

# United Nations Development Programme



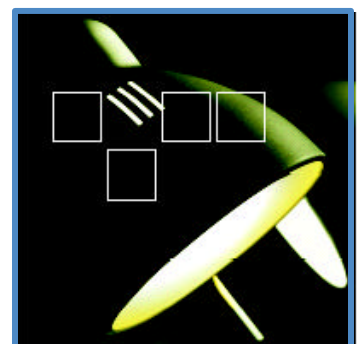
## Financial Management Capacity Assessment of Forestry Administration, Ministry of Agriculture, Forestry and Fisheries, Royal Government of Cambodia

**Lochan & Co.**  
Chartered Accountants

# Contents



Particulars	Page Nos.
<b>SECTION I</b>	
Introduction	1
Executive Summary	1
Brief Background	2
<b>SECTION II</b>	
Detailed Assessment	3
<b>SECTION III</b>	
Checklist B : Financial Management Questionnaire	12
Annexure	37
<b>SECTION IV</b>	
Assessment Scope and Methodology	44
Scope Limitations	45
Abbreviations and Acronyms	46



## SECTION – I

### 1. Introduction

1.1 As per Terms of Reference (ToR) attached to United Nations Development Program (UNDP) contract with Lochan & Co (LC) dated 07 October 2010, UNDP has assigned the Micro (Financial) Management Capacity Assessment of Forestry Administration (FA) and LC has undertaken the same.

UNDP and other three UN Agencies have adopted Harmonized Approach to Cash Transfer (hereinafter referred as HACT) to transfer the funds to Implementing Partners i.e. Government and Non-Government Organizations. As per HACT clauses, Financial Management Capacity Assessments of Implementing Partners is to be undertaken with following parameters:

- I. To assess the Implementing Partner's financial control systems to enable the assessor to express a professional opinion on the adequacies of the accounting and internal control systems, authenticity and transparency of the accounting returns, effective and efficient use of the fund resources, and
- II. To identify those particulars areas of capacity that are strongest and those that need improvement.

This exercise is only a broad evaluation and not an audit; LC is not rendering an opinion as to whether the UNDP should initiate funding to the Implementing Partner or not.

### 1.2. Executive Summary

**Based on our detailed assessment of checklist B, LC has assessed the overall risk of Forestry Administration (FA) as Low.**

**Risk Analysis / Assessment** of FA is summarized in the matrix below:

Risk	Risk Assessment	Risk Mitigation Measures
<b>Control Risk</b>		
1. Implementing Partner	Low	Refer to recommendation
2. Funds Flow	Moderate	Refer to recommendation
3. Staffing	Low	Refer to recommendation
4. Accounting Policies & Procedures	Low	Refer to recommendation
5. Internal Audit	Low	Refer to recommendation
6. External Audit	Low	Refer to recommendation
7. Reporting and Monitoring	Moderate	Refer to recommendation
8. Information Systems	Moderate	Refer to recommendation
<b>Overall Risk</b>	<b>Low</b>	
*H – High, S – Significant, M – Moderate, L – Low		

#### Overall Assessment:

- The organizational structure of FA is appropriate for the work to be carried out under UN cooperation if the prevalent internal controls are maintained and initiatives for the capacity building of the staffs are undertaken.
- FA follows cash basis of accounting. Funds flow arrangements are well in place but Forestry Administration is also receiving the funds from Government through cash besides banking channel and is disbursing the funds to the Local Cantonments (field level office) in cash.

- The books of accounts are maintained manually. The procurement of goods and services are made by MAFF on behalf of FA. The control for preparation of payroll is in existence. The budgetary system is satisfactory.
- The system for safeguard over assets needs improvement on account insurance coverage of the assets.
- The Internal Audit Department of MAFF conducts the internal audit of FA in an annual basis. However, only the expenditures related to the National Budget are covered under the scope of internal audit.
- FA is also subject to National Audit by the National Audit Authority of the Royal Government of Cambodia. However, only the expenditures related to the National Budget are covered under the scope of National Audit.
- The Financial Management System of FA is not computerized.
- It was explained that the Donor Funds are being managed by Project Management Unit (PMU) and all the responsibilities regarding the proper management and implementation of the donors' projects lies with the PMU.

### 1.3 Brief Background of Forestry Administration

Forestry Administration (FA) is a government authority under the Ministry of Agriculture Forestry and Fisheries (MAFF) in managing forests and forest resources according to the National Forestry Sector Policy and the Forestry Law.

#### Objectives of FA

According to the National Forestry Sector Policy and the Forestry Law, the main objective of FA is to ensure the sustainable management of forests in the country. To this end, FA is to perform the following duties based on the Forestry Law:

- Issue regulation and forestry policy governing forest activities to ensure sustainable management of the permanent forest estate.
- Collect data on state forest highlighting the scientific, economic, social and environment factors necessary to determine a sustainable production level.
- Assess boundaries classification and demarcation of forests in order to develop a land use map of the permanent forest estate in coordination with the Ministry of Land Management, Urban planning and Construction, local authorities and communities
- Prepare and implement the National Forest Management plan at each level of the FA
- Promote reforestation on degraded forest land and idle forest land
- Promote the development of community forest agreements and programs by providing financial and technical assistance to communities where feasible
- Develop and implement research, protection and conservation programs for forest resources and wildlife
- Take appropriate measure investigate, prevent and suppress various forms of forest destruction, forest fires and forest clearing to ensure effective forestry law enforcement
- Promote public education programs demonstrate the importance of managing, maintaining and protecting forest resources, as well as taking action to rehabilitate natural ecosystems and maintain national forest
- Promote international cooperation to strengthen the capacity to protect and develop forest resources



## SECTION – II

### 2.0 Detailed Assessment

Our detailed assessment is based on ‘**Checklist B: Financial Management Questionnaire**’ of Financial Assessment, which is attached as **section 3.1**. LC has assessed the risk in eight areas and same are detailed below:

#### 2.1 Implementing Partner

**Risk Assessed: Low**

Forestry Administration (FA) is one of the departments working under the Ministry of Agriculture, Forestry and Fisheries (MAFF) of the Royal Government of Cambodia. FA is receiving funds from Donor Agencies and from the Government of Cambodia.

FA is required to submit monthly, quarterly and annual statement of expenditure to MAFF. The MAFF submits the annual report to Ministry of Economy and Finance which then submits it to the Parliament.

There is a well structured government system in place which under Council of Ministers who are elected through election process i.e. mandate. The overall organizational structure of FA is depicted in **Annexure 3.2.2**.

#### LC’s Assessment

The organizational structure is appropriate for the work to be carried out under Government.

As explained to us, the donor funded projects are maintained by Project Monitoring Unit (PMU) and hence FA has not managed donor funded projects and therefore lacks experience.

However the organizational structure of FA is appropriate for the work to be carried out under UN cooperation if the prevalent internal controls are maintained and initiatives for the capacity building of the staffs are undertaken.

#### 2.2 Funds Flow

**Risk Assessed: Moderate**

The fund mechanism of government system is in place. The IP has maintained separate bank accounts to facilitate fund transfer from Government and from other donors.

LC has the following observations in this regard:

<b>Subject Area</b>	<b>Funds Flow</b>
<b>Checklist B Reference</b>	Point No. 2.2
<b>Observation No.</b>	1
<b>Subject Title</b>	Frequent transfer of funds to FA in cash.
<b>Observation</b>	<ul style="list-style-type: none"> <li>• FA maintains two bank accounts for the receipt of funds from the Government.</li> <li>• However, it is receiving funds from the Government frequently in cash instead of banking channel.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• Funds to FA should be provided through banking channel to ensure proper accounting for of the receipts and ensure control over the transactions.</li> </ul>

<b>Subject Area</b>	<b>Funds Flow</b>
<b>Checklist B Reference</b>	Point No. 2.3

<b>Observation No.</b>	<b>2</b>
<b>Subject Title</b>	<b>Delay in approval of budget for disbursements of funds by Line Ministry i.e. MAFF</b>
<b>Observation</b>	<ul style="list-style-type: none"> <li>FA receives the funds from MAFF after the budget is approved by MAFF and MEF.</li> <li>In principle the approval of budget process takes 2-4 months.</li> <li>However when the approvals are in place, the funds are transferred within a week.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>It is recommended that UNDP should transfer the funds directly to FA after getting the requisite approval of projects in principle with MAFF.</li> </ul>

