

Financial Assessment Report

Project Number: 41435-054
August 2017

Cambodia: Tonle Sap Poverty Reduction and Smallholder Development Project (Additional Financing)

Prepared on behalf of the Ministry of Agriculture, Forests and Fisheries for the Asian Development Bank (ADB).

FINANCIAL ASSESSMENT REPORT

A. SUMMARY

1. ADB conducted a Financial Management Assessment (FMA) of the proposed Program financial management arrangements in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects and the FM Technical Guidance Note on FMA; and Financial Reporting and Auditing. The same as the existing project, the FMA considered the Ministry of Agriculture, Forestry and Fisheries (MAFF) and the National Committee for Sub-National Democratic Development (NCDD) as the proposed executing agencies (EAs) for the additional financing.

Country level issues

2. Country level issues were identified from a Public Expenditure and Financial Accountability (PEFA) assessment conducted in 2015 and from a joint country portfolio performance review in the ADB Cambodia Country Partnership Strategy 2014-2018.

3. The country level issues from the PEFA assessment that potentially impact project financial management include poor performance monitoring and transparency of procurement systems, weak internal control systems, low capacity of internal audit departments, and poor quality and late financial reporting and external audit.

4. In addition, the country partnership strategy identified general project management issues regarding weak staff capacity, delays in start-ups and further evidence that internal controls and internal audit units are weak.

Risk analysis

5. The overall assessment of financial management risk before mitigation was rated as substantial. Inherent risk was rated as substantial, and control risk rated as substantial.

6. The major risks identified are due to the late completion of annual financial statements and external audit reports, and the lack of any internal audits to test the project's internal control systems in detail. Further risks were identified from weaknesses in accounting policies and procedures. The project doesn't have a comprehensive project finance manual, and there is no documented delegation of authority/approval schedule. In addition, there are some unresolved tax issues, and some weak controls over contract monitoring, budget monitoring, and the controls of Livelihood Improvement Grant (LIG) funds.

Risk mitigation

7. Risk mitigation measures were identified to address the risks. With these in place, then the financial management risk rating will be moderate.

8. Mitigation measures include ensuring the audited financial statements are submitted on time by preparing the draft statements and required information early, responding quickly to audit queries and reporting any delays to the Ministry of Economy and Finance (MEF). The project will agree with the ADB which body will perform internal audits; these will be performed each year.

MEF has also been working closely with CARM and SEPF to increase number of pre-qualified auditors and the willingness of MEF to recruit more than one firm to audit ADB funded projects.

9. National finance consultants will continue to be used to support each EA. The project will prepare a more detailed finance manual, including a delegated authority list. There will be enhanced internal financial reporting to monitor budget variances, and improved contract monitoring. Tax exemptions will be formally agreed with the MEF, and the tax law will be followed for any costs that are not covered by exemptions. The project has procured licensed accounting software, and will renew the license before its expiry for the additional financing.

B. INTRODUCTION

10. This Financial Management Assessment (FMA) has been prepared in accordance with the ADB technical guidance note for financial management assessment. The FMA considered the Ministry of Agriculture, Forestry and Fisheries (MAFF) and the National Committee for Sub-National Democratic Development (NCDD) as the proposed executing agencies (EAs).

11. The assessment was undertaken from February to March 2017 by Andrew Vickery, International Financial Specialist. Preparation activities included reviewing documents, holding discussions and interviews with ADB staff and counterpart staff.

C. BRIEF PROJECT DESCRIPTION

12. The Tonle Sap Poverty Reduction and Smallholder Development Additional Financing Project (TSSD-AF) will enhance agricultural productivity and improve access to markets through investments in climate-resilient productive infrastructure, building capacity in disaster risk management of the communities and commune councils, and creating an enabled environment for agricultural productivity, diversification and climate resilience.

13. The project will consist of three outputs:

- Output 1: Rural productive infrastructure and livelihood improved with capacity in disaster risk management enhanced.
- Output 2: Enabling environment for increased agricultural productivity, diversification, and climate resilience created.
- Output 3: Project management strengthened.

14. The TSSD-AF project outcome will be increased agricultural productivity and improved access to markets in 271 communes in the Tonle Sap Basin. The overall project impact will be improved livelihoods in target communes in seven provinces in the Tonle Sap Basin.

15. The total project investment cost is estimated at \$66 million over five years (2018-2023), including \$45.73 million from the ADB concessional ordinary capital resources lending, \$4.27 million from an Asian Development Fund grant, 10 million from the International Fund for Agricultural Development, and \$6.0 million from the government.

D. COUNTRY LEVEL FINANCIAL MANAGEMENT ISSUES

Country PFM Assessments

16. Country Public Financial Management (PFM) arrangements were assessed in 2015 using the Public Expenditure and Financial Accountability (PEFA) framework and methodology.

17. The assessment concluded that the PFM systems had improved moderately since the previous assessment in 2010. Despite some improvements, slippage was identified in indicators including regarding resource allocation and transparency. The government is continuing to implement a Public Financial Management Reform Program (PFMRP). Several reform initiatives are ongoing, focused on internal controls, external audit and accountability, with further measures planned.

18. Country issues that potentially impact program and project financial management include shortcomings in (i) procurement, (ii) internal control systems, (iii). financial reporting and auditing.

19. **Procurement:** The report identified poor performance monitoring and transparency of procurement systems, with insufficient competition, poor value for money and weak controls in procurement. The report also highlighted a lack of suitably qualified procurement staff.

20. **Internal controls.** Weaknesses were identified in internal control systems, covering both personnel and non-personnel costs. These included general weaknesses in data reconciliations and audit trails and data protection. The report also reported weaknesses in internal audits, which tend to have an insufficient focus on systemic issues and do not follow international audit standards.

21. **Financial reporting and external auditing.** There are weaknesses in reporting, both in the quality and timeliness of annual financial statements. Data is often incomplete, statements are often not presented in the correct format, and are submitted several months late. External audits have not been conducted with sufficient quality to resolve these issues.

Country Partnership Strategy

22. The ADB Cambodia Country Partnership Strategy 2014-2018 includes a joint country portfolio performance review. This identified some general issues that are relevant to financial management and project implementation, including (i). staff capacity, (ii). delegation of authority, (iii). internal audit and controls.

23. **Staff capacity.** There is a generally weak implementing capacity within executing agencies, including financial management capacity.

24. **Delays.** The start-up of projects is often slow, with delays in implementing activities and slow disbursement progress.

25. **Internal audit and controls.** Internal audit units are not yet sufficiently strong. Weak internal controls have often resulted in less effective and transparent business processes and practices.

E. PROJECT FINANCIAL MANAGEMENT SYSTEMS

Overview

26. The financial arrangements will broadly follow the current arrangements for the TSSD project. Some changes were made to the current project during the early stages of implementation, to improve the efficiency of disbursement processes, and to tighten some controls. These changes will continue into the Additional Financing, along with some additional changes to further strengthen controls.

