



**Department of Agriculture
PHILIPPINE RURAL DEVELOPMENT PROJECT
(PRDP)**

FINANCIAL MANAGEMENT OPERATIONS GUIDELINES

8 September 2014

1 INTRODUCTION

This Chapter of Guidelines presents the objectives and scope, the guidelines for its use, maintenance and update.

1.1 OBJECTIVES OF THE GUIDELINES

The money used to implement a project usually comes from tax and non- tax revenue, which the National Government expects to collect. These revenues, however, are inadequate to meet the needs of the Government for its current operating expenditures and planned capital outlays. To finance the balance of the funding requirements, the Government obtains financing from both domestic and foreign sources.

Funds provided by the foreign institutions come in the form of a loan or grant, which are primarily geared towards the completion of a given project and/or projects. Irrespective of the form or assistance, these institutions are interested in getting accurate and timely reports on the results of the project operation and in assessing the projects' impact on the community.

The parties involved in the project implementation are further concerned with the improvement of their management skills. One of the means towards this end is to put a sound management information system in place and to strengthen their financial management capabilities in supporting the needs of the project and in facilitating the attainment of the project's objectives.

This Guideline was prepared to be able to meet the foregoing requirements. It would serve as a ready reference in implementing, accounting for, and reporting on the operations of the Department of Agriculture's Philippine Rural Development Project (PRDP). The Project is to be implemented by the National Project Coordination Office (NPCO), Project Support Offices (PSOs) and Regional Project Coordination Offices (RPCOs) of the Department of Agriculture and the Local Government Units (LGUs). It will also guide the World Bank (WB), regulatory and oversight agencies in monitoring the progress and status of the Project. More specifically, this Guidelines aims to guide and assist the NPCO, PSO, RPCO and the LGUs in:

- a. Properly documenting their financial transactions that will provide adequate audit trail;
- b. Proper recording of their financial transactions and the maintenance of the accounting books of accounts;
- c. Necessary accounting controls to safeguard their assets, particularly the funds entrusted to them;

- d. Generating accurate and timely financial reports that maybe required by the funding institutions, the various regulatory and oversight agencies; and
- e. Facilitating the evaluation by the DA, the oversight agencies, and the funding institution on the progress and status of the project in attaining its objectives.

1.2 SCOPE OF THE GUIDELINES

To meet the foregoing objectives, this Guideline has been divided into eight chapters as follows:

Chapter 1 Introduction - presents the objectives and scope, the guidelines for the use, and the maintenance and update of the Guidelines.

Chapter 2 Project Organizational Frameworks - presents the various organizational frameworks within which the system is deemed to operate. It discusses the flow of funds to various organizational units involved in the project and defines the roles each unit plays in the utilization of foreign assistance. It also describes the different linkages and possible combinations of the project structure and identifies the applicability of the Guidelines to these setups.

Chapter 3 General Accounting Overview - presents the Basic Features, the Books of Account, Financial Reports and Statements for Philippine Rural Development Project (PRDP).

Chapter 4 Project Transactions - presents the various modules covered by the system. For each module, the Guidelines details the related internal control policies, the documents and subsidiary records used, the procedures involved and the related pro forma entries.

Chapter 5 Books of Accounts and Records - presents proper preparation and use of books of account in conformity with the National Government Accounting System (NGAS) including an explanation of the importance of the books of accounts.

Chapter 6 Financial Reporting - presents the financial reports to be prepared by the NPCO, PSOs, RPCOs and the LGUs as well as the frequency of their submission. It also provides the format and guidance on their preparation, submission and the signatories as provided by the NGAS.

Chapter 7 Audit Arrangements - presents the audit arrangements with the Commission on Audit (COA) regarding the audit to be provided by COA and the issuance of the Audit Certificate stating the opinion on the Designated Accounts and Consolidated Financial Reports.

Chapter 8 Reports to World Bank - presents the reports to be submitted to the World Bank (WB) for monitoring and evaluation purposes and in order to facilitate withdrawal of funds from the funding institutions.

Annexes have been included, as a reference, at the end of the Guidelines to facilitate its use. The formats of the document, records, and summarized reports used in the system are included therein.

1.3 GUIDELINES FOR USE

This Guideline is designed as a tool to guide users in properly documenting, recording, and reporting the financial transactions of PRDP. All the relevant modules covering the various transactions of a project are compiled in this Guideline. To effectively use this Guideline, the user should consider the following as basis in the selection of modules applicable to a particular implementer:

- a. Eligible expenditures as specified in the relevant loan and grant agreement;
- b. Sources of funds, whether Loan Proceeds (LP), Grant Proceeds (GP), Government of the Philippines (GOP) counterpart or Local Government Unit (LGU) equity;
- c. Types of entity concerned, whether as NPCO, PSO, RPCO or LGU; and
- d. Reporting requirements to the WB and the oversight agencies.

1.4 GUIDELINES FOR UPDATE

The National Project Advisory Board (NPAB) shall approve major policy changes in the provisions of these guidelines. This will likely entail revisions in policies, procedures, forms or reports that may result in the introduction of a new transaction, which has not been included in the Guidelines. All significant amendments or additions resulting therefrom shall be covered by NPAB Resolution authorizing the changes. Thereafter, DA shall ensure that:

- a. Adequate training and orientation are conducted among the staff who will implement the revisions; and
- b. The amendment or revision is incorporated in this Guideline and dated on the lower left side.

2 PROJECT ORGANIZATIONAL FRAMEWORK

This Chapter presents the various organizational interrelationships; the basic functions of the four project - related entities, and the minimum required accounting position(s) of a project.

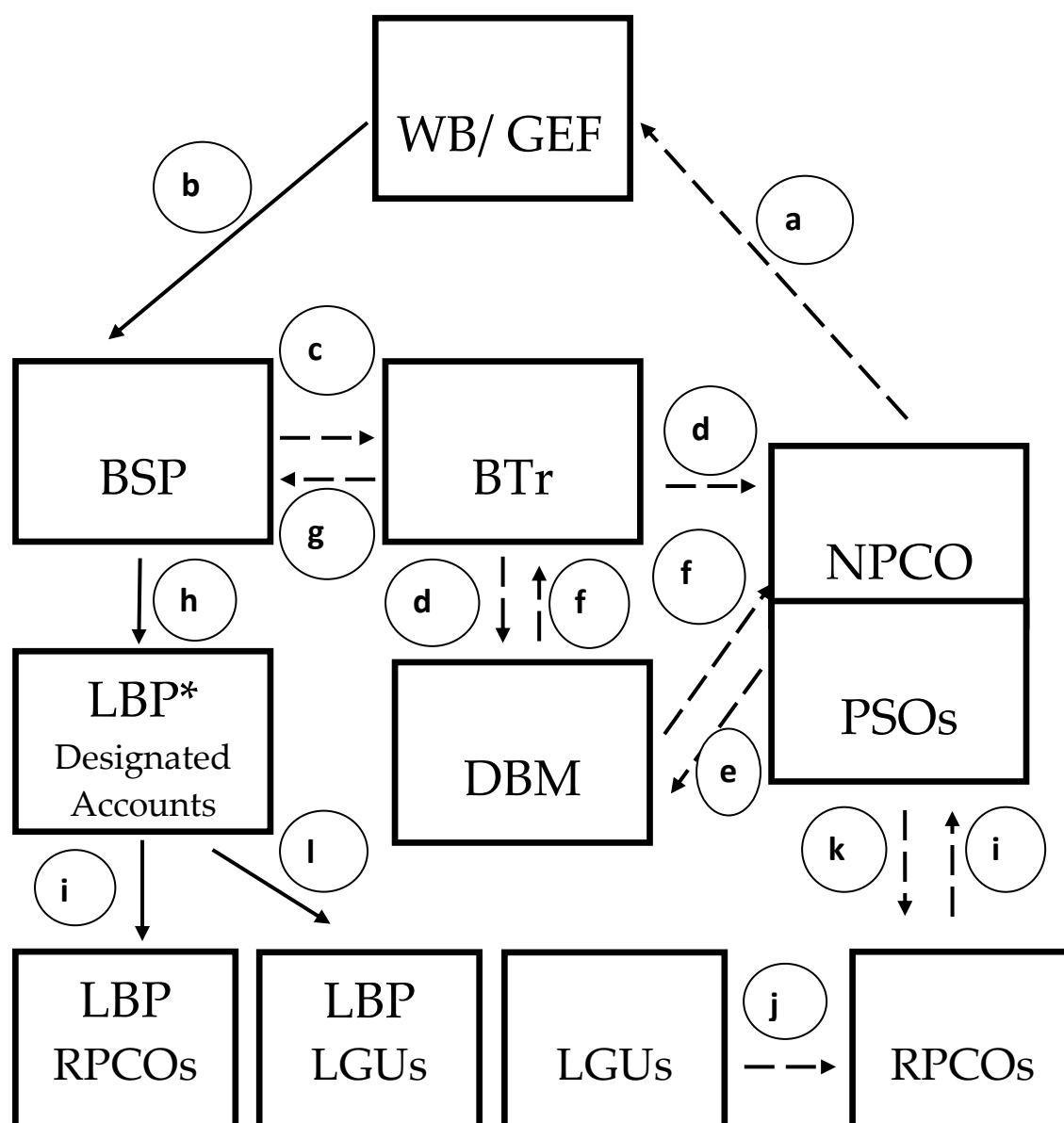
2.1 ORGANIZATIONAL INTERRELATIONSHIPS

There are **four** basic implementing units involved in the PRDP, namely, **NPCO**, **PSO**, **RPCO** and the **LGU**. Each of them represents one layer upward or downward in the relationship diagram. These layers are defined as follows:

- a. **National Project Coordination Office (NPCO)** - This Office is within the DA - Central Office and the over-all lead in Project implementation.
- b. **Project Support Office (PSO)** – This refers to the Office that has been given responsibility by and under the supervision of the NPCO to supervise and monitor the activities of the LGUs in coordination with RPCOs.
- c. **Regional Project Coordination Office (RPCO)**- – This Office is within the DA – Regional Field Office (DA-RFO) that will assist NPCO and PSO in the implementation of the Project within the region of their jurisdiction.
- d. **Local Government Units (LGUs)** – This refers to the local organizational unit responsible for the direct implementation of subprojects under the Infrastructure and Enterprise Development components.

