

KINGDOM OF CAMBODIA

Handbook on Financial Management Activities

For Externally Financed Decentralized
and De-Concentrated Projects
in the Kingdom of Cambodia



September 2006

*Handbook on Financial Management
Activities for Externally Financed
Decentralized and
De-Concentrated Projects
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The following abbreviations are used in this handbook:

ADB	Asian Development Bank
CCDP	Commune Council Development Project
CIP	Commune Investment Program
CL	Commitment Letter
CS	Commune Sangkat
D&D	Decentralization and De-concentrated
DIC	Department of Investment and Cooperation
DFID	Department for International Development
DOLA	Department of Local Administration
DP	Direct Payment
DPAM	District Priority Activities Matrix
DV	Disbursement Voucher
EA	Executing Agency
Ex Com	Executing Committee (of PRDC)
FMM	Financial Management Manual
FMR	Financial Management Report
GoN	Government of Netherlands
IA	Implementing Agency
IFAC	International Federation of Accountants
IFAD	International Fund for Agricultural Development
INTSOSAI	International Organization of Supreme Audit Institutions
IRAP	Integrated Rural Accessibility Planning
MEF	Ministry of Economy and Finance
MOI	Ministry of Interior
NAA	National Audit Authority
NBC	National Bank of Cambodia
NGO	Non-Government Organization
NRDP	North-western Rural Development Project
PAD	Project Appraisal Document
PAM	Project Administration Memorandum
PCB	Petty Cash Book
PDOF	Provincial Department of Finance
PIF	Provincial Investment Fund
PIU	Project Implementation Unit
PLG	Partnership For Local Governance
PMU	Project Management Unit
PRDC	Provincial Rural Development Committee
PV	Payment Voucher
RA	Request for Advance
RGC	Royal Government of Cambodia
RILGP	Rural Infrastructure Local Governance Project
RRP	Report of Recommendation of the President

SGA	Second Generation Account
SIDA	Swedish International Co-operation Agency
SOE	Statement of Expenditures
SMLD	Semi-Monthly Listing of Loan Disbursement
SOPs	Standard Operation Procedures
STF	Seila Task Force
STFS	Seila Task Force Secretariat
TSU	Technical Support Unit
TOR	Terms of Reference
UNDP	United Nation Development Program
WA	Withdrawal Application
WB	World Bank

1. BACKGROUND AND INTRODUCTION

1.1 General

The Ministry of Economy and Finance (MEF) have recently issued a unified Financial Management Manual (FMM) that is to be used by all Government agencies engaged in the formulation and implementation of development projects financed by the Asian Development Bank (ADB) and the World Bank (WB). The preparation of this FMM was financed by the WB, and the FMM was prepared in close consultation with the MEF, line Ministries, autonomous Government agencies, the ADB, and the WB. The FMM was issued under MEF Prakas No 586 dated 19 September 2005, which came into effect on the same date.

Following the preparation of the FMM, the MEF requested assistance from the ADB to develop a Financial Management Handbook (FMH) that would supplement the FMM, and could be used for the development and implementation of investment projects that fall under the Government's decentralization and de-concentration policies. The Handbook has been developed based on the FMM, but also has taken into account any additional financial management practices or procedures, which are specifically required for investment projects that, are being implemented under the Government's decentralization and de-concentration policies. This FMH was prepared in close consultation with Government Officials and Agencies as well as donor organizations involved in supporting decentralized projects and programs. See Appendix 1 for persons and organizations consulted.

In developing this Financial Management Handbook, the authors have also used the contents of the FMM which was prepared for the WB funded Rural Infrastructure Local Governance Project (RILGP), the Project Administration Manual (PAM) of the ADB funded North-western Rural Development Project (NRDP) and the Commune Facility Implementation handbook issued by the Ministry of Interior for the Commune Council Development Project (CCDP). Other documents and reports that were used in the formulation of this Financial Management Handbook are more fully outlined in Appendix 2.

1.2 Decentralized and De-concentrated Project Implementation Structure

Under the present arrangements, the Government's decentralized and de-concentrated project implementation activities are undertaken in the following ways:

- (i) Through the SEILA Framework, which is a program that includes funds provided from the Government budget (Commune/Sangkat Fund), as well as funds provided by a number of donors. The donor funds are channelled through the Partnership for Local Governance (PLG), which is administered by the UNDP. Activities undertaken through the SEILA Framework are administered by the SEILA Task Force (STF), under the Chairmanship of the Senior Minister of Economy and Finance. Funds provided through the SEILA Framework cover both recurrent and capital expenditures. The SEILA operations are implemented using Manuals of procedures produced by the SEILA Task Force Secretariat. The SEILA Program is currently under review

and any changes to that Program will only be introduced following the completion of the review. Given this decision of the Government it was decided not to include the SEILA operations in this Financial Management Handbook (FMH).

- (ii) Investment funds for projects and programs at provincial and commune levels are channelled through the Provincial Investment Fund (PIF), which is also administered by the STF. The PIF is designed to respond to local development priorities, which are submitted to provincial line departments through the Communes Investment Program (CIP), which is consolidated each year into a District Priority Activities Matrix (DPAM). The PIF provides block grants, which are allocated to provincial authorities, and is the only significant source of open ended development funds currently available to the provinces. The use of PIF funds is established using a set of predetermined criteria, and in principle most of the grant is to be used for activities that support communes (i.e. a minimum 85% of the funds).
- (iii) Through de-concentrated National Sector Projects and Programs, which are projects and programs included in donor funding (other than SEILA), where donors have agreements with national Ministries in regard to defined sectors and program strategies. Responsibility for planning and implementation within these defined sectors and program strategies has been delegated to the provincial level, under the overall coordination of the concerned Ministry.
- (iv) Through de-concentrated Provincial Sector Projects and Programs, which are projects and programs included in donor funding, where donors have agreements with the Government that the projects or programs will be implemented by departments of line Ministries at the provincial level.

1.3 Government Agencies Involved in the Implementation of Decentralised and De-concentrated Projects and Programs within the Royal Government of Cambodia (RGC)

The following Government Ministries, Departments, and Agencies, are involved in the implementation of decentralised and de-concentrated projects and programs in the Kingdom of Cambodia:

- (i) The SEILA Task Force (STF), through its approved structure, which includes the SEILA Task Force Secretariat (STFS); the Executing Committee (EX Com); and the Provincial Rural Development Committee (PRDC).
- (ii) The Department of Local Administration (DOLA) of the Ministry of Interior (MOI).
- (iii) The National Line Ministries.
- (iv) The Provincial Departments of Line Ministries.
- (v) Non-Government Organisations (NGOs).

1.4 Legislation and Policy

In the RGC, decentralised and de-concentrated investment projects are regulated by legislation, which includes sub-decrees and parkas, each dealing with aspects of decentralization and de-concentration.

Government policy on decentralization and de-concentration is articulated in the Government's Strategic Framework for Decentralization and De-concentration Reforms (D&D Reforms). The financial management activities of the D&D projects in the RGC are required to comply with the following principal Sub-Decrees and Prakas:

- (i) Sub-Decree on the Establishment of the Commune/Sangkat Fund
- (ii) Sub-Decree on the Commune/Sangkat Financial Management System
- (iii) Sub –Decree on the National Budget Contribution to Commune /Sangkat Fund
- (iv) Prakas on the Commune/Sangkat Budget Classification and Format
- (v) Prakas on Commune/Sangkat Chart of Accounts
- (vi) Prakas on Commune/Sangkat Procurement
- (vii) Prakas on Commune/Sangkat Payment and Accounting System Guidelines
- (viii) Prakas on Establishment of Provincial/Municipal Commune/Sangkat Fund Accounting Working Group
- (ix) Prakas on Amendment and Addition of Commune/Sangkat Budget Classification and Formats Commune/Sangkat Accounting Forms and Books (Part of the Commune /Sangkat Fund Project implementation Manual)
- (x) Inter Ministerial Prakas of MOI and MOP – The Commune/Sangkat Development Planning

2. PURPOSE OF THE FINANCIAL MANAGEMENT HANDBOOK (THE HANDBOOK)

The purpose of the Handbook is to describe the financial management policies and procedures of the RGC in respect of its decentralised and de-concentrated projects and programs, so as to ensure that all such projects and programs are implemented in an efficient and effective manner, and the objectives set out are achieved.

The Handbook is intended to assist MEF and Provincial Department of Finance (PDOF) staff, and the Executing and Implementing Agencies (EAs and IAs) of donor assisted projects at the provincial and commune levels, to develop and maintain effective and efficient financial management arrangements.

The Handbook provides guidance on all areas of financial management, including financial policies and standards; budgeting; financial accounting systems and procedures; and financial reporting and audit. Project Teams, EAs and IAs should use this Handbook as appropriate to their situations. EAs and IAs should ensure that all project personnel are familiar with the financial policies and procedures set out in this Handbook.

This Handbook should be used for all decentralized projects in the RGC which are not covered under the SEILA operations.

The desired impact of this Financial Management Handbook will only be achieved, if regular training is provided to all personnel who will be involved in the use of this Handbook. To this end, the MEF with ADB support has provided extensive training on the use of this Handbook. It is the MEF's intention to continue to provide training on a regular basis.

3. PROJECT IDENTIFICATION AND IMPLEMENTATION ARRANGEMENTS

3.1 Project Identification

The RGC identifies decentralised and de-concentrated development projects and programs for funding in the following manner:

3.1.1 Through the Commune Consultative Process.

Projects and programs that are funded from the Government's own resources, as well through donor funding utilising the SEILA concept, are identified through the Commune Consultative Process using the 11 step approach (For details refer to Prakas No 002/MOP dated 23 September 2004- Guideline for the District Integration Process). Under this approach, projects are selected by the individual communes through the preparation of a Commune Investment Program (CIP), using a consultative process. The CIPs of various communes and districts are then consolidated at the provincial level through the District Priority Activities Matrix (DPAM). The projects that will be funded under this concept are finally selected and approved from the DPAM by the Provincial Rural Development Committee (PRDC), which meets under the Chairmanship of the Provincial Governor.

3.1.2 Through the commune consultative process using the Integrated Rural Accessibility Planning (IRAP) approach

Under this approach the communes undergo a similar process to that described in 3.1.1 above, except that under the IRAP arrangements the selection is restricted by 5 pre-determined sectors (i.e. education, health, water supply, rural roads, and markets). A second difference under this approach is that instead of going through the 11 step approach of the Commune Consultative Process as outlined at 3.1.1 above, this process consists of only 8 steps. The projects that will be funded under this approach are still approved however, by the PRDC under the Chairmanship of the Provincial Governor. At present, this concept of selecting decentralised and de-concentrated projects is only used by the ADB under its NRDP.

3.1.3 Multilateral Donor Supported Projects (i.e. WB and ADB)

The various steps taken to identify projects that are funded by multilateral donors such as the WB and the ADB, which include the funding of decentralised and de-concentrated projects, are described in detail in Section 2 of the FMM.

A project is identified during periodic consultations between the RGC and the ADB/WB. This is usually preceded by a study of the economic situation and the plans and priorities in the Kingdom of Cambodia, during a country programming mission undertaken by the ADB/WB.

A further fact-finding mission carried out by the ADB/WB obtains detailed information regarding all aspects of the proposed project, including the feasibility of the project, to justify processing to the next stage. During the project preparation phase, the Executing Agency (EA) and the financial management arrangements for the project are identified, and the financial management capability of the EA is assessed.

During the project appraisal phase, the soundness and viability of the project are assessed, and 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 flows, budgeting, accounting system 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 is developed to address these.

After the project has been found to be suitable for financing, it is approved by the donor's Board of Directors.

3.2 Project Implementation

The RGC implements decentralised and de-concentrated development projects and programs either through the SEILA Framework or through the IRAP approach.

3.2.1 Through the Integrated Rural Accessibility Planning (IRAP) approach

This approach is currently only used for ADB financed projects. No other donor is using this approach for implementing Decentralized projects in the RGC .In the ADB funded projects, which uses the IRAP approach (i.e. the NRDP), the project is being implemented through the Provincial Department of Rural Development (PDRD). The Project Management Unit (PMU) in this instance has been set up at the provincial level in one province (i.e. the principal province), with Project Implementation Units (PIUs) being set up at the other 3 recipient provinces.

3.3 Financial Management Arrangements

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

- The financial management responsibilities 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 defined.
- The banking arrangements must be decided upon and operationalized.

4. FINANCIAL MANAGEMENT RESPONSIBILITIES

The financial management responsibilities of the various parties in the context of a donor funded project in the Kingdom of Cambodia, is described in Section 3 of the FMM, and these responsibilities are equally applicable to the Government's programs relating to decentralised and de-concentrated projects and programs. The financial management of projects is the responsibility of the borrower (the Government), and within the RGC the main agencies/bodies responsible for project financial management are:

- Ministry of Economy and Finance (MEF)/Provincial Department of Finance (PDOF).
- Executing Agency (EA)
- Project Management Team

4.1 Ministry of Economy and Finance/Provincial Department of Finance

The MEF, and as appropriate the PDOF, has overall responsibility for overseeing the financial performance of donor assisted projects on behalf of the Government; and for promoting and supporting improved portfolio performance. Specific responsibilities of the MEF are set out in the FMM, and include:

- Developing and maintaining policies, the Standard Operating Procedures (SOPs), and supporting Manuals for donor assisted projects.
- Identifying and designating the EA/IA for ADB and WB projects, and providing appropriate authorities and delegations to the EA/IA and Project Teams.
- Ensuring appropriate bank accounts are established with the National Bank of Cambodia and other financial institutions (e.g. Foreign Trade Bank of Cambodia) and monitoring authorized bank account signatories.
- Counterpart funds are properly budgeted for, and are made available to projects on a timely basis.
- Providing support and advice to the EAs/IAs, in establishing and implementing sound accounting and financial management systems and procedures.
- Monitoring, and providing guidance on, withdrawal and replenishment applications by EAs IAs. Project Teams must provide the MEF with a copy of all loan withdrawal applications and bank statements, with reconciliations for the imprest/special account, and counterpart accounts.
- Monitoring and evaluating the financial performance of projects, and portfolio performance.
- Regularly reporting on the financial performance of projects to Government, other relevant stakeholders, and the general public.
- Promoting and facilitating the exchange of information between projects and EAs/IAs.
- Co-ordinating learning and training opportunities for EAs and Project Teams.