Strengths

27. After a slow start, the project is performing well, with good disbursement and contract award rates. Several elements of financial management were found to be strong, and have supported this good performance.

28. The fund flow arrangements are working well. The project has maintained sufficient funds for implementation. The funding and reporting flows to and from sub-national level are functioning well. Clear manuals have been developed for sub-national funding, and training has been conducted to provincial staff.

29. The project produces clear annual budgets and workplans, and produces a financial report each quarter. The accounting software has been set up to support report production.

30. Finance staffing has remained stable, with low turnover. Payments are processed on time. Petty cash is only used for low value items, generally less than \$100.

31. Issues raised by external audit have generally been addressed each year, except for an ongoing withholding tax issue. There have been few control issues raised by external auditors over the last three years.

Weaknesses

32. Some elements of financial management were identified as weak, or in need of strengthening.

33. Annual project financial statements and audit reports have been completed and submitted to the ADB after the deadline each year. There have been no internal audits performed to more fully test the functioning of the internal control systems.

34. There are some unresolved tax issues, raised in audit reports and ADB Mission MOUs, concerning withholding tax, salary tax and VAT.

35. The project developed a short project finance manual, but this is not being used by all EAs, and is not sufficiently detailed. For example, it doesn't include a delegated authority list.

36. There is insufficient monitoring of budget variances, and large variations against annual budgets are reported.

Personnel, accounting procedures, internal control, internal and external audit

37. The two EA's will continue to use the existing government admin and finance officers who support the current project. A national consultant will be contracted for each EA, to ensure there is sufficient capacity to comply with all accounting and reporting requirements.

38. The project will follow the general rules contained in Financial Management Manual (FMM) for externally financed projects/programs in Cambodia (May 2012), and any rules included in the Project Administration Manual (PAM). In addition, the project will prepare a project Finance Manual to explain project-specific financial procedures including: delegated authorities and approval levels, controls established for project activities, funding to and reporting from sub-national levels, and other relevant sections.

39. Internal audit will be performed annually or on an ongoing basis, to ensure that the internal control system is operating effectively. Discussion will take place during project preparation to decide whether this would be provided by the internal audit departments under MAFF and NCDD, whether an individual consultant or firm should be contracted to provide internal audit services, or whether staff from the ADB will be able conduct routine checks of controls and documents to a sufficient level. Any internal audit reports prepared will be submitted to the ADB.

40. A pre-qualified audit firm acceptable to ADB will be procured by the MEF. The external auditor will conduct its' work in accordance with international standards on auditing, will give an opinion on whether the project financial statements give a true and fair view of the project's financial position and performance, and will provide a management letter to report on any weaknesses in internal control systems.

Financial reporting systems, including use of information technology

41. The project will prepare an annual budget that will be submitted to the ADB for no objection.

42. Project financial statements will use be prepared using the cash basis. EAs have procured licensed accounting software and will renew the license for the additional financing. Subsidiary registers will be kept in excel. Regular back-ups will be made.

43. The EAs will use charts of accounts that must (i). meet the reporting requirements to ADB and (ii). support the financial analysis of the project required by project management. In addition, the chart of accounts should try to follow the government accounting coding system, in so far as this does not impede the two essential requirements.

44. The project will submit quarterly Performance Monitoring Reports to the ADB. These will include information on the financial performance of the project, including an analysis of any material budget variances.

45. Annual project financial statements will be prepared by each EA, together with a set of consolidated financial statements for the project. The financial statements will be audited and submitted to the ADB within 6 months of the end of the fiscal year. The financial statements will be prepared in accordance with International Public Sector Accounting Standards (IPSAS) under the Cash Basis.

Disbursement arrangements, funds flow mechanism

46. The project funds must be disbursed in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time), and detailed arrangements agreed upon between the Government and ADB. Each EA will prepare separate withdrawal applications for each funding source. All Withdrawal Applications will be sent to ADB for processing.

47. The government (through MEF) will open pass-through accounts at the National Bank of Cambodia to receive the loan (COL and DRR) and DRR grant from ADB and loan from IFAD. The pass-through accounts will be in US dollar.

48. Executing Agencies will administer five advance accounts, held at ACLEDA Bank, a commercial bank that is acceptable to ADB. The ceilings for these accounts will be set as 6-months of estimated expenditure. The accounts will be administered as follows:

- MAFF/DCU will administer two advance accounts for MAFF/DCU operations costs. One account will use ADB loan funds, and the second account will use IFAD loan funds.
- NCDDES will administer three advance accounts for NCDDES operations costs. One account will use ADB loan funds, the second account will use ADB grant funds, and the third account will use IFAD loan funds.

49. Provincial Support Teams administer imprest Subaccounts, held at ACLEDA Bank. The funding will be disbursed to these sub-accounts through NCDDES, using Loan funds. The Provincial Support Teams will make some cash advances to District Support Teams to implement activities.

