

Audited Project Financial Statements

Project Number: 43260-013
Loan Number: 2889
Period covered: 21 March 2013 to 31 December 2013

CAM: Third Education Sector Development Project

Prepared by Ministry of Education, Youth and Sport

For the Asian Development Bank
Date received by ADB: 16 Sept 2014

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Government of Cambodia.

**ROYAL GOVERNMENT OF CAMBODIA
MINISTRY OF EDUCATION,
YOUTH AND SPORT**

**Third Education Sector Development Project
ADB Loan No. 2889 – CAM (SF)**

**Financial Statements
for the period from 21 March 2013 to
31 December 2013
and
Report of the Independent Auditors**

Ministry of Education, Youth and Sport

Third Education Sector Development Project

ADB Loan No. 2889 – CAM (SF)

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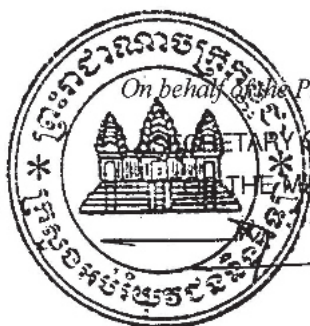
MINISTRY OF EDUCATION, YOUTH AND SPORT

No : MoEYS/Adm

Statement by the management

We do hereby state that in our opinion:

- a) The accompanying financial statements, which comprise the balance sheet as at 31 December 2013, the statement of receipts and expenditure/the statement of imprest accounts for the period from 21 March 2013 to 31 December 2013, and notes as set out on pages 4 to 13 of the Third Education Sector Development Project ("the Project"), funded by the Asian Development Bank Loan No. 2889 – CAM (SF) and implemented by the Ministry of Education, Youth and Sport, are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements.
- b) The disbursements shown in the financial statements were implemented according to the Loan Agreements and the Project was in compliance with all loan covenants of the Agreements for the period from 21 March 2013 to 31 December 2013.



On behalf of the Project's management: *[Signature]*

SECRETARY OF STATE
THE MINISTER

H.E. Nat Bunroeun
Project Director
Ministry of Education, Youth and Sport

Phnom Penh, Kingdom of Cambodia

Date: 12 AUG 2014

H.E. Thong Borann
Project Manager
Ministry of Education, Youth and Sport



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Report of the independent auditors

To the management of the Third Education Sector Development Project and the Ministry of Economy and Finance Royal Government of Cambodia

We have audited the accompanying financial statements of the Third Education Sector Development Project ("the Project"), funded by the Asian Development Bank ("ADB") Loan No. 2889 – CAM (SF) ("the Loan") and implemented by the Ministry of Education, Youth and Sport, which comprise the balance sheet as at 31 December 2013, the statement of receipts and expenditure/the statement of imprest accounts for the period from 21 March 2013 to 31 December 2013, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 4 to 13. The financial statements have been prepared by the management of the Project based on the basis of accounting and the accounting policies described in Note 2 to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Audit opinion

In our opinion, the financial statements of the Project for the period from 21 March 2013 to 31 December 2013 are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements.

Basis of accounting and restriction on distribution and use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting and the accounting policies adopted by the Project. The financial statements are prepared for the information and use of the management of the Project, the Ministry of Economy and Finance and the Asian Development Bank. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the management of the Project, the Ministry of Economy and Finance and the Asian Development Bank and should not be distributed to or used by any other parties.

For KPMG Cambodia Ltd



Phnom Penh, Kingdom of Cambodia

12 August 2014

Ministry of Education, Youth and Sport

Third Education Sector Development Project ADB Loan No. 2889 – CAM (SF)

Balance sheet As at 31 December 2013

	Note	As at 31 December 2013 US\$
Current assets		
Cash on hand		583
Cash at bank	3	734,869
Total assets		<u>735,452</u>
Represented by:		
Fund balance at end of the period		<u>735,452</u>

The accompanying notes form an integral part of these financial statements.

