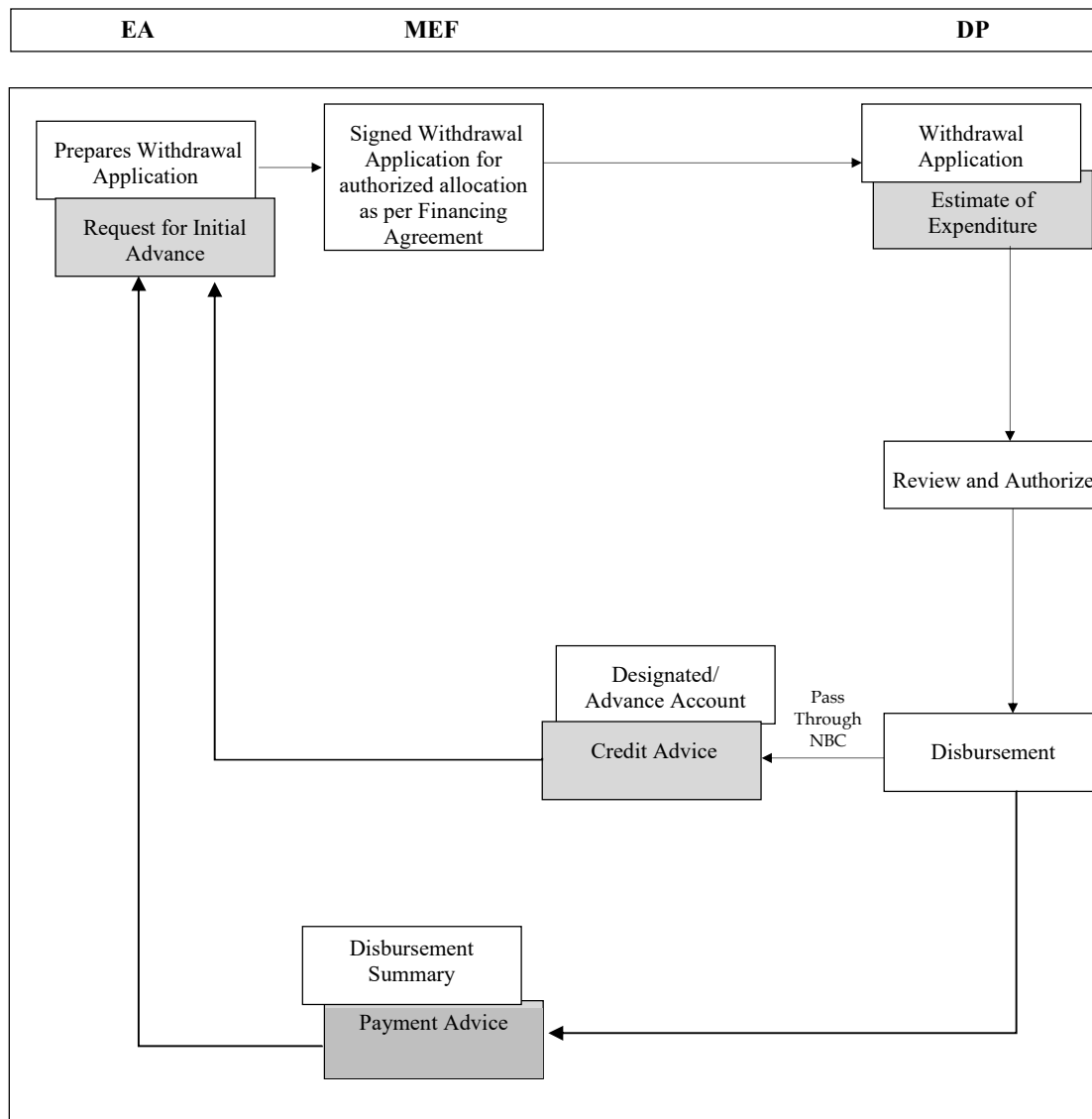
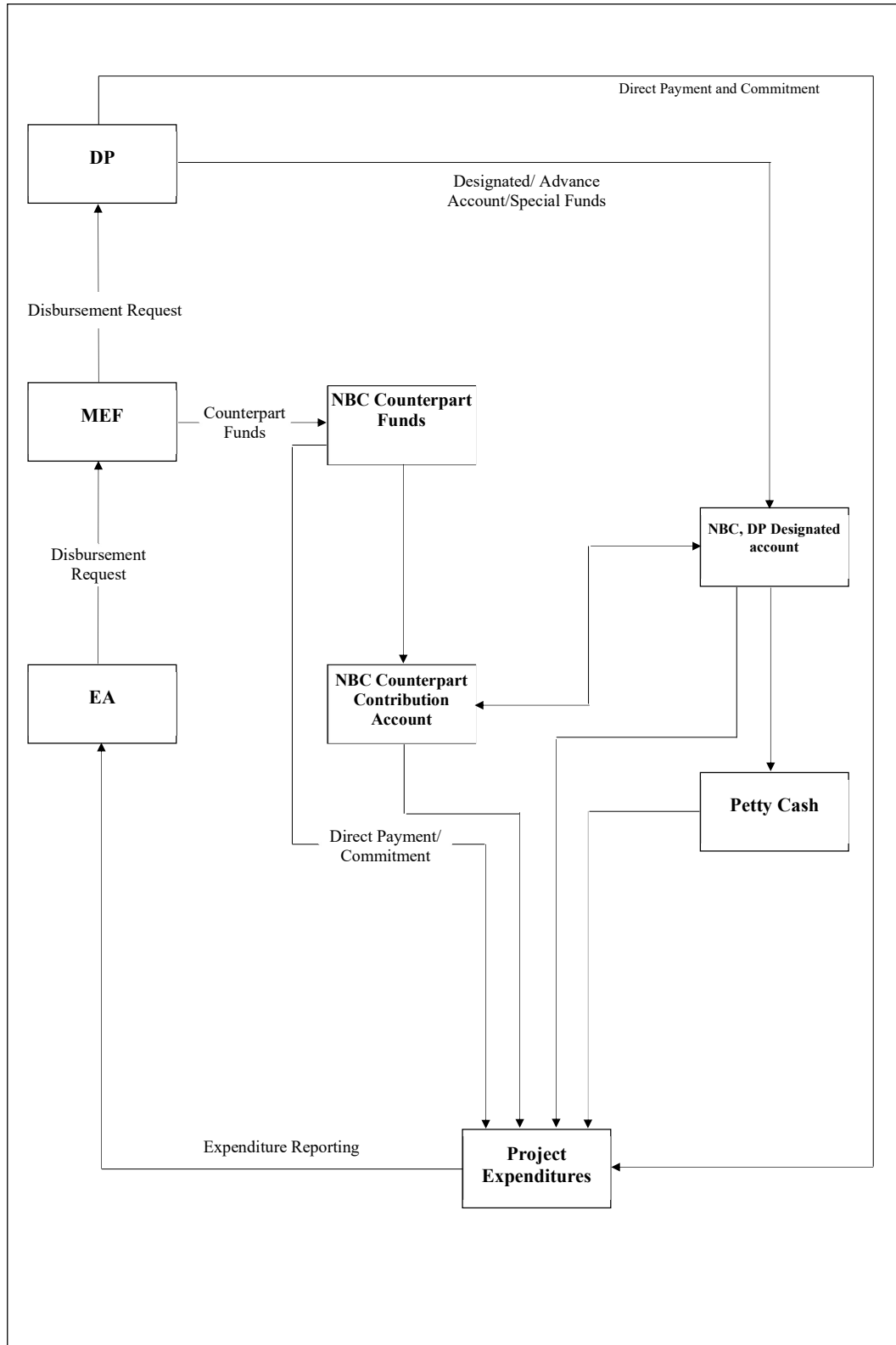


Figure 17.4: Designated or Advance Account/Counterpart Funds Account Structure



17.3.2. Designated or Advance Account Replenishment

Replenishment Withdrawal Applications should be made at intervals specified in the Loan/Credit/Grant Agreements – usually this is on a monthly basis or when the balance of the Designated or Advance Account reaches its minimum level or is down to twenty percent (20%) of the advance (as specified in the Disbursement Letter of the respective Loan/Credit/Grant). The replenishment rules are set by the MEF in the interest of efficiency.

Replenishments may be made using full documentation of expenses incurred or the Statement of Expenditure (SOE) method. The SOE method is used to reimburse the Project when documentation would otherwise be cumbersome or voluminous (for example, expenditures on Civil Works carried out by Force Account, Operating Costs, Small Agricultural Sub-Loans, or Payments Against Small Contracts). The Loan/Credit/Grant Agreements indicate the types of expenditure for which SOEs may be used and where appropriate, the contract value below which SOEs are to be used for selected activities. The ceiling amounts that can be claimed under the SOE procedures are also spelt out on the Loan/Credit Agreement. Under the SOE method, the Project Team keeps the supporting documents, including contracts and procurement documentation, and evidence of payment in a central location for examination by independent auditors and the DP staff during supervision missions. It is the responsibility of the EA/IA Finance Officer to prepare all supporting documents for review in an orderly fashion well in advance of the supervision missions. This will help making the review more efficient.

The Project Team completes a Designated/Advance Account Withdrawal Application Form and applicable Summary Sheets and/or SOE (two copies of each).

The Project Team prepares a reconciliation of the Designated / Advance Account and a Disbursement Tracking Form for submission to the MEF.

The following documentation must be attached to the Withdrawal Application Form:

- Summary Sheet by Category and Government CoA;
- Summary Sheet (SS) by including Government CoA;
- Statement of Expenditures (SOE) by including Government CoA;
- Bank Statements;
- Designated/Advance Account Bank Reconciliation Statement;
- Withdrawal Application Tracking Form;
- Other documentation to support the Withdrawal Application, if required.

The Withdrawal Application Form must be signed by the authorized signatories and submitted to the DP together with the Disbursement Tracking Form.

The Project Team records the WA in the WA Register.

The DP reviews the completed forms and disburses the replenishment for credit to the Project's DA.

The Project Team should seek written advice for the funds receipt into the DA from the relevant financial institution where the Designated/ Advance Account is maintained.

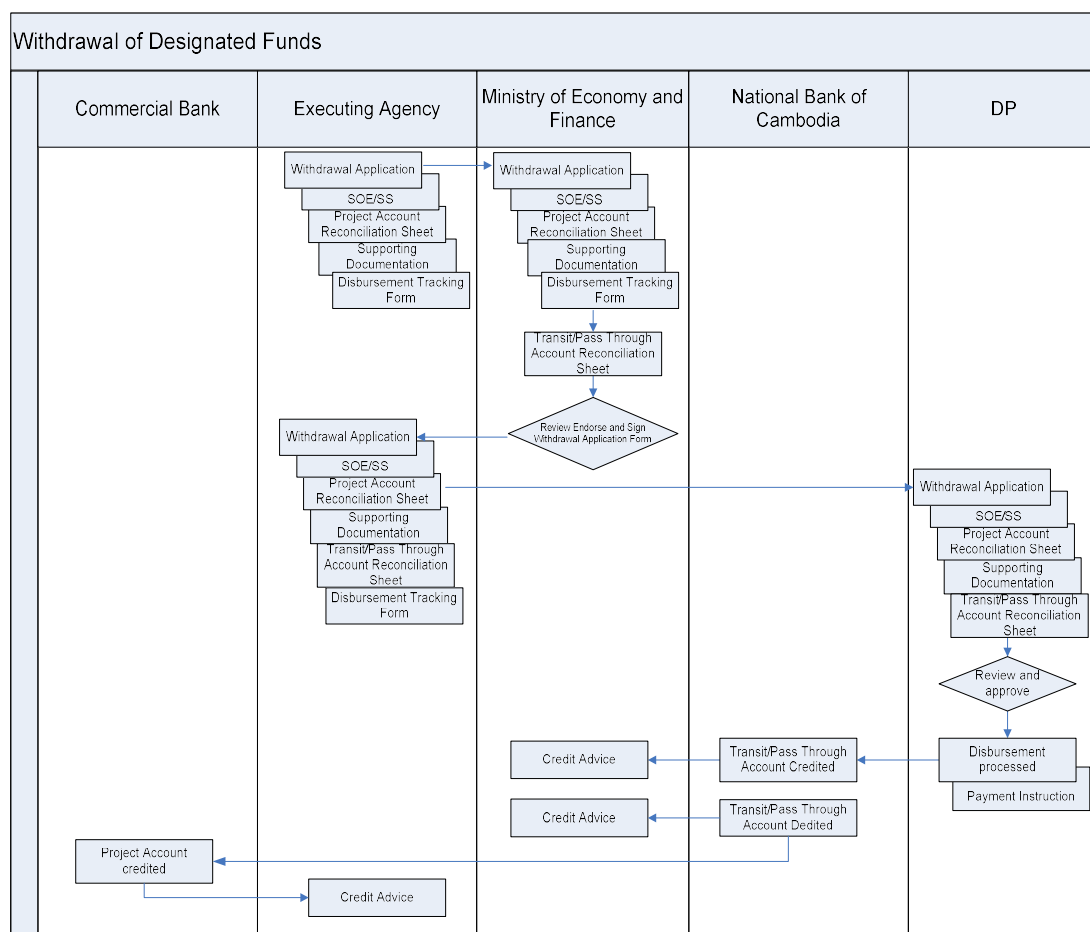
When the written advice is received, the receipt of the funds should be recorded in the General Ledger and the WA Register should be updated.

Dr	Designated/Advance Account	xxx
Cr	DP Loan/Credit/Grant Account	xxx

Example		
One Hundred Thousand USD (US\$100,000) replenishment of the Designated Account has been received from the DP. The entry is posted to the ledger accounts as follows:		
Dr.	Designated/ Advance Account	US\$100,000
Cr.	DP Loan Receipts	US\$100,000

Figure 17.5 below provides details of the replenishment procedure of the DP Funds.

Figure 17.5: Replenishment from the DP



17.3.3. Reimbursement of Expenses Incurred

17.3.3.1. For Reimbursement with Documentation

The Project Team completes the corresponding Summary Sheet on form of the DP (two copies).

The Project Team attaches a photocopy of the following supporting documents to each Withdrawal Application:

- The Contract;
- A copy of the Invoice/Bill/Claim and Delivery Receipt;
- Disbursement Tracking Form;
- Evidence or Receipt of Payment showing the amount paid, the date receipt, and the Payee.

17.3.3.2. For Reimbursement with SOEs

The Project Team completes and signs the appropriate SOE form (two copies).

Note: Three types of forms are available:

- SOE Form Contract Items mostly related to Civil Works.
- SOE Form for Non-Contract Items mostly related to operating expenses and overheads.
- SOE Form (free format) for Items not provided in the other SOE forms.

If a Contract is for less than One Hundred Thousand USD (US\$100,000), the Project Team need not send a copy of the Contract to the DP, unless specifically required. Some DPs do not need contracts to be submitted even if the contract amount is above One Hundred Thousand USD (US\$100,000) (please refer to the funding DPs Loan Disbursement Handbook or Instructions).

The requirements of each DP may be somewhat different. The EAs must follow the requirements of the respective DP as set out in the Loan Disbursement Handbooks of the respective DPs.

17.3.3.3. For Force Account Works

Force Account Works is used for reimbursing the Government for expenditures in carrying out certain approved Civil Works for the Project using its own work force, equipment and other resources. It is also used when the size, nature, and location of the Works make competitive bidding unsuitable or in case of emergency Works like immediate repairs after a disaster. Use of Force Account is on an exceptional basis when all other procurement options have been fully exhausted. When this procedure is used then the EA should follow the requirements as stated

in the respective DP's 'Loan Disbursement Handbook', which explains in detail the procedures that must be followed in the submission of claims based on the Force Account concept.

Two Certificates are completed and attached to the Withdrawal Application:

- Project's Physical Progress (Part 1); and
- Financial Progress (Part 2).

The Withdrawal Application (WA) Form must be signed by the authorized signatories and submitted to the DP.

The Project records the WA in the WA Register.

The DP reviews the completed forms and disburses the replenishment for credit to the bank account nominated by the Project.

The Project Team should seek written advice for the funds receipt into the nominated Account from the relevant financial institution.

When the written advice is received, the receipt of the funds should be recorded in the General Ledger and the WA Register should be updated.

