



**REPUBLIC OF MOLDOVA**

**SECOND SOCIAL INVESTMENT FUND  
PROJECT**

**FINANCIAL  
HANDBOOK**

**DRAFT**

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## LIST OF ACRONYMS

<b>CBO</b>	Community-Based Organization
<b>CDD</b>	Community Driven Development
<b>COA</b>	Chart of Accounts
<b>DC</b>	Direct Contracting
<b>FAD</b>	Finance and Administrative Directorate
<b>FMR</b>	Financial Management Report
<b>GOM</b>	Government of Moldova
<b>GRN</b>	Goods Received Note
<b>IA</b>	Implementing Agency
<b>IDA</b>	International Development Association
<b>LG</b>	Local Government
<b>MC</b>	Management Committee
<b>MDL</b>	Moldovan Leu
<b>MIS</b>	Management Information System
<b>MNAL</b>	Moldova National Accounting Law
<b>MP</b>	Microproject
<b>MPD</b>	Microprojects Directorate
<b>MSIF</b>	Moldova Social Investment Fund
<b>NAS</b>	National Accounting Standards
<b>NGO</b>	Non-Governmental Organization
<b>NSC</b>	National Steering Committee
<b>PIP</b>	Project Implementation Plan
<b>PMAS</b>	Project Management Accounting System
<b>PO</b>	Purchase Order
<b>RFA</b>	Request for Advance
<b>RFP</b>	Request for Payment
<b>RFT</b>	Request for Tranche
<b>SAW</b>	Statement of Accomplished Works
<b>SCS</b>	Social Care Services
<b>SOE</b>	Statement of Expenditure
<b>ST</b>	Small Town
<b>WB</b>	World Bank
<b>WCS</b>	Works Completion Statement

## Chapter 1. Introduction

### 1.1. General

1.1.1. The Handbook is in compliance with:

- (a) The Credit Agreement No. 3931 MD signed between the Government of Moldova (GOM) and the International Development Association (IDA);
- (b) The Grant Agreements signed between the GOM and different donors to MSIF;
- (c) The MSIF Operational Manual.

### 1.2. MSIF Financial Handbook

1.2.1. The Handbook comprises of financial management rules, procedures and accounting policies under Second Social Investment Fund Project (MSIF2) to be used by:

- (i) Moldova Social Investment Fund (MSIF),
- (ii) Implementing Agencies (IA) for communities under Subprojects (SP),
- (iii) Community-Based Organizations (CBO) for communities in villages under Community-Driven Development (CDD) Projects ,
- (iv) Non-Governmental Organizations (NGO) for communities under Social Care Services (SCS) Projects , and
- (v) Local Governments (LG) for communities under Small Town (ST) Projects.

1.2.2. The main purpose of the Handbook is to inform all concerned Sub-Grants beneficiaries and the people working in partnership with them and with MSIF, about the arrangements of the financial management during MSIF2 Project implementation.

1.2.3. The arrangements of the financial management, required for SP/CDD/ SCS/ST Projects in order to utilize the resources with due care to accountability and transparency, are given in details in the Community Handbook.

### 1.3. Using the Financial Handbook

1.3.1. The Handbook covers financial management, financial procedures, accounting policies, internal control, roles and responsibilities of MSIF and the Credit and Grants beneficiaries.

1.3.2. Application of financial procedures in achieving the objectives of MSIF2 subprojects was agreed between the WB and MSIF. For the financial procedures however there are certain minimum procedural requirements to SP/CDD/SCS/ST Projects to ensure accurate data recording and to be subject to a satisfactory control and audit.

## Chapter 2. Financial Management

### 2.1. General

- 2.1.1. Financial management is a process which brings together planning, budgeting, accounting, financial reporting, internal control, auditing, and disbursement of the project with the aim of managing MSIF2 Project resources properly and achieving the MSIF2 Project's development objectives.
- 2.1.2. The aim of the financial management is to provide timely, reliable, and useful information for accountability and decision-making.
- 2.1.3. All financial procedures to be followed by MSIF and the Credit and Grants beneficiaries during MSIF2 implementation shall comply with the guidelines provided in the MSIF Operational Manual and be aimed at achieving economy and efficiency.
- 2.1.4. The overall responsibility for the financial management of MSIF2 Project is with the Finance and Administration Department (FAD) within MSIF. The accountabilities of FAD are the following:
  - 2.1.4.1. Implement and maintain an accounting system that will comply with GOM National Accounting Standards (NAS) and acceptable to WB and other donors.
  - 2.1.4.2. Design and implement internal controls to ensure safekeeping of assets.
  - 2.1.4.3. Elaboration of annual consolidation budget for presentation and approval of Executive Committee and subsequent approval of National Steering Committee (NSC), Ministry of Finance, WB and other donors.
  - 2.1.4.4. Monitor disbursements to ensure compliance of Credit and Sub-Grant Agreements.
  - 2.1.4.5. Review and evaluate variances between budget and actual disbursements.
  - 2.1.4.6. Liaison with external auditors, employees, suppliers, contractors, banks, Ministry of Finance, the Social Fund, the Fiscal Authority, WB and other donors in financial related matters.
  - 2.1.4.7. Preparation of quarterly and annual financial and statistical reports required by GOM, WB and other donors.
- 2.1.5. The main priorities of MSIF cash flow management are the followings:

- 2.1.5.1. ensuring that funds are spent efficiently, according to the approved budget and disbursement plan;
  - 2.1.5.2. ensuring that funds are readily available to cover payments made for program purposes;
  - 2.1.5.3. ensuring that government funds are not spent unreasonably and in advance;
  - 2.1.5.4. ensuring that an adequate accounting records for cash receipts and disbursements is maintained;
  - 2.1.5.5. ensuring that the time for processing payments is as short as possible;
  - 2.1.5.6. ensuring the operation of all financial and accounting functions in the most economical manner;
  - 2.1.5.7. ensuring that effective procedures that result in the accounting functions focusing on analytical rather than mechanical activities are implemented;
  - 2.1.5.8. ensuring the development of computerized procedures that correlate accounting activities with operating requirements;
  - 2.1.5.9. ensuring the creation of reporting systems that provide management with useful operating data and indicators that can be generated from the accounting data;
  - 2.1.5.10. ensuring the elimination or reduction of all unnecessary accounting operations that provide few or no value-added benefits.
- 2.1.6. For all employee of the FAD will be developed Terms of References (TORs). The TORs will be updated at the beginning of every year. In the Appendix no. 1 see the TORs for FAD staff.
- 2.1.7. All financial responsibilities related to SP/CDD/SCS/ST Project activities shall be decentralized.
- 2.1.8. For every SP (traditional project used in MSIF 1 Project), MSIF will enter into a Grant Agreement with the IA and local public administration (LPA).
- 2.1.9. The Grant Agreement will outline the agreed financial procedures and will specify the terms and conditions under which the funds may be used. All financial activities shall be executed in conformity with the Grant Agreement.
- 2.1.10. Financial management of a SP implementation is primary responsibility of the IA, and includes:
- 2.1.10.1. Preparation of SP plan and SP budget.
  - 2.1.10.2. Preparation of a detailed calculation of the total amount of the SP costs, according to the contract concluded with the Contractor.

- 2.1.10.3. Secure the community contributions, as it is mentioned in the guarantees documents, presented to MSIF, bearing the whole responsibility for the consequences, if these obligations are not fulfilled.
  - 2.1.10.4. Not using of the allocated means for the SP for other activities not specified in the Grant Agreement, without MSIF authorization.
  - 2.1.10.5. Not allowing any changes or amendments to the SP implementation and its cost structure, technical and material specifications, without MSIF authorization.
  - 2.1.10.6. Keeping the copies of all documents presented to MSIF, which shall be available for each Community member wishing to get acquainted with the financial reports.
- 2.1.11. For every CDD/SCS/ST Project, MSIF will enter into a Sub-Grant Agreement with the CBO/NGO/LG.
- 2.1.12. The Sub-Grant Agreement will outline the agreed financial procedures and will specify the terms and conditions under which the funds may be used. All financial activities shall be executed in conformity with the Sub-Grant Agreement.
- 2.1.13. Financial management of a CDD Project is primary responsibility of the CBO, representing the Community, and includes:
- 2.1.13.1. Preparation of Strategic Plan and Annual Work Plan as part of the Sub-Grant Application.
  - 2.1.13.2. Development, with MSIF technical assistance, of estimates for the Sub-Projects included in the Sub-Grant Application.
  - 2.1.13.3. Collection of the Community contribution.
  - 2.1.13.4. Not allowing any changes or amendments to the CDD Project implementation and its cost structure, technical and material specifications, without MSIF authorization.
  - 2.1.13.5. Not using of the allocated means for the CDD Project for other activities not specified in the Sub-Grant Agreement, without MSIF authorization.
  - 2.1.13.6. Operating and maintenance of bank accounts.
  - 2.1.13.7. Effecting the payments under contracts for goods, works and consulting services.
  - 2.1.13.8. Keeping the accounting records in conformity with the Republic of Moldova legislation, NAS, donor countries' and World Bank requirements.
  - 2.1.13.9. Accounting of all expenditures under the Sub-Projects and maintenance of documentary evidence to these expenditures.
  - 2.1.13.10. Preparation of progress and completion financial reports.
  - 2.1.13.11. Ensuring transparency of Sub-Grant implementation.
  - 2.1.13.12. Reporting to Community about the implementation results of the grant obtained from MSIF.