Ministry of Education, Youth and Sport

Third Education Sector Development Project
ADB Loan No. 2889 – CAM (SF)

Statement of receipts and expenditure/Statement of imprest accounts for the period from 21 March 2013 to 31 December 2013

	Note	Period from 21 March 2013 to 31 December 2013 US\$
Receipts		
Asian Development Bank	4	800,000
Expenditure by disbursement category	5	
Recurrent costs	6	64,548
Excess of receipts over expenditure/Fund balance at end of the period		<u>735,452</u>

The accompanying notes form an integral part of these financial statements.

Ministry of Education, Youth and Sport

Third Education Sector Development Project

ADB Loan No. 2889 – CAM (SF)

Notes to the financial statements

for the period from 21 March 2013 to 31 December 2013

These notes form an integral part of, and should be read in conjunction with, the accompanying financial statements.

1. Background and activities

The loan agreement for the Third Education Sector Development Project (“the Project”) between the Asian Development Bank (“ADB”) and the Royal Government of Cambodia (“RGC”) (represented by the Ministry of Economy and Finance) was signed on 17 January 2013, whereby the ADB agreed to grant a loan amounting to Special Drawing Rights (“SDR”) 11,805,000 (equivalent to US\$18,165,262.57). The Ministry of Education, Youth and Sport (“MoEYS”) has been assigned to implement the Project. The Project commenced its activities on 21 March 2013 and expected to be completed by 31 December 2017.

Funding of the Project by the ADB according to the allocation and withdrawal of the loan proceeds is as follows:

CATEGORY			ADB FINANCING
No.	Item	Amount Allocated SDR	Percentage and basis for withdrawal from the Loan Account
		Category	
1	Works (Schools and Classrooms)	5,235,000	100% of total expenditure claimed
2	Works (Wells and Toilets Facilities)	302,000	100% of total expenditure claimed
3	Classroom Materials	160,000	100% of total expenditure claimed
4	Furniture	475,000	100% of total expenditure claimed
5	Vehicles	130,000	100% of total expenditure claimed
6	Office Equipment	36,000	100% of total expenditure claimed
7	Capacity Development	132,000	100% of total expenditure claimed
8	School Improvement Grant	174,000	100% of total expenditure claimed
9	Consultants Services	1,408,000	100% of total expenditure claimed
10	Recurring Costs	1,684,000	100% of total expenditure claimed
11	Interest charge	423,000	100% of total expenditure claimed
12	Unallocated	1,646,000	
	Total	11,805,000	

Ministry of Education, Youth and Sport

Third Education Sector Development Project

ADB Loan No. 2889 – CAM (SF)

Notes to the financial statements (continued)

for the period from 21 March 2013 to 31 December 2013

1. Background and activities (continued)

The Government will contribute free of charge for the following in-kind: (i) MoEYS staff salary; (ii) training conducted by Department of Construction to School Support Committees on school building maintenance; and (iii) office space and equipment for implementation consultants.

The principal amount of the loan is payable in semi-annual instalments payable on 1 May and 1 November each year commencing on 1 May 2020 and ending on 1 November 2043. Each instalment shall be SDR245,938. The repayment of the loan principal and payment of interest charge shall be in United States Dollars.

An interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter, on the amount of the loan withdrawn and outstanding from time to time is payable semi-annually on 1 May and 1 November in each year. The grace period is the period prior to the first principal payment date.

The Ministry of Education, Youth and Sport ("MoEYS") is the Project's executing agency ("EA") and has overall responsibility for the project coordination and implementation. The EA will appoint the project implementation team which will be composed of two implementation agencies ("IA"): the Directorate General of Administration and Finance ("DGAF-IA1") and the Directorate of General Education ("DGE-IA2").

DGAF-IA1 will undertake consolidated planning, budgeting and reporting functions, as well as to assist and advise the provincial and district education offices on project implementation. DGAF-IA1 will review and consolidate annual work plans and budgets, as well as the progress reports and financial reports prepared by both implementing agencies. DGE-IA2 will manage the implementation of Project activities.

