Sound financial management arrangements help ensure that investment projects are successfully implemented and are operationally sustainable. This Handbook contains information and instructions for borrowers on the financial management of projects financed by the Asian Development Bank (ADB).

This Handbook reflects ADB policies as set out in the *Financial Management and Analysis of Projects* (the Guidelines) as updated in 2005. It supersedes all previous handbooks on financial management and takes effect immediately.

To ensure that financial management arrangements for investment projects meet ADB requirements, borrowers and project executing agency staff should study this Handbook, particularly during project preparation.
Acknowledgements

The original publication entitled, Handbook for Borrowers on the Financial Governance and Management of Investment Projects financed by the Asian Development Bank was prepared by Sarath Lakshman Athukorala (Financial Management Specialist, ADB) and Barry Reid (consultant).

The original handbook has been updated to conform with the revised Financial Management and Analysis of Projects, 2005. This was undertaken by a team comprising Kathleen Moktan, Director, Capacity Development and Governance Division, with assistance from Andrew Head, Principal Financial Management Specialist, Anouj Mehta, Financial Management Specialist, Lizzette Francisco, Yvonne Osonia, Ma. Carolina Faustino-Chan, and Portia Gonzales.
Acronyms

ADB  Asian Development Bank
ADTA  advisory technical assistance
AFS  audited financial statements
APA  audited project accounts
DMC  developing member country
EA  executing agency
FI  financial institution
IA  implementing agency
IAASB  International Auditing and Assurance Standards Board
IAS  International Accounting Standards\(^1\)
IASB  International Accounting Standards Board
IFAC  International Federation of Accountants
INTOSAI  International Organization of Supreme Audit Institutions
ISA  International Standards on Auditing
MDFI  multilateral development finance institution
MFI  microfinance institution
OGAU  Anticorruption Unit of the Office of the General Auditor
PAI  project administration instruction
PCR  project completion report
PMR  project management report
PPAR  project performance audit report
PPTA  project preparatory technical assistance
RETA  regional technical assistance
RRP  report and recommendation of the President
SOE  statement of expenditures
TA  technical assistance
TOR  terms of reference

\(^1\) In 2001, the IASB assumed responsibility from the International Accounting Standards Committee for promulgating IAS. While the IASB standards are called International Financial Reporting Standards (IFRS), this Handbook uses the term IAS (in the interest of continuity).
# Contents

1 Introduction  
   The Asian Development Bank 1  
   The Guidelines 1  
   MDFI Harmonization Efforts 2  
   ADB Approach to Anticorruption 2  
   This Handbook 3  
   Further Assistance 4

2 User Instructions  
   ADB Lending and Technical Assistance 5  
   EA Classifications and General Treatments 6

3 Preparing and Appraising Investment Projects  
   Introduction 9  
   Forecasting 9  
   The Project Cost Estimates Table 10  
   The Project Financing Plan 13  
   Financial Cost-Benefit Analyses 14  
   Financial Loan Covenants 15

4 Financial Management of Executing Agencies 17  
   Introduction 17  
   ADB Financial Management Assessments 18  
   General ADB Financial Management Expectations 19  
   Expectations of Revenue-Earning EAs 21  
   Expectations of Nonrevenue-Earning EAs 24
5 Financial Reporting and Auditing  27
Introduction  27
Accounting Standards and Policies  27
Financial Reporting  30
Auditing Standards and Auditor Engagement  41
Submission of Financial Reports  50
Auditor Reports and Opinions  53
ADB Assistance to Improve Accounting and Auditing  58

6 Financial Institutions  59
Introduction  59
General Approaches and Expectations  59
ADB Approach to FI Reviews and Monitoring  60
Assessing FI Performance  61
FI Reporting and Auditing Issues  64

Appendixes
Appendix 1: Contents of the Guidelines  67
Appendix 2: Project Investment Plan  71
Appendix 3: Project Financing Plan  72
Appendix 4: Example of Accounting Policies  73
Appendix 5: Sample Project Monitoring Report  75
Appendix 6: Model Financial Statements: Service Organization  76
Appendix 7: Model Financial Statements: Manufacturing Organization  80
Appendix 8: Model Auditor Terms of Reference: Executing Agency Audit  85
Appendix 9: Model Auditor Terms of Reference: Annual Project Accounts Audit  94
Appendix 10: Model Auditor Opinion for a Nonrevenue-Earning Project  105
Appendix 11: Model Auditor Opinion for a Revenue-Earning Agency  107
Appendix 12: Useful Reference Materials  109
1. Introduction

The Asian Development Bank

1.01. ADB is a multilateral development finance institution (MDFI) dedicated to reducing poverty in Asia and the Pacific. Our Charter (Articles of Agreement) requires us to take measures to ensure that the proceeds of any loan made, guaranteed or participated in by ADB are “used only for the purposes for which the loan was approved with due attention to consideration of economy and efficiency.” Moreover, ADB’s operations must be guided by sound banking principles. Accordingly, we have developed specific financial management and reporting requirements for our borrowing members, including their executing agencies (EAs), where applicable.

The Guidelines

1.02. Financial Management and Analysis of Projects, 2005 (the Guidelines) sets out ADB’s requirements and procedures for the financial management of ADB-Financed projects (see Appendix 1). They also provide guidance on applying these requirements.

1.03. The Guidelines are primarily for internal ADB use, but are available to external parties in hard copy, via the Internet (www.adb.org/documents/guidelines/financial), and on CD-ROM.
MDFI Harmonization Efforts

1.04. ADB and the other MDFIs—including the World Bank—have similar objectives and engage in similar activities, but have different financial management approaches and requirements. These variances create confusion among our developing member countries (DMCs). They also impose unnecessary compliance costs and divert limited resources away from key priorities. In 2000, the work began to reduce these differences. As of 2006, agreements have been reached on common diagnostics, auditing arrangements, financial reporting arrangements, definitions of key ratios and commitment to work together to improve financial management of DMCs.

ADB Approach to Anticorruption

1.05. ADB defines corruption as the abuse of public or private office for personal gain. This means any behavior in which people in the public or private sectors improperly and unlawfully enrich themselves or those close to them, or induce others to do so, by abusing their positions.

1.06. The purpose of ADB’s Anticorruption Policy is to reduce the burden corruption exacts from the governments and economies of the region. The policy has three objectives: (i) support competitive markets and effective public administration; (ii) support explicit anticorruption efforts; and (iii) ensure ADB-financed projects and its staff adhere to the highest ethical standards.

1.07. The requirements and procedures set out in this Handbook support the implementation of our Anticorruption Policy, which is available at www.adb.org.
1.08. ADB’s integrity is one of its strongest assets. ADB affirms a zero tolerance policy when credible evidence of fraud and corruption exists among ADB-financed projects or its staff. You may report allegations of fraud and corruption by contacting the Anticorruption Unit of the Office of the General Auditor (OGAU) by e-mail, telephone or facsimile. Communication sent by these methods is accessible only by OGAU staff:

- E-mail: anticorruption@adb.org
- Telephone: (632) 632-5004
- Fax: (632) 636-2152

1.09. You may also contact OGAU at the following addresses. Please mark correspondence “Strictly Confidential”.

Anticorruption Unit (OGAU)
Office of the General Auditor
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila, Philippines
Mailing Address: P.O. Box 789, 0980 Manila, Philippines

**This Handbook**

1.10. This Handbook reflects progress on MDFI harmonization, explains ADB financial management policies and procedures, and is aimed at borrowers and their EAs. These policies and procedures are fully consistent with our anticorruption approach.

1.11. The provisions of this Handbook apply to investment projects and project EAs and implementing agencies (IAs). For the purposes of this Handbook, investment projects include ADB-
loan-financed projects and the identifiable investment components of program and sector loans. Please note that—unless stated otherwise—the requirements for EAs also apply to IAs.

1.12. This Handbook is cross-referenced to the Guidelines. For instance, [5.2.3.1.1] refers to that Guidelines' paragraph or section.

**Further Assistance**

1.13. For further information and guidance, readers are encouraged to refer to the Guidelines in the first instance; see http://www.adb.org/documents/guidelines/financial

1.14. If you cannot resolve your question, please contact the responsible ADB project officer. Otherwise contact:

The Principal Financial Management Specialist
Regional and Sustainable Development Department
Asian Development Bank
Manila, Philippines
General Information : fmguidelines@adb.org
Telephone : (632) 632-4444
Fax : (632) 636-2193
Mailing Address : P.O. Box 789, 0980 Manila Philippines
2. User Instructions

ADB Lending and Technical Assistance

2.01. Our Charter permits us to make, participate in, or guarantee loans to our DMCs, to any of their agencies or political subdivisions, and to public or private enterprises operating within such countries, as well as to international or regional entities concerned with economic development in the region. Loans are made only for projects or programs of high development priority [2.2.1–2.2.2].

2.02. We have four primary lending types: (i) project loans; (ii) sector loans; (iii) program loans; and (iv) private sector loans, equities, and guarantees. ADB’s technical assistance (TA) operations are classified into three development activities: (i) project preparatory technical assistance (PPTA) to prepare a project, program loan, or sector loan for financing by ADB and other external sources; (ii) advisory technical assistance (ADTA) to finance institution-building; plan-formulation; or implementation, operation and management of an ADB-financed project; or a sector-, policy-, or issues-oriented study; and (iii) regional technical assistance (RETA). We encourage cofinancing from official funding agencies, export credit agencies and commercial finance institutions [2.2.3–2.2.5].

2.03. In order to sharpen ADB’s capacity to mobilize development finance and knowledge for its DMCs, ADB has also recently introduced several new financial instruments and modalities under the “Innovation and Efficiency Initiative”. These are
aimed at reinforcing flexibility and client orientation of ADB’s financial products.

## EA Classifications and General Treatments

2.04. EAs are agencies that may be involved in designing, implementing, and/or operating a project. Such agencies may be broadly classified as:

- public sector agencies, which include central government line ministries, departments, or agencies; and provincial or state government departments or agencies; and local governments; or
- semiautonomous government agencies, public sector enterprises, or parastatal bodies such as agriculture or industrial credit banks, fertilizer corporations, public utilities, railways, and port authorities.

2.05. ADB also classifies projects and EAs into two distinct groups: nonrevenue-earning and revenue-earning.

2.06. The term revenue-earning is applied to EAs and projects that are implemented, and in most cases operated, by autonomous or semiautonomous EAs that are commercially oriented, or that generate substantial revenues either by consumer charges or by forms of sector-specific local taxation (such as water supply or drainage taxes, and have authority to decide the use of these funds). EAs and projects that do not meet these criteria are termed nonrevenue-earning.
2.07. Together with other MDFIs, ADB encourages borrowers and EAs to adopt uniform accounting and financial reporting standards. However, some time will be required to achieve a high level of uniformity. The following table illustrates these categories and associated treatments [2.4].

<table>
<thead>
<tr>
<th>Sector</th>
<th>State-Owned (Public Sector)</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Project, Executing Agency or Implementing Agency</td>
<td>Nonrevenue-Earning (e.g., Health, Education)</td>
<td>Revenue-Earning (e.g., Power Supply)</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td></td>
<td>Financial Institutions</td>
</tr>
<tr>
<td>Broad Approach and Requirements</td>
<td>• Sound financial policies</td>
<td>• Move toward best practice private sector management, internal control and governance arrangements</td>
</tr>
<tr>
<td></td>
<td>• Adequate accounting records</td>
<td>• Ensure that ongoing operations are sustainable</td>
</tr>
<tr>
<td></td>
<td>• Proper internal control systems</td>
<td>• Comply with National Accounting Standards</td>
</tr>
<tr>
<td></td>
<td>• Timely reporting to management</td>
<td>• Move toward reporting in accordance with International Accounting Standards</td>
</tr>
<tr>
<td></td>
<td>• Sound and timely auditing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Gradual improvements in financial reporting as capacity allows</td>
<td></td>
</tr>
</tbody>
</table>
3. Preparing and Appraising Investment Projects

Introduction

3.01. In some cases, ADB will appraise (review) investment projects to ensure that they are technically, financially and economically viable. We consider: (i) national, sectoral, and local needs for the investment; (ii) economic and financial justifications for the proposed project; (iii) sustainability; (iv) the extent to which the project contributes to human and technological advancement; (v) good governance aspects; and (vi) whether we will be fulfilling our own responsibilities as set out in the ADB Charter [3.1.1].

Forecasting

3.02. Forecasts are prepared of project expenses, revenues, cash flows and other financial items. ADB works with borrower’s agencies during project identification, preparation and appraisal to ensure that these forecasts are meaningful.

3.03. These forecasts should, ideally, be prepared by the borrower’s agencies. However, where ADB staff or PPTA consultants prepare forecasts, it is essential that the borrower’s agencies
own these forecasts because they are ultimately responsible for their accuracy [3.4.1.1].

3.04. ADB requires EAs to provide updated forecasts after loan signing and at the start of project implementation. These will be updated forecasts-to-completion or—in the case of revenue-earning projects—updated forecasts for a specified period. The updated forecasts provide early warnings of project problems so that timely corrective actions can be taken. For revenue-earning projects, ADB will determine the period during which EAs will be required to provide updated forecasts, and the requirement will be specified in the loan agreement [3.4.1.2].

The Project Cost Estimates Table

3.05. A Project Cost Estimates Table, which includes all project costs, is prepared at the PPTA stage (see Appendix 2). It should provide an understanding of the principal project cost components during appraisal, and useful information for project cost control purposes during implementation. It includes an allowance for contingencies. The information provided in the Project Cost Estimates Table is considered at project appraisal and during implementation by the borrower, the EA and ADB [3.4.3.1–3.4.4.4.5].

Eligible Cost Under ADB Guidelines

3.06. Under amended cost eligibility guidelines, ADB can now finance reasonable costs of taxes and duties related to project expenditures, acquisition of land and rights of way, late payment charges imposed by suppliers and contractors, bank charges, food expenditures, interest during construction on non-ADB loans, second hand goods, lease financing costs and local transport and insurance costs.
However, ADB financing of these is subject to the requirements as laid out in the Cost Sharing and Eligibility of Expenditures for ADB Financing, Staff Instructions paper, 15 March 2006.

**Local and Foreign Costs**

3.07. There is no longer a distinction between local and foreign currency costs for purposes of ADB financing and disbursement. However, for the purpose of presentation, a summary of the costs by component is to be provided in the main Report and Recommendation of the President (RRP), as “Project Investment Plan”, while detailed costs breakdown, by local and foreign currency and per component and/or expenditure category, is to be shown in the core RRP appendices as “Detailed Cost Estimates” [3.4.3.1.1].

**Date of the Base Cost Estimates**

3.08. The date of the estimates presented in the Project Cost Estimates Table will be specified in the project RRP. ADB requires that these estimates are reasonably current. If the date of the estimates:

- is less than 6 months before the loan is presented to ADB’s Board of Directors— the estimates are acceptable.
- is 6-18 months before Board presentation—the estimates should be revised by indexation.
- is more than 18 months before Board presentation—the costs should be re-appraised [3.4.3.3.1].

**Treatment of Financial Charges During Development**

3.09. Financial charges during development (FCDDs) can include interest, commitment charges and front-end fees. FCDDs must be shown in the Project Cost Estimates Table [3.4.3.4.1].
Requests for Retroactive Financing

3.10. Retroactive financing refers to ADB financing of project expenditures incurred and paid for by the borrower or recipient during or after appraisal but before an ADB loan or TA agreement becomes effective.

3.11. Generally, no funds can be disbursed for expenses incurred before the loan agreement becomes effective. However, based on a prior agreement between ADB and the borrower, a special clause authorizing the financing of certain expenses incurred before this date may be included in the loan agreement. This clause will show the amount of the retroactive financing, the category of expenses concerned, and the date from which the expenses may be incurred [3.4.3.5].

Determining Contingencies

3.12. Contingencies are an integral part of the expected total project cost and normally are necessary for all project items involving significant expenditures. Contingency allowances should reflect probable (forecast) physical and price changes and costs arising from special risks that can reasonably be expected to increase the base cost estimate. Contingency allowances should be separately identified in the Project Cost Estimates Table [3.4.4.1].

3.13. Allowances for physical contingencies reflect expected increases in the base cost estimates due to changes in quantities, methods, and period of implementation. Physical contingencies should be calculated in foreign and local cost terms, and expressed as percentages of the foreign and local base costs in the Project Cost Estimates Table [3.4.4.2].
3.14. Allowances for price contingencies reflect forecast increases in project base costs and physical contingencies due to changes in unit costs for the various project components beyond the date of the base cost estimates. Price contingencies should be expressed as percentages of the base costs plus physical contingencies, separately for the local and foreign expenditures of the project, and for the project as a whole [3.4.4.3].

The Project Financing Plan

3.15. The Project Cost Estimates Table identifies the total financing required for a project. The Project Financing Plan illustrates project-funding requirements and identifies proposed funding sources (see Appendix 3) [3.4.6].

3.16. Funds required for the proposed project will typically be classified into:

• capital expenditures,
• operating expenditures, and
• financial charges during development [3.4.6.6].

3.17. Proposed project-funding sources may include:

• the proposed ADB loan,
• other loans,
• equity or capital contributions,
• subsidies for operations, and
• internally-generated cash [3.4.6.6].
ADB-financed projects must be financially and economically viable . . .

. . . because DMCs should not take on unproductive debt

ADB has a systematic approach to financial cost-benefit analyses

Financing Cost-Benefit Analyses

3.18. ADB requires that financial and economic analyses be undertaken of projects. Both analyses have the same objective—to assess whether the proposed investment is viable. Project financial analysis examines the adequacy of returns to the project-operating entity and to the project participants. Economic analysis measures the effect of the project on the national economy, as a whole [3.5.1.1].

3.19. In financial analysis, all project-related expenditures and revenues are considered. This is necessary to: (i) assess the degree to which a project will generate revenues sufficient to meet its financial obligations; (ii) assess the incentives for producers; and (iii) ensure that demand or output forecasts on which the economic analysis is based are consistent with financial charges or available budget resources [3.5.1.3].

3.20. Economic analysis attempts to assess a project’s impact on improving economic welfare. It assesses a project in the context of the national economy, rather than for the project participants or the EA implementing the project [3.5.1.1–3.5.1.3].

3.21. ADB’s financial analysis process has six steps:

- preparing project cost estimates [3.4.3],
- forecasting incremental project net cash flows [3.4.7],
- determining the appropriate discount rate [3.5.2],
- calculating the financial net present value (FNPV) [3.5.3],
3.22. Most DMCs are underserved by infrastructure services, particularly in poor and rural areas. In areas that do have service, systems are often badly maintained and service is unreliable. Common problems include: (i) below-cost tariffs and inappropriate tariff design; (ii) inefficient operations, with little incentive to improve efficiency; (iii) low billing and collection levels; and (iv) significant, but poorly-targeted subsidization. These problems can lead to financial losses, deterioration of facilities and limited funding for new investment.

3.23. To assist EAs to achieve their financial objectives—as well as governmental economic objectives that are being supported by ADB loans—ADB seeks assurance that the operational objectives of an EA agreed with the borrower would be met at least through the life of the project. These objectives are translated into loan covenants [3.6.1.1–3.6.4.4.2].

Financial Loan Covenants

3.24. ADB financial loan covenants are classified into:

- operating covenants [3.6.2],
- capital structure covenants [3.6.3], and
- liquidity covenants [3.6.4].