2.1.14. Financial management of a SCS Project is primary responsibility of the LG, representing the Community, and includes:

- 2.1.14.1. Preparations of project plan and project budget as part of the Sub-Grant Application.
- 2.1.14.2. Development, with MSIF technical assistance, of estimates for the SCS Project included in the Sub-Grant Application.
- 2.1.14.3. Collection of community contribution.
- 2.1.14.4. Not allowing any changes or amendments to the SCS Project implementation and its cost structure, technical and material specifications, without MSIF authorization.
- 2.1.14.5. Not using of the allocated means for the SCS Project for other activities not specified in the Sub-Grant Agreement, without MSIF authorization.
- 2.1.14.6. Operating and maintenance of bank accounts.
- 2.1.14.7. Effecting the payments under contracts for goods, works and consulting services.
- 2.1.14.8. Keeping the accounting records in conformity with the Republic of Moldova legislation, donor countries' and World Bank requirements.
- 2.1.14.9. Accounting of all expenditures under the project and maintenance of documentary evidence to these expenditures.
- 2.1.14.10. Preparation of progress and completion financial reports.
- 2.1.14.11. Ensuring transparency of Sub-Grant implementation.
- 2.1.14.12. Reporting to Community about the implementation results of the grant obtained from MSIF.

2.1.15. The LG specific contribution to a SCS Project includes:

- 2.1.15.1. Take on the Social Services Center at its balance and keep it out from privatization for at least 15 years.
- 2.1.15.2. Take on its balance sheet the goods such as equipment, furniture, acquired for the Social Services Center and undertake the commitment to use them in accordance with their destination.
- 2.1.15.3. Cover the operational costs of the Social Services Center for at least 3 years.
- 2.1.15.4. Cover the Social Services Center staff remuneration.

2.1.16. Financial management of a ST Project is primary responsibility of the LG, representing the Community, and includes:

- 2.1.16.1. Preparations of project plan and project budget as part of the Sub-Grant Application.
- 2.1.16.2. Development, with MSIF technical assistance, of estimates for the ST Project included in the Sub-Grant Application.

- 2.1.16.3. Collection of Community contribution.
  - 2.1.16.4. Not allowing any changes or amendments to the ST Project implementation and its cost structure, technical and material specifications, without MSIF authorization.
  - 2.1.16.5. Not using of the allocated means for the ST Project for other activities not specified in the Sub-Grant Agreement, without MSIF authorization.
  - 2.1.16.6. Operating and maintenance of an extra-budget treasury account.
  - 2.1.16.7. Effecting the payments under contracts for goods, works and consulting services.
  - 2.1.16.8. Keeping the accounting records in conformity with the Republic of Moldova legislation, donor countries' and World Bank requirements.
  - 2.1.16.9. Accounting of all expenditures under the project and maintenance of documentary evidence to these expenditures.
  - 2.1.16.10. Preparation of progress and completion financial reports.
  - 2.1.16.11. Ensuring transparency of Sub-Grant implementation.
  - 2.1.16.12. Reporting to Community about the implementation results of the grant obtained from MSIF.
- 2.1.17. MSIF will train CBO, NGO and LG representatives in issues related to financial management, ensuring project implementation accountability and transparency.

## **2.2. Planning**

### **2.2.1. MSIF**

- 2.2.1.1. MSIF goal as a public autonomous organization is to contribute to the implementation of Moldova's Economic Growth and Poverty Reduction Strategy by empowering poor communities and vulnerable population groups to manage their priority development needs through:
  - 2.2.1.1.1. Development of the capacity of community institutions to provide quality basic social and economic services.
  - 2.2.1.1.2. Strengthening social capital.
  - 2.2.1.1.3. Establishing regular feedback mechanism to reflect their experience in the changing national policies.
- 2.2.1.2. MSIF activities for the achievement of this goal are described fully in MSIF2 Operational Manual.
- 2.2.1.3. MSIF will prepare Project Implementation Plan (PIP) to be agreed with the WB. PIP will contain the following elements:
  - 2.2.1.3.1. Time-bound detailed implementation plan for each project component with a detailed breakdown per activity.

2.2.1.3.2. Schedule of disbursements for each project component, detailing expected WB financing, GOM counterpart funds, community contribution and donor's contributions.

2.2.1.3.3. Administrative arrangements for project implementation.

2.2.1.4. PIP will be revised on a yearly basis to reflect the actual status of MSIF2 project implementation.

2.2.1.5. PIP shall be the control and guiding tool in financial operations of the MSIF.

## **2.2.2. CBO**

2.2.2.1. The community in the village will develop a 5-year Strategic Plan for social economic development to be discussed in focus groups and at the General Community Meeting and approved by the Mayoralty Council.

2.2.2.1.1. The Strategic Plan will include the following strategic directions: economic, social, cultural, ecologic. For each direction there will be developed a number of activities in time, as well as their preliminary estimated costs and possible financial sources.

2.2.2.1.2. The Strategic Plan will be correlated to the possible extent with the LG's budget and will be largely oriented towards the efficient use of financial, material resources and local human potential.

2.2.2.2. Having adopted the Strategic Plan, the Community will select CDD Sub-Projects to be included in the Sub-Grant Application (at least 2 CDD Sub-Projects will be selected) to be approved by the General Meeting.

2.2.2.3. CBO will prepare Annual Work Plan for each year of operation.

2.2.2.3.1. The Annual Work Plan must indicate the subprojects to be implemented in the year and must be the basis of the CDD Sub-Projects Budget to be approved at the General Meeting of the Community and to be included in the Sub-Grant Application.

2.2.2.3.2. The Annual Work Plan shall be the control and guiding tool in financial operations of the CBO.

## **2.2.3. NGO**

2.2.3.1. LG will evaluate the Community social needs and identify the target groups for SCS Projects.

2.2.3.2. MSIF will select NGO to implement the SCS Project.

- 2.2.3.3. MSIF consultants in Community development (technical and social issues) will facilitate the NGO and LG in preparing the Sub-Grant Application for obtaining financial resources from MSIF. In the process of participative evaluation of the technical design, the NGO with MSIF technical assistance will meliorate the center plan of activities.
- 2.2.3.4. After developing the estimated budget of the Sub-Grant Application and the Sub-Grant implementation plan, the NGO with LG representatives will defend the Sub-Grant Application at the MSIF Executive Committee.

#### **2.2.4. LG**

- 2.2.4.1. The Community in the small town will develop a 5-year Strategic Plan for social economic development to be discussed in focus groups and at the Representative Meeting and approved by the Primaria.
  - 2.2.4.1.1. The Strategic Plan will include the following strategic directions: economic, social, cultural, ecologic. For each direction there will be developed a number of activities in time, as well as their preliminary estimated costs and possible financial sources.
  - 2.2.4.1.2. The Strategic Plan will be correlated to the possible extent with the LG's budget and will be largely oriented towards the efficient use of financial, material resources and local human potential.
- 2.2.4.2. Having adopted the Strategic Plan, the Community will select ST Sub-Projects to be included in the Sub-Grant Application (at least 2 ST Sub-Projects will be selected) to be approved by the Representative Meeting.
- 2.2.4.3. LG will prepare Annual Work Plan for each year of operation.
  - 2.2.4.3.1. The Annual Work Plan must indicate the ST Sub-Projects to be implemented in the year and must be the basis of the ST Sub-Projects Budget to be approved at the Representative Meeting of the Community and to be included in the Sub-Grant Application.
  - 2.2.4.3.2. The Annual Work Plan shall be the control and guiding tool in financial operations of the LG.

### **2.3. Budgeting**

#### **2.3.1. MSIF**

- 2.3.1.1. Budget is the presentation in financial format of MSIF goal and its activities for the achievement of this goal as described fully in the Project Implementation Plan.

- 2.3.1.2. The annual MSIF budget is approved by NSC and Ministry of Finance at the beginning of each fiscal year. The fiscal year is considered from January 1 till December 31.
- 2.3.1.3. Expenditure categories and nature of activities for every funding source specified in MSIF's budget are fixed in the legal documents, signed by WB and foreign donors and GOM.
  - 2.3.1.3.1. FAD compares frequently actual expenditures to the budget, and explanations for significant variations from the budget are produced on a semiannually basis.
  - 2.3.1.3.2. Changes to the categories, nature of activities, and any reallocation between categories and nature of activities are subject to approvals by WB and donors, which are documented either in a form of contract modification or "no objection" written communication from the Task Leader of the project.
- 2.3.1.4. Based on the annual budget, the FAD in cooperation with all MSIF's departments coordinates the preparation of the quarterly budget.
- 2.3.1.5. MSIF integrates two methods of budgeting: the line item budgeting and zero-based budgeting.
  - 2.3.1.5.1. Line item budget lists the source of revenue and categories of expenses.
  - 2.3.1.5.2. Zero-base budgeting is a method of reviewing either all or a selected number of area of organizational activity for the purposes of reallocating resources to improve operational effectiveness. It is the method of justification of every expenses and revenue.
- 2.3.1.6. MSIF2 plans and budgets of project activities must be realistic and based on valid assumptions.
- 2.3.1.7. Government's annual cash contribution to implementation of MSIF 2 Project is subject to approval by the Ministry of Finance.