4.2 Executing Agency or Implementing Agency

EAs or IAs have primary responsibility for ensuring projects are implemented in accordance with project plans, and that resources are used efficiently and effectively, and only for project purposes. EAs or IAs are also accountable for all financial aspects of projects, and must ensure compliance with all financial covenants, and other obligations in the Loan/Credit/Grant and technical assistance agreements. Specific responsibilities include:

- Establishing project management structures and staffing, and ensuring financial staff are properly qualified and trained.
- Ensuring appropriate project bank accounts are established, and signatories are maintained up-to-date.
- Maintaining proper financial accounting and management systems and procedures, which are acceptable to the donors and the MEF.
- Implementing comprehensive and effective internal controls for project financial operations.
- Managing and safeguarding project assets.
- Preparing and submitting timely applications for withdrawal and replenishment of project funds.
- Monitoring the financial performance of projects, and ensuring that decision making to address variances to plans/budgets is done in a timely manner.
- Ensuring compliance with the project financial reporting requirements.
- Monitoring audit results, and ensuring that appropriate responses and actions are taken, in relation to audit findings and recommendations.
- Contributing to the centralised information centre and the knowledge base on projects maintained by the MEF.

4.3 Project Management Team

The Project Management Team within the EA or IA 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 and grant agreements. Specific responsibilities include:

- Managing and administering the financial affairs of the project.
- Ensuring compliance with the financial covenants of the project agreements, and any policies and procedures required by the government or donors.
- Establishing and maintaining project budgets, to support the mobilization of resources, and as a management tool to support Project Management.
- Managing the project bank accounts and flow of funds.
- Establishing, maintaining, and operating, the project accounting and financial management systems and procedures.
- Administering the financial transactions of the project, and maintaining proper accounts and records for the project.
- Undertaking all disbursement functions, tasks, and activities of the project, in strict conformity with the guidelines, systems, and procedures, governing disbursements from the project account and the use of project resources.

- Preparing and approving withdrawal and replenishment applications,¹ and submitting these applications through the Department of Investment and Cooperation (DIC) of the MEF, to the DAs for payment or replenishment.
- Generating and distributing financial reports, evaluations, and information as necessary to ensure effective and responsible financial management.
- Monitoring the financial performance of the project, and taking actions to address variances to plans.
- Facilitating the audit of the project's financial statements and financial operations.
- Preparing and issuing all scheduled and non-scheduled reports on the project's financial matters to the EA/IA, the MEF, donors, and other project stakeholders.

¹ Including for direct payment and special commitment applications

5. PLANNING AND BUDGETING

5.1 Project Planning and Budgeting

Budgeting is the process of estimating the financial requirements of the project, identifying sources of funds, and adopting measures to ensure that such funds are made available in a timely manner when required.

In the case of decentralised and de-concentrated projects in the RGC, the budgeting and planning exercise are done through the Annual Work Plan and Budget Preparation Exercise. This development planning and budgeting process is articulated in MOI Prakas No 098, (Inter Ministerial Prakas of MOI and MOP on the Commune /Sangkat Development Planning) which requires the Commune Chief and the Planning and Budgeting Committee to take responsibility for the preparation of a Development Plan and Budget (DPAM) , with assistance and support from the Provincial Line Ministry Departments. The Development Plan must be devised taking into account the following factors:

- Data Analysis;
- Strategy Identification;
- Project Design;
- Program Design; and
- Plan Approval.

All Commune Level Plans are consolidated at the District Level, in the aforementioned DPAM. Subsequently, selected projects and programs are approved by the Provincial Governor, through the PRDC process. Following this, the projects and programs are finally incorporated in the Program Annual Work Plan and Budget, and the funding source for the project or program is also identified in these documents.

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 to the MEF and the ADB/WB or other donors for approval/endorsement.

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 ADB/WB or other donors for approval/endorsement.

5.2 Government Budgeting for Projects

The project's budget, including the counterpart funds, must be incorporated into the Government's Annual National Budget and the Annual Work Plan and Budget.

Each year the EA sets out a Work Plan for the implementation of the project, and the financing requirements for achieving the Work Plan are determined by the EA/IA, and submitted to the EA's/IAs line Ministry for inclusion in that Ministry's annual budget requirements. The funding requirements from the various funding sources, including Government counterpart funds, are also determined at this point and are submitted separately to the DIC of the MEF.

5.3 Cash Flow Budgeting

Cash flow budgeting is a critical element of ensuring that funds are available when required by EAs/IAs, and involves estimating the amount and timing of payments for expenditures, and of receipts for revenues. 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 month 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 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 MEF by the project team, to ensure that regular and timely cash flow is available for project implementation activities.

5.4 Project Funds Flow

The flow of funds for projects from the ADB/WB to the RGC and the EA, will be specified in the Project Appraisal Document (PAD), and in the Project Loan/Credit/Grant Agreements. Funds flows within the EA are also specified in the PAD. Any variation to the endorsed flow of funds must be agreed by the EA (Project Team), MEF, and the ADB/WB, 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.

The project funds flow arrangements for decentralised and de-concentrated projects for the provincial level projects are summarized below and detailed in Appendix 3.

- Fund Flow Mechanisms of Commune Funds
- Funds Flow Mechanisms of Rural Infrastructure Local Governance Project
- Fund Flow Mechanisms of Northwestern Rural Development Project
- Fund Flow Mechanisms of Commune Council Development Project

6. FINANCIAL POLICIES AND STANDARDS

6.1 Fiscal Year and Reporting Periods

The Government's financial year is from January to December which is divided into 12 reporting periods (based on months). This financial year is applicable to all Government projects and programs, including the decentralized and de-concentrated ones.

Project EAs/IAs must identify the financial year that will apply to the project, and agree this with the MEF and the ADB/WB. Only the following financial year arrangements may be used by Project Teams or IAs:

- January to December (Calendar Year/Government Fiscal Year and ADB Financial Year)
- July to June (WB Financial Year)

In the case of decentralized and de-concentrated projects and programs, all agencies involved in the implementation of these projects and programs, normally utilise the Government Fiscal Year standard.

6.2 Basis of Accounting and Accounting Standards

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

6.3 Currency of Recording and Reporting

Funds contributed from Government resources for the decentralized projects are recorded in Riel, whereas funds from donors are recorded in US dollars at the central and provincial levels, and in Riel at the commune level.

For other decentralized and de-concentrated projects and programs funded from sources such as the WB and the ADB or other donors, Project Teams must record financial transactions and maintain the main project accounts and records, in US dollars. All prime financial reports must also be in US dollars, but subsidiary accounts, records, and reports, may be maintained in Riel.

6.4 Foreign Currency Translation

Any transaction in Riel or other currency must be converted to US dollars, at the official daily exchange rate that is declared by the National Bank of Cambodia (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 Riel transactions into US dollars must be specified.

7. INTERNAL CONTROL

7.1 Overview

Ensuring that sound internal control arrangements are in place in the implementation of the Government's decentralised and de-concentrated projects and programs is important, to assure the donors and other providers of development funds, that their funds are being used in the most efficient and effective manner.

Internal controls comprise all of the policies and procedures adopted by the management of the EA/ IA, to assist in achieving the orderly and efficient implementation of the project; compliance with government and donor policies and rules; the safeguarding of financial resources; complete and reliable processing; the recording and reporting of financial transactions and events; the timely issue of financial management reports for monitoring and management decision making; and the detection of fraud and error.

Internal control is aimed at:

- Ensuring that accounts and records are reliable and complete.
- Securing compliance with legislative, statutory, and project agreement requirements, and adherence to organizational policies.
- Protecting assets, especially cash receipts, from being lost or stolen and safeguarding assets against wastage, fraud and inefficiency.
- Discouraging dishonesty through the implementation of systems and procedures that would make concealment of irregularities possible only through the collusion of two or more persons, and promoting disclosure and transparency.

7.2 Responsibility for Internal Control

The EA/ IA management, and in particular the PRDC and the Project Team, is responsible for developing, implementing, and monitoring, a sound system of internal controls.

7.3 Critical Elements of Internal Control

The critical elements of internal control are:

7.3.1 Management Commitment to Effective Internal Control

Provincial and Commune Management must be committed to implementing effective internal controls. Management is responsible for maintaining and reviewing the control structures on a regular basis, to ensure that all key controls are operating effectively, and remain appropriate. The attitude exhibited by Management towards the enforcement of controls, will strongly influence the effectiveness of the internal control mechanism.

7.3.2 Effective Organisational Controls

Operational controls include effective organisational structures, well-defined responsibilities, and the segregation of functions. Segregation of functions, and separation of duties, within finance functions and the accounting systems should be ensured, in order to assist with the detection and prevention of errors, fraud, or the misuse of funds. The clear specification of financial authorities and delegations is a critical part of effective organisation internal controls.

7.3.3 Capable, Trained and Honest Officers

The PDOF and the EAs/ IAs should engage qualified and experienced personnel within their structures, and ensure that both formal and informal (on-the-job) training is provided to staff, to enable them to effectively carry out their assigned duties.

7.3.4 Clearly Understood Procedures and Documentation

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

7.3.5 Effective Operational Controls

Operational controls relate to the completeness and accuracy of processing for 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, will help ensure that the accounting systems are functioning properly, and that the accounting data is being accurately recorded and maintained.

7.3.6 Adequate Physical Controls

Physical controls are required to safeguard cash and other negotiable instruments (e.g. cheques), as well as inventories and assets. Controllable forms such as receipt books and cheque books must be kept secure, and records must be kept for issues and usage of assets, and controllable forms. Physical assets must be safeguarded and properly maintained, to retain their value and effectiveness.

7.4 Financial Delegations and Authorities

The PRDC and other EAs/IAs, in conjunction with the PDOF, must clearly define the financial delegations and authorities for project implementation. Such delegations and authorities should be agreed between the 3 organisations.

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

Bank Account Operations:

- Authorised signatories for drawing funds from the project bank accounts and the signing requirements for payment withdrawals
- Authorised signatories for credit/grant replenishment withdrawal applications

Contracts:

- Authorities to approve contracts for civil works, goods and services, including approval ceilings

Receiving of Civil Works, Goods and Services:

- Authorities to certify the completion/acceptance of civil works, goods and services

Expenditure Payments:

- Authorities to approve expenditure claims/vouchers, including approval ceilings
- Authorities to approve petty cash expenditure claims
- Authorities to approve advances of funds.

Receipts:

- Authorities to receive funds and to issue official receipts.

7.5 General Financial Internal Controls

Financial controls consist of measures adopted by management, including the PRDC with regard to decentralised and de-concentrated projects, to protect assets and ensure the accuracy and reliability of accounting records and financial reports. Key internal controls to be implemented by concerned agencies include:

Competent and Reliable Personnel:

- The internal control system relies on the people administering it. Employees should therefore be adequately trained, and properly supervised, to enable them to carry out their duties and responsibilities effectively.

Separation of Functional Responsibilities:

- One person should never have complete control of a transaction from beginning to end. A clear understanding should exist as to who will issue an approval, what is to be approved, and the limitations of authorisation. Approving officers should not have responsibility for posting, or the ability to change accounting records.

Assignment of Responsibility for Every Function:

- Employee responsibilities should be clearly defined (e.g. an organization chart should be prepared), to avoid overlapping or unassigned areas of responsibility. 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 include the supervision of staff (e.g. establishment of annual estimated expenditures under the supervision of the director or manager of the agency or IA; or the process of setting or recording transactions made by assistants, and the preparation of financial statements, under the supervision of the chief accountant).

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. the findings and recommendations of the internal auditor should be submitted to senior management for action). At present, there are no internal auditors at the provincial or commune levels in the Kingdom of Cambodia. This is deemed as a serious gap in the control environment within the current decentralized and de concentrated project administration arrangements. It is suggested that this gap be rectified without delay through the establishment internal audit units within each Provincial line Department. This is essential if sound internal controls are to be maintained and enhanced.

Control of Transactions:

- Every transaction should be authorised, 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. cheques, invoices, and vouchers, should be serially numbered).

Sequencing:

- An accounting control system should be set up in such a manner that proper sequencing is followed with regard to payments and the posting of transactions to ledgers (e.g. payments

should not be authorised or made before the goods or services to which the payment relates to has been received by the project).

7.6 Transaction Processing Controls

With sound transaction processing internal controls, employee duties are arranged, and records and procedures are designed, to exercise effective accounting control over assets, liabilities, revenues, and expenditures. The work of employees is also divided, to ensure that no one employee performs a complete cycle of operations (e.g. an employee handling cash would not be assigned to post collections in the accounting records). Procedures to be followed must be defined, and such procedures should require proper authorisations by designated officials, for all actions to be taken.

The table below summarises general transaction processing, internal control objectives, and internal control outcomes:

<i>General Objective</i>	<i>Internal Control Outcome</i>
Validity:	Recorded transactions are valid and documented
Completeness:	All valid transactions are recorded and none omitted
Authorisation:	Transactions are authorized according to the EA and Government policy
Classification:	Transactions are properly classified in the accounts
Accounting/Posting:	Transaction accounting is completed
Proper period:	Transactions are recorded in the proper period.

7.7 Computerised Accounting Systems Controls

At the provincial and commune levels at present, a variety of computer applications (including Peachtree, QuickBooks and Excel systems), are being used. When using computerised accounting systems, internal controls must also encompass the security and back up of financial accounts and records. The key computerised accounting systems internal controls that must be adhered to include:

Password Protection:

- Password protection should be implemented and maintained for all IT accounting systems.

Back up Procedures:

- All IT systems/Accounting Software should be regularly backed up (i.e. daily if possible), and procedures established to restore data and or software, following any operational disruption.
- Emergency procedures should be set up, to provide business continuity following loss of IT systems.
- Daily printouts of daily transactions (journals) should be made, checked, and signed by the Project Accountant and filed for future reference.

