

## **FINANCIAL MANAGEMENT ASSESSMENT**

### **I. INTRODUCTION**

1. The financial management assessment (FMA) was prepared in accordance with Asian Development Bank's (ADB) Technical Guidance on Financial Management Assessment (2015)<sup>1</sup>, and Financial Due Diligence: A Methodology Note (2009).<sup>2</sup>
2. The assessment considered ADB's Country Partnership Strategy (CPS) 2014–2018, a Public Expenditure Review<sup>3</sup> conducted by the World Bank, and the completed FMA Questionnaire (FMAQ) presented in Appendix 1. In addition to the FMAQ, the assessment includes a review of reports relating to recent ADB loans to the executing and implementing agent.
3. The purpose of this FMA is to determine the robustness of the accounting procedures, financial controls, audit arrangements, and the capability of the executing and implementing agent to meet all the fiduciary requirements. The FMA has assessed the executing and implementing agent's financial arrangements, financial responsibilities and perceived financial management risks. This FMA also provides guidance for risk mitigation measures to ensure effective project performance.

### **II. BRIEF PROJECT DESCRIPTION**

4. The project will support the state-owned electricity utility, Electricité du Cambodge (EDC), to acquire the land and develop common infrastructure to support a solar photovoltaic plant with an installed capacity of approximately 100 megawatts. The park will be located approximately 50km from the capital city of Phnom Penh and will include the construction of a transmission line from the solar park to the existing national grid. The expected construction period for the solar park infrastructure is 22 months, with commercial operations of the photovoltaic solar plant scheduled for 2021.
5. The overall objective of the project is to demonstrate the ability of large scale solar to improve electricity supply and stability of the national grid, and as a viable alternative for planned fossil-fuel and hydropower generation.
6. Total project financing is estimated at \$26.70 million and will be covered by a grant and accompanying loan from the Scaling-Up Renewable Energy facility, managed by ADB, and by a concessional loan advanced from the ADB's Ordinary Capital Resources. These funds will be lent to the Ministry of Economy and Finance (MEF) who will on-lend them to EDC.

### **III. COUNTRY AND SECTOR FINANCIAL MANAGEMENT ISSUES**

#### **A. Public Financial Management**

7. In 2014, a governance risk assessment was conducted by ADB as part of ADB's CPS 2014–2018. The assessment outlined progress in terms of strengthening public financial management through the Government's Public Financial Management Reform Program (PFMRP). In the CPS assessment the following risks were identified (i) low accountability for

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<sup>1</sup> ADB. 2015. *Financial Management Technical Guidance Note*. Manila.

<sup>2</sup> ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila.

<sup>3</sup> World Bank. 2018. *Cambodia Public Expenditure Review*.

public expenditure and service delivery will continue to negatively impact development partner funded projects; (ii) uncertainty and delays in the delegation of functions to subnational administrations which undermines its accountability for expenditure and service delivery of donor projects; (iii) internal audit and controls remain weak; and (iv) external audit capacity is improving, but remains weak.

8. The Public Expenditure Review by the World Bank (footnote 3) indicates Cambodia has made significant progress in reforming public expenditure policy and public finances after embarking on a PFMRP. Several of the risks identified in the CPS 2014–2018 have been addressed through (i) the use of a government chart of accounts for donor-financed projects; (ii) adoption of the Financial Management Information System by all line ministries; and (iii) alignment of the subnational reform agenda with PFMRP. These efforts are expected to result in increased transparency and a more efficient allocation and execution of public resources. However, no significant progress has been made in the integration of externally financed (donor-funded) and domestically financed (government-funded) budgets.

9. Despite the PFMRP progress, Cambodia's Public Investment Management (PIM) framework for government-funded projects remains weak and the PIM function in Cambodia is loosely defined. A World Bank (footnote 3) assessment of the PIM revealed deficiencies in the legal and institutional framework. First, the roles and responsibilities among key stakeholders is not clearly defined by Law. For domestically financed investment projects, the absence of a uniform set of guidelines for projects has resulted in vastly different practices across line ministries. In addition, the absence of an independent review of project documents impedes MEF's ability to manage the allocation of capital budget resources efficiently. Project implementation and operations have shown some progress, with improved procurement and financial controls introduced by the PFMRP in 2004. Finally, Cambodia lacks effective ex-post evaluation instruments to assess the efficiency and effectiveness of public investment financing.

10. The government's own Public Expenditure and Financial Accountability performance assessment,<sup>4</sup> the second of which was conducted in 2015, drew the following conclusions:

- i) Overall, the government systems show strong performance on aggregate budget outturns for both revenue and expenditure, on transparency in intergovernmental fiscal relations and in orderliness and participation across government in the annual budget formulation process.
- ii) Systems strengths include the orderly and participatory approach to the annual budget formulation.
- iii) Strategic sector planning remains weak, except for health and education, resulting in weak links to selection of capital investment projects and lacking consideration of the recurrent budget implications of completed projects.
- iv) The medium-term expenditure framework is not fully developed and integrated into the budgeting process, with clear links from one budgeting cycle to the next.
- v) Monitoring of budget allocations and their use is undermined by the lack of a unified chart of accounts which reflects classifications based on sector, function and program and lack of detailed reporting on implementation of externally funded projects which constitute three quarters of public investments

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<sup>4</sup> Royal Government of Cambodia. 2015. *Report of the Evaluation on The Public Financial Management System of Cambodia*. Phnom Penh.

as well as weak systems available to track to what extent resources reach service delivery units.

- vi) The system is also subject to frequent and significant in-year reallocations, facilitated by extensive powers given to the Minister of MEF by the legislation.

11. The review noted that there are “low levels of support to or trust in the functioning of government systems from development partners.”

12. A number of specific weaknesses in monitoring were noted. Apart from incomplete coverage of budget documentation and failures to comprehensively monitor expenditure arrears, these also include data reconciliation and reporting functions and in the comprehensiveness and accuracy of revenue and expenditure records. The review noted that these lead to weaknesses in responding to audits.

13. However, the review did find that performance is improving overall with seven indicators having improved since the first review and three indicators having weakened (performance changes could not be assessed for four indicators and no significant change was seen in the remaining 14 indicators). The performance improvements were mainly in aggregate fiscal discipline and those related to monitoring and reporting of budget execution. Performance slippage was mainly in strategic allocation of resources and related transparency.