### **2.3.2. CBO/NGO/LG**

- 2.3.2.1. The CDD/SCS/ST Project Budget to be approved by the General Meeting of the Community and to be included in the Sub-Grant Application must show sources of revenue and applications.
- 2.3.2.2. CDD/SCS/ST Project plans and budgets of project activities shall be realistic and based on valid assumptions.
- 2.3.2.3. All financial transactions shall conform to the provisions of the Annual Work Plan and the CDD/SCS/ST Project Budget.

- 2.3.2.4. Activities shall be financed on the basis of available funds from the approved budget less expenditure incurred to date for each item. Budgeted amount for any activity must not be exceeded.
- 2.3.2.5. The costs by budget items may differ from the initial values but only if the deviation has no impact on the project major objective.
- 2.3.2.6. Any changes in the CDD/SCS/ST Project Budget are subject of the MSIF approval.
- 2.3.2.7. The CBO/NGO/LG first must submit a written request to MSIF and the change to be formulated as an annex to the Sub-Grant Agreement.

### **2.3.3. Sources of Funding**

#### 2.3.3.1. Subprojects, CDD Projects, SCS Projects, ST Projects

- 2.3.3.1.1. All implementation activities under Subprojects, CDD Projects, SCS Projects and ST Projects will be funded by IDA Credit under the terms and conditions of the Credit Agreement between the Republic of Moldova and the World Bank and by Grants from different donors under the terms and conditions of Grant Agreements.

#### 2.3.3.2. Community Contribution

- 2.3.3.2.1. The Community contribution could be done in the following forms:
  - 2.3.3.2.1.1. Investments in kind, including investments in the form of construction materials and equipment offered by the Community.
  - 2.3.3.2.1.2. Financial investments, including financial resources from the population of the whole Community (at least 20% of the investment cost) and larger investments from wealthier members of the Community.
  - 2.3.3.2.1.3. Larger investment from Communities will be encouraged. Any organization or the local government can contribute to the subproject on behalf of the beneficiary or applying Community.

#### 2.3.3.2.2. Community Contribution in Subprojects

- 2.3.3.2.2.1. The Community has to contribute at least 15% of the total cost of Subproject under the terms and conditions of the Grant Agreement between MSIF, LG and IA.

2.3.3.2.2. At least 20% of the Community investment should be collected in money from the beneficiaries themselves – for social infrastructure objects and 50% – for social-economic infrastructure objects.

2.3.3.2.3. IA will cover 100% of the operational costs of Subproject implementation.

2.3.3.2.3. Community Contribution in CDD Projects

2.3.3.2.3.1. The Community has to contribute at least 30% of the total cost of CDD Sub-Projects under the terms and conditions of the Sub-Grant Agreement between MSIF, LG and CBO.

2.3.3.2.3.2. At least 20% of the Community investment should be collected in money from the beneficiaries themselves – for social infrastructure objects and 50% – for social-economic infrastructure objects.

2.3.3.2.3.3. 5% of the Sub-Grant will be used to cover the operational costs of the Sub-Grant implementation.

2.3.3.2.4. Community Contribution in ST Projects

2.3.3.2.4.1. The Community has to contribute at least 15% of the total cost of Subproject under the terms and conditions of the Sub-Grant Agreement between MSIF LG and management committee.

2.3.3.2.4.2. At least 20% of the Community investment should be collected in money from the beneficiaries themselves – for social infrastructure objects and 50% – for social-economic infrastructure objects.

2.3.3.2.4.3. LG will cover 100% of the operational costs of the Sub-Grant implementation.

2.3.3.2.5. Community Contribution in SCS Projects

2.3.3.2.5.1. SCS Project related to creation of community services for disadvantaged groups will require Community contribution of no less than 3% of the investment costs under the terms and conditions of the Sub-Grant Agreement between MSIF and LG.

2.3.3.2.5.2. All 3% of the Community contribution will be cash money.

2.3.3.2.5.3. LG will cover 100% of the operational costs of the Sub-Grant implementation.

#### **2.3.4. Eligibility of Costs**

- 2.3.4.1. In order to be acknowledged as admissible within the context of the MSIF2 project, the costs must be:
  - 2.3.4.1.1. Needed for the project implementation, provided for by the Credit and Grant/Sub-Grant Agreements and compatible with the principles of quality financial management and more specifically with the principles of justification of invested funds and efficient expenses.
  - 2.3.4.1.2. Made throughout the project implementation and after signing the Credit and/or Grant/Sub-Grant Agreements.
  - 2.3.4.1.3. Actually incurred, recorded in the financial documents, accountable and checked, supported by original documents proving the expenditure.

### **2.4. Financial Management Information System**

#### **2.4.1. Accounting System**

- 2.4.1.1. Due to the complexity of the MSIF2 Project with various funding sources and the different reporting requirements, the record keeping of the project accounts is automated using local currency based accounting system 1C Accounting (1C).
- 2.4.1.2. MSIF enters in 1C data about daily bank and cash transactions, recurring entries such as depreciation, prepayments and expenses, and other entries required by Moldova National Accounting Law (MNAL).
  - 2.4.1.2.1. 1C produces the necessary bank payment and transfer order forms for each bank withdrawal, balance sheet, bank account journals, petty cash journal, salary journal, employee payroll records, and other subsidiary ledgers and accounting records required by MNAL.
  - 2.4.1.2.2. The books are maintained in Moldovan LEU (MDL) and are the basis for the quarterly financial reporting to GOM.
- 2.4.1.3. All accounting entries posted in 1C are automatically copied to a holding tank in the MSIF server.
  - 2.4.1.3.1. Each record transferred includes transaction date, code for type of transaction, record number, account number debited and credited, payee, payment or transfer order number, local currency amount, exchange rate, hard currency equivalent, brief description of the transaction.

2.4.1.3.2. The 1C System is producing FMRs: the financial management reports required by the World Bank. The reports are produced in the currency of the Credit or Grant. In the attachment no.2 are presented the reports 1A and 1B for IDA 3931.

#### **2.4.2. Budget and Commitment System**

2.4.2.1. The budget for each funding source is entered in 1C System by its credit and grant agreement category and also by budget component details.

2.4.2.2. Details of budget for every SP/CDD/SCS/ST Project are maintained in the MIS, which tracks down the projects committed and the status of each project.

#### **2.4.3. Links between the Accounting Systems and MIS**

2.4.3.1. 1C and MIS interact during the implementation stage of every SP/CDD/SCS/ST Project.

2.4.3.2. All the information concerning contractor's selection process, the cost estimate, the SP/CDD/SCS/ST implementation contracts, bank guarantee for advance (the amount and the date of expiration), the SP/CDD/SCS/ST budget and all supplements to the budget, SAWs, the SP/CDD/SCS/ST payments, the coefficient of accomplish works, is introduced into MIS and reflected in 1C.

#### **2.4.4. Chart of Accounts**

2.4.4.1. MSIF Chart of Accounts (COA) is codified to facilitate accumulation of accounts by type, loan category, budget grouping and funding source.

2.4.4.1.1. First 4 digits of the account is based on GOM's NASs:

1XXX - 3XXX	– Asset
4XXX	– Funding Source
5XXX	– Liabilities
7XXX	– Expenses, PPF refinancing

2.4.4.1.2. Next 2 digits of the account are used to determine the budget and disbursements by loan or grant category as per Agreements.

1X	– Goods
2X	– Civil Works
3X	– Technical Assistance and Training
4X	– Recurrent Cost
5X	– Unallocated (for budget purposes only)
6X	– Microprojects Part A (2) / Grant Agreement for Part A (2)

- 7X – Microprojects Part A (1) /  
Grant Agreement for Part A (1)
- 8X – Refinancing PPF
- 9X – Grants

2.4.4.1.3. Next 3 digits of the account categorize the budget and disbursements by the nature of activities (by project components and subcomponents) as prescribed by the Credit and Sub-Grant Agreements.

2.4.4.1.4. Last 2 digits of the account is the funding code of the receipts and disbursements:

2.4.4.2. COA of MSIF is annexed to this Handbook.

## 2.5. Financial Reporting

### 2.5.1. MSIF

2.5.1.1. Monthly Reports for MSIF Directors and NSC on:

- (i) Statement of sources and uses of funds
- (ii) Cost variance
- (iii) Contract commitments
- (iv) Status of Subprojects  
Provides narrative discussion of Subprojects developments and progress during the reporting period
- (v) Status of CDD Sub-Projects  
Provides narrative discussion of CDD Sub-Projects developments and progress during the reporting period
- (vi) Status of Social Care Services Projects  
Provides narrative discussion of SCS Projects developments and progress during the reporting period.
- (vii) Status of Small Town Sub-Projects  
Provides narrative discussion of ST Sub-Projects developments and progress during the reporting period.

2.5.1.2. Quarterly Reports for GOM, consisting of:

- (i) Balance sheet
- (ii) Cash flow
- (iii) Profit and Loss
- (iv) Physical Progress Report  
Provides narrative information and output indicators linking financial information with physical progress, including identifying

deviations from plan and explaining reasons for such variations and highlight issues that require attention

- (v) Report on training of core staff
- (vi) Fiscal reports

2.5.1.3. Quarterly Reports for WB, consisting of:

- (i) Summary of sources and uses of funds
- (ii) Cost Variance Report
- (iii) Special Account Statement
- (iv) Expenditures by Disbursement Category
- (v) Procurement Report

Provides information on the status of the procurement of goods, works and services and selection of consultants and on compliance with agreed procurement methods. The report compares the procurement performance against the plan and highlight key procurement issues. The report includes also information on all authorized contract variations and information on complaints by bidders, unsatisfactory performance by contractors and any major contractual disputes.