3.25. Financial loan covenants are designed to:

(i) support socioeconomic development;
(ii) promote financial viability, financial performance and prudent financial management of the EA;
(iii) develop local capability; (iv) assist the EA to achieve a creditworthy status to facilitate acceptance in capital markets; (v) protect the borrower’s and ADB’s financial interests; and (vi) provide a basis for monitoring by government regulatory agencies, and ADB, of the EA’s financial performance [3.6.1.2].
4. Financial Management of Executing Agencies

Introduction

4.01. The primary objective of the financial management process is to optimize financial and economic benefits from an investment. Financial management systems include the policies and practices regarding financial planning, programming, accounting, reporting, auditing, funding, organization, and personnel of a project or of an EA [4.1].

4.02. EAs should plan, develop and maintain financial management systems that can provide timely and reliable information suitable for monitoring the project’s and the EA's progress toward ADB-agreed objectives. The information should also provide early warnings of project implementation and EA management problems.

4.03. EAs should also have an effective control environment, including internal control systems that provide assurance that financial records are reliable and complete, including adherence to management policies, orderly and efficient conduct of the borrower’s business, and proper recording and safeguarding of assets and resources [4.2.1].

4.04. ADB assesses the financial policies and the capacity of the financial systems practiced or proposed by the borrower/EA to support project

Sound financial management systems help ensure that project benefits are optimized

They should provide timely and accurate information . . .

. . . and operate within an effective control environment

We assess the effectiveness of these systems
implementation and operation. The EA should be capable of providing correct and timely information on project implementation progress and, where appropriate, on its operation. ADB must also be assured that the expenditures incurred on a project are used for the purposes stated in the loan agreement [4.1–4.2.1.7].

**ADB Financial Management Assessments**

**Assessment Objectives**

4.05. The general objective of ADB assessments is to ensure that EAs are technically, managerially, and financially capable of efficiently and effectively implementing the proposed projects or programs. The specific appraisal objectives are to: (i) determine whether institutional capacity, in terms of financial management, justifies loan approval; (ii) identify the institution’s financial management development needs—both project related and long term—that should be addressed either as a project component or by TA; and (iii) confirm that the financial management system is sustainable [4.1.3].

**Assessment Scope and General Approach**

4.06. The scope of the financial management assessment will depend upon the extent and type of dealings ADB has with the EA concerned, the EA’s experience in implementing projects, and the extent and nature of previous institutional strengthening [4.2.1.7].

4.07. The financial management assessment will generally include: (i) analyzing the EA’s structure and management framework with regard to financial management; (ii) assessing the agency’s resources, including the number, quality, and
4.08. Finally, ADB will examine performance shortfalls to identify specific institutional deficiencies and possible institutional-strengthening actions. Deficiencies will be classified into those relating to the management framework and those due to resource constraints [4.2.1.7].

**General ADB Financial Management Expectations**

**Financial Policies**

4.09. ADB requires that projects be designed, developed and operated within the framework of the financial policies, strategies and systems prescribed by those government institutions that are responsible for national and sectoral economic and financial planning [4.2.4].

**Project Objectives**

4.10. Project objectives should be clearly defined. They should include sustainable economic goals, financial objectives, time-bound delivery of benefits, and financial viability. As a minimum, financial viability means that adequate funds will be available to finance day-to-day operations and maintenance [4.2.4.1.2].

**Project Implementation Plans**

4.11. ADB also recommends that borrowers develop project implementation plans. Project plans help borrowers set realistic goals for each operating
period. They also establish the basis for preparing and implementing project financial management requirements, internal controls, and financial reporting arrangements.

4.12. Project plans should include:

- time-bound implementation tasks for each project component (including TA and training);
- procurement actions with target dates for each step;
- disbursement schedules for each project component and expenditure category;
- funding schedules reflecting expected ADB financing, government counterpart funds and cofinancing arrangements;
- actions required to achieve project development objectives; and
- actions to establish project accounting and financial management systems (including auditing arrangements).

Disbursement Procedures and Fund-Flow Mechanisms

4.13. Loan disbursement is a key element in the project cycle. ADB expects that proposed disbursement procedures and fund-flow mechanisms will be suitable for the particular project. ADB procedures for withdrawal of loan proceeds are standardized to facilitate disbursements under most loans. Disbursement procedures comprise four major types:

- direct payment procedure where ADB, at the borrower’s request, pays a designated beneficiary directly;
commitment procedure where ADB, at the borrower’s request, provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a letter of credit financed from the loan account;

reimbursement procedure where ADB pays from the loan account to the borrower’s account or, in some cases, to the project account for eligible expenditures which have been incurred and paid for by the project out of its budget allocation or its own resources; and

imprest fund procedure where ADB makes an advance disbursement from the loan account for deposit to an Imprest Account to be used exclusively for ADB’s share of eligible expenditures.¹

Expectations of Revenue-Earning EAs

4.14. This section describes relevant ADB expectations of revenue-earning EAs and projects (see paragraphs 2.05–2.07).

Planning and Budgeting

4.15. Long-, medium- and short-term planning should be the primary elements in financial

¹ The Loan Disbursement Handbook describes ADB loan disbursement procedures in detail (see www.adb.org). Furthermore, the Loan Financial Information Web Service (http://lfis.adb.org) is designed to meet users’ needs for accurate, on-demand financial information about loans to facilitate decision-making. The website provides detailed loan portfolio data and selected reports with facilities for downloading. Estimated debt service payments and disbursement manuals directly related to loan operations are also available to specified users.
management. Long- and medium-term plans are often referred to as corporate plans. Short-term financial plans are usually called budgets. ADB will seek assurance that satisfactory plans and budgets will be prepared in a regular, orderly and timely manner [4.2.8.3].

**Accounting Policies**

4.16. ADB will consider the acceptability of accounting policies, including standards of financial reporting and general accounting practices. ADB expects these policies to be materially consistent with accepted national or international standards and practices [4.2.8.4].

**Financial Regulations**

4.17. A sound accounting system is underpinned by financial regulations. These are usually designed to define the objectives of—and responsibilities within—the financial management system. ADB expects acceptable financial regulations to be in place [4.2.8.5, 4.2.8.9].

**Accounting Information Systems**

4.18. To ensure accountability for project implementation funds, each project (and, where applicable, each EA) should have an adequate accounting and internal control system for recording and reporting project-related financial transactions from the time that project expenditures commence—which could be before ADB Board approval of the loan. There are no exceptions to this requirement [4.2.8.6.3].
4.19. Specifically, accounting information systems should:

- be simple to operate;
- require staff to operate with minimum supervision, and have the necessary personnel trained to operate the system from project start-up;
- at a minimum, provide records of project receipts and expenditures generally from the date of first transactions;
- where available, have information technology systems that are modern, efficiently managed, and fully responsive to the needs of management of the EA and the proposed project;
- have adequate internal checks and controls; be able to balance financial data frequently and to report project financial results at intervals and within the time frame required by ADB;
- where needed, meet requirements for Statements of Expenditure (SOEs) and Imprest Fund records; and
- be capable of expansion, when necessary, to meet the increasing demands for financial data arising from expanding project activities or entity operations.

**Internal Controls and Internal Audit**

4.20. ADB’s primary concern is to be assured that internal controls exist and are monitored regularly to ensure they are efficient and responsive to current operations [4.2.8.7–4.2.8.8.5].
Management Accounting

4.21. A management accounting system should collect and promptly report financial and related statistical information on all aspects of the operating performance of an agency’s operations to the various management levels, supplying each level with the necessary details at the appropriate times.

4.22. ADB seeks assurance that the EA’s management accounting system can produce the annual and periodic financial statements, including the statements for audit. It should also incorporate procedures for recording current budgeting and financial planning data, record keeping and reports, and cost accounting (including cost control and analysis) for recording costs [4.2.8.10].

Expectations of Nonrevenue-Earning EAs

4.23. The financial management arrangements of nonrevenue-earning projects and EAs can vary substantially between DMCs. Many will use simple, cash-based accounting. This section describes relevant ADB expectations of nonrevenue-earning projects and EAs (see paragraphs 2.05–2.07).

Financial Management and Accounting Systems

4.24. For nonrevenue-earning EAs, the financial management system should support accounting procedures throughout project implementation [4.2.9.2].

4.25. In nonrevenue-earning projects, the system should be kept simple. An analytical cashbook, showing receipts and payments (classified by project activity and payee), could form a satisfactory basic accounting tool. It could be supplemented by additional documents (e.g., asset registers, contract registers, and inventory systems) as the needs for these arise during implementation [4.2.9.2.3].
4.26. A basic system should include internal controls, which separate responsibilities between those who approve budgets, authorize allotments, approve budgeted expenditures, make cash payments, keep the books of account, and reconcile cash and bank balances with the books of account. Where staff numbers are too small to adequately separate responsibilities, alternative arrangements should be implemented. For instance, actions might be jointly executed by two people (e.g., two signatures on checks) [4.2.9.2.5].

Planning and Budgeting
4.27. ADB’s expectations of planning and budgetary control for revenue-earning EAs (see paragraph 4.15) are the same for nonrevenue-earning EAs [4.2.9.5].

Financial Accounting and Costing
4.28. ADB prefers that an EA maintains at least the records described in paragraphs 4.31–4.33, but in some accounting systems many such records—particularly control accounts—may not be maintained [4.2.9.6.1].

4.29. EA systems must support timely disclosure of: (i) cumulative and annual project costs by components agreed on between ADB and the EA for each project, (ii) operating costs analyzed in sufficient detail to provide control of incremental current expenditures, and (iii) the basis for all types of claims for disbursement of ADB loans [4.2.9.6.4].

Internal Control
4.30. If internal control mechanisms are unsatisfactory, and the effectiveness of the external audit is not established, then the project will generally not be allowed to proceed until the borrower/EA agrees to strengthen these mechanisms [4.2.9.7].
A Simple System for a Nonrevenue-Earning Project

4.31. The following is a simple system for a nonrevenue-earning project. It should be modified as necessary to meet specific project and ADB requirements.

- Project Entity Bank Account Record, by categories of expenditures
- Project Entity Cash Payment Record, by categories of expenditures
- Record of Project Expenditures incurred but not paid by categories of expenditures
- Record of Project Expenditures by Third Parties by categories of expenditures
- A Summary of the above to produce Total Project Expenditures by categories of expenditures
- Record of Sources of Project Financing including ADB (and other lenders’) loan disbursement claims [4.2.9.8.1]

4.32. It is also desirable that a simple general ledger be used to record payment totals and receipt totals (by week or by month). This ledger, in addition to recording summary amounts for the above accounts, should record assets, liabilities, contracts and currency transactions [4.2.9.8.2].

4.33. Corrections and adjustments to the data entered in the basic records can be made at any time before entries are summarized in general ledger entries. Changes to data already recorded in the General Ledger will need special entries in that ledger, preferably using journals [4.2.9.8.3].
5. Financial Reporting and Auditing

Introduction

5.01. ADB requires accurate and timely financial information from its borrowers to be assured that project expenditures were used for the purposes stated in the loan agreement and to satisfy ADB regarding project and EA economy and efficiency.

5.02. To support this requirement, ADB reviews accounting and auditing arrangements during project preparation to ensure that these meet acceptable standards and practices. Moreover, ADB loan and project agreements include relevant financial management and audit covenants.

Accounting Standards and Policies

Introduction

5.03. ADB is concerned about the accurate interpretation of the financial position and performance of its borrowers and EAs. However, the preparation and reporting of accounting information vary widely among countries and contributes to a substantial lack of transparency and consistency in financial reporting [5.2.1].

5.04. ADB, together with other MDFIs, encourages borrowers and EAs to adopt uniform standards of accounting and financial reporting. In this respect, ADB recommends that:
Revenue-earning EAs comply with national accounting standards and move toward reporting in accordance with the International Accounting Standards (IAS), as capacity and resources allow. However, some time will be required to achieve a high level of uniformity.

Nonrevenue-earning EAs in the public sector should follow and maintain sound financial policies, adequate accounting records, proper internal control systems, timely reporting to management, and sound auditing practices [5.2.1.3].

ADB Accounting Policy Requirements

5.05. Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. Financial statements must include a Statement of Accounting Policies. An example is presented in Appendix 4 [5.2.3.5].

5.06. ADB will seek to agree the acceptable accounting standards and policies governing the preparation of financial statements not later than at loan negotiations [5.2.3.1.2].

Nonrevenue-Earning EAs

5.07. In the case of nonrevenue-earning EAs, Statements of Accounting Policies are likely to be simple. For instance, they may cover only cash-recognition policies [5.2.3.5].
Revenue-Earning EAs

5.08. In general, financial statements for private sector companies and organizations, and for revenue-earning public sector EAs, should be prepared in accordance with IAS-compliant accounting policies. Alternatively, ADB may accept audited annual financial statements of projects or EAs that are based on national or other defined standards, provided that the Notes to the Financial Statements include realignments and adjustments of the financial information in the audited annual financial statements to provide a report in accordance with IASs [5.2.3.1.2].

5.09. ADB therefore recommends that all public and private sector revenue-earning EAs should move to account and report for ADB-financed projects on the basis of IAS-compliant accounting policies current at the date of loan negotiations, or any other date in the project implementation period agreed between ADB and the borrower (see paragraph 5.04). Borrowers and EAs should adopt IAS-compliant accounting policies by an agreed date. Until this time, financial statements should be prepared in accordance with a set of accounting policies acceptable to ADB and noted in the minutes of loan negotiations [5.2.3.1.3].

5.10. In some cases, national accounting standards and practices will not conform to accepted international standards. Where only minor items are involved (for instance, overhead allocation methods or inventory-valuation policies), the continued use of these standards and practices may be acceptable so long as the variances are quantified and disclosed in the Notes to the Financial Statement and in the Auditor’s Report [5.2.3.2.2–5.2.3.2.3].

But, for most revenue-earning EAs, ADB expects IAS-compliant accounting policies . . .

. . . these may take time to be introduced

All significant variances should be quantified
5.11. ADB recognizes that some time will be required for borrowers and EAs to adopt IAS-compliant accounting policies and will negotiate with existing borrowers on a project-by-project basis for the timing of their introduction [5.2.3.2.4].

Financial Reporting

Introduction

5.12. To ensure that adequate, timely, and reliable information is provided for project monitoring purposes, ADB seeks early agreement to receive acceptable interim and annual Audited Financial Statements for each financial year [5.3.1.1].

5.13. ADB typically requires the submission of periodic progress reports, including financial reports, covering:

- the progressive interim, annual, and final costs of a project;
- the financial performance and financial position of an EA (where appropriate);
- accountability for the funds, including ADB loans, provided for project implementation;
- the bases for disbursements of ADB loan proceeds;
- the extent of compliance with financial and related covenants; and
- the effectiveness of project-related financial management and accounting systems as specified by ADB and agreed to by the borrower [5.3.1.2].

5.14. Borrowers and EAs should notify relevant parties of ADB’s requirements, including:

(i) responsible government ministries; and
(ii) government auditors mandated by law to audit
EA accounts; and (iii) private auditors acting on behalf of government auditors [5.3.1.4].

Content and Timing of Financial Reporting

Universal ADB Requirements

5.15. The following basic principles apply to all interim and annual project financial statements issued by borrowers:

- English-language presentation [5.3.2.6 and 5.3.2.8];
- disclosure of full accountability for all funds of the borrower, other donors and lenders, and ADB;
- compliance with loan covenants and ADB requirements for project management;
- adequate disclosure of all material information; and
- a true and fair view, or a fair presentation in all material respects, of the financial performance and status of the project and of the EA (where applicable) [5.3.2.2].

5.16. In addition, the following fundamental principles apply to annual financial statements: (i) a clear statement on the accounting policies and accounting standards adopted; and (ii) the results of an independent review of the financial accounts and financial management systems by an auditor acceptable to ADB [5.3.2.3].

5.17. Interim and annual financial statements relating to each project should show sufficient information to identify separately the transactions relating to the reporting year and the cumulative transactions from the start-up date [5.3.2.4].
5.18. Interim and annual statements may combine financial transactions of a project with those of the EA, where the EA was established solely to develop the project [5.3.2.6].

5.19. Where an EA is responsible for implementing defined subprojects, separate financial statements should be provided for each defined component together with a consolidated financial statement for the complete project. Where an EA is responsible for developing more than one project, common or joint project financial transactions of the agency may be apportioned and allocated to each project on a basis defined in the Notes to the Financial Statements [5.3.2.7].

5.20. Borrowers are asked to provide interim and audited Annual Financial Statements in accordance with an ADB-agreed timetable. Interim financial reports are normally required at intervals of 3, 4 or 6 months of each financial year. Audited financial statements (for the EA, project accounts, and imprest fund as applicable) should be submitted to ADB not more than 6 months following the end of the fiscal year or project closing date (whichever is first) [5.3.2.9].

5.21. Where Audited Financial Statements are to be first submitted to a government legislature—with the risk of delaying provision of the Audited Financial Statements to ADB—a draft thereof (certified by the chief financial officer and the auditor) should be submitted to ADB within the required reporting timetable, with subsequent confirmation after they have been ratified by the legislature [5.3.2.10].
5.22. Interim and annual financial statements should normally be presented in the local currency, with the basis for translation of any foreign exchange transactions or commitments explicitly stated [5.3.2.11].

Specific Requirements for Nonrevenue-Earning Projects

5.23. ADB recognizes that many project financial statements—particularly those prepared for nonrevenue-earning projects—are of a special purpose nature. Consequently, ADB requires that financial information submitted by nonrevenue-earning entities adhere to an appropriately designed format acceptable to ADB [5.3.2.1].

5.24. Audited annual financial statements of nonrevenue-earning projects are required for each financial year of project development and implementation [5.3.2.6].

Specific Requirements for Revenue-Earning Projects

5.25. For a revenue-earning project, ADB requires audited annual financial statements of the project and of the EA for the period of the loan. Along with the audit report which expresses the audit opinion following the audit of the annual financial statement, ADB also requires a management letter, by agency if there is more than one EA, from the auditors. The reports on the project may be incorporated within EA financial statements provided that the statements explicitly describe the project’s financial status and performance for the financial year, the previous financial year and from start-up. Interim financial reporting should follow the format of the annual financial statements, but should cease on completion of ADB disbursements [5.3.2.8].
Accounting Statements and Financial Reports

5.26. The table on the opposite page summarizes the financial reporting requirements for projects and EAs. While the reporting requirements for revenue-earning projects and EAs are uniform, those for nonrevenue-earning projects and EAs are not [5.3.3.1].

5.27. The most significant difference among the financial reports of nonrevenue-earning projects and EAs depends on whether entities use the accrual or the cash accounting basis.

- Under the cash basis of accounting, nonfinancial assets (for instance, fixed assets, receivables, and inventories) will not be systematically recorded. Consequently, the information that is necessary to prepare Income Statements and Balance Sheets will not be available; instead, Statements of Cash Receipts and Payments will be prepared.

- Where accrual accounting is used, Statements of Income and Expenses will be prepared along with Balance Sheets. Accrual statements should always be supplemented with a Cash Flow Statement. While many ADB DMCs have signaled their intention to adopt the accrual basis of accounting, this will take many years. However, nonrevenue-earning entities in some countries that have historically used the Soviet Accounting System (e.g., Uzbekistan), may prepare accrual-based financial statements [5.3.3.2].
5.28. Statement of Accounting or Financial Policies. Irrespective of whether the cash or accrual accounting basis is used, a clear statement of the accounting or financial policies that underlie the accounting statements must be provided [5.3.3.4].