<b>Subject Area</b>	<b>Funds Flow</b>
<b>Observation No.</b>	<b>3</b>
<b>Checklist B Reference</b>	Point No. 2.7
<b>Subject Title</b>	Disbursements of funds to Local Cantonments (field level office) in cash.
<b>Observation</b>	<ul style="list-style-type: none"> <li>FA is implementing its activities through Local Cantonments.</li> <li>The FA is following the practice of disbursements of funds to Local Cantonments (field level office) through cash.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>FA should ensure that separate bank accounts for Local Cantonments (field level office) are opened and the funds are disbursed to them through banking channel.</li> </ul>

<b>Subject Area</b>	<b>Funds Flow</b>
<b>Checklist B Reference</b>	Point No. 2.6
<b>Observation No.</b>	<b>4</b>
<b>Subject Title</b>	Funds received from the donors are not part of the national budget.
<b>Observation</b>	<ul style="list-style-type: none"> <li>MAFF first approves the budget and then it is submitted to MEF.</li> <li>MEF finally approves the budget and it becomes part of the national budget. It is then submitted to the Council of Ministers.</li> <li>The national budget is being approved by the Council of Ministers.</li> <li>Once this process is complete, then FA can access the funds through Government Treasury.</li> <li>However, specific funds received from other donors are not part of the national budget.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>The project funds should also be part of FA budget to have more accountability and transparency of the project funds.</li> </ul>

**2.3 Staffing**

**Risk Assessed: Low**

The organizational structure of accounts department seems to be appropriate for the level of financial volume. The organizational structure of finance & accounts department of FA is attached as **annexure 3.2.5**, the details of the accounting staffs are attached as **annexure 3.2.6**.

**LC's Assessment:**

The arrangement regarding the Staffing of Finance & Accounts Department seems to be satisfactory except for the observation mentioned below:

<b>Subject Area</b>	<b>Staffing</b>
<b>Checklist B Reference</b>	Point No. 3.2, 3.3, 3.4, 3.5
<b>Observation No.</b>	<b>5</b>
<b>Subject Title</b>	Capacity development of Accounts and Finance Staff for the financial management of Donors' Funds.
<b>Observation</b>	<ul style="list-style-type: none"> <li>• The projects funded through other donors' funds are managed by Project Management Unit (PMU).</li> <li>• The Accounts and Finance Staffs of FA have not undertaken any Financial Management of such projects.</li> <li>• Moreover, the Financial Management System of FA is not computerized and the Accounts and therefore the Finance and Accounts Staffs are not capable of managing the computerized Financial Management System.</li> <li>• Further, the competency of staff regarding interaction with Donor Agencies' personnel and undertaking the responsibilities as per agreements with donors regarding financial reporting needs improvement.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• FA should identify the areas that require improvement and develop capacity building program based on the need analysis and impart trainings and other capacity building activities according to the capacity building program.</li> <li>• FA should also develop Monitoring and Evaluation procedures for evaluating the impact of the capacity building initiative of the staffs.</li> </ul>

<b>Subject Area</b>	<b>Staffing</b>
<b>Checklist B Reference</b>	Point No. 3.5
<b>Observation No.</b>	<b>6</b>
<b>Subject Title</b>	Familiarity with UN procedures related to Cash Transfer
<b>Observation</b>	<ul style="list-style-type: none"> <li>• The finance and accounts staffs are not aware of the new system introduced by UN Agencies; particularly of HACT provisions.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• UNDP should provide orientation to FA finance and accounts staff regarding the HACT provisions</li> </ul>

**2.4 Accounting Policies and Procedures**

**Risk Assessed: Low**

**2.4.1 Accounting Policies and Procedures**

FA maintains its books of accounts manually for accounting for the transaction related to Government Funds. There is a proper chart of accounts in place for allocation of expenditure related to Government Funds.

**LC's Assessment:**

The arrangement for the Accounting Policies and Procedures seems to be satisfactory except for the observation mentioned below:

<b>Subject Area</b>	<b>Accounting Policies and Procedures</b>
<b>Checklist B Reference</b>	4.5
<b>Observation No.</b>	7
<b>Subject Title</b>	Complete set of books of accounts is not maintained by FA
<b>Observation</b>	<ul style="list-style-type: none"> <li>• FA maintains journals, general ledgers, cash and bank book regarding the government funds.</li> <li>• It does not maintain subsidiary ledgers.</li> <li>• Hence complete set of books of accounts is not maintained by FA.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• FA should maintain subsidiary ledgers of accounts along with the general ledgers.</li> <li>• FA should establish procedure for reconciling the general ledgers with subsidiary ledgers.</li> </ul>

**2.4.2 Segregation of Duties**

Duties for authorization of expenditure and recording of the transactions are well segregated. The functions of ordering, receiving, accounting for and paying for goods and services are properly segregated.

**LC's Assessment**

Assessing Firm has the following observation in this regard:

<b>Subject Area</b>	<b>Segregation of Duties</b>
<b>Checklist B Reference</b>	Point No. 4.9
<b>Observation No.</b>	8
<b>Subject Title</b>	Bank Reconciliation Statements are not prepared.
<b>Observation</b>	FA is not preparing Bank Reconciliation Statements.
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• FA should follow the practice of preparing Bank Reconciliation Statement in a monthly basis.</li> <li>• The duties of preparation of Bank Reconciliation Statements and approval of the same should be segregated for better internal control.</li> <li>• FA should ensure review of any unusual item in the bank reconciliation statements and approval of the same by a responsible official.</li> </ul>



### 2.4.3 Budgeting Systems

The budget for implementation of activities funded through Government funds are prepared with physical and financial targets and approved by appropriate authorities.

Budget Vs Actual expenditure is being undertaken and reasons for variation thereon are being well recorded and approved. Approvals from variations from the budget are taken on advance or after the fact based on the nature of expenditure for any expenditure.

The plans and budgets of activities prepared seem to be realistic, based on valid assumptions and developed by qualified and experienced staff.

#### LC's Assessment

The arrangement regarding the Budgeting System regarding the Government Funds seems to be satisfactory.

### 2.4.4 Payments

All the procurement of goods and services for FA is undertaken by MAFF. Proper controls exist for the preparation of payroll and the changes to the payroll are properly authorized.

#### LC's Assessment

Assessing Firm has no observations in this regard.

### 2.4.5 Policies and Procedures

FA follows cash basis of accounting. It follows the Manual of Accounting issued by Ministry of Economy and Finance for the maintenance of its books of accounts.

It follows the policies and procedures of the Royal Government of Cambodia to guide activities and ensure staff accountability.

#### LC's Assessment

Assessing Firm has the following observations in this regard:

Subject Area	Policies and Procedures
Checklist B Reference	Point No. 4.21
Observation No.	9
Subject Title	Internationally Accepted Accounting Standards are not followed.
Observation	<ul style="list-style-type: none"> <li>FA follows the Manual Accounting issued by the Ministry of Economy and Finance.</li> <li>FA doesn't follow Internationally Accepted Accounting Standards.</li> </ul>
Recommendation	<ul style="list-style-type: none"> <li>FA should follow internationally accepted accounting standards for the preparation of its books of accounts.</li> </ul>

Subject Area	Policies and Procedures
Checklist B Reference	Point No. 4.28
Observation No.	10
Subject Title	No policy on conflict of interest
Observation	<ul style="list-style-type: none"> <li>Policies and procedures of FA do not clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them</li> </ul>
Recommendation	<ul style="list-style-type: none"> <li>FA may develop policy that defines conflict of interest and provide for disclosure of related party transactions.</li> </ul>

- |  |   |
|--|---|
|  | <ul style="list-style-type: none"> <li>FA should also provide a presentation in this regard to sensitise its staffs about the issue of conflict of interest.</li> </ul> |
|--|---|

#### 2.4.6 Cash and Bank

FA maintains adequate, up-to date cashbook, recording receipts and payments regarding the funds received from MAFF. Proper controls exist for the collection, timely deposit and recording of receipts.

##### LC's Assessment

Assessing Firm has observed that FA frequently receives the Government Funds in cash and also disburses the funds to Local Cantonments (field level office) under Cash Modality. FA doesn't prepare bank reconciliation statements. These have been detailed in **Observation numbers 1, 3 and 8** respectively.

#### 2.4.7 Safeguard over Assets

FA has proper system for safeguarding of assets from fraud, waste and abuse. It carries out periodic physical verification of Assets.