2.2 FUNDS FLOW

2.2.1 **Figure 1:** Flowchart of Funds from Funding Source to Lead Implementing Agency (**Duration on the Process Flow of fund Release from World Bank to NPCO/PSOs is presented in Annex A.**



*Designated Accounts of NPCO and the four (4) PSOs – Luzon A, Luzon B, Visayas and Mindanao

Funds Flow →
Documents Flow - - ->

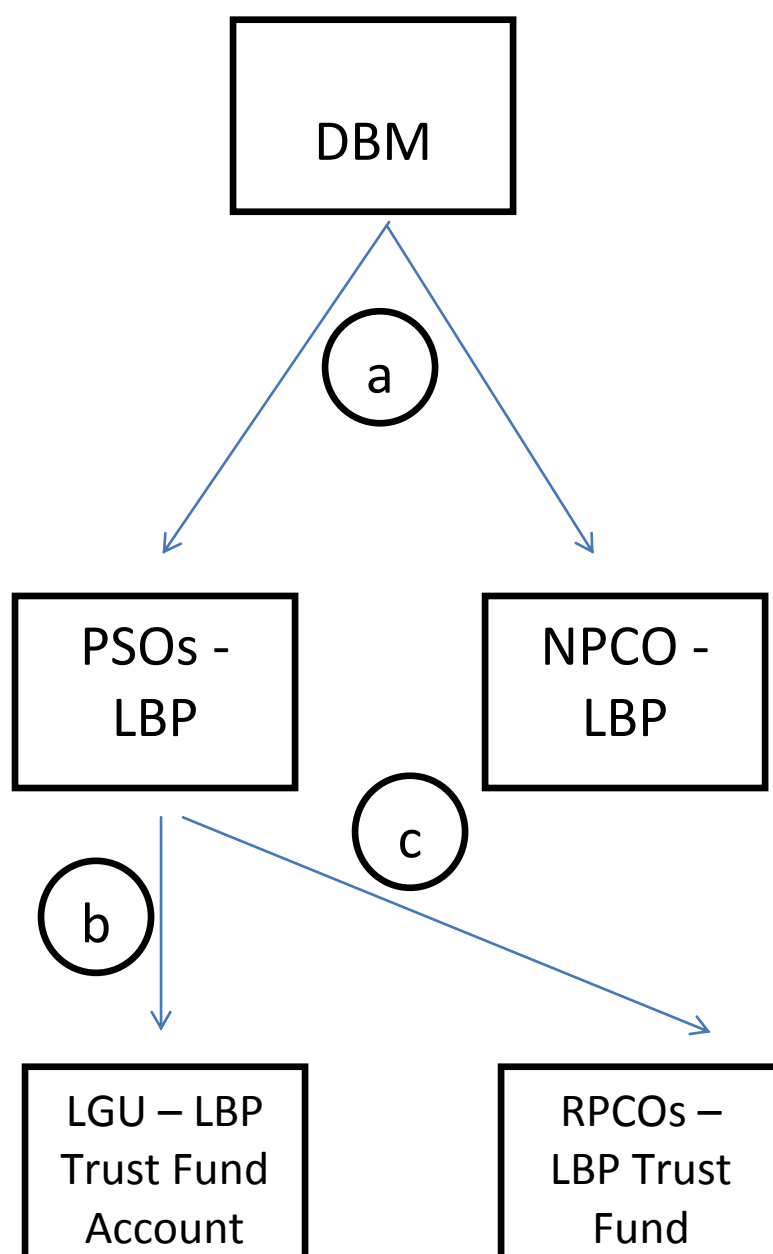
The Presidents' budget as approved in the General Appropriation Act (GAA) for the year will be the basis of the Department of Budget and Management (DBM) to release the funds to Department of Agriculture (DA) - NPCO and PSO together with the Budget Execution Document (BED) and Budget Accountability Report (BAR) submitted.

In case of Grant Proceeds, Department of Agriculture will request Special Allotment Release Order (SARO) to the DBM simultaneous to the submission of Withdrawal Application (WA) to World Bank.

- a) Upon the effectivity of the signed and approved Loan and Grant Agreement between the Republic of the Philippines represented by the Department of Finance and the International Bank for Reconstruction and Development (IBRD) of the World Bank (WB), the NPCO and PSO will submit Withdrawal Application (WA) to WB requesting for the release of initial amount based on two reporting periods forecast to be transferred to the Bangko Sentral ng Pilipinas (BSP).
- b) The WB after receipt of WA and upon approval will transfer funds to BSP.
- c) The BSP upon receipt of funds from the WB will inform the Bureau of the Treasury (BTr) on the receipts of funds from the WB for the Project.
- d) The BTr upon receipt of the Credit Advice from the BSP will inform the DBM copy furnished the DA that funds have been received from the WB for the Project.
- e) For Loan Proceeds, upon receipt of Notice of Funds Availability from the BTr, the DBM will issue Notice of Cash Allocation (NCA) to the NPCO and PSO copy furnished the BTr. In case of grant, the DBM shall ensure that corresponding SARO and NCA have been issued.
- f) The DBM shall issue to DA the SARO and NCA. In case of Grant, the DBM shall upon receipt from the DA of the request for funding of the Project issue the SARO and NCA to the DA (NPCO and four PSOs) copy furnished the BTr.

- g) The BTr upon receipt of the copy of NCA from the DBM will advise the BSP to transfer the funds to NPCO and PSOs Designated Accounts (DesA) in the LBP.
 - h) The BSP upon receipt of advice from BTr transfer funds to the Designated Accounts of NPCO and PSOs in the LBP.
 - i) The PSOs upon request of RPCOs will instruct LBP to transfer funds to RPCOs Trust Fund Account.
 - j) The LGU through the concerned RPCO will request the PSO for the release of funds for the subproject.
 - k) RPCO after review of the request for fund release of the LGU will endorse the request to PSO to transfer funds to LGU account with the LBP exclusive for the PRDP subproject.
 - l) The PSO upon receipt of the request of the LGU and after approval will release funds to LGU account with the LBP exclusive for the PRDP subproject.
- 2.2.2 The LGU will then prepare Statement of Receipts and Expenditures (SRE) reflecting payment made to Contractor and submit to RPCO for review and endorsement to PSO.
- 2.2.3 The PSOs will review the monthly SRE of LGUs endorsed by the RPCO including their SRE and prepare Withdrawal Application (WA) supported by Interim Financial Report (IFR) and Statement of Expenditures (SOE) and submit to NPCO for review and approval and endorse to the WB to replenish the Designated Account. The PSO will prepare its own WA and submit to NPCO for endorsement to WB.
- 2.2.4 Likewise, the NPCO will submit the WA quarterly together with the IFR to WB for processing and upon approval will replenish the Designated Accounts of NPCO and PSOs for project implementation.
- 2.2.5 The WB after receipt of WA and upon approval will transfer funds to BSP and back to letter (c) of the funds flow.
- 2.2.6 Figure 2: Funds Flow for GOP Counterpart Funds

Figure 2: Funds Flow for GOP Counterpart Funds



Note: NPCO and 4 PSOs: Luzon A and B, PSO Visayas and PSO Mindanao

The Presidents' budget as approved in the General Appropriation Act (GAA) for the year will be the basis of the DBM to release the funds to DA (NPCO and PSOs) together with the Work and Financial Plan and Monthly Disbursement Program (MDP) submitted.

- a) The DBM will release the funds to NPCO and PSOs based on the GAA.
 - b) PSO will transfer funds to RPCO for technical and operational assistance for the day-to-day coordination, implementation, monitoring, evaluation and audit of the Project from the Project Implementation Support component.
 - c) PSO will transfer funds to LGUs for the implementation of the approved Infrastructure and Enterprise Development subprojects.
- 2.2.7 Fund transfer from PSO to RPCOs is through the issuance of check based on Program Contract while fund transfer to LGUs will be on a bank-to-bank mode through the issuance of Letter Advice to LBP.
- 2.2.8 The RPCO may request succeeding fund release from PSO based on the approved WFP and upon submission of Statement of Receipts and Expenditures (SRE) liquidating at least seventy percent (70%) of the previous release.
- 2.2.9 The project funds disbursed by RPCO will be reported to PSO for liquidation of funds released to them. In case, the submitted SREs are in order and proper, the PSO including their SRE and Statement of Expenditures (SOE) shall prepare the Withdrawal Application together with the SOE and Interim Financial Reports (IFR) and submit to NPCO for review and approval and forward the same to WB.
- 2.2.10 Disbursement of project funds for technical and operational cost will follow the WB guidelines on eligible expenditures and the usual process of disbursement in the Department of Agriculture in accordance with COA Accounting and Auditing Rules and Regulations.
- 2.2.11 Succeeding fund releases to the LGUs will be based on the progress or physical accomplishments for the subprojects that they are implementing and on the submission of Statement of Receipts and Expenditures (SRE) audited by the State Auditor of the Commission on Audit reflecting payment made to Contractors. The SRE will be submitted by the LGUs to the RPCO for review and for endorsement to PSO for approval.

- 2.2.12 Funds released to the NPCO and PSOs will be allocated to each project component and release the funds upon request by the RPCOs and LGUs.
- 2.2.13 Funds received by NPCO, PSOs, RPCOs and LGUs should be disbursed in accordance with the Loan and Grant Agreement. Reports for disbursements made by LGUs must be submitted to RPCO and to be endorsed by RPCO to PSO, which is the basis for the IFR to support the Withdrawal Application and replenishment of Designated Accounts.

2.3 OVERALL ORGANIZATIONAL FUNCTIONS

- 2.3.1 The actual functions of an entity that has obtained foreign assistance will depend on a number of factors which include, among others, the following:
 - a) Nature and/or requirements of the project;
 - b) Internal management capability;
 - c) Available financing; and
 - d) Established linkages among the various units involved.
- 2.3.2 Considering the foregoing factors, listed below are the basic functions that can normally be expected to be performed of the organizational units involved in the project:
 - a) **Special Projects Coordination and Management Assistance Division (SPCMAD)**
 - 1 Review the expenditure plans of the PRDP prepared by the NPCO in coordination with the Department of Agriculture – Central Office – Financial Management Service (DA-CO-FMS) which is responsible for the financial aspect of PRDP in NPCO.
 - 2 Monitor the financial and physical accomplishment reports of the NPCO and four (4) PSOs, RPCOs and the beneficiary LGUs including the activity, monitoring and evaluation reports in compliance with the requirements of Oversight Agencies.

- 3 Conduct periodic on-site monitoring of the physical accomplishment of the recipient LGUs in respect of their proposed projects, as well as, of the activities undertaken by the NPCO and the four (4) PSOs. On site monitoring shall be done in coordination with the NPCO, PSOs and RPCOs.

b) National Project Coordination Office (NPCO)

- 1 Prepare the consolidated budget request and Work and Financial Plan (WFP) for the Loan and Grant Proceeds and GOP Counterpart Funds of the PRDP in coordination with SPCMAD prior to its' consolidation into the DA budget for submission to the DBM for inclusion in the Executive Budget, and subsequently, in the National Expenditure Plan (NEP).
- 2 Review and recommend for approval to the National Project Advisory Board (NPAB) the Annual Work and Financial Plan (AWFP) and operating budget of the PRDP as prepared by the NPCO.
- 3 Review the PRDP consolidated SRE and Interim Financial Reports (IFR) prepared by the PSO for each withdrawal of the Loan and Grant Proceed and GOP Counterpart in coordination with the SPCMAD.
- 4 Process all disbursements and prepare all necessary reports for NPCO expenditures and submit to COA for audit.
- 5 Maintain books of account for PRDP and prepare financial reports.
- 6 Endorse the submission of financial reportorial requirements to World Bank, DA and oversight agencies.
- 7 Prepare and consolidate the expenditure plans prepared by PSO in coordination with SPCMAD.
- 8 Prepare and consolidate the annual work and financial plan and operating budget prepared by PSO for PRDP.