The objective of the Project is increased lower secondary ("LS") enrolment in target provinces thorough (a) improved access to LS schools; (b) improved quality of LS education; and (c) improved LS sub-sector management.

The Project shall comprise the following outputs:

Output 1: Improved Access to LS Schools. This output will include:

- constructing new LS schools in about 11 of those Target Provinces where no LS schools exist;
- providing school establishment packages for New Schools;
- expanding about 28 existing LS schools by additional classrooms in about 8 of the Target Provinces and expanding 5 LS schools in Phnom Penh to include 2-3 floors;
- constructing classrooms for LS in approximately 22 existing primary schools in about a of the Target Provinces;

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Third Education Sector Development Project

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Notes to the financial statements (continued)

for the period from 21 March 2013 to 31 December 2013

1. Background and activities (continued)

Output 1: Improved Access to LS Schools (continued)

- constructing about 27 units of teacher housing as an incentive to attract and retain teachers in remote areas in each of the target provinces and 1 dormitory at the regional teacher training center in Phnom Penh;
- providing clean water and lavatory facilities for about 76 LS schools where there are no such facilities in each of the Target Provinces; and
- campaigning (brochures, posters, media) to promote increased participation and completion of basic education with an emphasis on the benefits of girls' attainment of basic education.

Output 2: Improved Quality of LS Education. This output will include:

- introduce school-based enrichment program (SBEP) by providing support for SBEP including training for LS school directors and deputy directors to:
 - (a) Develop targeted interventions in key subject areas of math and science;
 - (b) Make classroom learning more relevant to better engage students; and
 - (c) Develop intervention strategies for improving student retention;
- pilot school improvement grants in Target Provinces by financing school improvement grants to about 100 LS schools, to be selected in accordance with the selection criteria provided in the PAM, within Target Provinces to support school directors in implementing SBEP;
- scaling up improved math and science in-service teacher training by:
 - (a) Scaling up the Borrower's existing national math in-service teacher training (Math-INSET) pilot through the training of national trainers, consisting of MoEYS staff, at Borrower's 6 regional teacher training centres to further train technical group leaders specialised in math at LS schools nationwide; and
 - (b) Piloting a science in-service teacher training (Science –INSET) program for about 100 LS schools linked to the Borrowers' secondary resource school – secondary resource school networks in operation.
- introducing employability skills program by supporting the design and implementation of the employability skills program, guided by the Borrower's national policy on Cambodian youth development, and aimed to provide integrated learning experiences for youth aged 12-14 years, including development of basic skills within the context of entrepreneurship and other areas supporting enterprise, and measures to foster girl's empowerment.

Ministry of Education, Youth and Sport

Third Education Sector Development Project

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Notes to the financial statements (continued)

for the period from 21 March 2013 to 31 December 2013

1. Background and activities (continued)

Output 3: Improved LS sub-sector Management: This output includes:

- strengthening school-based management and instructional leadership by providing nationwide training to directors and deputy directors of LS schools through workshops addressing the principles of school-based management, development of school improvement plans, data-based decision making, and strategies for instructional leadership that responds to local needs;
- strengthening school support committees by conducting a nationwide orientation program to disseminate guidelines to school support committees of LS schools with a focus on the role of the school support committee in implanting DSBEP and school improvement grants;
- introducing basic education school clusters by piloting basic education school clusters streamlining administration of primary and LS schools to enable sharing of resources and greater community engagement in basic education management. Basic education school clusters refer to groupings of primary and LS schools for administrative and educational purposes; and
- introducing action research for policy development by enhancing the capacity of the Borrower's National Institute of Education and the Royal University of Phnom Penh to conduct policy development action research through impact studies and comprehensive data analysis and evaluation.

2. Significant accounting policies

The following significant accounting policies have been adopted by the Project in the preparation of the financial statements.

(a) Basis of preparation

The financial statements, which are expressed in United States Dollars ("US\$"), have been prepared in accordance with a modified cash receipts and disbursements basis of accounting. This is a basis of accounting that is designed to meet the requirements of the Project; it is not designed to produce financial statements that are compatible with International Financial Reporting Standards. Under this basis of accounting, income is recognised when funds are received in cash and expenditure is recognised when payments are made rather than when it is incurred, except for the advances made to staff or suppliers that are initially recognised as a receivable and only recognised as payments when they have been liquidated by supporting invoices.