Virus Protection:

- All IT systems should be protected against the threat of software viruses.
- Regular virus scan should be carried out (at least once a week).

Emergency Procedures:

- Electrical power systems supporting IT equipment should have appropriate UPS systems in place, together with backup batteries, which are automatically invoked following a power loss. Batteries will be able to provide power for sufficient 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, and these should be tested, reviewed and updated at regular intervals.

8. FINANCIAL ACCOUNTING SYSTEM

8.1 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 project funds and project implementation.

The financial accounting system is made up of the General Ledger and sub-systems, accounts and records for processing, recording and reporting assets and liabilities, revenue, and expenditure of the project.

In the context of decentralised and de-concentrated projects in the Kingdom of Cambodia, the accounting and reporting arrangements currently in place are as follows:

8.1.1 Projects and Programs Funded by other Donors

The WB funded Rural Infrastructure Local Governance Project follows a Financial Management Manual that was specially designed for that project (Refer FMM RILGP). The accounting and reporting arrangements are broadly in line with the Government accounting and reporting system which follows the FMM. For the part of this loan which is specifically for commune funding, the accounting and reporting is also in line with the Government accounting system.

For the ADB funded Northwestern Rural Development Project (NRDP), a specifically designed computerised accounting system, using QuickBooks software, is being used. Once again the accounting and reporting arrangements broadly follows the Government accounting and reporting system, which follows the FMM.

The Project Management Unit (PMU) and the four Project Implementation Units (PIUs) maintain separate records and accounts for their various project components. Consolidated project accounts and related financial statements are compiled by the PMU and these are audited annually by independent external auditors acceptable to the ADB. In implementing the government decentralization and de concentration policy and to expedite disbursements, the first generation imprest account has been established at a commercial (ACLEDA Bank) for the PMU. Four second generation imprest accounts have also been opened by the PIUs at commercial banks in the project provinces. Each imprest account is managed by the PMU and the concerned PIUs.

Currently, the communes/sangkats funds under the CCDP, are being transferred through the commercial bank (ACLEDA Bank). This has been allowed by the MEF for the purposes of facilitating of payments to the contractors. There are 95 commune accounts in the 14 provinces where commercial bank accounts have been authorized by the MEF.

The commune accounts may be opened at the commercial bank based on the following Government's Sub-Decree:

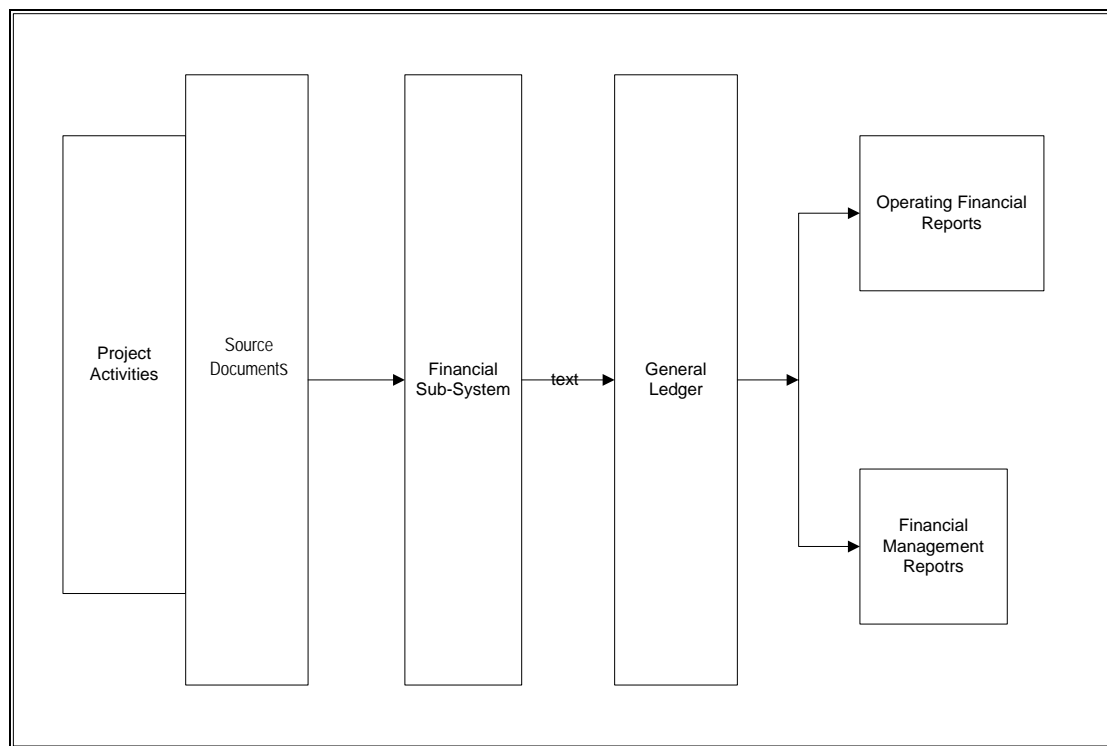
- ❖ Sub-Decree No. 16, dated 25 February 2002 on the Establishment of the Commune/Sangkat Fund (*Reference Article 16: All Communes/Sangkats shall maintain a deposit account at the Provincial Treasuries or in a commercial bank as authorized by the MEF*)
- ❖ Sub-Decree No. 26, dated 02 April 2002 on Communes/Sangkats Financial Management System (*Reference Article 30: The Minister of MEF may authorize the commune/sangkat to manage the overall or part of tis cash transactions by opening of the bank account at any commercial bank*)

8.2 Accounting system

The accounting system that a project uses may be a manual system, a computerised system, or a combination of both types of systems.

The financial accounting system encompasses source documents, accounting records, financial outputs, and financial management reports. Financial accounting data flows from the source documents to the accounting records, and then is collated in financial reports, either in detail (financial operational accounting reports) or in summary (financial management reports). The flow chart below demonstrates this process:

Figure 1: Project Accounting System



The flow of financial information is the same for both manual and computerised accounting systems. Transactions are initially recorded manually on source documents, and the data from these source documents is then entered into the relevant sub-system accounting records (e.g. supplier payment records), and then transferred to the General Ledger. In the computerised accounting system, the source document 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 the ledgers.

8.3 Accounting Process

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

Transaction processing:

- Approve transactions, and enter the transactions in the Receipt and Disbursements Journal or General Journal, creating a record of events in date order ("Receipts" or "Make Payment" function of accounting software).

Posting to Ledger Accounts:

- Post debits and credits from the journals to the appropriate ledger accounts, creating a record classified by accounts (upon entering the transactions in the "Receipt" and "Payment" windows of accounting software, all transactions are posted automatically in the General Ledger).

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).

Make month end adjustments:

- Reconcile control accounts (e.g. bank accounts and 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).

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).

Prepare financial reports and financial statements:

- An income statement/statement of sources and use of funds shows the result of operation for the period. A balance sheet is needed to show the financial position as at a given period of time (financial statements and other reports will be automatically generated).

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.

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).

8.4 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 the "Receive Monies/Make Deposit" function).

Cash Disbursements Journal/Book:

- A record of expenditure transactions with dates, amounts and payees based on the sequential numbering of the payment vouchers and cheques/bank transfer authorities (in the accounting software this is equivalent to the "Make Payment" function or the "Task/Payment" function).

General Journal:

- Used to record non-cash transactions, such as direct deposits or direct payments from donors, 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, and 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 the 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, and contract securities registers.

8.5 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 authorisation of transactions. The prime source documents of the financial accounting system are:

Official Receipt:

- Used to document the receipt of cash and cheques.

Dr	Bank Account	xxxxxx
Cr	Liability/ Fund Receipt Account	xxxxxx

Bank Receipt Voucher:

- Used to document the receipt of funds directly deposited to a bank account of the project, usually from the ADB/WB (Loan/Credit/Grant disbursements) or the Bank (bank interest).

Dr	Bank Account	xxxxxx
Cr	Liability/Equity/Fund receipt Account	xxxxxx

Payment Voucher:

- Used to record payment transactions where mode of payment is by Cheque/Withdrawal slip. The fund is drawn from project’s bank accounts.

Dr	Asset/Expense Account	xxxxxx
Cr	Cash in Bank	xxxxxx

Petty Cash Payment Voucher:

- 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.

General Journal:

- 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, accruals, reclassifications and settlement of cash advances.

Cash Advance Form:

- Used to record transactions of cash advances, which are treated temporarily as advances, until they are liquidated/cleared.

Purchase Order:

- Used to record official orders of goods to suppliers or contractors. This procedure is not widely used in most projects in the Kingdom of Cambodia however, as the contract method of procurement is the preferred method of procurement. There are some projects however, where this method of procurement is followed, for purchasing of minor items (refer to sub-sections 10.2.7 and 10.3.6 of the Procurement Manual for details of this procedure where used).

Supplementary documents that support the primary source documents may include:

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

9. GENERAL LEDGER SET UP AND MAINTENANCE

9.1 Chart of Accounts

The Chart of Accounts is a listing of General Ledger accounts.

The Chart of Accounts of a project provides the structure for recording and controlling budget and accounting data, and for summarising the data for monitoring and reporting. The coding for accounts should ensure proper recognition of revenue and expenditure, as well as assets and liabilities of the project.

In constructing the Chart of Accounts, the following basic principles should be observed:

- Accounts should be arranged and designated to give maximum information without the need for supplementary analysis.
- The account code structure should be designed to support accuracy in the coding of financial transactions.
- Account titles should reflect, as far as possible, both the purpose and nature of the revenue or expenditure.
- Account codes should be structured to enable identification and reporting of financial information for financial management of project activities, and to facilitate monitoring of the quality and reliability of the financial information.

The Chart of Accounts for projects must be structured to enable the following characteristics of transactions to be identified and reported:

- Nature of transaction – Asset, Liability, Revenue or Expense (including sub – category)
- Source of Funds
- ADB/WB or other donor Disbursement Category
- Project Component
- Project Sub-Component
- Province/District/Commune, if required

The Chart of Accounts structure should be documented, and guidelines on the use of the account codes should be provided to all relevant staff of the project.

The Chart of Accounts 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 Chart of Accounts must be controlled, with the Chief Financial Officer/Accountant being responsible for the project's finances and approving any required modifications.

In the Kingdom of Cambodia, all coding for posting to the Chart of Accounts is done manually.

As an example based on the budget allocation as per the Loan Agreement and the sources of funds, the Chart of Accounts for the ADB funded NRDP is broken down as follows:

- (i) Account Types
- (ii) Part
- (iii) Sub-Project
- (iv) Source of Finance
- (v) Disbursement category
- (vi) Contract reference
- (vii) Specific accounts

The Chart of Accounts for NRDP project is presented as below:

No.	Account	Account code	Account Title
(i)	Account types:	1 2 3 4 5 6 7	Cash in bank, Petty cash PIUs imprest account Cash advances, Advance payment, other receivables, Retentions & securities Retentions on contracts, Other Securities, other payables Financing Source Project expenditures Other receipts
(ii)	Part	A B	Liaison office Project Management Unit
(iii)	Sub-Project	1 2 3 4	Bantay Meanchey Battambang Odar Meanchey Siem Reap
(iv)	Financier	1 2	ADB RGC
(v)	Disbursement category	1 2 3 4 5 6 7 8	Civil Works Equipment Vehicles Training Consulting Services Services Contracts Incremental Staff O&M of Rural Infrastructure

		9	Operating Costs
(vi)	Contract reference	1 2 3	Contract No. NRDP/0001 Contract No. NRDP/0002 Contract No. NRDP/0003 Contract No. NRDP/..... Contract No. NRDP/.....
(vii)	Specific account	1 2 3 1 2	Civil Works category: Rural Road Restoration Large-scale Civil Works Small-scale Civil Works Equipment: Office Equipment Furniture

9.2 General Journal Sub-System

9.2.1 System and Procedures

General Journals are used for making adjustments to the accounting records, in the following ways:

- Correcting errors in the accounting records.
- Recording accrued revenues and expenses, assets and liabilities.
- Sharing centrally incurred expenses/earned revenues to sub national units.

9.2.2 Key Internal Controls

The key internal controls that must be included are:

General Controls:

- Adequate segregation of duties between the approving and posting officers.
- All journals and supporting documents are filed and controlled.
- Adequate management review and reconciliation of journals posted to the general and costing ledgers.
- Processing Controls.
- An appropriately authorised 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 authorised personnel.
- Adequate system audit trails are produced and monitored.

10. BANK ACCOUNTS

10.1 Bank Account Operations

The bank account operations for the decentralised and de-concentrated projects in the Kingdom of Cambodia take several forms:

10.1.1 Projects and Programs Funded by other Donors

For donor funded projects and programs, such as those funded by the ADB and WB, separate bank accounts are maintained for the ADB/WB Loan/Credit/Grant funds and for the RGC Counterpart Funds. For ADB project funds, the bank accounts are called Imprest Accounts; and for WB project funds, the bank accounts are called Special Accounts. For RGC counterpart funds, the bank accounts are called Project Bank Accounts or Counterpart Funds Accounts.

The purpose of the separate bank accounts is to facilitate disbursements of the Loan/Credit/Grant from the ADB/WB and other donors, and the counterpart funds from the RGC.

The bank accounts must only be established at financial institutions approved by the MEF, and which are acceptable to the ADB/WB or other donors where their funds are involved.

Bank accounts must be in the name of the project or the Government (i.e. the borrower). Bank accounts should be in US dollars or Cambodian Riel for Government counterpart funds.

10.2 Imprest/Special Accounts

Loan/Credit/Grant funds from the ADB/WB must be held in Imprest/Special Accounts, and these accounts must be used exclusively for the payment of project expenditures, as defined in the Loan/Credit and Grant Agreements. Under no circumstances should funds from the Imprest/Special accounts be used to pay for expenditures that should be paid by the Government or other donors. The Imprest/Special Accounts must be maintained at the National Bank of Cambodia (NBC), or other approved financial institution, in the name of the borrower (usually the MEF of the RGC). The MEF may then delegate authority to the EA/IA to carry out transactions covering project expenditures.