5.29. The Statement of Income (Cash Receipts) shows the year’s complete financial information and cumulative data from project start-up. Where the cash accounting basis is followed, the opening and closing cash balances should be shown [5.3.3.5]

### Accounting Statements and Financial Reports

<table>
<thead>
<tr>
<th>Accounting Statement</th>
<th>Nonrevenue-Earning Projects and EAs</th>
<th>Revenue-Earning Projects and EAs</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Interim (PMRs)</td>
<td>Annual Audited</td>
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<tr>
<td>Statement of Accounting/Financial Policies</td>
<td>...</td>
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<tr>
<td>Statement of Income (Cash Receipts)</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Statement of Expenses (Cash Payments)</td>
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<tr>
<td>Cash Flow Statement</td>
<td>✓ note (a)</td>
<td>✓ note (a)</td>
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<tr>
<td>Imprest Account Statement</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Statement of Expenditures</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Income Statement</td>
<td>These statements are usually not prepared, as most nonrevenue-earning projects currently use the cash basis of accounting</td>
<td>✓</td>
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<tr>
<td>Balance Sheet</td>
<td>✓</td>
<td>✓</td>
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<tr>
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<tr>
<td>Other Information</td>
<td>✓ note (c)</td>
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EA = executing agency; PMR = project management report.

(a) The content and format of Cash Flow Statements for nonrevenue-earning projects (and EAs) will not necessarily conform to IAS or to national accounting standards.

(b) The notes to the financial statements provide further breakdowns or explanations of the information provided in the main financial statements.

(c) The scope and nature of other information will be negotiated between ADB and the borrower.
5.30. The Statement of Expenses (Cash Payments) shows the year’s financial information and cumulative totals from project start-up to the current date. Where the accrual basis of accounting is used, this statement will include noncash items, such as depreciation [5.3.3.6].

5.31. The Cash Flow Statement should include:

- sources of project financing (for example, ADB and government contributions) by disbursement methods (for example, direct payment, imprest account);
- uses of funds summarized under project disbursement categories as per the loan agreement (for example: equipment, civil works, consultant services and training);
- others, which may be further subdivided following start of project implementation); and
- the opening and closing cash balances [5.3.3.7].

5.32. The Imprest Account Statement summarizes ADB’s advances and replenishments, less amounts withdrawn by the project entity, showing the remaining cash balance in the Imprest Account [5.3.3.8].

5.33. Bank statements should be provided for each Imprest Account (where used). Each bank statement should summarize the current year’s advances and replenishments, interest earned on balances, less withdrawals for project expenditures. The first account is used to receive money from ADB for the credit of the “Project Imprest Account” and the second may be used by the project for local
operating purposes (Second Generation Imprest Account, SGIA). The Project Imprest Account is to be used to replenish the SGIA (when used). It is necessary to attach Reconciliation Statements to reflect in-transit items between ADB and the Imprest Account and between Imprest Account and the SGIA. The third financial statement is a detailed statement of transactions of the Imprest Account's Operating Account(s). This is to be generated by the EA, where the Imprest Account is used to make direct payments in local and foreign currency [5.3.3.9].

5.34. The **Statement of Expenditures (SOE)** procedure is an ADB reimbursement procedure that does not require submission of supporting documentation. The SOE form should include certification, confirming existence of registration for mobilization and secured advances/deposits. ADB’s *Loan Disbursement Handbook* describes the use of this method and associated reporting and auditing procedures [5.3.3.10].

5.35. **Income Statements and Balance Sheets** may not be necessary where cash accounting is used. Income Statements show the financial results of activities for a period. Balance Sheets show all financial items owned and owed at a certain point in time [5.3.3.11].

5.36. The Notes to the Financial Statements should be explanatory notes and/or supplementary financial statements that analyze or qualify important heads of account, or that present the information in conformity with generally accepted accounting practices of the country [5.3.3.12].
Interim Financial Statements and Project Management Reports

5.37. During the course of each financial year, ADB requires project management reports (PMRs) as part of the system for monitoring a project’s performance. The PMR is required on a periodic basis, and is designed to assist the EA to maintain regular control of project performance. The PMR financial statement is an interim financial statement that is a useful tool for reviewing progress and for planning, and is recommended for all projects. A sample PMR is attached as Appendix 5 [5.3.4.1].

5.38. The information in the PMR should be provided in respect of: (i) the most recent completed financial period (normally a quarter or half-year), (ii) the year-to-date totals, and (iii) cumulative totals-to-date from the beginning of the project [5.3.4.2].

5.39. The PMR should also show, for each line item, the planned or budgeted amounts for comparison with the actual reported information, with variances shown between actual and the plan. Explanations should be attached to the PMR with respect to significant variances for use in managing and monitoring the project [5.3.4.3].

Audited Annual Financial Statements

5.40. Audited annual financial statements should be provided to ADB to fulfill the fiduciary requirements of the borrower, cofinanciers, donors and ADB. These financial statements may be classified into two broad categories:

- Annual financial statements for nonrevenue-earning projects. The statements may also include information on the performance and status of the EA
where the EA has no other financial performance commitments to ADB under a loan agreement; and

- Annual financial statements for revenue-earning projects and for project EAs, where the EA is an autonomous or semiautonomous revenue-earning entity with responsibility for project implementation [5.3.5.1].

**Annual Statements for Nonrevenue-Earning Projects**

5.41. EAs should only prepare annual financial statements for projects, particularly where the project is nonrevenue-earning and is implemented by organizations of national, provincial, state or regional and/or local governments. EA-related financial transactions may be included as line items in project income and expenses [5.3.6.1].

5.42. The statements may take the following forms and may be produced in the local budgetary and accounting formats for the project and, where applicable, for the EA concerned:

- Statement of Income (or Cash Receipts),
- Statement of Expenses (or Cash Payments), and
- Notes to the Financial Statements [5.3.6.2].

**Annual Statements for Revenue-Earning Projects and EAs**

5.43. Borrowers are asked to provide ADB with annual financial statements in respect of each autonomous or semiautonomous EA that plays a substantive role in implementing and/or operating a project having revenue-earning characteristics. These financial statements should contain details sufficient to identify the financial performance and
status of the project or EA. Normally these should comprise:

- a Balance Sheet showing the financial position of the entity, including the project, at financial year-end,
- an Income (or Operating, or Income and Expenditure, or Profit and Loss) Statement,
- a Cash Flow Statement that should disclose the cash flows during each financial year, and
- notes to the Financial Statements [5.3.7.1].

5.44. Financial statements should include comparative figures for the preceding financial year together with supporting schedules and explanatory notes. Supplementary financial statements should be provided containing ADB-requested information regarding items requiring additional disclosure or explanation [5.3.7.2].

**Supplementary Financial Statements**

5.45. ADB will normally specify the form and content of supplementary financial statements to be attached to the standard annual financial statements, but borrowers should include all information that is considered informative and appropriate to illustrate the performance of project implementation and operation [5.3.8.1].

**Model Financial Statements for Revenue-Earning EAs**

5.46. Appendix 6 and Appendix 7 present model financial statements for a service and a manufacturing organization, respectively [5.3.11, 7.16–7.17].
Auditing Standards and Auditor Engagement

Introduction

5.47. An audit’s overall objective is for the auditor to express an opinion as to whether the financial statements present a true and fair view of the project(s) and, where applicable, of the EA, or are similarly presented fairly in all material respects, in conformity with IAS or other ADB-accepted standards, and applied on a basis consistent with that of the preceding year [5.4.1.1].

5.48. The auditor’s opinion is necessary to establish the credibility, or otherwise, of the financial statements of an EA. The examination should be of such scope and depth to allow the auditor to give an opinion and make a report on the veracity, accuracy and fairness as regards the presentation of the financial statements of an EA or a defined part thereof (such as a project, a project unit, or a department or division). These financial statements may be annual, periodic, or ad hoc (i.e., relating to special reports) [5.4.1.2].

ADB Audit Requirements

5.49. ADB requires the borrower and the EA to have the required financial statements for each year audited by an independent auditor acceptable to ADB, and in accordance with standards on auditing that also are acceptable to ADB. An audit of such financial statements includes:

- an assessment of the adequacy of accounting and internal control systems with respect to project expenditures and other financial...
transactions, and to ensure safe custody of project-financed assets;
• a determination as to whether the borrower and project implementing entities have maintained adequate documentation on all relevant transactions;
• confirmation that expenditures submitted to ADB are eligible for financing and identification of any ineligible expenditures; and
• compliance with loan covenants and ADB’s requirements for project management [5.4.2].

Auditing Standards

5.50. ADB recognizes the International Standards on Auditing (ISA) promulgated by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and the auditing standards of the International Organization of Supreme Audit Institutions (INTOSAI). ISAs are widely adopted by the international accounting profession and many national professions. They form the benchmark for standards on auditing acceptable to ADB for audits in the public and private sector. Many auditors general and their equivalents use the INTOSAI auditing standards [5.4.2.2].

5.51. ADB prefers borrowers to engage auditors who will conform to ISA. However, it recognizes that—in some countries—auditors apply local, generally accepted auditing standards that may not conform to, or fully comply with, the ISA, but that have been prescribed by a country’s law, or have been adopted by public accountants or associations of accountants in the country concerned [5.4.2.3].
5.52. Supplementary auditing and reporting procedures may be requested by ADB, if necessary, to confirm accountability and financial performance in cases where ADB considers that local auditing standards need to be supplemented. ADB would expect auditors to indicate in their report the extent of differences, and the impact of the audit, of use of local auditing standards compared with the application of ISAs [5.4.2.4].

Auditing Procedures

5.53. Auditors should understand the project and the entity being audited, including the contents of the RRP and legal agreements. Further guidance is available from the: (i) ADB Loan Disbursement Handbook; (ii) ADB Sample bidding documents; and (iii) ADB Procurement Handbook [5.4.3.2].

5.54. Auditors should ensure that any country-specific variations in accounting standards and practices that are adopted by the borrower, and that differ substantially from IAS, should be disclosed. Any significant effects on project financial performance or status, because of non-conformance with IAS, should be disclosed [5.4.3.7].

5.55. ADB expects audits to include: (i) an examination of assets and liabilities; (ii) an examination of commitments and contingent liabilities; (iii) confirmation of debtors, creditors and inventory; (iv) an examination of variations from IAS; (v) a review of the periodic PMR for each year; (vi) an audit of SOEs (where required) as a part of the overall project audit; and (vii) an audit of the Imprest Accounts [5.4.3].
Although borrowers are responsible for auditor selection, appointment and performance ... auditors must be acceptable to ADB

Auditor Selection and Appointment

5.56. ADB will ask borrowers to remove unacceptable restrictions, or otherwise arrange for an acceptable audit to be conducted. A borrower is responsible for the selection, appointment and performance of an auditor. ADB wishes to be informed by a borrower of an ongoing or proposed appointment of an auditor, who should meet required standards in terms of independence, experience and competence. More specifically, ADB will indicate the acceptability of an auditor in the form of a “no objection” [5.4.4.2].

5.57. To be acceptable to ADB, auditors must be:

- impartial and independent of the control of the entity to be audited and of the person appointing them. In particular, they should not—during the period covered by the audit—be employed by, serve as directors of, or have family, financial, or close business relationships with the entity, except as auditors, during the period of the audit;

- well established and reputable, use procedures and methods conforming with ISA or INTOSAI standards, and employ adequate staff with appropriate skills and competence required for their responsibilities;

- experienced in the types of assignments they are to undertake for the ADB project; and

- able to fulfill their terms of reference (TOR) within the specified timetable [5.4.4.2].
5.58. ADB requires that the borrower and EA select and appoint an acceptable auditor within sufficient time to carry out its responsibilities, including a review of the financial management systems at the beginning of project implementation, and periodically thereafter [5.4.4.3].

5.59. ADB does not normally advise on the selection of auditors, but prefers to review a list of several auditors submitted from whom an appointment will be made by the borrower, and indicate any auditor who may not meet ADB’s criteria. ADB will indicate its agreement to a proposal to engage an auditor when it is satisfied that an existing auditor, or the auditor under consideration for engagement, would be acceptable to ADB in terms of independence and competence to carry out the audit [5.4.4.4].

**Issues in Auditor Selection**

5.60. The scope and detail of an audit may depend upon laws or regulations that constrain a government auditor from providing the depth of examination required by ADB [5.4.5.1].

5.61. The following are unlikely to be acceptable auditors for ADB lending operations:

- government auditors whose staff may be required by laws or regulations to participate in the processing of financial transactions,
- auditors who assist EAs to prepare the annual financial statements, or
- auditors who design and construct components of the EA’s financial management system [5.4.5.1].
5.62. In certain instances, resource constraints may cause the borrower and EA to request auditors to compile part or all of the financial statements. When this occurs, to be eligible to carry out the audit, the auditor should have no part in any aspect of EA decision-making or management. The extent of the auditor’s involvement in accounting should be discussed in the Management Letter [5.4.5.2].

5.63. Auditors must be able to commence work at project start-up. Therefore, borrowers should appoint auditors before the start of each financial year. Borrowers are expected to provide ADB with an assurance that the auditor has been notified of ADB’s requirements, including the timing of the audit and issuance of the auditor’s report. This will be no later than the project start date, or the date on which the ADB Board approves the loan, whichever is earlier [5.4.5.3].

5.64. Where a government auditor is to serve during execution and operation of a revenue-earning project until the loan period expires, the borrower is expected to assure ADB that the government auditor will begin and complete the audit operations within the required timetable [5.4.5.4].

5.65. Auditors for public sector projects and public sector EAs may be drawn from commercial or state audit practitioners. Government auditors will not be acceptable for private sector projects and for public sector EAs of revenue-earning entities, unless confirmed by ADB when a review of capacity, capability, and ongoing performance has been conducted [5.4.6.1].

5.66. The EA (or its controlling authority) is normally responsible for selecting and appointing auditors, except where a government auditor is
required by law to provide the service. Therefore, where no auditor is currently engaged, early steps should be taken to ensure that borrowers engage an acceptable auditor by the date of loan signing or project start-up [5.4.6.2].

5.67. Auditors’ engagements should be kept under review to ensure consistent quality of performance, including the ability to adapt to changes in an entity’s accounting and general operations, and to adopt improved audit techniques [5.4.6.7].

5.68. Consequently, ADB encourages borrowers to restrict audit engagements to relatively short-term assignments [5.4.6.8].

5.69. Some countries appoint auditors each year. However, engagements should be long enough to enable the auditor to become familiar with the auditee, but short enough to facilitate a change of auditor, if necessary. Engagements of 3–5 years are in the optimum range [5.4.6.9].

**Terms of Reference for an Auditor**

5.70. ADB requires that auditors’ opinions be of such scope and detail as ADB may reasonably request, and requires that a TOR acceptable to ADB be prepared for each audit. For different types of audits, the scope of the audit will vary according to the nature of the EA and the type of operation being audited. For example, the TOR for a financial institution audit will require the auditor to pay particular attention to the loan portfolio, while a public utility audit will usually focus on fixed assets and accounts receivable [5.4.7.1].
5.71. ISAs suggest that auditors determine the scope of financial statement audits in accordance with the requirements of legislation, regulations and generally accepted auditing standards. The TOR should not restrict auditors’ obligations in these respects, nor should they give reasons for auditors to claim that adherence to the TOR prevented adequate statutory, regulatory or professional performance [5.4.7.2, 5.4.7.8].

5.72. Nevertheless, the audit TOR provides an opportunity to draw attention to areas of concern that may not be covered or emphasized under a normal audit, such as compliance with loan covenants or a special review of procurement documents. The TOR should always include the requirement to give an opinion on any specific items. A management letter will always be required [5.4.7.3].

5.73. Model TORs for an EA audit and for a project audit are provided in Appendix 7 and Appendix 9, respectively. However, these model TORs should not be regarded as universally applicable [5.4.7.6].

Contract or Engagement Letter of Auditor

5.74. ADB recommends that contracts or audit engagement letters be prepared. Where a formal contract is used, it is normally prepared by the EA. Auditors often prepare a simple engagement letter. The contract or letter sets out the auditor’s responsibilities and should include:

- confirmation of acceptance of the appointment including reference to the TOR;
- the borrowers’ responsibilities, particularly the preparation of financial information;
• the provision of access to whatever premises, records, documentation and any other information the auditor may request in connection with the audit;
• the form of audit reports;
• arrangements regarding the involvement of internal auditors and any other external auditors (such as the government auditor);
• the expected issuance date of the Audited Financial Statements; and
• the fees basis and billing arrangements [5.4.8].

Government Auditors
5.75. In some countries—where projects are executed by government-controlled or sponsored entities—statutory requirements may specify the use of the government auditor. Under such circumstances, ADB will require that (i) the auditor is independent and competent, (ii) the auditor has the capacity and professional capability to provide audit reports and opinions of the quality required by ADB, and (iii) is generally acceptable to ADB. Normally, the independence of a government auditor would not be questioned if the auditor’s position is established under constitutional or legal provisions designed to assure independence [5.4.10.1].

5.76. In some cases, government auditors are involved in pre-expenditure and revenue-collection decision-making. This compromises their independence. In these cases, ADB may seek to agree with a borrower that the auditor, or ADB, will be provided with opinions and reports prepared by an independent commercial auditor in addition to the government auditor’s report [5.4.10.3].
5.77. Where ADB has concerns about the government auditor’s independence or competence, ADB will seek the borrower’s agreement for the government auditor to subcontract the audit to an independent and competent private auditor to conduct the audit on their behalf [5.4.10.4].

**Submission of Financial Reports**

5.78. EAs are required to submit Audited Project Accounts (APA) regularly during project implementation and—in some cases—until the loan has been fully repaid. In addition, EAs of revenue-earning entities are required to submit Audited Financial Statements (AFS). This enables ADB to monitor loan use and satisfy itself about the EA’s financial viability [5.5].

5.79. The APA and AFS should be submitted to ADB—together with the auditor’s opinion and report—immediately upon completion of the audit. These should be accompanied by any other material issued by the auditor that is relevant to the interpretation of the audit, such as a management letter. An audit opinion should also be made by the auditor and submitted to ADB on the use of the Imprest Fund and SOEs in projects where these have been used. Delays in submitting financial reports will directly affect the project’s overall rating [5.5.2].

5.80. ADB identifies the following compliance categories:

- **Complied** is when the sole EA submitted acceptable APA/AFS in English by the due date; and where all EAs submitted acceptable APA/AFS in English by the due date.
• **Partly Complied** is where several EAs are involved and only one or a few submitted acceptable APA/AFS either by the due date or late.

• **Complied Late** is when APA/AFS meet the complied status but are submitted late.

• **Not Yet Due** is when APA/AFS are not yet due and are only applicable until the first APA/AFS for the project become due.

• **Not Required** is if submission of APA/AFS are not included in the loan covenants, and are only applicable to some exceptional program loans.

• **Not Complied** is when:

  - APA/AFS are submitted in the local language,
  - APA/AFS are submitted but has material audit qualifications,
  - the sole EA submitted partial or incomplete APA/AFS, or
  - only unaudited project accounts and financial statements are submitted.

