

AUDITED PROJECT FINANCIAL STATEMENTS

Project N° : 2000001268

Loan No. 2000001751

Period covered: 1st August 2017 – 31st December 2018

Accelerating Inclusive Markets For Smallholders (AIMS)

Prepared by: BDO (Cambodia) Limited

Received on 4th July 2019

The Audited project financial statements are documents owned by the Borrower/ Recipient. The views expressed herein do not necessarily represent those IFAD's Executive Board, Management or Staff. This document is made publicly available in accordance with the "Conceptual Framework on Financial Reporting and Auditing of IFAD-Financed Projects (2018)"

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

**UNDERTAKEN BY MINISTRY OF COMMERCE AND
MINISTRY OF ECONOMY AND FINANCE**

**AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE PERIOD FROM 1 AUGUST 2017 TO 31 DECEMBER 2018**

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

PROJECT INFORMATION

PROJECT MANAGEMENT:

H.E. Pen Thirong, Project Director-MEF-PIU-Com 2
H.E. Chan Sokty, Project Director -MOC-PMO-Com 1

LEAD EXECUTING AGENCY:

Ministry of Commerce ("MOC")

IMPLEMENTING AGENCY:

Ministry of Economy and Finance ("MEF")

PRINCIPAL BANKER:



AUDITORS:

BDO (Cambodia) Limited

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

CONTENTS	PAGE
PROJECT MANAGEMENT'S REPORT	1
INDEPENDENT AUDITORS' REPORT	2 – 4
STATEMENT OF FUND BALANCE	5
STATEMENT OF SOURCES OF FUNDS AND EXPENDITURES	6
STATEMENT OF PROJECT ACCOUNT RECONCILIATION	7
STATEMENT OF COMPARISON BETWEEN ACTUAL EXPENDITURES AND BUDGET ESTIMATES	8
STATEMENT OF EXPENDITURE WITHDRAWAL APPLICATION	9
NOTES TO FINANCIAL STATEMENTS	10 – 13
ANNEX A: SUMMARY OF WITHDRAWAL APPLICATION	14

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

PROJECT MANAGEMENT'S REPORT

The Project Management hereby submits the report together with the audited financial statements of Accelerating Inclusive Markets for Smallholders ("the Project" or "AIMS") undertaken by the Ministry of Commerce and Ministry of Economic and Finance for the period from 1 August 2017 to 31 December 2018.

Responsibility of the Project Management in Respect of the Financial Statements

The Project Management is responsible to ascertain that the financial statements of the Project for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the basis of preparation and significant accounting policies set out in Note 2 to the financial statements. In preparing these financial statements, the Project Management is required to select suitable accounting policies and then apply them consistently.

The Project Management is responsible for ensuring that proper accounting records are kept which enable the financial statements to be prepared in compliance with the basis of accounting set out in Note 2 to the financial statements and in accordance with the terms of the financing agreement under Agricultural Development Financing ("ADF") Loan No. 2000001751 between the Kingdom of Cambodia and International Fund for Agricultural Development ("IFAD"). The Project Management is also responsible for safeguarding the assets of the Project and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Project Management assumes the responsibility to provide, and has provided, the auditors with all accounting records, supporting and other documents, minutes, and any other pertinent information and explanations, either orally or in writing, deemed necessary for the audit.

Statement by the Project Management

In the opinion of the Project Management, the financial statements set out on pages 5 to 13 are prepared, in all material respects, in accordance with the basis of preparation and significant accounting policies set out in Note 2 to the financial statements and the related financing agreement.

Signed on behalf of the Project Management,



H.E. Chan Sokty
Project Director
Ministry of Commerce

Phnom Penh, Cambodia
Date: 28 June 2019

INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Accelerating Inclusive Markets for Smallholders ("the Project" or "AIMS") undertaken by the Ministry of Commerce, Ministry of Economic and Finance and the provinces of Battambang, Takeo and Kampong Cham, which comprise statement of fund balance as at 31 December 2018, statement of sources of funds and expenditures, statement of project account reconciliation, statement of comparison between actual expenditures and budget estimates, and statement of expenditure withdrawal application for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 13.