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

All expenditures from the Imprest/Special Account must be by bank transfer or cheque, and may be in local or foreign currencies. Cash disbursements are not allowed. 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 Imprest/Special Accounts – Direct Payment procedures must be used in such cases.

Applications to replenish the Imprest/Special Account must be submitted to the ADB/WB regularly, preferably monthly (but at least quarterly), or when the amounts withdrawn equal 20 percent of the initial advance, whichever comes first. The policies and procedures for the replenishment of the Imprest/Special Account and for Commitment and Direct Payment procedures are set out in the Loan/Credit /Grant Withdrawal Chapter as well as in the ADB/WB Disbursement Handbooks.

10.3 Second Generation Imprest/Special Accounts

Second Generation Imprest/Special Accounts may be opened with MEF's prior approval at approved financial institutions to facilitate access to funds for projects which have geographically disbursed activities or activities/project components being undertaken by various agencies. Second generation accounts are widely used for decentralised and de-concentrated projects at the provincial level.

The conditions for setting up and operating Second Generation Accounts are set out in the Loan/Credit/Grant Agreements of the project. Second Generation Accounts are funded from the main project Imprest/Special Account.

10.4 Counterpart Funds/Project Bank Accounts

The Counterpart Funds/Project Bank Accounts must be maintained by the EA/ IA at the NBC, or other approved financial institution. Replenishment and withdrawal applications are made direct to the MEF by the EA/IA, when approved funds are transferred from the Government's National Budget to the project's Counterpart Funds/Project Bank Account.

10.5 Authorised Signatories

All bank accounts opened to facilitate the implementation of decentralized and de-concentrated projects must have authorised signatories, who are approved by the MEF. All cheques drawn on a bank account must be jointly signed by at least two cheque signatories.

In cases where ADB/WB funding is involved, the terms and conditions for the opening and operating of Project Bank Accounts shall be acceptable to the ADB/WB.

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

10.6 Bank Reconciliations

10.6.1 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 the accurate capture and entry of data into the ledger. Reconciliation of bank accounts is one of the most critical internal controls 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 provided by the relevant financial institution.

In a few audit management letters of decentralised/de-concentrated projects, auditors have noted that at the provincial level, bank reconciliations are not performed on a regular basis. This is a serious lapse in control, which must be avoided.

10.6.2 Key Internal Controls

The key internal controls that must be included are:

- Reconciliations must be conducted at least monthly for each bank account of the project.
- 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 occurs within two weeks of the end of each month.
- Each reconciliation must be checked and approved by one of the authorised signatories of the bank account, or the accountant of the project.
- Reconciliations and supporting documents must be retained for management control and audit purposes.
- The Project Team/EA/IA must forward the approved monthly reconciliations to the MEF/PDOF after the end of each month, together with copies of relevant bank statements and cashbooks.
- Reconciliations must reconcile the bank statement closing balance to the ledger account or ledger/cashbook 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.

11. RECEIPTS AND DEBTORS

11.1 Overview

EAs/IAs and Project Teams involved in the implementation of the decentralised and de-concentrated projects and programs must maintain proper control over receipts of funds, and monies owed to the project by debtors. The following types of monies may be received by EA/IAs implementing decentralized and de-concentrated projects:

- Monies 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 monies.
- Contract securities (e.g. bid securities, performance securities).
- Deposit of Loan/Credit/Grant funds into the Imprest/Special Accounts or deposit of Counterpart funds into the Project Bank Account.
- Bank interest.

The EA /IA and the Project Team are responsible for ensuring that:

- Official receipts are issued for all monies received (except for Loan/Credit/Grant and Counterpart fund deposits and bank interest), receipts are sequentially numbered and controlled.
- Receipts and project monies are safeguarded.
- Staff are appointed with the appropriate authorisations to receive and account for project monies.
- Proper internal controls procedures are operating to properly account for, and to regularly bank, project receipts.
- Cashbooks are properly prepared in a timely manner.
- Revenue is posted in a timely manner into the ledgers.
- Revenue is correctly classified and posted to the appropriate revenue account codes in the ledgers.
- The production and issue of revenue budget comparison reports are timely.
- Revenue performance against budgets is monitored by management (where applicable).

11.2 Key Internal Controls

The key internal controls that must be included are:

11.2.1 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 cashbooks and revenue postings.
- Proper appointment of cashiers.
- 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 revenue into the accounting records.

Adequate management information is produced and used to monitor performance against revenue budgets (where applicable).

11.2.2. Processing Controls

- Official 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 revenue postings by properly authorized officer.
- Proper checking of receipts, bank deposit receipts and revenue ledger postings.
- Regular and timely reconciliation of bank accounts.

11.3 Procedures

11.3.1 Monies Received by the EA/ IA/ Project Team

The following steps apply in this process:

- Receive payment and promptly issue an official receipt to the payee.
- Prepare the bank deposit form detailing the monies to be banked.
- The bank deposit form, receipts and cash on hand must be checked by the Financial Officer/Project Accountant, who must initial or sign the bank deposit form to acknowledge the check.
- Perform the banking without delay.
- Check the bank deposit receipt after banking is correct.
- Post each receipt to the project ledger accounts.
- File the receipts (including cancelled receipts) and bank deposit receipts.

11.3.2 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. In the interim until the banking is done all cash must be stored in a safe and secure place.

12. CONTRACT EXPENDITURE AND OTHER PROJECT EXPENDITURES

12.1 Overview

In the decentralised and de-concentrated projects, contract, and other project expenditures, must be recorded and maintained in accordance with the procurement policies and procedures set out by the ADB/WB or other donors, and the Government, in the Procurement Manual (refer to Section 19 of the PM).

A separate detailed contracts register must be maintained for each contract, and all important details pertaining to the contract must be recorded in this register. These would include such details as the contractor's full name and address, the total value of the contract, any special terms and conditions of the contract construction schedule, performance and security bond requirements, details of approved contract variations, and any other relevant details. All other contract related registers, ledgers and reports specified in this section 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 are:

- Bid Securities
- Performance Securities
- Mobilisation Advances (if used)
- Retention Monies

12.2 Procedures

12.2.1 Bid Security/Bid Bond/Bid Guarantee Deposit

At the bidding stage of contracting, the EA/IA may request bidders to deposit a bid bond (also called a bid security or bid guarantee deposit) at the time of submission of their bids, to help ensure that 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.

The bid security may be paid in cash (which must be promptly receipted and banked), by check², or by bank guarantee to the EA/IA, and must be recorded in the Contract Security Register of the project. The following details must be recorded in a securities register:

² when checks are received they must be cashed and banked promptly or checks must be endorsed by the bank to guarantee availability of funds .

- Bidders Name.
- Form of security such as cash, manager's check, security bonds, or bank guarantee.
- Name of the Issuing bank and their reference.
- Amount of security.
- Date of Check or Guarantee.
- Validity date.
- Type of Security (bid/performance).
- Currency of security.
- Date of receipt/date of liquidation.

Cash bid securities must be deposited into the Project Account and be recorded in the General Ledger, whilst all other forms of security must be kept in a fireproof secure location, 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 bond. 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/IA must prepare a Disbursement/Payment 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, noting the following:

- Payment Date.
- Payment Disbursement/Payment 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 as sundry income , and deposited in the Government Counterpart Contribution Account.

12.2.2 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 bond will be agreed upon during contract negotiations. This security bond will be returned as stipulated in the General Condition of the Contract upon the satisfactory completion of the contract.

The performance security may be paid in cash or by bank guarantee to the EA/IA, and must be recorded in the Contract Security Register of the project. The following details must be recorded:

- Contractor/Suppliers Name.
- Form of security - i.e. cash, manager's check, security bonds, or bank guarantee.
- Name of the issuing bank and their reference.

- Amount of security.
- Date of check or guarantee.
- Validity date.

A cash performance security must be deposited into the Imprest/Special Account, and recorded in the project General Ledger. In instances where a bank guarantee is provided as performance security, then such a security must be kept securely.

A performance security must be returned to the contractor after the satisfactory completion of the contract. For cash performance securities, the EA/IA must prepare a Disbursement/Payment voucher (DV), and post the payment to the General Ledger against the Performance Securities ledger account.

The return/payment of performance securities must be recorded in the Contract Security Register as follows:

- Payment Date
- Payment/ Disbursement Voucher No.

12.2.3 Mobilization Payments

For consultant services and civil works, a mobilization payment may be made to the contractor, to provide funds for initial materials and investment. Mobilization payments are advance payments of contract monies, and must be recovered from future payments to the contractor.

Mobilization payments must be recorded in the Contracts Register, and the following details must be noted:

- Contractor/Suppliers Name.
- Form of security for the advance.
- Name of the Issuing bank and their reference.
- Amount of security.
- Date of the Guarantee.
- Validity date.

When a mobilization payment is made to the contractor, the amounts to be paid from the ADB/WB or other donors Loan/Credit/Grant and Counterpart funds components are determined separately.

The mobilization payment must be posted to the Advances on Contracts account in the General Ledger.

The mobilization payment may be recovered as follows:

- The total amount advanced is deducted from the first contract payment to the Contractor; or proportional amounts of the total advance are deducted from future payments to the contractor as determined in the contract.

- When a payment is made to the contractor for satisfactory completion of work, the advance payment is recovered and the amount recovered is recorded against the Advances on Contracts account in the General Ledger.
- Mobilization payments must be recovered in full before the final payments under the contract are made to the contractor.

12.2.4 Retention Monies

Contractors may be required to guarantee their work for a period of time, 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.

12.2.4.1 Withholding of Retention Money

Retention money may be deducted from each payment made to a contractor. The arrangement will be noted in the contract, but may be deducted only on the final contract payment, or on each progress payment in proportion to the relative size of each progress payment. Retention is intended to act as a guarantee for the satisfactory completion of services or goods provided, and this for a given period of time after the contract is completed. When this period has expired, the retention money is returned to the contractor.

Retention monies are withheld (deducted) from the payments due to a contractor, and must be proportionately assigned between the ADB/WB or other donors Loan/Credit/Grant and Counterpart funds components.

Retention monies 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 monies 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 the accrual basis of accounting is used. In cases when only a cash basis accounting system is used, no posting to 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 Management Register. In RGC the decentralized and de concentrated projects mainly follow the cash basis of accounting.

General Ledger Entry

Dr	Expenditure	xxxxxx
Dr	Retentions and Securities	xxxxxx
Cr	Special Account	xxxxxx
Cr	Counterpart Funds Contribution	xxxxxx
Cr	Retention on Contracts	xxxxxx

The following example illustrates the proportioning of payments and retention monies, where there is Counterpart funds contribution on a project, and the recording of the payment and the retention monies withheld are in the project's General Ledger.

Example			
In a contract where there is provision to hold 5% of the payment as retention. The project in this case is funded by the ADB and the RGC			
Contract Payment due:	US\$100,000		
Retention:	5%		
Financing:	ADB	RGC	Total
	90%	10%	100%
Payments Due:	90,000	10,000	100,000
Retention Withheld	(4,500)	(500)	(5000)
Paid to Contractor	85,500	9,500	95,000
Dr Expenditure	95,000		
Dr Retention and Securities	5,000		
Cr Special Account		85,500	
Cr Counterpart Funds		9,500	
Cr Retention on Contracts		5,000	

When the contract has been completed, retentions will still be withheld for a specified period. When this period has expired, and if contracted goods or services remain in good condition (i.e., reflecting the satisfactory provision of goods or services), the retention monies will be released to the supplier.

12.2.4.2 Payment of Retention Monies

When the retention period as specified in the contract has expired, and if the contracted goods or services remain in good condition (i.e., reflecting the satisfactory provision of goods or civil works), the retention monies will be returned to the supplier.

The release of retention money will be determined by the Project Engineer/ Technical Support Unit (TSU) in the case of commune level projects, who will visit the contract site, inspect the works or goods after the duration of the expiry of the retention period, and certify that the works or goods are satisfactory, and that the retention monies may be released to the contractor in accordance with the provision in the contract. Based on this certification, the Project Accountant will initiate the process of the release of the retention monies.

The payment of retention monies to the contractor is recorded in the project's General Ledger as follows:

General Ledger Entry

Dr	Retention on Contracts	xxxxxxx	
Cr	Special Account	xxxxxxx	
Dr	Expenditure	xxxxxxx	
Cr	Retentions and Securities	xxxxxxx	

Example			
The liquidation of retention money is paid proportionately from ADB and counterpart funds. DP or CL procedures may be relevant. When recording the payment, the double entry will be:			
Part 1:			
	Dr Retention on Contracts	5,000	
	Cr Imprest/special account		5,000
	To reflect the actual payment to meet the liability		
Part 2:			
	Dr Expenditure	5,000	
	Cr Retentions and Securities		5,000
	To post the expenditure previously deferred.		

12.2.5 Payments to Contractors

12.2.5.1 Payment from Special Accounts and Counterpart Funds Account

The contractor submits an invoice or request for payment, based on progress of work completed and in accordance with the terms of the contract, to the EA/ IA/ Project Team. The contractor prepares a Contract Progress Report.

The Project Technical Supervisor/Engineer, or in some cases the TSU, verifies that the quantity of work completed, the quality of materials used, and the quality of workmanship, is in accordance with the contract. The Technical Supervisor/Engineer or TSU will also check that the construction is in accordance with the technical plans, and comply with any instructions given to the contractor, and will prepare a Contract Progress Status Report. Based on this Contract Progress Status Report and the certification by the Technical Supervisor/Engineer or TSU, a Payment Certificate will be generated. This Payment Certificate, together with all the supporting documents will be submitted to the Project Director/Manager for approval. The authorised Payment Certificate and the contractor's invoice is then given to the Project Accountant to execute the payment.

The Contract Register is updated for the payment and the outstanding balance (amount committed but not yet paid), and the payment documentation (with a copy of the cheque) is filed with the Contract Register.

12.2.6 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 utility accounts (e.g. electricity, water and telephone accounts). When utility bills are received, they should be checked and verified by the accounting department or accounts personnel in the IAs, 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 authorised by the Project Manager and the Chief Financial Officer /Project Accountant before payments are made. Payments should be made by check. 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 and reporting systems.