In determining whether APA/AFS comply with ADB requirements . . .

. . . we consider timeliness, language, and acceptability.
5.81. The following table provides guidance on how ADB classifies audit opinions for the purposes of determining compliance.

<table>
<thead>
<tr>
<th>Type of Audit Opinion</th>
<th>Example</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unqualified Opinion</td>
<td>“In our opinion, the financial statements give a true and fair view….” (ISA 700, para. 21)</td>
<td>Acceptable</td>
</tr>
<tr>
<td>Qualified Opinion</td>
<td>“In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of the financial position ….” (ISA 700, para. 46)</td>
<td>Will depend on the nature of the audit qualification and will be considered on a case-by-case basis.</td>
</tr>
<tr>
<td>Adverse Opinion</td>
<td>“In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements do not give a true and fair view of….” (ISA 700, para. 46).</td>
<td>Unacceptable</td>
</tr>
<tr>
<td>Disclaimer of Opinion</td>
<td>“Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on the financial statements.” (ISA 700, para. 44)</td>
<td>Unacceptable</td>
</tr>
</tbody>
</table>

**ADB Policy on Late or Unacceptable Financial Reports**

When acceptable APA/AFS are **not received by due dates**, ADB will write immediately to the EA stating they are overdue and warning that, if they are not received within 6 months, Imprest Accounts will not be replenished and further reimbursement requests, commitment letters, and contract awards will not be processed.

When acceptable APA/AFS are **not received within 6 months** after the due dates, ADB will initiate stopping replenishment of Imprest Accounts, and processing of reimbursement requests, commitment letters and contract awards. ADB will then advise the EA of ADB’s actions and state that if the situation does not improve within 6 months, loans may be suspended.

When acceptable APA/AFS are **not received within 12 months** after the due dates, ADB may suspend the loan.
Auditor Reports and Opinions

5.82. ADB requires the borrower and the project EAs to have the required financial statements for each year audited by an independent auditor acceptable to ADB, and in accordance with standards on auditing that also are acceptable to ADB. An audit of such financial statements includes:

- Assessing the adequacy of accounting and internal control systems with respect to project expenditures and other financial transactions, and to ensure safe custody of project financed assets.
- Determining whether the borrower and EAs have maintained adequate documentation on all relevant transactions.
- Confirming that expenditures submitted to ADB are eligible for financing and identification of any ineligible expenditures.
- Confirming compliance with loan covenants and ADB’s project management requirements [5.6.1.1].

5.83. An audit report must include: (i) title of the auditor; (ii) date of the report; (iii) addressee (EA and/or borrower); (iv) identification of the financial information audited; (v) a reference to auditing standards or practices followed; (vi) an expression of opinion, including a qualification; disclaimer or declining of an opinion, on the financial information; (vii) the auditor’s signature; (viii) auditor’s address; and (ix) date of signing of the report [5.6.2.2].

5.84. Appendix 10 and Appendix 11 provide examples of typical auditor reports and unqualified...
opinions for: (i) a nonrevenue-earning project, and (ii) a revenue-earning project. The auditor should appropriately restate each example when qualifications or other modifications are necessary [5.6.2.3].

5.85. Audited Financial Statements provided to ADB in accordance with a loan agreement should be accompanied by the report of the auditor that contains their opinion on the financial statements [5.6.2.4].

5.86. The auditor should indicate whether any attached supplementary financial statements and Notes to the Financial Statements have been subjected to the same auditing procedures as in the case of the basic financial statements [5.6.2.6].

5.87. Additional matters may be addressed in a detailed auditor’s report, where these are not addressed in the Management Letter. As examples: (i) implementation of the auditor’s recommendations made in prior years audit reports; (ii) efficacy of, and improvements required in budgetary control; (iii) reliability of field and financial controls; and (iv) any payroll, procurement, or inventory problems [5.6.2.7].

5.88. The auditor’s opinion for a project should refer to the reporting format agreed between the borrower and ADB, noting the basis of accounting followed (e.g., cash basis) [5.6.2.8].

5.89. The auditor’s opinion for a revenue-earning entity, including a commercial type entity in the private sector, should refer to the accounting standards adopted and any significant departures from IASs, with a reference to a quantified impact of such departures on the Balance Sheet and the
Income Statement prepared by the EA in the Notes to the Financial Statements. An example of the above would be where government regulations legislate the basis for bad debt provision rather than relying on an actual assessment [5.6.2.9].

5.90. Borrowers and EAs enter into financial performance covenants with ADB. The auditor is required to confirm, or otherwise, compliance with each financial covenant contained in the legal documents for the project. The auditor should also indicate, where present, the extent of any noncompliance, by reference to the specified (required) and actual performance measurements for each financial covenant for the financial year concerned [5.6.4].

5.91. Borrowers and EAs enter into agreement with ADB in the loan documents to provide all appropriate financial management, accounting and financial reporting requirements necessary to support effective management of the project. The auditor should also indicate the extent of any noncompliance with the loan agreement, by reference to the specified (required by the loan documents) and actual performance of the borrower in respect of these ADB requirements for the financial year concerned [5.6.5].

Use of Technical Experts

5.92. For certain types of expenditures to be financed from ADB loans, the auditor may need to rely on an independent technical expert who normally would be engaged by the EA. An example would be civil works executed by the regular labor force of an entity (e.g., “force account” carried out by the Ministry of Works); or fixed-price reimbursements for measured units of work to be supervised by independent experts such as an
... appropriate certification should be provided

engineering or architectural firm. In addition to the normal responsibility of such experts to check that the work is performed in accordance with the plans and specifications, an appropriate certification by the expert of the value of the work executed must be acceptable to ADB [5.6.8.1].

5.93. The acceptability of the certification would depend on the independence and competence of the firm and its staff engaged in the verification. Such a certification, where used, should normally be attached to the related documentation supporting the expenditure. Any dissatisfaction with the work of the expert that concerns the auditor should be stated in the auditor's report [5.6.8.2].

5.94. The content of the certificate might cover matters such as whether the goods and services were procured, received, paid for and used in the project in conformity with the loan agreement. In the above instances, the auditor should include a note under the scope paragraph of the opinion, stating the extent and amount involved with respect to their reliance on the technical expert (who should be identified and expertise noted in the Notes to the Financial Statements prepared by the EA) [5.6.8.3].

Statements of Expenditure and Imprest Accounts

5.95. Where the legal agreement of a project requires the separate audit of the SOEs and the Imprest Accounts, respectively, additional paragraphs should be included in the audit opinion of the project:

- referring to the SOE financial statement, certifying to the eligibility of those expenditures against which SOE disbursements were made; and
• referring to the Imprest Account financial statements attached [5.6.9.1].

**Audit Management Letters**

5.96. ADB requires auditors to provide a management letter with reference to the EA. This is a report on the internal controls and operating procedures of the entity, covering all aspects included during the normal course of the audit. Because an auditor is unlikely to cover all activities of a client during an annual audit, the management letter may address only those specific matters that came to the attention of the auditor during the review [5.6.10.1].

5.97. The borrower and the auditor may agree at the commencement of the audit on particular subjects (including those at the request of ADB) to be included in the TOR and addressed in the management letter. These may include the review of compliance with financial covenants, and actual versus planned performance indicators. However, it should be the prerogative of the auditor to address any matter not agreed upon, but which, in the auditor’s opinion, should be drawn to the borrower’s attention. In addition, the auditor should comment on all significant variations between the PMR and the annual Audited Financial Statements [5.6.10.2].

5.98. ADB wishes to review all management letters. The EA should provide copies of the management letter to ADB at the same time as the audited annual financial statements are issued [5.6.10.4].
ADB Assistance to Improve Accounting and Auditing

Financing of Audit Expenditures

5.99. The costs of annual audits may be included in project costs and are eligible for ADB loan financing for those borrowers for whom the audit costs are incremental (i.e., without the project they would not be incurred). For other borrowers, where only part of the audit costs are incremental—particularly auditing to ADB standards, reporting on compliance with loan covenants or for those borrowers that may require foreign exchange for the purpose—these audit costs may be financed to ensure that ADB will receive an auditor’s opinion and report that accord with ADB requirements.

Capacity Building in Project Accounting

5.100. Wide disparities exist in accounting and auditing standards and capacity among borrowers. To help borrowers avoid difficulties in meeting ADB’s requirements, specific accounting and reporting requirements to ensure proper project financial management are discussed with the borrower and EAs and reflected in the loan covenants of the loan agreement. If accounting and auditing systems are found unacceptable, corrective measures may be taken using either ADB TA funds (if available) or with support from other assistance agencies.

5.101. Hands-on training for preparing project accounts is arranged for project accountants if they are unfamiliar with ADB’s accounting and auditing requirements. The cost may be included in the loan amount.
6. Financial Institutions

Introduction

6.01. Financial institutions (FIs) include commercial banks and other financial institutions. ADB previously referred to FIs as development finance institutions (DFIs). The World Bank and the African Development Bank refer to FIs as financial intermediaries. They are also known by sectoral titles, such as agricultural development banks (AgDBs), industrial development banks (IDBs) and housing development banks (HDBs), or as development financial intermediaries, microfinance institutions (MFIs) and microfinance intermediaries [6.1.2].

General Approaches and Expectations

6.02. ADB expects FIs to generate an interest rate spread (the difference between lending and borrowing rates) that covers all operating costs, including provisions for bad and doubtful debts, and in appropriate circumstances provides a profit. ADB can support FI operations in both the public and the private sectors [6.1.3].

6.03. In general, ADB-supported FI loans aim to remove or substantially reduce the use of directed credits, as these lead to resource allocation outside market mechanisms [6.2.4.1].

6.04. However, ADB may support directed-credit programs to promote sustainable financing—for sectors such as microfinance institutions or the rural
sector—provided they are accompanied by reforms that address underlying institutional problems and any market imperfections that inhibit the market-based flow of funds to those sectors [6.2.4.3–6.2.4.4].

6.05. ADB only supports programs involving subsidies if they (i) are transparent, targeted, and capped; (ii) are funded explicitly through the government budget or other sources subject to effective control and regular review; (iii) are fiscally sustainable; (iv) do not give an unfair advantage to some FIs over other qualified and directly competing institutions; and (v) are economically justified, or can be shown to be the least-cost way of achieving poverty reduction objectives [6.2.5.1].

**ADB Approach to FI Reviews and Monitoring**

6.06. ADB appraises proposed FI loans to ensure that their objectives include (i) supporting reform programs in the financial sector or related real sectors; (ii) financing real sector investment needs; (iii) promoting private sector development; (iv) helping to stabilize, broaden, and increase the efficiency of financial markets and their allocation of resources and services; (v) promoting the development of the participating FIs; and (vi) supporting poverty reduction objectives [6.3.2.4].

6.07. ADB reviews an FI’s operational performance to assess its ability to (i) deliver subloans to achieve defined country or sector economic objectives; (ii) efficiently recover subloans; and (iii) cover all operating costs and make a reasonable profit on the invested capital. FIs have numerous forms of performance indicators that can provide an understanding of past and ongoing performance [6.2.1.2].
6.08. At least once each year during implementation, ADB will conduct a formal review of the condition and performance of participating FIs—including a review of their Audited Financial Statements—to determine their continued compliance with eligibility criteria [6.3.4.5.4].

Assessing FI Performance

Introduction

6.09. Suitable indicators for measuring FI performance include, among other things, (i) adequacy of capital; (ii) quantity and quality of earnings; (iii) quality of assets; (iv) sufficiency of liquidity; (v) extent of subsidy dependence; (vi) effectiveness of FI loan administration (appraisal, supervision, and collection performance); and (vii) adequacy and timeliness of audited financial statements [6.3.4.5.3].

6.10. The most important criteria for determining the appropriateness of an FI to act as a financial intermediary are its solvency, profitability and liquidity. In this respect, the Basel Committee on Banking Supervision of the Bank of International Settlements provides guidance in assessing an FI [6.4.1.3].

Assessing Microfinance Institutions

6.11. The World Council of Credit Unions recommends a set of financial ratios covering Protection, Effective financial structure, Asset quality, Rates of return and costs, and Liquidity and Signs of growth (PEARLS) to monitor the financial stability of credit unions, including MFIs. The PEARLS... and monitors performance during implementation

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2 Further information on the Basel Committee can be found at http://www.bis.org.
methodology is specifically designed for evaluating credit unions [6.4.2.1].

Assessing FI Risks

6.12. ADB’s main concern is that FIs manage their exposure to potential risks. Capital markets are dynamic—their activities can generate rapid and dangerous movements that need to be anticipated and managed. The ability of traditional performance measurement criteria to indicate declining or poor FI performance is limited [6.4.4.1.1].

6.13. Furthermore, in many cases, the FIs that ADB deals with are attached to the public sector and have multiple objectives (e.g., sectoral development objectives in addition to profitability objectives). The risk factors associated with these FIs are likely to be more significant than for single-objective commercial banks. Consequently, ADB will seek to (i) identify the principal potential risks that an FI is exposed to and (ii) agree an appropriate set of indicators that will provide FI management and ADB with an early warning of problems [6.4.4.1.3].

6.14. The major FI-related risks include

- market risk—the potential that a borrower or counterparty will fail to perform on an obligation [6.4.4.2.1];
- exchange risk—the potential changes in assets and liabilities caused by foreign exchange movements [6.4.4.3.1];
- maturity risk—the mismatching of investments and borrowing operations [6.4.4.4.1]; and

3 Further information on the PEARLS methodology can be found at www.woccu.org.
• contagion risk—contagion can arise in regions, in countries, in regions within countries, or within a class or category of financial institutions [6.4.4.5.1].

6.15. Financial sector supervisors and regulators are best able to identify, anticipate, and avoid contagion risk. They should monitor the financial sectors and economic developments with the objective of providing early warnings, not only to financial institutions, but also to ministries with economic management responsibilities [6.4.4.5.3].

Specialized FI Internal Controls

6.16. Internal controls for FIs (i) should comprise a set of rules and procedures designed to provide qualitative standards that complement quantitative risk analyses; (ii) are becoming increasingly employed by banks and securities institutions; (iii) should be used to internally manage operational risk, agency risk, and legal risk; and (iv) should be exercised by an independent control unit reporting to the board of directors that has no operating linkages with risk-creating trading activities [6.4.6.1].

6.17. ADB expects FIs to establish and maintain an appropriate risk management environment by, for instance

• requiring transparency of reports and documentation of the risk control process,
• monitoring the content and the efficiency of the vertical and horizontal information flows,
• monitoring and reporting on accountability,

ADB will seek assurance that appropriate internal controls are in place.
ensuring remuneration policy rewards efficient risk management through high returns and minimum risk,
• monitoring observance of trading limits and market procedures,
• establishing rules for dealing with changes in volatilities,
• testing the soundness of models,
• examining the quality and uniformity of data input, and
• validating and back-testing procedures [6.4.6.2].

**FI Reporting and Auditing Issues**

**Introduction**

6.18. Financial reporting by, and audits of, FIs require individual specifications for each institution so that financial reporting and auditing requirements will be appropriate to the type, nature, and form of the institution [6.6.1.1].

6.19. For example, an industrial FI and an MFI have few common characteristics and the reporting requirements and the auditing specifications will differ sharply [6.6.1.2].

**Financial Reporting**

6.20. In addition to the standard statements (Balance Sheet, Income Statement and Cash Flow Statement), an FI will generally be required to provide the additional statements listed below. This listing is not all-inclusive and may be amended to address the objectives and operations of the particular FI:

- The income statement and balance sheet adjusted for subsidies;
• Portfolio Report for current and past 2 years;
• Portfolio Report showing aging of receivables (arrears);
• Portfolio Report showing aging of portfolio at risk;
• Portfolio Report showing market and sectoral exposure;
• Capital Adequacy Analysis;
• Assets Structure by Income;
• Related party transactions; and
• Table of Contingencies, Guarantees, Commitments showing corresponding securities and collateral [6.6.2.2].

**FI Auditing**

6.21. ADB expects that the TOR for an FI audit will be tailored to the particular FI. For instance, the TOR for a commercial bank audit will differ from those for an MFI audit. Moreover, auditors should have appropriate experience in auditing the particular FI [6.6.3.1].

6.22. In addition to the standard requirements for auditor selection and appointment (see part 5), including providing a report and an opinion on the annual financial statements, the auditor should be required to include in the report confirmation, or otherwise, that the additional financial statements and performance indicators can be relied on [6.6.3.2].
Appendix 1  Contents of the Guidelines

This appendix presents the Guidelines’ contents for information and reference purposes (see paragraph 1.02, page 1).