Dr	Expenditure Account	xxx
Cr	DP Loan/ Credit Account	xxx

17.3.4. Direct Payment to Supplier or Contractor

The Project Team completes:

- A Withdrawal Application Form (2 copies). Separate Withdrawal Applications are required for each payment in different currencies.
- The Disbursement Tracking Form
- Summary Sheets (2 copies)

The following documentation must be attached to the Withdrawal Application Forms:

- Summary Sheets;
- Copy of Contract(s);
- Disbursement Tracking Form;
- Supplier or Contractor Invoice or Claim;
- For Civil Works - Summary of Work Progress certified by the Project Technical Officer and approved by the relevant Project Authorized Officer;
- For equipment and materials purchased - Evidence of Shipment, either a copy of the Bill of Lading or the Forwarder's Certificate and /or duly acknowledged Delivery Receipts, as appropriate;

- Performance Security such as a Bank Guarantee in the case of advance payments, if required under the terms of the Contract, or where an unusually large advance payment is made.

The Withdrawal Application Form must be signed by the authorized signatories and submitted to the DP.

The Project Team records the WA in the WA Register.

The DP reviews the completed forms and disburses the payment for credit to the Supplier/Contractor's bank account.

The DP advises the EA when the payment has been executed to the Supplier.

When the written advice is received, the Loan/Credit/Grant disbursement should be recorded in the General Ledger and the WA Register should be updated.

Dr	Expenditure	xxx
Cr	DP Loan/Credit/Grant Account	xxx

17.3.5. Commitment Letter

To finance the purchase of Goods under a Project, the Project Team may need to open a Letter of Credit (an undertaking by a bank that bills drawn on it in compliance with approved terms of payment will be honoured) in favour of the Supplier. If a commercial bank is unwilling to open, advise or confirm the Letter of Credit without some Guarantee or Security, the respective DP can provide the commercial bank with the Guarantee it requires in the form of a Commitment Letter. This procedure normally covers major contracts for imported Goods.

Under this procedure the DP issues to the commercial bank, normally in the Supplier's country, its Commitment Letter agreeing to reimburse that bank for payments made or to be made under the Letter of Credit.

The Project Team arranges with a bank in its own country a Letter of Credit (L/C) in favour of the Supplier or Contractor.

The Project Team completes a Commitment Letter Withdrawal Application (2 copies) for each Commitment Letter requested in a different currency.

The Project Team completes the corresponding Commitment Letter Summary Sheet (2 copies) using a separate sheet for each category or sub-category.

The following supporting documents must be attached to each Withdrawal Application:

- Copy of Pro-Forma Invoice of Supplier or Contractor;
- Summary Sheets;
- Copy of a Contract; and

- Two signed copies of the Letter of Credit (with valid expiry date) that the commercial bank proposes to issue.

The Withdrawal Application Form must be signed by the authorized signatories and submitted to the DP.

The Project Team records the WA in the WA Register.

The DP receives the completed Withdrawal Application and supporting documents.

When the application is approved, the DP issues a Commitment Letter to the designated bank and sends a copy to the Project for information.

The commercial bank's first request for payment under the Special Commitment constitutes its acceptance of the terms and conditions of the Special Commitment.

Promptly after each payment or negotiation of documents by the commercial bank under the Letter of Credit, the commercial bank claims payment from the DP.

The DP makes the payment to the commercial bank.

The Project EA is notified by the DP through the Payment Advice or Semi-Monthly Listing of Loan Disbursements (SMLD) that the payment has been executed. The EA may also be notified of the payment upon its inquiry directly with the DP.

The Project records the Loan/Credit/Grant disbursement and expenditure in the General Ledger.

Dr	Expenditure	xxx
Cr	DP Loan/Credit/Grant Account	xxx

17.3.6. Recovery of Designated/ Advance Account Advances

The treatment of recovery of DA advances may differ between the DPs. The respective DPs Disbursement Handbooks however provides details of each DP. As an example, the following procedures are followed for the World Bank and the ADB for the recovery of advances.

For the WB projects, recovery of the outstanding advance in a Designated (Special) Account usually begins:

- when the undisbursed balance of the Loan (excluding Special Commitments) is equal to twice the amount of the advance; and/or
- when the final date to submit Withdrawal Applications is less than six months away.

For the ADB projects, the Project Team completes a Liquidation of Advance Form and submits it with the applicable Summary Sheet or SOE (2 copies) and attaches the Designated or Advance Account Bank Statement and related Bank

Reconciliation. For the ADB projects, advances are gradually reduced within 1 year before Loan/Grant Closing Date or when the undisbursed balance of the Loan/Grant, excluding the outstanding commitments, is equal to twice the amount of advance whichever comes first.

The DP deducts the amount of expenditures incurred from the outstanding balance of advances until the DA reaches zero balance.

During the recovery process, the DP notifies the Borrower of amounts disbursed and amounts used for recovery for each Designated Account (DA) or Advance Account Withdrawal Application processed, as well as the outstanding balance yet to be recovered.

17.4. Key Points to Avoid Delays in Withdrawals

The aim is to process applications as quickly as possible to provide funds to support timely project implementation. Incomplete or inaccurate WAs cause delays.

To avoid the most common delays in the withdrawal of Loan/Credit/Grant funds, the following should be noted:

- Forward copies of contracts to the DP Task Manager promptly after they are signed.
- Cite the date of the DP "no objection" notice for contracts above the procurement prior review limits specified in the Loan/Credit/Grant Agreement.
- Promptly advise the DP of changes to authorized signatories.
- Ensure that Withdrawal Applications are signed by Authorized Officials.
- Identify the currency of payment accurately and completely.
- Specify complete and accurate payment instructions.
- Ensure consistency between information on the application and supporting documents.
- Include all necessary supporting documents.
- Include proper Bank Statement reconciliations to support Requests for Replenishment of Designated / Advance Accounts.
- Initiate timely action to reallocate funds between categories, or to extend Loan/Credit/Grant Closing Dates where necessary.
- Seek advice and guidance from the MEF or the DP if unsure of requirements.

The ADB has recently (2017) issued a revised Loan Disbursement Handbook. Most of the changes it reflects in current withdrawal processes for project loans have been appropriately incorporated in the relevant Sections or forms in this Chapter. The revised Loan Disbursement Handbook also covers the other additional lending modalities, which have not been included in this Chapter, because for the Government, these lending modalities of the ADB are not generally applicable as they are seldom used. Should any Government Agency become involved in using any of these lending modalities however, they should refer to the relevant Sections of the revised Loan Disbursement Handbook.

18. GOVERNMENT COUNTERPART FUNDS WITHDRAWALS

18.1. Overview

The MEF is responsible for ensuring that the Government Counterpart Funds are made available to projects in accordance with the Loan/Credit/Grant Agreements and as required by the Annual Work Plans and Budgets of the Project.

Withdrawal of the Government Counterpart Funds must be carried out in accordance with the Government Policies and Procedures.

The EA is responsible for submitting Withdrawal Applications to the MEF.

Counterpart Funds Withdrawal Applications should be made in accordance with the Budget Plan agreed between the Project EA and the MEF.

Counterpart Funds may only be withdrawn for expenditures of the Project, which are specified in the Project Loan/Credit/Grant Agreements. Projects Team should set out the expenditure percentages, for the Project in the PAM or the Project Finance Manual as a supplement to the main FMM.

Counterpart Funds withdrawals may be made for:

- Designated/ Advance Account Initial Advance;
- Designated/ Advance Account Replenishment;
- Direct Payment to Supplier or Contractor;
- All land resettlement costs pertaining to the DP-funded projects are normally provided from the Government Counterpart Funds.

18.2. Key Internal Controls

Withdrawal Applications must be signed by an authorized signatory or signatories.

Withdrawal Applications must be sequentially numbered starting with the number one.

Counterpart Funds advanced to projects must be held in a Government Counterpart Funds/Project Account at the National Bank of Cambodia or other approved financial institution including private commercial banks.

18.3. Procedures

18.3.1. Counterpart Funds Initial Advance

The PMU completes a request for an initial advance of Counterpart Funds, together with supporting documents, and submits these to the GDICDM of the MEF where it is processed by its Department of Multilateral Cooperation (DMC) or Department of Bilateral Cooperation (DBC).

The request for an initial advance must be signed by the authorized signatories of the EA/Project, and the maximum amount of the advance of Counterpart Funds will be agreed between the EA/Project Team and the MEF. The request must also be recorded in the Project Counterpart Funds WA Register.

The GDICDM - reviews the request and submits it for approval by the MEF Management. Thereafter arrangements are made to transfer the funds from General Department of National Treasury Accounts to the Project's Counterpart Funds Designated/Advance Account.

On receipt of advice from the NBC or other approved financial institution that the funds have been deposited into the Counterpart Funds Designated/Advance Account, the receipt of the funds should be recorded in the General Ledger and the Government WA Register must be updated.

18.3.2. Counterpart Funds Replenishment

The Project Team completes the Request for Replenishment and attaches a Statement of Actual Expenditure together with the Disbursement Tracking Form for Counterpart Funds as shown in **Figure 17.2**. Supporting expenditure documentation must be maintained by the Project Team for subsequent review by the MEF or audit.

The request must be signed by the authorized signatories of the EA/Project and submitted to the GDICDM of the MEF. The request must also be recorded in the Project Counterpart Funds WA Register.

The GDICDM reviews the request and submits it for approval by the MEF Management. Thereafter arrangements are made to transfer the funds from General Department of National Treasury Accounts to the Project's Counterpart Funds Designated/Advance Account.

On receipt of advice from the NBC or other approved financial institution that the funds have been deposited into the Counterpart Funds Designated/Advance Account, the receipt of the funds should be recorded in the General Ledger and the Government WA Register must be updated.

18.3.3. Direct Payment to Supplier or Contractor

The PMU completes a Request for Direct Payment together with all supporting documents. Separate Withdrawal Applications are required for each payment in different currencies.

The following documentation must be attached to the request:

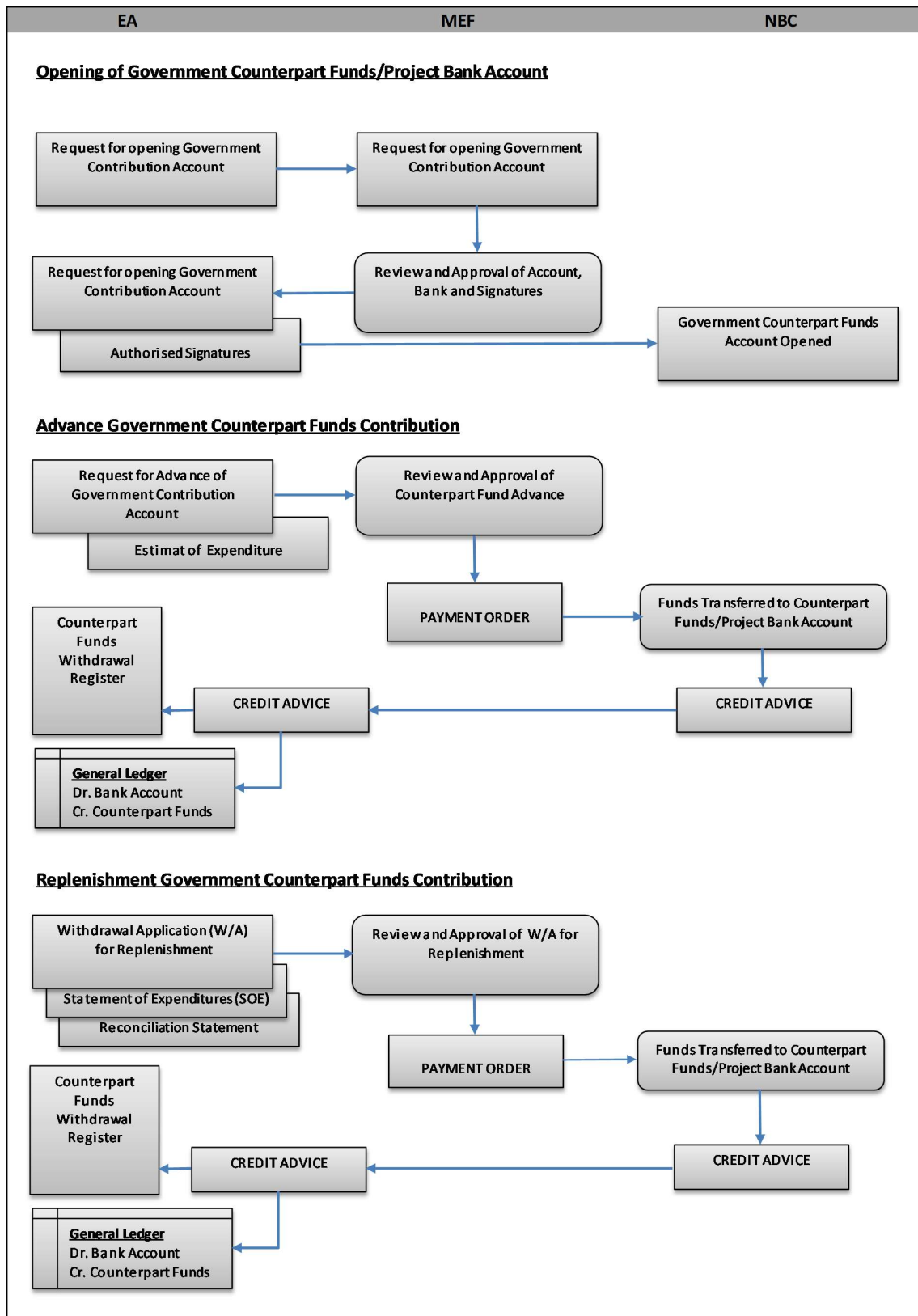
- Copy of Contract(s).
- Supplier or Contractor Invoice or Claim.
- For Civil Works - summary of Works progress certified by the Project Technical Officer and approved by the relevant Project Authorized Officer.
- For equipment and materials purchased - evidence of shipment, either a copy of the Bill of Lading or the Forwarder's Certificate.

- Performance Security such as a Bank Guarantee in the case of advance payments if required under the terms of the Contract, or where an unusually large advance payment is made.

The request must be signed by the authorized signatories of the EA/Project and submitted to the GDICDM. The request must be recorded in the Project Counterpart Funds WA Register.

The GDICDM reviews the request and submits it for approval by the MEF Management. Thereafter arrangements are made to transfer the funds from General Department of National Treasury Accounts to account of the Supplier or Contractor.

On receipt of advice from the GDICDM that the payments have been made, the receipt of the Counterpart Funds should be recorded in the General Ledger and the Government WA Register must be updated.



19. FINANCIAL MANAGEMENT REPORTS

19.1. *Overview*

Financial Management Reports (FMRs) provide important information to the Project Management and to external users on the progress of project implementation and the financial status of the Project. Three types of Financial Management Reports are required to be produced by the Project Team to support effective monitoring of the Project's financial position and progress and to support sound management decision making. These are:

- Monthly Financial Management Reports;
- Quarterly Financial Management Reports;
- Annual Financial Statements.

The MEF and the DPs use the Project's Financial Management Reports and Annual Financial Statements to monitor the financial performance of the Project and to identify issues which require attention and management action. The Annual Audited Financial Statements also provide assurance that the financial resources of the Project are being properly used for project purposes and are being properly managed in compliance with the project agreements. Indicative samples of Monthly, Quarterly and Annual Reports are attached in **Appendix 4, Figures 19.1 – 19.7**.

19.2. *Financial Management Reports*

19.2.1. Internal Financial Management Reports

The following reports, together with the Project's Month-end Trial Balance, must be prepared and submitted to the MEF-OMC:

- Designated/Advance Account Reconciliation (Examples are given in **Figure 19.8**);
- Uses of Funds by Category and Source of Funds;
- Statement of Uses of Funds by Project Activities;
- Sources and Uses of Funds by Category;
- Summary of Monthly Report by Category.

The Annual Budgets are based on the Project Annual Work and Procurement Plans. The regular Financial Management Reports must be prepared showing actual financial performance compared to Budget and the variations to budgets. Variations to plans are analysed and reported to enable management to monitor progress and make decisions on project implementation and related issues. Analysis of variations to budgets should include identification of the reasons for deviations, implications of the variations, and forecasts of the estimated revenue and expenditure based on the actual financial performance to date.