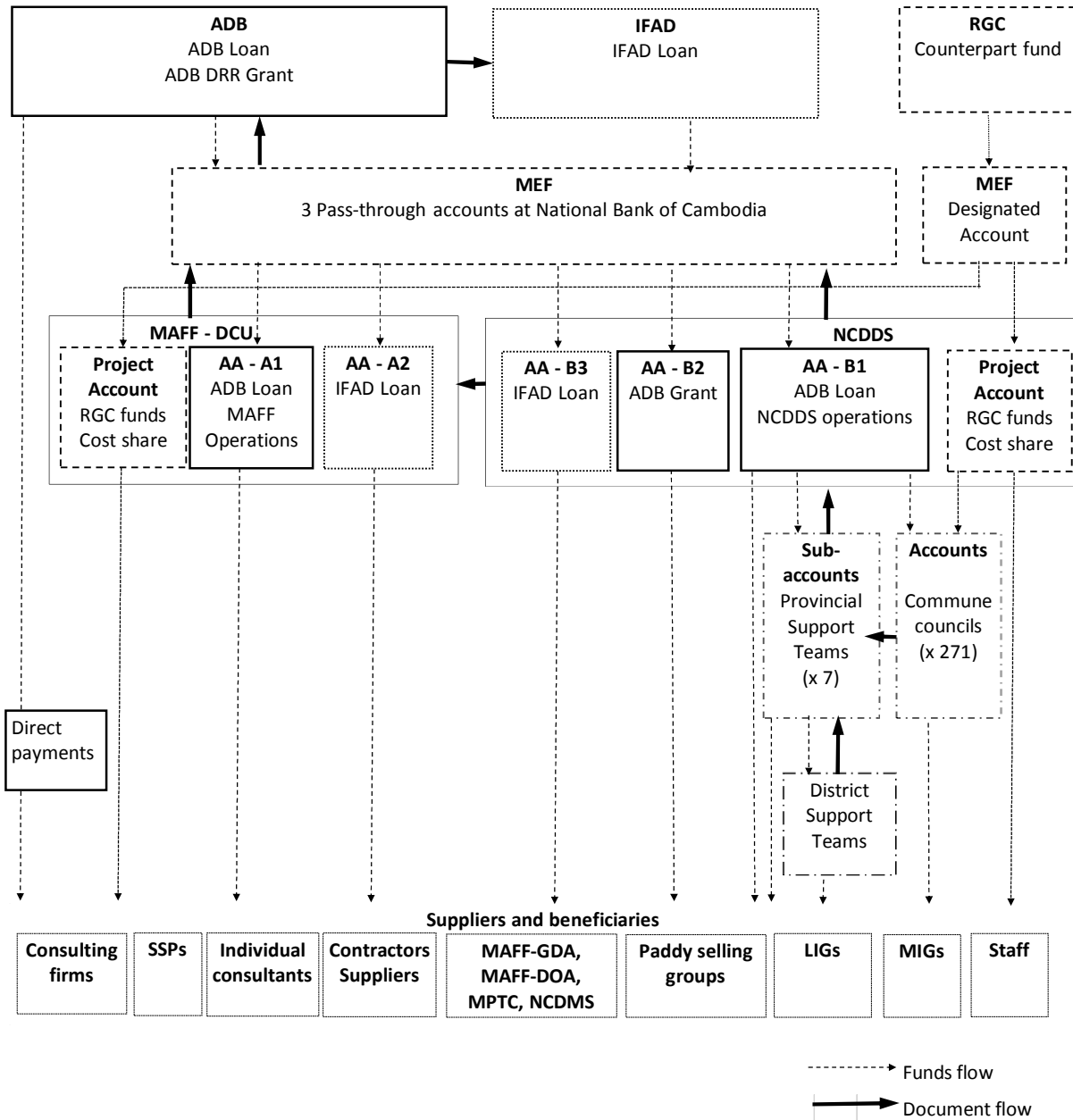
50. Commune councils will administer accounts for variable block grants and commune operating costs, held at ACLEDA Bank. The funding will be disbursed to these accounts through NCDDES using Loan funds.

51. Implementing agencies and provincial offices will hold petty cash accounts for low-value expenses. All other payments will be made by cheque or bank transfer.

52. The project will request direct payments to be made by the ADB for large value invoices, such as consulting firms and procurement of some goods.

53. For Government counterpart funding, the Government (through the MEF) will open a Designated Account (DA) at the National Bank of Cambodia. Each EA will administer a project account at a commercial bank acceptable to the MEF.

54. The funds flow arrangements are illustrated in the diagram on the following page.



AA = advance account; ADB = Asian Development Bank; DCU = development coordination unit; DOA = District Office of Agriculture; DRR = disaster risk reduction; GDA = General Directorate of Agriculture; IFAD = International Fund for Agricultural Development; LIG = livelihood improvement group; MAFF = Ministry of Agriculture, Forestry and Fisheries; MEF = Ministry of Finance; MIG = marketing improvement group; MPTC = Ministry of Posts & Telecommunications; NCDSS = National Committee for Sub-National Democratic Development Secretariat; NCDMS = National Committee for Disaster Management Secretariat; RGC = Royal Government of Cambodia; SSP = special service provider.

F. RISK DESCRIPTION AND RATING

55. A Financial Management, Internal Control and Risk Assessment (FMICRA) was conducted, to identify fiduciary risks that may negatively affect project outcomes or hinder project

implementation. The process included analysing the risks arising from weaknesses in the project's financial management systems. The identified risks are given a rating according using the following levels:

- High: likely to occur, will have a high impact if occurs
- Substantial: unlikely to occur, will have a high impact if occurs
- Moderate: likely to occur, will have a low impact if occurs
- Low: not likely to occur, will have a low impact if occurs

56. This risk assessment considers two broad categories of risk (i). Inherent risks: these arise from the overall environment in which the executing and implementing agencies operate, before considering the impact of the project's financial management systems and controls; and (ii). Control risks: these are the risks that the project's financial management and internal control arrangements are inadequate to ensure that project funds are used economically, efficiently and for the intended purpose.

57. The assessment also identified potential mitigation measures, which seek to reduce the likelihood of the risk event occurring, or to reduce its impact.

58. The implementation of mitigation actions for risks identified in the preparation of the current project, as included in the good governance framework, has been generally positive, as summarised in the table below.

Risk	Proposed mitigation actions	Implementation status
Weak internal controls	Ensure that the project uses the SOP including procedures in the FMM.	The project has set up systems that, in the most part, follow the guidance in the FMM/SOP.
Weak financial management	Consultants to be recruited to provide hands-on training and technical assistance.	National consultants were recruited.
Minimise cash transactions	Make all payments to contractors, suppliers and consultants by check or bank transfer	Most payments are made by check or transfer. Cash is only used for low value payments.
Inconsistency in allowances paid to government staff attending training, workshop and other similar activities.	Follow the MEF instruction letter No. 2000 on standard daily subsistence allowances	Standard rates were used as instructed. The MEF letter 2000 was replaced by a revised standard rate agreed by ADB in 2015.
Delayed or non-existent reconciliation of advances for operating costs and expenses.	Reconcile advances to staff or field offices every month.	Advance accounts are maintained and reconciled.

59. From an assessment of the current risks, the total inherent risk is rated as substantial, and the total control risk rated as substantial. The total combined risk is rated as substantial. The table of risks is shown below:

Risk Description	Risk Rating ¹	Mitigation Measures
Inherent (country specific) risk		
Weak internal control systems	M	Follow the FMM/SOP for externally financed projects, and financial procedures in the PAM.
Weak staff capacity in financial management	M	A national consultant to be contracted for each EA, to ensure there is sufficient capacity to comply with all accounting and reporting requirements.
Weaknesses in the quality and timeliness of annual financial reporting	S	The MEF has instructed auditors to complete their work on time, with draft audit reports to be prepared in the 4 th week of fieldwork. In addition, the project should (i) prepare draft financial statements before the audit fieldwork starts; (ii) prepare the list of requested documents from auditors before the audit fieldwork starts; (iii) respond promptly to queries from auditors; and (iv) report to the MEF if audit fieldwork or draft reports are behind schedule
Weak internal audit departments	S	The project will ensure that internal audits are conducted every year by the internal audit departments of MAFF/NCDDES or by external auditors appointed by the project, and internal audit reports submitted to the ADB annually.
Overall Inherent Risk	S	
Control risk		
<u>Executing Agency:</u> The EAs have experience of managing the current project, but have needed to use a consulting firm to provide support the project management and co-ordination.	M	Continue to use consultants to provide technical and managerial support.
<u>Funds flow:</u> External audit reports and ADB Mission MOUs have noted some control weaknesses in the management of Livelihood Improvement Group (LIG) funds, including members absconding with funds from one LIG.	M	Implement the recommendations in the 2015 audit management letter and the MOU of the October 2016 mission, to reinforce the procedures in the project's LIG guidelines. Conduct further training, including on updating cashbooks and performing reconciliations.
<u>Staffing:</u> Government staff have limited capacity to manage all financial management requirements, leading to an over-reliance on the national consultants. Government staff would not be able to complete all tasks if the consultant post was vacant.	M	The project should continue to use national consultants to support the EAs. The national TAs should conduct further training of government staff, including in the areas of ADB rules, FMM and financial procedures, accounting software.
<u>Accounting policies and procedures:</u>	S	