14. Several of the identified concerns are being addressed through ongoing support from the Asian Development Bank under the Strengthening Public Financial Management Program.<sup>5</sup> This is supporting implementation of stage 3 of the four-stage Cambodian government’s PFMRP.

#### **IV. PROJECT FINANCIAL MANAGEMENT SYSTEM**

##### **A. Overview**

15. EDC is the executing agency and a wholly state-owned limited liability company, established by Royal Decree 0396/10 dated 9 March 1996. It is jointly supervised and controlled by MEF and the Ministry of Mines and Energy of the Royal Government of Cambodia. EDC is governed by a seven-member Board of Directors with representatives of the Ministry of Mines and Energy, MEF, the Council of Ministers, the Ministry of Justice, EDC’s employees and the Chamber of Commerce of Cambodia. The Board also includes the Royal Government of Cambodia Delegate in Charge of Managing EDC, who functions as the Managing Director (Appendix 2).

16. EDC is currently implementing two ADB-financed projects: the Cambodia Rural Energy Project (Grant 0336-CAM) and the Medium-Voltage Sub-Transmission Expansion Project (Loan 2979-CAM). It has previously implemented the Greater Mekong Subregion Transmission Project (Loan 2052-CAM); and the Provincial Power Supply Project (Loan 1794-CAM).

17. The Project Completion Reports (PCR) for both the Provincial Power Supply and the Greater Mekong Subregion Transmission Projects have been reviewed. The PCR for the Provincial Power Supply Project concluded that EDC had successfully implemented the project and rated its performance as satisfactory. EDC had not complied with covenants related to cash

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<sup>5</sup> ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan for Subprogram 1, and Technical Assistance Grant to the Kingdom of Cambodia for the Inclusive Financial Sector Development Program*. Manila.

breakeven and required rates of return which was attributed to rapid and large increases in diesel and fuel oil costs during the period of implementation. Tariff reforms introduced in 2005 had helped address these concerns. This assessment was confirmed by ADB's Independent Evaluation Department in a review conducted in 2012.

18. The PCR for the Greater Mekong Subregion Transmission Project similarly noted EDC had marginally failed to meet some of its financial covenants in 2005 and 2008 due to rising oil prices but, from 2009 onwards, with the beginning of large-scale electricity imports from Thailand and Vietnam and the resulting reduction in reliance on diesel and fuel-oil generation, had seen a marked improvement in its financial position with all covenants being met in full. EDC's performance in implementing the project was again rated as satisfactory.

## **B. Strengths**

19. **Experience managing Asian Development Bank-financed projects.** EDC has implemented two previous ADB loan projects and is currently implementing a further two projects. The PCR's stated that EDC's performance as an executing agency was satisfactory for both projects. EDC is thus familiar with the requirements for reporting, financial management and disbursement of ADB funded projects.

20. The government has adequate accounting and finance policies and guidelines which are applied to all externally financed projects and programs. The government launched a comprehensive PFMRP in 2004, supported by ADB. This ADB grant has assisted the government to improve in budget preparation and execution, financial management and accounting, procurement, internal audit development, and in monitoring and evaluation.

## **C. Weaknesses**

21. The internal audit department of EDC does not audit individual projects. This exclusion includes current and previous ADB projects on the basis that, under the direct payment mechanism, both MEF and ADB review supporting documents relating to payments and that approvals are required before any payments are made.

22. Several of EDC's provincial branches still operate manual accounting systems due to a lack of secure communications. Financial statements and project accounts are prepared manually using MS Excel with data obtained from EDC's financial information systems. The use of manual financial reporting and consolidation could introduce the potential for errors and omissions.

## **D. Personnel, accounting policies and procedures, internal control, internal and external audit**

23. EDC's accounting department is currently fully staffed. All staff members have appropriate qualifications and experience and are employed on a full-time basis with low rates of turnover. The accounting staff are familiar with ADB requirements being responsible for implementing two ADB-financed projects: the Cambodia Rural Energy Project (Grant 0036-CAM) and the Medium-Voltage Sub-Transmission Expansion Project (Loan 2979-CAM). The department has previously implemented the Greater Mekong Subregion Transmission Project (Loan 2052-CAM); and the Provincial Power Supply Project (Loan 1794-CAM). PCRs for these two latter projects rated EDC's performance as satisfactory and identified no concerns with EDC's financial management. All these projects have been implemented under a direct payment mechanism as is proposed for the current National Solar Park Project.

24. EDC has established appropriate accounting systems and processes including implementing a full chart of accounts. Monthly reconciliation of actual and reported bank and cash balances takes place and annual reconciliation of physical inventories. All invoices are checked against purchase orders and receiving reports before being approved for payment. Withdrawals from EDC's bank accounts must be authorized by either the Managing Director or Deputy Managing Director.

25. EDC's financial statements are currently audited by KPMG Cambodia and follow Cambodian International Financial Reporting Standards for Small and Medium-Sized Entities. The auditors have identified no matters of concern in their opinions attached to the audited financial statements for the most recent five years (2013 to 2017). The KPMG also audits project financial statements and, again, they have expressed no matters of concern. EDC has operated an internal audit department since its establishment which reports to the Managing Director (EDC has no separate audit committee) and currently has 21 staff. The internal audit department conducts regular audits of all EDC branches as well as targeted audits where concerns are identified. It does not audit individual projects. This exclusion includes current and previous ADB projects on the basis that, under the direct payment mechanisms, both MEF and ADB reviews and approvals are necessary before any payments are made. This does represent a potential weakness of the internal audit department's coverage. The internal audit department is supplemented by an MOU with the Anti-Corruption Commission allowing this entity to receive complaints relating to EDC for investigation in its own right and to protect the anonymity of informants.

## **E. Financial reporting systems**

26. EDC has introduced a commercial accounting software package (ACCPAC by SAGE) at the level of corporate headquarters. However, a number of provincial branches still operate manual accounting systems due to a lack of secure communications—which EDC intends to address. Financial statements and project accounts are prepared manually using MS Excel with data obtained from EDC's financial information systems. Together with continued manual accounting at branch level, this does introduce the potential for errors and omissions.