The Project Director/Manager is required to make more use of the Budget Variance Analysis as a project management tool.

Reports may also be required to monitor compliance with the financial policies and procedures of the Project. Examples include:

- List of Outstanding Advances (yet to be adjusted);
- Outstanding Withdrawal Applications.

Figure 19.8: Designated/ Advance Account Reconciliation Statement Samples

ADVANCE ACCOUNT RECONCILIATION STATEMENT (AARS)					
LOAN/GRANT No. _____					
Application Number: E0043		With (Bank): _____			
Bank Account Number: _____		Bank Address: Phnom Penh, Cambodia			
1 PRESENT OUTSTANDING AMOUNT ADVANCED					
TO THE ADVANCE ACCOUNT NOT YET RECOVERED					US\$ ¹ 950,000.00
Less : Total Amount Recovered					US\$ (404,638.11)
Liquidation of WA No. E0002					US\$ (140,710.53)
Liquidation of WA No. E0007					US\$ (98,180.46)
Liquidation of WA No. E0009					US\$ (80,069.30)
Liquidation of WA No. E0011					US\$ (85,677.82)
Add: Increase Celling WA No. E0031					US\$ 154,638.11
					US\$ 700,000.00
2 BALANCE of advance account as of 30-Jun-18					US\$ 7,876.16
per bank statement²					
Deduct Outstanding Check:					US\$ (4,063.44)
<u>Check No.</u>	<u>Description</u>	<u>Date</u>	<u>Amount (USD)</u>		
00444	Vehicle maintenance 9-2-0086, 9-2-0680 & 9-2-0088	27-Jun-18	(2,107.44)		
00445	Purchased 4 GPS MAP 64S (black) Include software, Display Resolution 160x240pixels, Waterproof Standard:	28-Jun-18	(1,956.00)		
3 ADD: Amount of eligible expenditures claimed in attached application WA No. E0043 from 01-May-18 30-Jun-18					US\$ 359,332.57
4 ADD: Amount claimed in previous applications not yet credited at date of bank statement					US\$ 318,689.48
<u>WA No.</u>	<u>Period Cover</u>		<u>Amount</u>		
E0040	01-Mar-18	31-Mar-18	US\$ 141,314.88		
E0042	41/2018	30-Apr-18	US\$ 177,374.60		
5 TOTAL amount withdrawn from the advance account but not yet claimed for replenishment					
a. Subaccounts³					US\$ 9,330.43
a.1	Total balance for subaccount #1 PPIU1	<u>A/c No. 1700-01-024168-1-8</u>	US\$	7,170.15	
a.2	Total balance for subaccount #2 PPIU2	<u>A/c No. 3000-01-019851-1-6</u>	US\$	2,020.26	
a.3	Total balance for subaccount #3 PPIU3	<u>A/c No. 1700-01755394-1-0</u>	US\$	140.02	
b. Transfer in transit					US\$ - US\$ -
c. Petty cash balance					US\$ 1,122.80
- PIU					US\$ 420.15
- PPIU-1					US\$ 451.65
- PPIU-2					US\$ 170.00
- PPIU-3					US\$ 81.00
d. Amount of unliquidated expenses⁴					US\$ 7,712.00
- PIU					US\$ 2,450.00
- PPIU-1					US\$ -
- PPIU-2					US\$ 5,262.00
- PPIU-3					US\$ -
e. Others (please specify)					US\$ - US\$ -
					US\$ 18,165.23
6 TOTAL ADVANCE ACCOUNTED FOR					US\$ 700,000.00
Explanation of any discrepancy between totals appearing in lines 1 and 6 above (e.g., earned interest credited to the account,					-
7 ADVANCE ACCOUNT TURNOVER RATIO⁵					1.84
8 APPROPRIATE LEVEL OF ADVANCE BALANCE (item 1 x item 9 x 6/12)					US\$ 644,000.00
9 REQUESTED LEVEL OF ADVANCE					US\$ 700,000.00

Advance Account Reconciliation Statement (ADB)

Loan/Co-financier Number: _____

Application Number: _____

Account Number: _____ with National Bank of Cambodia (NBC) or commercial bank

Bank Address: Phnom Penh, Cambodia

1. PRESENT OUTSTANDING AMOUNT ADVANCED TO THE
IMPREST ACCOUNT NOT YET RECOVERED (=) _____

2. Amount in Advance Account as of ____/____/____ (-) _____
per Bank Statement (copy attached)

Deduct Outstanding Checks: (+) _____

<u>Check No.</u>	<u>Date</u>	<u>Amount</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

3. Add: Amounts of eligible expenditures documented/claimed (+) _____
in attached application (no. _____ from ____/____/____ to ____/____/____)
4. Add: Amounts claimed in previous applications not yet credited at date (+) _____
of Bank Statement:

<u>W/A</u> <u>No.</u>	<u>Description</u>	<u>Period Covered</u>	<u>Amount</u>
_____	_____	From ____/____/____ to ____/____/____	_____
_____	_____	From ____/____/____ to ____/____/____	_____
_____	_____	From ____/____/____ to ____/____/____	_____

5. Total expenditures withdrawn from Advance Account but not yet claimed (+) _____
for replenishment.
- (a) Petty Cash balance _____
- (b) Un-liquidated advances _____
- (c) Temporary used for Counterpart Fund _____

6. TOTAL ADVANCE ACCOUNTED FOR (=) _____

Example of a Designated /Advance Account Reconciliation Statement (World Bank)

MINISTRY OF ECONOMY AND FINANCE

DESIGNATED ACCOUNT RECONCILIATION STATEMENT

CREDIT NUMBER: xxxx-

KH: _____PROJECT

ACCOUNT NUMBER: xxxxx-xxx

WITH (BANK) NATIONAL BANK OF
CAMBODIA

1. TOTAL ADVANCED BY DP:	USD	1,000,000.00
2. LESS: TOTAL AMOUNT RECOVERED BY DP:	USD	-
3. EQUALS PRESENT OUTSTANDING AMOUNT ADVANCED TO THE DESIGNATED ACCOUNT (NUMBER 1 LESS NUMBER 2)	USD	1,000,000.00
<hr/>		
4. BALANCE OF DESIGNATED ACCOUNT PER ATTACHED BANK STATEMENT AS OF DATE: _____	USD	575,706.88
5. PLUS: ADVANCE TO SDA	USD	-
6. PLUS: TOTAL AMOUNT CLAIMED IN THIS APPL. NO.: _____	USD	261,584.17
7. PLUS: TOTAL AMOUNT WITHDRAWN FROM THE DESIGNATED ACCOUNT AND NOT YET CLAIMED RAISON _____	USD	-
8. PLUS: AMOUNTS CLAIMED IN PREVIOUS APPLICATION NOT YET CREDITED AT DATE OF BANK STATEMENT		
<u>APPLICATION No.</u>	<u>AMOUNT*</u>	
.....	
.....	
SUB-TOTAL OF PREVIOUS APPLICATIONS NOT YET CREDITED	USD	-
9. MINUS: INTEREST EARNED	USD	-
10. TOTAL ADVANCE ACCOUNTED FOR (No. 4 THROUGH No. 9):	USD	837,291.05
11. EXPLANATION OF ANY DIFFERENCE BETWEEN THE TOTALS APPEARING ON LINES 3 AND 10	USD	162,708.95

DATE:
.....

SIGNATURE: _____
TITLE: _____

* ALL ITEMS SHOULD BE INDICATED ON THE BANK
STATEMENTS

POOL IMPREST ACCOUNT RECONCILIATION STATEMENT (PIARS)										
Application Number _____				With (Bank) _____						
Account Number _____				Bank Address _____						
	Loan/Grant No. Fund Source		Total	L/G/XXXX (#####)	L/G/XXXX (#####)	L/G/XXXX (#####)	L/G/XXXX (#####)	L/G/XXXX (#####)	L/G/XXXX (#####)	L/G/XXXX (#####)
1	PRESENT OUTSTANDING AMOUNT ADVANCED TO THE IMPREST ACCOUNT NOT YET RECOVERED	US\$	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX
2	BALANCE of Imprest account as of _____ per bank statement (copy attached)	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
3	ADD: Amount of eligible expenditures claimed in attached application (VWA no. _____)	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
4	ADD: Amount claimed in previous applications not yet credited at date of bank statement									
	Withdrawal Application No. _____									
	XXXXX	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	XXXXX	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	XXXXX	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	Total Amount claimed but not yet credited	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
5	TOTAL expenditures withdrawn from Imprest account but not yet claimed for replenishment									
	a. Second Generation Imprest Accounts (SGIA) ¹									
	a.1 Total SCIA balance accounted for PIU#1 _____	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	a.2 Total SGIA balance accounted for PIU#2 _____	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	a.3 Total SGIA balance accounted for PIU#3 _____	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	a.4 Total SGIA balance accounted for PIU#4 _____	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	a.5 Total SGIA balance accounted for PIU#5 _____	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	Total SGIA balances accounted for	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	b. Transfer in transit	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	c. Petty cash balance	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	d. Unliquidated expenses (itemize expenses)	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
	e. Others (Please specify)	US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
		US\$	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX	XXX, XXX.XX
6	TOTAL ADVANCE ACCOUNTED FOR	US\$	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX	X,XXX,XXX.XX
Explanation of any discrepancy between totals appearing in lines 1 and 6 above (e.g., earned interest credited to the account, bank charges, etc.):										
Authorized Representative _____										
¹	List all existing SGIA's with corresponding amount advanced. Attach latest Second Generation Imprest Account Reconciliation Statements (SGIARS) and bank statements.									

19.2.2. External Financial Management Reports

The EAs are required to submit Financial Management Reports each quarter of the Financial Year within forty-five (45) calendar days after the end of the quarter.

The Financial Management Reports that are required to be submitted will be agreed by the DPs with the EAs during project appraisal and Loan negotiations. The requirements will be set out in the project agreements.

The DPs may have slightly different requirements based on their internal use of the Reports submitted by the Government.

For example, for the WB, the FMRs usually consist of the following statements:

- Sources and Uses of Funds by Loan/Grant Category, by Project Component, by Sources of Funds - for the reporting quarter, year to date and cumulate to date, compared with Budget.
- Project Balance Sheet – this will provide information of status of the funds and assets acquisition.
- Physical Progress Reports - these will provide information on project implementation progress in physical and financial terms using monitoring indicators, including identifying deviations from plan and explanation of the reasons for such variations.
- Procurement Monitoring Reports - these will provide reports on the status of procurement and contract commitments and expenditure including source of supply data for contracts subject to the banks prior review, as well as the post review of contracts above One Hundred Thousand USD (US\$100,000) equivalent.

For the ADB, the FMRs usually consist of the following statements:

- Statement of Receipts and Disbursements - details of resources received and all expenditures incurred for a particular period or per month and the funds balances.
- Summary of Accumulated Expenditure Report by Category - this will provide information about the analysis of the funds received, spent and funds balance.
- Balance Sheet/with Designated/Advance Account and SGA Reconciliation.
- Loan Disbursement Summary by Category and its balances.
- Example of Quarterly Financial Management Report.

An example of a generic Quarterly Financial Management Report is shown in **Figure 19.9** below:

Figure 19.9: ABC Project: Quarterly Financial Management Report
Statement of Sources and Uses of Funds by Components and Sub-Components

	Actual Current Quarter	Actual Year to Date	Actual Cumulative. to Date	Plan Current Quarter	Plan Year to Date	Plan Cum to Date	Variance Current Quarter	Variance Year to Date	Variance Cum to Date	% Current Quarter	% Year to Date	% Cum to Date
Opening Balance Cash and Bank	74,226.64											
SOURCES OF FUNDS												
Funds received from IDA	271,375.01											
Total Sources of Funds	271,375.01											
USES OF FUNDS												
Component 01: Early Childhood Education Expansion												
1.1 ECE Facilities Expansion	7,405.74											
1.2 Home & Comm. Based ECE Expansion	6,022.60											
1.3 ECE Development Policy & CB	2,735.68											
Total Component 01	16,164.02											
Component 02: Improve Primary Education Access & Quality												
2.1 Expand Primary Education	219,195.06											
2.2 Stimulating Demand for Education	1,943.49											
2.3 Support Child FR School	10,497.16											
2.4 School Improvement Grants	1,589.00											
2.5 Instructor MR Provision	802.40											
Total Component 02	234,027.11											
Component 03: Institution Development & Capacity Building												
3.1 District Offices of EF Expansion	5,773.96											
3.2 FM, PPM Capacity Building	9,785.98											
Total Component 03	15,559.94											
TOTAL USES OF FUNDS:												
Components 01,02 &03	265,751.06											
Closing Balance Cash and Bank	79,850.59											

ABC Project: Quarterly Statement of Sources and Uses of Funds by Components and Sub-Components

	Actual Current Quarter	Actual Year to Date	Actual Cumulative. to Date	Plan Current Quarter	Plan Year to Date	Plan Cum to Date	Variance Current Quarter	Variance Year to Date	Variance Cum to Date	% Current Quarter	% Year to Date	% Cum to Date
Opening Balance Cash and Bank	74,226.64											
SOURCES OF FUNDS												
Funds received from IDA	271,375.01											
Total Sources of Funds	271,375.01											
USES OF FUNDS												
Component 01: Early Childhood Education Expansion												
1.1 ECE Facilities Expansion	7,405.74											
1.2 Home & Comm. Based ECE Expansion	6,022.60											
1.3 ECE Development Policy & CB	2,735.68											
Total Component 01	16,164.02											
Component 02: Improve Primary Education Access & Quality												
2.1 Expand Primary Education	219,195.06											
2.2 Stimulating Demand for Education	1,943.49											
2.3 Support Child FR School	10,497.16											
2.4 School Improvement Grants	1,589.00											
2.5 Instructor MR Provision	802.40											
Total Component 02	234,027.11											
Component 03: Institution Development & Capacity Building												
3.1 District Offices of EF Expansion	5,773.96											
3.2 FM, PPM Capacity Building	9,785.98											
Total Component 03	15,559.94											
TOTAL USES OF FUNDS: Components 01,02 &03	265,751.06											
Closing Balance Cash and Bank	79,850.59											

19.3. Annual Financial Statements

19.3.1. Responsibility for the Financial Statements

The EA and Project Management are responsible for preparing and issuing the Annual Financial Statements for the Project and Audit.

19.3.2. Principles of Financial Reporting

The following fundamental principles must apply to all Interim and Annual Financial Statements on projects issued by the Government (as the Borrower):

- Disclosure of full accountability for all funds of the Government, DPs and other donors.
- Compliance with the Loan covenants and the DPs requirements for project management.
- Adequate disclosure of all material information.
- A fair presentation in all material aspects of the financial performance and status of the Project, and where applicable of the EA.
- A clear statement on the accounting policies and standards adopted in preparing the Financial Statements. The format of the Financial Statements of the Project must be agreed between the DP and the EA.

19.3.3. Projects Executed by the Revenue Earning EAs

A revenue earning EA may exhibit some of the following characteristics:

- Generating revenue through its operations;
- A high degree of autonomy;
- Financial viability;
- Own accounting policies and practices.

Examples of revenue earning Executing Agencies are the Government departments or agencies, which are empowered to operate facilities with revenue-earning characteristics, such as a water supply authority, an electricity supplying authority etc.

For projects executed by the revenue earning EAs, reporting of the Project's financial performance may be incorporated into the Annual Financial Statements of the EA with separate disclosures of the Project's financial information in the notes to the EA Financial Statements.

The financial statements requirements for the EA and the Project will be specified in the Loan/Credit/Grant Agreement.

20. AUDIT

20.1. *Internal Audit*

Internal audit is a key element of the organisational system of internal controls. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes¹⁰.

The Audit Law, promulgated by Royal Decree No. CS/RKM/1300/10 dated 10 March 2000, requires all Line Ministries responsible for implementing externally assisted projects to establish an independent internal audit unit. This unit must be adequately staffed with qualified and experienced staff.

All Departmental Internal Audit Units in the Ministries come under the oversight and guidance of the General Department of Internal Audit of the MEF (GDIA-MEF), which is also responsible for developing and issuing guidelines for internal audit function. It is also responsible for capacity building by providing continuous support and training. Departmental Internal Audit Units in each Ministry design their overall annual work program, again with the support and guidance of the GDIA-MEF, but the selection of the actual projects or sub-projects to be audited is done by the Departmental Internal Audit Unit in coordination with the management of the respective Ministry.