- 9 Prepare the Quarterly Consolidated IFR and the Annual Consolidated Financial Report (CFR) of PRDP and submit to the COA for audit and preparation of Annual Audit Report (AAR) on CFR and issuance of Audit Certificate.
- 10 Conduct review and validation of monitoring and evaluation reports including the activities of the PSO's, RPCOs and LGUs.
- 11 Conduct periodic on-site monitoring of the physical accomplishments of the recipient LGUs in respect of their proposed projects, as well as, of the activities undertaken by PSOs. On site monitoring shall be done in coordination with the PSO, RPCOs and the LGUs.

c) Project Support Offices (PSOs)

- 1 Prepare and consolidate AWP and operating budget of the PRDP within the area of responsibility based on the schedule of withdrawals of Loan and Grant Proceeds from WB and GEF respectively and the receipt of the GOP Counterpart Funds from the DBM through the BTr for submission to NPCO.
- 2 Maintain books of account and prepare financial reports and statements.
- 3 Execute IMA with the LGUs for funding and implementation based on the approved subproject. The IMA shall be executed by the PSO Project Director and RPCO Coordinator as the signing authorities.
- 4 Issue Certificate as to Availability of Funds (CAF) to LGUs with approved subproject.
- 5 Collect all financial, physical accomplishment, monitoring and evaluation reports from the RPCOs and the recipient LGUs and consolidate them for submission to NPCO.
- 6 Maintain records of all key PRDP documents in their area of responsibility including, but not limited to, appraisals and approvals of proposed projects and activities, bank statements

from the LBP, and physical accomplishment, activity and monitoring and evaluation reports.

- 7 Conduct capacity development activities in coordination with RPCO in their area of responsibility for all stakeholders in the PRDP.
- 8 Release the project Loan and Grant Proceed from their PRDP Designated Accounts and GOP counterpart Funds to the accounts of the recipient LGUs with the LBP.
- 9 Collect and summarize the physical and financial reports of all recipient LGUs within its region on a monthly basis and forwards the same to the NPCO while maintaining a copy for its' own records.
- 10 Expedite audits of its' own and in-region recipient LGU accounts.

d) Regional Project Coordination Office (RPCO)

- 1 Appraise and recommend for approval to Regional Project Advisory Board (RPAB) subproject proposals from qualified LGUs.
- 2 Conduct capacity development activities for all stakeholders within its region in coordination with PSO.
- 3 Provide technical assistance to recipient LGUs in complying with all conditions contained in the IMA.
- 4 Review and endorse the request of LGUs for the release of funds and the submitted SRE to PSO.
- 5 Maintain subsidiary records for the receipts and disbursements of funds.
- 6 Consolidate the submitted SREs of LGUs and submit to PSO.
- 7 Monitor Project implementation in coordination with the

LGUs.

8 Prepare financial and physical monitoring reports.

e) Local Government Units (LGUs)

- 1 Prepare and submit Letter of Intent (LOI) together with the Provincial Commodity Investment Plan (PCIP) to the RPCO.
- 2 Maintain separate books of account and records for PRDP subproject.
- 3 Prepare and submit monthly, quarterly and annual financial reports to the RPCO including the audited annual Statement of Sources and Application of Funds (SSAF) together with Audit Certificate.
- 4 Prepare and maintain physical and financial monitoring reports on the implementation of the approved subprojects and submit to RPCO.

2.4 ACCOUNTING ORGANIZATION AT ALL LEVELS

- 2.4.1 The actual number of staff that will be assigned to a project will depend on the volume of transactions, the number of projects simultaneously implemented, and the geographical locations of the subprojects.
- 2.4.2 At a minimum, however, there should be an Accountant and a Cashier to ensure the separation of recording and custodianship functions.
- 2.4.3 The Accountant should be responsible for the proper documentation, recording, and reporting of the various transactions of the project.

3 GENERAL ACCOUNTING OVERVIEW

This Chapter presents the Basic Features, the Books of Account, Financial Reports and Statements for Philippine Rural Development Project (PRDP).

3.1 BASIC FEATURES

3.1.1 The basic accounting features of this Guideline are as follows:

- a) The Chart of Accounts imposed by the Commission on Audit under COA Circular No. 2003-001 dated June 17, 2003, as amended, is being adopted;
- b) Modified accrual basis of accounting is used wherein all expenses shall be recognized when incurred and income shall be booked up when earned except for transactions where the accrual basis is impractical or when laws may require other methods;
- c) The double entry accounting system is applied wherein each recorded transaction affects at least two items in the financial accounting records;
- d) The normal accounting cycle of the project is applied wherein the life of the project or one year, whichever is shorter, is being used; and
- e) The project transactions are classified as those related to NPCO, PSO, RPCO and LGU activities and properly identifying their fund sources whether Loan or Grant Proceeds, GOP Counterpart or LGU Equity.

3.2 CHART OF ACCOUNTS

This Section presents the basic features of the Government Chart of Accounts, the coding system, and the list of accounts used in the recording of relevant transactions undertaken by the NPCO, PSO, RPCO and LGU as required under COA Circular No. 2003-001 dated June 17, 2003, as amended.

3.2.1 Basic Features

The Government Chart of Accounts serves as the framework of the PRDP accounting system. It facilitates the summarization of transactions through a coding system created to have a direct reference to its account classification in the financial reports. The Chart of Accounts used in this Guideline is the one prescribed by the Commission on Audit (COA).

The Government Chart of Accounts has the following basic features:

- a) Accounts are provided to record all possible types of transactions currently affecting the Project and arranged in the order in which they appear in the financial statements to facilitate preparation;
- b) The accounts conform to Generally Accepted Accounting and Auditing Rules and Regulations;
- c) The accounts are coded to facilitate location, and/or access to, accounts in the General Ledger; and
- d) The coding system simplifies the process of recording and classifying the transactions affecting the project.

3.3 BOOKS OF ACCOUNTS

The project uses books of original entry, the books of final entry and subsidiary ledgers.

3.3.1 The books of original entry are used to record in chronological order the transactions that affect the Project using various assets, liability, equity, revenue, expenses and other related accounts. **Enumerated hereunder are the books of original entry;**

- a) **General Journal (GJ).** This Journal shall be used to record all transactions, which cannot be recorded in the three special journals.

b) Special Journal (SJ). The Special Journals are specifically designed to record transactions, which are repetitive in nature and are enumerated below:

- 1. Cash Receipts and Deposits Journal (CRDJ).** This Journal shall be used to record all collections and deposits reported during the month.
- 2. Check Disbursement Journal (CkDJ).** This Journal shall be used to record checks payment made by the Cashier or Disbursing Officer.
- 3. Cash Disbursement Journal (CDJ).** This Journal shall be used to record all payment made in cash by the Regular/Special Disbursing Officers out of their cash advances.

c) Books of Final Entry. The books of final entry are the **General Ledgers (GL)** and **Subsidiary Ledgers (SL)**. **General Ledger** is a book of final entry containing accounts arranged in the same sequence as in the Chart of Accounts. **Subsidiary Ledger** is a book of final entry containing the details or breakdown of the balance of the controlling account appearing in the GL.

3.3.2 The foregoing books of account are discussed in detail in the succeeding chapter.

3.4 FINANCIAL REPORTS AND STATEMENTS

Financial Reports provide information on the overall status in the implementation of the Project while Financial Statements shows the financial position and operation of the Project.

3.4.1 NPCO, PSO, RPCO and LGUs are required to submit financial reports and statements to their respective COA Auditors for audit. LGUs should submit the audited SREs to PSO through RPCO, which serve as liquidation report on funds released to them and for consolidation.

3.4.2 The required **monthly reports** to be prepared and submitted are the following:

- a) Statement of Receipts and Expenditures (SRE).
- b) Trial Balance.
- c) Bank Reconciliation Statement (BRS)

3.4.3 **Quarterly reports** needed to be prepared and submitted by NPCO, PSOs and LGUs are:

- a) Trial Balance
- b) Balance Sheet
- c) Cash Flow Statement

3.4.4 The required **annual report** to be prepared and submitted by NPCO, PSO and LGUs are:

- a) Statement of Sources and Application of Funds (SSAF)
- b) Trial Balance
- c) Balance Sheet
- d) Cash Flow Statement

RPCO is required to submit only the SSAF. The NPCO and PSO are also required to submit annually the **Detailed and Condensed Statement of Income Expense and Detailed and Condensed Balance Sheet and Statement of Government Equity**.

3.4.5 The first stated report provides information on funds received, disbursed and balances of Loan and Grant Proceeds, GOP Counterpart and LGU Equity for the year and the cumulative totals of each while the 2nd and 3rd reports presents the financial position of the Project as of the end of the year. The fourth stated report presents the cash balance of the subproject at the end of the year.

3.4.6 The financial reports mentioned are discussed in detail in succeeding chapter.

4 PROJECT TRANSACTIONS

This Chapter contains PRDP transactions in various accounting modules covered by this Guideline which have been grouped into three, namely Receipts of Funds, Disbursements and Related Transactions for the implementation of the Project. The first module (4.1) represents the Receipt of Funds, the next three modules (4.2, 4.3 and 4.4) comprise Disbursements, Local Government Units and PRDP Components. The module presents the coverage, internal control policies, operating guidelines, documents and subsidiary records used.

4.1 RECEIPT OF FUNDS

4.1.1 Coverage

- a) This Section represents the coverage, internal control policies and operating guidelines, source documents and subsidiary records and accounting entries of the Receipt of Funds module.
- b) Funding for projects will come from foreign sources and Government of the Philippines (GOP) Counterpart contribution and/or LGU Equity. Foreign assistance may be given either as a loan or as a grant.
- c) Foreign assistance may be availed of under any or a combination of three methods namely designated fund, reimbursement and direct payment.

4.1.2 Modes of availing the Loan and Grant Proceeds are defined as follows:

- a) **Designated Account Method** - This is an advance fund from the loan/grant proceeds, which is established to accelerate the disbursements of funds and ensure the immediate and unhampered implementation of the project. This shall be done through the opening of a Designated Account subject to the guidelines of WB (DBM-COA-DOF Joint Circular No. 2-97, Sec5.4.3)
- b) **Reimbursement Method** – Under this scheme, the DA initially utilizes the advance funding out of GOP Counterpart for releases to NPCO, PSO and RPCO or to the LGUs for the implementation of the Project. It also supports disbursement for the procurement of goods and services, including payment for civil works eligible for

financing under the loan or grant. Thereafter it applies for reimbursement of the amount so far expended for the project from the WB in accordance with the stipulations in the Loan and Grant Agreement with the WB and GEF. (DBM, COA and DOF Joint Circular No. 2-97, Sec 5.1.4.1).

- c) **Direct Payment Method** – This method requires that there must be a valid physical accomplishment or goods delivered or services rendered and the payment is to be made directly to the contractor/supplier/creditor of which Official Receipt will be required from the payee.

4.1.3 There are various ways by which funds are received by implementing agency. The forms of receipts that may occur at the implementing agencies are as follows:

- a) Receipt of Loan and Grant Proceeds from WB by NPCO and PSOs;
- b) Receipt of GOP counterpart funds by NPCO and PSOs;
- c) Receipt by Regional Project Coordinating Offices (RPCOs) from PSOs; and
- d) Receipt by Local Government Units from PSOs.