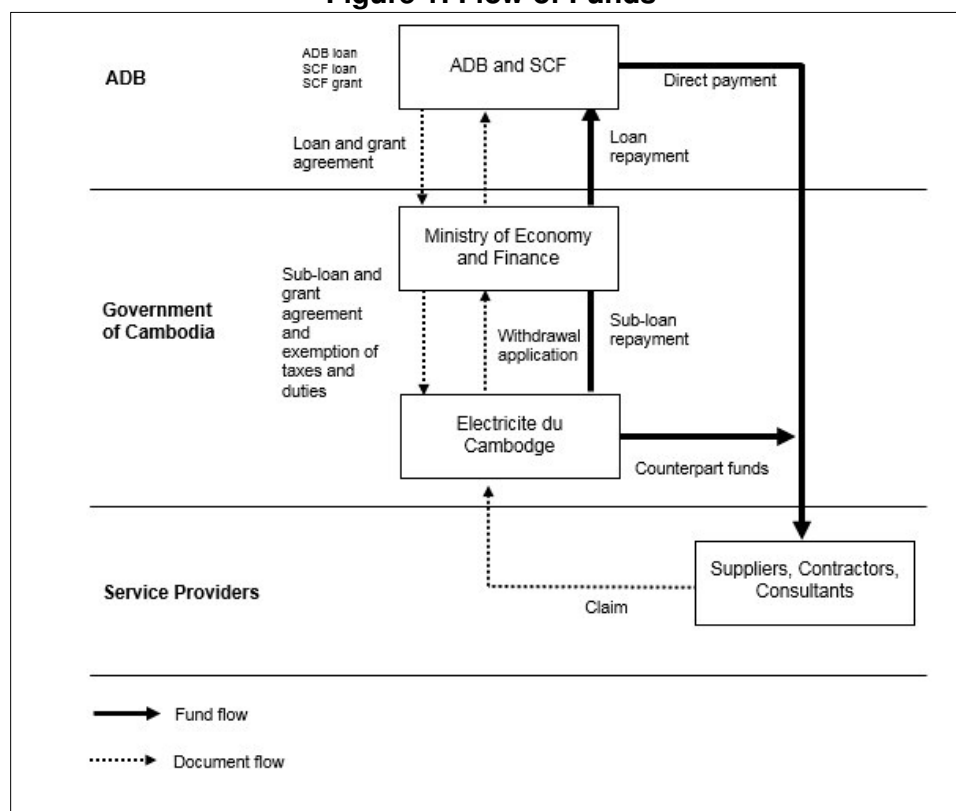
## **F. Disbursement arrangements, funds flow mechanism**

27. The loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook<sup>6</sup> (2017, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.

28. ADB direct payment procedures will be implemented for this project. Under this arrangement, suppliers and contractors will submit claims to EDC for verification. Following verification, EDC will submit a withdrawal application to ADB who will directly pay the supplier or contractor. The flow of funds is shown below (Figure 1).

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<sup>6</sup> ADB. 2017. *Loan Disbursement Handbook*. Manila.

**Figure 1: Flow of Funds**

## V. RISK DESCRIPTION AND RATING – FINANCIAL MANAGEMENT AND INTERNAL CONTROL RISK ASSESSMENT

29. The FMA has considered two types of risks: (i) inherent risks; i.e., risks outside the direct control of EDC's financial management; and (ii) control risks; i.e., risks concerning the internal functioning and controls of EDC's Finance and Accounting division. The following key risks have been identified and are presented in Table 1.

**Table 1: Financial Management, Internal Control and Risk Assessment**

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures in Risk Management Plan
<b>Inherent Risk</b>				
1. Country-Specific ADB has identified that "corruption continues to be regarded as a main area of concern for the business environment and overall governance in Cambodia". (Country Partnership Strategy 2014–2018)	Moderate	Likely	Substantial	<p>ADB and other donors are supporting various capacity-building and good governance initiatives as well as implementing appropriate risk management procedures.</p> <p>ADB support includes:</p> <ul style="list-style-type: none"> <li>implementing mitigation measures for all projects;</li> <li>tightening project procurement</li> </ul>

Risk Description	Impact	Likelihood	Risk Assessment	Mitigation Measures in Risk Management Plan
				<ul style="list-style-type: none"><li>conducting joint investigations of irregularities; and</li><li>supporting further development of the government's Standard Operating Procedures, Procurement Manual, and Financial Management Manual</li></ul>
2. Entity-Specific EDC is very familiar with managing ADB and other donor projects	Low	Unlikely	Low	
Overall Inherent Risk			Moderate	
Control Risk				
1. Implementing Entity EDC's Finance and Accounting Department is headed by a Director who reports to the Deputy Managing Director (Finance and Business). The DMD is one of four DMDs reporting directly to the Managing Director <sup>7</sup> . Only the Managing Director sits on the Board of Directors which otherwise comprises representatives of government, employees and the Chamber of Commerce of Cambodia	Moderate	Unlikely	Low	
2. Funds Flow EDC is financially strong. A direct payments procedure will be applied for ADB payments	Moderate	Unlikely	Low	
3. Staffing The Finance and Accounting Department is fully-staffed. All staff members have appropriate qualifications and experience and turnover is low.	High	Unlikely	Moderate	
4. Accounting Policies and Procedures EDC has established appropriate accounting systems and processes. Accounting staff are familiar with ADB requirements from implementing previous loans.	Low	Unlikely	Low	
5. Internal Audit EDC has an internal audit department with 21 staff members, reporting directly to the Managing Director. Regular audits of branches and units are conducted. Individual projects are not audited as these are understood to be sufficiently supervised by MEF and ADB reviews	High	Likely	Substantial	Internal Audit Department to include proposed project in its scope of activities Training to be provided to Internal Audit Department in ADB guidelines and procedures by December 2018

<sup>7</sup> The Managing Director is formally the Royal Government of Cambodia Delegate in Charge of Managing EDC. The term "Managing Director" is used here for conciseness.

<b>Risk Description</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Risk Assessment</b>	<b>Mitigation Measures in Risk Management Plan</b>
and approvals prior to payments being made.				
6. External Audit EDC's financial statements are currently audited by KPMG Cambodia. No matters of concern have been identified in the statements reviewed.	Moderate	Unlikely	Low	
7. Reporting and Monitoring All invoices are subject to verification against purchase orders and receiving reports. Monthly reconciliations of cash balances and annual reconciliations of physical inventories take place.	High	Unlikely	Low	
8. Information Systems EDC uses a commercial accounting package at corporate headquarters but some provincial branches still use manual accounting systems due to a lack of secure communications.	Substantial	Likely	Substantial	Rollout of accounting software package to all EDC branches and automation of financial statements is underway
<b>Overall Control Risk</b>			<b>Moderate</b>	
<b>Overall (Combined) Risk</b>			<b>Moderate</b>	
ADB = Asian Development Bank, DMD = Deputy Managing Director, EDC = Electricite du Cambodge, MEF = Ministry of Economy and Finance.				