##### LC's Assessment

Assessing Firm has the following observations in this regard:

Subject Area	Safeguard Over Assets
Checklist B Reference	Point No. 4.33
Observation No.	11
Subject Title	Log book of use of vehicles is not maintained.
Observation	<ul style="list-style-type: none"> <li>FA is not maintaining any log book regarding the use of the vehicles.</li> </ul>
Recommendation	<ul style="list-style-type: none"> <li>FA should adopt the practice of maintaining log books to record the details regarding the use of vehicles.</li> </ul>

Subject Area	Safeguard Over Assets
Checklist B Reference	Point No. 4.36
Observation No.	12
Subject Title	No insurance coverage for assets
Observation	Assets are not covered by insurance policies.
Recommendation	FA should obtain insurance policy to safeguard the assets against any un foreseen incident.

#### 2.4.8 Other Offices or Entities

FA is implementing its activities through its Local Cantonments. FA has established controls and procedures for flow of funds, financial information, accountability and audits in relation to the Local Cantonments.

##### LC's Assessment:

The arrangement regarding the Local Cantonments (field level office) for flow of funds, financial information, accountability and audits seems to be satisfactory except for the observation mentioned below:

<b>Subject Area</b>	<b>Other Offices or Entities</b>
<b>Checklist B Reference</b>	Point No. 4.38
<b>Observation No.</b>	<b>13</b>
<b>Subject Title</b>	No books of accounts are maintained at Local Cantonments (field level office).
<b>Observation</b>	<ul style="list-style-type: none"> <li>FA has established controls and procedures for flow of funds, financial information, and audits in relation to the Local Cantonments.</li> <li>However books of accounts are not maintained at the Local Cantonments. Only the bills and expenditure detail is sent at the end of each month.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>FA should establish the procedure for the maintenance of books of accounts at the Local Cantonments (field level office) for better accountability of the expenditures incurred and strengthening of its financial management system</li> <li>The accounts at Local Cantonments (field level office) should be periodically reconciled with the accounts maintained by FA at Central Level.</li> </ul>

#### 2.4.9 Reporting of Suspected Frauds

FA has Disciplinary Committee in place at the Central Level and Inspectorate Level in order to inspect any reports of suspected fraud, waste or misuse of resources or property.

##### LC's Assessment

The arrangement regarding the Reporting of Suspected Frauds seems to be satisfactory. Assessing Firm has no observations in this regard.

#### 2.5 Internal Audit

**Risk Assessed: Low**

LC's Assessment:

Assessing Firm has the following observation in this regard:

<b>Subject Area</b>	<b>Internal Audit</b>
<b>Checklist B Reference</b>	Point No. 5.1, 5.4
<b>Observation No.</b>	<b>14</b>
<b>Subject Title</b>	No internal audit is conducted for the overall accounts of FA.
<b>Observation</b>	<ul style="list-style-type: none"> <li>FA is a department under MAFF and is subject to annual internal audit which is undertaken by the Internal Audit Department of MAFF.</li> <li>However only the transactions related to national budget are subject to internal audit by the Internal Audit Department of MAFF. Donor funded projects are not part of these annual internal audits.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>Donors' projects shall either become part of the internal audit conducted by the Internal Audit Department of MAFF or independent auditors may be appointed to undertake the audit of consolidated financial statements.</li> </ul>

#### 2.6 External Audit

**Risk Assessed: Low**

FA is a department under MAFF and is subject to national audit which is undertaken by the National Audit Authority of the Royal Government of Cambodia on a case by case basis

based on the results and recommendation of the Internal Audit Report or on the recommendation of Ministry of Economy and Finance.

**LC' Assessment**

Assessing Firm has the following observation in this regard.

<b>Subject Area</b>	<b>External Audit</b>
<b>Observation No.</b>	<b>15</b>
<b>Subject Title</b>	No external audit is conducted for the overall books of accounts of FA.
<b>Observation</b>	<ul style="list-style-type: none"> <li>• The donors' funds are not part of National Budget. So these are not audited by National Audit Authority of the Royal Government of Cambodia.</li> <li>• The National audit is also not conducted on an annual basis.</li> <li>• However donors get the audit undertaken for the projects funded by them.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• Donors' projects shall either become part of the National Audit or independent auditors may be appointed to undertake the audit of consolidated financial statements.</li> </ul>
<b>Checklist B Reference</b>	Point No. 6

**2.7 Reporting and Monitoring**

**Risk Assessed: Moderate**

FA prepares monthly, quarterly and annual financial reports related to its national budget. The annual financial report is submitted to MAFF which then submits it to MEF. It was explained that the financial reporting regarding the donors' funded projects are made as per the agreement with the donors.

**LC's Assessment**

Assessing Firm has the following observation in this regard:

<b>Subject Area</b>	<b>Reporting and Monitoring</b>
<b>Checklist B Reference</b>	Point No. 7.1
<b>Observation No.</b>	<b>16</b>
<b>Subject Title</b>	Consolidated statement of accounts including the donor funded projects' account is not prepared.
<b>Observation</b>	<ul style="list-style-type: none"> <li>• FA is submitting monthly, quarterly and annual statement of expenditure reports and submitting them to MAFF.</li> <li>• The statement of expenditure reports of the donor funded projects are also submitted to the donors in a periodic basis.</li> <li>• However, consolidated financial statements including both the National Budget and the donors funded projects are not prepared by FA for submission to any authority of the RGC.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• FA should prepare Annual Consolidated Financial Statement for its operations in Cambodia and get it audited by external auditors.</li> </ul>
<b>Subject Area</b>	<b>Reporting and Monitoring</b>
<b>Observation No.</b>	<b>17</b>
<b>Subject Title</b>	Financial Reports and Physical Progress Reports are not synchronized through software.

<b>Observation</b>	<ul style="list-style-type: none"> <li>• Proper control exists to reduce the risk that physical data match with financial data. Both the reports are manually checked and matched before submitting to donor.</li> <li>• There is no system, where financial information may be linked with the AWP's physical progress through software. However, separate financial and physical reports are prepared.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• FA should develop accounting software with the capacity to link the financial information with the AWP's physical progress.</li> </ul>
<b>Checklist B Reference</b>	Point No. 7.4 & 7.8

## 2.8 Information Systems

**Risk Assessed: Moderate**

FA maintains books of accounts manually. This data is converted into reporting format by using Excel Sheets. Staffs are trained to maintain the manual system.

### LC's Assessment

Assessing Firm has the following observation in this regard:

<b>Subject Area</b>	<b>Information Systems</b>
<b>Checklist B Reference</b>	Point No. 8.1
<b>Observation No.</b>	<b>18</b>
<b>Subject Title</b>	Financial Management System is not computerized
<b>Observation</b>	<ul style="list-style-type: none"> <li>• The books of accounts are maintained manually.</li> <li>• The Financial management system of FA is not computerized.</li> </ul>
<b>Recommendation</b>	<ul style="list-style-type: none"> <li>• FA should adopt computerized financial management system and the financial reports should be generated automatically from the financial system.</li> <li>• The staff should be trained to operate the computerized financial management system.</li> <li>• The computerized system should safeguard the confidentiality, integrity, and availability of the data.</li> </ul>

Sharad Agarwal, Partner

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Date: 19.05.2011

Place: Delhi



## SECTION – III

### 3.1 Checklist B: Financial Management Questionnaire

Date: 19.05.2011

Implementing Partner: Forestry Administration (FA)

Summary of Risks related to the Financial Management Capacity of Implementing Partner					
<b>Tested Subject Area</b> (see subsequent pages for questions for each area that should be completed and summarized in the sections below)					
	Risk Assessment				Comments
	H	S	M	L	
1. Implementing Partner				✓	
2. Funds Flow			✓		
3. Staffing				✓	
4. Accounting Policies and Procedures				✓	
5. Internal Audit				✓	
6. External Audit				✓	
7. Reporting and Monitoring			✓		
8. Information Systems			✓		
Overall Risk Assessment	H	S	M	L	<b>Low</b>

