GUIDELINES ON FINANCIAL REPORTING AND AUDITING OF PROJECTS FINANCED BY THE WORLD BANK FOR EAST ASIA AND PACIFIC REGION AND SOUTH ASIA REGION

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I. INTRODUCTION

The Bank's[1] Articles of Agreement require that proceeds of loans be used economically, efficiently and only for the purposes for which financing is provided as described in the loan legal agreements. Proper execution of this fiduciary responsibility is critical to maintaining the Bank's access to the capital markets. Therefore, the Bank 1) requires that borrowers' financial management and accounting systems are adequate to generate timely and reliable financial information, 2) requires and reviews periodic financial reports relevant to each lending operation, and 3) may require periodic audits of such financial reports.

The following Guidelines summarize the financial reporting and auditing requirements for lending operations financed by the World Bank. These Guidelines also highlight general accounting and auditing concepts to assist users in better understanding the Bank's requirements. The Guidelines have been prepared for the benefit of borrowers, auditors, Bank staff and others whose work requires them to be familiar with the Bank's reporting requirements and procedures.

The borrowers'[2] systems of financial reporting and accounting are considered by Bank staff during project preparation and appraisal, and the specific accounting requirements to ensure accountability and adequate financial management of the project are included as covenants in the legal agreements related to each loan. Therefore, the loan legal agreements are the authoritative source of all financial reporting and auditing requirements; and reporting requirements for individual loans may vary.

II. ACCOUNTING CONSIDERATIONS

General

Accounting methods or policies determine how and when financial transactions are recognized, calculated, classified, posted, summarized and ultimately reported. A wide variety of accounting methods can be used, depending upon the varying objectives of the user.

Accounting standards are formal guidelines that specify how certain types of transactions or events are to be recorded and what disclosures should be made in the footnotes to financial statements. Standards are usually issued for the purpose of achieving uniformity of accounting treatment and comparability of financial data where a wide variety of possible accounting practices exist. In individual countries the body of accounting standards, policies and concepts generally or widely adopted by professional accountants or associations of accountants are referred to as **Generally Accepted Accounting Principles**. These comprise published guidance (typically in the form of accounting standards) as well as subjective, accepted practices.

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[1]"Bank" includes IDA, and "loans" include credits.

[2]Where the context so permits, the expression "borrower" is also used to describe the entity responsible for implementation and operation of a project.

In practice, some countries have adopted differing accounting principles on a subject, while others have yet to address the topic. A program to harmonize accounting principles among countries has been undertaken by the International Federation of Accountants, whose membership comprises the professional accounting organizations of more than 50 countries. The Federation has been formulating and publishing **International Accounting Standards**. These are broad standards which embody the concepts underlying the national standards of many countries.

Accounting bases specify **when** a transaction is recognized or recorded. One such basis is called **full accrual**, whereby income and expenses are recognized when earned or incurred. The objective of full accrual is to match expenses with the revenues generated in a reporting period, and thus provide an accurate measure of financial position and business performance. It is frequently adopted by or appropriate for private sector or commercially-oriented entities. Full accrual accounting is generally considered the most appropriate basis for the preparation of the financial statements of a commercially oriented government enterprise (for example, a public utility).

A simpler way of recording transactions is the **cash basis**. Under this method income and expense are recognized only when cash is received or paid. The cash basis of accounting is often used in the preparation of financial statements for government-funded service entities. This is because the primary objective of government or fund accounting is to identify the objects and purposes for which funds have been received and expended and to maintain budgetary control over such activity. Also, cash basis accounting is generally considered the most appropriate method for the preparation of project specific financial statements, which essentially are presenting a source and application of funds.

Under some circumstances the most appropriate method of recording transactions may be a combination of the cash and accrual bases. Under this **modified cash basis**, revenue is recorded only when cash is received, while expenses and related liabilities are recorded when incurred, irrespective of the timing of cash disbursements. The modified cash basis generally is considered appropriate in cases where revenues cannot be measured until they are actually received (e.g. certain types of fines and fees), or where the timing and amounts to be collected on customer accounts receivable may be highly uncertain.

Acceptable Accounting Standards

The Bank encourages the use of International Accounting Standards in the preparation of financial statements for commercially oriented executing agencies. However, the Bank recognizes that local practices, standards, or legal requirements may not fully reflect such standards. It also recognizes that the level of sophistication in accounting varies widely from country to country, and that strict adherence to these standards may not be practical in the near term. Nonetheless, the accounting policies and practices adopted by a borrower should:

- provide for full accountability for all funds provided by the Bank and other lenders;
- result in adequate financial statement disclosures including a clear statement of the accounting policies adopted;

- ensure fair presentation of financial performance and position; and
- be acceptable to the Bank-approved auditors.

Additionally, the Bank may require financial statement footnotes disclosing any material departures from International Accounting Standards, and the impact of such departures on the financial statements as presented.

Accounting Systems

The borrower's accounting system should facilitate recording of financial transactions and timely financial reporting. During project preparation, Bank staff assess the adequacy of the borrower's accounting systems and procedures to generally ensure that they will adequately support the preparation of all financial reports required by the Bank. Adequate systems and procedures should be in place prior to the commencement of project-related expenditures. If a borrower proposes to use Statements of Expenditures (SOEs)[3] as part of the procedure for withdrawing project loan proceeds, the Bank will specifically assess the borrower's systems and procedures for processing and maintaining support documentation for expenditures claimed on the SOEs.

III. FINANCIAL REPORTING

For both the borrower and the Bank, meaningful financial data are necessary to support investment decisions and to ensure the most cost effective and efficient allocation of limited development resources. Also, ongoing financial reporting as a component of sound project management is needed to establish accountability for Bank funds and to contribute to successful project implementation.

As the diversity of both borrowers and types of lending operations financed by the Bank gives rise to a wide variety of systems of accounting, the nature and format of financial reporting may vary considerably. Nevertheless, to be effective all financial reporting must provide users with timely, meaningful data, including a statement of the accounting policies followed and any other footnote disclosure necessary to clarify the basic financial data presented. Financial reports submitted to the Bank should contain a signed confirmation of their accuracy and veracity by an authorized representative of the borrower. Additionally, the Bank may require audits of the financial reports submitted.

Financial reports required from borrowers under Bank lending operations can generally be classified into two categories: project specific financial statements and executing agency financial statements.

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[3]SOEs are used in claiming withdrawals of loan proceeds for relatively small project expenditures. SOEs are not accompanied by support documentation; however, such documentation subsequently must be examined and reported upon by independent auditors satisfactory to the Bank.