## VI. PROPOSED TIME-BOUND ACTION PLAN

30. The following proposed actions in Table 2 address the issues identified in the Financial Management, Internal Control and Risk Assessment.

**Table 2: Time Bound Action Plan**

<b>Weakness</b>	<b>Mitigation Action</b>	<b>Responsibility</b>	<b>Timeframe</b>
1. EDC has an internal audit department with 21 staff members, reporting directly to the Managing Director. Regular audits of branches and units are conducted. Individual projects are not audited as these are understood to be sufficiently supervised by MEF and ADB reviews and approvals prior to payments being made.	Internal Audit Department to include proposed project in its scope of activities Training to be provided to Internal Audit Department in ADB guidelines and procedures.	ADB/EDC	December 2018
2. EDC uses a commercial accounting package at corporate headquarters but some provincial branches still use manual accounting systems due to a lack of secure communications.	Rollout of accounting software package to all EDC branches and automation of financial statements	EDC	December 2019

ADB = Asian Development Bank, EDC = Electricité du Cambodge, MEF = Ministry of Economy and Finance.

## VII. CONCLUSIONS

31. EDC has established and appropriate financial management systems and processes and a trained and experienced accounting department. There is a need to complete the automation of accounting and financial information systems and to extend the scope of the internal auditing department to include externally-financed projects.



32. The FMA has identified no concerns regarding the capabilities of EDC to manage the proposed project grant and loan in compliance with ADB's requirements. EDC has successfully implemented two previous ADB loan projects and is currently implementing a further two projects. Reviews of its performance under these projects have rated it as satisfactory. No concerns have been expressed by its auditors with regards to either its corporate financial statements or project-level statements. A review of internal financial management systems, processes and resources has concluded that these are adequate for the requirements under the proposed project.

**FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE**

Topic	Response	Remarks
<b>1. Implementing Agency</b>		
1.1 What is the entity's legal status / registration?	Electricité du Cambodge (EDC)	
1.2 How much equity (shareholding) is owned by the Government?	100% state-owned	
1.3 Obtain the list of beneficial owners of major blocks of shares (non-government portion), if any	N/A	
1.4 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes (ADB loans 1794-CAM(SF), 2052-CAM(SF), 2261-CAM(SF), 2979-CAM)	
1.5 Briefly describe the statutory reporting requirements for the entity	Annual audited accounts Monthly, quarterly and annual reports to MEF	
1.6 Describe the regulatory or supervisory agency of the entity	EAC	
1.7 What is the governing body for the project? Is the governing body for the project independent?	Board of Directors	
1.8 Obtain current organizational structure and describe key management personnel. Is the organizational structure and governance appropriate for the needs of the project?	Attached	
1.9 Does the entity have a Code of Ethics in place?	Yes	EDC signed MOU with ACU (Anti-Corruption Unit)
1.10 Describe (if any) any historical issues or reports of ethics violations involving the entity and management. How were they addressed?	N/A	
<b>2. Funds Flow Arrangements</b>		
2.1 Describe the (proposed) project funds flow arrangements in detail, including a funds flow diagram and explanation of the flow of funds from ADB, government and other financiers, to the government, EA, IA, suppliers, contractors, ultimate beneficiaries etc. as applicable.	Direct Payments	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity and to the end-recipients satisfactory?	Yes	
2.3 Are the disbursement methods appropriate?	Yes	

Topic	Response	Remarks
2.4 What have been the major problems in the past involving the receipt, accounting and/or administration of funds by the entity?	None	
2.5 In which bank will the Imprest Account (if applicable) be opened?	n/a (Direct Payment used)	
2.6 Is the bank in which the Imprest Account is established capable of: <ul style="list-style-type: none"> <li>• Executing foreign and local currency transactions?</li> <li>• Issuing and administering Letters of Credit (LC)?</li> <li>• Handling a large volume of transactions?</li> <li>• Issuing detailed monthly bank statements promptly?</li> </ul>	n/a (Direct Payment used)	
2.7 Is the ceiling for disbursements from the Imprest Account and Statement of Expenditure (SOE) appropriate / required?	N/A	
2.8 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes (see list of loans above)	
2.9 Does the PIU have adequate administrative and accounting capacity to manage the Imprest Fund and Statement of Expenditure (SOE) procedures in accordance with ADB's Loan Disbursement Handbook (LDH)? Identify any concern or uncertainty about the PIU's administrative and accounting capability which would support the establishment of a ceiling on the use of the SOE procedure.	Yes	
2.10 Is the entity exposed to foreign exchange risk? If yes, describe the entity's policy and arrangements for managing foreign exchange risk	Yes	
2.11 How are the counterpart funds accessed?	Direct Payment	
2.12 How are payments made from the counterpart funds?	Use Direct Payment	
2.13 If project funds will flow communities and/or NGOs, does the PIU have the necessary reporting and monitoring arrangements and features built into its systems to track the use of project proceeds by such agencies?	n/a	

Topic	Response	Remarks
2.14 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor or materials), are proper guidelines and arrangements formulated to record and value the labor or materials contributions at appraisal and during implementation?	No	
<b>3. Staffing</b>		
3.1 What is the current and/or proposed organizational structure of the accounting department? Attach an organization chart.	See attached organizational chart	
3.2 Will existing staff be assigned to the project, or will new staff be recruited?	Existing staff	
3.3 Describe the existing or proposed project accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key existing accounting staff.	Loeun Bunthan is Chief of Credit Financing Management Office. He holds an BA of Management Accounting	
3.4 Is the project finance and accounting function staffed adequately?	Yes	
3.5 Are the finance and accounts staff adequately qualified and experienced?	Yes	
3.6 Are the project accounts and finance staff trained in ADB procedures, including the disbursement guidelines (ie, LDH)?	Yes	
3.7 What is the duration of the contract with the finance and accounts staff?	Full-time staff	
3.8 Indicate any key positions of project finance and accounting staff not contracted or filled yet, and the estimated date of appointment.	n/a	
3.9 For new staff, describe the proposed project finance and accounting staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions.	n/a	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	
3.11 What is the turnover rate for finance and accounting staff (including terminations, resignations, transfers etc.)?	No separate records kept but very infrequent (2 people retired in six years). Average age 30-40 years so very few retirements	