1. Introduction to the Guidelines
   1.1. Introduction
   1.2. Rationale
   1.3. Objectives
   1.4. Structure
   1.5. Project File
   1.6. Guideline Updates
   1.7. Roles of Financial Analysis Specialists and Financial Management Specialists

2. User Instructions
   2.1. Overview
   2.2. ADB Lending and Technical Assistance
   2.3. Applying these Guidelines
   2.4. Project Types and General Treatments
   2.5. An Overview of Project Processing Steps
   2.6. Step 1: Identification and Early Preparation
   2.7. Step 2: Loan Preparation
   2.8. Step 3: Project Examination
   2.9. Step 4: Loan Negotiations
   2.10. Step 5: Project Implementation
   2.11. Step 6: Project Completion

3. Preparing and Appraising Investment Projects
   3.1. Investment Projects Overview
   3.2. Possible Investment Projects
       3.2.1. Possible Revenue-Earning Projects
       3.2.2. Possible Nonrevenue-Earning Projects
   3.3. Appraisal Checklists
   3.4. Forecasting
       3.4.1. Introduction to Forecasting
       3.4.2. Using the COSTAB Model
       3.4.3. Preparing Project Cost Estimates
       3.4.4. Determining Contingencies
       3.4.5. Disbursement Profiles
       3.4.6. Preparing Financing Plans
       3.4.7. Computing Incremental Project Cash Flows
   3.5. Preparing Financial Benefit-Cost Analyses
       3.5.1. Introduction
       3.5.2. Determining the Discount Rate - WACC
       3.5.3. Calculating the Financial Internal Rate of Return and Net Present Value
       3.5.4. Undertaking Sensitivity and Risk Analyses
   3.6. Loan Covenants
       3.6.1. Introduction to Loan Covenants
       3.6.2. Operating Covenants
       3.6.3. Capital Structure Covenants
       3.6.4. Liquidity Covenants
   3.7. ADB Reports
       3.7.1. Introduction to ADB Reports
       3.7.2. Project Preparatory Technical Assistance Stage
       3.7.3. Report and Recommendation of the President
       3.7.4. Miscellaneous ADB Reports

4. Financial Management of Executing Agencies
   4.1. Financial Management Overview
   4.2. Institutions and Systems
       4.2.1. Introduction to Institutions and Systems
       4.2.2. Major Institutional Assessments
       4.2.3. Governance
       4.2.4. Financial Management and Governance Arrangement
       4.2.5. Country Diagnostic Studies of Accounting and Auditing
   4.2.6. Executing Agencies
   4.2.7. Project Objectives
   4.2.8. Revenue-Earning Projects
   4.2.9. Nonrevenue-Earning Projects
   4.3. Financial Analysis
       4.3.1. Introduction to Financial Analysis
4.3.2. Financial Analysis
   Objectives
4.3.3. Linkages with Cost
   Recovery and Tariffs
4.3.4. Preparing Financial Tables
4.3.5. Determining Fiscal Period
   Coverage
4.3.6. Forecasting and Financial
   Projections
4.3.7. Forecasting Assumptions
4.4. Measuring Performance
   4.4.1. Introduction to Measuring
           Performance
   4.4.2. Objectives of Measuring
           Performance
   4.4.3. Performance Indicators
   4.4.4. Using Benchmarking
           Indicators
   4.4.5. Selecting Indicators and
           Covenants
   4.4.6. Operating Indicators and
           Covenants
   4.4.7. Capital Structure
           Indicators
   4.4.8. Liquidity Indicators
5. Reporting and Auditing
   5.1. Financial Reporting and Auditing
       Overview
   5.2. Accounting Standards and Policies
      5.2.1. Introduction
      5.2.2. International Accounting
              Standards
      5.2.3. ADB Accounting Policy
              Requirements
   5.3. Financial Reporting
      5.3.1. Introduction
      5.3.2. Content and Timing of
              Financial Reporting
      5.3.3. Accounting Statements
              and Financial Reports
      5.3.4. Interim Financial
              Statements and the Project
              Management Report
      5.3.5. Audited Project Financial
              Statements
      5.3.6. Annual Financial Statements
              for a Nonrevenue-Earning
              Project
      5.3.7. Annual Financial Statements
              for Revenue-Earning Projects
              and EAs
      5.3.8. Supplementary Financial
              Statements
   5.3.9. Designing Financial
          Reports for Revenue-
          Earning Projects
   5.3.10. Designing Financial Reports
           for Nonrevenue-Earning
           Projects
   5.3.11. Examples of Model Financial
           Statements
   5.4. Auditing Standards and Auditor
       Engagement
      5.4.1. Introduction
      5.4.2. ADB Requirements
      5.4.3. Auditing Procedures
      5.4.4. Auditor Selection and
              Appointment
      5.4.5. Issues in Auditor Selection
      5.4.6. Selecting Auditors
      5.4.7. Terms of Reference for an
              Auditor
      5.4.8. Contract or Engagement
              Letter of Auditor
      5.4.9. International Standards on
              Auditing
      5.4.10. Government Auditors
   5.5. Reviewing Financial Reports
      5.5.1. Introduction
      5.5.2. The Review Process: Late
              or Unacceptable Financial
              Reports
      5.5.3. Compliance With Financial
              Performance Covenants
      5.5.4. Communication with
              Government Auditors
   5.6. Reviewing Auditors’ Reports
      5.6.1. Introduction
      5.6.2. Auditors’ Reports and
              Opinions
      5.6.3. Model Audit Opinions
      5.6.4. Compliance with Loan
              Covenants
      5.6.5. Compliance with ADB’s
              Requirements
      5.6.6. Types of Auditors’ Opinion
      5.6.7. Materiality
      5.6.8. Use of Technical Experts
      5.6.9. Statements of Expenditure
              and Imprest Accounts
      5.6.10. Reviewing Audit
              Management Letters
      5.6.11. Audit Report
              Questionnaire
6. Financial Institutions
6.1. FI Introduction and Overview
6.2. Reviewing FI Financial Management
6.2.1. General Operational Issues
6.2.2. Policy Framework for FIs and FI Loans
6.2.3. Treatment of Interest Rate Distortions
6.2.4. Treatment of Directed-Credit Programs
6.2.5. ADB Policy on Subsidies
6.2.6. Eligibility Criteria for FIs
6.3. FI Investments
6.3.1. Introduction
6.3.2. Investing in FIs
6.3.3. Selecting Participating Institutions
6.3.4. Appraising an FI Investment
6.4. Assessing FI Performance
6.4.1. Introduction
6.4.2. Assessing Microfinance Institutions
6.4.3. Applying the CAMEL Framework
6.4.4. Assessing FI Risks
6.4.5. Determining FI Credit Ratings
6.4.6. Specialized FI Internal Controls
6.5. Appraisal Checklist
6.6. FI Reporting and Auditing Issues
6.6.1. Introduction
6.6.2. FI Financial Reporting
6.6.3. FI Auditing
6.6.4. MFI Financial Reporting and Auditing

7. Knowledge Management
7.1. Useful Websites
7.2. Operations Manual
7.3. Project Administration Instructions
7.4. International Standards
7.5. International Accounting and Auditing Architecture
7.6. Financial Review Checklist for RRP
7.6.1. Lessons from Past Projects
7.6.2. Project Cost Estimates
7.6.3. Financing Plan
7.6.4. Executing Agencies and Implementing Agencies
7.6.5. Financial Projections
7.6.6. Financial Analyst
7.6.7. Project Justification

7.6.8. Accounting and Auditing
7.6.9. Procurements and Disbursement Arrangements
7.6.10. Finance-Related Risk
7.6.11. Assurances
7.7. Appraisal Checklist: Nonrevenue-Earning Project
7.8. Appraisal Checklist: Revenue-Earning Project
7.9. Appraisal Checklist: Private Sector Project
7.10. Appraisal Checklist: Financial Institution
7.11. Undertaking Sensitivity and Risk Analyses
7.11.1. Step 1: Identify the Key Variables
7.11.2. Steps 2 and 3: Calculate Effects of Changing Variables
7.11.3. Step 4: Analyze Key Variable Changes
7.11.4. Undertaking Risk Analysis
7.12. Model Operating Covenants
7.12.1. Rate of Return (see 3.6.2.2)
7.12.2. Self-Financing Ratio (see 3.6.2.3)
7.12.3. General Price Level (see 3.6.2.4)
7.12.4. Operating Ratio (see 3.6.2.5)
7.12.5. Breakeven Covenant (see 3.6.2.6)
7.13. Model Capital Structure Covenants
7.13.1. Debt Service Coverage (Version A: Historical Orientation) (see 3.6.3.3)
7.13.2. Debt Service Coverage (Version B: Forecast orientation) (see 3.6.3.3)
7.13.3. Debt-Equity Ratio (see 3.6.3.6)
7.13.4. Capital Adequacy Ratio (see 3.6.3.6)
7.14. Model Liquidity Covenants
7.14.1. Current Ratio (see 3.6.4.2)
7.14.2. Quick Ratio Covenant (see 3.6.4.3)
7.14.3. Dividend Limitation (see 3.6.4.4)
7.15. Commonly Used Ratios
7.15.1. Operating Indicators
7.15.2. Capital Adequacy Indicators
7.15.3. Liquidity Indicators
7.16. Model Financial Statements: Service Organization
7.17. Model Financial Statements: Manufacturing Organization
7.18. Model Terms of Reference for an Auditor
7.19. Audit Report Questionnaire
   7.19.1. Using the Audit Report Questionnaire
   7.19.2. Authenticity, Form, and Timeliness
   7.19.3. Audit Opinion
7.19.4. Matters Addressed
7.19.5. Auditor’s Opinion and Report
7.19.6. Conclusion and Further Action (if any)

Knowledge Management – Addendum

Revisions
Glossary
Topical Index
## Appendix 2 Project Investment Plan

Paragraph 3.05 (page 8) refers to this appendix.

<table>
<thead>
<tr>
<th>Std. Code</th>
<th>COMPONENTS ***</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Cost</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>03 Civil Works</td>
<td>0.00</td>
</tr>
<tr>
<td>06 Survey, Investigation, Design, Mapping</td>
<td>0.00</td>
</tr>
<tr>
<td>09 Research and Development (Extension and Demonstration)</td>
<td>0.00</td>
</tr>
<tr>
<td>12 Institutional Development and Strengthening</td>
<td>0.00</td>
</tr>
<tr>
<td>15 Equipment, Vehicles and Furniture (Purchase and Maintenance)</td>
<td>0.00</td>
</tr>
<tr>
<td>18 Materials</td>
<td>0.00</td>
</tr>
<tr>
<td>21 Consulting Services</td>
<td>0.00</td>
</tr>
<tr>
<td>24 Training and Fellowships</td>
<td>0.00</td>
</tr>
<tr>
<td>27 Operations and Maintenance</td>
<td>0.00</td>
</tr>
<tr>
<td>30 Financing of Nongovernment Organizations (NGOs)</td>
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</tr>
<tr>
<td>– Implementation Assistance</td>
<td>0.00</td>
</tr>
<tr>
<td>– Land</td>
<td>0.00</td>
</tr>
<tr>
<td>– Capital Goods</td>
<td>0.00</td>
</tr>
<tr>
<td>– Incremental Administrative Costs</td>
<td>0.00</td>
</tr>
<tr>
<td>– Initial Working Capital</td>
<td>0.00</td>
</tr>
<tr>
<td>– Taxes and Duties</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Base Costs as at...(date)...</strong></td>
<td><strong>0.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>**Contingencies *****</th>
</tr>
</thead>
<tbody>
<tr>
<td>87 Physical</td>
<td>0.00</td>
</tr>
<tr>
<td>84 Price</td>
<td>0.00</td>
</tr>
<tr>
<td>81 Other (Identify)</td>
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<tr>
<td><strong>SUB-TOTAL</strong></td>
<td><strong>0.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Financing Charges During Development</strong>*</th>
</tr>
</thead>
<tbody>
<tr>
<td>66 Interest</td>
<td>0.00</td>
</tr>
<tr>
<td>69 Other</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>TOTAL PROJECT COST AND FINANCING REQUIRED</strong></td>
<td><strong>0.00</strong></td>
</tr>
</tbody>
</table>

*** Footnotes to be used as necessary, particularly for contingencies’ explanation and rates used for calculating financing changes.
Appendix 3 Project Financing Plan

Paragraph 3.15 (page 10) refers to this appendix.

<table>
<thead>
<tr>
<th>Funds Required</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Operating expenditures</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td>Interest during construction</td>
<td>0.00</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL PROJECT REQUIREMENTS</strong></td>
<td>0.00</td>
<td>100</td>
</tr>
</tbody>
</table>

| Sources of Funds                    |       |    |
| Proposed ADB loan                   | 0.00  |    |
| Other loans                         | 0.00  |    |
| Equity or capital contributions     |       |    |
| Government                          | 0.00  |    |
| Other sources                       | 0.00  |    |
| Subsidies for operations            | 0.00  |    |
| Internal cash generation            | 0.00  |    |
| **TOTAL SOURCES**                   | 0.00  | 100|
Appendix 4  Example of Accounting Policies

Paragraph 5.05 (page 22) refers to this appendix. The following table provides guidance on General Accounting Policies. Particular accounting policies should set out the policies applicable to revenues, expenses, assets and liabilities. A model set of IAS-based accounting policies and financial statements is available at www.iasplus.com. An IAS disclosure checklist is also available from this website.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Details</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Entity</td>
<td>The accounting policies should clearly define the reporting entity.</td>
<td>These are the consolidated financial statements of ABC Limited and its subsidiaries: DEF Limited, GHI Limited and JKL Limited.</td>
</tr>
<tr>
<td>Reporting Period</td>
<td>The reporting period should be stated.</td>
<td>These financial statements apply to the financial year ended 31 December 20X2.</td>
</tr>
<tr>
<td>Legislative Basis</td>
<td>The legal basis under which the financial statements have been prepared should be clearly stated.</td>
<td>These financial statements have been prepared in accordance with Article 123 of the Companies Act 20X1.</td>
</tr>
<tr>
<td>Accounting Policy Basis</td>
<td>The accounting policy basis should be stated.</td>
<td>These accounting policies are based upon the International Accounting Standards (IASs) issued by the International Accountants Standards Board (IASB) as at 30 September 20X2. Where no IAS has been issued on specific topics, the accounting policy is based on other authoritative sources.</td>
</tr>
<tr>
<td>Measurement Base</td>
<td>The measurement base used to prepare the financial statements should be described.</td>
<td>These financial statements have been prepared using the accrual basis of accounting. The measurement base applied is historical cost adjusted for revaluation of assets.</td>
</tr>
<tr>
<td>Changes in Accounting Policies</td>
<td>Changes in accounting policies should be noted.</td>
<td>There have been no material changes in accounting policies during the financial year.</td>
</tr>
<tr>
<td>Going Concern</td>
<td>There should be a clear statement as to whether or not the entity is a going concern.</td>
<td>The financial statements have been prepared on a going concern basis.</td>
</tr>
<tr>
<td>Issue</td>
<td>Details</td>
<td>Example</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Indirect Taxes and Duties</td>
<td>The treatment of indirect taxes and duties should be clearly stated.</td>
<td><em>Revenue and expense items are recognized net of Value Added Tax (VAT). The net amount receivable in respect of VAT is included as part of accounts receivable. Assets are recorded net of VAT if the tax is recoverable.</em></td>
</tr>
<tr>
<td>Comparatives</td>
<td>Where there have been changes of format or presentation from one</td>
<td><em>Where there is any change of format or presentation from one accounting period to the next, comparatives are to be restated, and that fact disclosed in the notes to the financial statements together with any explanation necessary for the reader to understand the changes that have occurred.</em></td>
</tr>
<tr>
<td></td>
<td>accounting period to the next, comparatives should be restated, and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>that fact disclosed in the Notes to the Financial Statements together</td>
<td></td>
</tr>
<tr>
<td></td>
<td>with any explanation necessary for the reader to understand the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>which have occurred.</td>
<td></td>
</tr>
<tr>
<td>Basis of Combination</td>
<td>Where consolidated financial statements have been prepared, the</td>
<td><em>Controlled entities are consolidated using the purchase method of combination. Corresponding assets, liabilities, revenues and expenses are added together line by line. Transactions and balances between these sub-entities are eliminated on combination.</em></td>
</tr>
<tr>
<td>(Consolidation)</td>
<td>combination basis should be stated.</td>
<td></td>
</tr>
<tr>
<td>Related Parties</td>
<td>The policy applied to the disclosure of related-party transactions</td>
<td><em>There were no related-party transactions during the financial year.</em></td>
</tr>
<tr>
<td></td>
<td>should be stated.</td>
<td></td>
</tr>
<tr>
<td>Foreign Currency</td>
<td>The basis for recording foreign currency transactions and translating</td>
<td><em>Foreign currency transactions are measured and recorded in United States dollars (US$) using the exchange rate in effect at the date of the transaction. However, where short-term transactions are covered by a forward exchange contract, the forward rates specified in those contracts have been used to translate the transactions into US$. At the end of each reporting period any foreign currency monetary balances (money being held and assets and liabilities to be received or paid in money) have been translated into US$ using the spot exchange rate in effect on that date. Exchange differences, arising when there is a change in the exchange rate between the transaction date and the date of settlement, have been recognized as either revenues or expenses.</em></td>
</tr>
<tr>
<td></td>
<td>these transactions and balances should be stated.</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 5 Sample Project Monitoring Report

This appendix presents sample PMR formats (see paragraph 5.37 on page 29).

**Government of Pacifica: Education Sector Improvement Project**

**Cash Receipts and Payments**

**Asian Development Bank (ADB) Loan No. 1234-ATL**

**For the Quarter ended 31 March 2003**

(Pp '000s)

<table>
<thead>
<tr>
<th></th>
<th>Quarter</th>
<th>Cumulative</th>
<th>Forecast: Next 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Receipts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Funds</td>
<td>24,000</td>
<td>260,000</td>
<td>75,000</td>
</tr>
<tr>
<td>ADB Funds</td>
<td>129,795</td>
<td>623,245</td>
<td>175,000</td>
</tr>
<tr>
<td>Total Financing</td>
<td>153,795</td>
<td>883,245</td>
<td>250,000</td>
</tr>
<tr>
<td><strong>Less: Expenditures by</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Component</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Strengthening</td>
<td>94,695</td>
<td>569,045</td>
<td>185,000</td>
</tr>
<tr>
<td>Increasing Access</td>
<td>60,000</td>
<td>220,000</td>
<td>24,251</td>
</tr>
<tr>
<td>Teacher Development</td>
<td>2,500</td>
<td>17,450</td>
<td>5,500</td>
</tr>
<tr>
<td>Project Development</td>
<td>1,600</td>
<td>6,500</td>
<td>2,952</td>
</tr>
<tr>
<td>Other (including Loan Fee)</td>
<td>..</td>
<td>12,250</td>
<td>12,000</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>158,795</td>
<td>825,245</td>
<td>229,703</td>
</tr>
<tr>
<td><strong>Receipts Less Expenditures</strong></td>
<td>-5000</td>
<td>58,000</td>
<td>20,297</td>
</tr>
<tr>
<td>Add: Foreign Exchange Difference</td>
<td>-1000</td>
<td>-14000</td>
<td>..</td>
</tr>
<tr>
<td><strong>Net Change in Cash</strong></td>
<td>-6000</td>
<td>44,000</td>
<td>20,297</td>
</tr>
<tr>
<td>Opening Cash balances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Currency Bank Account</td>
<td>2,000</td>
<td>..</td>
<td>4,000</td>
</tr>
<tr>
<td>Foreign Currency Bank Account</td>
<td>48,000</td>
<td>..</td>
<td>40,000</td>
</tr>
<tr>
<td>Total Opening Cash</td>
<td>50,000</td>
<td>..</td>
<td>44,000</td>
</tr>
<tr>
<td>Add: New Change in Cash</td>
<td>-6000</td>
<td>44,000</td>
<td>20,297</td>
</tr>
<tr>
<td><strong>Net Cash Available</strong></td>
<td>44,000</td>
<td>44,000</td>
<td>64,297</td>
</tr>
<tr>
<td>Closing Cash Balances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Currency Bank Account</td>
<td>4,000</td>
<td>4,000</td>
<td>14,297</td>
</tr>
<tr>
<td>Foreign Currency Bank Account</td>
<td>40,000</td>
<td>40,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Total Closing Cash Balances</td>
<td>44,000</td>
<td>44,000</td>
<td>64,297</td>
</tr>
</tbody>
</table>

Pp = Pacific Pesos.

Notes: a The following rates were used for conversion:
- ADB fund received and any foreign currency expenditures made are converted at the rate of exchange on the date of the transaction. The weighted average of these rates since project inception is approximately 14.5.
Appendix 6  Model Financial Statements: Service Organization

Paragraph 5.46 (page 31) refers to this appendix. This model set of summary financial statements is appropriate for use by a service-type organization. When using these financial statements it is essential that: (i) an appropriate Statement of Accounting Policies be developed and agreed between ADB and the borrower; (ii) appropriate Notes to the Financial Statements supplement the financial statements; and (iii) where appropriate, the Financial Statements should be tailored so that they adequately reflect the organization’s performance and position.

The format used for this particular model set of summary financial statements is appropriate for forecasting (projecting) financial statements (for instance, during project preparation).