4.1.4 Internal Control Policies

The internal control policies related to the receipt of funds have been grouped into three, namely, general guidelines, deposit and safekeeping and recording and bookkeeping.

a) General Guidelines

- 1 At all times, the cash custodial functions shall be separated from the cash recording functions. The responsibility for collecting and depositing cash and checks shall rest with the employees other than those who handle the books and accounting records.

- 2 Those who handle cash receipts shall not have access to accounting records, or be involved in the preparation of the bank reconciliation. The employees who prepare the bank reconciliation, in turn, shall not have any involvement in either cash receipts or disbursements.

b) Deposits and Safekeeping

- 1 All cash and currently dated check collections shall be deposited intact daily or on the following banking day in the form and amount in which they are actually received.
- 2 Undeposited collections shall be kept in a safety deposit box or vault in the Cashier's office. The combination of the safe or key to the box/vault shall be changed periodically and shall be known only to the Cashier and the Head of Office.

c) Recording and Bookkeeping

- 1 Separate set of books and records shall be maintained for the implementation of Foreign Funded projects (COA Circular No. 94-013 Sec 4.5)
- 2 A separate record shall be maintained for the funds received from PRDP for Loan and Grant Proceeds and GOP Counterpart Funds;
- 3 Separate record shall be maintained for the funds for LGU Equity.

4.1.5 Operating Guidelines

- 4.1.5.1 Proceeds of loan and grant under the PRDP shall be utilized only for eligible expenditures as stipulated in the loan and grant agreement (DBM-COA-DOF Joint Circular No. 2-97, Sec. 3.4).
- 4.1.5.2 The LGUs shall enter into an Implementation Management Agreement (IMA) with the DA to undertake the project in accordance with the IMA. The agreement shall specify the

requirements of DA for project implementation and reporting. (COA Circular No.94-013, Sec. 4.1).

- 4.1.5.3 The fund to be released to the LGUs shall be the amount that will be provided in the schedule of releases to LGUs whether the investment is under Infrastructure or Enterprise Development.
- 4.1.5.4 The check or letter advice shall be issued or transferred in the name of the LGU for PRDP Sub Project Trust Account based on the original copy of Bank certification submitted by LGU. The LGU shall issue its official receipt (COA Circular No. 94-013, Sec. 4.3) or Confirmation Letter or **Acknowledgement Receipt (Annex B)** to acknowledge receipt of funds.
- 4.1.5.5 Subsequent and final release shall be made only after the audited monthly Statement of Receipts and Expenditures (SRE) has been submitted which is the basis for liquidation of funds released (COA Circular No. 94-013 Sec 4.3)
- 4.1.5.6 The amount to be released shall not exceed the Loan and Grant Proceeds and GOP Counterpart of the total subproject cost reflected in the IMA. (DBM-COA-DOF Joint Circular NO. 2-97. Sec. 3.5)
- 4.1.5.7 A separate financial and accounting records shall be kept and maintained for the PRDP Subproject in accordance with generally accepted accounting principles (COA Circular NO. 96-003, Sec. 3.9)
- 4.1.5.8 The RPCO and LGU shall return to the PSO any unused balance upon completion of the subproject (COA Circular No. 94-013, Sec. 4.9). PSO shall, in turn, issue the Official Receipt or Acknowledgement Receipt for the returned unexpended balance. (COA Circular NO. 94-013, Sec/ 5.5).
- 4.1.5.9 The Bookkeeper or Accountant on a monthly basis must prepare a Bank Reconciliation Statement (BRS). Adjusting entries resulting therefrom should be subject to the approval of the Chief Accountant and/or Head of Office.

- 4.1.5.10 Official Receipts (ORs) must be issued sequentially for all collections made.
- 4.1.5.11 To prevent their unauthorized use, the O.R., whether used or unused, shall be controlled by the Cashier or any designated responsible officer other than those involved in recording and in bank reconciliation. New booklets shall only be issued upon the return of the stubs of the used booklets. All copies of cancelled ORs shall be marked "CANCELLED" and retained in the booklet.
- 4.1.5.12 All deposits shall be supported by Bank Validated Deposit Slips (VDS).
- 4.1.5.13 All ORs shall be recorded daily in numerical order in the Cash Receipts Books (CRB) and prepared monthly Report of Collections and Deposits to be submitted to Accounting Office.
- 4.1.5.14 The General Ledger shall be updated monthly and the trial balance shall be generated therefrom.

4.2 DISBURSEMENTS

Disbursements constitute all payments made during a given period either in cash or in check. It may also mean the settlement of government payables/obligations by cash or by check. It shall be covered by Disbursement Voucher (DV)/Petty Cash Voucher (PCV) or payroll.

4.2.1 Basic Requirements for Disbursement

- a) Existence of a lawful and sufficient allotment certified as available by Budget Officer;
- b) Existence of a valid obligation certified by the concern unit head;
- c) Legality of transactions and conformity with laws, rules and regulation;

- d) Approval of the expense by the Head of Office/LGU Executive or by his duly authorized representative; and
- e) Submission of proper evidence to establish the claim.

4.2.2 Disbursement System

- a) It involves the preparation and processing of disbursement voucher (DV);
- b) Preparation and issuance of check;
- c) Payment by cash; and
- d) Granting, utilization, and liquidation/replenishment of cash advances and petty cash fund.

4.2.3 Disbursement Process

The following is the general disbursement process to be followed by PRDP under the NGAS.

- 1 The concerned office shall gather supporting documents (prepare DV when required) and submit to Accounting Unit.
- 2 Accounting Unit must check completeness of documents and assign number to the DV.
- 3 Moreover, the Accounting Unit certifies completeness and propriety of documents and cash availability and forward to approving official.
- 4 The approving official shall approve transaction by signing the DV and forward to Cashier/LGU Treasurer.
- 5 The Cashier/LGU Treasurer must prepare and sign check, and forward check with DV to Approving Official.
- 6 Approving Official countersign check and return to Cashier/LGU Treasurer for release to creditor.

4.2.4 Check Disbursements

This section presents the coverage, internal control policies, operating guidelines, source documents and subsidiary records of the Check Disbursements module.

4.2.4.1 Coverage

Accounting for check disbursements covers the preparation of Disbursement Vouchers, the issuance of checks, the release of the signed checks to the payee, and the recording of the checks issued.

4.2.4.2 Internal Control Policies

- a) All purchases of goods and services shall be properly authorized, received and scheduled for payment.
- b) All disbursements not covered by the official cash advances shall be paid by checks.
- c) Checks shall always be made payable to a specific person or entity. These shall never be made payable to "cash" or "bearer".
- d) Checks shall be **Crossed** for deposit to the payee's account, except checks payable to employees and the Custodian. The replenishment check for Petty Cash Fund Advance Fund shall be issued in the name of the Cashier or Special Disbursing Officer (SDO) duly bonded as proof of his accountability.
- e) Unused checks shall be kept in a safe or vault, which shall be accessible only to Custodian.
- f) Signing and countersigning of blank checks shall not be allowed.
- g) Spoiled checks and stale checks shall be marked "CANCELLED" and both shall be kept for future inspection.
- h) Subsidiary balances for liability accounts shall be reconciled with the corresponding control account balances in the General Ledger.

- i) Bank Reconciliation Statement (BRS) shall be prepared monthly to verify the accuracy of recorded bank balances. All errors and discrepancies noted shall be properly adjusted in the books. Adjustments, if any, shall be made through a Journal Entry Voucher (JEV).

4.2.4.3 Operating Guidelines

The operating guidelines are grouped into general guidelines and processing and recording of checks and cash advances.

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a) General Guidelines

- 1 Disbursement Vouchers (DVs) shall be made for all due billings or invoices. These shall be forwarded to the Cashier for the preparation of checks.
- 2 The supporting documents (SDs) shall be stamped "PAID" by the Cashier immediately after claim is paid to prevent their possible re-use.
- 3 Checks that remain unclaimed but are not yet stale shall be filed temporarily by the Cashier together with the corresponding DV.
- 4 Paid checks from the bank shall be properly filed in the Accounting Unit until the submission of BRS to COA.
- 5 DV must be prepared for each check or there must be one check for each DV per fund source.
- 6 Bank Statement should be secured by the Accountant or his duly authorized representative.

b) Processing and Recording of Checks and Cash Advance

- 1 The check shall be prepared by the Cashier/Treasurer based on the approved DV and signed by the authorized signatories.

- 2 The Cashier shall release the check only to the payee or his authorized representative. The latter shall be required to submit authorization and present valid ID as a means of identification and issue the corresponding Official Receipt (OR). He/She shall also be requested to sign the DV and the Check Disbursement Book as acknowledgement of the receipt of payment.
- 3 All cash advances shall be paid in check issued in the name of the officer or the employee concerned.
- 4 Cash advances for project transactions and activities shall be submitted for check preparation at least three days before the check was needed.
- 5 The payee shall acknowledge the receipt of the check on the DV and Check Disbursement Book.

4.3 LOCAL GOVERNMENT UNITS

4.3.1 Receipt of Funds- From LGU Equity

1 By Bank to Bank Transfer

- a) The LGU Treasurer prepares letter advice for the transfer of LGU Equity from the general fund to the PRDP Trust Fund as LGU Equity of the subproject.
- b) The Treasurer must check and validates if the amount transferred had already been credited to the account of the subproject.
- c) If the amount is credited, the Treasurer must prepare Acknowledgement Receipt and forward to General Fund to confirm the receipt of funds.
- d) Request credit advice from the bank and record the funds received in the Cashbook of the subproject.

- e) Forward credit advice and letter advice to Accounting Office to take up receipt of subproject funds.
- f) The LGU Accountant should prepare JEV based on the credit advice submitted by the Treasurer and record in the General Journal.

2 By Issuance of Checks

- a) Receive check from the general fund for the LGU Equity of the subproject and issue OR to acknowledge receipt of funds.
- b) Prepares Report of Collection and Deposit (RCD) and record receipt of funds in the Cashbook of the subproject.
- c) Deposit collections to the PRDP Trust Fund Account and record deposit in the Cashbook of the subproject.
- d) Forward RCD to Accounting Office with copies of ORs and validated deposit slips.
- e) The LGU Accountant shall prepare JEV based on the submitted report and record in the Cash Receipt Journal

4.3.2 Receipt of Funds – From Project Support Office for Loan Proceed and GOP Counterpart

1 By Bank to Bank Transfer

- a) The LGU receives letter advice from PSO informing that funds had already been transferred.
- b) LGU Treasurer checked with the bank if the amount transferred had already been credited to the account of the subproject for the loan and grant proceeds and GOP Counterpart.

- c) LGU prepare acknowledgement receipt and forward to the PSO through the RPCO within three (3) days upon confirmation that funds had been credited.
- d) If the amount is credited, request LBP for credit advice and prepare Journal Entry Voucher to record the receipt of funds.

4.3.3 Disbursement of Funds

Disbursement of funds shall be in accordance with the approved Financing Mix Table as stated in the Implementation Management Agreement (IMA).