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Third Education Sector Development Project

ADB Loan No. 2889 – CAM (SF)

Notes to the financial statements (continued)

for the period from 21 March 2013 to 31 December 2013

2. Significant accounting policies (continued)

(b) Statement of imprest accounts

The statement of imprest accounts is prepared in accordance with the loan agreement and is purely used to receive and disburse for expenditure financed by the ADB loan proceeds.

(c) Non-expendable equipment

The cost of non-expendable equipment is charged to the statement of receipts and expenditure upon acquisition. For control and management purposes, a memorandum account for non-expendable equipment is maintained by way of a non-expendable equipment listing.

(d) Foreign currency translation

The Project transacts its business and maintains its accounting records primarily in United States Dollars ("US\$"). Transactions in currencies other than US\$ are converted into US\$ at the rates of exchange prevailing on the transaction dates. Monetary assets and liabilities in currencies other than US\$ are translated into US\$ at the open market rates of exchange at the period end date. All foreign exchange differences are recognised in the statements of receipts and expenditure.

(e) Contribution in kind

The contribution in-kind which comprises of (i) MoEYS staff salary, (ii) training conducted by Department of Construction to School Support Committees on school building maintenance and (iii) office space and equipment for implementation consultants, from the Government is not accounted for in statement of receipts and expenditure.

3. Cash at bank

	As at 31 December 2013 US\$
Imprest account - Asian Development Bank	734,869

This represents non-interest bearing current account maintained at the National Bank of Cambodia.

Ministry of Education, Youth and Sport

Third Education Sector Development Project

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Notes to the financial statements (continued)

for the period from 21 March 2013 to 31 December 2013

4. Receipts

Asian Development Bank

	Period from 21 March 2013 to 31 December 2013 US\$
Initial advance	800,000

Receipts from the Asian Development Bank for Loan No. 2889 - CAM (SF) were paid into the imprest accounts which has been jointly established by Ministry of Economy and Finance and Ministry of Education, Youth and Sport at National Bank of Cambodia. The withdrawal application for initial advance amounting to US\$800,000 was disbursed by ADB to the imprest accounts on 1 August 2013.

Ministry of Education, Youth and Sport

Third Education Sector Development Project
ADB Loan No. 2889 – CAM (SF)

Notes to the financial statements (continued)
for the period from 21 March 2013 to 31 December 2013

5. Expenditure by disbursement category and financier

Particulars	% of financing %	ADB		Government		Total
		US\$	%	US\$	%	
Recurring Costs	100	64,548	100%	-	-	64,548
Total payments – from 21 March 2013 to 31 December 2013		64,548				64,548
% of total project costs – from 21 March to 31 December 2013		0.36%				0.36%
% of cumulative cost to total project costs – from 21 March 2013 to 31 December 2013		0.36%				0.36%

Ministry of Education, Youth and Sport

Third Education Sector Development Project

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Notes to the financial statements (continued)

for the period from 21 March 2013 to 31 December 2013

6. Recurring costs

	Period from 21 March 2013 to 31 December 2013 US\$
Operation and maintenance	6,801
Staff allowance	46,140
Administrative costs	11,607
	<hr/>
	64,548
	<hr/>

7. Statement of disbursement

Details of statement of disbursement from ADB are as follows:

		Period from 21 March 2013 to 31 December 2013 US\$
ADB Fund claims during the period		
Reimbursements		-
Direct payments		-
		<hr/>
Subtotal	(A)	-
		<hr/>
Total expenditure made during the period	(B)	64,548
Expenditure not yet claimed	(C)	(64,548)
		<hr/>
Total eligible expenditure claimed (A=D=B+C)	(D)	-
		<hr/>

8. Comparative figure

There was no comparative figure as this is the first set of financial statements prepared since commencement of the Project.