As part of the financial management arrangements for projects, the EA should ensure that its Internal Audit Unit carries out regular reviews of the internal control processes, systems and procedures applied to the Project and the audit findings are reported to the Head of the EA, the PMU and the MEF. The internal audit findings and reports are also made available to the National Audit Authority (NAA), as per the Government procedures, and to the external auditors of the Project, where this is engaged for the Project. If the Loan/Credit/Grant Agreement requires, as part of the covenants, the Report should be provided to the DP.

The Internal Auditors should work closely with the PMU, to support and ensure that project operations are carried out in accordance with the relevant agreements, and are transparent, fair, cost efficient and effective. The Departmental Internal Audit Unit should carry out their work in accordance with a Work Plan which should be developed before the commencement of the internal audit assignment. The Departmental Internal Audit Unit must report its findings to the Head of the EA. The costs associated with the internal

¹⁰ As defined by the Institute of Internal Auditors (IIA), established in 1941, the IIA is an international professional association with world headquarters in Altamonte Springs, Florida, United States. The IIA has approximately 85,000 members in internal auditing, risk management, governance, internal control, IT audit, education, and security. With global representation, the IIA is the recognized authority, principal educator, and acknowledged leader in certification, research, and technological guidance for the profession worldwide.

audit work on a Project can be financed from the DP Funds, if this is included under the Financing Plan of the Project.

20.2. External Audit

The project accounts may be audited by the NAA, which being the Supreme Audit Authority of the Government is vested with the powers to carry out audit of Government expenditures and report to the legislature. However, some DPs require Annual Financial Statements for the projects to be audited by an external auditor whose qualifications, experience and Terms of Reference are acceptable to the DP. Such audit requirements are specified in the Project Loan/Credit and Grant Agreements. The MEF is responsible for the appointment of External Auditors for all DP-financed projects. A Sample Audit TOR is attached as **Appendix 6**.

The Audit is conducted in accordance with the Cambodian Standards on Auditing and Assurance (CSAA), which conforms with the International Standards of Auditing (ISA) issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB), or by the International Organisation of Supreme Audit Institutions (INTOSAI).

The timeframe for the submission of the Audited Financial Statements to the DP is specified in the Loan/Credit/Grant Agreement. Usually, the submission period is within six months from the end of the Financial Year of the EA. At the beginning or at the end of the Project the period of the Financial Statements and audit requirement may be varied with the Agreement of the DP. For example, if minimum expenditures have been incurred at the start of project implementation for part of the year (covering only a few months), agreement could be reached with the DP that, such expenditures for part of the year could be included in the next full year's audit.

Unless otherwise specified in the Loan/Credit/Grant Agreement, the submission of Audited Financial Statements is required throughout the life of the Project. In case of revenue-earning projects such as Water Supply or Electric Power Utilities, the requirement may be beyond the life of the Project, which will be clearly specified in the Loan / Credit Agreement of the respective DP.

The external auditors must be selected in accordance with the procurement procedures as outlined in the Procurement Manual and Standard Operating Procedures Manual.

In general, the auditors are required to:

- Express an opinion on whether the Financial Statements present fairly the operations of the Project or the EA for the period covered by the audit; and report on compliance with the project agreements, and adequacy of the internal control procedures.
- The scope of Audit for a project audit must include the audit of all expenditures irrespective of who funded the activity.

- For some expenditures under counterpart funding like the recurrent costs of staff and similar costs including land acquisition and resettlement, these are also audited by the NAA as part of the annual audit of the Ministry. The external auditor's TOR and scope of audit of the Counterpart Funds could make the external auditor aware of this standard Government practice, so that the external auditor may decide not to include this activity in their Work Plan. However, if the external auditor would like to include this audit in their Work Plan then and under the generally accepted practice of not restricting the External auditors' activity in any way, it is the external auditors' prerogative to decide whether to include it in their scope or not.

Generally, Designated/Advance Accounts and the associated records of each EA are audited as part of the annual audit. The DPs specifically require separate audit opinions on the operations of the Designated/ Advance Accounts at every level. These requirements are set out in the Project/Credit/Grant Agreements.

Where there is more than one EA under one Project, separate audits of the EAs may be conducted. In such cases, the main coordinating EA of the Project must collect all related Audited Financial Statements and prepare a consolidated set of Financial Statements for the Project and arrange for the audit of the Consolidated Financial Statements. The main coordinating EA is responsible for coordinating the audit requirements for all aspects of the Project, and the main and subsidiary audit arrangements.

It should be noted that auditors should not be involved in preparation of the project accounts, records and/or Financial Statements, as this compromises the independence of the auditors and the reliability of the audit opinion.

The scope of the audit must be set out in the terms of reference for the appointment of the auditors of the Project. The requirements of the EA, the MEF or the DP must be determined by all parties prior to the selection process and included in the terms of reference and, ultimately, in the Contract (terms of engagement) with the selected auditors. The sample TOR in **Appendix 6** is used unless a DP has additional requirements, which may be accommodated by amending the sample TOR.

At the conclusion of the audit the auditors present their findings and results in the Audit Report and Management Letter (ML)/Internal Control Report (ICR) to the EA and the MEF.

The Audit Report must contain a clear written expression of opinion on the reliability of the Financial Statements. This audit opinion together with the Financial Statements and Management Letter must be submitted by the auditors to the EA, MEF, NAA and to the DP within the required time frame.

In addition to the Audit Report on the Financial Statements, the DPs also require the auditors to prepare a ML/ICR to report identified weaknesses and deficiencies and the implications of such weaknesses in the internal control systems of the EA and the Project that have been found during the audit, and to make recommendations for improvements. The ML/ICR will include the responses by the EA to the recommendations provided. A

copy of the ML/ICR must be provided to the DPs, with the submission of the Audit Report on the Annual Financial Statements.

20.2.1. Follow-up Activities

The EA management should ensure that a follow up mechanism is put in place, through which the issues and recommendations of the auditors as outlined in the Management letter are regularly reviewed and follow up action taken in a timely manner. This will ensure that all the identified weaknesses are appropriately addressed without delay. The EA Management shall ensure that the identified issues and recommendations are given appropriate attention by project staff and Project Management alike. It may also consider using its internal audit department to ensure that the issues and recommendations as articulated in the ML/ICR are satisfactorily addressed. Furthermore, the DPs should be informed in a timely manner on all follow up activities of the ML/ICR.

21. RECORDS MANAGEMENT

21.1. *Overview*

It is the responsibility of the EA and the Project Management Team to ensure that there is proper record management and security of information for projects. The record management policies, systems and procedures should be defined in the Project's Implementation Manuals such as the Project Administration Manual (PAM). In particular, the records management for financial and procurements records must be clearly documented in the respective Procurement and Finance Manuals of the Project.

The EA and Project Management are responsible for ensuring that all personnel in the Project are aware of and comply with the record management policies and procedures of the Government and the financing DPs.

21.2. *Project File*

A Project File is required to be maintained by the Project Management responsible for the Project in a safe and secure location. This is a permanent file and the Project Manager is responsible for sustaining its continued currency, relevance and security.

A Project File must contain:

- All information gathered during fact-finding, appraisal and supervision of a Project. This material is required to provide staff and management with continuous access to regularly updated information related to a Project, its background, and on the Executing Agency and various institutions of the Government whose decisions are likely to have an impact on its performance during implementation and subsequent operation of the Project.
- All key data including maps of the project area(s), organization structures of the Government, including the various agencies involved in the Project; details of original and amended economic and financial policy decisions which would affect the Project and the Executing Agency; the assumptions and basic calculations used for financial analysis, for financial performance indicators and for design of financial covenants.
- Copies of all computing software applications used in compiling data, including basic programming data and macros for software such as MS Excel which may be used to develop project-specific programs and analyses. The backs up files are to be stored in a location separate from the storage of the original files.

For purposes of disbursement records and supporting documents, copies of contracts, suppliers' invoices, statements of accounts, official receipts must be stored in fire-proof cabinets in a safe location. The major DPs require that these must be retained for at least two years from the completion of the last audit of the Project by external auditors. However, the Government regulations by law require that certain types of documents

must be kept for a minimum of ten (10) years. These must be observed for documents that go beyond the requirements of the DPs.

21.3. *Project Records at Project Completion*

At the completion of a development Project all project records and documents in the “Project File “ must be formally handed over to the Line Ministry that was responsible for the execution of the Project. This could be accomplished by the PMU making (i) a document inventory of all project documents and records to be handed over and (ii) Officially handing over all documents to the appropriate senior Ministry official of the respective Line Ministry. This handover process should be duly recorded with details of the officials in whose care the documents were entrusted.

21.4. *Security and Safe Keeping of Financial Records*

In accordance with the Cambodian general practice and law, financial records are required to be kept at least ten (10) years. All relevant documents such as contracts, financial reports, bank documents, business registration and licenses must be kept in a safe place or fireproof cabinets. The Head of the EA is responsible for ensuring that all records pertaining to the Project upon its completion must be kept in a safe and secure place.

Contracts and Agreements: Must be readily available in agency’s place of operation. Originals must be filed in fireproof cabinets.

Disbursement Vouchers and Supporting documents: Must be filed in a separate binder numerically by month and year. Disbursement Vouchers must be filed separately from Receipt Vouchers.

Vendor Invoices/Purchase Orders and other documents: These documents should be attached to the Disbursement Vouchers and filed accordingly.

Official Receipts and Bank Receipt Journals: Must be filed in separate files in receipt number order by month and year.

Advance Requests: Must be filed in the Advances Folder with separate sections for outstanding advances and acquitted (liquidated) advances.

Bank Account Authorized Signatories: Original signature documents must be held in fireproof safe, with control over access and copying.

Bank Statements and Reconciliations: Must be filed in date order with separate files for each bank account. Documents must be held securely in fireproof location.

Financial Management Reports: Must be filed in date order.

Annual Financial Statements and Audit Reports: Original signed Statements and Audit Reports must be held securely in fireproof safe.

22. GLOSSARY OF TERMS

The following lists the definitions of accounting terms. It is not intended to be a complete reference guide.

<i>Accounting</i>	The process of observing, measuring, recording, classifying, and summarizing the individual activities of an entity, expressed in monetary terms, and interpreting the resulting information.
<i>Accounting Policies</i>	The specific accounting basis selected by an accounting entity as being, in the opinion of those responsible for the entity, appropriate to its circumstances and best suited to present fairly its results and financial position. Accounting policies should be applied consistently and that those accounting policies followed when dealing with items, which are judged material or critical in determining profit and loss and stating the financial position should be disclosed by way of notes to the accounts.
<i>Accounts Receivable</i>	An amount owed by a debtor for delivered Goods or Service. It is also called 'receivable'.
<i>Accrual</i>	Recognition of the financial effects of transactions and events as they occur rather than when money is received or paid out. Not generally used in the Government accounting operations, except perhaps in organizations such as EDC or similar.
<i>Accruals Basis</i>	A principle, which may be used for the preparation of the Financial Statements that receipts and costs should be accounted for in the accounts for the period in which they are earned or incurred, so far as this is prudent irrespective of when the actual payments are made.
<i>Advance</i>	A payment, for Services being, or to be, supplied, paid before the due date for payment and, possibly, before the amount payable has been finally ascertained.
<i>Asset</i>	An item of property of an accounting entity that is expected to confer an economic benefit to the entity for an extended period (twelve (12) months or longer). In accounting, an item of property can only be an asset if it can be given a value in monetary terms and such an asset is sometimes called an "Accounting Asset".

<i>Audit</i>	The independent examination of, and expression of an opinion on the Financial Statements of an entity. In this definition, "entity" means any form of entity whether profit-oriented or not. Whilst generally this term is used for external audits, it also applies to in house or internal examination by an independent unit within the entity.
<i>Auditor</i>	The individual, partnership firm, or organization carrying out an audit, acting under delegated authority.

<i>Audit Report</i>	Any written report by an auditor on a matter on which an opinion has been sought within the terms of the auditor's appointment.
<i>Balance Sheet</i>	A Financial Statement for an accounting entity, which shows its financial position on a day (called the "Balance Sheet Date") by stating the values of its assets and liabilities on that particular day. A Balance Sheet is a classified summary of the balances on the ledger accounts of the accounting entity after nominal accounts have been closed off. In effect, it is a snapshot at a particular point in time.
<i>Bank Reconciliation</i>	A statement showing why a balance recorded in a Cash Book is not the same as the balance recorded on a Bank Statement. The difference may be made up of outstanding checks, erroneous entries, un-presented checks or unprocessed deposits etc.
<i>Bid Bond/ Bid Security</i>	An arrangement under which a Guarantor promises that if a particular tender for a Contract is awarded to a Contractor but the Contractor fails to take it up then the Guarantor will pay the amount agreed to in the Bid.
<i>Budget</i>	A plan expressed in financial terms; a summary of planned financial expenditures and receipts over a specified period, prepared before the period begins, or related to an activity, prepared before the activity begins.
<i>Cash Basis</i>	A principle, which may use as the basis for the preparation of the Financial Statements that receipts and expenditures should be accounted for during the period in which the money was actually received or paid. This basis of accounting is opposite to the accrual basis.

<i>Cash Book</i>	A section of a ledger recording cash and check expenses only.
<i>Chart of Accounts</i>	A list of the ledger accounts of an accounting entity giving the titles and code of the accounts for the purpose of preparing the various accounting and financial reports.
<i>Co-financing</i>	Co-financing refers to any arrangement under which funds from the DP are associated or linked with funds provided by other sources in the financing of a particular Project or Program. The term generally applies when the DP provides its own resources for project financing while also arranging for the participation of other financing sources. Co-financing offers the DP a way of ensuring that its operations serve as a catalyst for increased capital flows to its developing member countries (DMCs). Co-financing is intended to mobilise additional resources from official and private sources and to supplement and complement the DP's resources in its lending operations. The DP co-financing operations can be categorized into five major modes: parallel financing, joint financing, umbrella or standby financing, channel financing and participation financing. Refer to the respective DP website for more details.

<i>Commitment Letter</i>	This is a payment procedure used by the DPs, whereby at the Borrowers (the EAs) request, the DP agrees to reimburse a commercial bank for payments made or to be made to a Supplier against a Letter of Credit (LC) opened by the commercial bank
<i>Contract</i>	A promise or set of promises, which the law will enforce. In practice, almost all contracts involve two parties, the promise of each being the consideration for the promise of the other. A simple Contract is "formed" or the other party accepts "made" when an "offer" made by one party, which that party has not revoked. The two parties must have agreed to the same thing and must have the legal capacity to make contracts if the Contract is to be enforceable. In some circumstances, a Contract must be written down or there must be some written evidence for it to be considered to be enforceable.
<i>Contribution</i>	Money or other assets for use in the Project assigned and transferred to the Project by the Government under the obligations of the Loan/Credit/Grant Agreement.

<i>Cost</i>	The value of an asset or part of an asset given up, parted with, used or consumed, or a liability, or part of a liability incurred, in exchange for some item, good or service.
<i>Deferred Expenditure</i>	Expenditure in a period, which is not treated as an operating cost of that period but is treated as an asset with the intention that it will be an operating cost of a future period.
<i>Direct Payment</i>	This is a payment procedure followed by the DPs, whereby the DPs, at the request of the Borrower (the EA), pays a designated Beneficiary directly for payment of Works carried out, Goods supplied, or Services provided.
<i>Disbursements</i>	Advances and replenishments and other payments made by the DP from the Loan Account and made for their intended purpose as set out under the terms of the Loan/Credit/Grant Agreement.
<i>Double-entry Bookkeeping</i>	A method of making accounting records in which there are several accounts, known collectively as the "Ledger", arranged so that every transaction is recorded both as a credit in one account and a debit in another account. By definition the debits and credits must always be in balance.
<i>Expenditure</i>	A giving up of money or other assets, or an incurrence of a liability, in exchange for a benefit received or to be received. An amount of money or other assets given up, used or consumed, or a liability incurred during the ordinary activities of the Project.