- (vi) Project Progress Report

Provides narrative information and output indicators linking financial information with physical progress, including identifying deviations from plan and explaining reasons for such variations and highlight issues that require attention

**2.5.2. IA**

2.5.2.1. Monthly Reports for MSIF on:

- (i) Cost variance
- (ii) Contract commitments
- (iii) SP/SCS Progress Report

2.5.2.2. Final report on the works accomplishment accompanied by the final Report of the Completed Works.

**2.5.3. CBO/NGO/LG**

2.5.3.1. Monthly Reports for MSIF on:

- (i) Grant account reconciliation statement
- (ii) Statement of expenditures
- (iii) Contract commitments
- (iv) CDD/ST Project Progress Report

2.5.3.2. When the total amount of the grant is spent, the CBO/NGO/LG must call a Community meeting where it will present its Sub-Grant Financial

Report, which provides details of funds received from MSIF, expenditures incurred by category, and the balance of funds, as well and supporting documentation.

2.5.3.2.1. These must be available for inspection by any interested member of the Community during the meeting.

2.5.3.2.2. Minutes and attendance records of these meetings must be kept.

## **2.6. Auditing**

### **2.6.1. MSIF2 Project Audit**

2.6.1.1. The audit of MSIF2 Project will be performed annually by independent international auditors acceptable to the WB.

2.6.1.2. The audit will be conducted in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants.

2.6.1.3. The objective of the audit is to enable the auditor to express an opinion on the financial statements of the MSIF2 Project for the fiscal year then ending as reported in the Project Financial Statements.

2.6.1.4. In conducting the audit, special attention shall be paid to the following:

2.6.1.4.1. External funds have been used in accordance with the conditions of the Credit/Grant Agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided.

2.6.1.4.2. Counterpart funds have been provided and used in accordance with the Credit Agreement, Grant Agreements, and only for the purposes for which they were provided.

2.6.1.4.3. Goods and services financed have been procured in accordance with the Credit Agreement and Grant Agreements;

2.6.1.4.4. Necessary supporting documents, records, and accounts have been kept in respect of all project ventures including expenditures reported via Statement of Expenditures, or Special Accounts. Clear linkages should exist between the accounting records and the financial reports presented to the Bank.

2.6.1.4.5. The Special Account has been maintained in accordance with the provisions of the relevant Credit or Grant Agreement.

2.6.1.4.6. The Project Financial Statements have been prepared in accordance with generally accepted accounting principles

and practices, and give a true and fair view of the financial position of the MSIF2 Project for the fiscal year.

- 2.6.1.5. The financial reports, including the audit opinion, and management letter should be received by MSIF no later than five months after the end of the audited fiscal year. MSIF shall then promptly forward one copy of the audited financial statements (including audit opinion) and management letter to the WB.

**2.6.2. CDD/ST Project Audit**

- 2.6.2.1. A financial auditor, assigned by MSIF, will audit each CDD/ST Project.
- 2.6.2.2. The audit will take place before every new tranche disbursed from MSIF, based on a request from the CBO/NGO/LG.
- 2.6.2.3. The report of the local Financial Auditor on Sub-Grant's financial situation is prepared on the basis of payment documents verification.
- 2.6.2.4. Before making the last disbursement, the Financial Auditor will conduct a revision of the financial resources allotted for the Community Sub-Grant to see if there are any unused financial resources and in order to do the transfer in strict conformity with the de facto expenses. If during the implementation of the last installment some financial means are saved they will be at the disposal of the CBO/NGO/LG for further implementation of the Community Strategic Plan.
- 2.6.2.5. Before Sub-Grant closure, the Financial Auditor will submit to MSIF a final report, which confirms that:
  - 2.6.2.5.1. All the granted amounts have been used according to their destination stated in the Sub-Grant Agreement,
  - 2.6.2.5.2. The unspent amounts after the last installment will remain on the CBO's/NGO's/LG's account and will be used for development or sustainability of the projects.

## Chapter 3. Financial Procedures

### 3.1. Credit Agreement

- 3.1.1. GOM has entered into a Credit Agreement with IDA for the implementation of MSIF2 Project.
- 3.1.2. The Credit Agreement outlines the agreed financial procedures and specifies the terms and conditions under which the proceeds of the Credit may be used.
- 3.1.3. The financial covenants of the Credit Agreement require MSIF to:
  - 3.1.3.1. Establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the WB, adequate to reflect the operations, resources and expenditures for in connection with the carrying out of the project.
  - 3.1.3.2. Furnish to the WB as soon as available, but in any case not later than 6 months after the end of each fiscal year an independent opinion on financial statements, records and accounts and a report of such audit, adequate to reflect the operations, resources and expenditures for in connection with the carrying out of the project.
- 3.1.4. Schedule 1 (Withdrawal of the Proceeds of the Credit) sets forth the categories of items to be financed out of the proceeds of the credit, the allocation of amounts to each category and the percentage of expenditures to items to be financed in each category.

### 3.2. Taxes

- 3.2.1. According to the Agreement between the WB and the GOM, all WB projects are exempted of taxes collected on the territory of Moldova.
- 3.2.2. Based on this Agreement and on the legal documents in force signed for each grant or credit, the GOM issues a Decree each year regarding the list of loans and grants offered to the GOM, which are free of VAT, custom duty and payment for customs procedures.
- 3.2.3. Accordingly to the Law # 132-XV, dated March 20, 2003, all the goods and services designated for the implementation of MSIF sub-projects are to be delivered / rendered with application of zero VAT.
- 3.2.4. Income tax for MSIF 2 personnel and for long-term consultants according to the Organizational Chart is paid from the Government contribution to the project. The social, pension and medical charges are paid in conformity with the Credit and Grant Agreements.

### 3.3. Local/Foreign Currency

- 3.3.1. In accordance with National Bank's regulations and instructions, payments to residents are carried out in MDL.
- 3.3.2. MSIF calculates the foreign currency equivalent of the withdrawals from bank accounts for the conversion of foreign currency to local currency using the commercial rates.
- 3.3.3. The calculated amount is withdrawn from MSIF Foreign Currency Bank Accounts using a currency sales order form containing the same information as the payment order form.
- 3.3.4. FAD enters additional data in the currency sales order form such as the amount of the foreign currency sold and the exchange rate.
- 3.3.5. For the calculation of MSIF consultants' salaries paid from sources which currency is other than USD, the official BNM exchange rate MDL/USD is used for the day when the calculation is made, if not otherwise stipulated in the contract.

### 3.4. Replenishment of Special Account

- 3.4.1. MIF expenditures are reimbursed through the replenishment of the Special Accounts according to WB standard disbursement procedures.
- 3.4.2. The complete package of every withdrawal application has to be approved by the MSIF Executive Director before submission to the Loan Department of WB. It consist of:
  - 3.4.2.1. Application for Withdrawal for the amount required, where bank requisites and the number of the Special Account are indicated (see annex no. 3).
  - 3.4.2.2. Statement of Expenditure (SOE) – a summary sheet indicating MSIF expenses according to category. SOE is a special B form for all expenses made by MSIF. It contains the following information:
    - (i) information concerning the contractor;
    - (ii) number and date of contract or other payment order;
    - (iii) brief description of the disbursement made from the Special Account;
    - (iv) currency and total amount on the payment order;
    - (v) amount to be paid;
    - (vi) percentage reimbursed by the WB;
    - (vii) amount paid from the Special Account;
    - (viii) date of payment;

- (ix) comment on disbursement.
- 3.4.2.3. Special Account Reconciliation Statement (see annex no. 4) – the advance amount paid by the WB, the Special Account's balance on the day of completing the SOE, the amount spent and the amounts on other accounts are to be completed.
- 3.4.2.4. Copy of the bank statement of the Special Account on the day of completing the SOE.
- 3.4.3. Upon approval by the WB Loan Department, the total amount requested is deposited directly to MSIF's Special Account.
- 3.4.4. The WB does not reimburse the required amount into the Special Account in the following cases:
  - 3.4.4.1. If there are errors in completing the forms.
  - 3.4.4.2. If disbursements do not correspond to the expenditure categories, established in the legal documents.
  - 3.4.4.3. If the balance of the Special Account, indicated in the Special Account Reconciliation Statement and the bank statement copy do not correspond.
- 3.4.5. Expenditures not clear to the WB will be deducted from the payment requested. These items will require reclaiming in another application with the documentation requested by WB.
- 3.4.6. To avoid the most common delays in disbursement it is important to follow carefully the next instructions:
  - 3.4.6.1. Design internal procedures which will provide prompt access to funds;
  - 3.4.6.2. Forward copies of contracts to the Bank's task manager promptly, as soon as they are signed;
  - 3.4.6.3. Cite the date of the Bank's "no objection" notice for the contracts above, the procurement prior review limits specified in the loan agreement;
  - 3.4.6.4. Make sure that the applications are signed by authorized officials. Be sure to advise the bank on changes in authorized signatures;
  - 3.4.6.5. Be sure to identify completely the currency of payment;
  - 3.4.6.6. Include complete payment instructions;
  - 3.4.6.7. Ensure consistency between the information on the application and on the supporting documents;
  - 3.4.6.8. Include all necessary supporting documents;

- 3.4.6.9. Include adequately reconciled bank statements to support the request for replenishment of special accounts;
- 3.4.6.10. Initiate timely actions to reallocate funds between categories, or to extend the loan closing dates where necessary.
- 3.4.7. Direct Payments – Payments of foreign expenditures exceeding the threshold amount set forth in the Credit Agreement can be made directly to the contractor, supplier or consulting company. The WB will not process these payments without the required Application of Withdrawal submitted by MSIF.
- 3.4.8. Reimbursement of payments already made by MSIF from community resources or other funds. MSIF may pay the bills from the community contribution account and send a withdrawal application to the WB for reimbursement of the expenditures made. The WB is repaying the funds in MDL to the community contribution account. It is very important to send to the WB an evidence of payment and that the expenditures have been made.