¹ S = Substantial, M = Moderate, L = Low

Risk Description	Risk Rating ¹	Mitigation Measures
<p>Only one of the EAs has a project finance manual, and this is relatively short and doesn't include some important elements. As a result, some incorrect or inappropriate procedures could be used.</p> <p>There is no documentation of the delegation of authority/approvals, and substitute signatures are sometimes used. As a result, transactions may be authorised inappropriately.</p> <p>One EA does not maintain a contract register to monitor the contract value against invoices paid. This increases the risk of overpayments against contracts.</p> <p>There are three unresolved tax issues (i) contractors for block grants have not been charging and paying VAT. (ii) The project has not applied salary tax to staff who are paid over the tax threshold, and (iii) the project has not deducted withholding tax from individual consultant invoices. The project does not have official tax exemption for these. There is therefore a risk of tax penalties being applied.</p>		<p>The project will prepare a more comprehensive project Finance Manual to explain project-specific financial procedures to be followed by all EAs including: delegated authorities and approval levels, controls established for project activities, funding to and reporting from sub-national levels. A list of approval authorities should be prepared and included in the project finance manual. This should explain in what circumstances an alternate can sign on behalf of the substantive officer.</p> <p>All EAs will use contract registers that show full details for each contract, including contract value, invoices paid and contract balance.</p> <p>During project preparation, the ADB will discuss with the MEF which tax exemptions it will grant to the project. The MEF will issue official tax exemption letters when the project commences. The project will apply the Cambodian tax law on all costs which are not covered by official MEF exemptions.</p>
<p><u>Internal audit:</u> No internal audits have been performed for the project. Ministry internal audit units may have insufficient capacity to audit externally funded projects, both in terms of a lack of available staff time, and a lack of knowledge of donor policies.</p>	S	See the mitigation measures in the inherent risk section above
<p><u>External audit:</u> Financial statements and audit reports have been completed and submitted to the ADB after the 6-month deadline each year. This does not comply with covenants in the Financing Agreement, and gives rise to risks that the ADB could apply measures including suspension of funding.</p>	S	See the mitigation measures in the inherent risk section above
<p><u>Reporting and monitoring:</u> External audit reports have reported that there have been material variances against the annual budget. Each EA produces a quarterly finance report. This is consolidated and incorporated into the quarterly Progress Report, with some commentary on major budget deviations. There is a risk that major variances will continue without more proactive budget management.</p>	M	Improve the variance monitoring and analysis throughout the year, through producing more frequent finance reports for internal project use, highlighting the major variances, and discussing with project management, so that any corrective actions can be taken or budget revisions proposed.

Risk Description	Risk Rating ¹	Mitigation Measures
Overall Control Risk	S	
Overall (combined) risk	S	

G. PROPOSED TIME-BOUND ACTION PLAN

60. The time-bound action plan lays out the proposed responsibilities and timeframes to implement the mitigation measures identified in the risk assessment.

Risk area	Mitigation actions	Responsibility	Timeframe
Funds flow – Livelihood Improvement Group (LIG) funds	Reinforce the procedures in the project's LIG guidelines. Conduct further training, including on updating cashbooks and performing reconciliations.	Project	Within 6 months of project start
Staffing	Recruit a national finance consultant to support each EA	Project	Within 3 months of project start
Accounting policies and procedures - manual	Prepare a more comprehensive project Finance.	Project	Within 6 months of project start
Accounting policies and procedures – approval levels	Prepare a list of approval authorities and included in the project finance manual, including rules for alternate signing.	Project	Within 6 months of project start
Accounting policies and procedures – contract registers	Set up and use contract registers that show full details for each contract, including contract value, invoices paid and contract balance.	Project	Within 3 months of project start
Accounting policies and procedures - tax	Agree which tax exemptions it will grant to the project. Issue official tax exemption letters. Apply the Cambodian tax law on all costs which are not covered by official MEF exemptions.	ADB & MEF MEF Project	During preparation On project start During preparation
Internal audit	The project will ensure that internal audits are conducted every year by the internal audit departments of MAFF/NCDDS or by external auditors appointed by the project, and internal audit reports submitted to the ADB annually.	Project	Annually
External audit	(i) prepare draft financial statements before the audit fieldwork starts; (ii) prepare the list of requested documents from auditors before the audit fieldwork starts; (iii) respond promptly to queries from auditors; (iv) report to the MEF if audit fieldwork or draft reports are behind schedule, and (v) ensure audited financial statements are submitted to ADB within 6 months of the fiscal year end	Project	Annually
Reporting and monitoring	Produce more frequent finance reports, highlighting major variances.	Project	Within 6 months of project start.

Risk area	Mitigation actions	Respon- sibility	Timeframe
Information systems	Renew licensed accounting software.	Project	One month before the current license expires.

H. SUGGESTED FINANCIAL MANAGEMENT COVENANTS

61. (a). The Beneficiary shall (i) maintain, or cause to be maintained, separate accounts for the Project, including separate accounts for the Loan and the Grant; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such annual financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the audited project financial statements, auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter which sets out the deficiencies in the internal control of the project that were identified in the course of the audit, if any; and (v) furnish to ADB, no later than six (6) months after the end of each related fiscal year, certified copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

62. (b). The Beneficiary shall enable ADB, upon ADB's request, to discuss financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to Section (a) (iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

I. CONCLUSION

63. The project financial management arrangements, with the recommended mitigation measures in place, are considered satisfactory, with a residual risk rating of moderate.