<i>Expense</i>	Expenses are outflows or other using up of assets or incurring of liabilities (or a combination of both) from carrying out activities that constitute the Project's ongoing major or central operations.
<i>Financial Statement</i>	A statement, in monetary terms, of the results of an accounting entity's transactions over a specified period, giving totals for classes of transactions rather than details of individual transactions and presented in a commonly used form. The forms of Financial Statement to be prepared are the Statement of Expenditures Account, and Statement of Source and Use of Funds. Each of these Statements may be accompanied by notes giving supplementary information and should be prepared both under the historical cost convention. It is usual to prepare Financial Statements regularly once a year for the

	Project, reporting the financial position on the same date each year, and such Statements are called "Annual Accounts".
<i>Fiscal Year</i>	An accounting period of one year, which, in practice, may be twelve (12) consecutive calendar months but not necessarily from January to December, it could be any twelve (12) consecutive months.
<i>Force Account</i>	This is a procedure under which a Borrower (the EA) is reimbursed from the DP Funds for Civil Works carried out by the Borrower using its own work force, equipment and other resources.
<i>Funds</i>	Financial resources, finances.
<i>General Ledger</i>	The section of the ledger containing the accounts that are not in the Cash Book e.g. Expenditure Accounts, Loan Accounts and Accounts for the Project Assets and Liabilities.
<i>Historical Cost Convention</i>	The rule that the cost of acquiring or producing an asset and other expenses incurred are the amounts to be shown as the value of that asset and those expenses in the accounts.
<i>Designated or Advance Account</i>	A system for supplying and controlling cash/funds, in which the Project responsible for the cash/funds is given an initial advance sufficient for a time period. For each disbursement a voucher is written out and replenishment of Designated or Advance Account occurs at regular intervals or when funds are depleted to a certain level.
<i>Internal Control System</i>	The whole system of controls, financial and otherwise, established by the management in order to carry on the business of the Project in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.

<i>Journal</i>	A record of transactions, giving, for each transaction, a note of which ledger accounts are to be debited and credited.
<i>Letter of Credit (L/C)</i>	An arrangement between the DP and the Project (called the "Applicant for the Credit") under which debts of the Applicant incurred with a named third party (called the "Beneficiary of the Credit") are assured of payment. Letter of Credit is of two main types. In one type the issuing bank undertakes that when the Beneficiary presents stipulated

	documents (typically, documents evidencing shipment of specified Goods to the Applicant for the Credit), the DP will make payment to, or to the order of, the Beneficiary or will pay, provided that the terms and conditions of the Letter of Credit are complied with. In the second type, the issuing bank authorizes another bank (called the "Advising Bank" or "Correspondent Bank") to make payments, or deal with Bills of Exchange, against stipulated documents, and makes arrangements to reimburse the Advising Bank. Also called "Documentary Credit" because it involves the presentation of documents, "Credit", "and Bankers' Commercial Credit".
<i>Liability</i>	A claim against an accounting entity which, it is expected, will be settled by the entity parting with assets or, in some other way, losing an economic benefit.
<i>Loan Capital</i>	Money loaned to the Project by the DP or other financier for continuing use in financing the project activities and on which interest is payable at a rate which is laid out in the Loan/Credit/Grant Agreement.
<i>Outstanding Check</i>	A check that has been drawn on its bank account but has not yet been presented for payment to the bank.
<i>Petty Cash Book</i>	A book recording minor expenses and receipts of cash.
<i>Performance Bond/ Performance Security</i>	An arrangement under which a Guarantor promises to pay compensation to a buyer if a Sales Contract is not properly performed.
<i>Procurement</i>	The process of obtaining Goods or Services necessary under the Project. Procurement Guidelines are set out by the DPs and the Government.
<i>Project Implementation</i>	The period in which the defined project activities and objectives are pursued and completed. Usually, these activities cannot begin until the Loan/Credit/Grant Agreement becomes effective. However, certain preliminary steps in the procurement of Goods and selection of Consultants can begin at an earlier stage to speed up project implementation. Implementation time generally ranges from two to five years and depends on the type and nature of the Project. The progress of project implementation is assessed by the DPs review missions, which visits the Project about once a year throughout the implementation period.

<i>Register</i>	A file of data/information on a common subject matter. Not part of the double-entry system.
<i>Retention Money</i>	A part of the charge for work done by a Contractor that is not paid until sometime after the work is completed so that deductions can be made if the work turns out to be faulty or as an incentive to the Contractor to provide maintenance services. The period the funds are normally held up is also called "Contract Liability Period".
<i>Statement of Sources and Uses of Funds</i>	A Financial Statement for an entity showing how the operations of the entity have been financed and how financial resources have been used during the specified period. The Statement provides a link between the Statement at the beginning of the period and at the end of the period.
<i>Terms</i>	Conditions or duties, which must be carried out as part of Contractor arrangements, which must be agreed before a Contract is valid.
<i>Terms of Payment</i>	Conditions for paying something.
<i>Trial Balance</i>	A list of all the balances on the ledger accounts before representing them in the periodic reports. The totals of credit and debit balances should be the same every time.
<i>Voucher</i>	A document that corroborates or explains an entry in accounting records, especially a document that explains why a payment is made.

APPENDIX 1 – SAMPLES OF ACCOUNTING DOCUMENTATION*

Form No.	Accounting Documentation
F-001	CASH BOOK
F-002	DISBURSEMENT VOUCHER
F-003	RECEIVING VOUCHER
F-004	JOURNAL VOUCHER
F-005	PETTY CASH BOOK
F-006	CASH COUNT SHEET
F-007	PETTY CASH PAYMENT VOUCHER
F-008	REQUEST FOR ADVANCE PAYMENT
F-009	RECONCILIATION OF AMOUNT ADVANCED
F-010	ADVANCE REGISTER
F-011	CONTRACT REGISTER
F-012	CONTRACT PROGRESS PAYMENT CERTIFICATE
F-013	WITHDRAWAL APPLICATION REGISTER
F-014	SECURITY REGISTER
F-015	ASSET AND INVENTORY REGISTER

***Note:** These are just a range of sample forms. Each agency may develop form(s) suitable for their own needs, except for forms that are prepared for the MEF for consolidation purposes, which need to be uniformed.

Cash Book (CB)

When to use:

All entries from PVs and JVs relating to the replenishment of DA funds will be posted to the Cash Book. Posting will only be made after the DV/PV and JVs have been approved by the Project Manager/Project Director.

How to complete:

1. Enter details of Bank Name and Account Number.
2. Complete columns 1 and 2 with details of Date and reference numbers of the relevant DV.
3. In column 3 enter a brief Description of the transaction. The top of each Cash Book page will record the Balance Brought Forward from the previous page, while the bottom of the page will record the Balance Carried Forward to the next page.
4. Enter Check issued for each payment.
5. Enter corresponding GL Account Code relating to the entry.
6. Enter Debit or Credit Amount (column 6 or 7) appropriately and calculate the Cumulative Balance for column 8.

Distribution:

- Finance Officer (to file).

Ministry _____
 Implementing Agency _____
 Project No.: _____
 Name of Project _____

CASH BOOK

Bank's Name : _____
Account No.: _____

Date	Voucher No.	Description	MTO/ CHQ No.	GL code	Debit	Credit	Balance
		Balance Brought Forward					
		Total this month					
		Balance Carried Forward					

Approved by:

(full name and signature)

Disbursement Voucher

When to use:

When making payments from any DA (DP, RGC or other).

Source documents:

1. Purchase Contract / Receipt.
2. Invoice.
3. Contract Progress Report.

How to complete:

1. Fill out the form with relevant details as shown in the form such as Date, Check Number, Voucher Number, posting details, Payees Name and Address, brief description of the payment, Amount of payment (in numbers and in words), Reference Request (both number and date of request).
2. Attach all supporting documents relevant to the payment such as Suppliers' Invoice and Receipt for Payment.
3. The bank Disbursement Voucher is generally prepared by the Cashier, checked by the Project Finance Officer, and authorized by the Project Manager/Project Director.

Distribution:

- Finance Officer (to file).

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____

F-002

Implementing Agency _____

Project No.: _____

Name of Project _____

DISBURSEMENT VOUCHER

Date: _____

Voucher No.: _____

Check/MTO No.: _____

Debit: _____

Credit: _____

- Paid to: _____

- Address: _____

- For (brief description): _____

- Amount (currency):

- Total amount (in words): _____

- Reference Request:

- Attached supporting documents:

.....
.....

Prepared by:

Reviewed by:

Approved by:

(full name and signature)

(full name and signature)

(full name and signature)

Received by:

(full name and signature)

Receiving Voucher

When to use:

If cash is received, for example where cash is reimbursed on clearance of an Advance or Cash Receipt from the Contractors for security purpose, a Receiving Voucher should be prepared by the Project Finance Officer and approved by the Project Manager/Project Director.

This Voucher is used by the Project Finance Officer to record the amounts received into the Cash Book.

How to complete:

All Receiving Vouchers must be sequentially numbered for control purposes.

1. When the Receiving Voucher is prepared, the date of preparation and the date of the cash receipt must be clearly recorded.
2. Write down clearly the full Name and Address of Payer.
3. Line "For" indicates the reason for the cash receipt, such as the Excess Advance Received, Bid Bond or Performance Bond received from any Contract etc.
4. Line "Amount" indicates in number and words the amount of cash receipts.

Distribution:

- Finance Officer (to file).
- Payer (to keep).

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____

Implementing Agency _____

F-003

Project No.: _____

Name of Project _____

RECEIVING VOUCHER

Date: _____

Voucher No.: _____

Debit: _____

Credit: _____

Full Name of Payer:

Address of Payer:

For:

Amount (currency):

Amount in words:

Reference:
.....

Prepared by:

Checked by:

Approved by:

(full name and signature) (full name and signature) (full name and signature)

Journal Voucher (JV)

When to use:

1. When Withdrawal Application (WA) for Special Commitment/Commitment Letter and Direct Payment is made, the JV is used to post expenditure and WA amount of Loan/Credit/Grant or Counterpart Funds to be disbursed.
2. Upon notification of receipt of funds from the DP or the NBC. Use the JV to post receipt to the DP Account or the Government Contribution, where Special Commitment/Commitment Letter or Direct Payment is applied.
3. The JV ID number will be assigned when the Journal Voucher is processed in the accounting systems.

How to complete:

1. Enter the names of account to be debited/(credited) in the Name of Account column. More than one account can be debited or credited on a JV if required. This column will appear on the accounting reports and is used to identify transactions.
2. Enter the appropriate Amount in the Debit/Credit columns.
3. Enter the Total amount in the space at the bottom of the Debit and Credit column.
4. A clear and complete explanation of the entries must always be provided at the bottom of the Voucher.

Distribution:

- Accountant (to file).

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____
Implementing Agency _____
Project No.: _____
Name of Project _____

F-004

JOURNAL VOUCHER

Date: _____

No.: _____

Account Name and Description	GL A/C No.	Amount	
		Debit	Credit
<u>Description:</u>			
Total			

Prepared by:

Checked by:

Approved by:

(full name and signature)

(full name and signature)

(full name and signature)

Petty Cash Book (PCB)

When to use:

All entries from PCPV and DVs relating to the replenishment of Petty Cash funds are posted in the PCB. Posting will only be made after the PCPV and DVs have been approved by the Project Manager/Project Director.

How to complete:

1. Complete columns 1 and 2 with details of Date and Reference Numbers of the relevant PCPV or DV.
2. In column 3 enter a brief Description of the transaction. The top of each PCB page will record the Balance Brought Forward from the previous page while the bottom of the PCB page will record the Balance Carried Forward to the next page.
3. In columns 5 and 6 enter the Petty Cash expense (or replenishment) and the corresponding Petty Cash Balance.
4. Enter the expense amount in the appropriate column (6-12).
5. At month end, expense totals for each expense account for the month are transferred to the relevant ledger.

Distribution:

- Finance Officer (to file).

No.: PCB/____/____

Cash Count Sheet

When to use:

Cash Count Sheet is intended to record the actual cash in the safe. The EA will determine the difference between actual and what is recorded in the book. The balance per Petty Cash Book should be reconciled on a monthly basis to the Cash Count Sheet. If necessary, it may be counted at other times as well. The Cash Count Sheet is an important part of the internal control system. It helps locate errors in the record keeping system. The Cash Count Sheet is signed by the Cashier or the Accounting Assistant who counts the cash, and also by the Project Finance Officer.

The month-end cash count should be approved by the Project Director or Project Manager.

How to complete:

1. The cash count is carried out periodically at the end of the month, quarter or year. If necessary, it may be counted at other times as well.
2. In the Cash Count Sheet, the document number and the counting date must be recorded.
3. Prior to the cash count, the Cashier must record all vouchers into the Cash Book and calculate the Balance of each, as at the time of the count. When performing the cash count, each type of item in the safe must be counted separately. The reasons why the cash count is over/under must be stated.

Distribution:

The Cash Count Report is prepared by the Cash Count Committee.

- Finance Officer (to file).
- Cashier (to file).

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____
Implementing Agency _____
Project No.: _____
Name of Project _____

F-006

CASH COUNT SHEET

Date: dd/mm/yyyy

No.: _____

	<u>Note</u>	<u>Quantity</u> <u>(slip)</u>	<u>Amount</u>
I. Actual Count:	US\$		
	<u>1</u>	_____	_____
	<u>2</u>	_____	_____
	<u>5</u>	_____	_____
	<u>10</u>	_____	_____
	<u>20</u>	_____	_____
	<u>50</u>	_____	_____
	<u>100</u>	_____	_____
	Total US\$:		<u>-</u>
	Khmer Riel		
	<u>50</u>	_____	_____
	<u>100</u>	_____	_____
	<u>200</u>	_____	_____
	<u>500</u>	_____	_____
	<u>1000</u>	_____	_____
	<u>5000</u>	_____	_____
	<u>10000</u>	_____	_____
	<u>20000</u>	_____	_____
	<u>50000</u>	_____	_____
	<u>100000</u>	_____	_____
	Total Khmer Riel:		<u>-</u>
	Exchange Rate		_____
	US\$ equivalent		_____
	Total cash		<u><u>-</u></u>

II. Balance in Petty Cash Book:

III. Difference:

Reason of difference:

- Over:
.....

-Short:
.....

Counted by:

Check by:

Approved by:

(full name and signature)

(full name and signature)

(full name and signature)

Petty Cash Payment Voucher

When to use:

When making any payments (including reimbursing expenses) from any Petty Cash Account (DP, RGC or other).

Source document:

1. Petty Cash Fund Request.
2. Invoice.

How to complete:

1. Fill out the form with relevant details as shown in the form such as Date, Voucher Number, posting details, Payees Name and Address, brief description of the payment, Amount of payment (in numbers and in words), Reference Request (both number and date of request).
2. Attach all supporting documents relevant to the payment such as Suppliers' Invoice and Receipt for Payment.
3. The Petty Cash Payment Voucher is generally prepared by the Cashier, checked by the Project Finance Officer, and authorized by the Project Manager/Project Director.

Distribution:

- Finance Officer (to file).

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____
Implementing Agency _____
Project No.: _____
Name of Project _____

F-007

PETTY CASH PAYMENT VOUCHER

Date: _____

Voucher No.: _____

Debit: _____

Credit: _____

- Paid to: _____

- Address: _____

- For (brief description): _____

- Amount (currency):

- Total amount (in words): _____

- Reference Request:

- Attached supporting documents:

<u>No.</u>	<u>Date</u>	<u>Brief description</u>	<u>Amount</u>
.....
.....
.....
<i>Total</i>			=====

Prepared by:

Reviewed by:

Approved by:

(full name and signature)

(full name and signature)

(full name and signature)

Received by:

(full name and signature)

Request for Advance Payment

When to use:

The Applicant to complete, when an advance payment is required for sub-project or any training workshop expenses.

How to complete:

1. The Applicant to enter details including purpose for request, Project Category and Amount (Rows 1 to 7).
2. Request is reviewed by the Finance Officer. Finance Officer also to indicate whether funds are to be taken from Petty Cash or the Designated Account/ Advance Account.
3. All requests over Five Hundred USD (US\$500) must be withdrawn from the Designated Account/ Advance Account and approved by the Project Director. Below this amount Petty Cash may be used and the Project Manager may approve.

Distribution:

- Finance Officer.
- Applicant.