Topic	Response	Remarks
3.12 What is training policy for the finance and accounting staff?	No specific training program	
3.13 Describe the list of training programs attended by finance and accounting staff in the last 3 years	SOP and FMM	
<b>4. Accounting Policies and Procedures</b>		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds (in particular, the legal agreements with ADB)? Will the project use the entity accounting system? If not, what accounting system will be used for the project?	Yes (ACCPAC installed at central office, but not yet at provincial branches)	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories? Obtain a copy of the chart of accounts.	Yes	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes	
4.5 Are the General Ledger and subsidiary ledgers reconciled monthly? Are actions taken to resolve reconciliation differences?	Yes	
4.6 Describe the EA's policy for retention of accounting records including supporting documents (ADB's policy requires that all documents should be retained for at least 1 year after ADB receives the audited project financial statements for the final accounting period of implementation, or 2 years after the loan closing date, whichever is later)? Are all accounting and supporting documents retained in a defined system that allows authorized users easy access?	Hard copies kept for five years	
4.7 Describe any previous audit findings that have not been addressed	N/A	

Topic	Response	Remarks
<b>Segregation of Duties</b>		
4.8 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; (iii) custody of assets involved in the transaction; (iv) reconciliation of bank accounts and subsidiary ledgers?	Yes	
4.9 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
<b>Budgeting System</b>		
4.10 Do budgets include physical and financial targets?	Yes	
4.11 Are budgets prepared for all significant activities in sufficient detail to allow meaningful monitoring of subsequent performance?	Yes	
4.12 Are actual expenditures compared to the budget with reasonable frequency? Are explanations required for significant variations from the budget?	Yes	
4.13 Are approvals for variations from the budget required: (i) in advance; or (ii) after the fact?	In advance	
4.14 Is there a ceiling, up to which variations from the budget may be incurred without obtaining prior approval?	No , need approval	
4.15 Who is responsible for preparation, approval and oversight/monitoring of budgets?	Project Manager for individual projects Deputy Managing Director of Finance for corporate budget, approved by Board of Directors	
4.16 Describe the budget process. Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Provinces / branches submit proposals. EDC HQ reviews from 1 August. Consolidate within one month. Send to management for approval and then to BOD and then to MEF. To BOD, mid-September and to MEF end-September	

Topic	Response	Remarks
<p>4.17 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?</p> <p>Is there evidence of significant mid-year revisions, inadequate fund releases against allocations, or inability of the EA to absorb/spend released funds?</p> <p>Is there evidence that government counterpart funding is not made available adequately or on a timely basis for prior projects?</p> <p>What is the extent of over- or under-budgeting of major heads over the last 3 years? Is there a consistent trend either way?</p>	<p>Budget based on most recent 6-month actual period. Differences between actual and budget are queried</p> <p>Fund allocation is adequate, some delays in implementation of projects for which funds are allocated due to procurement delays</p> <p>MEF sends funds in full to EDC. Some delays for direct payments by EDC in December at year-end due to need to reallocate across accounting heads</p> <p>Budgets are always fully spent but may be timing issues</p>	
<b>Payments</b>		
<p>4.18 Do invoice-processing procedures require: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations? (v) Checking authenticity of invoices and supporting documents?</p>	Yes	
<p>4.19 Are all invoices stamped PAID, dated, reviewed and approved, recorded/entered into the system correctly, and clearly marked for account code assignment?</p>	Yes	
<p>4.20 Do controls exist for the preparation of the payroll? Are changes (additions/deductions/modifications) to the payroll properly authorized?</p>	Yes	
<b>Policies and Procedures</b>		
<p>4.21 What is the basis of accounting (e.g., cash, accrual) followed: (i) by the entity? (ii) by the project?</p>	Cash basis for project Accrual for entity	

Topic	Response	Remarks
4.22 What accounting standards are followed (International Financial Reporting Standards, International Public Sector Accounting Standards – cash or accrual or national accounting standards (specify) or other)?	FMM for project IAS for entity	
4.23 Does the project have an adequate policies and procedures manual(s) to guide activities and ensure staff accountability?	Yes	
4.24 Is the accounting policy and procedure manual updated regularly and for the project activities?	Yes	
4.25 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes	
4.26 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	
4.27 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	
4.28 Are manuals distributed to appropriate personnel?	Yes	
4.29 Describe how compliance with policies and procedures are verified and monitored	Internal Audit verifies	
<b>Cash and Bank</b>		
4.30 Indicate names and positions of authorized signatories for bank accounts. Include those persons who have custody over bank passwords, USB keys or equivalent for online transactions	MD and Deputy MD	
4.31 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	
4.32 Describe the collection process and cash handling procedures. Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	yes	
4.33 Are bank and cash reconciled on a monthly basis? Or more often?  Is cash on hand physically verified and reconciled with the cash book? With what frequency is this done?	Monthly  Every day	



Topic	Response	Remarks
4.34 Are all reconciling items approved and recorded?	Yes	
4.35 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	No	
4.36 Are there any persistent/non-moving reconciling items?	No	
4.37 Are there appropriate controls in safekeeping of unused cheques, USB keys and passwords, official receipts and invoices?	Yes	
4.38 Are any large cash balances maintained at the head office or field offices? If so, for what purpose?	No	
4.39 For online transactions, how many persons possess USB keys (or equivalent) and passwords? Describe the security rules on password and access controls.	Chief holds USB key and Deputy Chief holds password. This is for safe box. No online transactions	
<b>Safeguard over Assets</b>		
4.40 What policies and procedures are in place to adequately safeguard or protect assets from fraud, waste and abuse?	N/A	
4.41 Does the entity maintain a Fixed Assets Register? Is the register updated monthly? Does the register record ownership of assets, any assets under lien or encumbered or have been pledged?	Yes	
4.42 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes	
4.43 Are there periodic physical inventories of fixed assets, inventories and stocks? Are fixed assets, inventories and stocks appropriately labelled?	Yes (annually)	
4.44 Are the physical inventories of fixed assets and stocks reconciled with the respective fixed assets and stock registers, and discrepancies analysed and resolved?	Yes	
4.45 Describe the policies and procedures in disposal of assets. Is the disposal of each asset appropriately approved and recorded? Are steps immediately taken to local lost or repair broken assets?	Yes	
4.46 Are assets sufficiently covered by insurance policies?	No	