### Example Service Organization Forecast Income Statements

[Format for financial projections] for the years ended 31 December

($’000)

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>20X1 Actual</th>
<th>20X2 Actual</th>
<th>20X3 Actual</th>
<th>20X4 Actual</th>
<th>20X5 Actual</th>
<th>20X6 Forecast</th>
<th>20X7 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues from services</td>
<td>1</td>
<td>35,052</td>
<td>36,748</td>
<td>39,288</td>
<td>41,202</td>
<td>41,202</td>
<td>41,202</td>
<td>41,202</td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td>1,157</td>
<td>1,073</td>
<td>1,126</td>
<td>1,243</td>
<td>1,243</td>
<td>1,243</td>
<td>1,243</td>
</tr>
<tr>
<td>Other operating revenue</td>
<td></td>
<td>317</td>
<td>332</td>
<td>279</td>
<td>269</td>
<td>269</td>
<td>269</td>
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<td></td>
<td></td>
<td>36,526</td>
<td>38,153</td>
<td>40,693</td>
<td>42,714</td>
<td>42,714</td>
<td>42,714</td>
<td>42,714</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages, salaries and employee benefits</td>
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<td>12,960</td>
<td>13,363</td>
<td>13,975</td>
<td>14,504</td>
<td>14,504</td>
<td>14,504</td>
<td>14,504</td>
</tr>
<tr>
<td>Supplies and consumables used</td>
<td></td>
<td>4,022</td>
<td>4,285</td>
<td>4,582</td>
<td>4,687</td>
<td>4,687</td>
<td>4,687</td>
<td>4,687</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td></td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Depreciation and amortization expenses</td>
<td></td>
<td>791</td>
<td>872</td>
<td>918</td>
<td>926</td>
<td>926</td>
<td>926</td>
<td>926</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td></td>
<td>18,677</td>
<td>20,395</td>
<td>20,601</td>
<td>21,280</td>
<td>21,280</td>
<td>21,280</td>
<td>21,280</td>
</tr>
<tr>
<td></td>
<td></td>
<td>37,450</td>
<td>39,915</td>
<td>41,076</td>
<td>42,397</td>
<td>42,397</td>
<td>42,397</td>
<td>42,397</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) from Operating Activities</strong></td>
<td></td>
<td>-924</td>
<td>-1,762</td>
<td>-383</td>
<td>317</td>
<td>317</td>
<td>317</td>
<td>317</td>
</tr>
<tr>
<td>Project-related interest costs</td>
<td></td>
<td>2,373</td>
<td>2,527</td>
<td>2,588</td>
<td>2,512</td>
<td>2,512</td>
<td>2,512</td>
<td>2,512</td>
</tr>
<tr>
<td>Other interest costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains on sale of fixed assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-operating expenses</td>
<td></td>
<td>2,373</td>
<td>2,527</td>
<td>2,588</td>
<td>2,512</td>
<td>2,512</td>
<td>2,512</td>
<td>2,512</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) from Ordinary Activities</strong></td>
<td></td>
<td>1,449</td>
<td>765</td>
<td>2,205</td>
<td>2,829</td>
<td>2,829</td>
<td>2,829</td>
<td>2,829</td>
</tr>
<tr>
<td>Minority interest share of surplus/(deficit)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net surplus/(deficit) before extraordinary items</td>
<td></td>
<td>1,449</td>
<td>765</td>
<td>2,205</td>
<td>2,829</td>
<td>2,829</td>
<td>2,829</td>
<td>2,829</td>
</tr>
<tr>
<td>Extraordinary items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Surplus/(Deficit) for the Year after Tax</strong></td>
<td></td>
<td>1,449</td>
<td>765</td>
<td>2,205</td>
<td>2,829</td>
<td>2,829</td>
<td>2,829</td>
<td>2,829</td>
</tr>
</tbody>
</table>
### Example Service Organization Forecast Balance Sheets

**[Format for financial projections] as at 31 December ($'000)**

<table>
<thead>
<tr>
<th>Notes</th>
<th>20X1 Actual</th>
<th>20X2 Actual</th>
<th>20X3 Actual</th>
<th>20X4 Actual</th>
<th>20X5 Actual</th>
<th>20X6 Forecast</th>
<th>20X7 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>210</td>
<td>93</td>
<td>97</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>10,440</td>
<td>11,279</td>
<td>9,929</td>
<td>9,473</td>
<td>9,473</td>
<td>9,473</td>
<td>9,473</td>
</tr>
<tr>
<td>Receivables</td>
<td>5,520</td>
<td>5,490</td>
<td>5,559</td>
<td>5,593</td>
<td>5,593</td>
<td>5,593</td>
<td>5,593</td>
</tr>
<tr>
<td>Inventories</td>
<td>274</td>
<td>329</td>
<td>348</td>
<td>379</td>
<td>379</td>
<td>379</td>
<td>379</td>
</tr>
<tr>
<td>Work in progress</td>
<td>3,995</td>
<td>4,788</td>
<td>5,195</td>
<td>6,032</td>
<td>6,032</td>
<td>6,032</td>
<td>6,032</td>
</tr>
<tr>
<td>Investments</td>
<td>338</td>
<td>341</td>
<td>364</td>
<td>2,210</td>
<td>2,210</td>
<td>2,210</td>
<td>2,210</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>20,777</td>
<td>22,300</td>
<td>22,406</td>
<td>23,787</td>
<td>23,787</td>
<td>23,787</td>
<td>23,787</td>
</tr>
<tr>
<td><strong>Less: Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables and provisions</td>
<td>4,716</td>
<td>4,588</td>
<td>4,428</td>
<td>4,401</td>
<td>4,401</td>
<td>4,401</td>
<td>4,401</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>2,236</td>
<td>2,413</td>
<td>2,413</td>
<td>2,413</td>
<td>2,413</td>
<td>2,413</td>
<td>2,413</td>
</tr>
<tr>
<td>Current portion of borrowings</td>
<td>7,208</td>
<td>7,648</td>
<td>7,533</td>
<td>7,528</td>
<td>7,528</td>
<td>7,528</td>
<td>7,528</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>832</td>
<td>857</td>
<td>857</td>
<td>856</td>
<td>856</td>
<td>856</td>
<td>856</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>14,992</td>
<td>15,506</td>
<td>15,231</td>
<td>15,198</td>
<td>15,198</td>
<td>15,198</td>
<td>15,198</td>
</tr>
<tr>
<td><strong>WORKING CAPITAL</strong></td>
<td>5,785</td>
<td>6,794</td>
<td>7,175</td>
<td>8,589</td>
<td>8,589</td>
<td>8,589</td>
<td>8,589</td>
</tr>
<tr>
<td><strong>Plus: Non-current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>14,392</td>
<td>15,204</td>
<td>16,102</td>
<td>16,930</td>
<td>16,930</td>
<td>16,930</td>
<td>16,930</td>
</tr>
<tr>
<td>Property, plan and equipment</td>
<td>25,252</td>
<td>25,861</td>
<td>25,787</td>
<td>25,851</td>
<td>25,851</td>
<td>25,851</td>
<td>25,851</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2</td>
<td>302</td>
<td>830</td>
<td>1,322</td>
<td>1,322</td>
<td>1,322</td>
<td>1,322</td>
</tr>
<tr>
<td><strong>Total Non-current Assets</strong></td>
<td>39,646</td>
<td>41,367</td>
<td>42,719</td>
<td>44,103</td>
<td>44,103</td>
<td>44,103</td>
<td>44,103</td>
</tr>
<tr>
<td><strong>Less: Non-current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>524</td>
<td>510</td>
<td>492</td>
<td>489</td>
<td>489</td>
<td>489</td>
<td>489</td>
</tr>
<tr>
<td>Borrowings</td>
<td>28,833</td>
<td>30,591</td>
<td>30,131</td>
<td>30,113</td>
<td>30,113</td>
<td>30,113</td>
<td>30,113</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>7,491</td>
<td>7,710</td>
<td>7,716</td>
<td>7,706</td>
<td>7,706</td>
<td>7,706</td>
<td>7,706</td>
</tr>
<tr>
<td><strong>Total Non-current Liabilities</strong></td>
<td>36,848</td>
<td>38,811</td>
<td>38,339</td>
<td>38,308</td>
<td>38,308</td>
<td>38,308</td>
<td>38,308</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td>8,583</td>
<td>9,350</td>
<td>11,555</td>
<td>14,384</td>
<td>14,384</td>
<td>14,384</td>
<td>14,384</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued and paid-up capital</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Reserves</td>
<td>7,201</td>
<td>7,190</td>
<td>7,190</td>
<td>7,190</td>
<td>7,190</td>
<td>7,190</td>
<td>7,190</td>
</tr>
<tr>
<td>Accumulated surpluses/(deficits)</td>
<td>382</td>
<td>1,160</td>
<td>3,365</td>
<td>6,194</td>
<td>6,194</td>
<td>6,194</td>
<td>6,194</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>8,583</td>
<td>9,350</td>
<td>11,555</td>
<td>14,384</td>
<td>14,384</td>
<td>14,384</td>
<td>14,384</td>
</tr>
</tbody>
</table>
Example Service Organization
Forecast Cash Flow Statements
[Format for financial projections] for the years ended 31 December
($’000)

<table>
<thead>
<tr>
<th>Notes</th>
<th>20X1</th>
<th>20X2</th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
<th>20X6 Forecast</th>
<th>20X7 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING CASH FLOWS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash receipts from customers</td>
<td>34,793</td>
<td>36,603</td>
<td>39,177</td>
<td>41,118</td>
<td>41,118</td>
<td>41,118</td>
<td>41,118</td>
</tr>
<tr>
<td>Other receipts</td>
<td>341</td>
<td>265</td>
<td>289</td>
<td>279</td>
<td>279</td>
<td>279</td>
<td>279</td>
</tr>
<tr>
<td>Payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td>-12,615</td>
<td>-13,043</td>
<td>-13,428</td>
<td>-13,917</td>
<td>-13,917</td>
<td>-13,917</td>
<td>-13,917</td>
</tr>
<tr>
<td>Suppliers</td>
<td>-19,750</td>
<td>-20,920</td>
<td>-20,848</td>
<td>-21,167</td>
<td>-21,167</td>
<td>-21,167</td>
<td>-21,167</td>
</tr>
<tr>
<td>Other payments</td>
<td>-369</td>
<td>-490</td>
<td>-1,088</td>
<td>-1,684</td>
<td>-1,684</td>
<td>-1,684</td>
<td>-1,684</td>
</tr>
<tr>
<td><strong>Net Cash Flows from Operating Activities</strong></td>
<td>2</td>
<td>2,400</td>
<td>2,415</td>
<td>4,102</td>
<td>4,629</td>
<td>4,629</td>
<td>4,629</td>
</tr>
</tbody>
</table>

| **INVESTING CASH FLOWS** |       |       |       |       |       |               |               |
| Receipts |       |       |       |       |       |               |               |
| Interest received | 1,070 | 835 | 834 | 901 | 901 | 901 | 901 |
| Sales of fixed assets | 250 | 125 | 68 | 59 | 59 | 59 | 59 |
| Sales of investments | 1,983 | 57 | 1,071 | 244 | 244 | 244 | 244 |
| Payments |       |       |       |       |       |               |               |
| Purchases of fixed assets | -1,499 | -2,459 | -2,808 | -3,181 | -355 | -355 | -355 |
| **Net Cash Flows from Investing Activities** | -803 | -4,013 | -3,498 | -4,577 | -1,751 | -1,751 | -1,751 |

| **FINANCING CASH FLOWS** |       |       |       |       |       |               |               |
| Receipts |       |       |       |       |       |               |               |
| Capital contributions from owners | .. | .. | .. | .. | .. | .. | .. |
| Proceeds from new borrowings | 275 | 1,477 | 353 | 56 | 56 | 56 | 56 |
| Payments |       |       |       |       |       |               |               |
| Capital withdrawals | .. | .. | .. | .. | .. | .. | .. |
| Repayment of borrowings | -1,900 | .. | -953 | -105 | -105 | -105 | -105 |
| Dividends paid | .. | .. | .. | -2,829 | -2,829 | -2,829 | -2,829 |
| **Net Cash Flows from Financing Activities** | -1,625 | 1,477 | -800 | -49 | -2,878 | -2,878 | -2,878 |

| **CASH AND CASH EQUivalents** |       |       |       |       |       |               |               |
| Balances as at 1 January | 230 | 210 | 93 | 97 | 100 | 100 | 100 |
| Currency changes on opening balances | 8 | 4 | .. | .. | .. | .. | .. |
| Net increases/(decreases) for period | -28 | -121 | 4 | 3 | .. | .. | .. |
| Balances as at 31 December | 210 | 93 | 97 | 100 | 100 | 100 | 100 |
Example Service Organization

Notes to the Financial Statements [Format for financial projections]

for the years ended 31 December

($’000)

<table>
<thead>
<tr>
<th>Note 1: Revenues by Service Type</th>
<th>20X1 Actual</th>
<th>20X2 Actual</th>
<th>20X3 Actual</th>
<th>20X4 Actual</th>
<th>20X5 Actual</th>
<th>20X6 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Type A</td>
<td>376</td>
<td>353</td>
<td>379</td>
<td>387</td>
<td>387</td>
<td>387</td>
</tr>
<tr>
<td>Service Type B</td>
<td>34,035</td>
<td>35,748</td>
<td>38,274</td>
<td>40,195</td>
<td>40,195</td>
<td>40,195</td>
</tr>
<tr>
<td>Service Type C</td>
<td>641</td>
<td>647</td>
<td>635</td>
<td>620</td>
<td>620</td>
<td>620</td>
</tr>
<tr>
<td></td>
<td><strong>35,052</strong></td>
<td><strong>36,748</strong></td>
<td><strong>39,288</strong></td>
<td><strong>41,202</strong></td>
<td><strong>41,202</strong></td>
<td><strong>41,202</strong></td>
</tr>
</tbody>
</table>

Note 2: Reconciliation of Income Statement to Operating Cash Flows

<table>
<thead>
<tr>
<th>Net Surplus/(Deficit) per Income Statement</th>
<th>20X1</th>
<th>20X2</th>
<th>20X3</th>
<th>20X4</th>
<th>20X5</th>
<th>20X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>1,449</td>
<td>765</td>
<td>2,205</td>
<td>2,829</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

Items included in net surpluses but not in net cash flows from operations:

- Unrealized net foreign exchange gains
- Interest received
- Interest paid
- Depreciation
- Gains/(losses) on sales of assets
- Other non-cash items

<table>
<thead>
<tr>
<th>Asset movements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>Gains/(losses) on sales of assets</td>
</tr>
<tr>
<td>Other non-cash items</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Cash Flows from Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2,400</strong></td>
</tr>
</tbody>
</table>
Appendix 7  Model Financial Statements: Manufacturing Organization

Paragraph 5.46 (page 31) refers to this appendix. This model set of summary financial statements is appropriate for use by a manufacturing-type organization. When using these financial statements, it is essential that: (i) an appropriate Statement of Accounting Policies be developed and agreed between ADB and the borrower; (ii) appropriate Notes to the Financial Statements supplement the financial statements; and (iii) where appropriate, the Financial Statements should be tailored so that they adequately reflect the performance and position of the organization. The format used for this particular model set of summary financial statements is appropriate for year-end reporting.

Example Manufacturing Organization
Income Statement
[Format for year-end reporting]
for the year ended 31 December 20X2

<table>
<thead>
<tr>
<th>Notes</th>
<th>For the Year Ended 31 December 20X2</th>
<th>Cumulative Since Project Start-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual $'000</td>
<td>Forecast $'000</td>
</tr>
<tr>
<td>SALES</td>
<td>1</td>
<td>893,121</td>
</tr>
<tr>
<td>Less Cost of Goods Sold</td>
<td>2</td>
<td>813,673</td>
</tr>
<tr>
<td>GROSS PROFIT</td>
<td></td>
<td>79,448</td>
</tr>
<tr>
<td>Operating Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Salaries</td>
<td></td>
<td>27,326</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>3,917</td>
</tr>
<tr>
<td>Amortization</td>
<td></td>
<td>12,357</td>
</tr>
<tr>
<td>Administration Costs</td>
<td></td>
<td>56,037</td>
</tr>
<tr>
<td>Marketing Expenses</td>
<td></td>
<td>3,109</td>
</tr>
<tr>
<td></td>
<td></td>
<td>102,746</td>
</tr>
<tr>
<td>OPERATING PROFIT</td>
<td></td>
<td>-23,298</td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Foreign exchange gains/(losses)</td>
<td></td>
<td>..</td>
</tr>
<tr>
<td>Net Income before</td>
<td></td>
<td>-22,298</td>
</tr>
<tr>
<td>Interest and Taxes</td>
<td></td>
<td>-42,672</td>
</tr>
<tr>
<td>Other interest expenses</td>
<td></td>
<td>..</td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td>..</td>
</tr>
<tr>
<td>Net Income after Interest and Taxes</td>
<td></td>
<td>-64,970</td>
</tr>
<tr>
<td>Gross Margin (% of Sales)</td>
<td>8.9</td>
<td>9.4</td>
</tr>
<tr>
<td>Operating Margin (% of Sales)</td>
<td>-2.6</td>
<td>-1.1</td>
</tr>
</tbody>
</table>
**Example Manufacturing Organization**

**Balance Sheet**

[Format for year-end reporting]

as at 31 December 20X2

<table>
<thead>
<tr>
<th>Notes</th>
<th>For the Year Ended 31 December 20X2</th>
<th>Cumulative Since Project Start-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual $'000</td>
<td>Forecast $'000</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and bank</td>
<td>25,308</td>
<td>10,373</td>
</tr>
<tr>
<td>Bills receivable</td>
<td>56,114</td>
<td>59,943</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3</td>
<td>18,705</td>
</tr>
<tr>
<td>Inventories</td>
<td>4</td>
<td>365,150</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>120,193</td>
<td>120,193</td>
</tr>
<tr>
<td><strong>Less: Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>93,174</td>
<td>103,203</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>207,610</td>
<td>207,610</td>
</tr>
<tr>
<td>Notes and bills payable</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Advances from customers</td>
<td>13,084</td>
<td>13,084</td>
</tr>
<tr>
<td>Accrued wages and salaries</td>
<td>184,427</td>
<td>184,427</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>72,607</td>
<td>72,648</td>
</tr>
<tr>
<td>Accruals and other current liabilities</td>
<td>47,749</td>
<td>47,749</td>
</tr>
<tr>
<td>Current portion of term debt</td>
<td>3,000</td>
<td>13,578</td>
</tr>
<tr>
<td><strong>WORKING CAPITAL</strong></td>
<td>-41,181</td>
<td>-34,751</td>
</tr>
<tr>
<td><strong>Plus: Non-current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>800,263</td>
<td>1,222,024</td>
</tr>
<tr>
<td>Capital work in progress (Assets under construction)</td>
<td>445,108</td>
<td>169,390</td>
</tr>
<tr>
<td>Intangibles and deferrals</td>
<td>49,426</td>
<td>37,069</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>30,572</td>
<td>15,572</td>
</tr>
<tr>
<td><strong>Less: Non-current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term loans</td>
<td>443,700</td>
<td>621,349</td>
</tr>
<tr>
<td>Payables</td>
<td>7,646</td>
<td>7,646</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>49,250</td>
<td>49,250</td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td>783,592</td>
<td>731,059</td>
</tr>
<tr>
<td><strong>EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued and paid-up capital</td>
<td>315,147</td>
<td>342,427</td>
</tr>
<tr>
<td>Accumulated surpluses/(deficits)</td>
<td>468,445</td>
<td>388,632</td>
</tr>
<tr>
<td><strong>783,592</strong></td>
<td><strong>731,059</strong></td>
<td><strong>1,062,790</strong></td>
</tr>
<tr>
<td><strong>Current Ratio</strong></td>
<td>0.93</td>
<td>0.95</td>
</tr>
<tr>
<td><strong>Quick Ratio</strong></td>
<td>0.16</td>
<td>0.14</td>
</tr>
<tr>
<td><strong>Long-term Debt: Equity</strong></td>
<td>0.64</td>
<td>0.93</td>
</tr>
</tbody>
</table>
Example Manufacturing Organization