12.2.7 Minor Purchases

There are no formal instructions in the Kingdom of Cambodia with regard to the use of a purchase order system, because this procedure is seldom used for project related purchases in the country. There are some projects however, that do use purchase orders for acquiring minor items from the local market. In such situations, the Project Director /Manager should ensure that proper procedures with adequate controls are set up for the use of the purchase order system.

The Project Director/Manager should issue clear instructions in this regard, with authorisation limits and types of items that may be acquired using this procedure. The Procurement Manual (refer to sub-sections 10.2.7 and 10.3.6) 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/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.

13. PAYROLL EXPENDITURE

13.1 Overview

To achieve successful implementation of project activities at the decentralised level, EAs/IAs and Project Teams may be required to engage personnel for the duration of the project, or 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 EA/IA and Project Management Team must establish a proper payroll expenditure sub-system to effectively manage and control such payments. Such a system may either be manual or computerised, and should provide for regular calculation and payment of the payroll 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.

EAs /IAs and Project Teams are responsible for ensuring that:

- The engagement of employees should be merit based, be properly approved in accordance with the project guidelines, terms and conditions, or other relevant instructions or approvals, and that there must be proper contract documentation supporting the engagement of project staff.
- Allowances are based on approved project guidelines, terms and conditions, or other relevant instructions or approvals.
- Salaries, wages, and/or allowances, are paid from the appropriate funding source.
- Proper records of attendance, leave, overtime, and performance (for performance related allowances), are maintained.
- 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.
- Distribution and acquittal of cash pays, and distribution of payslips/payment advices to the project staff, are controlled. The employee must be required to sign for the receipt of the wages, where cash payments are made.
- The cost of payroll expenditure compared to project budgets and annual budgets, is monitored in a timely manner.

13.2 Key Internal Controls

The key internal controls that must be included are:

13.2.1 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.

13.2.2 Payroll Processing Controls

- Approval of all payrolls is done by properly authorised officers.
- Payroll transactions are prepared and processed only on the basis of 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, or their authorised agent.
- Acquittal of cash payments and prompt investigation of unclaimed pays or complaints.
- Regular and timely review of payroll expenditures by Project Management and finance staff.

13.2.3 Computerised System Controls

- Systematic/periodic data used in the payroll sub-system is regularly reviewed and any changes are approved by an authorised officer.
- Access to payroll processing functions and data is restricted to authorised personnel.

13.3 Procedures

For each person engaged with a standard pay entitlement (e.g. standard salary, wage, or allowances), each pay cycle, record in the project Payroll Register and Payroll sub-system:

- Person's name
- Personal details
- Pay entitlement

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 following should be noted:

- The timesheet must specify the dates and hours worked that are to be paid.
- For allowances based on performance, the relevant quantities or outputs of work performed must be specified.
- The timesheet/allowance forms must be approved by an authorised 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.

Timesheet/Daily Time Record:

- A timesheet must be used as a reliable basis for the payroll computation, and must include a record of dates, times, absences, and leave forms, all of which are necessary information for payroll computation.

Employment Contract:

- This serves as a basis for determining the eligible members of the project. This contract is the basis for payments of services that have 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:

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

- Gross pay.
- Allowances.
- Tax deductions.
- Advances (if any).
- Other deductions.
- 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 deductions and net pay.

Payment Procedures:

- After the Payroll Register has been approved by the Project Director, payment shall follow. The use of Bank payroll facility such as direct credit to the payee's (employee's) account is the safest and most convenient payment method to be used for payroll by the project. For decentralized or de-concentrated projects being implemented in the provinces and communes however, this method of payment may not be available. In such cases payments may have to be made in cash. Where cash payments are made, extra precautions must be taken to ensure that all funds withdrawn are for genuine employees. The distribution of cash payments must be carried out by two persons. Any undistributed pay for whatever reason, should be promptly re banked and withdrawn at a later date when needed.

14. PETTY CASH

14.1 Overview

At the decentralised or de-concentrated project implementation level, the Petty Cash System being used must be managed in accordance with Petty Cash Instructions formulated by the Project Chief Financial Officer/Project Manager/Project Accountant. These instructions should specify the maximum petty cash advance (normally this amount should not exceed \$1,000 with a maximum single payment limited to \$500), unless specific approval for higher limits from Project Management has 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 monies.

Petty cash must only be used for minor expenditure incurred for project purposes. General approved purposes for the use for petty cash include:

- Travel per diems
- Travel advances (up to 80% of the expected cost).
- Training seminars and conferences (minor expenses).
- Small office supplies and repairs.
- Small communications expenses.
- Other miscellaneous small cash expenses.

14.2 Key Internal Controls

The key internal controls that must be included are:

- 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 using a standard cash count sheet 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 must be liquidated within a specified period of time. This period of time should be set by the Chief Financial Officer/Project Accountant or Manager, in the instructions on the use of petty cash. There must always be a set of written instructions developed for the operation of the petty cash system.

14.3 Procedures

Petty cash procedures are set out in this section for:

- Setting up a Petty Cash Advance.
- Using Petty Cash.
- Replenishing a Petty Cash Advance.
- Closing a Petty Cash Advance.

14.3.1 Setting Up a Petty Cash Advance

A Petty Cash Advance Request, a Payment Voucher, and a cheque are processed. The Petty Cash Advance Request must set out the following:

- Purpose of the Petty Cash Advance.
- Name and position of the Petty Cash Advance holder.
- Amount of the Petty Cash Advance.
- Maximum single petty cash transaction limit.
- Types of minor expenditure that the Petty Cash Advance can be used for.
- Types of expenditure that the Petty Cash Advance must not be used for.
- Cash count, reconciliation, and reimbursement frequencies.

The Petty Cash Advance Request and Payment Voucher are approved by the appropriately delegated officers.

The cheque is signed by the appropriate cheque signatories.

The cheque is cashed by the Petty Cash Advance custodian.

The Petty Cash Advance is posted to the General Ledger Petty Cash Account.

Dr Petty Cash
Cr Imprest/Special Account or Counterpart funds/Project Bank Account

A Petty Cash Book (PCB) is set up and the advance is recorded. The PCB is maintained by the Petty Cash custodian. All transactions are recorded in the PCB as they occur, and a running balance of the remaining funds of the Petty Cash Advance, is calculated.

14.3.2 Using Petty Cash

A Payment Voucher with supporting documents such as an original receipt or invoice, or an approved per diem authorization, must be signed and dated by the applicant requesting payment.

The Payment Voucher must be completed by the Project Accountant, who checks supporting documentation, enters the correct account code(s), and sequentially numbers the Payment Voucher.

The Payment Voucher is approved by a relevant delegated officer.

When approved, the payment from the Petty Cash Advance may be made by the Petty Cash custodian, who must obtain the signature of the recipient on the Payment Voucher as evidence of them receiving the cash.

The Petty Cash Advance holder records the expenditure in the Petty Cash Book, and files the Payment Voucher.

Posting is made to the PCB from the Petty Cash Payment Voucher as follows:

Dr	Expense	xxxxxx
	(Recorded in the relevant column in the multi-column PCB)	
Cr	Petty Cash	xxxxxx

Example

Paid office supplies by cash \$10. The entry is posted to the ledger accounts as follows:

Dr	Office supplies	10
Cr	Petty Cash	10

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 Petty Cash Vouchers 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 Chief Financial Officer/Project Accountant 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.

14.3.3 Replenishing Petty Cash

Replenishment of petty cash funds should be made when the balance in petty cash falls to a pre-determined limit of the original Petty Cash Advance as set out by the Chief Financial Officer/Project Accountant.

The Project Accountant prepares an appropriate bank Payment Voucher and cheque for the replenishment of the petty cash advances, and submits them to the Project Director/Manager for approval.

The Project Director/Manager approves the Payment Voucher.

The cheque is signed by the authorised signatories.

The payment voucher is posted to the General Ledger.

Dr	Petty Cash	
Cr	Imprest/Special Account or Counterpart Funds/Project Bank Account	

Example

In a \$1000 approved petty cash when the petty cash fund is at \$150, the accountant requests the manager who has the authority to replenish it. A check would be made out for \$850 to withdraw from the imprest/special account. The entry to replenish the petty cash fund is posted to the ledger accounts as follows:

Dr	Petty Cash	850
Cr	Imprest/Special account	850

14.3.4 Closure of Petty Cash Advances

When a Petty Cash Advance is no longer required, then the Petty Cash Advance 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 Payment Vouchers 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 in 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/Manager/Accountant.

Dr	Special /Imprest Account /Counterpart funds/ Project Bank Account	
Dr	Expenditure	
Cr	Petty Cash Account	

15. ADVANCES

15.1 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. Given the scarcity of establishments with proper facilities to deal in a credit system, at the provincial and commune levels, cash advances are widely used in the implementation of decentralized and de-concentrated projects and programs.

Cash advances must be strictly controlled and managed by the Project Management to ensure proper acquittal of expenses incurred.

15.2 Key Internal Controls

The key internal controls that must be included are:

- Cash advances must be approved by properly delegated officers.
- A Cash Advance Register must be maintained for all cash advances.
- Cash advances must be liquidated with full documentation of expenses incurred from advances within a limited time period. This time limit for liquidation must be clearly set out on the rules for petty cash operation that should be made known to all project staff and must be strictly followed.
- 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 previously uncleared cash advances.

15.3 Procedures

15.3.1 Payment of Advances

The following procedures apply to advances from Imprest/Special Accounts or Counterpart Funds/Project Bank Accounts (US\$500 or more):

- Applicant completes a request for advance (RA) and submits it to the Project Accountant.
- The Project Accountant reviews the RA, and submits it to the Project Director/Manager for approval.
- The Project Director/Manager reviews and approves the RA, and returns it to the Project Accountant.

➤ The Project Accountant prepares a DV, has it approved by the Project Director/Manager and arranges for the check to be processed or for the cash to be prepared.

➤ The Project Accountant posts the advance to the General Ledger.

Dr Project Advance
Cr Special Account or Petty Cash

➤ The Project Accountant makes a record in the Advances Register.

Example

\$500 withdrawn from the bank account has been advanced to the sub-project. The entry is posted to the ledger accounts as follows:

Dr	Project Advances	500
Cr	Imprest/Special Account/Petty Cash	500

15.3.2 Acquittal of Advances

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

The Project Accountant reviews the RAA and the Project Director/Manager approves.

The Project Accountant prepares and posts the advance acquittal to the General Journal. If the advance is over the amount of expenditure and excess funds are refunded, the entry will be:

- **Special Account Advances:**

Dr Special Account (unspent monies)
Dr Expenditure
Cr Project Advances

- **Petty Cash Advances:**

Dr Petty Cash (unspent monies)
Dr Expenditure
Cr Project Advances

Example

Assume that for a \$500 advance, vouchers are presented for liquidation for advance for \$450 and \$50 is returned. The applicant presented the liquidation of amounts advanced, of which the remaining \$50 is deposited into the bank account. The entry to liquidate the advance is posted to the ledger accounts as follows:

Dr	PCB/Imprest/special account	50
Dr	Expenditure	450
Cr	Project Advance	500

16. ASSETS

16.1 Overview

Fixed assets are assets that are intended for use for a longer term period in the operation of a project. The RGC does not define what constitutes a fixed asset, but in practice generally items of a value exceeding US\$200 and which will last for a longer time period (i.e. more than 12 months), is capitalised. This principle also applies to decentralised and de-concentrated projects in the Kingdom of Cambodia.

16.2 Key Internal Controls

The key internal controls that must be included are:

- The levels of control regarding fixed assets 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.
- A physical count of all fixed assets 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. inventory stickers), in order to establish ownership and accountability. It has been noted in some auditors' management letters that in certain decentralised projects, assets are not properly identified and recorded in the asset registers.
- Purchases of fixed assets shall only be made when the Request for Purchase Form has been approved by the Project Director/Manager. This form shall be attached to the Payment Voucher when the payment is executed.
- In cases where assets are to be disposed of, a Disposal Form will be completed and approved. This form will be attached in the Journal Voucher for entry into the General Journal Entry.
- The General Ledger must be periodically reconciled against the actual quantities in the Fixed Asset Register, in order to establish accurate financial records on fixed assets.

16.3 Procedures

16.3.1 Certificate of Acceptance or Receiving Report

This is used to signify actual delivery of goods/actual receipt of fixed 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/her signature on the invoice as evidence of actual receipt.

16.3.2 Issuance Slip

This is used 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.

16.3.3 Inventory Check of Assets

The Project Team/EA/IA must carry out periodic physical count of all inventory and assets. The items checked will include equipments, fixtures, furniture, tools, accountable forms, high value consumables, merchandise, 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, he/she must prepare a Fixed Asset Physical Count Summary which should consist of the following information:

- Date of Count.
- Asset name.
- Asset code.
- Location.
- Quantity.
- Direct Users.
- Remarks for any unusual items or condition of the asset.

Any missing, damaged or obsolete inventories shall be identified, and must be reported to the management immediately. Only with management approval, accounting records and the Fixed Asset Register should be amended.

16.3.4 Inventory Check Reconciliation

Reconciliation shall be performed between the actual quantities counted, and the quantities shown, based on last inventory 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 inventory reconciliation for proper financial records.

16.3.5 Labelling of Assets

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

- Project ID (no. or name)
- Type of asset
- Name/s of Direct User/s
- Location of the asset
- Asset number

The purpose of the tagging system is to establish identification of ownership and determination of location, for inventory control and for proper identification of accountabilities. It was noted in some auditors' management letters that in certain decentralized and de-concentrated projects, this is not being properly done.

17. LOAN/CREDIT/GRANT WITHDRAWALS

17.1 Overview

A number of decentralized and de-concentrated projects are funded by the ADB/WB and other donors, and because in such cases all authority is delegated to the provincial level, all Loan/Credit /Grant Withdrawal activities are therefore performed at that level. Institutions are therefore required to follow the same procedures that have been articulated for centrally administered projects, as described in Section 17 of the FMM. The term Loan/Credit/Grant Withdrawals (Disbursements) refers to the withdrawal of funds to meet project expenditure. Disbursement of the Loan/Credit/Grant Funds may be by:

- Commitment Letter
- Direct payment
- Special Account Allocations or Reimbursement.