Topic	Response	Remarks
4.47 Describe the policies and procedures in identifying and maintaining fully depreciated assets from active assets.	Doesn't happen because use declining balance (trendline)	
<b>Other Offices and Implementing Entities</b>		
4.48 Are there any other regional offices or executing entities participating in implementation?	No	
4.49 Describe the staff, their roles and responsibilities in performing accounting and financial management functions of such offices as they relate to the project.	n/a	
4.50 Has the project established segregation of duties, controls and procedures for flow of funds, financial information, accountability, and reporting and audits in relation to the other offices or entities?	Yes	
4.51 Does information among the different offices/implementing agencies flow in an accurate and timely fashion? In particular, do the offices other than the head office use the same accounting and reporting systems?	Yes	
4.52 Are periodic reconciliations performed among the different offices/implementing agencies? Describe the project reporting and auditing arrangements between these offices and the main executing/implementing agencies.	No	
4.53 If any sub-accounts (under the Imprest Account) will be maintained, describe the results of the assessment of the financial management capacity of the administrator of such sub-accounts	n/a	
<b>Contract Management and Accounting</b>		
4.54 Does the agency maintain contract-wise accounting records to indicate gross value of contract, and any amendments, variations and escalations, payments made and undisbursed balances? Are the records consistent with physical outputs/deliverables of the contract?	No	
4.55 If contract records are maintained, does the agency reconcile them regularly with the contractor?	N/A	

Topic	Response	Remarks
<b>Other</b>		
4.56 Describe project arrangements for reporting fraud, corruption, waste and misuse of project resources or property? Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	MOU with ACU. The ACU is invited to monitor and oversee and can receive reports anonymously	
<b>5. Internal Audit</b>		
5.1 Is there an internal audit (IA) department in the entity?	Yes	
5.2 What are the qualifications and experience of the IA staff?	21 IA staff including management. Most hold Masters degree. IA set up with establishment of EDC. Age 30-40 years.	
5.3 To whom does the head of internal audit report?	Managing Director	
5.4 Will the internal audit department include the project in its annual work program?	No	
5.5 Are actions taken on the internal audit findings?	Unknown (no internal audits of PMOs to date)	
5.6 What is the scope of the internal audit program? How was it developed?	N/A	
5.7 Is the IA department independent?	Yes	
5.8 Do they perform pre-audit of transactions?	No pre-audit, oversight by procurement committee. IA conducts reviews ex-post on regular schedule	
5.9 Who approves the internal audit program?	Standard schedule for audits which ensures that all branches are included. Targeted audits in response to complaints	
5.10 What standards guide the internal audit program?	Standard EDC accounting policies	
5.11 How are audit deficiencies tracked?	N/A	
5.12 How long have the internal audit staff members been with the organization?	10+ years	
5.13 Does any of the internal audit staff have an IT background?	Yes	

Topic	Response	Remarks
5.14 How frequently does the internal auditor meet with the audit committee without the presence of management?	No separate audit committee. Report to MD	
5.15 Has the internal auditor identified/reported any issue with respect to availability and completeness of records?	Yes. Misuse of EDC cash. Dealt with by dismissal of chief of accounting department in province branch.	
5.16 Does the internal auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (ie, LDH)?	No – training required. Previously EDC used direct payment and so considered no need for internal audits as overseen by both MEF and ADB before payments made	
<b>6. External Audit – entity level</b>		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes KPMG and PwC	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	Minor Within 6 months of end of calendar year	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing or the International Standards for Supreme Audit Institutions or national auditing standards?	Yes (ISA)	
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No	
6.5 Does the external auditor meet with the audit committee without the presence of management?	No separate audit committee	
6.6 Has the entity engaged the external audit firm for any non-audit engagements (eg, consulting)? If yes, what is the total value of non-audit engagements, relative to the value of audit services?	No	
6.7 Has the external auditor expressed any issues on the availability of complete records and supporting documents?	Yes	
6.8 Does the external entity auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (ie, LDH)?	Yes	

Topic	Response	Remarks
6.9 Are there any material issues noted during the review of the audited entity financial statements that were not reported in the external audit report?	No	
<b>External Audit – project level</b>		
6.10 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Entity auditor	
6.11 Are there any recommendations made by the auditors in prior project audit reports or management letters that have not yet been implemented?	No	
6.12 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Yes (National Audit Authority)	
6.13 Has the project prepared acceptable terms of reference for an annual project audit? Have these been discussed and agreed with the EA and the auditor?	No specific TOR for this individual project but EDC has standard TOR approved by MEF/ADB for such audits. EDC's auditors are familiar with ADB guidelines	
6.14 Has the project auditor identified any issues with the availability and completeness of records and supporting documents?	Yes	
6.15 Does the external project auditor have sufficient knowledge and understanding of ADB's guidelines and procedures, including the disbursement guidelines and procedures (ie, LDH)?	Yes	
6.16 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No (see 6.11)	
6.17 [For second or subsequent projects]. Were past audit reports complete, and did they fully address the obligations under the loan agreements? Were there any material issues noted during the review of the audited project financial statements and related audit report that have remained unaddressed?	[NOTE: For ADB to complete]	
<b>7. Reporting and Monitoring</b>		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes (IAS)	

Topic	Response	Remarks
7.2 Are financial statements prepared for the implementing unit(s)?	Yes	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to be useful to management for decision making?	Annually  Yes	
7.4 Does the reporting system need to be adapted for project reporting?	No	
7.5 Has the project established financial management reporting responsibilities that specify the types of reports to be prepared, the report content, and purpose of the reports?	Yes	
7.6 Are financial management reports used by management?	Yes	
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.8 How are financial reports prepared? Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Excel spreadsheet for projects. SUM packages for EDC	
7.9 Does the financial system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronise with the financial data?	Project records in Excel. Receive reports on physical progress before record expenditures and approve disbursements	
7.10 Does the entity have experience in implementing the projects of any other donors, co-financiers, or development partners?	Yes	
<b>8. Information Systems</b>		
8.1 Is the financial accounting and reporting system computerized?	Yes	
8.2 If computerized, is the software off-the-shelf or customized?	SUM package – standard	
8.3 Is the computerized software standalone, or integrated and used by all departments and field units using modules?	Not integrated as communications not good enough (secure internet). Upgrading at present to allow this.	