### **3.5. Grant Agreement**

- 3.5.1. MSIF will enter into a Grant Agreement with the IA and LG for the implementation of the respective Subproject.
- 3.5.2. The Grant Agreement will consist of:
  - The SP cost
  - Procurement and Sub-contracting
  - Procedure for payment
  - Responsibilities and obligations of the IA
  - Responsibilities and obligations of the LG
  - Responsibilities and obligations of the MSIF
  - Assignment of Inspector
  - Hand over and acceptance of works
  - Amendments to the Agreement
  - Cancellation and denunciation of the Agreement
  - Conflict resolution
  - Special conditions
- 3.5.3. The Framework Agreement will have 5 Supplements:
  - Supplement 1 (the SP Budget),
  - Supplement 2 (Technical Specifications), and
  - Supplement 3 (the Schedule of Works)
  - Supplement 4 (the Bidding Documents)
  - Supplement 5 (the Terms of Reference for the Inspector)
- 3.5.4. The Grant Agreement will be signed by the MSIF Executive Director, the Mayor and the IA's chairperson.

### **3.6. Sub-Grant Agreement**

- 3.6.1. MSIF will enter into a Sub-Grant Agreement with the CBO/NGO/LG for the implementation of a grant for the respective CDD/SCS/ST Project.
- 3.6.2. The Sub-Grant Agreement will consist of:
  - The Sub-Grant amount
  - Procurement and Sub-contracting
  - Procedure for payment
  - Responsibilities and obligations of the CBO/NGO/LG
  - Responsibilities and obligations of the MSIF
  - Hand Over of the renovated objects. Financial and administrative closure of the Sub-Grant Agreement
  - Variation to the Sub-Grant Agreement
  - Termination or dissolution of Sub-Grant Agreement
  - Dispute resolution
  - Special terms
- 3.6.3. The Sub-Grant Agreement will have 3 Supplements:
  - Supplement 1 (the Budget),
  - Supplement 2 (Drawings and Technical Specifications), and
  - Supplement 3 (the Schedule of Works)
- 3.6.4. The Sub-Grant Agreement will be signed by the MSIF Executive Director and the CBO's/NGO's/LG's authorized representative.
- 3.6.5. The Sub-Grant Agreement will outline the agreed financial procedures and will specify the terms and conditions under which the Sub-Grant funds may be used.

### **3.7. Sub-Grant Closure**

- 3.7.1. The closure of a Sub-Grant will be in three steps: a) preliminary and final handover of the renovated objects supported by MSIF, b) financial closure of the Sub-Grant, c) transfer of the invested object from the balance of the CBO/NGO on the balance of the LG.
- 3.7.2. The financial-administrative closure of the Sub-Grant will be done by re-allocating the remaining amounts after the disbursement of the last installment; bringing to MSIF the copy of the extract from the bank account with a zero balance, and the current and final financial statement, bringing up to date the sustainability plan of the renovated facilities with an indication of concrete sources of funding the activities included in the plan.
- 3.7.3. After the final handover of the renovated facilities and the financial closure of the Sub-Grant, the invested amounts will be transferred from the CBO's/NGO's balance on the LG's balance.



## Chapter 4. Accounting Policy

### 4.1. General

- 4.1.1. All accounting procedures to be followed shall comply with the guidelines provided in the MSIF Operational Manual and shall be executed in conformity with the Credit and Sub-Grant Agreements.
- 4.1.2. To guarantee the Community commitment and accountability, CBO/NGO/LG shall keep regular and precise record about the Sub-Grant implementation and shall also maintain in a separate record a full financial and accounting report.
  - 4.1.2.1. CBO/NGO/LG shall store the project documents within a course of two years after the final payment is accomplished.
  - 4.1.2.2. Copies of all financial documentation under the Sub-Grant shall be sent to MSIF once a month.
- 4.1.3. MSIF 2 flow of funds chart is annexed to this Handbook.

### 4.2. Bank Accounts

#### 4.2.1. MSIF

- 4.2.1.1. MSIF maintains three types of bank accounts to ensure proper disbursements from various funding source during the project implementation. In the annex no. 5 is presented the detailed information about MSIF bank accounts, commercial bank and persons authorized to sign payments.
  - 4.2.1.1.1. Foreign Currency Accounts (Special Accounts) held in local commercial bank.
    - (a) Special Accounts are maintained for each outside funding source.
    - (b) The accounts are used to accept receipts from WB and other donors, and to pay to foreign consultants and suppliers in case if payments have to be done in hard currency.
  - 4.2.1.1.2. Local Currency Accounts held in local commercial bank.
    - (a) The foreign currency equivalent of local costs paid is transferred from the Special Accounts to the respective Local Currency Accounts.
    - (b) Local currency accounts are maintained for each outside funding source to pay in MDL:
      - (i) payments to contractors and suppliers,

- (ii) grant funds transfer in tranches to a beneficiary implementing a CDD/ST Project,
    - (iii) employees, and
    - (iv) other local costs.
  - (c) MSIF also has local currency accounts for community contribution funds, deposit accounts, other.
  - (d) MSIF will open a special account in MDL on which will accrue interest from the MDL and USD accounts calculated to the accounts' balances of the implemented grants or credits. The interest accrued on this accounts shall be transferred, according to art. 3.1.2 (d) of the Implementation Agreement signed by the Ministry of Finance and MSIF, on a treasury account with special destination. The resources accumulated on the named account shall be subsequently transferred on the MSIF account for project implementation as government contribution.
- 4.2.1.1.3. Local Currency Account held in Chisinau Treasury.
- (a) This account is used to channel GOM counterpart funding of MSIF2 as cash contribution
  - (b) Disbursements to MSIF special account opened in a commercial bank for administrating the GOM contribution are made on the same day the cash contribution is received. Thus, the daily balance of the account is always zeroing.
- 4.2.1.2. The banking system of Moldova requires two days for making transfer to the payee's bank account upon presentation of a payment order or bank transfer order.
- 4.2.1.2.1. Payment and bank transfer orders are automated in the 1C accounting system, which results in accounting entries in the general ledgers.
- 4.2.1.3. The negative exchange differences accumulated on the special accounts shall be covered from the government contribution approved for the respective year.
- 4.2.1.4. The interests calculated on the Communities contribution account, KfW Contribution, contributions from other sources shall be accrued on the respective accounts and shall be used for project implementation. The interest accrued on the communities contribution accounts shall be used according to a decision of the MSIF National Board or MSIF Executive Committee as required.
- 4.2.1.5. MSIF will open a special MDL account to accumulate the money received from the tender participants for bidding documents

packages. The amounts accrued on this account will be used for project implementation and for the preparation of bidding documents packages.

#### **4.2.2. CBO/NGO**

4.2.2.1. CBO/NGO shall maintain two types of bank accounts to ensure proper funding and disbursements during the CDD Project implementation.

##### 4.2.2.1.1. Sub-Grant Account.

- (a) CBO/NGO shall open a local currency account in a commercial bank, acceptable to MSIF.
- (b) Sub-Grant Account is maintained for Sub-Grant funds transfer to a CDD Project against Request for Tranche (RFT) in MDL.
- (c) Sub-Grant Account is used to pay suppliers, contractors and consultants in MDL in proportion of eligible percent indicated in the Sub-Grant Agreement.
- (d) The Sub-Grant funds transferred by MSIF to Sub-Grant Account will be constituted from MSIF contribution and community contribution.

##### 4.2.2.1.2. Administrative Account.

- (a) CBO/NGO shall open a local currency account in a commercial bank.
- (b) Administrative Account is maintained to cover CBO/NGO operating (administrative) costs, which are not part of the project costs, in MDL.
- (c) Administrative Account is also maintained to collect Community contributions in MDL. The community contribution collected on Administrative Account is to be transferred to MSIF community contribution account. The community contribution funds will be received by community on Sub Grant Account as part of grant.

#### **4.2.3. LG**

4.2.3.1. LG shall maintain an Extra-Budget Treasury Account to ensure proper funding and disbursements during the ST Projects implementation.

4.2.3.1.1. Extra-Budget Treasury Account is maintained for Sub-Grant funds transfer to a ST Project against RFT in MDL.

- 4.2.3.1.2. Extra-Budget Treasury Account is used to pay suppliers, contractors and consultants in MDL in proportion of eligible percent indicated in the Sub-Grant Agreement.