Withdrawal of Loan/Credit/Grant Funds (Loan/Credit/Grant Disbursements) must be carried out in accordance with the disbursement procedures of the ADB/WB or other donors as the case may be. EAs/IAs and their Project Teams, must obtain and retain an up-to-date copy of the ADB/WB or other donors Disbursement Handbook (whichever is relevant to the project), and ensure that project staff are trained in these procedures.

The EA/IA is responsible for submitting withdrawal applications to the ADB/WB or other donors, and for providing the MEF with a copy of the application, to enable the MEF to monitor the use of the Loans/Credit/Grant Funds.

Loan/Credit/Grant Withdrawals may be made for:

- Special Account Initial Advance.
- Special Account Replenishment.
- Reimbursement of Expenses Incurred.
- Direct Payment to Supplier or Contractor.
- Commitment Letter.

17.2 Key Internal Controls

The key internal controls that must be included are:

- Funds may only be withdrawn from the Loan/Credits/Grants for expenditures of the project which are authorised, and are specified in the project Loan/Credit/Grant Agreement. Project EAs/IAs should set out the authorised and unauthorised expenditures, and expenditure percentages, for the project in a clear and concise manner for the benefit of all staff involved
- The EA/IA is responsible for ensuring that authorised signatories for withdrawal applications are established, and maintained up-to-date at all times. The EA/IA must maintain the copy of

the authorised signatories, and provide updated copies to the MEF and originals to the ADB/WB.

- Withdrawal applications must be signed by an authorised signatory or signatories.
- Withdrawal applications must be sequentially numbered starting with the number one.

17.3 Procedures

17.3.1 Imprest/Special Account Initial Advance

The Project Team/EA/IA 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" (i.e. maximum amount) of the advance.

The Withdrawal Application Form must be signed by the authorised signatories, and submitted to the ADB/WB or other donors through the MEF.

The Project Team/EAs/IAs records the Withdrawal Application (WA) in the WA Register.

The ADB/WB or other donors reviews the completed forms, and disburses the advance for credit to the project's Imprest/Special Account.

The Project Team should seek written advice of the funds receipt into the Imprest/Special Account from the relevant financial institution where the Imprest/Special 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	Imprest/Special Account	xxxxxx
Cr	ADB/WB or other donors Loan/Credit/Grant Account	xxxxxx

17.3.2 Imprest/Special 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 Imprest/Special Account reaches its minimum level, or is down to 20% of the advance.

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. Under the SOE method, the Project Team /EA/IA keeps the supporting documents, including contracts and

procurement documentation, and evidence of payment in a central location for examination by independent auditors and ADB/WB staff, during supervision missions.

The Project Team/EAs/IAs completes an Imprest/Special Account Withdrawal Application Form and applicable Summary Sheets and/or SOE (2 copies of each).

The Project Team/EAs/IAs prepares a reconciliation of the Imprest/Special Account.

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

- Summary Sheets
- Statement of Expenditures
- Bank Statements
- Imprest/Special Account Bank Reconciliation Statement
- Other documentation to support the withdrawal application, if required.

The Withdrawal Application Form must be signed by the authorized signatories, and submitted to the ADB/WB.

The Project Team/EAs/IAs records the WA in the WA Register.

The ADB/WB reviews the completed forms, and disburses the replenishment for credit to the project's Imprest/Special Account.

The Project Team should seek written advice for the funds receipt into the Imprest/Special Account from the relevant financial institution where the Imprest/Special 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	Imprest/Special Account	xxxxxx
Cr	ADB/WB Loan/Credit/Grant Account	xxxxxx

17.3.3 Reimbursement of Expenses Incurred

17.3.3.1 For Reimbursement with Documentation

The Project Team/EAs/IAs completes the corresponding Summary Sheet on form ADB/WB form (2 copies).

The Project Team/EAs/IAs attaches a photocopy of the following supporting documents to each WA:

- Contract.
- A copy of the invoice/bill/claim and delivery receipt.
- 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/EAs/IAs completes and signs the appropriate SOE form (2 copies).

Note - 3 types of SOE 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 US\$100,000, the Project Team/EAs/IAs need not send a copy of the contract to the ADB/WB, unless specifically required.

17.3.3.3 For Force Account Works

Force Account Works are used for reimbursing the Borrower for expenditures in carrying out certain approved civil works for the project using its own work force, equipment, and other resources. They are also used when the size, nature, and location of the works make competitive bidding unsuitable.

Two certificates are completed and attached to the withdrawal application:

- Project's physical progress (Part 1).
- Financial progress (Part 2).

The Withdrawal Application Form must be signed by the authorized signatories, and submitted to the ADB/WB.

The Project Accountant records the WA in the WA Register.

The ADB/WB reviews the completed forms, and disburses the replenishment for credit to the bank account nominated by the project.

The Project Team/EAs/IAs 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	xxxxxx
Cr	ADB/WB Loan/Credit Account	xxxxxx

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.

- Summary Sheets (2 copies).

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

- Summary Sheets.
- Copy of Contract/s.
- Supplier or contractor invoice or claim.
- For civil work – 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 or the letter of acceptance.
- 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 authorised signatories, and submitted to the ADB/WB.

The Project Team/EAs/IAs records the WA in the WA Register.

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

The ADB/WB advises the EA/IA when the payment has been executed to the supplier. When this 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	xxxxxx
Cr	ADB/WB Loan/Credit/Grant Account	xxxxxx

17.3.5 Commitment Letter

To finance the purchase of goods under a project, the Project Team EA/IA 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 ADB/WB 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 ADB/WB issues to the commercial bank, normally in the supplier's country, its Commitment Letter agreeing to reimburse the designated bank for payments made or to be made under the letter of credit.

The Project Team /EAs/IAs arranges with a bank in Cambodia a Letter of Credit 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 as appropriate.

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

The following supporting documents must be attached to each WA:

- Copy of pro-forma invoice of supplier or contractor.
- Summary Sheets.
- Copy of a contract.
- 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 authorised signatories, and submitted to the ADB/WB.

The Project Team/EAs/IAs records the WA in the WA Register.

ADB/WB receives the completed withdrawal application and supporting documents.

When the application is approved, the ADB/WB issues a Commitment Letter to the designated bank, and sends a copy to the EA/IA for information.

The designated 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 designated bank under the letter of credit, the designated bank claims payment from the ADB/WB.

The ADB/WB makes the payment to the designated bank.

The Project EA/IA is notified by the ADB/WB through the Semi- Monthly Listing of Loan Disbursements (SMLD – ADB) or the Monthly Disbursement Summary (WB) , that the payment has been executed. The EA/IA may also be notified of the payment upon its inquiry directly with the ADB/WB.

The Project Accountant records the Loan/Credit/Grant Disbursement and Expenditure in the General Ledger.

Dr	Expenditure	xxxxxx
Cr	ADB/WB Loan/Credit /Grant Account	xxxxxx

17.3.6 Recovery of Imprest/Special Account Advances

For WB projects, recovery of the outstanding advance in a 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 ADB projects, the Project Team/EAs/IAs completes a Liquidation of Advance Form, and submits it with the applicable Summary Sheet or SOE (2 copies), and attaches the Imprest Account bank statement and related Bank Reconciliation.

The ADB/WB deducts the amount of expenditures incurred from the outstanding balance of advances until the Imprest/Special Account reaches zero balance.

During the recovery process, the ADB/WB notifies the borrower of amounts disbursed and amounts used for recovery for each Imprest/Special Account withdrawal application processed, as well as the outstanding balance yet to be recovered.

17.4 Tips 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, and to avoid the most common delays in the withdrawal of Loan/Credit/Grant Funds, the following should be noted:

- Forward copies of contracts to ADB/WB task manager promptly after they are signed.
- Cite the date of the ADB/WB "no objection" notice for contracts above the procurement prior review limits specified in the Loan/Credit/Grant agreement.
- Promptly advise ADB/WB of changes to authorized signatories.
- Ensure that withdrawal applications are signed by authorised 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 Imprest/Special 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 ADB/WB if unsure of requirements.

18. GOVERNMENT COUNTERPART FUNDS WITHDRAWALS

18.1 Overview

The decentralized and de-concentrated projects are subject to the same procedures as those of central Government Line Ministries and Agencies, for the withdrawal of Government Counterpart Funds contributions, which are outlined in Section 18 of the FMM.

The MEF is responsible for ensuring that 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.

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

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

Government Counterpart Funds Withdrawal Applications should be made in accordance with the budget plan agreed between the project EA and MEF.

Government Counterpart Funds may only be withdrawn for expenditures of the project which are specified in the project Loan/Credit/Grant Agreements. The Project Team/EAs/IAs should set out the expenditure percentages for the project in a clear and concise manner, for the understanding of all project staff involved in the withdrawal of Government Counterpart Funds.

Government Counterpart Funds Withdrawals may be made for:

- Special Account Initial Advance.
- Special Account Replenishment.
- Direct Payment to Supplier or Contractor.

18.2 Key Internal Controls

The key internal controls that must be included are:

- Withdrawal applications must be signed by an authorised signatory or signatories.
- Withdrawal applications must be sequentially numbered starting with the number one.
- Government Counterpart Funds advanced to projects must be held in a Government Counterpart Funds/Project Account at the NBC, or other approved financial institution.

18.3 Procedures

18.3.1 Government Counterpart Funds Initial Advance

The Project Team/EA/IA completes the Government Withdrawal Application Form for the initial advance of Government Counterpart Funds and submits this to the MEF – Department of Investment and Cooperation (DIC).

The maximum amount of the advance of Government Counterpart Funds will be agreed between the EA/IA Project Team and the MEF.

The Government Withdrawal Application Form must be signed by the authorized signatories of the EA/Project and submitted to the DIC.

The Government Withdrawal Application must be recorded in the Project Counterpart Funds Withdrawal Application Register.

The DIC reviews the completed forms, and in conjunction with the Finance and Administration Department, transfers the funds to the project's Counterpart Funds Imprest/Special Account and advises the Project EA/IA of the transfer.

On receipt of advice from the NBC that the funds have been deposited into the Counterpart Funds Special Account, the receipt of the funds should be recorded in the General Ledger and the Government WA Register must be up-dated.

18.3.2 Counterpart Funds Replenishment

The Project Team /EA/IA completes the Government Withdrawal Application Form, and attaches a statement of actual expenditure. Supporting expenditure documentation must be maintained by the Project Team for subsequent review by MEF or audit.

The Government Withdrawal Application Form must be signed by the authorized signatories of the EA/Project, and submitted to the DIC.

The Government Withdrawal Application must be recorded in the Project Counterpart Funds WA Register.

The DIC reviews the completed forms, and in conjunction with the Finance and Administration Department transfers the funds, to the project's Counterpart Funds Imprest/Special Account.

On receipt of advice from the NBC that the funds have been deposited into the Counterpart Funds Special Account, the receipt of the funds should be recorded in the General Ledger and the Government WA Register must be up-dated.

18.3.3 Direct Payment to Supplier or Contractor

The Project Team/EA/IA completes a Government Withdrawal Application Form. Separate withdrawal applications are required for each payment in different currencies.

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

- Copy of Contract/s.
- Supplier or contractor invoice or claim.
- For civil work – 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.
- 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 Government Withdrawal Application Form must be signed by the authorized signatories of the EA/IA Project, and submitted to the DIC.

The Government Withdrawal Application must be recorded in the Project Counterpart Funds WA Register.

The DIC reviews the completed forms, and in conjunction with the Finance and Administration Department, arranges the payment to the supplier or contractor.

On receipt of advice from the DIC 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 up-dated.

19. Financial Management Reports

19.1 Overview

The decentralized and de-concentrated projects implemented at the provincial level are subject to the same financial management reporting requirements as those of centrally administered projects. Therefore all the requirements of Section 19 of the FMM applies equally to the EAs/IAs of the decentralized and de-concentrated projects.

Financial management reports 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 EA/IA to support effective monitoring of the project's financial position and progress and to support sound management decision making. These are:

- Management reports
- Quarterly Financial Management Reports / Semi – Annual FMRs, if required.
- Annual Financial Statements

The MEF and ADB/WB and other donors 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 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 accordance with the project's agreements.

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-DIC:

- Imprest/Special Account reconciliation.
- Accumulated project expenditures by category.
- Statement of loan disbursement and status of category balance.
- Accumulated disbursements by category.
- Accumulated contracts awarded by category.

The format of all of the above forms are shown in Section 19 of the FMM.

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, when analysed and reported, 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.

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 liquidated)
- Outstanding Withdrawal Applications

19.2.2 External Financial Management Reports

EAs/IAs are required to submit financial management reports each quarter of the financial year within 45 days for the World Bank and 30 days for the ADB after the end of the quarter.

The Financial Management Reports that are required to be submitted will be agreed by the ADB/WB and other donors with the EAs/IAs during project appraisal and negotiation. The requirements will be set out in the project agreements.

19.3 Annual Financial Statements

19.3.1 Responsibility for the Financial Statements

The EA/IA and Project Management are responsible for preparing and issuing the annual financial statements for the project.

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, ADB/WB, and other donors.
- Compliance with loan covenants and ADB/WB 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 ADB/WB and EA/IA.

20. AUDIT

20.1 Internal Audit

Regrettably at the present time no decentralized or de-concentrated project has a functioning internal audit set up. It is therefore imperative that priority be accorded to setting up satisfactory internal auditing arrangements for all decentralized and de-concentrated projects in the Kingdom of Cambodia. The Audit Law, promulgated by Royal Decree No. CS/RKM/1300/10 (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.

Internal audit is a key element of the organisational system of internal controls. Internal auditing is an independent, objective assessment of all financial activities designed to add value and improve an organization's overall operations.

As part of the financial management arrangements for the project, EAs/IAs should ensure that the organization's Internal Audit Unit carries out regular reviews of the internal control processes, systems, and procedures of the project, and that the audit findings are reported to the Head of the EA/IA, the Project Management, and the MEF. The internal audit findings and reports must also be made available to the National Audit Authority (NAA), and external auditors of the project.