**Financial Management Assessment Questionnaires
NCDDS**

Topic	Response	Potential Risk Event
1. Executing Agency		
1.1 What is the entity's legal status / registration?	The National Committee for Sub-national Democratic Development (NCDD) was established by Royal Decree on 31 December 2008. The NCDD Secretariat is located within Ministry of Interior.	
1.2 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes. Currently implementing the TSSD project as an EA and IA. Has also implemented WB, ADB, JICA, UNICEF projects	
1.3 Describe the regulatory or supervisory agency of the entity.	NCDDS Chairman is a secretary of state of the Ministry of Interior, with 3 deputies who have rank equivalent to director general. They are appointed by royal decree.	
1.4 What is the governing body for the project? Is the governing body for the project independent?	The Project Steering Committee is the Council for Agriculture and Rural Development (CARD)	
1.5 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Project structure is shown in PAM	
1.6 Does the entity have a Code of Ethics in place?	Civil servants statute applies.	
1.7 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	None	
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	See the funds flow section of assessment report	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end recipients satisfactory?	Yes, see the funds flow section of the assessment report.	
2.3 Are the disbursement methods appropriate?	Yes	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	External audit reports and ADB Mission MOUs have noted some control weaknesses in the management of Livelihood Improvement Group (LIG) funds,	Without strengthened controls and further training, there is a risk that project funds could be improperly used or accounted for.

Topic	Response	Potential Risk Event
	including members absconding with funds from one LIG.	
2.5 In which bank will the advance account (if applicable) be established?	ACLEDA Bank	
2.6 Is the bank in which the advance account is established capable of – <ul style="list-style-type: none"> ○ Executing foreign and local currency transactions? ○ Issuing and administering letters of credit (LC)? ○ Handling a large volume of transaction? ○ Issuing detailed monthly bank statements promptly? 	Yes	
2.7 Is the ceiling for disbursements from the advance account and SOE appropriate/required?	For current project, the ceilings have been appropriate – no cashflow problems reported.	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes, currently implementing TSSD	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes, it does	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Most payments are in USD. Foreign exchange risk arises if loan or grant and denominated in another currency such as SDR.	
2.11 How are payments made from the counterpart funds?	Separate designated account at MEF for RGC funds, and Project Account managed by NCDD. Follow government procedures to administer accounts and payments. For some cost share activities, the initial payment is made to the supplier from the ADB IA, then then the cost share element calculated at the end of the month and refunded. In the AF, this will be simpler as RGC will pay for specific costs (salary supplements, resettlement) and grant tax exemption.	
2.12 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features	Yes, has developed manuals and training materials for LIGs and commune councils.	

Topic	Response	Potential Risk Event
built into its systems to track the use of project proceeds by such entities?	<p>Specific tools and forms developed by the project, for sub-national level</p> <ul style="list-style-type: none"> • SOE & monitoring report for province and district consolidated (report prepared by each province, also combining each district – summarising expenditure, budget monitoring report. Province sends to NCDDES every month, by email, deadline 2 weeks after end of month • Cash count sheet • SOE for each district • Financial report (control sheet, reconciliation) • Bank reconciliation etc 	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department?	<p>Finance advisor (national consultant) Two government finance staff:</p> <ul style="list-style-type: none"> • Accounting officer • Admin and finance officer <p>Also government staff for:</p> <ul style="list-style-type: none"> • Contract administration • LIG co-ordination <p>Staff report to Project Manager and Project Director.</p>	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Government staff – yes. National consultant – procurement process.	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	Job descriptions included in PAM, and revised for the AF.	
3.4 Is the project finance and accounting function staffed adequately?	Yes, it is.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Government staff have limited capacity to manage all financial management requirements, leading to an over-reliance on the national consultants.	Government staff would not be able to complete all tasks without consultant support.
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Staff are experienced and have been trained.	
3.7 What is the duration of the contract with the project finance and accounting staff?	National consultant – annual contract with renewals. Government staff are permanent.	
3.8 Does the project have written position descriptions that clearly define duties, responsibilities, lines of	Yes, there are TORs for all positions	

Topic	Response	Potential Risk Event
supervision, and limits of authority for all of the officers, managers, and staff?		
3.9 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	Very low	
3.10 What is training policy for the finance and accounting staff?	Staff are encouraged to attend the training/workshops on Project Management, Financial Management, and Procurement Procedures conducted by MEF, ADB or WB. National finance consultant conducts some hands-on training.	
3.11 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Training organised by MEF, and hands-on training.	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Follow the Financial Management Manual (FMM) for externally financed projects in Cambodia, issued by MEF, together with specific finance procedures in RRP and PAM	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, they are	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes, coding structure was set up based on the costabs.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes, they are	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes, they are	
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g, ADB's policy requires that all documents should be retained for at	They will be kept for at least 10 years (according to the FMM).	

Topic	Response	Potential Risk Event
least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?		
Segregation of Duties		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes, there is sufficient segregation of duties in job descriptions	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, there is sufficient segregation of duties in job descriptions	
Budgeting System		
4.9 Do budgets include physical and financial targets? Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes, a clear budget is prepared by NCDDS. This is consolidated by MAFF into the TSSD annual budget.	
4.10 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Quarterly financial reports are prepared, using a standard format. These are sent to MAFF, where the PIC team consolidate	
4.11 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Yes, they are	
4.12 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No specific ceiling.	
4.13 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Project Manager and Project Director	
4.14 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes, stakeholders are involved in the budgeting process.	
4.15 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals? Is there evidence of significant mid-year revisions, inadequate fund releases	The external auditors have reported budget variations against several cost categories. Suggesting the need for better budget monitoring (see issue in section 7 – reporting). NCDDS have used the recommendation to set more realistic budgets.	

Topic	Response	Potential Risk Event	
<p>against allocations, or inability of the EA to absorb/spend released funds? Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects? What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>			
Payments			
<p>4.16 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	Yes, they do		
<p>4.17 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	Yes, they are		
<p>4.18 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?</p>	Yes, they do		
Policies And Procedures			
<p>4.19 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?</p>	Modified cash basis (advances are only expensed when justified)		
<p>4.20 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?</p>	International Accounting Standards used for auditing. Modified cash basis used for financial statements.		
<p>4.21 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?</p>	<p>NCDDS uses the FMM for externally financed project. There is no project-specific finance manual for national level, although they have developed finance procedures for sub-national level.</p>	<p>Project specific activities are not covered in the generic FMM for externally financed project.</p>	
<p>4.22 Is the accounting policy and procedure manual updated regularly and for the project activities?</p>			<p>Without a project specific manual, there is a greater risk that inappropriate practices are used, that relevant staff and stakeholders don't have a</p>
<p>4.23 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?</p>			<p>There is no documentation of the delegation of authority/approvals.</p>

Topic	Response	Potential Risk Event
4.24 Are there written policies and procedures covering all routine financial management and related administrative activities?		clear understanding of financial procedures Without documented approval levels, there is a risk that transactions may be authorised inappropriately.
4.25 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?		
4.26 Are manuals distributed to appropriate personnel?		
4.27 Describe how compliance with policies and procedures are verified and monitored.		
Cash and Bank		
4.28 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	
4.29 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Receipts are written for all receipts. Timely deposits are made.	
4.30 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes, monthly reconciliations.	
4.31 Are all reconciling items approved and recorded?	Yes, all items are reconciled.	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	No unusual items shown on reconciliations.	
4.33 Are there any persistent/non-moving reconciling items?	No.	
4.34 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	
4.35 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No	
4.36 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	No online transactions.	
Safeguard over Assets		
4.37 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Procedures in FMM	