Statement of Cash Flows

[Format for year-end reporting]

for the year ended 31 December 20X2

<table>
<thead>
<tr>
<th>Notes</th>
<th>Actual $'000</th>
<th>Forecast $'000</th>
<th>Variance $'000</th>
<th>%</th>
<th>Actual $'000</th>
<th>Forecast $'000</th>
<th>Variance $'000</th>
<th>%</th>
</tr>
</thead>
</table>

**OPERATING CASH FLOWS**

**Receipts**
- Cash receipts from customers: $915,146, $1,448,537, -533,391, -36.8
- Other receipts: $1,000, $1,080, -80, -7.4

**Payments**
- Employees and suppliers: -896,292, -1,387,934, 491,642, -35.4
- Taxes paid: -5,942, -7,508, 1,566, -20.9

**Net Cash Flows from Operations**
- $37,172, $81,455, -44,283, -54.4

**INVESTING CASH FLOWS**

**Receipts**
- Interest received: .., .., .., 0.0
- Sales of fixed assets: .., .., .., 0.0
- Sales of investments: .., .., .., 0.0

**Payments**
- Interest paid: -28,482, -42,370, 13,888, -32.8
- Capital expenditures: .., -219,390, 219,390, -100.0
- Purchases of investments: .., 0.0, .., 0.0

**Net Cash Flows from Investing Activities**
- -28,482, -261,760, 233,278, -89.1

**FINANCING CASH FLOWS**

**Receipts**
- Capital contributions from owners: .., .., .., 0.0
- Proceeds from new borrowings: .., 168,370, -168,370, -100.0

**Payments**
- Repayment of borrowings: -3,000, -3,000, .., 0.0
- Dividends paid: .., .., .., 0.0

**Net Cash Flows from Financing Activities**
- -3,000, 165,370, -168,370, -101.8

**CASH AND CASH EQUivalents**

**Balances as at 1 January**
- 19,618, 25,308, 10,373, 34,085

**Currency changes on opening balances**
- .., .., .., ..

**Net increases/(decreases) for period**
- 5,690, -14,935, 20,625, -138.1

**Balances as at 31 December**
- 25,308, 10,373, 34,085, -62,185
### Example Manufacturing Organization

#### Notes to the Financial Statements

[Format for year-end reporting]

for the year ended 31 December 20X2

<table>
<thead>
<tr>
<th>For the Year Ended 31 December 20X2</th>
<th>Cumulative Since Project Start-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual $'000</td>
<td>Forecast $'000</td>
</tr>
<tr>
<td>Note 1: Gross Margin by Product</td>
<td></td>
</tr>
<tr>
<td>Sales by Product:</td>
<td></td>
</tr>
<tr>
<td>Product B</td>
<td>230,868</td>
</tr>
<tr>
<td>Product C</td>
<td>262,416</td>
</tr>
<tr>
<td>Product D</td>
<td>149,919</td>
</tr>
<tr>
<td>Product E</td>
<td>9,600</td>
</tr>
<tr>
<td>Total</td>
<td>893,121</td>
</tr>
<tr>
<td>Cost of Sales by Product:</td>
<td></td>
</tr>
<tr>
<td>Product A</td>
<td>203,418</td>
</tr>
<tr>
<td>Product B</td>
<td>203,418</td>
</tr>
<tr>
<td>Product C</td>
<td>260,375</td>
</tr>
<tr>
<td>Product D</td>
<td>138,324</td>
</tr>
<tr>
<td>Product E</td>
<td>8,138</td>
</tr>
<tr>
<td>Total</td>
<td>813,673</td>
</tr>
<tr>
<td>Gross Profit by Product ($'000):</td>
<td></td>
</tr>
<tr>
<td>Product A</td>
<td>36,900</td>
</tr>
<tr>
<td>Product B</td>
<td>27,450</td>
</tr>
<tr>
<td>Product C</td>
<td>2,041</td>
</tr>
<tr>
<td>Product D</td>
<td>11,595</td>
</tr>
<tr>
<td>Product E</td>
<td>1,462</td>
</tr>
<tr>
<td>Total</td>
<td>79,448</td>
</tr>
<tr>
<td>Gross Margin by Product (%):</td>
<td></td>
</tr>
<tr>
<td>Product A</td>
<td>15.4</td>
</tr>
<tr>
<td>Product B</td>
<td>11.9</td>
</tr>
<tr>
<td>Product C</td>
<td>0.8</td>
</tr>
<tr>
<td>Product D</td>
<td>7.7</td>
</tr>
<tr>
<td>Product E</td>
<td>15.3</td>
</tr>
<tr>
<td>Total</td>
<td>8.9</td>
</tr>
</tbody>
</table>

#### Note 2: Cost of Goods Sold

| Raw Materials | 424,751 | 690,624 | 265,873 | 38.5 | 945,534 | 1,039,383 | 93,849 | 9.0 |
| Utilities | 238,734 | 416,461 | 177,727 | 42.7 | 592,612 | 679,561 | 86,949 | 12.8 |
| Direct Labor | 78,639 | 121,775 | 42,136 | 34.6 | 118,937 | 112,413 | -6,524 | -5.8 |
| Direct Depreciation | 35,257 | 66,012 | 30,755 | 46.6 | 76,988 | 71,601 | -5,387 | -7.5 |
| Other Variable Costs | 22,750 | 38,117 | 15,367 | 40.3 | 52,182 | 57,306 | 5,124 | 9.0 |
| Plus opening finished goods | 801,131 | 1,332,989 | 531,858 | 39.9 | 1,786,253 | 1,960,324 | 174,071 | 8.9 |
| Less closing finished goods | -80,895 | -117,803 | -36,908 | 31.3 | -143,233 | -171,541 | -28,308 | 16.5 |
| Cost of Goods Sold | 813,673 | 1,296,081 | 482,408 | 37.2 | 1,760,823 | 1,932,016 | 171,193 | 8.9 |
### Example Manufacturing Organization

#### Notes to the Financial Statements

**[Format for year-end reporting]**

**for the year ended 31 December 20X2**

<table>
<thead>
<tr>
<th>Note 3: Receivables</th>
<th>For the Year Ended</th>
<th>Cumulative Since Project</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By Organization Type:</strong></td>
<td>31 December 20X2</td>
<td>Start-Date</td>
</tr>
<tr>
<td></td>
<td>Actual</td>
<td>Forecast</td>
</tr>
<tr>
<td>Related parties</td>
<td>576</td>
<td>700</td>
</tr>
<tr>
<td>State-owned organizations</td>
<td>10,256</td>
<td>12,500</td>
</tr>
<tr>
<td>Other organizations</td>
<td>9,744</td>
<td>9,000</td>
</tr>
<tr>
<td><strong>Gross Receivables</strong></td>
<td>20,576</td>
<td>22,200</td>
</tr>
<tr>
<td><strong>By Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 30 days old</td>
<td>10,000</td>
<td>11,000</td>
</tr>
<tr>
<td>30–60 days old</td>
<td>5,000</td>
<td>5,500</td>
</tr>
<tr>
<td>60–90 days old</td>
<td>2,500</td>
<td>2,500</td>
</tr>
<tr>
<td>More than 180 days old</td>
<td>1,076</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Gross Receivables</strong></td>
<td>20,576</td>
<td>22,200</td>
</tr>
<tr>
<td><strong>Net Receivables per balance sheet</strong></td>
<td>18,705</td>
<td>19,981</td>
</tr>
</tbody>
</table>

**Note 4: Inventories**

| **By Age** | For the Year Ended | Cumulative Since Project |
|...............|---------------------|--------------------------|
| | Actual | Forecast | Variance | % | Actual | Forecast | Variance | % |
| Less than 2 months old | 100,000 | 120,000 | | | 125,000 | 160,000 | |
| 2–4 months old | 80,000 | 90,000 | 95,000 | 150,000 | |
| 4–6 months old | 100,000 | 95,000 | 95,000 | 90,000 | |
| 6–9 months old | 60,000 | 60,000 | 70,000 | 40,000 | |
| 9–12 months old | 20,000 | 30,000 | 35,000 | 20,000 | |
| More than 12 months old | 15,150 | 17,058 | 17,488 | 5,796 | |
| **Gross Inventories** | 375,150 | 412,058 | 437,488 | 455,796 | |
| Less: Provision for Obsolete Inventories | -10,000 | -10,000 | -10,000 | -10,000 | |
| **Net Inventories per balance sheet** | 365,150 | 402,058 | 427,488 | 455,796 | |

**Note 5: Reconciliation of Income Statement to Operating Cash Flows**

<table>
<thead>
<tr>
<th>Items included in net surpluses but not in net cash flows from operations:</th>
<th>For the Year Ended</th>
<th>Cumulative Since Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized net foreign exchange gains</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset movements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains/(Losses) on sales of assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-cash items</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movements in employee benefit liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movements in working capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease/(increase) in receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease/(increase) in inventories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease/(increase) in work in progress</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase/(decrease) in payables</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash Flows from Operations</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix 8 Model Auditor Terms of Reference:
Executing Agency Audit

Paragraph 5.73 (page 37) refers to this appendix.

ENTITY NAME: XYZ
AUDIT OF ANNUAL FINANCIAL STATEMENTS
AUDITOR TERMS OF REFERENCE

GUIDANCE: This template is appropriate for the audit of executing agencies (EAs) or implementing agencies (IAs). It should be completed—by the borrower, EA or project preparatory technical assistance (PPTA) consultants—and provided to ADB for comments before fact finding. This template can be applied to the audit of either a revenue-earning or nonrevenue-earning EA.

Introduction
GUIDANCE: Briefly describe the audit assignment. Specify whether the engagement is for one or more financial years. A longer period (e.g., 3–5 years) will enable the auditor to become familiar with the entity. The actual contract should allow for termination for inadequate performance, but not for issuing a qualified, adverse or disclaimer opinion.

1. The management of XYZ requires an auditor to carry out the following audit services for the [X] years ended 31 December 20xx:

   • An audit of XYZ Annual Financial Statements (AFS).

2. This letter describes the assignment scope and terms and invites you to submit a proposal for delivery of these services.

General Background
GUIDANCE: Briefly describe the project in the context of its contribution to achievement of the EA’s economic goals. The auditor must understand the “purpose for which the funds are intended” in the context of the broad project objectives as well as in terms of the specific project budget.
3. …
GUIDANCE: Briefly summarize relevant accounting and financial management practices. Various diagnostic reports are available that describe accounting and financial management practices (e.g., ADB Diagnostic Studies of Accounting and Auditing, World Bank Country Financial Accountability Assessments). Emphasis should be placed on issues raised and risks identified in these reports.

4. …
**Employing Authority or Entity**
GUIDANCE: The details of the proposed contractor of the auditor’s services should be provided. If the contractor is acting on behalf of, or is part of, a larger authority or entity, this should be disclosed, to assist prospective auditors to determine their independence.

5. The audit services will be contracted by:

**Delivery of Opinions and Reports**
GUIDANCE: The required opinions and documents should be clearly specified, together with delivery time frames.

6. The auditor will provide the following opinions and reports to management (with copies to ADB), in accordance with the following time frames:

- Audit Opinion on Annual Financial Statements of [XYZ]
- Management Letter relating to [XYZ]

7. All reports must be provided in the English language.

**Objectives**
8. The primary objective of the AFS audit is to enable the auditor to express an independent opinion on whether the AFS present fairly, in all material respects the financial position of XYZ as of 31 December 20xx, and of the results of its operations and its cash flows for the year then ended in accordance with agreed accounting standards (see Terms and Definitions).
9. Secondary objectives include confirming compliance, or otherwise, with: (i) each financial covenant contained in the legal documents for the project (see Terms and Definitions); and (ii) all other financial assurances contained in the legal documents for the project (see Terms and Definitions).

Description of XYZ

GUIDANCE: A detailed description—both legal and generally informative—should be provided to enable the auditor to understand fully the nature, location and objective of the entity under audit. Geographic characteristics should be described, together with: (i) organization charts; (ii) names of senior managers; (iii) name and qualification of the person(s) responsible for financial management, accounting and internal audit; (iv) name and address of any existing external auditor; (v) computing or other data processing facilities in use; (vi) a copy of the latest published financial statements; and (vii) internal facilities (if any) available to an external auditor (e.g., office accommodation, calculators, and computer facilities). A general summary of the financial management assessment of the EA should be included, together with a reference that the full financial management assessment will be made available to the auditor. Detailed information should be appended.

10. …

Description of Materials and Timing of Delivery

GUIDANCE: The AFS and supporting documentation that will be supplied to the auditor, and on which they are to give an opinion and a report, should be specified. The estimated time for providing these documents to the auditor should be stated (e.g., one month after financial year-end). This schedule helps the auditee and the auditor plan for the accounts-preparation and the audit process.

11. The AFS (see Terms and Definitions) and supporting documentation will be provided to the auditor on the following estimated dates:
Audit Scope

GUIDANCE: The scope of the audit should be sufficiently clear to properly define what is expected of the auditor but not in any way restrict the audit procedures or the techniques the auditor may wish to use to form an opinion. This section will not generally have to be customized to a particular audit situation.

12. Auditing Standards and Program. The audit will be carried out in accordance with the agreed auditing standards (see Terms and Definitions), including professional or general standards, standards of fieldwork and reporting standards.

13. The audit program will consider the risk of material misstatements resulting from fraud or error. It should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.

14. Internal Control Systems. The auditor will assess the adequacy of financial management systems, including internal controls.

15. The auditor should communicate with independent board members (where present). Among other things, this dialogue should cover the adequacy of bad-debt provisions, contingent liabilities, related-party transactions, internal control systems, management and board reporting, and management systems, integrity and capability.

16. Accounting Policies and Changes. The auditor should comment on the entity’s accounting policies, and confirm the extent to which the agreed accounting standards (see Terms and Definitions) have been applied. In particular, the auditor should note the impact on the AFS arising from any material deviations from agreed accounting standards. The auditor should also comment on any material accounting policy changes, either during a financial year, or from one year to another.

17. Compliance with Financial Covenants. The auditor will confirm compliance with each financial covenant contained in the legal documents for the project (see Terms and Definitions). Where present, the auditor should indicate the extent of any noncompliance by comparing required and actual performance measurements for each financial covenant for the financial year concerned.
18. **Compliance with Financial Assurances.** The auditor will confirm compliance with all financial assurances contained in the legal documents for the project (see Terms and Definitions). Where present, the auditor should indicate the extent of any noncompliance by comparing required and actual performance of the borrower in respect of these ADB requirements for the financial year concerned.

**Management Letter**

19. On conclusion of the audit, the auditor will prepare a management letter, detailing:

- any material weaknesses in the accounting and internal control systems that were identified during the audit,
- recommendations to rectify identified weaknesses,
- the status of significant matters raised in previous management letters and any corrective actions taken by the organization,
- practical recommendations on the steps that the organization could take to become materially compliant with the agreed accounting standards (see Terms and Definitions), together with a time frame for making these changes,
- any other matters that the auditor considers should be brought to the attention of the organization’s management, and
- any significant matters that the auditor considers should be brought to ADB’s attention.

**Statement of Access**

20. The auditor will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices and any other information associated with the project and deemed necessary by the auditor.

21. The auditor will be provided with full cooperation by all employees of [XYZ] and the project-implementing units, whose activities involve, or may be reflected in, the annual financial statements. The auditor will be assured rights of access to banks and depositories, consultants, contractors and other persons or firms hired by the employer.
Independence

22. The auditor will be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditor should be independent of the control of the entity. The auditor should not, during the period covered by the audit, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditor should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.

Auditor and Audit Staff Competence

23. The auditor must be authorized to practice in the country and be capable of applying the agreed auditing standards (see Terms and Definitions). The auditor should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of entities comparable in nature, size and complexity to the entity whose audit they are to undertake.

24. To this end, the auditor is required to provide curriculum vitae (CV) of the auditors who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

Submission of Proposal and Work Plan

25. You are invited to submit a proposal and a work plan to provide the audit services described in this letter. Proposals should address, among other things:

- the extent (if any) that you would not conform to the agreed auditing standards (see Terms and Definitions) and indicate any alternative standards to which the auditor may (be required to) conform;
- whether the audit would be conducted as a completed audit (i.e., will you carry out the audit after financial year-end, when the books of account are, or are being, closed);
- whether an audit carried out after the close of a financial year would be supplemented by one or more interim audits during
a financial year. The principal purpose is to test ongoing systems and internal controls, and to relieve pressure on the staff of the entity and on the auditor at year-end;
• the manner in which the auditor proposes to address any statutory requirements relating to audit (e.g., certifications relating to shareholders’ equity required under the companies’ act) or to which they may be implicitly bound by contractual obligations of the employer (e.g., ADB auditing requirements, Statements of Expenditure, Imprest Accounts);
• procedural requirements for certain verification procedures (e.g., checking of stocks, inventories, assets, etc.);
• specific actions required on the part of the employer (e.g., access to computer systems and records, disclosures);
• discussions before signing the opinion and report on any matters arising from the audit, and with whom these discussions would be held; and
• the timetable for provision of opinions and reports.

Terms and Definitions
26. This section defines the terms used in this document.

1. Annual Financial Statements
GUIDANCE: The EA will prepare Annual Financial Statements (AFS). Most revenue-earning EAs (e.g., Utilities) will prepare accrual-based financial statements. EA reporting requirements will usually be specified in the Report and Recommendation of the President and in the loan agreement. The component parts of the AFS should be specified in this section.

27. The AFS comprises:
[Option A: Generally IAS-compliant Accrual-based Financial Statements]:

• Statement of Accounting Policies,
• Statement of Financial Performance (or income statement),
• Statement of Financial Position (or balance sheet),
• Statement of Movements in Equity,
• Statement of Cash Flows,
• Notes to the Financial Statements, and
• Other Information (specify).
2. Agreed Accounting Standards

GUIDANCE: The accounting standards that govern AFS preparation will normally be agreed and documented in the RRP and/or loan agreement. Choose the appropriate option.

28. “Agreed accounting standards” regarding the preparation of the AFS, means:

- [Option B: National Accounting Standards] the accounting standards issued by [national authority].
- [Option C: Modified National Accounting Standards] the accounting standards issued by [national authority], with the following modifications and/or additional disclosures:
- [Option D: Cash-based International Public Sector Accounting Standards] the cash-based International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants (IFAC).
- [Option E: Accrual-based International Public Sector Accounting Standards] the accrual-based International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants (IFAC).
- [Option F: Specific Government Accounting Standards] describe these standards.
3. Agreed Auditing Standards

GUIDANCE: The agreed auditing standards will normally be documented in the RRP and/or loan agreement. Choose the appropriate option.

29. “Agreed auditing standards” means:

- [Option A: International Standards on Auditing] the International Standards on Auditing (ISA) promulgated by the International Auditing and Assurance Standards Board (IAASB).
- [Option B: INTOSAI Auditing Standards] the auditing standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI).
- [Option C: National Auditing Standards] the auditing standards promulgated by [national authority].

4. Financial Covenants Applicable to [XYZ]

GUIDANCE: The financial covenants that are applicable to the EA will be included in the loan agreement (e.g., Self-financing Ratio). This section should list, describe and fully reference all applicable financial covenants.