The Internal Auditors should work closely with the Project Management Team/EAs/IAs, to support and ensure that project's operations are carried out in accordance with the relevant agreements, and are transparent, fair, cost efficient, and effective. The Project Management Team/EAs/IAs should agree the objectives, scope and frequency of audits with the Internal Auditors. The Internal Auditor must report to the highest level of the EA/IA Management. In the project context the Internal Auditor should report to the Head of the EA/IA and to the Project Director.

A sample Terms of Reference (TOR) for the internal audit of a project's operations are set out below:

Scope:

- All central and provincial operations/activities of the project.

Audit Scope:

- Funds (donor and counterparts funds) are being used in accordance with Loan/Credit/Grant Agreements and only for the purposes of the project.
- Goods and services are being procured in accordance with the relevant ADB/WB or other donors procurement guidelines and Government regulations.
- Review the adequacy and effectiveness of internal controls and make recommendations for improving systems and tools.
- Carry out regular review and monitoring of financial management and procurement functions, to ensure compliance with the relevant policies, procedures and practices and appropriateness of system of the project.

- Verify payments for provincial and commune activities to ensure appropriateness of documents and transaction.
- Undertake random visits to assess the adherence of the established procedures at all levels, particularly provincial and commune level and to ensure physical existence of project assets and results.
- Review eligibility and appropriateness of the project expenditures incurred at the provincial and commune levels as well as to provide basic technical services (as required) for the proper recording and maintenance of project accounts at that level.
- Randomly review procurement transactions to ensure procurement transactions have been procured in accordance with the applicable procedures, the deliveries of goods, works and services are in accordance with contract quantities and quality.
- All necessary supporting documents, records, and accounts are being kept in respect of all project revenues and expenditures.
- There is proper control and safeguarding of cash and portable assets.
- Compliance with the Financial Management Manual and its supplements, and also compliance with all the Regulations on Financial Management for Use with ADB/WB and other Donor Funded Projects.
- Review of the fixed assets procured, including verification through physical checks of inventory and ascertain whether the vehicles and other equipment are appropriately identified as being funded under ADB/WB assistance, such as project logo on vehicles. Also, to ascertain whether such assets are being utilized in accordance with the relevant Loan/Credit/Grant Agreement.

20.2 External Audit

The external auditing requirements for the decentralized and de-concentrated projects are the same as those of centrally administered projects. In this context, annual financial statements for the projects must be prepared, and submitted for audit by an independent auditor. The audit requirements are specified in the Project Loan/Credit and Grant Agreements.

In general, ADB/WB and other donors require the audits of the financial statements to be conducted by an independent auditor, in accordance with a TOR which is acceptable to the ADB/WB and other donors. This means that audits should be conducted in accordance with the International Standards of Auditing (ISA), as issued by the International Federation of Accountants (IFAC) or the International Organisation of Supreme Audit Institutions (INTOSAI).

The timeframe for the submission of the audited financial statements to the ADB/WB and other donors is specified in the Loan/Credit/Grant Agreement. Usually, the submission period is within 4 to 9 months (although in all recent Loans and Credits 6 months is preferred) 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 ADB/WB or other donors. 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 ADB/WB or other donors that, such expenditures for part of the year could be included in the next full year's audit. This is permissible under ADB/WB guidelines.

Unless specified in the Loan/Credit/Grant Agreement, submission of audited financial statements is required throughout the life of the project.

The External Auditors must be selected in accordance with proper procurement contracting procedures as outlined in the Procurement Manual (refer to Sub-section 10.5). The External Auditors selected must also be acceptable to the ADB/WB.

In general, the External 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 project agreements and adequacy of the internal control procedures.

Generally, Imprest/Special Accounts and SGAs and the associated records of each EA/IA are audited as part of the annual audit and for some projects, separate audit opinions on the operations of the imprest/special accounts may be required. These requirements are set out in the Loan/Credit/Grant Agreements.

Where there is more than one EA/IA under one project, separate audits of the EAs/IAs may be conducted. In such cases, the main co-ordinating EA of the project must collect all related audited financial statements, prepare a consolidated set of financial statements for the project, and arrange for the audit of the consolidated financial statements. The main co-ordinating EA/IA is responsible for co-ordinating the audit requirements for all aspects of the project, and the main and subsidiary audit arrangements.

It should be noted that External Auditors should not be involved in preparation of the project's accounts, records and/or financial statements, as this compromises their independence, and the reliability of the audit opinion.

The scope of the audit must be set out in the TOR for the appointment of the External Auditors of the project. The requirements of the EA/IA, the MEF, the ADB/WB, or other donors must be determined prior to the selection process and included in the TOR and ultimately, in the contract (terms of engagement) with the selected External Auditors. The sample TOR for the external audit for ADB/WB funded projects can be found in the respective donor agency's Financial Management Guidelines.

At the conclusion of each audit, the External Auditors should present the findings and results of the audit to the EA and the NAA. A record of discussions must be prepared and signed by the auditors, the EA, and NAA representatives.

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 must be submitted by the External Auditors both to the MEF, NAA, and to the ADB/WB and other donors, within the required time frame.

In addition to the audit report on the financial statements, the ADB/WB and other donors also require the auditors to prepare a Management Letter to report identified weaknesses and deficiencies in the internal control systems of the EA/IA and the project that have been found during the audit, and to make suggestions for improvements. A copy of the Management Letter must be provided to the ADB/WB and other relevant donors, with the submission of the audit report on the annual financial statements.

With respect to external audit requirements of other donors who finance decentralized and de-concentrated projects, the specific audit requirements of those donors must also be followed.

20.2.1 Follow Up Activities

The EA/IA management should ensure that a mechanism is established, 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. For this purpose the EA/IA management may consider appointing an Audit Committee, with adequately qualified personnel, who will have the responsibility to ensure that the issues and recommendations as articulated in the Management Letter are given appropriate attention by staff and management alike.

21. RECORDS MANAGEMENT

21.1 Overview

Records management requirements and responsibilities for the decentralized and de-concentrated projects are the same as those required for the centrally administered projects, which are comprehensively covered in Section 21 of the FMM

It is the responsibility of the EA/IA and the Project Management Team to ensure that there is proper records management and security of information for projects. The records management policies, systems, and procedures should be defined in the project's implementation manuals

The EA/IA and Project Management are responsible for ensuring that all personnel in the project are aware of, and comply with the records management policies, systems and procedures.

21.2 Project File

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

A project file must contain:

- All information gathered during the formulation 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 EA/IA and various institutions of 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 government, including the various agencies involved in the project; and details of original and amended economic and financial policy decisions which would affect the project and the EA/IA, 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 back-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. These must be retained for at least 2 years from the completion of the last audit of the project by external auditors.

21.3 Security and Safe Keeping of financial records

In accordance with general practice in the Kingdom of Cambodia, financial records are required to be kept for at least 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/IA 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.

Payment Vouchers and Supporting documents:

- Must be filed in a separate binder numerically by month and year. Payment Vouchers must be filed separately from Receipt Vouchers.

Vendor Invoices/Purchase Orders and other documents:

- These documents should be attached to the Payment 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 Authorised 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. 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.

Appendix 1 - List of Persons Met

I. Ministry of Economy and Finance		
1	H.E Chan Sothy	Director , Department of Investment Cooperation
2	Mr. Liv Bunhay	Director ,Department of Local Finance
3	Mr. Pen Thirong	1 st Deputy Director, Department of Investment and Cooperation
4	Mr. Ros Borrom	Deputy Director, Department of Investment Cooperation.
5	Mr. Chhuon Samrith	Chief, ADB Division
6	Mr. Tauch Chan Kresna	Chief, World Bank Division
II. Ministry of Interior		
7	Mr. Suy Sarith	Deputy Director , Dept .of Local Administration (DOLA)
8	Mr. Kim San	Project Coordinator, Commune Council Development Project
9	Mr. Peter Blunt	ADB Consultant, Commune Council Development Project
III. Seila Task Force Secretariat		
10	Mr. Keang Sthavuth	Chief of Program Operation Unit
11	Mr. Thach Savy	Fiscal Decentralize Advisor, PLG
12	Mr. Moeung Serey	Finance Officer
13	Mr. Scott Leiper	Senior Program Advisor, Partnership for Local Governance Project, Seila Program
14	Mr. Julian Abrams	Program Advisor, Partnership for Local Governance Project, Seila Program
15	Dr. Edilberto C. Angeles	Senior Finance & Administration Advisor, Partnership for Local Governance
IV. Donors		
16	Mr. Shyam P. Bajpai	Country Director, ADB Cambodia Resident Mission
17	Mr. Alain Goffeau	Project Implementation Specialist, ADB Cambodia Resident Mission
18	Ms. Jenifer Thompson	Senior Financial Management Specialist, World Bank Office, Phnom Penh
19	Mr. Ernesto Bautista	Governance Advisor, UNDP
20	Mr. Nigel Coulson	Governance Advisor, DFID Cambodia

	V. Provincial Visits	
	<u>Battambang:</u>	
21	Mr. El Say	Deputy Chair , PRDC, Provincial Director of Rural Development Department, Provincial Project Manager of Northwestern Rural Development Project
22	Mrs. Kuch Savy	PIU Accountant of Northwestern Rural Development Project
23	Mr. Soeun Samrach	Chief , Provincial Treasury
24	Mr. Sivon Khemarun	Deputy Chief , Provincial Treasury
25	Mr. Cheng Bunlong	Commune/Sangkat Accountant, Provincial Treasury
26	Mr. Kong Sokuntho	Senior Provincial Program Advisor, PLG
27	Mr. Doeunk Vireak	Ex-Com Accountant
28	Mrs. Kea Thavy	Chief of Commune Toulta Ek, Battambnag District
29	Mr. Sovan Voeun	Clerk of Commune Toulta Ek
	<u>Bantay Meanchey:</u>	
30	Mr. Ith Loeu	Deputy Chair , PRDC, Provincial Director of Rural Development Department, PMU Director of Northwestern Rural Development Project
31	Mr. Long Logn	Chief Finance , PMU , Northwestern Rural Development Project
32	Ms. Chea Somaly	PMU Accountant , Northwestern Rural Development Project
33	Mr. York Svyni	Chief , Provincial Treasury
34	Mr. Neou Napark	Deputy Chief , Provincial Treasury
35	Mr. Vanh Thoeun	Accountant , Provincial Treasury
36	Mr. Ouk Kim Chhour	Commune/Sangkat Accountant, Provincial Treasury
37	Ms. Kiev Sophat	Senior Provincial Program Advisor, PLG
38	Mr. Sun Socheath	Accountant , Ex-Com
39	Mr. Um Vanneth	Provincial Finance Advisor
40	Mr. Plek Vary	Deputy chief , Monkol Borey District Office
41	Mr. En Sarvicheth	Deputy chief , Monkol Borey District Office

Appendix 2 - References

In the preparation of this Handbook, the following documents and materials were reviewed and relevant sections as appropriate were used.

1 SEILA/PLG Documents

- Commune/Sangkat Fund Project Implementation Manual
- Finance and Administration Manual
- Final Report- SEILA National Workshop on Formulation of the 2005 Workplan and Budget
- Review of Provincial Investment in SEILA 1997-2001 (report by John-Tracey White and The Centre for Advanced Study
- Study on Performance of SEILA Provincial Investment Fund- Final Report prepared by Robin Biddulph

2 Ministry of Planning

- Guidelines for the District Integration Process for 2003 , MPO No 680, Sept 2003

3 World Bank

- Financial Management Manual for the Rural Infrastructure Local Governance Project
- De-concentration: Provincial Budget Operations- Final Report prepared by Ann Bartholomew and Mary Betley.

4 Asian Development Bank

- Report and Recommendation to the President - Northwestern Rural Development Project
- Report and Recommendation to the President - Commune Council Development Project.
- Project Administration Manual – NRDP Project
- Management Letter – NRDP Project Audit 2003

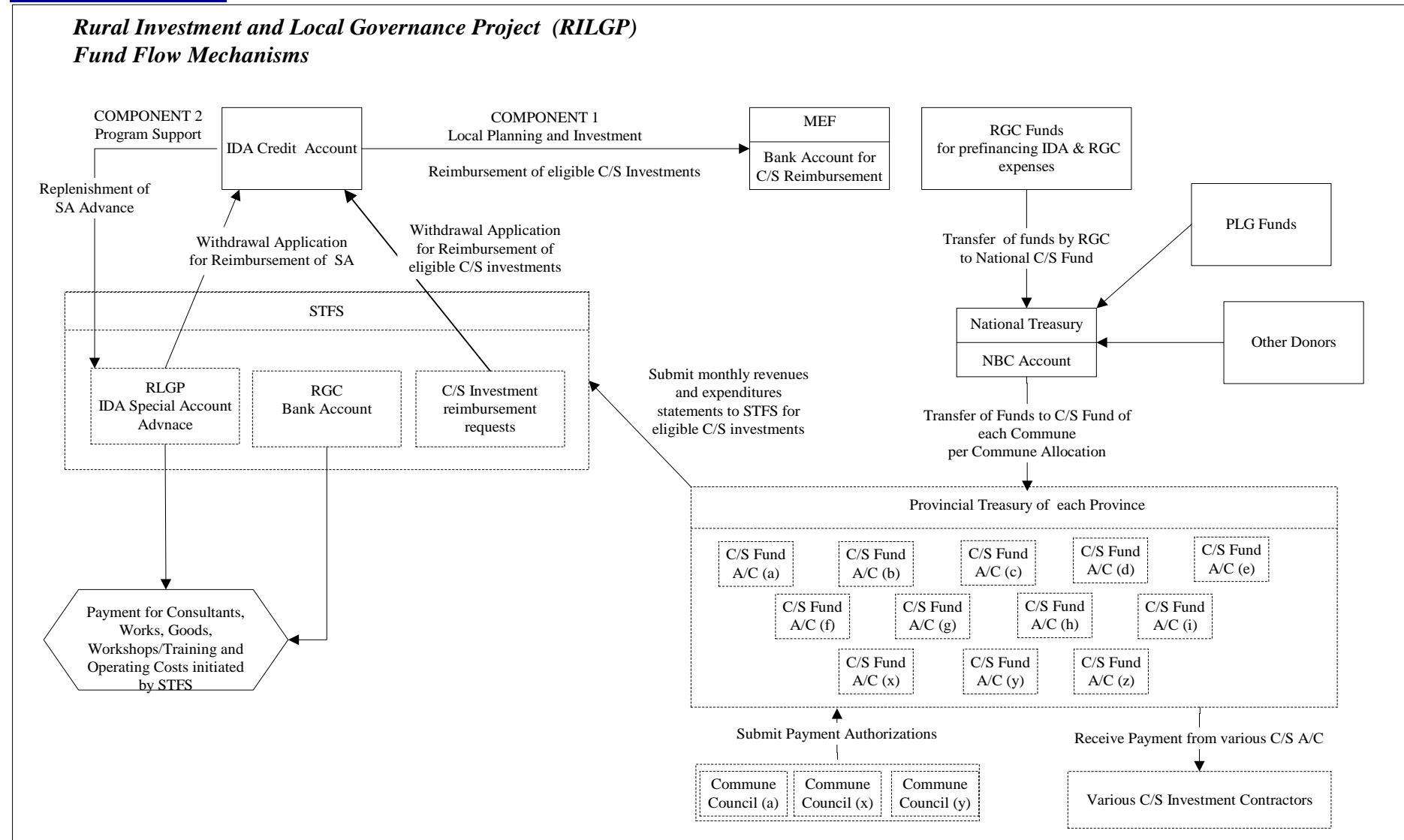
5 Ministry of Economy and Finance

- Unified Financial Management Guidelines (FMM) for Externally Financed Projects/Programs
- Standard Operating Procedures (SOPs) for Externally Financed Projects/Programs