Topic	Response	Potential Risk Event
4.38 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes, the asset register is maintained and reconciled. No encumbered assets.	
4.39 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes, these are reconciled.	
4.40 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Annual physical checks	
4.41 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Asset registers are reconciled	
4.42 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to locate lost, or repair broken assets?	Procedures in FMM	
4.43 Are assets sufficiently covered by insurance policies?	No, but this is not considered a major issue.	
4.44 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Procedures in FMM	
Contract Management and Accounting		
4.45 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract? If contract records are maintained, does the agency reconcile them regularly with the contractor?	NCDDS contract register doesn't include information on the value of invoices paid and contract balances	This increases the risk of overpayments against contracts.
Other		
4.46 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Can be reported to Project Manager or Project Director.	

Topic	Response	Potential Risk Event
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	No internal audits have been performed for the project. There is an NCDDS internal audit unit, but it is believed that they don't have the capacity to conduct internal audit for this project. They don't conduct audits for stand alone projects (i) because not enough staff, (ii) they are familiar with the internal NCDDS financial procedures, but not the donor procedures. The ADB do conduct some checks during missions, and record and findings in the memorandum report.	Without any internal audits, there are risks that the internal controls will not be sufficiently reviewed and tested. There is a greater risk of weak internal controls and ineligible costs being incurred.
5.2 What are the qualifications and experience of the IA staff?		
5.3 To whom does the head of the internal audit report?		
5.4 Will the internal audit department include the project in its annual work program?		
5.5 Are actions taken on the internal audit findings?		
5.6 What is the scope of the internal audit program? How was it developed?		
5.7 Is the IA department independent?		
5.8 Do they perform pre-audit of transactions?		
5.9 Who approves the internal audit program?		
5.10 What standards guide the internal audit program?		
5.11 How are audit deficiencies tracked?		
5.12 How long have the internal audit staff members been with the organization?		
5.13 Does any of the internal audit staff have an IT background?		
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?		
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?		
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?		
6. External Audit – project level		
6.1 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	A separate auditor is appointed for the project financial statements. The MEF conduct the procurement, and contract one external auditor for all ADB projects.	
6.2 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	There are three unresolved tax issues (i) contractors for block grants have not been charging and paying VAT. (ii) The project has not applied salary tax to staff who are paid over the tax threshold, and (iii) the project has not deducted withholding tax from	There is therefore a risk of tax penalties being applied.

Topic	Response	Potential Risk Event
	individual consultant invoices. The project does not have official tax exemption for these.	
6.3 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	The National Audit Authority (NAA) select some projects to audit each year. NCDDS/TSSF has not been audited by NAA yet.	
6.4 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	ToR is included in the PAM. But in practice, the MEF prepare a ToR to procure an auditor for all ADB projects.	
6.5 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	
6.6 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes, the Auditor has knowledge and experience of ADB projects and procedures. Current auditor is KPMG. At the start of the project the auditor was Ernst & Young.	
[For second or subsequent projects] 6.7 Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	Financial statements and audit reports have been completed and submitted to the ADB after the 6-month deadline each year.	This does not comply with covenants in the Financing Agreement, and gives rise to risks that the ADB could apply measures including suspension of funding.
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the project?	Financial statements are prepared by the external auditors, not by the EA.	Risk that there is lack of independent oversight incorrect allocation of responsibility. Management are responsible for preparing financial statements, and external auditors for auditing and providing an opinion.
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Financial reports are prepared for sub-national level and submitted to NCDDS.	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	EA produces a quarterly finance report. This is consolidated and incorporated into the quarterly Progress Report, with some commentary on major budget deviations. This is consolidated and incorporated into the quarterly Progress Report, with some commentary on major budget deviations.	There is a risk that major variances will continue without more frequent internal reporting and more proactive budget management.

Topic	Response	Potential Risk Event
	<p>There are no monthly budget reports, only quarterly.</p> <p>Finance staff are not involved in variance analysis.</p>	
7.4 Does the entity reporting system need to be adapted for project reporting?	Use a stand alone system for the project	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Reporting systems have been set up	
7.6 Are financial management reports used by management?	Yes, they are	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes, they do.	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes, from accounting system.	
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes, this is done in quarterly reporting	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	Use Quickbooks	
8.2 If computerized, is the software off-the-shelf, or customized?	<p>Off the shelf, but coding structure customised for the project requirements.</p> <p>The account code structure is based on costabs, and class is used for funding source.</p>	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Stand alone	
8.4 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	<p>Reports can be generated directly from Quickbooks.</p> <p>These can be exported to excel for standard report templates.</p>	

Topic	Response	Potential Risk Event
8.5 Can the system automatically produce the necessary project financial reports?	Yes, Quickbooks is sufficient, and coding has been set up to support reporting.	
8.6 Is the staff adequately trained to maintain the computerized system?	National consultant is very experienced in Quickbooks. He has provided training to government staff.	
8.7 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	
8.8 Are there back-up procedures in place? Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Yes, back-up after every posting, to a separate drive (D drive) on the laptop, with regular backups to external hard drive.	

MAFF

Topic	Response	Potential Risk Event
1. Executing Agency		
1.1 What is the entity's legal status / registration?	Government Ministry	
1.2 Has the entity implemented an externally-financed project in the past? If yes, please provide details.	Yes. Currently implementing the TSSD project as an EA and IA. Has also implemented other donor projects (e.g. WB, ADB).	
1.3 Describe the regulatory or supervisory agency of the entity.	Through Minister to National Government	
1.4 What is the governing body for the project? Is the governing body for the project independent?	The Project Steering Committee is the Council for Agriculture and Rural Development (CARD)	
1.5 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Project structure is shown in PAM	
1.6 Does the entity have a Code of Ethics in place?	Civil servants statute applies.	
1.7 Describe (if any) any historical issues reports of ethics violations involving the entity and management. How were they addressed?	No evidence of this, from external audit reports, or from ADM Mission reports seen.	
2. Funds Flow Arrangements		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries, etc. as applicable.	See the funds flow section of assessment report.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end recipients satisfactory?	Yes, see the funds flow section of the assessment report.	
2.3 Are the disbursement methods appropriate?	Yes	
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	Project funds were slow to reach sub-national levels at the start of the project. This was resolved after some revisions to the project structure and streamlining of the funds flow.	
2.5 In which bank will the advance account (if applicable) be established?	ACLEDA Bank	
2.6 Is the bank in which the advance account is established capable of – <ul style="list-style-type: none"> o Executing foreign and local currency transactions? o Issuing and administering letters of credit (LC)? 	Yes, ACLEDA bank is satisfactory for the project.	