### **4.3. Cash Withdraw**

#### **4.3.1. General**

- 4.3.1.1. In order to withdraw cash from an account it is necessary to complete the receipt from the receipt book, indicating the purpose of carrying out that operation, the amount, and the date of completing the receipt.
- 4.3.1.2. Persons indicated in the signature samples sign the receipt.
- 4.3.1.3. The accountant-cashier is responsible for keeping, using and accounting for cash.

#### **4.3.2. MSIF**

- 4.3.2.1. MSIF makes cash withdraws from its Local Currency Bank Accounts for the following disbursements:
  - 4.3.2.1.1. MSIF main staff remuneration.
  - 4.3.2.1.2. Advance payments for staff's and local consultants' business trips.
  - 4.3.2.1.3. Small payment for goods or services to local suppliers.
- 4.3.2.2. Records of cash operations are kept in the following books and forms:
  - 4.3.2.2.1. Cashbook. Each page of the cashbook contains the following information:
    - (i) the date
    - (ii) number of the document
    - (iii) description of operation
    - (iv) balance at the beginning of the day
    - (v) cashing
    - (vi) disbursements (payments)
    - (vii) cashing and payments in all
    - (viii) balance at the end of the day
    - (ix) number of cashing/payment documents received and checked, written with letters

The chief-accountant signs the cashbook.

### **4.3.3. CBO/NGO**

- 4.3.3.1. CBO makes cash withdraws from its Sub-Grant Account for the following disbursements:
  - 4.3.3.1.1. CBO staff remuneration.
  - 4.3.3.1.2. Remuneration of local consultants.
  - 4.3.3.1.3. Advance payments for staff's and local consultants' business trips.
  - 4.3.3.1.4. Small payment for goods or services to local suppliers.
  - 4.3.3.1.5. Other operational expenses.
- 4.3.3.2. Payments will be made only against invoices and for all cash payments, payees must sign a petty cash voucher.
- 4.3.3.3. Payment order will be completed for payment of cash and it indicates the number of the payment order, the date of the operation and of the cash receipt by the beneficiary, beneficiary's name, the basis for making the payment, and data from the beneficiary's invoice and/or identity card. The accountant, confirming that money was paid and received by the beneficiary will sign this document.

### **4.3.4. LG**

- 4.3.4.1. LG makes cash withdraws from its Extra-Budget Treasury Account for the following disbursements:
  - 4.3.4.1.1. Remuneration of local consultants.
  - 4.3.4.1.2. Small payment for goods or services to local suppliers.
  - 4.3.4.1.3. Other operational expenses.
- 4.3.4.2. Payments will be made only against invoices and for all cash payments, payees must sign a petty cash voucher.
- 4.3.4.3. Payment order will be completed for payment of cash and it indicates the number of the payment order, the date of the operation and of the cash receipt by the beneficiary, beneficiary's name, the basis for making the payment, and data from the beneficiary's invoice and/or identity card. The accountant, confirming that money was paid and received by the beneficiary will sign this document.

## **4.4. Bank Transfers**

### **4.4.1. General**

- 4.4.1.1. Banking transfers are performed based on payment orders, indicating payer's fiscal code, bank code number, beneficiary's bank account number, the transferred amount, purpose of the transfer, and supporting documents serving as a legal base for the transfer (contract, commercial invoice, sales slip, etc).
- 4.4.1.2. The payment order requires signatures of the two authorized staff (signature samples kept by bank) and payer's seal.
- 4.4.1.3. Payment order is valid for 2 days from date of signing.

**4.4.2. MSIF**

- 4.4.2.1. MSIF makes bank transfers for the following:
  - 4.4.2.1.1. Payments for civil works.
  - 4.4.2.1.2. Payments to the design companies.
  - 4.4.2.1.3. Payments to local supervisors and technical expertise.
  - 4.4.2.1.4. Payments for announcements.
  - 4.4.2.1.5. Sub-Grant funds transfer to a CBO/NGO/LG in tranches under the terms and conditions of the Sub-Grant Agreement.
  - 4.4.2.1.6. Payments to local or foreign consultants for the services provided.
  - 4.4.2.1.7. Payments to consultant companies (local and foreign) for services provided.
  - 4.4.2.1.8. Payments to local and/or foreign suppliers of goods.
  - 4.4.2.1.9. Statutory payments for the staff (income tax, social insurance, health insurance, etc.).
  - 4.4.2.1.10. Payments for operating costs (water, electricity, telephone, etc.).

**4.4.3. CBO/NGO**

- 4.4.3.1. CBO makes bank transfers for the following:
  - 4.4.3.1.1. Payments for civil works.
  - 4.4.3.1.2. Payments to the design companies.
  - 4.4.3.1.3. Payments to local supervisors and technical expertise.
  - 4.4.3.1.4. Payments for announcements.
  - 4.4.3.1.5. Payments to consultant companies for services provided.
  - 4.4.3.1.6. Payments to local suppliers of goods.
  - 4.4.3.1.7. Statutory payments for the staff (income tax, social insurance, health insurance, etc.).

4.4.3.1.8. Payments for operating costs (water, electricity, telephone, etc.).

#### **4.4.4. LG**

4.4.4.1. NGO/LG makes bank transfers for the following:

4.4.4.1.1. Payments for civil works.

4.4.4.1.2. Payments to the design companies.

4.4.4.1.3. Payments to local supervisors and technical expertise.

4.4.4.1.4. Payments for announcements.

4.4.4.1.5. Payments to consultant companies for services provided.

4.4.4.1.6. Payments to local suppliers of goods.

### **4.5. Payments**

#### **4.5.1. MSIF Payments**

4.5.1.1. During the designing and implementation of the accounts' payable system, the MSIF considers several essential issues such as:

- (i) Bills are to be paid timely, but not before their time;
- (ii) Procedures are in place to approve the incoming invoices by an appropriate employee;
- (iii) Invoices are paid only once;
- (iv) The quantities and prices on seller invoices are accurate and appropriate;
- (v) Internal review of all invoices is in place.

4.5.1.2. SP's payment is made by a bank transfer within 5 working days from the moment of Request for Payment (RFP) approval in MIS by FAD.

4.5.1.3. MSIF retains from the amount for payment:

- (vi) percentage of the received advance;
- (vii) amount of community's contribution in kind;
- (viii) percentage of work quality guarantee – 10%, 1/2 of which to be paid immediately upon completion of works, and other 1/2 - after the defect liability period, specified in each contract.

4.5.1.4. The payments are made in MDL.

#### **4.5.2. CDD/ST Projects Payments**

4.5.2.1. CDD/ST Project payment is made by a bank transfer of tranche within 5 working days after the MSIF community development consultants and financial auditor verify the completed activities and the payments done and approve them in whole.

4.5.2.2. The payments shall be made in MDL.

### **4.5.3. Advance Payments**

#### **4.5.3.1. To Suppliers and Contractors**

4.5.3.1.1. The advance payment to suppliers and contractors (or IA implementing directly the SP) shall not exceed 20% of the value of the contract (excluding community contribution in kind).

4.5.3.1.2. No advance payments shall be given for supply of goods or execution of civil works unless provided for in the contract and such advance shall be secured by a bank guarantee.

(a) The form of bank guarantee for advance payment is annexed to the MSIF Procurement Handbook and shall be used in bidding documents for procurement of goods and works issued by MSIF and CBO/NGO/LG.

(b) The bank guarantee shall be issued by a commercial bank with a stable rating, for a term of at least 15 days longer than the contract term.

4.5.3.1.3. A quality guarantee shall be also required by MSIF and CBO/NGO/LG due to inexperience, financial strength and other reasons to ensure that the civil works contractor will carry out its obligations up to the standard.

#### **4.5.3.2. To MSIF Staff**

4.5.3.2.1. Payments to staff for local trips are granted according to standards approved by the Ministry of Finance of Moldova.

4.5.3.2.2. Payments to staff for trips abroad are granted according to the WB standard travel pricing.

4.5.3.2.3. Travel expense report showing the accounting and required documentation must be submitted three days upon return.

#### **4.5.3.3. To Foreign Consultants**

4.5.3.3.1. Advance payments to foreign consultants are made according to the terms of the contract and based on the bank guaranty.

## 4.6. Supporting Documents for Payments

### 4.6.1. MSIF

#### 4.6.1.1. Subproject Advance

4.6.1.1.1. Request for Advance (RFA) fully completed, sealed, and signed by Contractor, IA and LPA in compliance with the Grant Agreement, which contains the project number assigned at proposal stage, date of the sub-project implementation contract, name of the contractor, contractor's bank information, the amount requested for payment, date of completing the request form.

4.6.1.1.2. Signed contract.

4.6.1.1.3. Bank guarantee.

#### 4.6.1.2. Subproject Civil Works

4.6.1.2.1. RFP fully completed, sealed, and signed by IA, LPA and Local supervisor in compliance with the Grant Agreement, which contains the information outlined in para. 4.6.1.1.1.