Project Specific Financial Statements

The Bank generally requires annual (and sometimes, interim) financial reporting on the **sources and applications of funds for each project** in order to monitor the use of Bank loan proceeds, and the overall financial performance of the project. These financial reports should reflect activity both for the most recent period and on a cumulative basis, and generally take the form of statements of cash receipts and expenditures related specifically to the project. The format and individual classification of receipts and expenditures must be designed to reflect the particular project.

While most Bank loans are for specific (or in some cases, sector-wide) investment projects, the Bank also finances certain economic adjustment operations, and may make hybrid loans. Specific financial reporting requirements for these other types of loans may vary, depending on what is being financed. Also, separate additional reports will be required when loan proceeds are disbursed to Special Accounts.

Adjustment operation loans

Adjustment loans generally provide funds to the borrower for broad use subject to the borrower's implementation of specified economic reforms. Structural Adjustment Loans (SALs) focus primarily on macroeconomic policies while Sectoral Adjustment Loans (SECALs) focus on microeconomic policies within a given sector. For example, a SAL might be granted to reduce trade barriers in order to achieve a target annual growth rate, while a SECAL could be developed to reduce the obstacles inhibiting private sector investment within the country.

Typically, SALs and SECALs provide quick disbursing foreign exchange for the import of goods and services from a Bank approved list of such items ("positive list"). Alternatively, the Bank may provide a list of goods and services from which purchases are not allowed ("negative list"). Accordingly, financial reporting for such loans will generally be simpler than for investment project loans.

Hybrid loans

A hybrid loan has elements of both investment project and adjustment operations. For example, a financial sector loan may be approved for development of a stock exchange by the borrower. The loan may also require policy changes in government regulated financial markets. The financial reporting for each component of a hybrid loan follows the specified guidance for that particular type. In the above example, the development of a stock exchange would be subject to reporting requirements for investment projects, while the funds disbursed in return for policy changes in the financial markets would be subject to reporting requirements for adjustment operations.

Special Accounts mechanism

A Special Account mechanism may be agreed with a borrower to enable more effective project implementation and to assist the borrower in overcoming cash flow problems. Special Accounts are imprest account arrangements whereby the Bank will transfer funds for use to a borrower's local account in advance of project expenditures. The Bank then replenishes the account periodically as project expenditures are made and appropriate documentation is received from the borrowers. To assist in monitoring the use of a Special Account the Bank requires periodic statements of the account activity.

Executing Agency Financial Statements

Executing agencies for Bank-financed operations can have varying kinds of annual financial statements appropriate to their function. Central and state government ministries or departments may prepare financial reports according to governmental funds or budget categories. In contrast, agencies such as state-owned enterprises, public utilities, and development banks normally prepare commercially-oriented financial statements. Normally, the Bank requires the receipt of financial statements only for commercially oriented enterprises responsible for executing Bank-financed operations. This is because the financial position and performance of such enterprises depend on earned revenues and prudent cost management, and will affect continuing investment decisions. The financial statements of commercially-oriented enterprises typically comprise a balance sheet, income statement and cash flow statement.

A **balance sheet** normally is prepared as of the close of the reporting period and should provide details of assets (fixed, current, and other), liabilities (accounts payable, short and long-term debt), and surplus (paid-in equity, accumulated earnings or deficits). Where possible, the balance sheet should be compiled to highlight important characteristics such as the capital structure, the liquidity position, or the reserves, to illustrate the nature and business of the entity.

An **income statement** reports the results of operations for the period covered. Amounts should be classified in the major categories of financial information which may include but are not limited to: operating revenue by categories of sales or service, operating expenses by category, income other than from operations, interest and financing costs, and net income.

A **cash flow statement** shows the cash provided by and used in operating, investing and financing activities for the period covered by the income statement. An alternative "statement of sources and applications of funds" or "statement of changes in financial position" may be prepared in some countries.

A borrower may be requested by the Bank to prepare and attach to the annual financial statements other agreed supplementary schedules or items of information.

IV. AUDITING CONSIDERATIONS

Types of Audits and Auditors

"Audits" can differ considerably, depending on their objectives, the activities for which the audits are employed, and the products or reports of the audits. In general, audits can be classified into three basic types: financial statement audits, compliance audits, and operational audits.

The basic objective of a **financial statement audit** is to have independent auditors express an opinion on the overall fairness of presentation (in conformity with certain accounting standards) of the financial statements. In effect, the objective of such an audit is to add credibility to the financial statements, giving reasonable assurance that they are free of any material misstatement. However, an unqualified opinion on the fairness of financial statement presentations should not be construed as an independent auditor's endorsement

of an enterprise's policy decision, its use of resources, or the adequacy of its internal control structure.

Financial statement audits typically are performed by **professional accountants** who are independent of the enterprise whose statements are to be examined. In most countries, auditors are licensed (e.g., as Chartered Accountants or Certified Public Accountants) to perform such audits, and to render opinions on financial statements which will be relied upon by third parties (e.g., investors or bankers). Such licensing ensures that such audits will be done by independent auditors having the requisite, high levels of training and experience in accounting and auditing.

Compliance audits encompass review, testing, and appraisal of controls and operating procedures in an organization. In commercially-oriented enterprises these reviews normally involve accounting, financial and other operations as a service to management. For governmental organizations such reviews also cover compliance with regulations, contracts and laws to which the organizations are subject.

Compliance audits of private enterprises, and many state-owned enterprises, normally are performed by **internal auditors**, who are employees of the enterprise. Compliance audits of most governmental operations are performed by **government auditors**, who in a sense serve as the government's internal auditors. Typically internal and government auditors are not required to meet the standards prescribed for the licensing of professional accountants, since their reports ordinarily are not intended for the use of third parties.

Operational audits are more comprehensive examinations of an organization's management, techniques and performance. The objective of such audits is to measure the extent to which enterprises or government operations are achieving their objectives. The primary product of an operational audit is a report recommending improvements to increase the efficiency and effectiveness of operations. In this sense it is the broadest type of audit in scope, and encompasses all of the major functions of an organization.

Operational audits are performed by all types of auditors. However, internal auditors and government audit agencies tend to be more active in this area than independent professional accountants.

Auditing Standards

Auditing standards are formal guidelines governing the execution of an audit for which a formal report will be issued. **Generally accepted auditing standards** comprise the body of auditing standards adopted by professional accountants or associations of accountants within a country, including standards prescribed by law, governments or others responsible for regulating financial reporting. They usually include standards of auditor qualifications, supervision and review, and specific audit procedures which must be completed for certain engagements, most commonly for financial statement audits. Similar to accounting standards, auditing standards may vary considerable between countries. Consequently, it cannot be assumed that the procedures carried out by even licensed auditors in every country are adequate for Bank purposes.