Topic	Response	Potential Risk Event
<ul style="list-style-type: none"> ○ Handling a large volume of transaction? ○ Issuing detailed monthly bank statements promptly? 		
2.7 Is the ceiling for disbursements from the advance account and SOE appropriate/required?	The ceiling has been appropriate; no issues reported of insufficient cash to fund operations.	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes, currently implementing TSSD. Current project performance is satisfactory.	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the imprest fund and statement of expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	MAFF-DCU has been able to manage the funds and process Withdrawal Applications, but have required the support of a national finance consultant.	Need for ongoing consultant support.
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk.	Most payments are in USD. Foreign exchange risk arises if loan or grant and denominated in another currency such as SDR.	
2.11 How are payments made from the counterpart funds?	Separate designated account at MEF for RGC funds, and Project Account managed by MAFF. Follow government procedures to administer accounts and payments. For some cost share activities, the initial payment is made to the supplier from the ADB IA, then then the cost share element calculated at the end of the month and refunded. In the AF, this will be simpler as RGC will pay for specific costs (salary supplements, resettlement) and grant tax exemption.	
2.12 If project funds will flow to communities or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such entities?	There are procedures and forms to manage the sub-national level funding and accounting.	
3. Staffing		
3.1 What is the current and/or proposed organizational structure of the accounting department?	Finance Management & Procurement Specialist (national consultant) Two government finance staff: <ul style="list-style-type: none"> • Accounting officer • Admin and finance officer Also government staff for:	

Topic	Response	Potential Risk Event
	<ul style="list-style-type: none"> Procurement/Contract admin officer Staff report to Project Manager and Project Director.	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Expected that current government staff will continue to the AF project. National consultant – procurement process.	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	Job descriptions included in PAM, and revised for the AF.	
3.4 Is the project finance and accounting function staffed adequately?	Yes, it is.	
3.5 Are the project finance and accounting staff adequately qualified and experienced?	Government staff have limited capacity to manage all financial management requirements, leading to an over-reliance on the national consultants.	Government staff would not be able to complete all tasks without consultant support.
3.6 Are the project finance and accounting staff trained in ADB procedures, including the disbursement guidelines (i.e., LDH)?	Staff are experienced and have been trained.	
3.7 What is the duration of the contract with the project finance and accounting staff?	National consultant – current contract is until 31st December. Expected to extend until closing date of current project. Government staff – permanent government staff.	
3.8 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes, there are TORs for all positions	
3.9 What is the turnover rate for finance and accounting personnel (including terminations, resignations, transfers, etc.)?	No finance staff turnover at central or provincial level during the project.	
3.10 What is training policy for the finance and accounting staff?	Staff attend the training/workshops on Project Management, SOP/FMM, conducted by MEF, ADB or WB. National finance consultant conducts some hands-on training – especially at the start of the project when more training was required.	
3.11 Describe the list of training programs attended by finance and accounting staff in the last 3 years.	Training organised by ADB on project management, by MEF on FMM.	
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper	Follow the Financial Management Manual (FMM) for externally	

Topic	Response	Potential Risk Event
recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	financed projects in Cambodia, issued by MEF, together with specific finance procedures in RRP and PAM	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes, they are	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes, coding structure was set up based on the costabs.	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes, they are	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes, they are	
4.6 Describe the EA's policy for retention of accounting records including supporting documents (e.g. ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later). Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	They will be kept for at least 10 years (according to the FMM).	
Segregation of Duties		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes, there is sufficient segregation of duties in job descriptions	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes, there is sufficient segregation of duties in job descriptions	
Budgeting System		

Topic	Response	Potential Risk Event
4.9 Do budgets include physical and financial targets? Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes, a clear budget is prepared.	
4.10 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations against the budget?	Quarterly financial reports are prepared, using a standard format.	
4.11 Are approvals for variations from the budget required (i) in advance, or (ii) after the fact?	Yes, they are	
4.12 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No specific ceiling.	
4.13 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Project Manager and Project Director	
4.14 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes, staff are involved at every level, including province and national level. Team leader leads the process and maintains overall budget. The budget is presented to staff. The final budget is submitted to ADB for NOL, then disseminated.	
4.15 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals? Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds? Is there evidence that government counterpart funding is not made available adequately or on a timely basis in prior projects? What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?	The external auditors have reported budget variations against several cost categories. Suggesting the need for better budget monitoring (see issue in section 7 – reporting).	
Payments		
4.16 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v)	Yes, they do	

Topic	Response	Potential Risk Event
Checking authenticity of invoices and supporting documents?		
4.17 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?	Yes, they are	
4.18 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?	Yes, they do	
Policies And Procedures		
4.19 What is the basis of accounting (e.g., cash, accrual) followed (i) by the entity? (ii) By the project?	Modified cash basis (advances are only expensed when justified)	
4.20 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual, or National Accounting Standards (specify) or other?	International Accounting Standards used for auditing. Modified cash basis used for financial statements.	
4.21 Does the project have adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	As well as the FMM for externally financed project, MAFF developed 2 project finance manuals – 1 for national level, 1 for sub-national level. Copies were given to finance staff at national and provincial level, and used for training.	Project specific activities are not covered in the generic FMM for externally financed project.
4.22 Is the accounting policy and procedure manual updated regularly and for the project activities?		Without a more detailed project specific manual, there is a greater risk that inappropriate practices are used, that relevant staff and stakeholders don't have a clear understanding of financial procedures
4.23 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting policy or procedure to be used by the entity?	There finance manual is relatively short (19 pages) and does not contain all relevant procedures – for example there is no documentation of the delegation of authority/approvals.	Without documented approval levels, there is a risk that transactions may be authorised inappropriately.
4.24 Are there written policies and procedures covering all routine financial management and related administrative activities?		
4.25 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?		
4.26 Are manuals distributed to appropriate personnel?		
4.27 Describe how compliance with policies and procedures are verified and monitored.		
Cash and Bank		
4.28 Does the organization maintain an adequate and up-to-date cashbook recording receipts and payments?	Yes	
4.29 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and	Receipts are written for all receipts. Timely deposits are made.	