Topic	Response	Remarks
8.4 How are the project financial data integrated with the entity financial data? Is it done through a module in the enterprise financial system with automatic data transfer, or does it entail manual entry?	Manual Entry	
8.5 Is the computerized software used for directly generating periodic financial statements, or does it require manual intervention and use of Excel or similar spreadsheet software?	Use Excel for consolidated statements	
8.6 Can the system automatically produce the necessary project financial reports?	Yes	
8.7 Is the staff adequately trained to maintain the system?	Yes	
8.8 Do the management, organization and processes and systems safeguard the confidentiality, integrity and availability of the data?	Yes	
8.9 Are there back-up procedures in place?	Yes	
8.10 Describe the back-up procedures – online storage, offsite storage, offshore storage, fire, earthquake and calamity protection for backups.	Multiple back-up servers in different locations to manage risks	

#### SUMMARY OF ELECTRICITE DU CAMBODGE ACCOUNTING PROCEDURES

Accounting Procedure	Objectives
Cash security	<ul style="list-style-type: none"> <li>To ensure that cheques are used for authorized purposes only</li> <li>To prevent cheques from going missing undetected.</li> <li>To safeguard cash on hand.</li> </ul>
Cash receipts (HO and branches)	<ul style="list-style-type: none"> <li>All receipts are banked intact and without delay.</li> <li>All receipts are accurately recorded and accounted for.</li> <li>All receipts are correctly allocated or identified to the payer's account.</li> </ul>
Bank reconciliation	<ul style="list-style-type: none"> <li>All bank accounts are regularly reconciled.</li> <li>The reconciliation is performed by staff independent of the cashier.</li> <li>All entries in bank statements are recorded in cash books.</li> <li>Errors in the bank statements are promptly detected.</li> </ul>
Cash reconciliation	<ul style="list-style-type: none"> <li>Cash on hand balances are reconciled regularly to cash count results</li> <li>All cash received and balances per cash receipt reports are reconciled daily.</li> <li>The reconciliation is performed by staff independent of the cashier.</li> </ul>

Accounting Procedure	Objectives
	<ul style="list-style-type: none"> <li>• All balances in cash receipt reports are recorded in cash books</li> <li>• Errors in cash receipt reports are promptly detected.</li> </ul>
Cash counts	<ul style="list-style-type: none"> <li>• To prevent fraud or theft of receipt and payments.</li> <li>• To prevent unauthorized payments being made.</li> <li>• To ensure actual cash is recorded.</li> </ul>
Cash disbursement	<ul style="list-style-type: none"> <li>• Cash payments are properly approved and are accurately recorded in the accounting period in which the payment was made.</li> </ul>
Accounts receivable reconciliation	<ul style="list-style-type: none"> <li>• Sales are correctly recorded in the proper period.</li> <li>• Accounts receivable records are complete and accurate and details are consistently maintained.</li> </ul>
Collection and bad debt	<ul style="list-style-type: none"> <li>• An adequate record of all outstanding customer debts is maintained management</li> <li>• Debts are collected on or prior to the due date.</li> <li>• Bad and doubtful debts are promptly identified and proper actions for their recovery are taken.</li> </ul>
Fixed asset additions	<ul style="list-style-type: none"> <li>• Additions are authorized at an appropriate level of authority.</li> <li>• Capital expenditures are compared with budgeted expenditure</li> <li>• Capital expenditures are accurately recorded.</li> </ul>
Capitalization policy	<ul style="list-style-type: none"> <li>• Capital expenditures are capitalized according to the company policy</li> <li>• All branches use the same policy as the head office.</li> </ul>
Depreciation policy	<ul style="list-style-type: none"> <li>• Depreciation rates are used according to the estimated useful life of an asset (or group of assets).</li> </ul>
Fixed asset disposal	<ul style="list-style-type: none"> <li>• Disposals and removals from site are authorized</li> <li>• All sales proceeds are properly accounted for.</li> </ul>
Fixed asset physical control	<ul style="list-style-type: none"> <li>• Regular preventative maintenance is carried out for all fixed assets</li> <li>• The need for repairs is promptly identified and repairs are promptly carried out.</li> </ul>
Inventory receipts	<ul style="list-style-type: none"> <li>• There are accurate, timely and complete records of all inventory receipts.</li> <li>• There are no errors in computing actual costs of purchases</li> <li>• Perpetual records reflect the actual amounts of inventories.</li> <li>• All inventory receipts are properly supported by prime documents.</li> </ul>
Stock take	<ul style="list-style-type: none"> <li>• To verify perpetual inventory records or financial statements.</li> <li>• Inventory valuation</li> <li>• To ensure that inventory is valued at the lower of cost and net realizable value.</li> <li>• To ensure that the resultant value corresponds as closely as possible to actual costs.</li> </ul>
Inventory issuance	<ul style="list-style-type: none"> <li>• Accurate, timely and complete records of all inventory issued are maintained.</li> </ul>