International Auditing Guidelines are formulated and published by the International Federation of Accountants for the purpose of standardizing auditing standards among countries, and achieving international uniformity within the auditing profession. The Bank expects auditors

to conduct their audits in accordance with these international guidelines, and with a country's own standards, if required by law or if they would impose a higher standard than the international guidelines. Significant differences, if any, should be highlighted in the audit report. In either instance, the scope and detail of the audit procedures performed must be sufficient to allow the auditor to express an opinion on or to justify any qualifications or disclaimers to the financial statements under audit. In those countries where the law specifies certain auditing requirements, the Bank will seek assurances that the scope of the audit will be acceptable.

V. AUDITING REQUIREMENTS

Audit reports required by the Bank

Project Financial Statements

Annual audits may be required for all project-specific financial statements. Such audits should be sufficient in scope to permit the auditor to render an opinion as to whether the statements present fairly the cash receipts and disbursements of the project for the year and on a cumulative basis. Audits of these statements are helpful in ensuring the reliability of the financial information used by the Bank and the management of the project to oversee the progress of the project or program.

Executing Agency Financial Statements

Annual financial statement audits may be required for those entities where performance may be crucial to investments or where improvement of the financial performance of the entity is one of the project objectives. This would typically include all commercially-oriented entities. In such cases, an audit is essential to ensure the reliability of the financial data. For example, audited statements of an electric utility implementing a power project are necessary to ensure that the utility is financially viable and, therefore, the project may warrant continued funding.

Statements of Expenditure (SOEs)

An annual compliance audit of SOEs is required to provide assurance as to the propriety of expenditures included and the eligibility of those expenditures for reimbursement under the loan legal agreements. Under the SOE procedure, the Bank disburses loan funds without or before reviewing the ultimate supporting documentation. Therefore, the audit is necessary to verify that claimed expenditures were properly supported and to confirm the Bank's reliance upon SOEs as a basis for disbursing loan proceeds.

For certain types of expenditures (e.g. civil works executed on force account or fixed-price reimbursement for measured units of work), the Bank may accept the certification of SOEs by an independent technical expert rather than by an independent auditor. This exception is applicable where the audit of SOEs primarily requires technical rather than financial skills. Such an arrangement would be referred to in the loan legal agreements.

Special Accounts

An annual audit of the Special Account statement, including tests to establish if use of Special Account funds comply with the loan legal agreements, may be required. Since

disbursements from a Special Account are made by the borrower prior to submission of SOEs or withdrawal applications to the Bank, the Bank cannot always satisfy itself that such disbursements were in accordance with the loan legal agreements based solely upon documents forwarded by the borrower. Therefore, an annual audit may be necessary to form an opinion that the current Special Account balance is proper, and that the funds were properly disbursed for project-related expenditures throughout the period.

Reports on internal control

The Bank may require the borrower to request an auditor to prepare a "management letter" or report outlining any recommendations for improving internal accounting controls identified as a result of a financial statement audit. Where an auditor provides such a letter on the basis of the audit work performed, the borrower should forward this letter to the Bank. If a special internal control review or audit is considered appropriate to address irregularities or special issues, this step would normally supplement the annual audit, usually with specific terms of reference.

Timing of submission of audit reports

During project preparation, the Bank and the borrower agree on the required timing for submission of financial statements and audit reports. Where required, audited annual financial statements for executing agencies should normally be submitted within three to six months following the fiscal year-end of the agency. Audit reports for project specific statements, SOEs and Special Account statements should be submitted within three to six months of the close of an agreed twelve month period (which will not necessarily coincide with executing agency's fiscal year-end). In general, longer allowances for submission of audited financial reports are considered only for borrowers that are undertaking a program to overcome deficiencies in accounting and auditing capabilities that prevent more timely reporting.

The importance of timely compliance with the Bank's financial reporting and auditing requirements should be emphasized. Bank staff will follow-up promptly all instances of non-compliance and all unsatisfactory financial or audit reports submitted. The Bank reserves the right to refer back to a borrower the report of any auditor that it may consider to be unresponsive to the agreed objectives or scope of the audit.

Selection of auditor

Appointment of auditors

The borrower is responsible for the selection and appointment of appropriately qualified auditors, acceptable to the Bank. A new auditor should be appointed by the borrower before the beginning of each fiscal year so that the auditor can commence reviews sufficiently early in the fiscal year to complete the audit on a timely basis. Where a government auditor is to serve during project execution, the borrower will be expected to provide the Bank with an assurance that the government auditor can begin his audit operations early; in some cases, this may not be later than the starting date of the project.

General qualifications

Because an independent auditor's opinion and report should be one on which reliance can be placed by the owners and management of the entity or project, the Bank, and other interested parties, auditors employed should be of a professional caliber capable of delivering such an opinion. Depending on their qualifications and experience, either private or government auditors may be engaged to perform audits required under a borrower's loan legal agreements with the Bank.

For purposes of auditing Bank-financed projects, qualified auditors must be:

- Independent of the control of the entity being audited and of the person appointing them. In particular, the auditors should not otherwise be employed by, serve as directors for, or have any financial or close business relationship with the entity during the period under audit other than the possible provision of other appropriate business advisory services.

- Sufficiently competent in accounting and auditing to be able to conduct the audit in accordance with International Auditing Guidelines or generally accepted auditing standards. Note that the degree to which an auditor is held to such standards varies depending upon the type and complexity of audit work. Financial statement audits are normally more complex than compliance audit work (i.e., SOE audits).

- Well established and reputable.

- Experienced in the nature, size and complexity of the assignment.

- Adequately sized and staffed with personnel of the requisite professional qualifications and experience for the engagement.

- Able to fulfill terms of reference within the specified timetable.

Acceptability of auditors

While the Bank does not normally advise on the selection of auditors, it reserves the right to consider a list of potential auditors and to identify any auditor who it deems inappropriate. To make this assessment, the Bank will routinely request information such as the name of the auditing firm, the names, qualifications, and experience of the principals, and employees, number of professional staff employed, a listing of some of the main audits currently and previously carried out by the auditor and a statement of the independence of the auditor from the entity proposed to audit. The Bank will confirm the acceptability of an auditor based upon the auditor's general qualifications, outlined previously, and ability to provide a report of the quality required.

It should be emphasized that the Bank's audit requirements are separate from a borrower country's statutory audit requirements and acceptance of government auditors to fulfill Bank requirements is not automatic. Acceptance of government auditors is based upon the Bank's desire to reduce administrative inefficiencies associated with audit requirements, reduce audit costs, and develop institutional accounting and auditing capabilities within borrower countries. The Bank will make an assessment regarding the competence and ability of government auditors to perform adequate, timely audits and will determine whether acceptance of government auditors is appropriate.