4.6.1.2.2. Statement of Accomplished Works (SAW).

SAW and RFP must be checked and signed by the following parties:

- (i) The Local Supervisor
- (ii) The Head of IA
- (iii) The Accountant of IA
- (iv) The Mayor
- (v) The Chief Accountant of the mayoralty
- (vi) The MSIF Follow-Up Engineer – responsible for the SP
- (vii) Contractor

4.6.1.2.3. Contract record showing the outstanding balances and amount to be deducted for advances and quality guarantee.

4.6.1.2.4. Certificates of preliminary and final acceptance (for final payments only). The certificates of preliminary and final acceptance must be checked and signed by the Reception Committee, created and proved accordingly to MSIF procedures and the legislation in force.

#### 4.6.1.3. Consulting Services

4.6.1.3.1. Contract and Terms of Reference – for first payment only.

- 4.6.1.3.2. Contract record showing terms of contract.
- 4.6.1.3.3. Consultant's report approved by the MSIF Contract Coordinator.
- 4.6.1.3.4. Timesheets or invoice.
- 4.6.1.4. CDD/ST Project First Tranche
  - 4.6.1.4.1. Request for Tranche (RFT) fully completed, sealed, and signed by CBO/NGO/LG in compliance with the Sub-Grant Agreement, which contains the project number assigned at proposal stage, date of the Sub-Grant Agreement, name of the CBO/NGO/LG, CBO's/NGO's/LG's bank information, the amount requested for payment, date of completing the request form.
  - 4.6.1.4.2. Signed Sub-Grant Agreement.
  - 4.6.1.4.3. The first tranche can be disbursed only if the community contribution is transferred by the community to the MSIF account in the total amount. .
  - 4.6.1.4.4. Sub-Grant Account opening certificate.
  - 4.6.1.4.5. Signed contracts with Contractor, Design company and Local supervisor.
- 4.6.1.5. CDD/ST Project Tranches
  - 4.6.1.5.1. RFT fully completed, sealed, and signed by CBO/NGO/LG, which contains the project number assigned at application stage, date of the Sub-Grant Agreement, name of the CBO/NGO/LG, CBO's/NGO's/ LG's bank information, the amount requested for payment, date of completing the request form.
  - 4.6.1.5.2. Sub-Grant Account reconciliation statement fully completed, sealed and signed accordingly.
  - 4.6.1.5.3. Statement of Expenditures.
  - 4.6.1.5.4. Audit reports of MSIF community development consultants in technical and social issues verifying the completion of activities in compliance with the terms and conditions of Sub-Grant Agreement and approving the activities claimed.
  - 4.6.1.5.5. Financial Auditor's Report approving the payments done and confirming that 75% of the last tranche and 100% of previous tranches amount is spent in accordance with the terms and conditions of the Sub-Grant Agreement.
  - 4.6.1.5.6. Copies of all financial documentation supporting the expenses claimed for the previous tranche amount.
- 4.6.1.6. Payments to Employees

- 4.6.1.6.1. Contract and Terms of Reference – for first payment only and Request for payment, if required.
- 4.6.1.6.2. Remuneration Journal showing calculation of amount payable to each employee.
- 4.6.1.6.3. Timesheets signed by staff, MSIF Department Director and MSIF Executive Director.

4.6.1.7. Pension, Social Fund and Medical Insurance

- 4.6.1.7.1. Remuneration journal.
- 4.6.1.7.2. Subsidiary ledger.

4.6.1.8. Travel Advance and Travel Expenses

- 4.6.1.8.1. For travel abroad:
  - (i) WB no objection letter if required;
  - (ii) travel authorization;
  - (iii) air tickets;
  - (iv) hotel receipts;
  - (v) fax and communication receipts.
- 4.6.1.8.2. For local travel:
  - (i) travel order signed by MSIF relevant Department Director and the MSIF Executive Director;
  - (ii) travel authorization;
  - (iii) hotel receipts;
  - (iv) fax and communication receipts.

4.6.1.9. Office Costs

- 4.6.1.9.1. Overhead and telecommunication costs – invoices from service providers.
- 4.6.1.9.2. Transportation - driver's register, indicating the time and place when the driver worked for MSIF, speedometer data at the beginning and at the end of working day, name of passenger(s), signed by staff and relevant Department Director.
- 4.6.1.9.3. Stationary and office maintenance – contract, sales slip, check, commercial invoice, receipt, etc.

4.6.1.10. Bank Charges

- 4.6.1.10.1. Bank transaction slips.

**4.6.2. CBO/NGO**

4.6.2.1. Civil Works (the same as in case of a Subproject, but only in MDL)

- 4.6.2.1.1. Advance Payment (based on bank guarantee)
  - (a) Contract;

- (b) Bank guarantee;
- (c) Contract record showing terms of contract;
- (d) Invoice.

4.6.2.1.2. Next Payments

- (a) Contract record showing terms of contract;
- (b) SAW, which contains information concerning works carried out from the initial moment, or from the last payment before its elaboration, the volume of carried out works, materials spent, mechanisms used, and the amount of money to be paid. SAW shall also contain information about the volume of works, the amount of materials, and community' contribution in kind.  
SAW must be checked and signed by the Local Supervisor;

- (c) Invoice.

4.6.2.1.3. Final Payment

- (a) Contract record showing terms of contract;
- (b) WCS, issued by the Local Supervisor after checking the volume and quality of accomplished works and after the removal of all defects by the contractor;
- (c) Invoice.

4.6.2.2. Goods

4.6.2.2.1. Contract – for first payment only.

4.6.2.2.2. Contract record showing terms of contract.

4.6.2.2.3. Purchase Order.

PO must be approved by the MC/Primaria.

4.6.2.2.4. Goods Received Note (GRN).

GRN must be checked and signed by the authorized CBO/NGO/LG officer.

4.6.2.2.5. Invoice.

4.6.2.3. Consulting Services

4.6.2.3.1. Contract and Terms of Reference – for first payment only.

4.6.2.3.2. Contract record showing terms of contract.

4.6.2.3.3. Consultants report.

The report must be approved by the MC/Primaria.

4.6.2.3.4. Timesheets or invoice.

4.6.2.4. Payments to Employees

4.6.2.4.1. Contract and Terms of Reference – for first payment only.

4.6.2.4.2. Remuneration Journal showing calculation of amount payable to each employee.

4.6.2.4.3. Timesheets signed by employee and CBO Chairman.

4.6.2.5. Pension, Social Fund and Medical Insurance

4.6.2.5.1. Remuneration journal.

4.6.2.5.2. Subsidiary ledger.

4.6.2.6. Local Travel Advance and Travel Expenses

(a) travel order signed by CBO Chairman;

(b) travel authorization;

(c) hotel receipts;

(d) fax and communication receipts.

4.6.2.7. Office Costs

4.6.2.7.1. Overhead and telecommunication costs – invoices from service providers.

4.6.2.7.2. Stationary and office maintenance – contract, sales slip, check, commercial invoice, receipt, etc.

4.6.2.8. Bank Charges

4.6.2.8.1. Bank transaction slips.

**4.6.3. LG**

4.6.3.1. Civil Works (the same as in case of a Subproject, but only in MDL)

4.6.3.1.1. Advance Payment (based on bank guarantee)

(a) Contract;

(b) Bank guarantee;

(c) Contract record showing terms of contract;

(d) Invoice.

4.6.3.1.2. Next Payments

(a) Contract record showing terms of contract;

(b) SAW, which contains information concerning works carried out from the initial moment, or from the last payment before its elaboration, the volume of carried out works, materials spent, mechanisms used, and the amount of money to be paid. SAW shall also contain information about the volume of works, the amount of materials, and community' contribution in kind.

SAW must be checked and signed by the Local Supervisor;

(c) Invoice.

4.6.3.1.3. Final Payment

(a) Contract record showing terms of contract;

(b) WCS, issued by the Local Supervisor after checking the volume and quality of accomplished works and after the removal of all defects by the contractor;

(c) Invoice.

4.6.3.2. Goods

4.6.3.2.1. Contract – for first payment only.

4.6.3.2.2. Contract record showing terms of contract.

4.6.3.2.3. Purchase Order.

PO must be approved by the MC/Primaria.

4.6.3.2.4. Goods Received Note.

GPN must be checked and signed by the authorized NGO/LG officer.

4.6.3.2.5. Invoice.

4.6.3.3. Consulting Services

4.6.3.3.1. Contract and Terms of Reference – for first payment only.

4.6.3.3.2. Contract record showing terms of contract.

4.6.3.3.3. Consultants report

The report must be approved by the MC/Prymaria.

4.6.3.3.4. Timesheets or invoice.

## 4.7. Bookkeeping

### 4.7.1. *Intangible Assets*

4.7.1.1 Account Book 10 – accounting register 111 "Intangible assets". This register reflects all debit and credit transactions during the accounting period (month, quarter, year), the total sum in debit and credit by the end of the accounting period, and the balance at the beginning and at the end of the period.

4.7.1.2 Record of intangible assets is kept in the book of analytical accounts. It includes the name of the person in charge, the name of intangible asset, its inventory number, the balance at the beginning of the accounting period, debit, credit transactions and the balance at the end of the accounting period.

4.7.1.3. FAD accounting register – Account 112 "Intangible assets amortization". The accounting entry to record the amortization is:

Dr. Amortization  
Cr. Accumulated Amortization

4.7.1.4. The accumulated amortization is presented in the Balance Sheet as a contra-account of the asset, thus reducing the net value of intangible assets.