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry_____

Implementing Agency_____

F-008

Project No.:_____

Name of Project_____

REQUEST FOR ADVANCE PAYMENT

Date: _____

No._____

- Requested by:

-Address:

- Requested for:

- Project Component:

- Project Category:

- Amount requested (currency):

- Total amount (in words):

-Reference:

.....

Applicant

Reviewed by

Approved by:

(Full name and signature)

(Full name and signature)

(Full name and signature)

Reconciliation of Amount Advanced

When to use:

1. Used for individual advance paid (whether from the Designated Account/ Advance Account or Petty Cash Fund), when they are returned or require adjustment.
2. Completed by the Finance Officer when the Applicant submits a Request for Adjustment of Expenditure.

How to complete:

1. Based on the Applicant's Request for Reconciliation/Adjustment, the Finance Officer completes the form, including items 1 and 2, based on the previous DV/PCPV relating to the initial advance payment(s) and the invoices completed in order to post the submitted expenditure.
2. The Finance Officer will review this expenditure prior to posting.
3. The Applicant will return any balance of cash advance payment. Alternatively, if expenses exceed the provided advance, then reimbursement is necessary (given that all expenditures are eligible) and a PCPV/ DV needs to be submitted to claim reimbursement.
4. The Project Manager/Project Director will review and approve the document when they have been completed by the Finance Officer.

Distribution:

- Finance Officer.
- Applicant.

Ministry _____
Implementing Agency _____
F-009
Project No.: _____
Name of Project _____

Date: dd/mm/yy
No. _____

Prepared by _____ Reviewed by _____ Approved by: _____
 (Full name and signature) (Full name and signature) (Full name and signature)

Advance Register

When to use:

The Advance Register, which is a summary of all advances made, is intended to assist the Finance Officer and Project Manager to monitor the advance payment amounts (whether from the Designated Account/Advance Account or Petty Cash) for sub-project expenses or any training workshops. It is completed for all advances and updated when the advances are reconciled/adjusted.

How to complete:

1. When the advances are paid, the Finance Officer enters the following relevant information into the Advance Register:
 - Request of Advance Number and Date.
 - Disbursement Voucher Number and Date.
 - The Amount of Advance Requested.
2. Finance Officer will update the Advance Register after the advances are reconciled/adjusted against the actual expenditures incurred.
3. As the payments are made, details are entered into the Advance Register, based on the Reconciliation of Amount Advanced Sheet.
4. Finance Officer should enter the following:
 - Reference of Reconciliation of Advance Number and Date.
 - Description of expenditures for the sub-project or any training workshops.
 - Amount of Expenses against invoices and receipts.
 - Amount Returned or Reimbursed.
 - The remaining Balance of advance.

Distribution:

- Finance Officer (to file).

**KINGDOM OF CAMBODIA
NATION RELIGION KING**

Ministry: _____

Implementing Agency: _____

F-010

Project No.: _____

Name of Project: _____

ADVANCE REGISTER

No. _____

Request for Advance Payment				Reconciliation of Amount Advanced					
Ref. Request		Description	Amount Requested	Ref. Reconciliation		Amount Expensed	Amount Returned	Amount Reimbursed	Balance
No.	Date			No.	Date				
Total			-			-	-	-	-

Prepared by

Reviewed by

Approved by:

(Full name and signature)

(Full name and signature)

(Full name and signature)

Contract Register (CR)

When to use:

The Contract Register is intended to assist the Finance Officer and Project Manager to monitor the progress of contracts. It is completed for all contracts when progress payments are made and updated as the Contract progresses.

How to complete:

1. When the Contract is initially made, the following information is input into the Contract Register:
 - Contract Reference Number and Account Code (separate CR is used for each Contract).
 - Procurement Evaluation Sheet reference and date.
 - Category of Expenditure (and code) relating to the Contract and type of supply (Civil Works, Goods or Services).
 - Name and Address of Contractor and the Contract Date.
 - Contract Value and US\$ equivalent.
 - Date of Commencement and Completion of the Contract.
2. Finance Officer retains copy of Contract Register.
3. As progress payments are made, details are entered into the Contract Register.

Distribution:

- Finance Officer (to file).

Ministry _____
Implementing Agency _____
Project No.: _____
Name of Project _____

CONTRACT REGISTER

General Ledger Acc. Code:

⁶ balance shall be determined against the total payment

Contract Progress Payment Certificate (CPPC)

When to use:

1. The CPPC is intended to record and verify the progress of: Services, Civil Works and Supply of Goods.
2. Upon receipt of the Contractor's Invoice for scheduled progress payment, the reasonableness of this Invoice must be verified.

How to complete:

1. The Consultant (or project staff responsible for the Contract) must complete the CPR with details in paragraphs 1 to 5.
2. Following verification that the invoiced amount is due (work completed, payment due within the terms of the Contract), the statement in paragraph 6 must be signed by the Consultant, and the Project Manager/Director to testify that the payment is justified.
3. Invoice is attached, and CPR distributed accordingly.

Distribution:

- Procurement Officer.
- Consultant.
- Project Manager.
- Finance Officer.

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____
Implementing Agency _____
Project No.: _____
Name of Project _____

F-012

CONTRACT PROGRESS PAYMENT CERTIFICATE

Date:

No.:

1. Contract Reference: No. Date:
2. Description of contract:
3. Name of Contractor/Supplier:
4. Address of Contractor/Supplier:
5. Description on Invoice:

Description	Amount (US\$)		
	DP Portion	RGC Portion	Total
Invoice Amount
Less: payment of mobilization advance (.....%)
Sub total:
Less: retention (..... %)
Sub total:
Less: other deductions
Add:
Net payment this invoice:
Previous Payment: <u>Description</u> <u>Date</u> <u>Voucher No.</u>			
.....
.....
.....
.....
Total previous payment:
Total Payments
Total contract value
Contract balance

Prepared by:

Reviewed by:

Approved by:

(full name and signature)

(full name and signature)

(full name and signature)

DP/ Government Withdrawal Application Register

When to use:

When an application is made to the DP for withdrawals in any form, update such withdrawals as received or paid.

How to Complete:

1. Finance Officer enters detail of Application for Withdrawal immediately prior to WA being sent to the MEF. Details are entered as provided for in the Register.
2. When withdrawal is received or paid, the Register should be updated with the relevant details.

Distribution:

- Finance Officer (to file).

Security Register (SR)

When to use:

All contract security amounts should be recorded in the SR, which is maintained for all kinds of security items.

How to complete:

1. Finance Officer should enter details of following information into the Security Register:
 - Category of Expenditure (and Code) relating to the Security (separate SR is used for each Contractor or Supplier).
 - Name and Address of Contractor
 - Description of Security.
 - Type of Security.
 - Receiving Date, Currency, and Amount of Security.
 - Balance Amount after liquidation.
2. The Finance Officer should then prepare a GJ to pass the Application to the relevant account.
3. When the deadline is over the Security is liquidated.

Distribution:

- Finance Officer (to file).

Ministry _____
Implementing Agency _____
Project No.: _____
Name of Project _____

SR/____/____

[illegible]

Approved by:

(full name and signature)

Asset and Inventory Register (AIR)

When to use:

When any item is purchased and the useful life of which is over one year, details should be entered into the Asset Register from the Invoice and DV. Such items would typically include vehicles, motorcycle, equipment, furniture and telecommunications. It is advisable that the Asset Register is updated at the time of GL and received by the Finance Officer and Project Manager on a monthly basis. The Asset Register should be updated on a continual basis with regard to location and condition of the assets.

How to complete:

1. Finance Officer to enter details of the item from the Invoice and PV. Such detail would generally include a Description of the Asset (including any uniquely identifying Serial/Model Numbers), Country of Origin; Purchase Date, PV Reference Number, Quantity, Unit Price, Amount, Location and Condition.
2. Asset Identification Number should be assigned to each Asset and the Asset labelled with such a number.
3. Any specific issue concerning the Asset should be recorded, as well as any Service Reminder Instructions, may also be included in this Register.

Distribution:

- Finance Officer.

KINGDOM OF CAMBODIA
NATION RELIGION KING

Ministry _____
Implementing Agency _____
Project No.: _____
Name of Project _____

F-015

ASSET AND INVENTORY REGISTER

As at

Class of Asset	Asset Identity No.	Description of Asset	Specification of Asset (Serial No./ Model/ Country of origin)	Purchase date	Ref. Voucher No.	Quantity	Unit Price (US\$)	Amount (US\$)	Location and Condition	Remarks
Total:										

Prepared by:

Checked by:

Approved by:

(full name and signature)

(full name and signature)

(full name and signature)

APPENDIX 2 - 2017 GOVERNMENT CHART OF ACCOUNTS

The original Chart of Accounts of the Government, issued under the Prakas No. 1212 MEF, dated 23 November, 2017, is a set of Economic Items for assets, liabilities, revenue and expenditure, analysed using a 5-digit code for Class, Chapter, Account and Sub-Account¹¹. The EAs must ensure that this Appendix is updated when the new CoA is available.

At the top level, the Classes are:

Class	Type of Account
1	Current Asset
2	Fixed Asset Accounts
3	Capital and Equity
4	Current Liability
5	Long Term Liability
6	Recurrent Expenditure Accounts
7	Revenue Accounts.

Chapters are two-digit codes within each Class. Thus, within Class 6 are the following Chapters of Recurrent Expenditure:

Chapter	Description
60	Purchases
61	Services
62	Social Benefits
63	Tax and Excises
64	Personnel
65	Subsidies and Social Aids
66	Financial Charges
67	Exceptional Expenditures
68	Depreciation Charges

¹¹ Some codes extended to more than 5 digits, but these have now been brought into the 5-digit system. Versions of the CoA also exist for Municipal/Provincial, District/Khan, and Commune/Sangkat. There are minor differences between the coding of these charts which are currently being reconciled.

Accounts are four-digit codes within each Chapter. For example, in Chapter 60, Purchases, these are:

Account	Description
6001	Maintenance supplies
6002	Administrative supplies
6003	Food and agricultural products
6004	Clothing and distinctions
6005	Small tools, materials, furniture and equipment
6006	Water and energy
6007	Sanitary and health products
6008	Other supplies

Finally, Sub-Accounts are five-digit details within each Account. For example, in Account 6001, Maintenance supplies, the Sub-Accounts are:

Sub-Account	Description
60011	Cleaning supplies
60012	Building maintenance supplies
60013	Road bridge maintenance supplies
60014	Equipment maintenance supplies
60015	Oil and lubricants
60018	Other maintenance supplies

2017 Consolidation of the Government Chart of Accounts

In 2017, the Government Chart of Accounts has been extended to allow for all dimensions of the Budget classification. The framework is summarised below, with numbers of digits for each element of the code.

Administrative Classification		Program Classification		Source of Finance		Economic Classification		Function		Geographic	
Ministry	2	Program	3	Source	1	Class	1	Function	3	Province/City	2
General Directorate	2	Sub-Program	2	Funds/DP	2	Chapter	1	Sub-Function	1	District	2
Department/ Provincial Offices	3	Activity	2	Projects	6	Account	2			Commune	2
				Components	1	Sub-Account	1				
				Sub-Components	1						
Total	7		7		11		5		4		6

The 5-digit economic classification of the 2017 Government CoA has been supplemented with 4 digits for function, 7 digits for administrative classification, 11 digits for source of finance including projects, and 6 digits for geographic classification. The total size of the Chart of Accounts is 40 digits.

Administrative classification

Two-digit administrative codes for the Ministries have been in use for some time. The 2017 Government CoA extends these codes for lower administrative levels. For example:

Ministry	12	Ministry of Health
General Department	1201	General Secretariat
	1202	General Department of Administration and Finance
	1203	General Department of Technical and Health
Central Entity	120601	Friendship Hospital Khmer Soviet
Provincial Department	12901	Banteay Meanchey Provincial Department of Health
	12902	Battambang Provincial Department of Health
	12903	Kampong Cham Provincial Department of Health

Program classification

The Ministries, which are piloting Program Budgeting, have been using codes for programs, sub-programs and activities.

For example:

Program 1	0531	Institutional Strengthening and Efficiency of Support Services and Human Resources
Sub-Program 1	053101	Strengthen Human Resources and Strengthen Good Governance
Activity 1	05310101	Strengthening Human Resource Management
Activity 2	05310102	Strengthening Human Resource
Sub-Program 2	053102	Institutional Strengthening and Support Services

The full code Activity 1: Strengthening Human Resource Management would be 05310101 (8 digits).

Source of Finance

The Government CoA includes projects under the Source of Funds, instead of as an independent dimension. This might cause problems when projects have more than one source of funds. Example:

Source	1	Government Counterpart Funds
	2	Grant
	3	Loan
Development Partner	11	Multilateral Development Partners
	1101	World Bank
	1102	ADB
	12	Bilateral Development Partners
Project	000070	Project No. ADB-3125-CAM: Flood Damage Emergency Reconstruction Project-Additional Financing
Component	X	
Sub-Component	X	

Function

The functional codes used are the Classification of Functions of the Government, COFOG¹² standards. For example:

Function	709	Education
Sub-Function	7091	Pre-primary and primary education
	7092	Secondary education
	7093	Postsecondary non-tertiary education
	7094	Tertiary education
	7095	Education not definable by level
	7096	Subsidiary services to education
	7097	Research & Development Education
	7098	Education not elsewhere covered.

Geographic classification

The full classification is based on the system used in the Cambodia census. For example:

Capital/Province	12	Phnom Penh
Khan/Municipality/District	01	Chamkar Mon
Sangkat/Commune	01	Tonle Bassac
Total 6 digits.	120101	

¹² Classification of Functions of the Government.

APPENDIX 3 – SAMPLE OF PROJECT CHART OF ACCOUNTS

The Chart of Accounts structure integrates Budget reporting requirements and includes a number of segments for different purposes such as the Government Account Code, Disbursement Category Code, Project Output/Component Code, Geographic Code, Financier Code and other Specific Code.

The example below shows a possible Chart of Accounts for an externally funded development Project. Each “X” represents one digit in the Chart of Accounts.

Government Account Code	Project Disbursement Category Code	Project Component/ Output Code	Source of Funds	Geographic/ Location Code	Other Specific Codes
A	B	C	D	E	F
XXXXX	XX	X	X	XX	XXX

The CoA will be done based on the specific nature of Project/Program (this means that the EA/IA can prepare the CoA by putting the number of digits of each segment as required by the nature of Project/Program) and according to the availability of the number of digits of each accounting system.

Segment	Description of Accounts Segments	No. of Digits
A	Royal Government of Cambodia Account Code	5
B	Development Partner Expenditure Category Code	2
C	Project Component/Output	1
D	Source of Funds	1
E	Geographic/Location Code	2
F	Other Project Specific Codes	3
	Total Digits	14

- Royal Government of Cambodia Account Code is fixed according to the Government Chart of Accounts (five (5) numerical digits).
- Development Partner Expenditure Category Code will classify with the Expenditure Categories required by the Development Partner (two (2) numerical digits).
- Project Component/Output is a one-digit numerical or alphabetical code that identifies the Project Component (sub-project) on which expenditure is incurred.
- Source of Funds is again a one-digit numerical or alphabetical code that identifies which source of funds (the Government or specific Development Partner) is funding a specific item of expenditure.
- Geographic Code is a two-digits numerical code that identifies the Province/City which expenditure is incurred.

Other Project Specific Codes can be used in any way that facilitates analysis of project expenditure, for example project activities or management responsibility, or codes for Millennium Development Goals.