4.3.3.1 Civil Works

- 1 Mobilization Fee** – Advance payment made to the Contractor equivalent to fifteen percent (15%) of the contract cost upon submission of written request and Bank Guarantee to the amount advance acceptable to the LGU.
 - a) The LGU shall, upon written request of the contractor, which shall be submitted as a contract document, make an advance payment to the contractor in an amount equal to fifteen percent (15%) of the total contract price.
 - b) Advance payment shall be made to Contractor, only upon confirmation in writing of the issuing bank that the submitted Bank Guarantee equivalent to the amount of mobilization fee is authentic and valid.
 - c) The advance payment shall be completely repaid by the contractor when 80% of the contract price has been certified for payment.
 - d) Repayment of advances shall commence on every progress billing but must be fully recouped at 80% progress payment. Recoupment of mobilization shall be made for every progress payment based on this schedule:

- 1st 30% progress payment of the contract cost – amount to be recouped is 37.5% (30/80) of mobilization fee
- 2nd 30%% progress payment (60% cumulative) of the contract cost - amount to be recouped is 37.5% (30/80)of mobilization fee
- 3rd 20% progress payment (80% cumulative) - amount to be recouped is 25% (20/80) of mobilization fee.

e) In case the progress payment did not follow the 30%, 60% and 80%, recoupment of mobilization fee will be computed based on the actual percentage of payment but the denominator is always 80%.

f) The Contractor may reduce his bank guarantee by the amount refunded from the advance payment.

2 Progress Payment - Payment made to Contractor upon submission of Statement of Work Accomplished (SWA) verified and certified by the Joint Inspectorate Team (JIT) with a letter requesting for payment based on the percentage of work accomplished.

a) The contractor may submit a request for payment of progress billing together with SWA with a minimum of 30% and maximum of 80% physical accomplishment. The final payment is 20% of the total contract cost and Certificate of Completion must be secured by the Contractor. The submitted SWA must be verified and certified by the JIT.

b) The LGU shall have the right to deduct from the Contractor's progress billing recoupment of mobilization fee, retention money to cover third party liabilities, as well as uncorrected discovered defects in the project and taxes as prescribed by the BIR.

3 Retention Money – Amount retained to cover uncorrected discovered defects and third party liabilities equivalent to ten percent (10%) of the progress payment based on the total

amount due to the contractor until the value of works are completed.

- a) Progress payments are subject to retention of ten percent (10%) referred to as the “retention money”. Such retention shall be based on the total amount due to the contractor prior to any deduction and shall be retained from every progress payment until the value of works is completed.
- b) Upon completion of the contract and issuance of certificate of completion, fifty percent (50%) of the retention money shall be returned, the remaining fifty percent (50%) shall be returned at the expiration of the defects liability period, which is one year from date of completion. However, the Contractor may request for the release of remaining 50% retention money by replacing it with a Bank Guarantee equivalent to the same amount upon confirmation by the issuing bank that said Guarantee is authentic and valid.

4.3.3.2 Payment of Mobilization Fee

- a) Payment of mobilization fee (advances to contractor) to the contractor should not exceed 15% of the total contract cost and must be requested by the Contractor.
 - b) Upon submission by contractor of letter requesting mobilization as stipulated in the contract agreement together with certificate of mobilization, bank guarantee equivalent to the 15% advance and other pertinent documents, prepare Disbursement Voucher for the 15% advance payment.
 - c) Based on the approved DV, prepares check payable to the contractor for the advance payment.
- 1 The person who received the check must be the one authorized by the contractor. Require the person who received the check to sign in the DV and in the Check Disbursement Book.

- 2 The Cashier must request for an official receipt as evidence that payment was received by the contractor.
- 3 Prepares JEV to record the disbursements made in the journals.

d) Payment of Progress Billing

- 1 Progress payment to Contractor must be based on actual physical accomplishment and will be paid in the following terms:
 - a) first progress payment – minimum of 30% physical accomplishment;
 - b) second progress payment – minimum of 60% cumulative physical accomplishment;
 - c) third progress payment – maximum of 80% cumulative physical accomplishment.
- 2 Recoupment should be made on every progress billing and must be fully recoup at 80% payment. Also, retention fee equivalent to 10% and taxes in accordance with the rate prescribed by BIR should be deducted and withheld on the gross billing until 100% completion.
- 3 Based on approved DV, prepare check payable to the Contractor for the payment net of deductions.
- 4 The person who received the check must be the one authorized by the contractor. Require the person who received the check to sign in the DV and in the Check Disbursement Book.
- 5 The Cashier must require for an official receipt as evidence that payment was received by the contractor.
- 6 Prepare JEV to record the disbursements made.

e) Payment of Final Billing

- 1** Prepare DV, upon submission by contractor of physical accomplishment report that the project is 100% complete with certificate of completion, and other supporting documents.
- 2** Based on approved DV, prepares check payable to the Contractor for the payment net of deductions.
- 3** The person who received the check must be the one authorized by the contractor. Require the person who received the check to sign in the DV and in the Check Disbursement Book.
- 4** The Cashier must require for an official receipt as evidenced that payment was received by the contractor.
- 5** Prepares JEV to record the disbursements made in the General Journal.

4.3.4 Documents Required for Payment to Contractor

a) Payment of Mobilization Fee

- 1** Letter from contractor requesting for mobilization fee;
- 2** Approved, signed and notarized Contract Agreement;
- 3** Performance Security in the form of Cash or Bank Guarantee equivalent to 10% of the total contract cost of the subproject;
- 4** Bank Guarantee equivalent to the mobilization fee requested but not to exceed 15% of the contract cost and confirmed by the LGU to the issuing bank;
- 5** Contractors All Risk Insurance (CARI) for the sub-project.

b) Payment of Progress Billing

- 1 Letter request from Contractor requesting for payment of progress billing;
- 2 Statement of Work Accomplished (SWA) minimum of 30% and maximum of 80% validated by the Joint Inspectorate Team (JIT);
- 3 **Certificate of Payment (COP)** ([Annex C](#));

c) Payment of Final Billing

- 1 Letter request from Contractor requesting for payment of physical accomplishment;
- 2 Statement of Work Accomplished (SWA) with 100% physical accomplishment validated by the Joint Inspectorate Team (JIT) and signed by the concerned DA Regional Executive Director (RED);
- 3 Certificate of Payment;
- 4 COA Technical Inspection Report;
- 5 Certificate of Completion;
- 6 Certificate of Turn Over by the Contractor to the LCE;
- 7 Certificate of Turn Over by LCE to the end –user.

4.3.5 Accounting Entries

The typical accounting entries related to the receipt and disbursements of fund adopted the COA prescribed Chart of Accounts in COA Circular 2003-01, as amended. **Accounting entries for Illustrative Problem** is presented in [Annex D](#).

4.4 PRDP's FOUR COMPONENTS

4.4.1 Component 1 – Local and National Level Planning

Local and National Level Planning	Loan Proceeds	Government of the Philippines	Total
Financing Mix*	80.00%	20.00%	100.00%

*Disbursements for Participatory Resource Appraisal – Resource and Social Assessment (PRA-RSA) will be charged to Global Environment Facility (GEF) Grant Proceeds – 100%.

Funds for NPCO and PSOs to support Local and National Level Planning Component will be released by DBM while funds for RPCO will be released by PSO based on approved WFP and a Program Contract. Succeeding releases will require liquidation of 70% of previous release.

The nature of disbursements is on provisions of Goods, non-consulting services, consultants' services, Training and operating Costs. The following are the requirements for the utilization of Local and National Level Planning budget:

- 1 There must be an approved WFP detailing the requirements of Local and National level Planning Component.
- 2 Certification from the PSO and/or RPCO that the activities are reflected in the approved WFP.
- 3 The approval and signing authority of officials, the nature and amount of disbursements must follow the approved WB guideline of eligible expenditures and existing DA policies and procedures on approval of disbursements.

4.4.2 Component 2 – Infrastructure Development

Infrastructure Development – Sub Component 2.1	Loan Proceeds	Government of the Philippines	Local Government Unit Equity	Total
Financing Mix	80.00%	10.00%	10.00%	100.00%

This component is for sub component **2.1 Value Chain Infrastructure Support** under Component 2: Infrastructure Development and releases of funds will be to the Local Government Units (LGUs) through the PSO and will be based on actual physical accomplishment and progress billings except for the request for mobilization fee or advance payment which is not to exceed fifteen percent (15%) of the subproject cost. Mobilization fee (advance payment) must be fully recouped upon payment of progress billing at eighty percent (80%). **The following are the requirements for the release of funds for rural infrastructure:**

- 1 Approved, signed and notarized Implementation Management Agreement (IMA) among the PSO, RPCO and the concerned LGU together with the copy of Appropriation Ordinance for the LGU Equity of the Project.
- 2 Certificate as to Availability of Funds (CAF) issued by PSO to the concerned LGU.
- 3 **Release for Mobilization Fee (Advance Payment)** – not to exceed fifteen percent (15%) of the contract cost:
 - a) Letter from the LCE requesting for the release of funds;
 - b) Notice of Award;
 - c) Performance Security in a form of Bank Guarantee equivalent to ten percent (10%) of the contract cost;
 - d) Contract Agreement together with certificate that all Annexes of the Contract is with the PSO;
 - e) Notice to Proceed with Acceptance/Conformed from the Contractor;
 - f) Bank certification of LGU Equity deposit equivalent to one hundred percent (100%) of the required LGU Equity;
 - g) Bank certification of LP and GOP account opened by LGU in the name of LGU PRDP Trust Fund Account;

- h) Contractor's All Risk Insurance (CARI); and
 - i) Bank Guarantee equivalent to mobilization fee.
- 4 **Release for First Progress Payment** – minimum of thirty percent (30%) of the contract cost (net of recoupment of 37.5% (30/80) of mobilization fee).
- a) Statement of Work Accomplished (SWA) with at least 30% physical accomplishment validated by Joint Inspectorate Team (JIT) composed of LGU Engineers, Provincial/City/Municipal Planning Management Implementation Unit (P/C/MPMIU) Head, RPCO Engineer, PSO or RPCO Social Safeguards Specialist and Geo Tagging documents;
 - b) Letter from the LCE requesting for the release of funds;
 - c) Requirements of mobilization fee from letter (b) to (h) to be submitted if LGU did not avail of mobilization;
 - d) Monthly Financial Reports reflecting the payments made to contractor utilizing the funds released.
- 5 **Release for Subsequent Progress Payment** (Second and Third Progress Payment) – minimum of sixty percent (60%) and maximum of eighty percent (80%) cumulative of the Contract Cost respectively (net of recoupment of 37.5% (30/80) and 25% (20/80) of mobilization fee for 2nd and 3rd tranche respectively).
- a) Letter from LCE requesting for the release of funds;
 - b) Statement of Work Accomplished (SWA) with at least 60% physical accomplishment validated by Joint Inspectorate Team (JIT) composed of LGU Engineer and Provincial/Municipal Planning Management and Implementation Unit (P/MPMIU) Head, RPCO Engineer, PSO or RPCO Social Safeguards Specialist and Geo tagging documents;
 - c) Statement of Work Accomplished (SWA) with at least 80% physical accomplishment validated by Joint Inspectorate Team

(JIT) composed of LGU Engineer and Provincial/Municipal Planning Management and Implementation Unit (P/MPMIU) Head and RPCO Engineer, PSO or RPCO Social Safeguards Specialist and Geo tagging documents;

d) Monthly Financial Reports reflecting the payments made utilizing the funds released.