Terms of reference

Borrowers should provide terms of reference to auditors which define the general scope and detail of the audit and the timetable for provision of the auditor's report. Detailed terms of reference are normally not necessary for entity financial statement audits, as auditors are expected to apply audit procedures of sufficient scope and depth in conformity with International Auditing Guidelines, and the country's own auditing standards, to express an opinion. While it is advisable that general terms of reference be provided to auditors, such terms must not limit in any way the scope, depth of examination, and access to borrower records needed to express an opinion on the financial statements being audited. It should be recognized that an auditor will generally not address matters beyond the routine scope and detail of a financial statement audit unless the terms of reference require such actions.

Financing

The Bank normally does not finance the costs of auditing services where these represent an ongoing part of the operating expenditures of a borrower. There may be circumstances, however, when the costs of auditing services may be considered for inclusion in the costs of a project and financed from a Bank loan. This could apply particularly if audit costs are incremental owing to the project (if they would not have been incurred otherwise to the same extent, if at all, such as when private audit firms are required), or in cases of countries with limited foreign-exchange resources that have to engage foreign auditors.

Where an auditor's services are to be included in a project's costs and are to be partly or wholly financed from a Bank loan, the borrower would be expected to use the selection procedures set out in the Bank's "Guidelines for the Use of Consultants."

VI. TECHNICAL ASSISTANCE

Wide disparities in accounting and auditing facilities and standards exist among countries, and some borrowers may encounter difficulties in meeting the requirements of these guidelines or in establishing and maintaining adequate financial management of projects generally. The Bank is willing, therefore, to consider financing technical assistance to develop the general bookkeeping, accounting, and auditing capabilities in a country as part of an overall development program.

ANNEXES

PROJECT ACCOUNTING AND REPORTING

Overview of project financial statements and accounting systems

The fundamental objective of project management is to ensure that a project is completed within acceptable time and cost constraints and that work performance is acceptable. These variables--time, cost and performance--tend to be interrelated. Schedule slippages can increase costs; or measures to reduce time or costs can affect performance or the quality of work. Hence, effective project planning and control seeks to achieve an acceptable balance among these variables. Financial reporting systems for investment project loans facilitate oversight of project costs. Accordingly, they are part of the overall project management process, and should be compatible with the systems for monitoring project schedules and work performance.

A project financial statement should present the cash receipts and expenditures related to the project activities. Normally the presentation would show amounts for the reporting period and for the project to date. However, since individual project activities will vary, the actual classifications and level of detail of the receipts and expenditures will vary, depending on the nature and complexity of a given project. The classifications generally should follow the same logic used in defining the project components, and in further breaking down the project for planning and control purposes.

The ability of existing borrower accounting systems to provide project statements to the level of detail required will vary. Accounting systems for government funded services, and for many commercially-oriented enterprises may not have been designed with provisions for detailed project monitoring. Therefore, supplementary accounting systems and procedures often may be needed to provide the desired visibility over project expenditures. Such arrangements for project accounting should be considered as part of the overall project management system that is established during the preparation of projects for Bank financing.

Designing project-specific financial statements

The first step in designing project-specific financial statements is to break down the project into elements for which monitoring of costs is desired. Generally, each project's financial reporting should provide information relating to: project components and subcomponents; and if appropriate, also relating to geographic locations, and expenditure types. Ordinarily these elements are defined during the preparation and Bank appraisal of a project. They serve as a framework for procurement planning, activity scheduling, project cost estimating, and project financing. Hence, these elements also serve as a logical basis for the accumulation and presentation of project financial transactions.

During project preparation, a determination should be made of how to break down the project for financial reporting purposes. At that time a format should be designed for project-specific financial statements. Exhibit 1 illustrates how such a statement might look for Bank-financed projects. While such statements usually can be designed to present considerable detail, in practice the optimum level of presentation should invoke practical considerations of project management concerns, and the demands that will be placed on project accounting systems.

Evaluating existing project accounting systems

All entities responsible for implementing Bank-financed projects will have financial or budgetary accounting systems in place for their normal operations. At a minimum, such systems should record receipts and disbursements in the equivalent of a cash journal. Ideally, the existing system would satisfactorily capture and accumulate all project transactions to produce the desired project financial statements. Conversely, the existing system may not be capable of summarizing or producing any of the desired project-specific financial data. In most practical cases, existing accounting systems will fall between these two extremes. The extent to which the existing system can produce the desired statements usually depends upon the objective of that system.

Commercially-oriented vs government accounting systems

The primary objective of commercially-oriented accounting is to measure the results of operations for a defined period and to present a fair view of the financial position of the entity. With a strong focus on profitability, commercially-oriented entities may have accounting systems which can provide detailed information regarding project costs and financial performance. In such instances, significant changes or supplemental systems would not be necessary.

The primary objective of government accounting is to satisfy the accountability and management requirement of officials responsible for the conduct of government activities and operations. This objective is well met by most government-funded service entities which have accounting systems geared to budgetary classifications, which serve to monitor the progress of actual expenditures of development projects against budgeted figures. Although project accounting and the related Bank requirements are also geared to ensuring accountability for funds, they arise from the larger objective of ensuring strong, detailed project management. Generally, government systems are not designed to provide detailed project management capabilities. It is often possible and usually more economical, therefore, to supplement the existing system to capture the required data, rather than make any elaborate changes to existing systems.

Analyzing and modifying existing systems

A detailed evaluation of the existing project accounting system should begin with an analysis and comparison of the borrowing government's overall system of financial reporting, and that of the agency responsible for implementing the project (for example the public utility). The objective of this review is to assist in determining the extent to which the existing government or executing agency system satisfies the requirements for producing the desired project-specific financial statements and assessing the feasibility of enhancing the existing system if necessary. For example, an executing agency's accounting system may provide for recording and tracking project expenditures on a detailed basis in multiple expenditure categories. In the overall government accounting system, however, all expenditures for that project may be reflected as a single, cumulative reduction of the total budgeted amount, without provision of any detail regarding project components, locations, or expenditure types. In this instance, the government system provides such insufficient information that modification of the system to provide more detail may not be cost effective or possible. However, since the executing agency's system is able to track project expenditures by category, it is likely that changes in the number and type of expenditure categories to conform to Bank requirements would be relatively easy. Modifications to summarize expenditures by project components may be incorporated as well.