APPENDIX 4 – SAMPLES OF FINANCIAL REPORTS

- **Monthly Reports**

Figure 19.1 Statement of Sources and Uses of Funds for the Month Ended

Figure 19.2 Statement of Project Expenditures Account for the Month Ended

- **Quarterly Reports**

Figure 19.3 Project Balance Sheet as at

Figure 19.4 Statement of Sources and Uses of Funds by Disbursement Category for the
Period Ended

Figure 19.5 Statement of Uses of Funds by Project Components/Outputs for the
Period Ended

- **Annual Reports**

Figure 19.6 Statement of Sources and Uses of Funds for the Year Ended

Figure 19.7 Statement of Project Expenditures Account for the Year Ended

Figure 19.1: Monthly Report

Ministry of

Project No.:

.....Project

STATEMENT OF SOURCES AND USES OF FUNDS

For the Month Ended _____

(in US\$)

Description	Current Year						Cumulative Previous Year			Cumulative Year to Date		
	This month			Year to Date (YTD)			DP	Counterpart	Total	DP	Counterpart	Total
	DP	Counterpart	Total	DP	Counterpart	Total						
Opening balance												
Sources of Funds:												
Initial Advance												
Replenishment												
Direct Payment												
Special Commitment												
Other Receipts												
Total Sources:	-	-	-	-	-	-	-	-	-	-	-	-
Uses of Funds (by category):												
Civil Works												
Goods												
Consulting Services												
Training & Workshop												
Incremental Operating Costs												
Total Uses:	-	-	-	-	-	-	-	-	-	-	-	-
Cash on hand/funds available:												
Cash in bank												
Petty Cash												
Cash Advances												
Advance on Contracts												
Misc Receipts Transferred												
Amount Payable												
Total Funds Available:	-	-	-	-	-	-	-	-	-	-	-	-

Figure 19.2: Monthly Report

Ministry of

Project No.:

.....Project

STATEMENT OF PROJECT EXPENDITURES ACCOUNTS
For the Month Ended
(in US\$)

Gvt. Account Code	Cat. No.	Description	Budget Allocation		Current Year						Cumulative Previous Year			Cumulative Year to Date			Undisbursed	
			DP	Counterpart	Current Month			Year to Date			DP	Counterpart	TOTAL	DP	Counterpart	TOTAL	DP	Counterpart
					DP	Counterpart	TOTAL	DP	Counterpart	TOTAL								
	1. Civil Works																	
21031	1.1	Building			-		-			-								-
21041	1.2	Road					-			-								-
21042	1.3	Irrigation system					-			-								-
	Total Civil Works:		-		-	-	-	-	-	-						-		-
	2. Goods																	
21081	2.1	Transportation Equipment					-			-								-
21082	2.2	Office Equipment					-			-								-
21083	2.3	IT and Telecommunication Equipment					-			-								-
21084	2.4	Furniture					-			-								-
	Total Goods:		-		-	-	-	-	-	-						-		-
	3. Consulting Services																	
61091	3.1	National Consultant					-			-								-
61092	3.2	International Consultant					-			-								-
	Total Consulting Services:		-		-	-	-	-	-	-						-		-
	4. Training & Workshop																	
61041	4.1	Local and Foreign Training Fees					-			-								-
61103	4.2	Meetings, Workshops and Conferences					-			-								-
	Total Training & Workshop:		-		-	-	-	-	-	-						-		-
	5. Incremental Operating Cost																	
60021	5.1	Office Expenditure					-			-								-
60015	5.2	Oil and Lubricants					-			-								-
61056	5.3	Maintenance and Repair Transportation					-			-								-
61058	5.4	Other Maintenance and Repairs					-			-								-
61122	5.5	Mission (pocket per diem)					-			-								-
64042	5.6	Contractual Staff					-			-								-
	Total Incremental Operating Cost:		-		-	-	-	-	-	-						-		-
	6. Contingencies						-			-								-
	Grand Total:		-		-	-	-	-	-	-						-		-

Figure 19.3: Quarterly Report

Ministry of Project No.Project		
<p align="center">PROJECT BALANCE SHEET as at (in US\$)</p>		
Description	Cumulative Year to Date	Cumulative Previous Year
Assets		
Current Assets		
Petty Cash		
Designated/Advance Account		
Counterpart Fund Account		
Advance Payment		
Cash Advances		
Misc. Receipts Transferred		
Total Current Assets:	-	-
Project Expenditures (by Category)		
Civil Works		
Goods		
Consulting Services		
Training & Workshop		
Incremental Operating Costs		
Total Project Expenditures	-	-
Total Assets	-	-
Financing		
DP Funds		
Counterpart Funds		
Other Receipts		
Amount Payable		
Total Financing	-	-
	-	-

Figure 19.4: Quarterly Report

Ministry of
 Project No.:
Project

STATEMENT OF SOURCES AND USES OF FUNDS BY DISBURSEMENT CATEGORY
 For the period ended
 (in US\$)

Description	Actual			Planned			Variance			Project Life
	Current Quarter	Year to Date	Project to Date	Current Quarter	Year to Date	Project to Date	Current Quarter	Year to Date	Project to Date	
Opening Balance										
Petty Cash										
Designated/Advance Account										
Counterpart Fund Account										
Advance Payment										
Cash Advances										
Amount Payable										
Misc. Receipt Transferred										
Total Opening Balance	-	-								
Funds Received										
Designated/Advance Account-Advance										
Designated/Advance Account-Replenishment										
Direct Payment from DP										
Government Counterpart Funds										
Other Receipts										
Total Funds Received	-	-	-							
Expenditures by Category										
Civil Works							-	-	-	
Goods							-	-	-	
Consulting Services							-	-	-	
Training and Workshops							-	-	-	
Incremental Operating Cost							-	-	-	
Contingencies	-	-	-				-	-	-	
Total Expenditures	-	-	-	-	-	-	-	-	-	-
Closing Balance										
	-	-	-							
Represented by:										
Petty Cash			-							
Designated/Advance Account			-							
Counterpart Fund Account										
Cash Advances	-	-	-							
Advance on Contracts	-	-	-							
Misc. Receipt Transferred	-	-	-							
Total Closing Balance	-	-	-							

Figure 19.5: Quarterly Report

Ministry of

Project No.:

..... Project

STATEMENT OF USES OF FUNDS BY PROJECT COMPONENTS/ACTIVITIES

For the period ended

(in US\$)

Expenditures by Component/ Activity		<i>Actual</i>			<i>Planned</i>			<i>Variance</i>			Total Allocation Project Life
No.	Description	Current Quarter	Year to Date (YTD)	Cumulative to Date (CTD)	Current Quarter	Year to Date (YTD)	Cumulative to Date (CTD)	Current Quarter	Year to Date (YTD)	Cumulative to Date (CTD)	
								-	-	-	
								-	-	-	
								-	-	-	
	Contingencies							-	-	-	
Total Expenditures		-	-	-	-	-	-	-	-	-	-

Figure 19.6: Annual Report

Ministry of

Project No.:

.....Project

STATEMENT OF SOURCES AND USES OF FUNDS

For the Year Ended

(in US\$)

Description	Year-Ended 31/12/				Cumulative Previous Year				Cumulative Year to Date			
	DP	Counterpart	Other	TOTAL	DP	Counterpart	Other	TOTAL	DP	Counterpart	Other	TOTAL
Opening balance				-								
Sources of Funds:												
Advance Designated/Advance Account				-				-	-	-	-	-
Replenish Designated/Advance Account				-				-	-	-	-	-
Direct Payment				-				-	-	-	-	-
Special Commitment				-				-	-	-	-	-
Other Receipts (selling tender doc.)				-				-	-	-	-	-
Total Sources:	-	-	-	-	-	-	-	-	-	-	-	-
Uses of Funds (by category):												
Civil Works				-				-	-	-	-	-
Goods				-				-	-	-	-	-
Consulting Service				-				-	-	-	-	-
Training & Workshop				-				-	-	-	-	-
Incremental Operating Cost				-				-	-	-	-	-
Total Uses:	-	-	-	-	-	-	-	-	-	-	-	-
Cash on hand/funds available:												
Cash in bank				-				-	-	-	-	-
Petty Cash				-				-	-	-	-	-
Cash Advances				-				-	-	-	-	-
Advance on Contracts				-				-	-	-	-	-
Misc Receipts Transferred				-				-	-	-	-	-
Amount Payable				-				-	-	-	-	-
Total Funds Available:	-	-	-	-	-	-	-	-	-	-	-	-

Figure 19.7: Annual Report

Ministry of
 Project No.
Project

STATEMENT OF PROJECT EXPENDITURE ACCOUNTS
For the Year Ended 31 December _____
(in US\$)

Gvt. Acc Code	DP Description Code	Current Year-Ended	Cumulative Previous Year	Cumulative Year to Date	Budget		Variation (Budget vs Actual)		Performance (%)	
					Current Year	Project Life	Current Year	Project Life	Current Year	Project Life
	1. Civil Works	-	-	-	-	-	-	-		
21031	1.1 Building			-			-	-		
21041	1.2 Road			-			-	-		
21042	1.3 Irrigation system			-			-	-		
	Total Civil Works:									
	2. Goods	-	-	-	-	-	-	-		
21081	2.1 Transportation Equipment			-			-	-		
21082	2.2 Office Equipment			-			-	-		
21083	2.3 IT and Telecommunication Equipment			-			-	-		
21084	2.4 Furniture			-			-	-		
	Total Goods:									
	3. Consulting Services	-	-	-	-	-	-	-		
61091	3.1 National Consultant			-			-	-		
61092	3.2 International Consultant			-			-	-		
	Total Consulting Services									
	4. Training & Workshop	-	-	-	-	-	-	-		
61041	4.1 Local and Foreign Training Fees			-			-	-		
61103	4.2 Meetings, Workshops and Conferences			-			-	-		
	5. Incremental Operating Cost	-	-	-	-	-	-	-		
60021	5.1 Office Expenditure			-			-	-		
60015	5.2 Oil and Lubricants			-			-	-		
61056	5.3 Maintenance & Repair Transportation Equipment			-			-	-		
61058	5.4 Other Maintenance and Repair			-			-	-		
61122	5.5 Mission (pocket per diem)			-			-	-		
64042	5.6 Contractual Staff			-			-	-		
	6 Contingencies			-			-	-		
	Total project expenditures	-	-	-	-	-	-	-		

APPENDIX 5 – SAMPLE OF RETENTION MONEY GUARANTEE



ធនាគារ អេស៊ីលីដា ភីអិលស៊ី ACLEDA Bank Plc.

BEUNG TRABEK BRANCH

ORIGINAL

MINISTRY OF WATER RESOURCES AND METEOROLOGY
#364, MONIVONG BOULEVARD, PHASAR DOEUM THKOV,
CHAMKAROM, PHNOM PENH, CAMBODIA.

DATE: 08-MAY-2018

OUR RETENTION MONEY GUARANTEE
BTR-MD1812800022 FOR USD54,688.85

WE HAVE BEEN INFORMED THAT PUNLOEU BANTEAYSREY CONSTRUCTION CO., LTD (HEREINAFTER CALLED 'THE CONTRACTOR') HAS ENTERED INTO CONTRACT NO. RDIP-CW213-DC DATED WITH YOU, FOR REHABILITATION OF PREAK KSACH SUB-PROJECT, KANDAL (HEREINAFTER CALLED 'THE CONTRACT').

FURTHERMORE, WE UNDERSTAND THAT, ACCORDING TO THE CONDITIONS OF THE CONTRACT, WHEN THE TAKING-OVER CERTIFICATE HAS BEEN ISSUED FOR THE WORKS AND THE FIRST HALF OF THE RETENTION MONEY HAS BEEN CERTIFIED FOR PAYMENT, PAYMENT OF THE SECOND HALF OF THE RETENTION MONEY IS TO BE MADE AGAINST A RETENTION MONEY GUARANTEE.

AT THE REQUEST OF THE CONTRACTOR, WE ACLEDA BANK PLC., BEUNG TRABEK BRANCH, HEREBY IRREVOCABLY UNDERTAKE TO PAY YOU ANY SUM OR SUM(S) NOT EXCEEDING IN TOTAL AN AMOUNT OF USD54,688.85 (UNITED STATES DOLLARS FIFTY FOUR THOUSAND SIX HUNDRED EIGHTY EIGHT AND EIGHTY FIVE CENTS) UPON RECEIPT BY US OF YOUR FIRST DEMAND IN WRITING ACCOMPANIED BY A WRITTEN STATEMENT STATING THAT THE CONTRACTOR IS IN BREACH OF ITS OBLIGATION UNDER THE CONTRACT BECAUSE THE CONTRACTOR USE THE ADVANCE PAYMENT FOR PURPOSES OTHER THAN THE COSTS OF MOBILIZATION IN RESPECT OF THE WORKS.

THIS GUARANTEE SHALL BE EFFECTIVE FROM 08-MAY-2018 AND SHALL EXPIRE AT (16:00) AT OUR COUNTERS ON 10-NOVEMBER-2018 'EXPIRY DATE' AND ANY WRITTEN DEMAND AND STATEMENT HEREUNDER MUST BE RECEIVED AT THIS OFFICE BEFORE EXPIRY DATE AND TIME. ANY DEMAND OR STATEMENT RECEIVED AFTER EXPIRY SHALL BE INEFFECTIVE. AFTER EXPIRY THIS GUARANTEE SHALL BECOME NULL AND VOID WHETHER RETURNED TO US FOR CANCELLATION OR NOT.

THIS GUARANTEE IS SUBJECT TO THE UNIFORM RULES FOR DEMAND GUARANTEES, ICC PUBLICATION NO. 758.

FOR ACLEDA BANK PLC., BEUNG TRABEK BRANCH.

VERIFIED AND PAID

Date: 20 JUN 2018


SARN SOKHAN
SOK VANNY
AUTHORISED SIGNATORY
ACLEDA Bank Plc.

ធនាគារ អេស៊ីលីដា ភីអិលស៊ី
ACLEDA Bank Plc.
BEUNG TRABEK BRANCH
28, Mao Tse Tung Blvd., Sangkat Beung Trabek, Khan Chamcamon, Phnom Penh, Kingdom of Cambodia.
ទូរស័ព្ទ Tel: +855 (0) 23 214 634 / 993 780, ប្រអប់សំបុត្រ P.O.Box: 1149
E-mail: acledabank@acledabank.com.kh, Website: www.acledabank.com.kh, SWIFT Code: ACLBKHP

APPENDIX 6 – SAMPLE OF EXTERNAL AUDIT TERMS OF REFERENCE

Terms of Reference (“TOR”)

AUDIT OF THE ANNUAL PROJECT FINANCIAL STATEMENTS OF MULTIPLE DEVELOPMENT PROJECTS IN CAMBODIA FOR THE FINANCIAL YEARS OF 2019 - 2021 (BUNDLED ANNUAL AUDIT)

A. Introduction

Audited Annual Project Financial Statements (APFS, referred to as the “Financial Statements”), including the auditor’s opinions and Management Letter as required in Legal Agreements for all projects funded under the Government financing, and loan(s)/grant(s) from the Development Partners (DPs), provide an independent and objective assurance whether the financial position and financial performance of the project are presented truly and fairly, in all material respects, in accordance with the accounting policies adopted by the projects and reflected in the Project Administration Manual (PAM).

The Ministry of Economy and Finance (MEF), acting on behalf of the Royal Government of Cambodia (RGC), has entered into various Loan and Grant Financing Agreements with the Development Partners on the projects, which will be covered under the scope of the services. The RGC through the MEF is seeking the services of a qualified firm to conduct an annual audit for each financial year (from 01 January to 31 December) from 2019 through to 2021 of the Financial Statements of multiple development projects listed in **Appendixes 1 & 2**.

The list of projects with their essential details covered under the scope of services is given in the attached Table: *Projects to be Audited for the Financial Year 2019, 2020 & 2021 (Lot 1)* in **Appendix 1**, and Table: *Projects to be Audited for the Financial Year 2019, 2020 & 2021 (Lot 2)* in **Appendix 2**. The provisions of this TOR are applicable to both Lot 1 and Lot 2.

B. Audit Objective

The objective of audit of the APFSs is to enable the auditor to express independent opinions on:

- a. **Fair Presentation of the Financial Statements**:¹ whether the Annual Project Financial Statements present fairly, in all material respects, or give a true and fair view of the project’s financial position, its financial performance and cash flows in accordance with the accounting and reporting framework applicable for the project (as specified in the Notes to Financial Statements).

¹ True and fair presentation opinion is subject to legal promulgation by the MEF (the National Accounting Council - NAC) of accounting standards applied by projects. Until that, opinion on fair presentation in accordance with the basis of accounting standards and the accounting policies adopted by the projects (as specified in the Notes to Financial Statements) will be provided.

- b. **Use of Loan(s)/Grant(s) Proceeds**: whether the proceeds of the loan(s)/grant(s), counterpart funds, and financing provided by other financier(s) of the project were used only for the purpose(s) of the project;
- c. **Compliance with the ADB Disbursement Procedures**²(if applicable): whether the projects complies with (i) the Statement of Expenditure (SOE) procedures, and (ii) the Advance Account procedures; and
- d. **Compliance with Financial Covenants** (if applicable) as required in the Loan/Grant Agreement (e.g. debt to equity ratio, self-financing ratio, etc.).