6 Release for Final Payment – one hundred percent (100%) of the contract cost cumulative:

- a) Letter from LCE requesting for fund release;
- b) Statement of Work Accomplished (SWA) with 100% physical accomplishment validated by Joint Inspectorate Team (JIT) composed of LGU Engineer and Provincial/Municipal Planning Management and Implementation Unit (P/MPMIU) Head, RPCO Engineer, PSO or RPCO Social Safeguards Specialist and must be signed by DA Regional Executive Director (RED) and Geo tagging documents;
- c) Certificate of Completion signed by LGU Engineer and LCE;
- d) Certificate of Turn Over by Contractor and Accepted by LCE of the LGU;
- e) Certificate of Turn Over by LCE to end users;
- f) COA Technical Inspection Report; and
- g) Monthly Financial Reports reflecting the payments made utilizing the funds released.

Duration for the Release of Funds from the PSO to Payment to Contractor is presented in [Annex E](#).

Infrastructure Development has funds for sub component **2.2 Approaches for Improving the Effectiveness and Sustainability of Infrastructure** to be utilized by NPCO, PSO and RPCO in providing technical assistance for the implementation and monitoring of

infrastructure under the Infrastructure Development component. Financing mix for this sub component is 80% for LP and 20% for GOP.

4.4.3 Component 3 – Enterprise Development

4.4.3.1 Sub component 3.1: Rural Agri-Fishery Enterprise and Productivity Enhancement (**Enterprise Project Fund**)

Enterprise Development – Sub component 3.1	LP	GOP	LGU Equity	Total
Financing Mix	60.00%	20.00%	20.00%	100.00%

- Note: 1 In case of GEF identified subprojects, 80% is for Grant Proceeds and 20% for LGU Equity.
- 2 For PG implemented enterprises, PG will contribute an amount equal to at least 20% (in cash or in kind) of the incremental enterprise cost.
- 3 Under sub component 3.2 Trainings and workshop for GEF is 100% Grant Proceeds

The release of **Enterprise Project Fund (EPF)** will be to the PLGUs and will be based on the Implementation Management Agreement (IMA) and/or Enterprise Investment Agreement (EA), however, the release must be minimum of two tranches.

Infrastructure type of investment will follow the Infrastructure Development process, financing mix and tranche release and will be charged to Infrastructure Development Component.

In case of GEF identified subprojects, which is a sub grant, the financing mix is 80% for Grant Proceeds and 20% for PLGU Equity. The requirements for the release of funds from PSO to LGU are the following:

a) Initial Tranche Release

- 1 Approved, signed and notarized Implementation Management Agreement (IMA) among the PSO, RPCO and LGU;

- 2 Appropriation Ordinance for the LGU Equity of the Project;
- 3 Certificate as to Availability of Funds (CAF);
- 4 Approved Program of Work, Procurement Plan and No Objection Letter (NOL) from PSO/RPCO;
- 5 Letter from LCE requesting RPCO for the release of funds in accordance with the IMA;
- 6 Bank certification for the opening of accounts of Loan and/or Grant Proceeds and GOP Counterpart;
- 7 Bank certification of LGU Equity reflecting full deposit (100%) of equity share in the subproject.
- 8 Endorsement by RPCO to the PSO on the request of PLGU for the release of funds.

b) Succeeding Releases and Final Tranche

- 1 Letter from LCE requesting for the release of funds;
- 2 Submission of SRE for the liquidation of at least 70% of the previous release;
- 3 Certified copies of supporting documents;
- 4 Validated required accomplishment report as stated in the IMA and EA; and
- 5 Endorsement by RPCO to the PSO on the request of PLGU for the release of funds.

c) Fund Transfer to Proponent Group (PG) from PLGU

Release of funds will be based on the approved Work and Financial Plan (WFP) in the Enterprise Investment Agreement (EA). The financing mix shall be 60%:20%:20% for LP, GOP and LGU Equity respectively. The PG will contribute an amount equal to at

least 20% (in cash or in kind) of the incremental enterprise cost.
The requirements for the release of funds are the following:

- 1 Approved, signed and notarized EA between the PLGU and the PG;
- 2 Approved Work and Financial Plan (WFP);
- 3 Bank certification of bank account in the name of PG;
- 4 Document showing that PG has equity equivalent to twenty percent (20%) of the total sub-project cost. For cash equity, bank certification reflecting the amount of equity deposit. In case of equity in kind, such as land, building or equipment, the valuation should be based on book value.

d) Liquidation of Funds Released by PLGU to the Proponent Group

- 1 Fund utilization report indicating the summary of expenses and the status report of accomplishments, certified by the Accountant, approved by the President/Chairman of the PG and verified by the internal auditor or equivalent official of the PLGU.
- 2 Geo-tagged pictures of implemented enterprise;
- 3 Inspection report and certificate of project completion issued by the PLGU authorized representative.
- 4 Proof of verification by the PLGU official on the validity of the documents submitted by the PG.
- 5 Official Receipt (OR) issued by the granting PLGU acknowledging return by the PG of any unutilized/excess amount of cash advance.
- 6 List of equipment/vehicles procured by the PG out of enterprise funds indicating its brief description, date acquired, acquisition cost and final disposition.

- 7 Monthly Statement of Receipts and Expenditures (SRE) as liquidation report

e) Negative List of Funds Utilization

- 1 Money market placement, time deposit or other forms of investment.
- 2 Cash advance of any official of the PG unless related to the implementation of the sub-project.
- 3 Payment of salaries of the personnel of the PLGU or the PG;
- 4 Purchase of supplies, materials, equipment and motor vehicles of the PLGU.
- 5 Acquisition of assets of the PG, unless necessary for the prosecution of the enterprise and specifically stipulated in the EA.

4.4.3 Sub component 2: Technology and Information for Enterprise and Market Development (Enterprise Support Fund)

Enterprise Development – Sub component 3.2	LP	GOP	Total
Financing Mix	80.00%	20.00%	100.00%

- 1 Activities would be to support Enterprise Project Fund (Sub-component 3.2) through provisions of technical assistance to producers to increase their productivity and income through improved and sustainable technological, operational and market knowledge and facilitation of market linkages.
- 2 The disbursements are to be made by NPCO, PSOs and RPCOs. Approval and signing authority of officials, the nature and amount of disbursements must follow the approved WB Guidelines of eligible expenditures and existing DA policies and procedures on approval of disbursements.

4.4.4 Project Implementation Support Component

Project Implementation Support	Loan Proceeds	Government of the Philippines	Total
Financing Mix	80.00%	20.00%	100.00%

- a) The nature of disbursements in this component is for Goods categorized as Capital Outlay while Non-consulting Services, consultants' services, Training and Operating Costs categorized as Maintenance and Other Operating Expenses (MOOE).
- b) This component is to be disbursed by NPCO, PSOs and RPCOs. The approval and signing authority of officials, the nature and amount of disbursements must follow the approved WB guidelines of eligible expenditures and existing Department of Agriculture policies and procedures on approval of disbursements.
- c) This includes remuneration for Department of Agriculture organic officials/staff and other agency staff detailed to the Philippine Rural Development Project (PRDP).

5 BOOKS OF ACCOUNT AND RECORDS

This Chapter presents the books of account and records to be maintained by the project and procedures in their preparation.

5.1 BOOKS OF ACCOUNTS

The Project uses four books of original entry, the books of final entry, and subsidiary ledgers. The books of final entry are used to record in chronological order the transactions that affect the Project using various assets, liability, revenue, expenses and other related accounts. On the other hand, recorded transactions are classified according to the accounts listed in the Chart of Accounts in the book of final entry. Posting to this is done after the books of original entry have been updated. The Project maintains subsidiary ledgers to record the details of a particular control account in the book of final entry.

5.1.1 The relevant Project books of accounts are as follows:

a) **Journals or Books of Original Entry** - records for recording transactions in chronological order. It shall be used to record time sequence; financial transactions and information presented in duly certified and approved accounting documents. The basis of recording in the journals shall be the Journal Entry Voucher (JEV). The following are the Journals:

1. **General Journals (GJ).** This Journal shall be used to record all transactions, which cannot be recorded in the Special Journals. It provides columns for the date, the JEV number, particulars which give explanation of the transactions recorded, the account code, posting reference and the debit and credit amounts.
2. **Special Journals.** The special journals are specifically designed to record transactions, which are repetitive in nature. Special columns are provided to facilitate summations and postings in the General Ledger. Enumerated are special journals to be used:

- a) **Cash Receipts Journal (CRJ).** This Journal shall be used to record all collections and deposits reported during the month. The source entries are the JEVs which shall be prepared based on the Reports of Collections and Deposits (RCDs) submitted by the

Cashier or Collecting Officer to the Accounting Unit or the official receipts acknowledging collections.

- b) **Check Disbursements Journal (CkDJ).** This Journal shall be used to record check payments made by the Cashier or Disbursing Officers. Recording to this journal shall be based on the JEVs supported with paid Disbursement Vouchers (DVs) and duplicate copies of checks listed in the Reports of Checks Issued (RCI) submitted by the Cashier/Disbursing Officers.
- c) **Cash Disbursement Journal (CDJ).** This Journal shall be used to record all payments made in cash by the Regular/Special Disbursing Officers out of their cash advances. Recording to this journal shall be based on the JEVs supported with the Report of Disbursements (RD) and pertinent documents like the paid payroll, disbursements voucher, etc.

b) Ledgers or Books of Final Entry

These records are used in recording transactions according to the accounts listed in the chart of accounts. Posting to this is done after the books of original entry have been updated

- 1 General Ledger (GL).** The General Ledger is a book of final entry containing accounts arranged in the same sequence as in the Chart of Accounts. Totals of columns in the special journals and the individual entries in the GJ are directly posted in this book. At the end of each month, the accounts are footed and at the end of each year, these are totaled, ruled and closed and the balance extracted to serve as the opening balance of the new fiscal year. Likewise, the account with balances shall appear in the trial balance.
- 2 Subsidiary Ledger (SL).** The Subsidiary Ledger is a book of final entry containing the details or breakdown of the balance of the controlling account appearing in the GL. Postings to the SL generally come from the source documents. The totals of the SL balances shall be reconciled with their respective control account regularly or at the end of each month. Schedules shall be prepared periodically to support the corresponding controlling GL accounts

5.2 CASHIER'S RECORDS

The Project Cashier shall maintain records for collections and deposits, checks issuances and cash payments to facilitate monitoring of transactions. Enumerated hereunder are records that should be maintained:

- a) Cash Receipts Record (CRR).** The Cash Receipts Record shall be used by the designated Collecting Officer to record his/her collections and deposits.
- b) Check Disbursements Record (CkDR).** The Check Disbursements Record shall be used by the Disbursing Officer to record check released charged against project funds. A separate record shall be maintained for each source of fund or bank account.
- c) Cash Disbursements Record (CDR).** The Cash Disbursements Record shall be used by the Disbursing Officer to record the cash advance received and disbursements made out of cash advances.

6 FINANCIAL REPORTING

This Chapter presents the objectives, basic features of the financial reporting system, the guidelines for preparation of reports, and the report formats prepared by the NPCO, PSO, RPCO and LGUs. Generally, reports shall be the same except for one report to cover their particular transactions. The NPCO shall be responsible for the consolidation and submission of reports to the oversight agencies and to WB.