Complex projects

When evaluating the accounting system for complex projects involving more than executing agency, the Bank and borrower need to carefully consider the required process for consolidating financial information, and the degree of detail necessary. This determination will depend upon the types of project analysis desired. It would not be unusual for these requirements to exceed the capacity of the existing systems to provide such data in an accurate and timely manner. Although each executing agency is expected to prepare and process separate financial accounts and reports based upon a predetermined codification of project components for reporting purposes, a consolidated financial report of the project is necessary for both the Bank and the borrower. The borrower should identify the primary executing agency responsible for consolidation of project activity and the preparation of consolidated project financial statements.

When modification is impractical

Where the existing or modified project accounting system is unable to fully meet the financial data requirements, a reevaluation of those requirements should be performed. In many cases, the desired statements or required financial data may be altered to accommodate the existing or modified system.

There may be instances where critical financial data cannot be supplied from the existing or modified system, or where the cost and time required to modify the existing system is prohibitive. Even where system modifications would be sufficient, they may not be completed prior to the commencement of the project. In such instances, an action-plan for implementing long-term improvements should be considered by the Bank staff and the borrower. In the interim, a supplemental project subsidiary ledger and accounting system should be developed and maintained by the borrower to provide the required information. This is typically most useful for complex projects with multiple executing agencies and geographic locations.

A supplementary ledger should also be used for all projects where the classifications in existing systems are not sufficiently detailed or relevant to project management needs

Designing supplemental project accounting systems

A supplemental accounting system is generally comprised of a subsidiary ledger or cash disbursements journal which includes details regarding project components in accordance with Bank requirements. Exhibit 2 shows an example of a project disbursement journal that each implementing entity could maintain to reflect expenditures for its designated component. It is important that financial transactions recorded in such supplementary systems also be recorded concurrently in the borrower's primary accounting system, and that an effective cross-reference is maintained.

In most cases, the use of microcomputers should be considered for the aggregation of the accounting data at all levels as well as for the preparation of the project financial statements. Although most expenditures for Bank projects are made on the basis of contracts for goods and services which substantially reduces the number of accounting entries required, microcomputers greatly improve efficiency, accuracy and timeliness of financial reporting, and facilitate more comprehensive management analysis. The cost of microcomputers, necessary software and the related training of the borrowers may be provided for as a project component. In most cases, standard spreadsheet software is sufficient to aggregate accounting data and prepare financial statements.

The key to designing a useful computer-based project subsidiary ledger or cash disbursement journal is to assess the data aggregation requirements and develop an appropriate account coding scheme to satisfy those requirements. Codification of project expenditures (by project component, location, implementing agency, etc.) facilitates management analysis, simplifies the processing and preparation of project transactions, enhances financial reporting and strengthens internal control. The importance and utility of careful codification increases with a project's complexity.

SAMPLE AUDIT REPORTS

A measure of uniformity in the form and content of the auditors report is desirable because it helps to promote the reader's understanding. Accordingly, the Bank strongly endorses the preparation of reports in accordance with the standards established by International Auditing Guidelines. These guidelines specify that all audit reports should include: title, addressee, identification of the financial information audited, a reference to auditing standards or practices followed, an expression or disclaimer of opinion on the financial information, signature, the auditors address, and the date of his report.

The following are samples of audit reports which the Bank expects to receive in satisfaction of its audit requirements. Note that the examples are indicative of clean or unqualified opinions, and should be appropriately altered when qualifications or modifications, such as the period under audit, are appropriate.

Audits of executing agency financial statements

We have audited the balance sheet of **(name of entity)**, as of **(date of balance sheet)**, and the income and expenditure statement, sources and applications of funds statement (or statement of cash flows and any additional statements covered by the audit report), for the year then ended. Our audit was carried out in accordance with International Auditing Guidelines (or relevant national standards) and accordingly included such tests of the accounting records, verification of assets and liabilities, and other auditing procedures that we considered necessary under the circumstances. In our opinion the aforementioned financial statements and appended notes present fairly the financial position of **(name of entity)**, as of **(date of balance sheet)**, and the results of operations for the year then ended in accordance with International Accounting Standards (or relevant national standards) applied on a basis consistent, in all material respects, with that of the previous year.

(or)

In our opinion, the **(list financial statements)** present fairly, in all material respects, the financial position of **(name of entity)** at **(date of balance sheet)** and the results of its operations and its cash flows for the year then ended in conformity with International Accounting Standards (or relevant national standards). These financial statements are the responsibility of management of the **(name of entity)**; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit of these statements in accordance with International Auditing Guidelines (or relevant national standards), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

Audits of project specific financial statements

We have audited in accordance with International Auditing Guidelines (or relevant national standards) the accompanying statement of receipts and disbursements of **(name of project)** for the period from **(date of inception)** (inception) through **(date)**. The accompanying financial statement is prepared on the basis of cash receipts and disbursements as described in Note **(reference to related footnote disclosure)** and is not intended to be a presentation in conformity with International Accounting Standards.

In our opinion, the financial statement presents fairly cash received and cash disbursed under **(name of project or loan agreement)** for the period from **(date of inception)** (inception) through **(date)**.

(or)

We have audited the accompanying statement of project receipts and disbursements of **(name of project or loan agreement)** for the period from **(date of inception)** (inception) through **(date)**. This financial statement is the responsibility of the Project's management. Our responsibility is to express an opinion on this financial statements based on our audits.

We conducted our audit in accordance with International Auditing Guidelines (or relevant national standards), which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion. As described in Note **(reference related footnote disclosure)**, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than International Accounting Standards.

In our opinion, the financial statement audited by us presents fairly, in all material respects, cash receipts and disbursements for the period **(date of inception)** (inception) through **(date)** on the basis of accounting described in Note **(reference related footnote disclosure)**.

SOE audits

We have audited the Statements of Expenditure of **(name of project/loan number)** for the year (or period) ended **(date)** submitted to the Bank in support of applications for reimbursement for expenditures in accordance with the IBRD Loan (or IDA Credit) Agreement dated **(date of agreement)**.

Our examination was made in accordance with International Auditing Standards (or relevant national standards) and accordingly included such test of the accounting records and supporting documentation, review of systems of internal control, and other auditing procedures that we considered necessary in the circumstances.

In our opinion, the Statements of Expenditure (together with the supporting schedules and information where applicable) can be relied on to support the applications for loan (or credit) disbursements by the Bank for expenditures incurred for the purposes of the project (program) as specified in the above Loan (or IDA Credit) Agreement.

Special Account audits

We have audited the special account statement **(number, if applicable)** of **(name of borrower)** for the year (or period) ended **(date of period end)**, established under provision of IBRD Loan (or IDA Credit) Agreement **(name of agreement)** dated **(date of agreement)**.