In our opinion:

- The financial statements of the Project for the period from 1 August 2017 to 31 December 2018 are prepared, in all material respects, in accordance with the basis of preparation and significant accounting policies set out in Note 2 to the financial statements.
- The statement of designated account gives a true and fair view, in all material respects, of the closing balance of the designated account at 31 December 2018 as well as receipts and disbursed payments of the Project through the designated account for the fiscal year ended as at 31 December 2018 in accordance with the requirements of the Financing Agreement, Agricultural Development Financing ("ADF") Loan No. 2000001751, signed on 28 February 2017.
- The statement of expenditure withdrawal application is adequately supported by the summary of expenditures ("SOEs"). Supporting documents in respect of the SOEs have been properly maintained to support claims for replenishment of expenditures submitted to the IFAD. Such expenditures are eligible under the Financing Agreement ADF Loan No. 2000001751, signed on 28 February 2017.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Company in accordance with the *Code of Ethics for Professional Accountants and Auditors* of the Kampuchea Institute of Certified Public Accountants and Auditors ("Code of Ethics") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics and the IESBA Code.

**INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF
ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS (continued)****Emphasis of Matter - Basis of Accounting and Restriction on Distribution**

We draw attention to Note 2 to the financial statements, which describes the basis of preparation and accounting policies adopted by the Project. The statement is prepared to assist the Project to meet its financial reporting requirements. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Project and the Project Management and should not be distributed to or use by any other parties. Our opinion is not modified in respect of this matter.

Responsibilities of the Project Management for the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Project as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Project, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Project Management.
- Evaluate the overall presentation, structure and content of the financial statements of the Project, including the disclosures, and whether the financial statements of the Project represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITORS' REPORT TO THE PROJECT MANAGEMENT OF
ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS (continued)****Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

We have communicated with the Project Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Cambodia

BDO (Cambodia) Limited
Phnom Penh, Cambodia
Date: 28 June 2019

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

**STATEMENT OF FUND BALANCE
AS AT 31 DECEMBER 2018**

	Note	31 Dec 2018		Total US\$
		MEF US\$	MOC US\$	
Fund balance at the end of period		731,813	612,672	1,344,485
Represented by:				
Cash and bank balances	3	731,813	502,672	1,234,485
Advances	4	-	110,000	110,000
		731,813	612,672	1,344,485

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

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

**STATEMENT OF SOURCES OF FUNDS AND EXPENDITURES
FOR THE PERIOD ENDED 31 DECEMBER 2018**

	Period ended 31 Dec 2018		
	MEF US\$	MOC US\$	Total US\$
SOURCES OF FUNDS			
International Fund for Agricultural Development	770,490	1,370,043	2,140,533
Government counterpart fund	173,253	961,225	1,134,478
	943,743	2,331,268	3,275,011
EXPENDITURES BY CATEGORIES			
Consultancies	106,378	631,077	737,455
Training	1,511	158,375	159,886
Operating cost	8,896	228,003	236,899
Project staff allowance	4,600	59,090	63,690
Goods	90,545	642,051	732,596
	211,930	1,718,596	1,930,526
Excess of sources of funds over expenditures	731,813	612,672	1,344,485
EXPENDITURES BY COMPONENTS			
Value chain development	-	984,449	984,449
Value chain financing	324,960	-	324,960
Project Management Office	-	734,147	734,147
	211,930	1,718,596	1,930,526

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

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

STATEMENT OF DESIGNATED ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER 2018

	Note	Period ended 31 Dec 2018		
		MEF US\$	MOC US\$	Total US\$
SOURCES OF FUNDS				
Funds received during the period		943,743	2,331,268	3,275,011
EXPENDITURES BY CATEGORIES				
Consultancies		106,378	631,077	737,455
Training		1,511	158,375	159,886
Operating cost		8,896	228,003	236,899
Project staff allowance		4,600	59,090	63,690
Goods		90,545	642,051	732,596
		211,930	1,718,596	1,930,526
Excess of sources of funds over expenditures		731,813	612,672	1,344,485
REPRESENTED BY				
Cash and bank balances	3	731,813	502,672	1,234,485
Advances		-	110,000	110,000
		731,813	612,672	1,344,485
EXPENDITURES BY COMPONENTS				
Value chain development		-	984,449	984,449
Value chain financing		324,960	-	324,960
Project Management Office		-	734,147	734,147
		211,930	1,718,596	1,930,526