6.1 OBJECTIVES

This Chapter aims to do the following:

- 6.1.1 Provide information to the WB in assessing the overall status in the implementation of the project and to the DA - CO on the status of each component in terms of accomplishment and disbursements;
- 6.1.2 Provide information to DA Central Office and Regional Field Unit and PSO particularly on LGUs' additional funding requirement and facilitate fund releases;
- 6.1.3 Serve as basis for liquidation or releases to LGUs as well as subsequent releases to them; and
- 6.1.4 Serve as basis for the audit and issuance of audit certificate by the COA.

6.2 BASIC FEATURES OF FINANCIAL REPORTING SYSTEM

- 6.2.1 The Financial Reporting System (FRS) aims to provide the FFI, Oversight Agencies and the Management with the necessary facts on the financial condition and results of operations crucial to making decisions. On the basis of the information needs of the foregoing users and the general requisites of an effective FRS, the system has the following characteristics:
 - a) The financial reports will be based on financial data documented and recorded under the NGAS;
 - b) The financial reports will be based on data recorded using the accrual method wherein revenues are recorded when earned

regardless of when received and expenses are recorded when incurred regardless of when paid;

- c) The reports will present, for each source of funds, the actual financial information of all projects it has funded against allowable grant and equity mix in the agreement;
- d) For control and decision making purposes, the financial reports will show balance for a given period and the accumulated balances as of that period. This also involves the consistent application of accounting principles;
- e) For comparison purposes, the financial reports with similar information will have standardized names, formats, and contents to the extent practicable, irrespective of the recipient or user;
- f) The financial reports will show only the financial information required by its identified user. Records, however, will be maintained to contain as much data as may be necessary to prepare as many of the required reports;
- g) Details of the financial reports will vary at each organizational level. LGUs will have more detailed reports while PSO shall have the same reports to cover their particular transactions. However, NPCO will be responsible for the consolidation and submission of reports to the oversight agencies and eventually to the WB;
- h) The financial reports will present sufficient financial and analytical information that will provide the identified users with a sound and adequate basis for action and decision making; and
- i) The financial reports will show separately disbursements that are capitalized and those that are expensed out for the period and for the year to date.

6.3 GENERAL GUIDELINES FOR PREPARATION OF REPORTS

The following are the general guidelines to be used in the preparation of the reports:

- 6.3.1 General Ledger balances reconciled with the respective subsidiary ledger balances should be used;
- 6.3.2 The financial reports should not be as detailed as the accounting records or an extract of these; and
- 6.3.3 The financial reports should be prepared at least once a month for the LGUs. The frequency of reporting to the WB and to the oversight agencies depends on their respective requirement which may be quarterly or yearly basis.

6.4 STANDARDS IN THE PRESENTATION OF FINANCIAL REPORTS

Responsibility for the fair presentation and reliability of financial statements rests with the management of the reporting agency. Applying generally accepted state accounting principles that are appropriate to the entity's circumstances, by maintaining effective system of internal control, discharges this responsibility.

- 6.4.1 To achieve fair presentation and reliable information of the financial statements, the following standards shall be observed:

- a) **Fairness of presentation.** This refers to the overall propriety in disclosing financial information. Full disclosure in financial aspects requires observance of the following standards of reporting period involved shall be included and clearly displayed:

- 1 All financial data presented shall be accurate, reliable, and truthful. The requirement for accuracy does not rule out the inclusion or reasonable estimates when the making of precise measurements is impracticable, uneconomical, unnecessary, or conducive to delay. All appropriate steps shall be taken to avoid bias, unclear facts, and presentation of misleading information.

- 2 Financial reports shall be based on official records maintained under an adequate accounting system that produces information objectively and discloses the financial aspects of all events or transactions taking place. Where financial data or reports based on sources other than the accounting systems are presented, their basis shall be clearly explained.
 - 3 The financial data reported should be derived from accounts that are maintained in all material aspects on a consistent basis from period to period. Material changes in accounting policies or methods and their effect shall be clearly explained.
 - 4 Consistent and non-technical terminology shall be used in financial reports to promote clarity and usefulness.
- b) **Compliance.** The report shall be in accordance with prescribed government requirements and international accounting standards of reporting.
- c) **Timeliness.** All needed reports shall be produced promptly to be of maximum usefulness.
- d) **Usefulness.** Financial reports shall be carefully designed to present information that is needed and useful to report users.

6.5 STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Statement of Management Responsibility for Financial Statements shall serve as the covering letter in transmitting the agency's financial statements to the Commission on Audit (COA), Department of Budget and Management (DBM), other oversight agencies and other parties. It shows the agency's responsibility for the preparation and presentation of financial statements. The Head of Office or his authorized representative shall sign the statement.

6.6 NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements are integral parts of financial statements, which pertain to additional information necessary for fair presentation in conformity with generally accepted accounting principles. These may explain the headings caption or amounts in the statements of present information that cannot be expressed in money terms, and description of accounting policies.

6.7 FINANCIAL REPORTS

The various reports covered by the FRS are listed hereunder. Their layouts and description are presented at the end of this chapter. The uses or purpose of the reports, person responsible for their preparation is also defined.

6.7.1 Statement of Receipts and Expenditures (SRE). The Statement of Receipts and Expenditures presents the beginning balance, receipts, expenditures and ending balance for the month of Loan Proceeds and local equity and total of the Project. It also presents the cumulative total of the receipts and expenditures made for each source. This statement should be prepared monthly with or without transactions for the month and submitted monthly to the PSO through RPCO every ten days after the end of ensuing month. The format and SRE of illustrative problem is presented as [Annex F](#).

Basic Content

a) Heading

Name of City/Municipality/Province

Name of Subproject

Title of Report

Total Subproject Cost

Loan /Grant Proceeds, GOP Counterpart and LGU Equity Mix

Percentage of Completion

Report Number

Period Covered

b) Beginning Balance

Provide four money columns for Loan/Grant Proceeds, GOP Counterpart, LGU Equity and Total

c) Receipts

Date
JEV Number
Credit Advice Number
Particulars
Amount

d) Expenditures

Date
Check Number
DV/JEV Number
Particulars
Amount

e) Ending Balance

f) Cumulative Summary of Receipts and Expenditures

g) Signatories

Noted by the LGU Treasurer
Certified Correct by NPCO/PSO/RPCO/LGU Accountant
Verified and Found Correct by COA Auditor
Approved by the Head of Office/ Local Chief Executive

6.7.2 Statement of Sources and Application of Funds (SSAF). The Statement of Sources and Application of Funds presents the beginning balance, receipts, expenditures and ending balance for the year of the Loan/Grant Proceeds, GOP Counterpart, LGU Equity and total of the Subproject. It also presents cumulative total for the funds received and expended for each source. This statement should be prepared yearly summarizing the monthly SRE's receipts and expenditures and submitted to the PSO through RPCO one month after the end of the ensuing year. The format and SSAF of illustrative problem is presented in [Annex G](#).

Basic Content

a) Heading

Name of City/Municipality/Province

Name of the Subproject

Title of Report

Period Covered

Total Project Cost

Loan/Grant Proceeds, GOP Counterpart and LGU Equity Mix

Percentage of Completion

b) Beginning Balance

Provide four money columns for Loan Proceeds, GOP Counterpart, LGU Equity and Total

c) Receipts

Receipt of funds monthly (should be based on monthly SRE)

d) Expenditures

Expenditures of funds monthly (should be based on monthly SRE)

e) Ending Balance

f) Signatories

Noted by the LGU Treasurer

Certified Correct by NPCO/PSO/RPCO/LGU Accountant

Verified and Found Correct by COA Auditor

Approved by the Head of Office/ Local Chief Executive

6.7.3 Trial Balance. The Trial Balance shows the equality of debit and credit balances of all general ledger accounts as of given period. It is prepared and submitted monthly, quarterly, and annually. At the end of the fiscal year, the pre-closing and the post-closing trial balances shall be prepared. The format and Trial Balance of illustrative problem is presented in [Annex H](#).

a) Purposes of the Trial Balance. The trial balance is prepared to:

- 1 Prove the mathematical equality of the debits and credits after posting;
- 2 Uncover errors in journalizing and posting; and

- 3 Serve as basis for the preparation of the financial statements.

6.7.2.1 Pre-Closing Trial Balance. The Pre-Closing Trial Balance shall be prepared after recording the adjusting journal entry in the General Journal and posting the same to the General Ledger. It shows the adjusted balances of all accounts as of a given period. This is also described as the adjusted trial balance.

6.7.2.2 Post-Closing Trial Balance. The Post-Closing Trial Balance shall be prepared after recording the closing journal entries in the General Journal and posting to the General Ledger. It contains a listing of all general ledger accounts that remain open after the closing process is completed.

6.7.3 Balance Sheet. The Balance Sheet is a formal statement, which shows the financial condition of the agency as of a certain date. It includes information on the three elements of financial position – assets, liabilities, and government equity. It shall be prepared from information taken directly from the year-end Post-Closing Trial Balance. The format and Balance Sheet for illustrative problem is presented in [Annex I](#).

6.7.4 Statement of Income and Expenses. ([Annex J](#)) The Statement of Income and Expenses shows the results of operation/performance of the agency at the end of a particular period. The accounting unit from information taken directly from the Pre-Closing Trial Balance shall prepare this statement.

6.7.5 Statement of Cash Flows. The Statement of Cash Flows is a statement summarizing all the cash activities of an agency. This includes the operating, investing and financing activities of the entity and provides information on the cash receipts and cash payments during the period. The primary purpose of the Statement of Cash Flows is to give relevant information on the agency's overall cash position, liquidity and solvency. Using the Statement of Cash Flows, managers, investors and creditors could easily assess if the agency could meet its obligations in operating, investing and financing activities. The format and **Statement of Cash Flow** for illustrative problem is presented in [Annex K](#).

7 AUDIT ARRANGEMENTS

This Chapter presents the audit arrangement with the Commission on Audit in the audit of transactions and accounts of NPCO, PSOS, RPCOS and LGUs and the issuance of audit opinion on the project operations. Designated Accounts and the Consolidated Financial Report shall likewise be subject to audit and verification of COA and issuance of audit opinion for submission to WB.

7.1 AUDIT OF ACCOUNTS

By virtue of its constitutional mandate, the responsibility to audit transactions pertaining to foreign loans and Foreign Assisted Projects (FAPs) rests with the auditors of the Commission on Audit (COA). The rendition of the audit report for FAPs is a government obligation in all Loan Agreements. (COA Memorandum 96-047 – Guidelines on Audit of Foreign Assisted Projects)

7.1.1 For each transaction, whether receipt or expenditures of funds, the Auditor must perform the following:

- a) Evaluate the adequacy of the supporting documentation whether receipt, expenditures or other related transactions.
- b) Ascertain that the expenditure was properly authorized and approved.
- c) Where appropriate and practical, consider physically observing significant items purchased or constructed on a test basis to confirm their existence.
- d) Verify that the expenditure is eligible under the agreement.
- e) Verify mathematical accuracy of transaction and determine if it is in accordance with the percentage of financing provided in the agreement.
- f) Verify recording of transaction in the project book of accounts.