Our audit was carried out in accordance with International Auditing Guidelines (or relevant national standards). Accordingly, our audit included such review of systems of internal control, tests of the accounting records and supporting documentation, verification of account balances, and other auditing procedures that we considered necessary under the circumstances.

The accompanying special account statement was prepared on the basis of cash deposits and withdrawals for the purpose of complying with the above Loan (or Credit) Agreement.

In our opinion the receipts are properly accounted for and withdrawals were made for the purposes of the project in accordance with the Loan (or Credit) Agreement, and the above special account statement (with the attached schedules and notes, where applicable) give a true and fair view of (or presents fairly) the beginning and ending balances, and the account activity for the year (or period) ended **(date of period end)**, on the basis of cash deposits and withdrawals.

AUDITS OF EXECUTING AGENCY FINANCIAL STATEMENTS AUDITS

Overall Objective

The overall objective of the ordinary audit of financial statements is to determine whether the statements are fairly presented in conformity with international accounting standards or generally accepted accounting principles applied on a basis consistent with that of the preceding year. The auditor evaluates whether the financial statements are fairly presented by accumulating audit evidence in a thorough and conscientious manner. When, on the basis of adequate evidence, he reaches the conclusion that the financial statements are unlikely to mislead a prudent user, he gives an audit opinion on their fair presentation and associates his opinion with the statements. Although the auditor is not an insurer or a guarantor of the fairness of the presentations in the statements, he has considerable responsibility for notifying users as to whether or not the statements are properly stated. If he believes the statements are not fairly presented or if he is unable to reach a conclusion because of insufficient evidence or prevailing conditions, he has the responsibility for notifying the users of the statements through an auditor's report.

The Audit Process

Audit conclusions about whether financial statements are fairly presented are not reached in a precisely defined manner. Instead, evidence is obtained and conclusions are reached throughout the course of an audit. The auditor starts with relatively little information about whether the entity's statements are fairly presented. He has the results of previous audits on a repeat engagement and impressions about integrity and competence. As the audit proceeds, each additional piece of evidence either confirms or contradicts his initial impression. At the completion of the audit, the auditor should have strong beliefs about the fairness of the presentation, which will lead to his opinion.

Understanding the Entity

Each audit should begin with the auditor obtaining an understanding of the entity being audited This understanding is generally obtained through consideration of the entity's industry and background, and through analytical procedures designed to highlight significant trends and relationships.

Considering Internal Controls

As part of an audit of financial statements the auditor is required to consider the related entity's system of internal accounting control for the purpose of assessing its ability to generate reliable financial information. If the auditor is convinced the entity has an excellent system, which includes controls for providing reliable data and for safeguarding assets and records, the amount of audit evidence to be accumulated can be significantly less than if the system is not adequate. On the other hand, in some instances the controls may be so inadequate as to preclude conducting an effective audit.

The degree to which an auditor will consider an entity's internal controls is largely dependent upon the extent to which the auditor intends to place reliance on such controls in order to reduce the extent of other audit tests. When considering the system of controls the auditor should first determine, at least broadly, how it operates and then make a preliminary evaluation of whether the system has been designed effectively to accomplish the objectives of preventing or detecting errors that may be significant to the financial statements.

Where the auditor has identified an effective control, or strength, in the system, he is entitled (but not required) to rely on this control to enhance the reliability of financial information. Hence, he can reduce the extent to which the accuracy of that information must be validated through the accumulation of evidence related directly to it. To justify this reliance, however, the auditor must test the effectiveness of the controls. The procedures involved in this type of testing are commonly referred to as "tests of compliance" or "test of transactions". It is important to recognize that the auditor's review of internal controls is intended primarily to determine the extent of testing he will do in his subsequent examination of account balances. Therefore the auditor's report on the financial statements should not be considered to be an endorsement of the overall adequacy of the internal control systems.

Testing the Financial Statement Balances

The ending balances in the balance sheet, and the amounts shown on the income statement are verified by obtaining various types of evidence. Examples include direct communication in writing with customers for accounts receivable, observation of actual inventory, and examination of vendor's statements for accounts payable. These test of ending balances are essential to the conduct of the audit because for the most part the evidence is obtained from a source independent of the client, and thus is considered to be of high quality.

There is a close relationship between the general review of the client's circumstances, the results of the evaluation and test of the system of internal control, and the direct tests of the financial statement accounts. If the auditor has obtained a reasonable level of confidence about the fair presentation of the financial statements through the general review of internal control and test of its effectiveness, the direct tests can be significantly decreased. In all instances, however, some tests of the financial statement accounts are necessary.

Decision About Audit Evidence

The auditor's determination of the types and extent of audit evidence required to render the desired opinion is a matter of significant judgement. Key to this determination are the auditor's decisions regarding the audit procedures to perform, and the sample sizes and selections to be covered by those procedures.

In deciding the audit procedures to perform, the auditor chooses among the following types of evidence:

- Inquiry and representation
- Observation
- External confirmation
- Inspection of documents
- Physical examination
- Reperformance
- Analytical procedures

The appropriateness of the type of evidence used is dependent upon its applicability, availability, reliability and cost, and the auditor's judgement regarding the risks and potential sources of a significant error occurring and being included in the financial statements of the entity under audit.

AUDITS OF PROJECT SPECIFIC FINANCIAL STATEMENTS

Overall Objective

The overall objectives of audits of project specific financial statements are to determine whether the statements fairly present cash receipts and disbursements for a specified period, as well as cumulatively for the project; and that the reported disbursements were made in accordance with loan legal agreements. A borrower should prepare a periodic statement of project receipts and disbursements for each bank financed project.

Form and Content of Financial Reporting

The form of and classifications used in the statement of project receipts and disbursements will vary according to the nature and complexity of the related project, and should be agreed with the project manager prior to commencing the project. Investment project statements tend to be more complex than those for adjustment operations since more information is generally required to manage the construction and completion of investment projects. (See example statement in Exhibit I.) In any case, the borrower's accounting system must be designed to provide sufficient cross referencing and documentation of data aggregation to provide for independent verification of the receipts and disbursements presented in the project statements.

The Audit Process

The process followed for auditing a project statement, while generally simpler, is similar in most respects to the process followed for an audit of the financial statements of an executing agency, as outlined in Annex 3. The auditor is expected to rely heavily on an inspection of valid supporting documentation and to perform other steps, such as physical observation of significant items purchased, where practical, to substantiate the validity of the expenditure in accordance with the loan legal agreements.

Where a borrower uses the SOE procedure in claiming loan withdrawals, the disbursements reported in a project's statement of receipts and disbursements will also include those expenditures included in the SOEs. Where this is the case, any audit of the project financial statement should be closely coordinated with audits performed on the individual SOEs to avoid duplication of audit efforts.