Accounting Procedure	Objectives
	<ul style="list-style-type: none"> <li>• Perpetual records reflect the actual amounts of inventories. All inventories issued are properly supported by prime documents.</li> <li>• Inventory management reports</li> <li>• Each branch is provided with a tool for branch management to keep track of stock in and out, as well as stock balance.</li> <li>• Consolidated inventory information is available at the Head Office in which precise indication on current availability of critical stock items and their locations can be easily determined.</li> </ul>
Personal expenses	<ul style="list-style-type: none"> <li>• To establish a common policy and procedure concerning the reporting and reimbursement of business expenses incurred by EDC staff.</li> <li>• To provide a uniform and efficient method of administering, processing and controlling employees' travel and other business expenses.</li> </ul>
Branch closing procedures	<ul style="list-style-type: none"> <li>• Branches produce accurate financial statements and appropriate disclosures on a timely basis.</li> <li>• The accounts of the branches are presented as required by the company reporting policy.</li> </ul>
Financial Statement closing	<ul style="list-style-type: none"> <li>• To produce accurate financial statements and make appropriate disclosures on a timely basis.</li> </ul>
Cash management reports	<ul style="list-style-type: none"> <li>• To determine cash flows from each branch which would provide branch management a tool to control the cash receipts and disbursements on a daily basis.</li> <li>• To prepare consolidated cash flows which would provide head office with a precise indication on the current status of cash account balances for the whole company at month end, including opening balances, incurred amount and ending balances.</li> </ul>
Sales purchase report	<ul style="list-style-type: none"> <li>• Sales cycle information for each branch provides management with a precise indication on current status of the accounts receivable and accounts payable balances at month end, including opening balances, activity during the month and ending balances.</li> <li>• On the sales side the reporting process shows payment history of individual customers, as well as consolidated ageing analysis for each branch and overall.</li> </ul>
Fixed asset report	<ul style="list-style-type: none"> <li>• Adequate information is available to the branch and head office management regarding the precise location and status of every fixed asset.</li> <li>• Information on depreciation occurring during the year, and accumulated depreciation for individual fixed asset, as well as consolidated depreciation figures for the whole company are readily available for management decision making purposes.</li> </ul>
VAT reports	<ul style="list-style-type: none"> <li>• VAT reports from each branch provide management with precise information on the monthly VAT inputs payable, in order to prepare the monthly Income Statement to be submitted to the Tax Authorities</li> </ul>

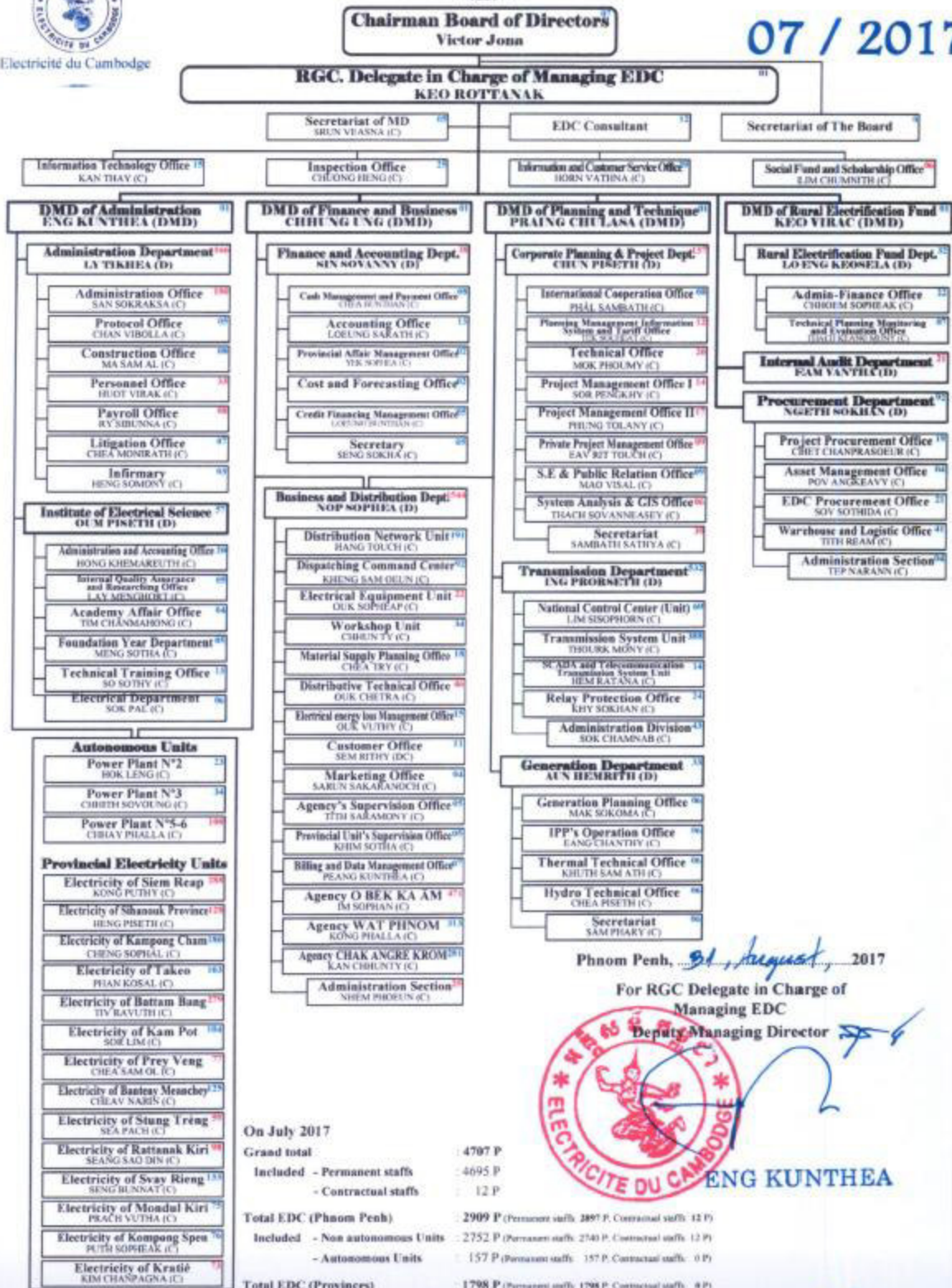
Accounting Procedure	Objectives
	<ul style="list-style-type: none"> <li>• VAT submission forms are compliant with the requirements prescribed by the Cambodian Tax Authority.</li> </ul>
Financial Statement	<ul style="list-style-type: none"> <li>• Financial Statements from each branch provide management with reports giving precise information on the branch's results of business operations, in a timely manner.</li> <li>• Consolidated financial statements are compliant with IAS and CAS.</li> </ul>
Budgeting procedures	<ul style="list-style-type: none"> <li>• Adequate guidance and a frame of reference are available so that budgets developed by branches are based on the same assumptions, targeted objectives, formats and agenda.</li> <li>• Roles and responsibility of management are clearly identified in the budget development, submission, review, approval and correction.</li> <li>• Budgets developed are sufficient, reliable, relevant and are useful tools for management to effectively monitor, control and improve operations and resource consumption.</li> </ul>



# Organization Chart of EDC

DPM 24-64-175-EDC - 2007/1

07 / 2017







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CMA, 28.14-17, EDC - 2017, 1

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