C. Responsibilities of Management

- a. The management of projects listed in **Appendix 1 and 2** shall prepare the projects' Financial Statements before the agreed upon deadline between the auditor and the project management units.
- b. Each project Financial Statement should include the following:
 - i. A statement of cash receipts and payments;
 - ii. A statement of funds and expenditures (*if using accrual or modified cash basis*);
 - iii. A statement of budget versus actual expenditures;
 - iv. A statement of Advance Account and Sub-Advance Accounts (*where applicable*);
 - v. A statement of Withdrawal Application by specific reference number and amount by expenditure for the period under audit;
 - vi. Significant accounting policies and explanatory notes;
 - vii. A summary Statement of Expenditure (*where applicable*); and
 - viii. Any additional schedules, as necessary (*e.g. a summary of assets, a reconciliation of the amounts shown as "received by the project from the ADB" with those shown as being disbursed by the DPs*).
- c. Additionally, the project management will prepare and sign the following documents, which will be included in the audited Financial Statements:
 - i. Statement of Compliance (**Appendix 3**) is required for all projects; and
 - ii. Covenant Ratios Report (**Appendix 4**) will be prepared to confirm the compliance with the covenant ratios or any other specific financial requirements per Loan/Grant Agreements (*if applicable*).

D. Auditing Standards

The audit will be carried out in accordance with the Cambodian International Standards on Auditing (CISAs).³ These standards and this TOR require that the auditors comply with ethical requirements and plan, and perform the audit to obtain reasonable assurance about whether (i)

² Specific auditor opinions on the compliance with the Advance Account procedures and Statement of Expenditure (SOE) procedures are not required for projects that commenced fact-finding on or after 15 October 2015.

³ With supplementary information from the International Standards on Auditing, as necessary.

the annual project financial statements are free from material misstatement, and (ii) funds were used for the purpose intended.

E. Scope of Audit

The successful firm will audit the annual Financial Statements of the listed projects for each financial year, commencing with the 2019 for a three-year period i.e. 2019, 2020 and 2021, subject to satisfactory performance by the auditor. The financial year is from 1st January to 31st December.

The auditor shall have the right of access to all project documents, banks and depositories, consultants, contractors and other persons or firms engaged in the project.

The audit should cover all balances, income, and expenditures from all sources of projects' funding during the audited period. Special attention is required on:

- a. The use of funds in accordance with the relevant Legal and Financing Agreements;
- b. The provision of counterpart funds in accordance with the agreements and their use only for the purposes intended;
- c. The maintenance of proper books and records;
- d. The existence of project fixed assets and internal control related thereto;
- e. The reconciliation to the ADB LFIS/ GFIS data (included in the Financial Statements as performed by the project management responsible for financial reporting);
- f. Comments on any accounting policy changes, either during a financial year, or from one year to another;
- g. The Advance Account procedures (*where applicable*), that audit procedures are planned and performed to ensure (i) the Advance Account(s) (and any Sub-Advance Accounts) has/have been managed in accordance with the DP Loan Disbursement Handbook; (ii) the cash balance of the Advance Account(s) (and any Sub-Advance Accounts) is supported by evidence; (iii) the expenditures paid from the Advance Account(s) (and any Sub-Advance Accounts) comply with the approved project purpose and cost categories stipulated in the Loan/Grant Agreements; and (iv) the amount of expenditures paid from the Advance Account(s) (and any Sub-Advance Accounts) comply with disbursement percentages stipulated in the Loan/Grant Agreements;
- h. The SOE procedures (*where applicable*), that audit procedures are planned and performed to ensure (i) the SOEs have been prepared in accordance with the latest edition of the ADB Loan Disbursement Handbook; (ii) adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the Advance Account/ Sub-Advance Accounts (*where applicable*); (iii) the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in the Loan/Grant Agreements, and (iv) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the Loan/Grant Agreements; and
- i. Any material weaknesses or significant deficiencies in internal controls. Review and evaluate the system of internal controls in effect, including internal audit procedures, to determine the degree of reliance that may be placed upon them and to determine the extent of testing of actual transactions needed to assure the auditor of the accuracy of the accounting records.

F. Audit Coverage of Closing Projects

For projects with loan(s) / grant(s) closing dates occurring between FY 2019 - FY 2021, the final audit submission of the APFS and audit report must cover all project eligible expenditures from all sources of financing. As the Executing and/ or Implementing Agencies are allowed up to four (4) months from the Loan / Grant Closing Date to finalize all ADB Withdrawal Applications (i.e. Winding-up Period) and an additional two (2) months for the refund of unused proceeds (i.e. Financial Closing Date)⁴, the ADB allows the final audit reports to cover up to eighteen (18) months' financial reporting period to ensure complete inclusion of all eligible transactions. The final APFS receipts and expenditures must fully match the ADB LFIS/ GFIS to ensure the completeness of financial reporting for the project.

The deadline for the final audit reports shall be six (6) or nine (9) months after the end of the extended period as mentioned above and indicated in the Legal Agreement(s).

G. Methodology

In response to this TOR, the audit firm shall submit a methodology to address the following matters as a minimum:

- Demonstration of the audit firm's competency to comply with the CISAs;
- Provision of a Letter of Engagement (Contract) stating the auditor's responsibilities in agreement with the terms of the audit engagement with management and, where appropriate, those charged with governance;
- Understanding of the environment and key areas of audit risks for the projects and the resources planned to be allocated to the audit to address the risks identified;
- The proposed audit team's experience;
- Audit planning and the role that the project management is expected to play in the process;
- Evaluation of the internal control processes for key activities of the projects;
- The approach during the field work (*i.e., gathering of evidence to support assertions to be made in the audit opinions*);
- Quality assurance arrangements (including mechanisms for the DP(s) or MEF involvements);
- Timetable for completing the audit work.

H. Audit Deliverables and Deadlines

Number of Reports: Four (4) sets of the Audited Project Financial Statements, including (i) the required auditor's opinions (i.e. audit reports); (ii) the accompanying audited Financial Statements; and (iii) a Management Letter in English shall be delivered to each Executing Agency (EA) and/or Implementing Agency(ies) (IA), one (1) set shall be provided to the MEF, and one (1) set to the DPs.

⁴ ADB Loan Disbursement Handbook.

Deadline: The complete reports must be delivered no later than six (6) months after the end of the audited financial period (or otherwise as provided in Legal Agreement).

Audited Project Financial Statements and the Auditor's Opinions must include the ADB requirements in **Sections B and C** above while specifying the following matters:

- a. The audit report will state the purpose of the report and its intended use;
- b. Accounting standards applied for the preparation and presentation of the project Financial Statements and the effects of any deviations from those standards;
- c. The audit standards applied (the CISAs⁵);
- d. The audited Annual Project Financial Statements must cover all sources of project financing for the current period, prior year period, and cumulatively since the loan/grant effectiveness date (or retroactive expenditure, whichever comes first).

Management Letter: The auditor will prepare and submit a Management Letter at the completion of the audit, which will address as a minimum the following:

- a. Any weaknesses in the accounting and internal control systems that were identified during the audit, including any irregularity in the use of the Advance Account and Statement of Expenditure (SOE) procedures (*where applicable*);
- b. The status of significant matters raised in previous Management Letters;
- c. Matters which have come to the auditor's attention during the course of the audit, which might have a significant impact on the implementation of the Project;
- d. Any identified internal control weaknesses related to the procurement process such as over the bidding, evaluation and contract management domains; the adequacy of procurement and contract filing systems;
- e. Recommendations to rectify identified weaknesses;
- f. Management's comments on the audit recommendations along with the timeframe for implementation;
- g. Details of any ineligible expenditure identified during the audit. Expenditure is considered ineligible if it refers to (i) expenditures incurred for purposes other than the ones intended under the Legal Agreement(s); (ii) expenditures not allowed under the terms of the Legal/Financing Agreements; and (iii) expenditures incurred in violation of applicable Government regulations. If the auditor reports any ineligible expenditure in the Management Letter, the details of the findings should include the funding source to which the observation relates;
- h. Any identified weaknesses in the internal control environment, including the auditors' assessment of the impact on the project and recommendations for remedial action;
- i. Where the internal controls are not reliable, the auditor will provide details of the assessment and the alternative methods employed to gain assurance over the accuracy and completeness of the Financial Statements;
- j. Any findings that the proceeds of the loan and/or grant were not (i) used only for the purpose(s) of the project; (ii) in compliance with the Statement of Expenditure procedures

⁵ With supplementary information from International Standards on Auditing, as necessary.

(if applicable); (iii) in compliance with the Advance Account procedures (if applicable); and (iv) in compliance with the covenants of the Loan/Grant Agreement(s) (if any).

Exit Conference: Upon completion of the field work, the auditor will hold an exit conference with the project management. The exit conference will give the auditor an opportunity to obtain management comments on the accuracy and completeness of the auditor's findings, conclusions, and recommendations. Issues discussed and/or raised in the exit conference should be properly documented and included in the audit work papers.

Wrap-up Session: The audit firm will also organize a wrap-up session for the MEF and DPs to share common findings across projects being audited and provide recommendations for addressing bottlenecks in preparation for the next audit.

Access to Auditor's Working Papers: The MEF can request access to the auditor's unedited audit working papers.

I. Staffing and Qualifications

Curriculum vitae (CVs) must be provided in the bid submission, including a list of who would be responsible for providing the deliverables, together with the CVs of managers, supervisors and key personnel to be involved in the audit work. CVs of proposed auditors should include audit experience carried out by these staff, including ongoing assignments. The audit firm must notify the Client every time the auditor substitutes a staff member.

The auditors need to be impartial and independent from any aspects of management or financial interest in the Executing Agencies (EA) and/or the Implementing Agencies (IAs) under the audit. Auditors are required to disclose any relationship likely to compromise their independence in their bid proposal.

Audit Director/ Engagement Partner

The Director's Responsibilities:

- a. Hold highest responsibility for the audit engagement;
- b. Provide directives for the whole audit team from the planning, implementation of the audit and issuing audit opinions; and
- c. Ensure the overall quality of the audit, including the audits to be carried out in compliance with the firm's quality standards and procedures, and with the requirements of the Client.

Minimum Qualifications/ Experience:

- a. A university graduate (preferably with a post-graduate degree) in accounting, finance, holding a Certified Auditor (ACCA) or other recognized international accounting/ auditing certificate;
- b. At least fifteen (15) years or above experience working in auditing services; At least four (4) years of experience in management of auditing teams; and at least eight (8) actual working years in auditing since being granted with the Cambodian or international auditor certificate;

- c. Working as Audit Director for audit contracts on the ADB, World Bank or other international donors funded projects is an advantage;
- d. Fluent skills in English are compulsory; and
- e. Experience working for a large regional accounting firm is a plus.

Audit Managers

Audit Manager's Responsibilities:

- a. Provide detailed guidance to all team members;
- b. Monitor the audit fieldwork of engagement team, reviews staff work and ensure that it meets the professional standards and the guidelines of internal audit department;
- c. Take responsibility for the quality of the audit before submitting to the Audit Director;
- d. To be the contact point with the Client's Management and Chief Accountant regarding key issues identified, audit adjustments; and
- e. Monitor the progress of the audit and monitor the adherence to the committed deadlines.

Minimum Qualifications/ Experience:

- a. A university graduate (preferably with a post-graduate degree) in accounting, finance, holding a Certified Auditor (ACCA) or other recognized international accounting/ auditing certificate;
- b. At least ten (10) years or above experience working in auditing services; audit seniors who are the team leaders shall have five (5) years experience in their profession;
- c. Audit experience for the ADB/World Bank funded projects in Cambodia would be an advantage;
- d. Ability to work within budgetary and time constraints while providing a high-level of satisfaction to the Client.

Senior Auditors / Team Leaders at Field

Senior Auditor/Team Leader Responsibilities:

- a. Follow the instructions from the Audit Director and Audit Manager(s);
- b. Keep the Audit Director and Audit Manager(s) being updated with regard to the key issues or key audit adjustments on day-to-day basis;
- c. Being accountable for the quality of audit work of the whole team to the Audit Manager(s); and
- d. Being responsible for the compliance with quality standards and procedures of the auditing firm, and with the requirements of the Client/ Projects.

Minimum Qualifications/ Experience:

- a. Senior Auditors are required to be graduates of a recognized university in the fields of commerce, economics, accounting and auditing or equivalent;
- b. At least five (5) years or above experience working in auditing services;

- c. Preferably holding a Certified Auditor (ACCA) or other recognized international accounting/ auditing certificate;
- d. Preferably having work experience as an Auditor for audit contracts on development projects funded by the ADB, World Bank or other international donors; and
- e. Proficiency in English would be preferable.

Auditor Team Members

Auditor Team Member Responsibilities:

- a. Implement professional work, auditing assigned sections of the audit engagements;
- b. Be responsible for the data and issues related to the auditing activities, and support the release of the audit report(s);
- c. Draft the minutes of audit; and
- d. Report to the Team Leader about the rising issues related to the audit engagements.

Minimum Qualifications/ Experience:

- a. A university graduate (preferably of a recognized university) in the fields of commerce, economics, accounting and auditing or equivalent;
- b. At least three (3) years or above experience working in auditing services.
- c. Preferably holding a Certified Auditor (ACCA) or other recognized international accounting/ auditing certificate;
- d. Having work experience as an Auditor for audit contracts on development projects funded by the ADB, World Bank or other international donors would be preferable; and
- e. Proficiency in English would be preferable.

APPENDIX 1

PROJECTS TO BE AUDITED FOR THE FINANCIAL YEAR 2019, 2020 & 2021 (Lot 1)

[Insert the List of Projects Table]

APPENDIX 2

PROJECTS TO BE AUDITED FOR THE FINANCIAL YEAR 2019, 2020 & 2021 (Lot 2)

[Insert the List of Projects Table]

APPENDIX 3

STATEMENT OF COMPLIANCE

1. That project Financial Statements are free from material misstatements including omissions and errors, and are fairly presented;
2. That the Borrower or EAs and/or IAs have utilized the proceeds of the loan and/or grant only for the purpose(s) of the project;
3. That the Borrower or EAs/IAs have are in compliance with the financial covenants of the Legal Agreement(s) *(if applicable)*;
4. That the Advance Account procedures *(where applicable)* have been operated in accordance with the DP's Loan Disbursement Handbook;
5. That adequate supporting documentation has been maintained to authenticate claims stated on the Statement of Expenditure (SOE) *(where applicable)* for reimbursement of eligible expenditures incurred and adjustment of advances provided to the Advance Account; and
6. That effective internal control, including over the procurement process, was maintained.

On behalf of the Project Management Unit

[Name]

[Title]

Phnom Penh, *[date]*

APPENDIX 4

COVENANT RATIOS REPORT ⁶

Loan/ Grant Agreement No. : [XXXX]

Period : From [date] to [date]

Pursuant to the Loan/Grant Agreement (the “Agreement”) dated [date] between the Government of the [XXX] (the “Borrower”) and the Asian Development Bank (“ADB”) and the provisions set forth in the project documents the undersigned hereby certifies as follows.

1. The Borrower is in full compliance with all terms, conditions, covenants of the Agreement and provisions of project documents during the period stated above *[except as follows...]*.
2. The Borrower reports its compliance with the financial covenants contained in the Agreement as follows:

Covenant	Required Threshold	Actual Value	Result
Self-financing ratio	≥ 25%	48% (i)	Pass
Debt service coverage ratio	≥ 1.5	2.5 (ii)	Pass
Long-term debt equity ratio	≤ 70:30	80:20 (iii)	Fail

Notes:

- (i) Self-financing ratio =...
 - (ii) Debt service coverage ratio =...
 - (iii) Long-term debt equity ratio =...
3. I have no knowledge of the existence of any condition or event, which constitutes a violation of the provisions in the project documents *[except as follows...]* during or at the end of the abovementioned period and as of the date of this Covenant Ratios Report.

On behalf of the Project Management Unit

[Name]

[Title]

Phnom Penh, [date]

⁶ This report is only applicable for Executing Agency/Implementing Agency that are required to meet specific financial ratios as prescribed in the Loan Agreement or other related project documents.

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