Considering Internal Controls

As part of an audit of a project statement of receipts and disbursements the auditor should review and evaluate controls surrounding financial activity to determine the nature and extent of audit procedures to be performed. As with audits of executing agency financial statements, where the auditor identifies effective control he is entitled to rely on this control to enhance the reliability of financial information. Hence the auditor can reduce the extent to which the accuracy of that information must be validated through the accumulation of evidence related directly to it. For example, if the auditor is satisfied that controls over the review, approval and disbursement of funds are strong, he may reduce the extent of other testing performed to substantiate disbursements. However, to justify this reliance, the auditor must test the effectiveness of the controls.

It is important to note that in many circumstances the auditor may consider it unnecessary or inefficient to test a borrower's control system as part of an audit of a project statement, or only limited testing may be deemed necessary. Therefore, absent a specific request or instruction to the auditor in the terms of reference, no assurances about the adequacy of internal controls should be assumed as a result of such an audit.

Reporting

Project financial statements are generally prepared on the cash basis of accounting, not in conformity with International Accounting Standards, which require the accrual basis of accounting. Accordingly, this fact should be disclosed in the auditor's report and in the accounting policies footnote to the statement. See Annex 2 for sample audit reports.

AUDITS OF STATEMENTS OF EXPENDITURE

Objective

Under the SOE procedure, the borrower periodically requests withdrawal of loan proceeds through submission of a statement indicating expenditures for certain items referred to in the loan legal agreements. The statements are 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.

The SOE procedure simplifies and accelerates the Bank's loan disbursement process by eliminating the requirement for Bank staff to review supporting documentation for many small expenditures. However, the Bank still must satisfy its fiduciary obligation to ensure that Bank funds are being properly utilized in accordance with their intended purpose. Therefore, the Bank requires the borrower to obtain an annual audit of the SOEs to verify that expenditures are properly supported, and to confirm the continued use of the SOE procedure.

The SOE audit is compliance in nature. The primary objective is to ascertain that the individual expenditures which comprise the SOE totals are fully supported, properly authorized and eligible under the Loan Agreement, and appropriately accounted for. In addition to an audit opinion on the accuracy and propriety of the SOEs, the auditor should provide an attachment which summarizes the total expenditures audited and any exceptions noted. Any exceptions or disallowed expenses will be offset against future disbursements of the loan. The Bank will also use the results of the audit to determine whether continued use by the borrower of the SOE procedure is warranted.

Required audit procedures

I. Obtain a copy of the loan legal agreements and the Staff Appraisal Report (SAR).

II. Through discussion with borrower staff, obtain an understanding and document (or update previous documentation of) the process and related controls by which expenditures are committed, reviewed, approved, paid and identified for inclusion in loan withdrawal applications.

III. Consider the effectiveness of the following controls and document any instances where controls are lacking or are considered in need of strengthening:

- Appropriate levels of review and approval are in place and are followed for each stage of the expenditure process.
- Procedures and responsibilities are clearly defined and are adequately documented.
- Adequate segregation of duties exists between the initiation, authorization, disbursement and recording functions.
- Authorization and approval is obtained prior to incurring of the expenditure.

- Documentation is maintained for an adequate period of time for purposes of fulfilling audit requirements as well as review by Bank staff.

- Commitments are made after applicable procedures have been followed.

IV. Select all SOEs submitted during the period under audit and have borrower staff retrieve the supporting documentation for the expenditures.

V. For each expenditure, perform the following:

A. Evaluate the adequacy of the supporting documentation which should normally include one or more of the following:

- procurement documents (bid documents, invitation, evaluation, award)
- purchase contract
- purchase order
- letter of credit
- supplier's invoice and certificate of origin
- shipping or import documents and inspection certificates
- contractor's invoices or certificates
- other evidence of receipt of goods or services
- force account records
- recurrent cost records
- authorization for payment
- evidence of payment/bank statements
- accounting records of approvals, disbursements, and balances available
- Evidence that refunds have been made by suppliers and corresponding adjustments made in subsequent applications in instances where goods have been returned.

B. Ascertain that the expenditure was properly authorized and approved.

C. Verify that the expenditure is eligible for Bank disbursement under the loan legal agreements. Ineligible expenditures would include:

- duplicate invoices;

- payments made in advance of receipt of goods or delivery of services, unless these payments are consistent with contract provisions and are established commercial practice;

- payments that should have been made under normal disbursement procedures with full documentation (e.g. payments against contracts subject to the Bank's prior review, or payments against contracts with values exceeding defined SOE limits); and

- payments for items that are not procured in accordance with the loan legal agreements, such as

  - payments for items from countries that are not eligible under the Bank's Procurement Guidelines;

  - payments for items not specified in the procurement;

  - payments made prior to loan signing or before the eligible date specified for retroactive financing.

  - payments for items on the negative list or not on the positive list (for adjustment operation lending);

D. Verify the mathematical accuracy of the SOE.

E. Agree the percentage used to determine the Bank's share of the total disbursements to the loan legal agreements. Verify that the proper amount was requested for reimbursement.

F. Summarize the results of the work performed on a summary form.

G. Notify borrower of all instances of negative findings.

H. Submit summary forms and audit opinion to appropriate officials who should forward these documents to Bank staff. See Annex I for format of audit report required.

VI. Where appropriate and practical, consider physically observing significant items purchased on a test basis to confirm their existence.

The auditors should maintain for a minimum of three years the appropriate workpapers which support the work performed and the conclusions reached. Such work should be made available to Bank staff if requested.

AUDITS OF SPECIAL ACCOUNTS

Objective

Where Special Accounts (SAs) are established, annual audits may be required. The primary objectives of such audits are to verify that SA statements (see Exhibit 3) are fairly presented and that disbursements from SAs are proper and in accordance with the respective loan legal agreements. Accordingly, the auditor should perform procedures to obtain evidence sufficient to conclude that the SA statement fairly reflects in all material respects the activity of the SA, and that SA funds are used solely for purposes authorized in the loan legal agreements.

The Audit Process

Audits of SAs should, by nature, be less complex than audits of the financial statements of executing agencies or investment projects. SA audits would generally consist of agreeing information summarized on a special account statement back to original supporting documentation, including local bank statements. Where funds are deposited with the central bank of a borrower in lieu of a commercial bank, the auditor should evaluate the reliability of the information provided by the central bank, and perform audit procedures to obtain evidence supporting the validity of such information.