7.2 AUDIT AND VERIFICATION OF FINANCIAL REPORTS

The conduct of audit and verification of financial reports is to enable the auditor to express an opinion on the financial position and results of operation of the project.

7.2.1 Audit of Financial Statements (FS)

The objective of the audit of financial statements is to enable the auditor to express a professional opinion on the financial position of the project at the end of each fiscal year and of the funds received and expended for a certain accounting period as reported in the FS.

7.2.2 Project Financial Statements (PFS)

The overall objectives of audits of PFS are to determine whether the statements, particularly the Statement of Sources and Application of Funds or its equivalent are fairly presented for the specified period as well as cumulatively for the project, and that the reported disbursements were made in accordance with the Loan Agreement.

7.2.3 Audit of Statements of Expenditures (SOE)

The primary objective of this audit is to ascertain that the individual expenditure which comprises the SOE totals is fully supported by documentation, properly authorized and eligible under the Loan Agreement and appropriately accounted for.

7.2.4 Audit of Designated Accounts (DA)

An annual audit of the DA, including tests to establish if uses of DA funds comply with the loan agreement, may be required. Since disbursements from DA are made prior to submission of SOEs or Withdrawal Applications (WAs), WB cannot satisfy itself that such disbursements were in accordance with the agreement based solely upon documents forwarded by the DA. Therefore, an annual audit may be necessary to form an opinion that the current balance of DA is proper and that the funds were properly disbursed for project related expenditures for the period.

7.3 AUDIT REPORT AND OPINION

7.3.1 Preparation and Submission

- a) The Auditors of the NPCO, PSO, RPCO and LGUs shall submit to their audited agencies the audited FS, SOE and SA, as the case may be together with the Audit Certificate thereof on or before the due date stated below:

1) For LGUs	31 January of each year
2) For RPCOs	28 February of each year
3) For PSOs	31 March of each year
4) For NPCO	30 April each year

The Consolidated Financial Report (CFR) for each year must be submitted to the Auditor of the Department of Agriculture for the preparation of Audit Report on the CFR and issuance of Audit Certificate.

The deadline for submission of Audit Report on CFR to the World Bank is 30 June of each year.

- b) The implementing agencies shall forward immediately the required audited financial reports together with the audit certificate to DA Central Office for consolidation.
- c) The NPCO shall prepare the Consolidated Financial Report (CFR) based on submitted audited SSAF and audit certificate of the PSO, RPCO and LGUs and forward the same to their COA Auditor for preparation of Annual Audit Report and issuance of audit certificate.
- d) Upon completion of the Auditor in the conduct of audit, he/she shall prepare the audit report and render an opinion by issuance of Audit Certificate on the CFR and forward to the Secretary, Department of Agriculture.

7.3.2 Audit Certificate

Audit Certificate is a document in which the auditors sets forth the scope and nature of the examination and render his opinion on the statements he has examined.

The audit certificate shall be addressed to the Head of Office or to the Local Chief Executive in case of LGU, signed by the auditor, and dated at the bottom left side of the certificate.

7.3.3 Auditors' Opinion

The audit report should contain a clearly written expression of opinion on the financial information. (***COA Memorandum 96-047 dated 24 October 1996***)

a) Types of Audit Opinion

- 1 Unqualified Opinion** – indicates the auditor's satisfaction in all material respects and has no reservation on the statements audited.
- 2 Qualified Opinion** – is issued when the auditor concludes that an unqualified opinion cannot be issued, but that the effect of any disagreement, uncertainty or limitation of scope of the audit is not so material as to require an adverse opinion or a disclaimer of opinion. The subject of the qualification and its financial effect must be clearly stated in the auditor's report.
- 3 Adverse Opinion** – is issued when the effect of a disagreement is so pervasive and material to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
- 4 Disclaimer of Opinion** – is issued when the possible effect of a limitation on the scope of an uncertainty in the audit is so significant that the auditor is unable to express an opinion on the financial statements.

The NPCO, PSOs, RPCOs and LGUs must comply on the required actions to be taken to address the qualification stated in the Auditors' opinion within seven days upon receipt of the Audit Report.

Likewise, any adverse or disclaimer of an opinion must be addressed immediately not later than seven days upon receipt of the Audit Report.

Any actions taken to justify and/or rectify the Finding and Recommendation of the Auditor must furnish the NPCO through the concerned PSOs and RPCOs.

7.3.4 Model Audit Report

- a) **Unqualified Opinion for Consolidated Financial Report (CFR)**
([Annex L](#))
- b) **Unqualified Opinion for Designated Account ([Annex M](#))**

8 REPORTS TO WORLD BANK

This Chapter presents the reports to be submitted to World Bank (WB) for monitoring and evaluation purposes and in order to facilitate withdrawal of funds from the funding institution.

8.1 PRDP's FINANCIAL STATEMENTS

In the implementation of PRDP, financial management is vital to the success of the project and to improve the institutional capability of the implementing organization, particularly in financial management, the Bank requires their full financial statements to facilitate monitoring of the project implementation. These statements are the following:

- 8.1.1 Balance Sheet.** The Balance Sheet is a formal statement, which shows the financial condition of the project as of a certain date. It includes information on the three elements of financial position – assets, liabilities, and government equity. It shall be prepared from information taken directly from the year-end Post-Closing Trial Balance.
- 8.1.2 Statement of Income and Expenses.** The Statement of Income and Expenses show the results of operation/performance of the project at the end of a particular period. The accounting unit shall prepare this statement from the information taken directly from the Pre-Closing Trial Balance.
- 8.1.3 Statement of Cash Flows.** The Statement of Cash Flows is a statement summarizing all the cash activities of an agency. This includes the operating, investing and financing activities of the entity and provides information on the cash receipts and cash payments during the period. The primary purpose of the Statement of Cash Flows is to give relevant information on the project's overall cash position, liquidity and solvency.

8.2 Interim Financial Reports (IFR)

- 8.2.1** Bank policy requires that projects be monitored to ensure that loan and grant proceeds are used only for the purposes for which they were granted, with due regard to economy, efficiency, and the

sustainable achievement of the project's development objectives. As an aspect of this monitoring, the Bank requires the borrowers to submit regular periodic reports on sources and uses of funds against the budget needed, physical progress and procurement reports for effective project monitoring and evaluation.

8.2.2 Many projects involve more than one implementing unit, each subject to the Bank's requirement for accountability. In these instances, the financial information from each implementing unit should be consolidated to form a single project interim financial report.

8.2.3 The principles that underpin IFRs are as follows:

IFRs should provide information that is useful to the borrower while also providing the Bank with sufficient information to establish whether:

- a) fund disbursed for the project were used for the intended purpose;
- b) project implementation is on track; and
- c) budgeted costs will not be exceeded.

8.2.4 Financial information should be linked with information on physical progress and procurement, to give assurance that financial and physical progress is consistent.

8.3 Required Interim Financial Report (IFR) Information

IFRs will include financial, physical progress, and procurement information. There should also be an introductory narrative discussion of project developments and progress during the period, to provide context to information reported in the financial, physical progress, and procurement sections.

8.3.1 **Financial Reports.** At a minimum, financial reports must include statement showing for the period and cumulatively (project life or year to date) cash receipts by sources and expenditures by main

expenditure classification; beginning and ending cash balance of the project; and supporting schedules comparing actual and planned expenditures.

8.3.2 Physical Progress Reports. Physical progress reports include narrative information and output indicators (agreed during project preparation) linking financial information with physical progress, and highlight issues that require attention.

8.3.3 Procurement Reports. Procurement reports provide information on the procurement of goods, work, and related services, and the selection of consultant, and on compliance with agreed procurement methods. The reports compare procurement performance against the plan agreed at negotiations or subsequently updated, and highlight key procurement issues such as staffing and building borrower capacity. In addition to procurement progress, the reports include information on all authorized contract variations. Information on complaints by bidders, unsatisfactory performance by contractors, and any major contractual disputes may also be included.

8.4 Submission of Interim Financial Reports (IFR)

The frequency of preparation and submission to the Bank should be quarterly and submitted 45 days after the end of the reporting period.

8.5 Report-Based Disbursements

To be eligible to use the report-based disbursement method upon effectiveness, the implementing agency must have an adequate financial management system. During project implementation, borrowers must:

8.5.1 Sustain satisfactory financial management rating during project supervision;

8.5.2 Submit Interim Financial Reports (IFRs) consistent with the agreed form and content within forty five (45) days at the end of each reporting period; and

8.5.3 Submit a Project Audit Report by the due date.

Borrower that does not meet (or do not continue to meet) the above mentioned criteria will use transaction-based disbursement or the **Statement of Expenditures (SOE)** ([Annex N](#)).

8.6 [Withdrawal Application based on Statement of Expenditures \(SOE\) or Transaction-Based Withdrawal](#)

Under the SOE procedure, the borrower periodically request for withdrawal of loan and grant proceeds through submission of a statement indicating expenditures for certain items referred to in the loan and grant agreement. The SOE procedure simplifies and accelerates the Bank's loan disbursement process by eliminating the requirement for Bank staff to review supporting documentation for small expenditures prior to authorizing disbursements. The SOE statement is not accompanied by supporting documentation. Implicit in the SOE submission by the borrower is the adequacy and veracity of documentation, maintained by the borrower, which supports the disbursements.

8.7 [Summary Report and Statement to Support Report-Based Disbursement](#)

8.7.1 Interim Financial Reports.

The Bank requires the implementing agency to include in the submission of Withdrawal Application the Interim Financial Reports (IFR) such as **Sources and Uses of Funds** ([Annex O](#)) against the budget needed, **Physical Progress Report** (sample format attached as [Annex P](#)) and **Procurement Report** (sample format attached as [Annex Q](#)) for the period just ended to support the Report-Based Disbursement Method on Withdrawal of Loan and Grant Funds.

8.7.2 Designated Account Activity Statement (DAAS)

The Designated Account mechanism will be established to enable more effective project implementation, mainly by assisting the borrower in overcoming cash problems. It is a revolving account arrangement under which the Bank advances funds into a designated bank account. The Designated Account Activity Statement is simply a summary of cumulative advances to end of current reporting period and cumulative expenditures to end of last reporting period and the

difference of advances from expenditures will be the outstanding advance to be accounted. Bank Reconciliation Statement (BRS) should also be prepared monthly.

8.7.3 Designated Account Bank Statement

Applications for replenishment of the Designated Account must include the related bank statements from the bank holding the account. The bank statement must show details of all deposits and withdrawals from the account during the current period.

8.7.4 Summary Statement of DA Expenditures for Contracts subject to Prior Review

This report captures Designated Account payment information with respect to contracts subject to Prior Review

8.7.5 Summary Statement of DA Expenditures not subject to Prior Review

This report captures Designated Account payment information with respect to contracts not subject to Prior Review.

8.8 Consolidated Financial Report and Annual Audit Report

Annual Consolidated Financial Report (CFR) and Annual Audit Report (AAR) with Audit Certificate shall be submitted to the Bank on or before 30 June after the end of each Calendar Year.

Financing Mix Table (Annex R) and **Schedule of Financial Reports Submission (Annex S)** are attached for reference and compliance.

Consolidated Statement of Receipts and Expenditures (CSRE) (Annex T) format to be prepared by the NPCO, PSO and RPCO is attached for compliance.

- E N D -