H – High

S – Significant

M – Moderate

L – Low

### Financial Management Questionnaire

Subject Area	Yes	No	N/A	Review	Remarks / Comments
<b>1. Implementing Partner</b>					
1.1 Is the Implementing Partner legally registered? Please note the legal status / registration of the entity.				Review	<ul style="list-style-type: none"> <li>Forestry Administration (FA) is one of the departments working under the Ministry of Agriculture, Forestry and Fisheries (MAFF) of the Royal Government of Cambodia.</li> <li>Hence the legal status of the Forestry Administration is appropriate.</li> </ul>
1.2 Has the Implementing Partner received UN resources in the past?	Yes				<ul style="list-style-type: none"> <li>FA has received a small grant from FAO amounting to US\$ 9097.95 only in 2010 and besides that it has not received any funds from UN resources in the past.</li> </ul>
1.3 Does the IP have statutory reporting requirements? Please describe.	Yes				<ul style="list-style-type: none"> <li>FA reports to Ministry of Agriculture, Forestry and Fisheries (MAFF). MAFF submits the consolidated reports to Ministry of Economy and Finance (MEF). Then MEF puts the reports to the Parliament through Council of Ministers.</li> <li>These expenditure reports are being submitted once a year i.e. fiscal year.</li> </ul>
1.4 Is the governing body for the Implementing Partner independent?	Yes				<ul style="list-style-type: none"> <li>There is a well structured government system in place under which Council of Ministers are elected through election process i.e. mandate. FA is one of the departments of MAFF.</li> <li>Hence the governance system is independent and representatives are being elected through mandate.</li> </ul>
1.5 Is the organizational structure appropriate for the work to be carried out under UN cooperation?		No			<ul style="list-style-type: none"> <li>There is a proper and appropriate government structure in place where reporting arrangements and authorities are in place.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>The organizational structure is depicted in <b>annexure 3.2.1</b>.</li> <li>As stated earlier, Forestry Administration is one of the departments of MAFF.</li> <li>The organizational structure is appropriate for the work to be carried out under the Government.</li> <li>As explained to us, the donor funded projects are maintained by Project Monitoring unit (PMU) and hence FA has not managed donor funded projects and therefore lacks experience.</li> <li>However the organizational structure of FA is appropriate for the work to be carried out under UN cooperation if the prevalent internal controls are maintained.</li> </ul>
Risk Assessment (Implementing Partner)	H	S	M	L	<b>Risk Assessed: Low</b>
<b>2. Funds Flow</b>					
2.1 Can the entity receive and transfer funds?	Yes				<ul style="list-style-type: none"> <li>The fund mechanism of government system is in place. The IP has maintained separate bank accounts to facilitate fund transfer.</li> <li>In case of Government funds, the funds are being transferred to MEF. Then MEF transfers the funds to MAFF and finally it reaches to Forestry Administration. The transfer is done either by cheque or bank transfer or even by cash.</li> <li>The funds are being received directly from other donor Agencies i.e. there are separate bank accounts for the same.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>• However FA is not directly involved in receiving and managing these specific project funds. FA is not being regularly informed about the receipts and payments of such project funds.</li> <li>• The funds flow system of FA is depicted in <b>annexure 3.2.2</b></li> </ul>
<p>2.2 Are the arrangements to transfer the funds to the entity satisfactory?</p>		No			<ul style="list-style-type: none"> <li>• FA gets the requisite approvals from MEF and MAFF before receiving the funds in its bank accounts.</li> <li>• Funds are also frequently being received in cash from line ministry i.e. MAFF.</li> <li>• Donors' funds are being received through separate bank accounts and FA maintains certain bank accounts for this purpose.</li> <li>• Transfer of cash from FA to Local Cantonments (field level office) is under Cash Modality.</li> <li>• <b>Refer to recommendation mentioned in paragraph 2.2.</b></li> </ul>
<p>2.3 Have there been major problems in the past in receipt of funds by the entity, particularly where the funds flow from the Government / Ministry of Finance?</p>		No			<ul style="list-style-type: none"> <li>• FA receives the funds from MAFF after the budget is approved by MAFF and MEF.</li> <li>• In principle the approval of budget process takes 2-4 months.</li> <li>• Once approvals are in place, funds are being transferred within one to two weeks.</li> <li>• However this fund mechanism applies only to Government funds.</li> <li>• It was explained that Donor Funds are being received directly and deposited into separate bank accounts and are</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<p>being managed by Project Management Unit (PMU).</p> <ul style="list-style-type: none"> <li>• <b>Refer to recommendation mentioned in paragraph 2.2.</b></li> </ul>
<p>2.4 In the past, has the entity had any problems in the management of disbursements from a member of the UN country team? Please describe.</p>		No			<ul style="list-style-type: none"> <li>• As mentioned earlier, FA has not received major funds from any member of the UN country team except grant from FAO amounting to US\$ 9,097.95.</li> <li>• However FA can receive the funds from the donors directly into its separate bank account if in principle approval of the project from line ministry i.e. MAFF and MEF are in place.</li> <li>• As explained to us, there have been no difficulties in receiving the funds from the donors.</li> </ul>
<p>2.5 Does the entity have / need a capacity to manage foreign exchange risks? (if it is expected that the entity will be using funds outside the country.)</p>			N/A		<ul style="list-style-type: none"> <li>• The banking system in Cambodia do operate in US\$ besides its local currency i.e. Riel</li> <li>• Usually payments are being made in Riel.</li> <li>• However, the payments can also be made in US\$.</li> <li>• UN member Agencies usually operate in US\$.</li> <li>• There is no foreign exchange risk as entity will not be making payments outside the country.</li> <li>• We understand that FA does not need a capacity to manage foreign exchange risk at present.</li> <li>• FA may form a policy to put the condition of payments in agreements either in Riel or US\$ so that the foreign exchange risk may be minimised.</li> </ul>



Subject Area	Yes	No	N/A	Review	Remarks / Comments
2.6 How is the counterpart funds accessed?				Review	<ul style="list-style-type: none"> <li>• Fund receiving mechanism of FA is through government system.</li> <li>• FA submits the budget to its line ministry i.e. MAFF. After the approval of the budget by MAFF, MEF finally approves the budget and it becomes part of the national budget.</li> <li>• The national budget is being approved by the Council of Ministers.</li> <li>• Once this process is complete, then FA can access the funds through Government Treasury.</li> <li>• However, specific funds received from the donors are not part of the national budget.</li> <li>• The projects are being separately approved by MAFF and MEF and funds can be received by opening a separate bank account for each donor.</li> <li>• <b>Refer recommendation mentioned in paragraph 2.2</b></li> </ul>
2.7 How are payments made from the counterpart funds?				Review	<ul style="list-style-type: none"> <li>• FA disburses the funds on the basis of approved budget through cash.</li> <li>• FA disburses the funds to Local Cantonments (field level office) in cash and mostly all the disbursements are also being undertaken in cash</li> <li>• However, procurement of goods and services are being done by MAFF. We've not been able to review such payments.</li> <li>• FA follows cash advance mechanism to transfer the funds to Local Cantonments.</li> <li>• <b>Refer recommendation mentioned in paragraph 2.2</b></li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
2.8 If some activities will be implemented by communities or NGOs, does the entity have the necessary reporting and monitoring mechanisms to track the use of funds?		No		Review	<ul style="list-style-type: none"> <li>FA doesn't implement its activities through communities or NGOs.</li> <li>However it does implement its activities funded through Government Funds through Local Cantonments (field level office) and has established reporting and monitoring mechanisms to track the use of funds by Local Cantonments.</li> <li>In our view, if some activities will be implemented by communities/NGOs besides Local Cantonments, the entity does not have the necessary reporting and monitoring mechanism to track the use of funds.</li> <li>However if the control, monitoring and reporting mechanisms in place with respect to Local Cantonments (field level office) is replicated in case of NGOs if some activities will be carried on by them and the competencies of staffs are increased, then FA can manage and track the use of funds and establish proper reporting and monitoring procedures.</li> </ul>
Risk Assessment (Funds Flow)	H	S	M	L	<b>Risk Assessed :Moderate</b>
<b>3. Staffing</b>					
3.1 Is the organizational structure of the accounting department appropriate for the level of financial volume? Attach an organization chart.	Yes				<ul style="list-style-type: none"> <li>The organizational structure of the accounting department is appropriate for the level of financial volume. The organizational structure of the accounting department is attached as <b>annexure 3.2.3</b></li> <li>The expected budget for the year is around US\$ 3 million including administrative expenditures. Procurement</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					is not included in this amount as it is done by MAFF directly.
3.2 Is the level and competency of staff appropriate for the level of financial volume? Identify the accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	Yes				<ul style="list-style-type: none"> <li>FA has reorganised the structure of Finance and Accounts department under the Director of Department Administration, Planning and Finance.</li> <li>The staffs are yet to be issued new contracts in lieu of old contracts and they are in process of defining the job descriptions.</li> <li>The level and competency of staff is appropriate for the level of financial volume for undertaking existing accounting transaction related to Government Funds.</li> <li>However the competency of staffs for managing the Donors' Funds needs improvement.</li> <li>The CVs of key accounting staff are attached as <b>annexure 3.2.4</b></li> <li><b>Refer recommendation mentioned in paragraph 2.3.</b></li> </ul>
3.3 Is the Implementing Partner finance and accounts function staffed adequately?	Yes				<ul style="list-style-type: none"> <li>FA, finance and accounts function seems to be staffed adequately for financial management of the Government Funds.</li> <li>However as stated in Point 3.2, the competency of the accounting staffs for the financial management of Donors' Funds needs improvement.</li> <li><b>Refer recommendation mentioned in paragraph 2.3.</b></li> </ul>
3.4 Are finance and accounts staff adequately qualified and experienced?	Yes				<ul style="list-style-type: none"> <li>It was explained by Acting Director of DAPF, Forestry Administration that the staffs have been in job since more than 10 years.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>The staffs have been participating in the capacity building initiative of the MAFF and MEF and they are experienced.</li> <li>On the basis of the information provided by the Acting Director, Department Administration Planning and Finance (DAPF), and Forestry Administration and on review of the CVs of the staff, the finance and account staff seems to be adequately qualified and experienced.</li> <li>However, competency of staff regarding interaction with Donor Agencies' personnel and undertaking the responsibilities as per agreements with donors regarding financial reporting needs improvement.</li> <li><b>Refer recommendation mentioned in paragraph 2.3.</b></li> </ul>
3.5 Are accounts and finance staff familiar with UN procedures related to cash transfers?		No			<ul style="list-style-type: none"> <li>The accounts and finance staff are not familiar with UN procedures related to cash transfers.</li> <li><b>Refer to recommendation mentioned in paragraph 2.3.</b></li> </ul>
3.6 What is the duration of the contract of finance and accounts staff?				Review	<ul style="list-style-type: none"> <li>The finance and accounts staffs are employed on permanent basis.</li> </ul>
3.7 Indicate in the remarks / comments section key positions not contracted yet, and the estimated date of appointment.				Review	<ul style="list-style-type: none"> <li>As explained to us there are no key positions that are vacant.</li> </ul>
3.8 Are staff frequently transferred? At what frequency?		No			<ul style="list-style-type: none"> <li>It was explained that staffs of FA are not transferred. They are located in FA office permanently.</li> </ul>
3.9 Is there a training policy for the finance and accounting staff? Please describe.	Yes				<ul style="list-style-type: none"> <li>The training of accounting and finance staff is conducted as per the training schedule of MAFF.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>MAFF sends a request to FA to appoint resources for training.</li> <li>The relevant resources are then allocated to undertake the training.</li> <li><b>Refer recommendation mentioned in paragraph 2.3.</b></li> </ul>
Risk Assessment (Staffing)	H	S	M	L	<b>Risk Assessed: Low</b>
<b>4. Accounting Policies and Procedures</b>					
4.1 Does the entity have an accounting system that allows for the proper recording of financial transactions from UN Agencies, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds?				Review	<ul style="list-style-type: none"> <li>The DAPF, FA has manual system of accounting for accounting for the transactions related to the Government Funds.</li> <li>The accounting system of FA is not computerised.</li> <li>There is a proper chart of accounts in place for allocation of expenditures in accordance with the respective components and disbursement categories regarding the government funds.</li> <li>It was explained to us that at present the Donors' Projects are being managed by Project Management Unit (PMU).</li> <li>However, FA's accounting system can allow for the proper recording of the financial transactions from UN Agencies if the existing controls in FA regarding financial management is maintained for the management of UN Funds and the lapses in controls are mended.</li> </ul> <p>The accounting staffs at DAPF, Forestry Administration also don't have the experience of management of other Donors' Funds. So competency of the staffs also should be developed.</p>



