

FM - C³

Financial Management (FM) C³ (C-Cube) is the primary web based FM Information database.

FM C³ is structured into 5 areas:

- ▶ **Initiatives** - what's new and what's happening now;
- ▶ **Tools and Resources** –Guidance, Tools and examples of best practice;
- ▶ **International Activities** – the key initiatives for harmonization of accounting and auditing practice;
- ▶ **FM Support Activities** – it's about us – and what we aim to do; and
- ▶ **Frequently Asked Questions** – a database of answers to all recently asked questions.

FM C³ also has a great "search" tool which lets you search by "key word" for the information you need.

To learn more about FM C³, check out the site by logging onto the ADB Portal and then entering "rscgfm" in the internet address box at the top of the page – when you enter FM C³ click on the content area or use the search tool. Don't forget to add the site to your favorites!

FM News

The next International FM Harmonization Group Meeting is to be held in Manila on 20th and 21st January 2009. FM COPr members are invited to attend any of the individual sessions.

The next 4 day Financial Management and Analysis Training Course is scheduled for Manila for March 2009. If you are interested please contact us.

Revised and updated Due Diligence Methodology Note is now on FM C³ [Link to FM CoP database \(C³\)](#)

Recently Asked Questions

Q. The FM's *Technical Note in the Preparation and Presentation of Cost Estimates*, April 2008, para 6 states "Base costs are ...expressed in domestic currency on a **real price** basis", however, para. 42 states, "Cost estimates should be prepared in **nominal terms**, taking into account the

potential impact of domestic and international inflation. Please clarify.

A. "Real" means at today's values, while, "nominal" means today's values plus provision for inflation and foreign exchange fluctuation during the implementation period.

The "base cost" is the fundamental building block in the cost estimation process. It is the estimated cost of the project, prepared in "real" terms, in other words, at current values without adjusting for inflation and without adjusting for foreign exchange fluctuations.

Total Project Cost—is the estimated total cost of the project, and so includes both (i) physical contingencies which are an estimate of uncertainty in the base costs as a result of quantity changes, and (ii) price contingencies—estimated potential impact of inflation and foreign exchange rate fluctuations during the life of the project.

The estimated cost of physical contingencies and price contingencies are itemized separately below the Base Cost in the Project Investment Plan to create the cost in "nominal" terms.

Referring specifically to the advice in the Cost Estimates guidelines, para 6 refers to the calculation of base cost which should always be expressed in **real** terms. Para 42 refers to the total cost estimates which include both physical and price inflation contingencies and hence is expressed in **nominal** terms.

Q. What are the criteria for approving selection of an external auditor?

A. ADB requires that financial statements are prepared in accordance with international standards or national equivalent and audited in accordance with International Standards on Audit (ISA's).

For non-revenue generating projects, the prevailing standards applied should be the International Public Sector Accounting Standards (IPSAS). For corporate entities, the prevailing accounting standards, against which national standards are measured, are the International Financial Reporting Standards (IFRS).

In determining whether an auditor (either a Supreme Audit Institution or a private audit firm) is acceptable, the Mission must ascertain that the auditor has the capacity to audit in accordance with International Standards of Auditing (ISA's) and, in the case of Supreme Audit Institutions (aka Government Auditors)



the ability to apply guidance provided by the International Organization of Supreme Audit Institutions (INTOSAI).

Where the borrower proposes appointment of a non-international firm or where the Audit is not conducted to international auditing standards the issue should be referred to RSCG for guidance as the use of a locally based private firm may require a more detailed assessment of the firm's capacity, experience and quality assurance standards. Similarly where local audit guidelines are proposed supplementary auditing and reporting may be requested by ADB.

Q. The FM's *Technical Note in the Preparation and Presentation of Cost Estimates* (para 38) states that cost estimates should be prepared under the assumption that exchange rates are determined entirely by the PPP theory. In practice how do I make this calculation?

A. Purchasing power parity (PPP) is a theory which states that exchange rates between currencies are in equilibrium when their purchasing power is the same in each of the two countries. This means that the exchange rate between two countries should equal the ratio of the cost of the same basket of goods and services. The theory says that when a country's domestic price level is inflating that country's exchange rate must depreciate in order to maintain PPP.

An entertaining and illustrative example of PPP is The Economist's Big Mac Index, which annually compares the prices of a Big Mac in different countries to calculate PPP. (Check it out on The Economist Website). More sophisticated versions of PPP compare a basket of goods and services.

In the context of preparing Cost Estimates EREA have done all the hard work by providing by provides forecasts of domestic and foreign inflation rates. So you need select the appropriate rates which you need to use from those posted on the intranet at <inadbq1.asiandevbank.org/erd0004p.nsf>.

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FM CoPr is open to FM specialists and anyone interested in FM topics.
Contact Lizzette for details.