Topic	Response	Potential Risk Event
recording of receipts at each collection location?		
4.30 Are bank accounts reconciled on a monthly basis? Or more often? Is cash on hand physically verified, and reconciled with the cash books? With what frequency is this done?	Yes, monthly reconciliations.	
4.31 Are all reconciling items approved and recorded?	Yes, all items are reconciled.	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	No unusual items shown on reconciliations.	
4.33 Are there any persistent/non-moving reconciling items?	No.	
4.34 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	
4.35 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No. Petty cash ceilings are \$1,000.	
4.36 For online transactions, how many persons possess USB keys (or equivalent), and passwords? Describe the security rules on password and access controls.	No online transactions.	
Safeguard over Assets		
4.37 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	Procedures in FMM	
4.38 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered, or have been pledged?	Yes, the asset register is maintained and reconciled. No encumbered assets.	
4.39 Are subsidiary records of fixed assets, inventories and stocks kept up to date and reconciled with control accounts?	Yes, these are reconciled.	
4.40 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labeled?	Annual physical checks	
4.41 Are the physical inventory of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analyzed and resolved?	Asset registers are reconciled	
4.42 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps	Procedures in FMM	

Topic	Response	Potential Risk Event
immediately taken to locate lost, or repair broken assets?		
4.43 Are assets sufficiently covered by insurance policies?	No, but this is not considered a major issue.	
4.44 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Procedures in FMM	
Contract Management and Accounting		
4.45 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made, and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract? If contract records are maintained, does the agency reconcile them regularly with the contractor?	Contract register is maintained. It does include the value of invoices paid and contract value remaining.	
Other		
4.46 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources. Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Can be reported to Project Manager or Project Director.	
5. Internal Audit		
5.1 Is there an internal audit (IA) department in the entity?	No internal audits have been performed for the project. MAFF does have an internal audit unit. However, this has never conducted an internal audit of the project. It is believed that there are capacity issues with internal audit – both in terms of numbers of staff, and also in skills/experience/expertise to conduct an internal audit of a donor-funded project.	Without any internal audits, there are risks that the internal controls will not be sufficiently reviewed and tested. There is a greater risk of weak internal controls and ineligible costs being incurred.
5.2 What are the qualifications and experience of the IA staff?		
5.3 To whom does the head of the internal audit report?		
5.4 Will the internal audit department include the project in its annual work program?		
5.5 Are actions taken on the internal audit findings?		
5.6 What is the scope of the internal audit program? How was it developed?		
5.7 Is the IA department independent?		
5.8 Do they perform pre-audit of transactions?		
5.9 Who approves the internal audit program?		
5.10 What standards guide the internal audit program?		
5.11 How are audit deficiencies tracked?		
5.12 How long have the internal audit staff members been with the organization?		

Topic	Response	Potential Risk Event
5.13 Does any of the internal audit staff have an IT background?		
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?		
5.15 Has the internal auditor identified / reported any issue with reference to availability and completeness of records?		
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?		
6. External Audit – project level		
6.1 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	A separate auditor is appointed for the project financial statements. The MEF conduct the procurement, and contract one external auditor for all ADB projects.	
6.2 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	There are three unresolved tax issues (i) The project has not applied salary tax to staff who are paid over the tax threshold, and (iii) the project has not deducted withholding tax from individual consultant invoices. The project does not have official tax exemption for these.	There is therefore a risk of tax penalties being applied.
6.3 Is the project subject to any kind of audit from an independent governmental entity (e.g. the supreme audit institution) in addition to the external audit?	The National Audit Authority (NAA) select some projects to audit each year.	
6.4 Has the project prepared acceptable terms of reference for an annual project audit? Have these been agreed and discussed with the EA and the auditor?	ToR is included in the PAM. But in practice, the MEF prepare a ToR to procure an auditor for all ADB projects.	
6.5 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	No	
6.6 Does the external auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (i.e., LDH)?	Yes, the Auditor has knowledge and experience of ADB projects and procedures. Current auditor is KPMG. At the start of the project the auditor was Ernst & Young.	
[For second or subsequent projects] 6.7 Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	Financial statements and audit reports have been completed and submitted to the ADB after the 6-month deadline each year.	This does not comply with covenants in the Financing Agreement, and gives rise to risks that the ADB could apply measures including suspension of funding.

Topic	Response	Potential Risk Event
7. Reporting and Monitoring		
7.1 Are financial statements and reports prepared for the project?	Financial statements are prepared by the external auditors, not by the EA. Financial statements are prepared for each EA, and a consolidated set of financial statements for the project	Risk that there is lack of independent oversight incorrect allocation of responsibility. Management are responsible for preparing financial statements, and external auditors for auditing and providing an opinion.
7.2 Are financial statements and reports prepared for the implementing unit(s)?	Provincial Departments submit documents for replenishment to MAFF-DCU. They submit monthly, including reconciliation. The system is simple and robust – with cash book, bank statement, reconciliation, petty cash, signed and approved.	
7.3 What is the frequency of preparation of financial statements and reports? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	EA produces a quarterly finance report. This is consolidated and incorporated into the quarterly Progress Report, with some commentary on major budget deviations. This is consolidated and incorporated into the quarterly Progress Report, with some commentary on major budget deviations. There are no monthly budget reports, only quarterly. Finance staff are not involved in variance analysis. Team leaders may need to write explanation to provide to the auditor during annual audit process.	There is a risk that major variances will continue without more frequent internal reporting and more proactive budget management.
7.4 Does the entity reporting system need to be adapted for project reporting?	Use a stand alone system for the project	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Reporting systems have been set up	
7.6 Are financial management reports used by management?	Yes, they are	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes, they do.	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are	Yes, from accounting system.	

Topic	Response	Potential Risk Event
they prepared by spreadsheets or some other means?		
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Yes, this is done in quarterly reporting	
7.10 Does the entity have experience in implementing projects of any other donors, co-financiers, or development partners?	Yes	
8. Information Systems		
8.1 Is the financial accounting and reporting system computerized?	They use Quickbooks.	
8.2 If computerized, is the software off-the-shelf, or customized?	Off the shelf, but coding structure customised for the project requirements. Use a 6-digit chart of accounts based on costabs and structure required for reporting Note: the project doesn't follow the government chart of accounts, as this is impractical. The costabs/project cost categories were not designed based on government chart of accounts chapters. The project has not been required to report to MEF in this code structure. Therefore, this is not considered a risk.	
8.3 Is the computerized software standalone, or integrated and used by all departments in the headquarters and field units using modules?	Stand alone	
8.4 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Reports can be generated directly from Quickbooks. These can be exported to excel for standard report templates.	
8.5 Can the system automatically produce the necessary project financial reports?	Yes, Quickbooks is sufficient, and coding has been set up to support reporting.	
8.6 Is the staff adequately trained to maintain the computerized system?	National consultant is experienced in Quickbooks, and has conducted some training to government staff.	
8.7 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	

Topic	Response	Potential Risk Event
<p>8.8 Are there back-up procedures in place? Describe the backup procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.</p>	<p>Yes, back-ups are made of Quickbooks to 2 external hard disks. Back-ups are made at least weekly, and every day when accounting records are input. Other finance files are also backed-up to the external hard disks.</p>	