Subject Area	Yes	No	N/A	Review	Remarks / Comments
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes				<ul style="list-style-type: none"> <li>The controls concerning the preparation and approval of transactions are in place except that frequently payments are being made in cash.</li> <li>All the transactions are properly documented. It has been depicted through a chart attached as <b>annexure 3.2.5</b>.</li> </ul>
4.3 Is the chart of accounts adequate to properly account for and report on activities and disbursement categories?	Yes				<ul style="list-style-type: none"> <li>The chart of accounts is adequate to properly account for and report on activities and disbursement categories.</li> <li>The account codes are divided into section and sub-sections per the requirement of MAFF which allows for proper accounting and reporting on activities and disbursement categories.</li> </ul>
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?			N/A		<ul style="list-style-type: none"> <li>FA is receiving funds from government and no allocation of costs is being done.</li> <li>It was explained to us that for projects funded from other donors, PMU is maintained and no allocation of common cost is being done.</li> </ul>
4.5 Are the general ledger and subsidiary ledgers reconciled and in balance?			N/A		<ul style="list-style-type: none"> <li>FA maintains journals, general ledgers, cash and bank book regarding the government funds.</li> <li>It does not maintain subsidiary ledgers. Therefore the reconciliation is not possible.</li> <li><b>Refer recommendation mentioned in paragraph 2.4.1.</b></li> </ul>
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes				<ul style="list-style-type: none"> <li>As explained to us all the supporting documents are retained for a minimum period of 5 years as per the regulations of MEF in this regard.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
<b>Segregation of Duties</b>					
4.7 Are the following functional responsibilities performed by different units or persons: (a) authorization to execute a transaction; (b) recording of the transaction; and (c) custody of assets involved in the transaction?				Review	<ul style="list-style-type: none"> <li>• Segregation of duties is in place with respect to various functions. The segregation of duties is as follows:</li> <li>• Authorization – Director</li> <li>• Recording – Finance Officer</li> <li>• Custody – Project Manager</li> </ul>
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes				<ul style="list-style-type: none"> <li>• The functions of ordering, receiving, accounting for, and paying for goods and services are appropriately segregated.</li> <li>• The ordering of goods and services and payments for the same are done by the procurement division of MAFF on behalf of Forestry Administration.</li> <li>• The goods are received at the stores of FA from where they are transferred to the Local Cantonments.</li> <li>• The accounting is done by DAPF, Forestry Administration.</li> </ul>
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes				<ul style="list-style-type: none"> <li>• Bank reconciliation statements are not prepared by FA.</li> <li>• <b>Refer recommendation mentioned in paragraph 2.4.2</b></li> </ul>
<b>Budgeting System</b>					
4.10 Do the budgets lay down physical and financial targets?	Yes				<ul style="list-style-type: none"> <li>• The budgets lay down physical and financial targets for implementation of activities funded through Government Funds.</li> <li>• However donor funded projects are not parts of this exercise as they are separately taken by PMU.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes				<ul style="list-style-type: none"> <li>The budgets for activities to be implemented through Government funds are prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance.</li> <li>However donor funded projects are not part of this exercise as they are separately taken by PMU.</li> </ul>
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Yes				<ul style="list-style-type: none"> <li>Budget vs Actual expenditure comparison is being undertaken and reasons for variance thereon are being well recorded and approved.</li> <li>However donor funded projects are not part of this exercise as they are separately taken by PMU.</li> </ul>
4.13 Are approvals from variations from the budget required in advance or after the fact?				Review	<ul style="list-style-type: none"> <li>It was explained to us that the system to get approval for any variations from the budget depends upon the kind of expenditure for any activity.</li> <li>If the variations can be anticipated then advance approvals are taken else post facto approval is taken.</li> <li>However donor funded projects are not part of this exercise as they are separately taken by PMU.</li> </ul>
4.14 Who is responsible for preparation and approval of budgets?				Review	<ul style="list-style-type: none"> <li>The Director General of FA is responsible for the preparation of budget for implementing activities funded through Government funds. The budget is then submitted to MAFF for final approval.</li> <li>However donor funded projects are not parts of this exercise as they are separately taken by PMU.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
4.15 Are procedures in place to plan activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes				<ul style="list-style-type: none"> <li>The procedures are in place to plan activities, collect information from the units in charge of the different components and prepare budgets.</li> <li>FA follows Bottoms-up approach for preparation of budget.</li> <li>However donor funded projects are not part of this exercise as they are separately taken by PMU.</li> </ul>
4.16 Are the plans and budgets of activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes				<ul style="list-style-type: none"> <li>It has been briefed that plans and budgets of activities are realistic, based on valid assumptions, and developed by knowledgeable individuals.</li> <li>However donor funded projects are not part of this exercise as they are separately taken by PMU.</li> </ul>
<b>Payments</b>					
4.17 Do invoice processing procedures provide for: 1) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? 2) Comparison of invoice quantities, prices, and terms with those indicated on the purchase order and with records of goods actually received? 3) Comparison of invoice quantities with those indicated on the receiving reports? 4) Checking the accuracy of calculations?	Yes		N/A  N/A  N/A		<ul style="list-style-type: none"> <li>All the procurement of goods and services for FA is undertaken by MAFF.</li> <li>It was explained that the purchase orders are prepared for the procurements by the Department of Accounts and Finance and all the documents are maintained by it.</li> <li>The invoices are then sent to FA along with the goods which are received at the stores. The procurement executive of FA is responsible for the collection and documentation of invoices sent by the Department of Accounts and Finance</li> <li>The invoices are checked for accuracy of calculations.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?				Review	<ul style="list-style-type: none"> <li>All invoices are stamped PAID, dated, reviewed and approved clearly marked for account code assignment.</li> </ul>
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes				<ul style="list-style-type: none"> <li>FA maintains proper attendance register.</li> <li>Attendance Report and payroll sheet is prepared at the end of each month by Payroll processing executive.</li> <li>The salary of staffs is monitored by MAFF and depends upon the grade of the staff.</li> <li>List of staff eligible for promotion is sent to MAFF for approval and the changes to the payroll are adjusted after authorisation from MAFF is received.</li> </ul>
<b>Policies And Procedures</b>					
4.20 Describe the basis of accounting (e.g., cash, accrual)?				Review	<ul style="list-style-type: none"> <li>FA follows cash basis of accounting.</li> </ul>
4.21 Are internationally accepted accounting standards followed? If so, which standard?				Review	<ul style="list-style-type: none"> <li>FA follows the Manual of Accounting issued by Ministry of Economy and Finance.</li> <li>FA doesn't follow internationally accepted accounting standards.</li> <li><b>Refer to recommendation mentioned in paragraph 2.4.5.</b></li> </ul>
4.22 Does the entity have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes				<ul style="list-style-type: none"> <li>FA follows the policies and procedures of the Royal Government of Cambodia to guide activities and ensure staff accountability.</li> </ul>