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

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

STATEMENT OF COMPARISON BETWEEN ACTUAL EXPENDITURES AND BUDGET ESTIMATES FOR THE PERIOD ENDED 31 DECEMBER 2018

	Period ended 31 Dec 2018	
	Total budget US\$ (unaudited)	Total actual US\$
EXPENDITURES BY CATEGORIES		
Consultancies	1,911,900	737,455
Training	1,637,184	159,886
Credit	2,183,650	-
Grants	6,200,000	-
Operating cost	1,080,596	236,899
Goods	857,059	63,690
Project operating cost	594,861	732,596
	<u>14,465,250</u>	<u>1,930,526</u>
EXPENDITURES BY COMPONENTS		
Value chain development	4,900,940	984,449
Value chain financing	5,620,850	324,960
Project Management Office	1,068,460	621,117
	<u>11,590,250</u>	<u>1,930,526</u>

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

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

**STATEMENT OF EXPENDITURE WITHDRAWAL APPLICATION
FOR THE PERIOD ENDED 31 DECEMBER 2018**

(a) **Loan No. 2000001751**

Withdrawal application number	Date of received	Amounts claimed for advance	
		Total	Requestor
		US\$	
WA01	2 August 2017	500,000	MOC
WA02	25 April 2018	870,043	MOC
WA03	24 April 2018	770,490	MEF
WA04	24 December 2018	2,000,000	MEF
WA05	24 December 2018	1,000,000	MEF
Cumulative to 31 Dec 2018		5,140,533	

Withdrawal application number	Date of submission	Justification/Clearance of advance sent to IFAD			
		Consultant service	Training and workshops	Operating cost	Total
		US\$	US\$	US\$	US\$
WA06	29 August 2018	159,206	60,605	45,950	265,761
Cumulative to 31 Dec 2018		159,206	60,605	45,950	265,761

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

NOTES TO THE FINANCIAL STATEMENTS

1. PROJECT BACKGROUND

Accelerating Inclusive Markets for Smallholders ("the Project" or "AIMS") was established under the Loan Number 2000001751 signed on 28 February 2017 between the Royal Government of Cambodia ("RGC") and the International Fund for Agricultural Development ("IFAD"). The Project shall benefit smallholder farm households, including poor and near poor farmers, participating in the supported value chains who voluntarily collaborate in project activities, including as well, agricultural cooperatives, farmer organisations, Micro Small and Medium Enterprises ("MSMEs"), agribusinesses, service enterprises, and industry associations. The Project shall operate in all parts of the country, with actual locations determined by the selection of priority value chains and the associated areas engaged in the value chains from production to the market. The Project will initially work in around 15 provinces based on the 5 flagship commodities selected supported by the same number of multi-stakeholder platforms and 3 inter-regional technical hubs ("the Project Area") in Battambang, Takeo and Kampong Cham.

The goal of the Project is to enhance prosperity of Cambodian smallholder farmers through increasingly profitable links to agri-businesses and markets.

The Project is implemented at the national level by the Ministry of Commerce – Project Management Office ("MOC-PMO") as the lead project agency and shall have the overall responsibility for project implementation. The Ministry of Economic and Finance is the additional project party. The implementation period for the Project is four years, beginning in 2017 and ending in 2020.

The Project consists of the following two components:

- Value chain development
- Value chain financing

Under the financing agreement signed on 28 February 2017, the amount of the loan is USD 36,300,000 (thirty six million and three hundred thousand dollar only).

The table below sets forth the categories of eligible expenditures to be financed by the loan and the allocation of the amounts of the loan to each category and the percentages of expenditures for items to be financed in each category:

Category	Loan amount allocated US\$	% of expenditures to be financed
1. Consultancies	2,100,000	60%
2. Training	3,200,000	50%
3. Credit	8,100,000	100%
4. Grants	16,800,000	50%
5. Operating costs	2,600,000	50%
6. Unallocated	3,500,000	
	<u>36,300,000</u>	

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Project, which are expressed in United States Dollar ("US\$"), have been prepared in accordance with modified cash basis of accounting. Under this basis of accounting, fund received is recognised when received rather than when the right to receive it arises, and expenditure is recognised when it is paid rather than when incurred, except for the advances to the project areas, which are initially recognised as advances and only recognised as expenditures when they have been liquidated by invoices supporting the related expenditures.

The financial statements present statement of fund balance, statement of sources of funds and expenditures, statement of project account reconciliation, statement of comparison between actual expenditures and budget estimates, statement of designated account, statement of expenditure withdraw application and the related financial information in relation to the IFAD withdrawals and disbursements from the Project's designated account by IFAD loan and grant and the corresponding counterpart funds as specified under the financing agreement No.2000001751.