Appendix 3 – Funds Flow Arrangement for Decentralised and De-concentrated Projects

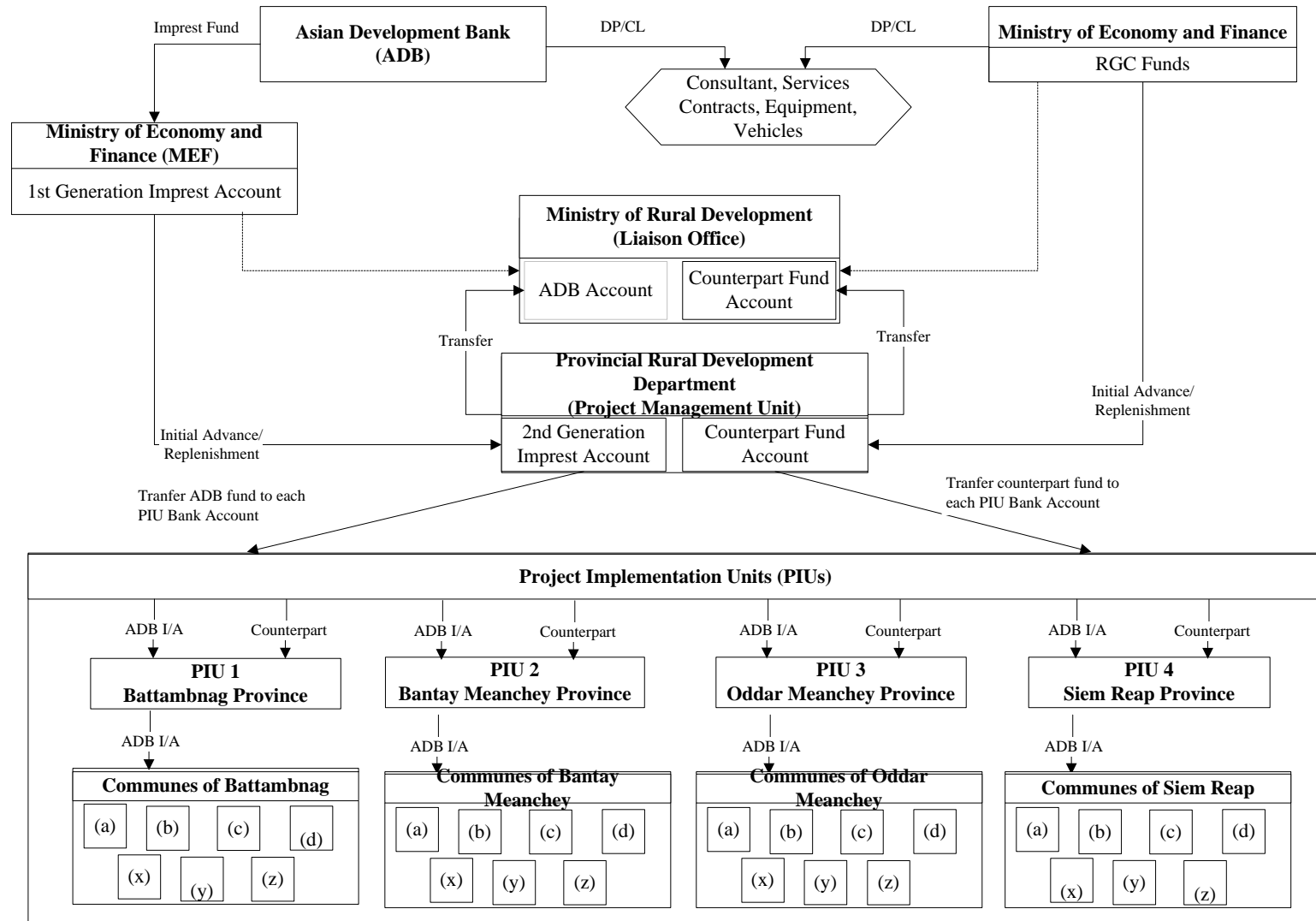
- Fund Flow Mechanism of Rural Investment and Local Governance Project (World Bank Project)
- Northwestern Rural Development Project (ADB Project)
- Previous Fund Flow Mechanism of Commune Council Development Project (through provincial treasury)
- Current Fund Flow Mechanism of Commune Council Development Project (through commercial bank)

RILGP - Funds Flow



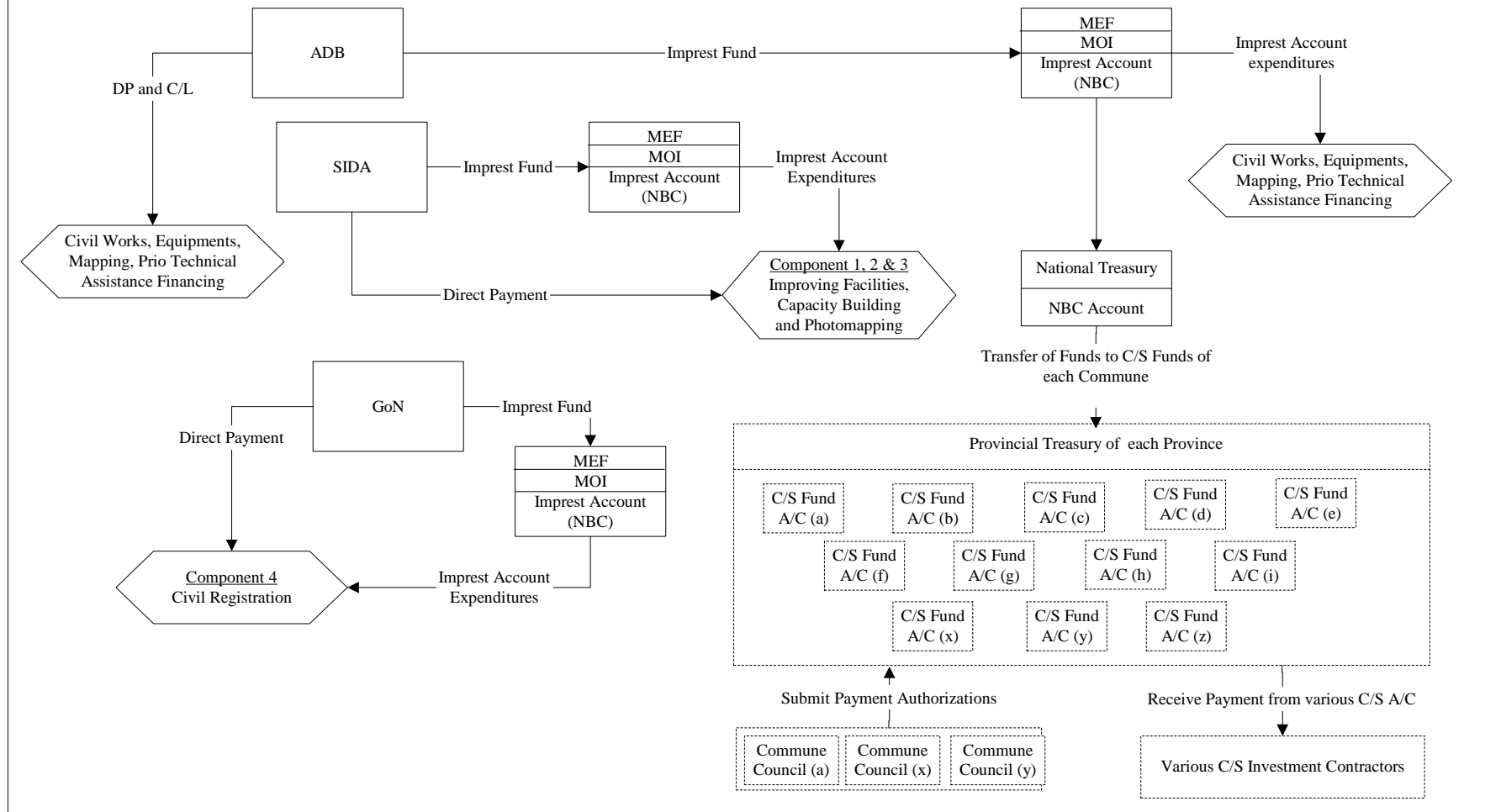
NRDP - Funds Flow

***ADB Loan No. 1862-CAM (SF): Northwestern Rural Development Project
Fund Flow Mechanisms***

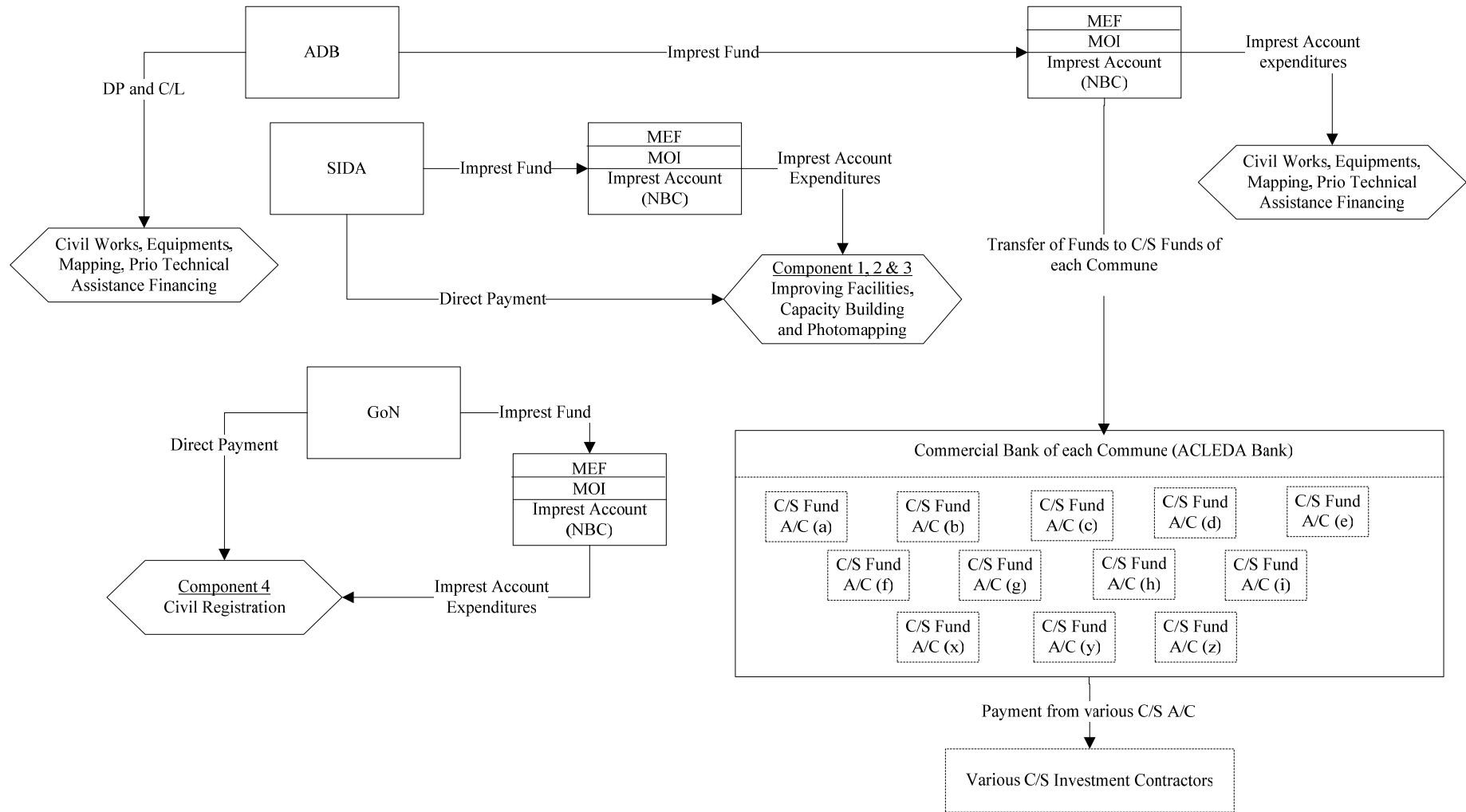


CCDP - Funds Flow

**ADB Loan No. 1969-CAM (SF): Commune Council Development Project (CCDP)
Fund Flow Mechanisms**



ADB Loan No. 1969-CAM (SF): Commune Council Development Project (CCDP)
Fund Flow Mechanisms (current)





The World Bank



Asian Development Bank