Subject Area	Yes	No	N/A	Review	Remarks / Comments
4.23 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?				Review	<ul style="list-style-type: none"> <li>Any alteration in the existing accounting policy, or procedure or establishment of new principle, policy or procedure to be used by FA can be done by the Ministry of Economy and Finance</li> </ul>
4.24 Are there written policies and procedures covering all routine financial management and related administrative activities? Are these accessible?	Yes				<ul style="list-style-type: none"> <li>As mentioned in <b>point 4.22</b>, FA follows the policies and procedures manual of the Royal Government of Cambodia to guide activities and ensure staff accountability.</li> </ul>
4.25 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?		No			<ul style="list-style-type: none"> <li>The policy regarding conflict of interest is envisaged under the Procurement Manual only.</li> <li>In general, there are no policies and procedures that clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organisation from them.</li> <li><b>Refer to recommendation mentioned in paragraph 2.4.5.</b></li> </ul>
4.26 Are manuals distributed to appropriate personnel?		No			<ul style="list-style-type: none"> <li>The manuals are not distributed to the personnel but are available at the office.</li> </ul>
<b>Cash and Bank</b>					
4.27 Indicate in remarks / comments section the names and positions of authorized signatories on the bank accounts.				Review	<ul style="list-style-type: none"> <li>FA maintains two bank accounts- one USD account and another Riel account with the National Bank of Cambodia.</li> <li>The detail of the bank accounts is attached as <b>annexure 3.2.6.</b></li> </ul>
4.28 Does the Implementing Partner maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes				<ul style="list-style-type: none"> <li>The Implementing Partner maintains an adequate, up to date cash book recording receipts and payments regarding the funds received from MAFF.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>• However as explained to us by the Acting Director of DAPF, Forestry Administration, the expenditure reports regarding the utilisation of funds of donor implemented projects is not received by IP. These are maintained by the PMU.</li> </ul>
4.29 Do controls exist for the collection, timely deposit, and recording of receipts at each collection location?	Yes				<ul style="list-style-type: none"> <li>• Controls exist for the collection, timely deposit, and recording of receipts.</li> </ul>
4.30 Are bank and cash reconciled on a monthly basis?				Review	<ul style="list-style-type: none"> <li>• Cash is reconciled on a monthly basis.</li> <li>• Bank Reconciliation Statements are not prepared by FA.</li> <li>• <b>Refer to recommendation mentioned in paragraph 2.4.2</b></li> </ul>
4.31 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?			N/A		<ul style="list-style-type: none"> <li>• The bank reconciliation statements are not prepared by the IP.</li> <li>• <b>Refer to recommendation mentioned in paragraph 2.4.2</b></li> </ul>
4.32 Are receipts deposited on a timely basis?	Yes				<ul style="list-style-type: none"> <li>• The receipts are deposited on a timely basis with the Treasury.</li> </ul>
<b>Safeguard Over Assets</b>					
4.33 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes				<ul style="list-style-type: none"> <li>• There are adequate safeguards to protect assets from fraud, waste and abuse.</li> <li>• Asset register is maintained by FA which is annually verified.</li> <li>• Two police officers and one watchman have been assigned for security of the FA premises.</li> <li>• However no log books regarding the use of vehicles is maintained by FA</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>Refer to recommendation mentioned in paragraph 2.4.7.</li> </ul>
4.34 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes				<ul style="list-style-type: none"> <li>The subsidiary records of fixed assets and stocks are kept up to date and reconciled with control accounts.</li> </ul>
4.35 Are there periodic physical inventories of fixed assets and stocks?	Yes				<ul style="list-style-type: none"> <li>FA carries on physical inventories of fixed assets and stocks in an annual basis.</li> </ul>
4.36 Are assets sufficiently covered by insurance policies?		No			<ul style="list-style-type: none"> <li>Assets are not covered by insurance policies.</li> <li>Refer to recommendation mentioned in paragraph 2.4.7.</li> </ul>
<b>Other Offices or Entities</b>					
4.37 Are there any other regional offices participating in implementation?	Yes				<ul style="list-style-type: none"> <li>FA is implementing its activities through Local Cantonments.</li> <li>The list of Local Cantonments (field level office) is attached as <b>annexure 3.2.7</b>.</li> <li>Other donors' projects are managed by PMU.</li> </ul>
4.38 Has the Implementing Partners established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities? Please describe approval process.				Review	<ul style="list-style-type: none"> <li>FA has established controls and procedures for flow of funds, financial information, and audits in relation to the Local Cantonments.</li> <li>Funds are disbursed to the Local Cantonments (field level office) on submission of approved expenditure details and based on the approved work plan and budget.</li> <li>The expenditure details along with bills are submitted to the Department Administration, Planning and Finance by Local Cantonments (field level office) on monthly basis.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>• However no books of accounts are maintained by the Local Cantonments.</li> <li>• It was also explained that the Internal Audit Team of the Internal Audit Department of MAFF also visit the Local Cantonments (field level office).</li> <li>• The other donors' projects are managed by PMU and they are responsible for establishing controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities if any.</li> <li>• <b>Refer recommendation mentioned in paragraph 2.4.8.</b></li> </ul>
<p>4.39 Does information among the different offices/Agencies flow in an accurate and timely fashion?</p>				Review	<ul style="list-style-type: none"> <li>• As mentioned earlier, FA is implementing its activities through Local Cantonments.</li> <li>• The financial information i.e. the expenditure reports along with the bills are being sent by the Local Cantonments (field level office) on a monthly basis.</li> <li>• The other donors' projects are managed by PMU and they are responsible for establishing proper flow of information among the different offices/Agencies if any.</li> </ul>
<p>4.40 Are periodic reconciliations performed among the different offices/Agencies?</p>					<ul style="list-style-type: none"> <li>• The accounts are centralised at DAPF, Forestry Administration. The Local Cantonments (field level office) do not maintain any accounts. Therefore there is no need for reconciliation.</li> <li>• The other donors' projects are managed by PMU and they are responsible for conducting the periodic reconciliations between</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<p>different offices/Agencies if any.</p> <ul style="list-style-type: none"> <li>• <b>Refer recommendation mentioned in paragraph 2.4.8</b></li> </ul>
<b>Other</b>					
4.41 Has the Implementing Partner advised employees, beneficiaries, and other recipients to whom to report if they suspect fraud, waste, or misuse of Agency resources or property?	Yes				<ul style="list-style-type: none"> <li>• FA has Disciplinary Committee in place at the Central Level and Inspectorate Level in order to inspect any reports of suspected fraud, waste or misuse of resources or property.</li> <li>• The other donors' projects are managed by PMU and they are responsible for advising employees, beneficiaries, and other recipients to whom to report if they suspect fraud, waste, or misuse of Agency resources or property</li> </ul>
Risk Assessment (Accounting Policies and Procedures)	H	S	M	L	<b>Risk Assessed: Low</b>
<b>5. Internal Audit</b>					
5.1 Is there an internal audit department in the entity?	Yes				<ul style="list-style-type: none"> <li>• FA is a department under MAFF and is subject to annual internal audit which is undertaken by the Internal Audit Department of MAFF.</li> <li>• However the internal audit only covers the national budget in its scope. Donor funded projects are not part of these annual internal audits.</li> <li>• <b>Refer recommendation mentioned in paragraph 2.5.</b></li> </ul>
5.2 What are the qualifications and experience of audit department staff?				Review	<ul style="list-style-type: none"> <li>• FA couldn't provide us with the information regarding the qualifications and experience of the Internal Audit department of MAFF.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
5.3 Is the internal auditor sufficiently independent to make critical assessments? To whom does the internal auditor report?	Yes				<ul style="list-style-type: none"> <li>As informed to us, the internal auditor is sufficiently independent to make critical assessments regarding the audit of the funds related to National Budget.</li> </ul>
					<ul style="list-style-type: none"> <li>The internal auditor submits the report to MAFF.</li> </ul>
5.4 Will the internal audit department include the activities financed by the Agencies in its work program?		No			<ul style="list-style-type: none"> <li>The internal audit department will only include the activities financed by the Agencies in its work program if it is a part of the national budget.</li> <li><b>Refer recommendation mentioned in paragraph 2.5</b></li> </ul>
5.5 Are actions taken on the internal audit findings?	Yes				<ul style="list-style-type: none"> <li>FA is required to reply to the findings incorporated in the Internal Audit Report to the MAFF.</li> <li>The actions on the internal audit findings are taken based on the nature of the findings.</li> <li>If the action to be taken is within the capacity of the FA, it is taken immediately. If it is not, then the action is taken with support from MAFF.</li> </ul>
Risk Assessment (Internal Audit)	H	S	M	L	<b>Risk Assessed : Low</b>
<b>6. External Audit</b>					
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes				<ul style="list-style-type: none"> <li>FA is subject to National Audit by the National Audit Authority.</li> <li>However the donor funded projects are separately audited by the auditor assigned by the donors. The National Audit doesn't cover the audit of donor funded projects.</li> <li>FA did not share with us the national audit report or the donor funded projects' audit reports.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>Refer recommendation mentioned in paragraph 2.6.</li> </ul>
6.2 Are there any delays in audit of the entity? When are the audit reports issued?					<ul style="list-style-type: none"> <li>It was informed that the national audit is conducted on a case by case basis on the basis of findings of the internal audit report and the rules and regulations of the Royal Government of Cambodia.</li> <li>As informed to us there are no delays in audit if the entity and the reports are submitted on time.</li> </ul>
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?				N/A	<ul style="list-style-type: none"> <li>The audit of FA is conducted according to the rules and regulations of the National Audit Authority of the Royal Government of Cambodia.</li> </ul>
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	Yes				<ul style="list-style-type: none"> <li>It was explained that there were some issues raised during the National Audit held in 2010.</li> <li>It was explained that the replies to the issues had been sent to the Auditors but no action has been taken as on the date of assessment.</li> <li>The audit report of the National Audit was not shared with us.</li> </ul>
6.5 Will the entity auditor audit the AWP accounts or will a separate auditor be appointed to audit the AWP financial statements?	Yes				<ul style="list-style-type: none"> <li>The entity auditor audit the AWP accounts related to the funds disbursed by MAFF i.e. Government Funds.</li> </ul>
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	Yes				<ul style="list-style-type: none"> <li>Refer to point no. 6.4 above.</li> </ul>
6.7 Has the Implementing Partner prepared audit plans?		No			<ul style="list-style-type: none"> <li>The audit plan is prepared by the National Auditors.</li> </ul>
Risk Assessment (External Audit)	H	S	M	L	<b>Risk Assessed : Low</b>