2.2 Sources of funds

Sources of funds consist of grants received from the IFAD transferred directly from the Project's designated account held at the [REDACTED]

2.3 Cash and bank balances

Cash and bank balances consist of cash at bank and cash on hand with insignificant risk of changes in values.

2.4 Advances

Outstanding cash advances are recorded as receivables in the statement of fund balance and recognised as expenditures in the statement of sources of funds and expenditures upon liquidation.

2.5 Funds from IFAD

Funds from IFAD are recognised as a source when cash is transferred from the Project's designated account to Project's bank account. These funds are accounted for when received.

2.6 Counterpart fund

Counterpart fund is recognised as a source when cash is withdrawn from the National Treasury or when a fund is transferred directly from the National Treasury to the Project's national bank account.

2.7 Expenditures

Expenditures are recognised when payment is made rather than when it is incurred, except for advances to the project areas, which are initially recognised as advances and recognised as expenditure when they are liquidated by presentation of supporting invoices.

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Fixed assets

The cost of fixed assets is charged to expenditure upon acquisition. For control and management purpose, a fixed asset register is maintained which includes office equipment as well as vehicle and motorcycles.

2.8 Foreign exchange differences

Expenditures and withdrawals in foreign currencies (other than US\$) are converted into US\$ at the prevailing exchange rates declared by [REDACTED] ruling at the date of transactions. Monetary items denominated in foreign currencies are translated into US\$ for reporting purposes at the closing exchange rate prevailing at the reporting date.

2.9 Commitments

Commitments are obligations for contracted services provided. Commitments are not accounted for in the statement of sources of funds and expenditures.

2.10 Designated accounts

One designated accounts managed by MOC-PMO and MEF-PIU for AIMS is maintained in the National Bank of Cambodia. MOC-PMO submits the withdrawal application to MEF for review as well as approval before onward submission to IFAD. For the settlement of the designated accounts, MOC-PMO prepares a withdrawal application supported by the Statement of Expenditure ("SOE"), bank reconciliation sheet and the project monthly financial statements to MEF for review as well as approval before onward submission to IFAD.

3. CASH AND BANK BALANCES

	31 Dec 2018		Total US\$
	IFAD US\$	Counterpart US\$	
MEF			
Cash on hand	258	258	516
Cash at bank	701,187	30,110	731,297
	<u>701,445</u>	<u>30,368</u>	<u>731,813</u>
MOC			
Cash on hand	1,000	1,000	2,000
Cash at bank	742,208	(241,536)	500,672
	<u>743,208</u>	<u>240,536</u>	<u>502,672</u>

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

4. ADVANCES

	31 Dec 2018		Total US\$
	IFAD US\$	Counterpart US\$	
MOC Project areas	55,000	55,000	110,000

5. FIXED ASSETS

Fixed assets are maintained and recorded by MOC and MEF at the national level and comprise of the following:

	31 Dec 2018		Total US\$
	MEF US\$	MOC US\$	
Equipment	9,851	714,264	724,115

6. TAXATION CONTINGENCIES

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Cambodia substantially more significant than in other countries. Project Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

ACCELERATING INCLUSIVE MARKETS FOR SMALLHOLDERS

Under IFAD Loan Number 2000001751 between the Royal Government of Cambodia and the International Fund for Agricultural Development ("IFAD")

Annex A: Summary of withdrawal application

(a) Loan No. 2000001751

MEF

Withdrawal application number	Date of receipt	Amounts claimed for advance			
		Consultant service	Training and workshops	Operating cost	Total
		US\$	US\$	US\$	US\$
WA03	24 April 2018	-	-	-	770,490
WA04	24 December 2018	-	-	-	2,000,000
WA05	24 December 2018	-	-	-	1,000,000
Cumulative to 31 Dec 2018		-	-	-	3,770,490

MOC

Withdrawal application number	Date of receipt	Amounts claimed for advance			
		Consultant service	Training and workshops	Operating cost	Total
		US\$	US\$	US\$	US\$
WA01	2 August 2017	-	-	-	500,000
WA02	25 April 2018	-	-	-	870,043
Cumulative to 31 Dec 2018		-	-	-	1,370,043

Withdrawal application number	Date of submission	Justification/Clearance of advance sent to IFAD			
		Consultant service	Training and workshops	Operating cost	Total
		US\$	US\$	US\$	US\$
WA06	29 August 2018	159,206	60,605	45,950	265,761
Cumulative to 31 Dec 2018		159,206	60,605	45,950	265,761