30. The following financial covenants, regarding [XYZ], have been agreed:

5. Financial Assurances Applicable to [XYZ]

GUIDANCE: The financial assurances that are applicable to the EA—such as a commitment to employ suitably-qualified accounting personnel—will be included in project legal documents. This section should list, describe and fully reference all applicable financial assurances.

31. The following financial assurances, regarding [XYZ], have been given:
Appendix 9  Model Auditor Terms of Reference:  
Annual Project Accounts Audit

Paragraph 5.73 (page 37) refers to this appendix.

[ENTITY NAME: XYZ]  
AUDIT OF ANNUAL PROJECT ACCOUNTS  
AUDITOR TERMS OF REFERENCE

GUIDANCE: This template is appropriate for an APA audit. It should be completed—by the borrower, executing agency (EA) or project preparatory technical assistance (PPTA) consultants—and provided to ADB for comments before fact finding. This template can be applied to the audit of either a revenue-earning or nonrevenue-earning project.

A. Introduction
GUIDANCE: Briefly describe the audit assignment. Specify whether the engagement is for one or more financial years. A longer period (e.g., 3–5 years) will enable the auditor to become familiar with the entity. The actual contract should allow for termination for inadequate performance, but not for issuing a qualified, adverse or disclaimer opinion.

32. The management of XYZ requires an auditor to carry out the following audit services for the [X] years ended 31 December 20xx:

   • An audit of the Annual Project Accounts (APA) for each of the loan projects listed below (see Terms and Definitions).

33. This letter describes the assignment scope and terms and invites you to submit a proposal for delivery of these services.

General Background
GUIDANCE: Briefly describe the supervising agency and the EA. Describe the project in the context of its contribution to achievement of the EA's economic goals. The auditor must understand the “purpose for which the funds are intended” in the context of the broad project objectives as well as in terms of the specific project budget.
GUIDANCE: Briefly summarize relevant accounting and financial management practices. Various diagnostic reports are available that describe accounting and financial management practices (e.g., ADB Diagnostic Studies of Accounting and Auditing, World Bank Country Financial Accountability Assessments). Emphasis should be placed on issues raised and risks identified in these reports.

Employing Authority or Entity
GUIDANCE: The details of the proposed contractor of the auditor’s services should be provided. If the contractor is acting on behalf of, or is part of, a larger authority or entity, this should be disclosed, to assist prospective auditors to determine their independence.

The audit services will be contracted by:

Delivery of Opinions and Reports
GUIDANCE: The required opinions and documents should be clearly specified, together with delivery time frames.

The auditor will provide the following opinions and reports to management (with copies to ADB), in accordance with the following time frames:

- Audit Opinion on the Annual Project Accounts of:
  - Loan xxx
  - Loan xxx
- Management Letter on the following projects:
  - Loan xxx
  - Loan xxx

All reports must be provided in the English language.
Objectives

GUIDANCE: Specify the audit’s objectives.

39. The objective of the APA audit (see Terms and Definitions) is to enable the auditor to express an opinion on the financial position of each of the loan projects listed below (see Terms and Definitions), for the years ending 31 December 20xx, and on the funds received and expenditures for the years then ended.

GUIDANCE: This paragraph should be applied where it is referred to in the loan agreement.

40. Separate opinions on the eligibility of claims made in Statements of Expenditure (SOEs) and on the Imprest Account Statement are also required.

Description of Materials and Timing of Delivery

GUIDANCE: The form of the APA and supporting documentation that will be supplied to the auditor, and on which they are to give an opinion and a report, should be specified. In practice, the form and content of APA will vary among countries and projects. For instance, the APA may comprise a Statement of Receipts and Payments only on project transactions. Other schedules may include cumulative work-in-progress, assets and inventories, and a summarized bank reconciliation. The estimated time for providing these documents to the auditor should be stated (e.g., one month after financial year-end). This schedule helps the auditee and the auditor plan for the accounts-preparation and the audit process.

41. The Annual Project Accounts (APA) (see Terms and Definitions) and supporting documentation will be provided to the auditor on the following estimated dates:

Audit Scope

GUIDANCE: The scope of the audit should be sufficiently clear to properly define what is expected of the auditor, but should not restrict the audit procedures or the techniques the auditor may wish to use to form an opinion. This section will not generally have to be customized to a particular audit situation. The list of issues outlined in this section is not exhaustive,
nor should all matters be addressed in every project. The scope and detail of an audit are likely to be unique for each project.

42. **Auditing Standards and Program.** The audit will be carried out in accordance with the agreed auditing standards (see Terms and Definitions), including professional or general standards, standards of fieldwork and reporting standards.

43. The audit program will consider the risk of material misstatements resulting from fraud or error. It should include procedures that are designed to provide reasonable assurance that material misstatements (if any) are detected.

44. **Accounting Policies and Changes.** The auditor should comment on the project’s accounting policies, and confirm the extent to which the agreed project accounting policies (see Terms and Definitions) have been applied. In particular, the auditor should note the impact on the APA arising from any material deviations from the agreed accounting standards. The auditor should also comment on any accounting policy changes, either during a financial year, or from one year to another.

45. **Imprest Account (or Special Account).** The Imprest Account reflects: (i) deposits and replenishment received from financiers; (ii) payments substantiated by withdrawal applications; and (iii) the remaining balance at financial year-end. The auditor will examine whether the Imprest Account has been maintained in accordance with the provisions of the relevant financing agreements.

46. The auditor must form an opinion on whether the Imprest Account was used in compliance with required procedures (e.g., those of ADB), and the fairness of the presentation of Imprest Account activity and the year-end balance. The auditor should examine the eligibility and correctness of financial transactions during the period under review, account balances at the end of the period, the operation and use of the Imprest Account in accordance with the financing agreement, and the adequacy of internal controls for this particular disbursement mechanism.

47. **Statements of Expenditures (SOEs).** The auditor will audit all SOEs used as the basis for the submission of credit withdrawal applications
to ADB. These expenditures should be compared for project eligibility with
the relevant financing agreements (and with reference to the RRP and
other project documents for guidance when considered necessary). Where
ineligible expenditures are identified as having been included in
withdrawal applications and reimbursed against, these should be
separately noted by the auditor. The annual audit report should include a
separate paragraph commenting on the accuracy and propriety of
expenditures withdrawn under SOE procedures, and the extent to which
ADB can rely on those SOEs as a basis for credit disbursement. Annexed
to the APA should be a schedule listing individual SOE withdrawal
applications by specific reference number and amount.

48. **Compliance with Financial Covenants.** The auditor will confirm
compliance with each financial covenant contained in the project legal
documents (see Terms and Definitions). Where present, the auditor should
indicate the extent of any noncompliance by comparing required and
actual performance measurements for each financial covenant for the
financial year concerned.

49. **Compliance with Financial Assurances.** The auditor will confirm
compliance with all financial assurances contained in the project legal
documents (see Terms and Definitions). Where present, the auditor should
indicate the extent of any noncompliance by comparing required and
actual performance of the borrower in respect of these ADB requirements
for the financial year concerned.

50. **Use of Funds for the Purpose Intended.** The auditor will
confirm, or otherwise, that:

- All external funds have been used in accordance with the
  relevant financing agreements covering each project, with
due attention to economy and efficiency, and only for the
  purpose for which the funding was provided;
- Counterpart funds have been provided and used in
  accordance with the relevant financing arrangements and
  only for the purpose for which the funding was provided;
  and
- Goods and services financed have been procured in
  accordance with the relevant financing agreements.
51. **Record Keeping.** The auditor will pay particular attention to whether all necessary supporting documents, records, and accounts have been kept in respect of all project activities, with clear linkages between the accounting records and the APA. This will include: (i) computation and recalculation, including checking the mathematical accuracy of estimates, accounts or records; (ii) reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents; (iii) physical observation, including inspecting or counting tangible assets, such as materials, inventory, land buildings, property or equipment; (iv) confirmation, including directly confirming balances or transactions with external third parties, such as cash balances, accounts receivable or accounts payable; (v) sampling, including vouching or examining supporting documentation to determine if balances are properly stated; and (vi) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

52. **Internal Control Systems.** The auditor will assess the adequacy of the project financial management systems, including internal controls, including whether: (i) proper authorizations are obtained and documented before transactions are entered into; (ii) accuracy and consistency are achieved in recording, classifying, summarizing and reporting transactions; (iii) reconciliations with internal and external evidence are performed on a timely basis by the appropriate level of management; (iv) balances can be confirmed with external parties; (v) adequate documentation and an audit trail is retained to support transactions; (vi) transactions are allowable under the agreements governing the project; (vii) errors and omissions are detected and corrected by project personnel in the normal course of their duties, and management is informed of recurring problems or weaknesses; (viii) management does not override the normal procedures and the internal control structure; and (ix) assets are properly accounted for, safeguarded and can be physically inspected.

**Management Letter**

53. On conclusion of the audit, the auditor will prepare a Management Letter for each of the audited projects, detailing:

- Any material weaknesses in the accounting and internal control systems that were identified during the audit;
• Recommendations to rectify identified weaknesses;
• The status of significant matters raised in previous management letters;
• Practical recommendations on the steps that could be taken to become materially compliant with the agreed project accounting policies (see Terms and Definitions), together with a time frame for making these changes;
• The degree of compliance with each of the financial covenants in the loan agreement and recommendations for improvement;
• Matters that have come to the auditor’s attention during the course of the audit which have a significant impact on project implementation;
• Any other matters that the auditor considers should be brought to the attention of the project’s management; and
• Significant matters that the auditor considers should be brought to ADB’s attention.

Statement of Access

54. The auditor will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreements, bank records, invoices and any other information associated with the project and deemed necessary by the auditor.

55. The auditor will be provided with full cooperation by all employees of [XYZ] and the project-implementing units, whose activities involve, or may be reflected in, the annual financial statements. The auditor will be assured rights of access to banks and depositories, consultants, contractors and other persons or firms hired by the employer.

Independence

56. The auditor will be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditor should be independent of the control of the entity. The auditor should not, during the period covered by the audit, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditor should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.
Auditor and Audit Staff Competence

57. The auditor must be authorized to practice in the country and be capable of applying the agreed auditing standards (see Terms and Definitions). The auditor should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of entities comparable in nature, size and complexity to the entity whose audit they are to undertake.

58. To this end, the auditor is required to provide curriculum vitae (CV) of the auditors who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

Submission of Proposal and Work Plan

59. You are invited to submit a proposal and a work plan to provide the audit services described in this letter. Proposals should address, among other things:

- the extent (if any) that you would not conform to the agreed auditing standards (see Terms and Definitions) and indicate any alternative standards to which you may (be required to) conform;
- whether the audit would be conducted as a completed audit (i.e., will the auditors carry out their audit after financial year-end, when the books of account are, or are being, closed);
- whether an audit carried out after financial year-end would be supplemented by one or more interim audits during a financial year. The principal purpose is to test ongoing systems and internal controls, and to relieve pressure on the staff of the entity and on the auditor at year-end;
- the manner in which the auditor proposes to address any statutory requirements relating to audit (e.g., certifications relating to shareholders’ equity required under the companies’ act) or to which they may be implicitly bound by contractual obligations of the employer (e.g., ADB auditing requirements, Statements of Expenditure, Imprest Accounts);
- procedural requirements for certain verification procedures (e.g., checking of stocks, inventories, assets, etc.);
specific actions required on the part of the employer (e.g., access to computer systems and records, disclosures);
- discussions before signing the opinion and report on any matters arising from the audit, and with whom these discussions would be held; and
- the timetable for provision of opinions and reports.

Terms and Definitions
60. This section defines the terms used in this document.

Annual Project Accounts
GUIDANCE: The Annual Project Accounts (APA) may comprise a Statement of Receipts and Payments (Cash flow statement). This template is specifically intended for audits of these types of APA. Other schedules of value or cumulative work-in-progress, assets and inventories and a summarized reconciled bank statement are to be attached. Project reporting requirements will usually be specified in the RRP and in the loan agreement. The component parts of the APA should be specified in this section.

61. The Annual Project Accounts (APA) comprises:
[Option A: Generally IAS-compliant Accrual-based Financial Statements]:

- Statement of Accounting Policies,
- Statement of Financial Performance (or income statement),
- Statement of Financial Position (or balance sheet),
- Statement of Movements in Equity,
- Statement of Cash Flows,
- Notes to the Financial Statements, and
- Other Information (specify).

[Option B: Other Financial Reports]:

- Statement of Accounting/Financial Policies,
- Statement of Income/Cash Receipts,
- Statement of Expenses/Cash Payments,
- Statement of Cash Flows/Cash Receipts and Payments,
- Statement of Uses of Funds by Project Activity,
- Notes to the Financial Statements, and
- Other Information (specify).
GUIDANCE: The APA should include: (a) a summary of funds received showing ADB funds, any cofinancing and counterpart funds separately; (b) a summary of expenditures shown under the main project components and by main categories of expenditures (as referenced in loan and appraisal documentation) for the year ending 31 December 20xx and cumulative expenditures on the project to date; and (c) statement of fund balance as of 31 December 20xx.

Loan Projects
GUIDANCE: List the loan projects that will be audited. Provide brief details and attach relevant documents.

62. Annual Project Accounts (APA) and supporting documentation will be provided for the following loan projects financed by the Asian Development Bank (ADB) [and IDA, EBRD, etc]:

- Loan xxxx,
- Loan xxxx, and
- Loan xxxx.

Agreed Project Accounting Policies
GUIDANCE: The project accounting policies that govern APA preparation will normally be agreed and documented in the RRP and/or loan agreement. Choose the appropriate option.

63. “Agreed project accounting policies” with regard to preparation of Annual Project Accounts, means

- [Option A: Cash-based International Public Sector Accounting Standards] the cash-based International Public Sector Accounting Standard (IPSAS) promulgated by the International Federation of Accountants (IFAC).
- [Option B: Accrual-based International Public Sector Accounting Standards] the accrual-based International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants (IFAC).
- [Option C: International Accounting Standards] the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) (also known as international accounting standards).
• [Option D: National Accounting Standards] the accounting standards issued by [national authority].
• [Option E: Modified National Accounting Standards] the accounting standards issued by [national authority], with the following modifications and/or additional disclosures:
• [Option F: Specific Government Accounting Standards] describe these standards.

Agreed Auditing Standards
GUIDANCE: The agreed auditing standards will normally be documented in the RRP and/or loan agreement. Choose the appropriate option.

64. “Agreed auditing standards” means

• [Option A: International Standards on Auditing] the International Standards on Auditing (ISA) promulgated by the International Auditing and Assurance Standards Board (IAASB).
• [Option B: INTOSAI Auditing Standards] the auditing standards promulgated by the International Organization of Supreme Audit Institutions (INTOSAI).
• [Option C: National Auditing Standards] the auditing standards promulgated by [national authority].

Financial Covenants Applicable to Projects
GUIDANCE: The financial covenants that are applicable to projects will be included in loan agreements. This section should list, describe and fully reference all applicable financial covenants.

65. The following financial covenants have been agreed for the following projects:

Financial Assurances Applicable to Projects
GUIDANCE: The financial assurances that are applicable to the EA—such as a commitment to employ suitably-qualified accounting personnel—will be included in project legal documents. This section should list, describe and fully reference all applicable financial assurances.

66. The following financial assurances, regarding the following projects, have been given:
Appendix 10 Model Auditor Opinion for a Nonrevenue-Earning Project

Paragraph 5.84 (page 41) refers to this appendix.

To: Borrower (or designated agency)

We have audited the accompanying financial statements (pages _____ to _____) of the __________ Project financed under the Asian Development Bank Loan No. ___ as of 31 December, 20__, and for the year then ended.

These financial statements are the responsibility of the management of [the EA]. Our responsibility is to express an opinion on the accompanying statements based on our audit.

We conducted our examination in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

_______ [The EA’s] policy is to prepare the accompanying statements in the format agreed between the Asian Development Bank and the Government of ____ as noted in the Minutes of Negotiations for the Loan [on a cash receipts and disbursements basis in which cash is recognized when received and expenses are recognized when paid, rather than when incurred]/[on an accruals basis in which expenses are recognized when incurred and revenue is reported when income is due].

In our opinion, (A) the aforementioned financial statements and appended notes that were also the subject of the audit, fairly present in all material respects the financial position of the __________ project as at _________ 20__ and the results of its operations for the year ended _________ 20__, in conformity with _______________ accounting standards, applied on a basis consistent in all material respects with that of the previous year; (B) the [Borrower] [EA] has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Asian Development Bank and [the
Borrower] in accordance with the loan agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the [Borrower] [EA] was in compliance as at the date of the balance sheet of the year of audit with all financial covenants of the loan agreement.

In addition:

(i) (a) With respect to Statements of Expenditures, adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursements of expenditures incurred; and (b) which expenditures are eligible for financing under Loan Agreement No. _____.

(ii) (a) The Imprest Accounts (page ___) give a true and fair view of the receipts collected and payments made during the year ending ______; and (b) these receipts and payments support Imprest Account liquidations/replenishments during the year.

[(i) and (ii) above are to be provided where the loan agreement requires separate Imprest Account and statement of expenditures audits and audit opinions.]
Appendix 11 Model Auditor Opinion for a Revenue-Earning Agency

Paragraph 5.84 (page 41) refers to this appendix.

To: Borrower (or designated agency)

“We have examined the Balance Sheet of ________as of _______ 20__, and the Income Statement, Cash Flow Statement and related statements and Notes (see pages____ to ____ of our Report) of the ______________ Project financed under the Asian Development Bank Loan No. ____________ as of 31 December, 20__, and for the year then ended.

We conducted our examination in accordance with International Standards on Auditing [auditing standards of the country of __________]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles and significant estimates made by the Management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, (A) the aforementioned financial statements and appended notes that were also the subject of the audit, fairly present separately (i) the financial position of the __________ Project and (ii) the overall operations of the ______________ [name of EA] as at _______ 20__ and the separate results of the project operations and the EA's operations for the year ended _______ 20__, in conformity with International Accounting Standards [accounting standards of the country of __________], applied on a basis consistent in all material respects with that of the previous year; (B) the [Borrower] [EA] has utilized all proceeds of the loan withdrawn from the Asian Development Bank (ADB) only for purposes of the Project as agreed between the Asian Development Bank and [the Borrower] in accordance with the loan agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the [Borrower] [EA] was in compliance as at the date of the Balance Sheet of the year of audit with all financial covenants of the loan agreement.
In addition:

(i) (a) With respect to statements of expenditures, adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursements of expenditures incurred; and (b) which expenditures are eligible for financing under loan agreement No. _________________. (Required where an SOE audit is required under the loan agreement.)

(ii) The Imprest Accounts (page ___) gives a true and fair view of the receipts collected and payments made during the year ending ________________.

[(i) and (ii) above to be provided where a separate Imprest Account audit is required under the Loan Agreement.]
Appendix 12  Useful Reference Materials

Users of this Handbook may find the following reference materials useful. They are available from Asian Development Bank (ADB) in hard copy or can be freely downloaded from www.adb.org.

Selected ADB Guidelines

Guidelines for the Economic Analysis of Projects (1997)
Guidelines for the Economic Analysis of Telecommunications Projects (1997)

Selected ADB Handbooks

Loan Disbursement Handbook (2001)

Other Recommended Reading

Economic Analysis of Subregional Projects (1999)