Subject Area	Yes	No	N/A	Review	Remarks / Comments
<b>7. Reporting and Monitoring</b>					
7.1 Are financial statements prepared for the entity?	Yes				<ul style="list-style-type: none"> <li>FA prepares monthly, quarterly and annual financial reports related to its national budget.</li> <li>The annual financial report is submitted to MAFF which then submits it to MEF.</li> <li>However consolidated statement of accounts including the donor funded projects' accounts which are managed by PMU is not prepared.</li> <li><b>Refer recommendation mentioned in paragraph 2.7</b></li> </ul>
7.2 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?				Review	<ul style="list-style-type: none"> <li>As mentioned in point 7.1, FA prepares monthly, quarterly and annual financial reports.</li> </ul>
7.3 Does the reporting system need to be adapted to report on the AWP related expenditure?		No			<ul style="list-style-type: none"> <li>The reporting system is not required to be adapted to report on the AWP related expenditure.</li> </ul>
7.4 Does the reporting system have the capacity to link the financial information with the AWP's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?		No			<ul style="list-style-type: none"> <li>There is no system, where financial information may be linked with the AWP's physical progress through software, since the financial system of FA is not computerised.</li> <li>There is manual reporting system in place and separate financial and physical reports are prepared.</li> <li>It has been explained that proper control exists to reduce the risk that physical data match with financial data. Both the reports are manually checked and matched before submitting to MAFF.</li> </ul>

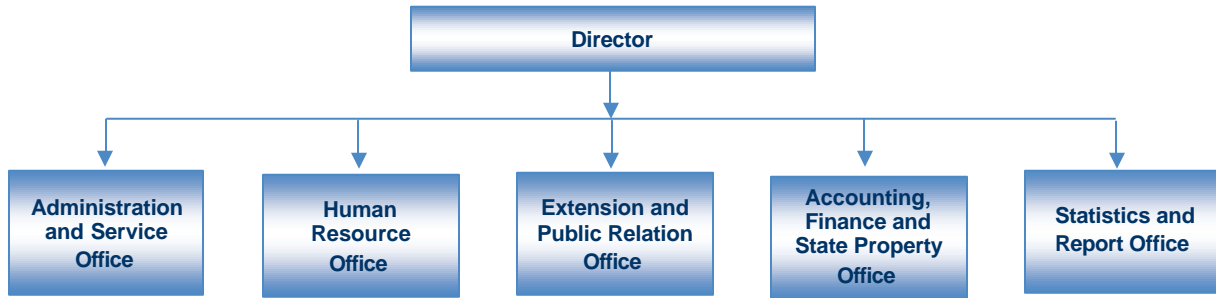
Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>The other donors' projects are managed by PMU and they are responsible for ensuring that controls are in place to reduce the risk that the physical data may not synchronize with the financial data.</li> </ul>
7.5 Does the Implementing Partner have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes				<ul style="list-style-type: none"> <li>The IP has established financial management reporting responsibilities that specify what reports are prepared, what they are to contain and how they are to be used regarding the utilisation of funds received from MAFF.</li> </ul>
7.6 Are financial management reports used by management?	Yes				<ul style="list-style-type: none"> <li>As explained to us financial management reports are used by the management for decision making.</li> </ul>
7.7 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes				<ul style="list-style-type: none"> <li>The financial reports compare actual expenditures with budgeted and programmed allocations.</li> </ul>
7.8 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?		No			<ul style="list-style-type: none"> <li>The financial reports are not prepared directly by automated accounting system as the financial management system of FA is not computerised.</li> <li>The financial reports are prepared through spreadsheets.</li> <li><b>Refer to recommendation mentioned in paragraph 2.7.</b></li> </ul>
Risk Assessment (Monitoring and Reporting)	H	S	M	L	<b>Risk Assessed: Moderate</b>
<b>8. Information Systems</b>					
8.1 Is the financial management system computerized?		No			<ul style="list-style-type: none"> <li>Financial management system is not fully computerized.</li> <li>FA follows manual system of financial management.</li> </ul>

Subject Area	Yes	No	N/A	Review	Remarks / Comments
					<ul style="list-style-type: none"> <li>Refer to recommendation mentioned in paragraph 2.8.</li> </ul>
8.2 Can the system produce the necessary financial reports?				N/A	<ul style="list-style-type: none"> <li>The manual system can produce the necessary financial system.</li> </ul>
8.3 Are the staff adequately trained to maintain the system?				N/A	<ul style="list-style-type: none"> <li>The staffs are trained to manage the manual system.</li> </ul>
8.4 Does the management organization and processing system safeguard the confidentiality, integrity, and availability of the data?				N/A	<ul style="list-style-type: none"> <li>The financial management system of FA is not computerised.</li> <li>Refer recommendation mentioned in paragraph 2.8.</li> </ul>
Risk Assessment (Information Systems)	H	S	M	L	<b>Risk Assessed: Moderate</b>