The type and scope of procedures required in this regard are a matter of professional judgement, but will be impacted by the auditors assessment of risks inherent in the central bank's accounting and control systems, and the overall influences to which the management of the central bank is influenced. For example, where a borrower government's foreign currency reserves are severely limited, there may be a heightened risk that SA funds may be used for purposes other than those specified in the loan legal agreements. Additionally, where the auditor is aware that the central bank has a recent history of producing incorrect or unreliable information, the auditor may need to expand significantly the amount of work necessary to conclude on the fair presentation of the SA statement.

Accordingly, in performing audits of SA activity, the auditor should be particularly cognizant of the risks that funds may be used, even on a temporary basis, for purposes not expressly authorized in the loan agreement. For example, funds could be withdrawn from the SA, used for an incorrect or unauthorized purpose, and later redeposited to the SA. Where SOE procedures are invoked along with SAs, the borrower and auditor should endeavor to coordinate audits of the SAs with any audits of the related SOEs performed, in order to avoid duplication of audit work. In this regard, the borrower should consider employing the same auditor to perform audits of both the SA statement and related SOEs for loans using both procedures where audits of both are required.

Considering Internal Controls

As part of an audit of an SA statement, the auditor should review and evaluate controls surrounding SA activity to determine the nature and extent of audit procedures to be performed. As with audits of executing agency financial statements, where the auditor identifies effective control he may rely on this control to enhance the reliability of financial information. Hence the auditor can reduce the extent to which the accuracy of that information must be validated through the accumulation of evidence related directly to it. For example, if the auditor is satisfied that controls over the review, approval and transfer of SA funds are strong, he may reduce the extent of other testing performed on the activity of the account. However, to justify this reliance, the auditor must test the effectiveness of the controls.

It is important to note that in many circumstances the auditor may consider it unnecessary or inefficient to test a borrower's control system as part of an audit of SA statements, or only limited testing may be deemed necessary. Therefore, absent a specific request or instruction to the auditor in the terms of reference, no assurances about the adequacy of internal controls should be assumed as a result of such an audit.

EXHIBITS

WATER SUPPLY PROJECT
(IBRD LOAN XXXX)
Statement of Project Receipts and Expenditures

	For the Year Ended March 31, 1990	Cumulative to March 31, 1990
RECEIPTS		
IBRD loans	xxx	xxx
State government grants	xxx	xxx
Town funds:		
Town A	xxx	xxx
Town B	xxx	xxx
Total Receipts	xxx	xxx
EXPENDITURES		
Water Supply		
Regional schemes:		
Raw water pumping station	xxx	xxx
Treatment plant	xxx	xxx
Trunk distribution system	xxx	xxx
Town distribution systems		
Town A	xxx	xxx
Town B	xxx	xxx
Village schemes:		
District I		
Pumps	xxx	xxx
Civil works	xxx	xxx
District II		
Pumps	xxx	xxx
Civil works	xxx	xxx
Total water supply	xxx	xxx
Health Education		
Education materials	xxx	xxx
Incremental labor (health aides)	xxx	xxx
Consultants (public health)	xxx	xxx
Vehicles	xxx	xxx
Total health education	xxx	xxx

(continued)

Project Management		
Consultants:		
Engineering	xxx	xxx
Financial	xxx	xxx
Computers	xxx	xxx
Vehicles	xxx	xxx
Other	xxx	xxx
Total project management	xxx	xxx
Total Expenditures	xxx	xxx
Excess (Deficiency) of Receipts over expenditures	xxx	xxx

EXAMPLE OF PROJECT CASH DISBURSEMENTS JOURNAL
WATER SUPPLY PROJECT
(IBRD LOAN XXXX)

					WATER SUPPLY *				HEALTH EDUCATION *			PROJECT MANAGEMENT *		
DATE	PAYEE	DISBURSEMENT DESCRIPTION	AMOUNT	REFERENCE (CHECK OR INVOICE #)	RAW WATER PUMPING STATION	TREATMENT PLANT	TRUNK DISTRIBUTION SYSTEM	(etc.) *	EDUCATION MATERIALS	INCREMENTAL LABOR (HEALTH)	(etc.) *	CONSULTANTS (ENGINEERING)	(etc.) *	OTHER
2/12/90	ABC CONSTRUCTION	REINFORCED TUBING	XXX	53654-1	XXX									
2/13/90	TEXTBOOKS, INC	HEALTH TEXTBOOKS	XXX	10092A					XXX					
2/15/90	OFFICE PLACE	OFFICE SUPPLIES	XXX	WB2019										XXX
2/20/90	AL B. SMITH	NURSING INSTRUCTOR FEES	XXX	3458						XXX				
			XXX		XXX				XXX	XXX				XXX

*Note: The above disbursement accounts should generally coincide with or accumulate to the expenditure categories shown on the Statement of Project Receipts and Expenditures (Exhibit 1). Accordingly, the columns marked "(etc.)" under each expenditure group indicate that more expenditure columns would exist but are not shown for the purposes of this exhibit.

EXHIBIT B

SPECIAL ACCOUNT STATEMENT

For Year Ending (mm/dd/yy)
Account No. _____
Depository Bank _____
Address _____
Related loan/credit agreement _____

Currency _____

Part A - Account Activity

Beginning balance (mm/dd/yy)	xxxxx
Add:	
Total amount deposited by World Bank	xxxxx
Total interest earnings if deposited in account	xxxxx
Total amount refunded to cover ineligible expenditures	xxxxx
Deduct:	
Total amount withdrawn	xxxxx
Total service charges if not included above in amount withdrawn	xxxxx
Ending Balance (mm/dd/yy)	xxxxx

Part B - Account Reconciliation

1. Amount advanced by World Bank	xxxxx
2. Less total amount recovered by World Bank	xxxxx
3. Equals present outstanding amount advanced to the Special Account at fiscal year end (mm/dd/yy)	xxxxx
4. Ending balance of Special Account at fiscal year end (mm/dd/yy)	xxxxx
5. Plus amounts claimed and not yet credited at fiscal year end (mm/dd/yy)	xxxxx

Application No.	Amount
---------	xxxxx
---------	xxxxx

6. Plus amounts withdrawn and not yet claimed	xxxxx
7. Less interest earning (if included in Special Account)	xxxxx
8. Plus service charges (if not included in lines 5 and 6 above)	xxxxx
9. Equals total advance to Special Account accounted for at fiscal year end (mm/dd/yy)	xxxxx

Notes:

1. Explain any discrepancy between totals appearing on lines 3 and 9 above (e.g., amount due to be refunded to cover ineligible expenditures paid from the Special Account).

2. Indicate if amounts appearing on Line 6 are eligible for financing by the World Bank, and provide reasons for not claiming the expenditures.