### 3.2 Annexure

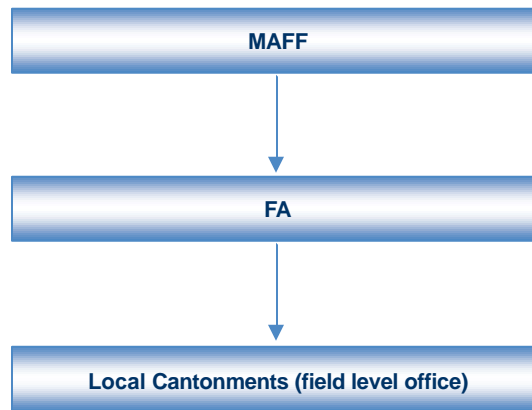
### Annexure 3.2.1

#### Organizational Structure



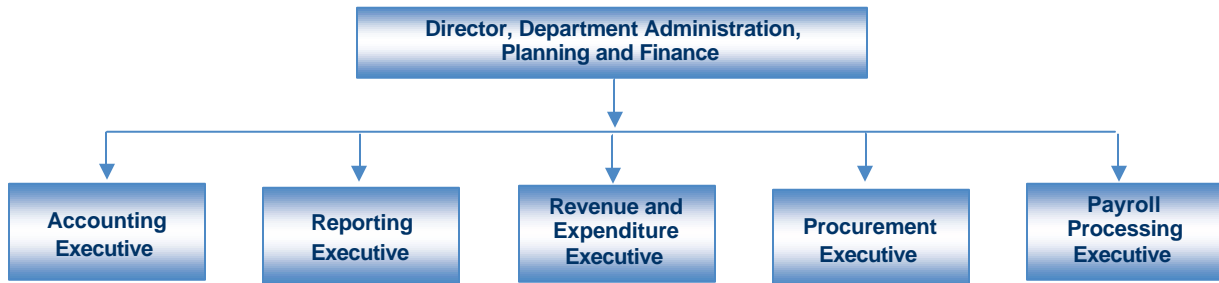
**Annexure 3.2.2**

**Funds Flow Diagram**



**Annexure 3.2.3**

**Accounts and Finance Department Organisation Structure**



**Annexure 3.2.4**

**Details of the Accounting Staffs of FA**

S. No.	1
Name	Kiv Leakhenna
Designation	Deputy Director, DAPF, Forestry Administration
Qualifications	High School
Job Profile / Responsibilities	Not Provided
Professional Experience	19 Years
Since in the Organization	Since January 1992

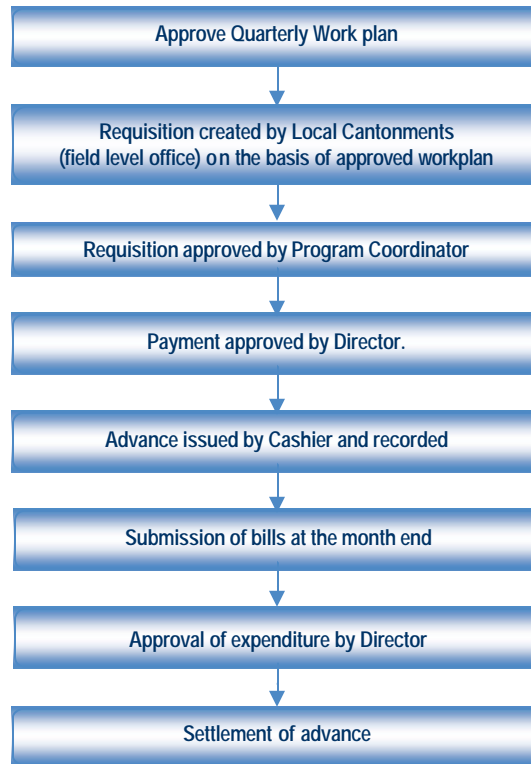
S. No.	2
Name	Ngjin Makara
Designation	Finance Officer
Qualifications	High School
Job Profile / Responsibilities	<ul style="list-style-type: none"> <li>• Preparation of Cash Vouchers</li> <li>• Expenditure Reports preparation</li> <li>• Preparation of payment application</li> </ul>
Professional Experience	21 Years
Since in the Organization	Since January 1980

S. No.	3
Name	Yang Socheta
Designation	Finance Officer
Qualifications	High School
Job Profile / Responsibilities	Cashier
Professional Experience	22 Years
Since in the Organization	Since October 1979



### Annexure 3.2.5

#### Approval Process



**Annexure 3.2.6**

**Details of Bank Accounts**

Bank Account Number	Name of Bank	Account Currency
000000001020	National Bank of Cambodia	Riel
000000001246	National Bank of Cambodia	USD

The Director General, FA and Deputy Director General, FA (who signs in case of absence of Director General) are signatories to the Bank Accounts.

**Annexure 3.2.7**

**List of Local Cantonments (Field Level Office)**

Local Cantonments	Location
Kampong Cham	Mekong Inspectorate
Kratie	
Mondulkiri	
Stung Treng	
Ratanakiri	
Kampong Thom	Northern Tonlesap Inspectorate
Preah Vihear	
Siem Reap	
Battambang	Southern Tonlesap Inspectorate
Pursat	
Kampong Chhang	
Kandal	
Kampot	Gulf Inspectorate
Sihanouk Vill	
Koh Kong	

## SECTION – IV

### 4.1 Assessment Scope and Methodology

#### 4.1.1 Objectives and Scope of the Assessment

The objectives of the assessment undertaken by Lochan & Co. for the United Nations Agencies utilizing Harmonized Approach for Cash Transfers (HACT) are:

**Capacity Development Objective:** The review supports the Agencies and government to identify strengths and inadequatenesses in the Implementing Partner's capacity for financial management and areas for capacity development by government and others.

**Financial Management Objective:** The review assists in the establishment of appropriate cash transfer modalities, procedures, and assurance activities to be applied by the Agencies.

#### 4.1.2 We have covered and reviewed the following aspects / areas:

- Implementing partner
- Funds flow
- Staffing
- Accounting policies and procedures
- Internal audit
- External audit
- Reporting and monitoring
- Information systems

#### 4.1.3 Assessment Methodology Adopted

We have adopted the following methodology to undertake the assessment:

- To utilize "**Checklist B: Financial Management Questionnaire**" provided by UNDP to us;
- In completing the questionnaire, we have assessed the partner's control system with equal emphasis on
  - (a) The effectiveness of the system in providing the partner's management with useful and timely information for the proper management of the partner;
  - (b) The general effectiveness of the internal control system in protecting the assets and resources of the partner;
- To discuss with the senior management of the organization to assess the financial capability;
- To access records, books of account, legal agreements, minutes of committee meetings, bank records and contracts wherever made available;
- To access employees of the Implementing Partner.

## 4.2 Scope Limitations

- 4.2.1. We have restricted the work to the Terms of Reference. We understand that the procedure to be performed is considered to be sufficient for UNDP purposes in connection with Forestry Administration (FA) assessed by us.
- 4.2.2. Our review of the documents and other relevant records of FA are limited to those document and records provided to us by FA management and comprise enquiries and observations and limited tests of transactions on a sample basis, covering the detailed assessment objectives described in assessment scope above.
- 4.2.3. We have conducted the assessment in accordance with International Accounting and Auditing Standards and local accounting standards in Cambodia.
- 4.2.4. Our review of the documents and other relevant records of FA are limited to those documents and records provided to us. While performing the work, we have assumed that all the signatures were genuine and all the original documents were authentic. In general, we have been provided the photocopies of the documents and we have relied upon these documents assuming their genuineness.
- 4.2.5. During the assessment, LC has discussed with the senior management of FA and in some cases, our assessment is also based on the discussion with senior management of FA.
- 4.2.6. The working papers, prepared while conducting the assessment are the property of Lochan & Co., constitute confidential and proprietary information and will be retained by Lochan & Co. in accordance with their policies and procedures.
- 4.2.7. We have no responsibility to update our report for events and circumstances occurring after the end of our assessment.

### 4.3 Abbreviations and Acronyms

AWP	:	Annual Work Plan
CV's	:	Curriculum Vitae
DAPF	:	Department Administration, Planning and Finance
FA	:	Forestry Administration
HACT	:	Harmonized Approach to Cash Transfers
IP	:	Implementing Partner
LC	:	Lochan & Co.
MAFF	:	Ministry of Agriculture, Forestry and Fisheries
MEF	:	Ministry of Economy and Finance
NGO	:	Non Government Organizations
SWOT	:	Strength Weakness Opportunity and Threats
ToR	:	Terms of Reference
UN	:	United Nations
UNDP	:	United Nations Development Program