#### **4.7.2. Fixed Assets**

- Record of fixed assets is kept in Account book N 13 – Accounting register 123 "Fixed assets". This register reflects all debit and credit transactions during the accounting period (month, quarter, year), the total sum in debit and credit by the end of the accounting period, and the balance at the beginning and at the end of the period.
- Record of fixed assets is kept in the book of analytical accounts. It includes the name of the person in charge, the name of fixed assets and their inventory number of every item, the balance at the beginning of the accounting period, debit and credit transactions on account N 123 "Fixed assets", the balance at the end of the accounting period.
- Every item from fixed assets has an inventory card, the OC-6 form, which comprises the basic characteristics of each item and the calculation of its depreciation.
- FAD maintenance accounting register – Account 124 "Depreciation of fixed funds". The accounting entry to record depreciation is:  
Dr. Depreciation Expense  
Cr. Accumulated Depreciation

#### **4.7.3. Long-term Investments**

- Records of long-term investments are kept in the Accounting Book 16, Accounting register 131 "Subproject/CDD/SCS/ST Project cost". This book contains information about all investments done in specific Subproject/CDD/SCS/ST Project. It contains the balance at the beginning and end of the accounting period, all debit and credit movements.
- MSIF will transfer investment from MSIF to LPA balance in conformity with the provisions of Annex 3 „Modality of accounting and transferring MSIF investment on LPA/IA/NGO balance". LPA are responsible for taking on records the investment transferred by MSIF and for their registration with the line agencies (cadastre office, department of statistics etc.) in line with RM legislation.
- MSIF shall write off the costs for announcements, technical expertise, design etc. related to not implemented subprojects, according to the national accounting standards.

#### **4.7.4. Small Value and Short-term Items**

- Account Book 10 – Accounting register 213 "Small value and short-term items". This register reflects all debit and credit transactions during the accounting period (month, quarter, year), the total sum in debit and credit by the end of the accounting period, and the balance at the beginning and at the end of the period by the name of the person in charge.

#### **4.7.5. Receivables**

- Journal Nr.5 – Accounting register 221 "Accomplished works at the Subproject". This register reflects all movements inside the SP. The beginning and ending balance for the accounting period as usual is zero.
- Journal Nr.5a – Accounting register 224 "Short-term advances". This register reflects the amount of advances paid to the contractors and suppliers.
- Journal Nr.5c – Accounting register 227 "Short-term debts of staff". This register reflects the amounts paid in advance to the staff employees for travel and for small payments to the local suppliers.

#### **4.7.6. Cash**

- Journal 1 – Accounting register 241 "Petty Cash" contains information concerning all debit and credit movements during the accounting period (month, quarter, year) balance at the beginning and at the end of the accounting period.
- Journal Nr.2 – Accounting register 242 "Bank account in local currency" This register reflects all payments made and all money received in local currency during the accounting period. The register contains information about the balance at the beginning and the end of the accounting period and the debit and credit entries during the accounting period.
- Journal Nr.2a – Accounting register 243 "Bank account in foreign currency". This register reflects all payments made and all money received in foreign currency during the accounting period. The register contains information about the balance at the beginning and the end of the accounting period and the debit and credit entries during the accounting period.

#### **4.7.7. Funding Sources**

- Journal Nr.12 – Accounting register 423 "Other funding sources with special destination". This register reflects all entries of external and internal funding sources and closing of the expenses and long-term investments during the accounting period. In the ending balance of 423rd register is accounted the amount of available sources.

#### **4.7.8. Payables**

- Journal Nr.6 – Accounting register 521 “Short-term debts”. This register reflects the amount of guarantees to be paid to contractors and suppliers.
- Accounts of salaries are kept on Journal Nr.8 – Accounting register 531 “Debts to the personnel concerning work remuneration”. If one of MSIF employees did not receive the salary on the day of payment, record of it is kept on sub-account 5312 “Debts to the depositor”. The register for unpaid salary is filled in, and an account of the salary is opened for the depositor (for each person separately).
- Accounts of staff travels are kept in Journal Nr.7 – Accounting register 532 “Debts to advance holders”.
- Accounts of social charges for MSIF employees are kept in Journal Nr.8b,c – Accounting registers 533 “Debts to the Social fund”.
- Accounts of income tax for the MSIF employees are kept in Journal Nr. 8d – Accounting register 534 “Debts concerning the income tax for the employees”
- Short-term debts to be paid to other creditors (local consultants, transport rental, etc.) are accounted in Journal Nr.8 – Accounting register 539 “Other short-term debts”.

#### **4.7.9. Expenditures**

- Journal Nr.10 – Accounting register 713 “Administrative expenditures”. This register contains information about all expenditures done by the MSIF during the accounting period. The balance at the beginning and ending of the accounting period is always equal to zero. The turnover of this account is closed with 423rd account.

### **4.8. Fixed Assets**

#### **4.8.1. General**

- 14.7.2.1. Fixed assets are tangible assets, the unit cost of which is higher than the legal limit (1,000 MDL), and with a useful life of more than a year, with the purpose of being used for production and administrative needs.

- 24.7.2.1. Fixed assets include buildings and leasehold improvements, communication system installations, equipment, vehicles and other.
- 34.7.2.1. Assets are recorded at historical cost, including invoices paid to the supplier or constructions companies, delivery, installation, testing and quality insurance cost, which becomes the basis for calculating depreciation.
- 44.7.2.1. Fixed assets acquired as a result of barter are recorded at the market price as the result of exchange or of the paid sum or its equivalent. Those that are received free of charge are recorded at a fair market price, or based on the receipt-transmission statement plus incremental expenses incurred to prepare the asset in working condition.
- 54.7.2.1. Fixed assets are reflected in financial statements at their net value, which is historical cost less the accumulated depreciation. However, if the net value of the asset is found to be understated or overstated due to the discovery that the estimated useful life used at the time of purchase is incorrect or the extreme change in current market price as per certification of a Government approved appraisal, the fixed assets will be re-evaluated.

#### **4.8.2. Fixed Assets Policy**

- 14.7.2.1. MSIF fixed assets policy will be based on Moldova NASs.
- 24.7.2.1. MSIF shall keep a Fixed Assets Register, which shall be updated regularly to give a complete record of assets purchased, received, issued, sold or disposed off. Each asset shall have an identification code, value and depreciation.
- 34.7.2.1. All assets shall be insured to cover such contingencies as fire, theft, loss due accident and third party liabilities on injury/loss to property and persons. Vehicles shall be insured comprehensively.
- 44.7.2.1. CBO/NGO/LG will be required to:
  - 4.7.2.4.1. Keep a Fixed Assets Register, which shall be updated regularly to give a complete record of assets purchased, received, issued, sold or disposed off. Each asset shall have an identification code, value and depreciation.
  - 4.7.2.4.2. Cover through insurance such contingencies as fire, theft, loss due accident and third party liabilities on injury/loss to property and persons.

#### **4.8.3. Depreciation**

- 14.7.2.1. MSIF classifies fixed assets are into 5 property categories according to the operation term and depreciation norm. Categories and the depreciation norm are as per the Fiscal Code.

For calculating the depreciation MSIF uses the method of residual value (decreasing balance) based on NAS 16.

24.7.2.1. Depreciation is calculated once per year as of December 31.

**4.8.4. Write-Off**

14.7.2.1. If the net value of an asset at the beginning of the accounting period is less than 1,000 MDL, MSIF writes off its value and records it as an expense, in accordance with NAS 16. The accounting entry is as follows:

Dr. Accumulated Depreciation  
Dr. Expense  
Cr. Depreciation Expense

**4.8.5. Amortization of Intangible Assets**

14.7.2.1. For calculating the amortization of Intangible assets such as software MSIF uses linear cassation method (straight-line), which assumes uniform deductions during the estimated life cycle of the asset.

24.7.2.1. The estimated life cycle, established by MSIF for intangible assets is 3 years.

34.7.2.1. Intangible asset amortization is calculated once per year as of December 31.

**4.8.6. Depreciation of Small Value and Short-Term Items**

14.7.2.1. MFIS considers small value and short-term items with a unit cost of less than 1,000 MDL, irrespective of estimated life cycle or those with a life cycle of less than a year, irrespective of the unit value, as asset and depreciable.

24.7.2.1. The depreciation method is straight-line using a life cycle of one year. Thus, a year after the date of purchase, the asset is fully depreciated and 100% charged as an expense.

34.7.2.1. Register for small-value and short-term items is kept for each responsible person for the whole sum of items, indicating all credit and debit activity on the account, as well as the balance at the beginning and at the end of the accounting period. At the end of the accounting period each responsible person fills in a report for every item indicating its quantity, receipts and disbursements/deductions for each item, and balance at the beginning and at the end of the accounting period.

## Chapter 5. Internal Control

### 5.1. General

5.1.1. Internal control is a process, effected by MSIF's management and other personnel, designed to provide reasonable assurance that the objectives of the MSIF are being achieved in the following categories:

- (i) effectiveness and efficiency of operations;
- (ii) reliability of financial and operational reporting; and
- (iii) compliance with applicable laws, and regulations.

5.1.2. Internal control consists of specific policies and procedures. MSIF developed and maintain clearly written administrative, accounting and operational procedures defining the levels of authority and responsibility required of management and staff responsible for MSIF2 Project funds and activities (including the segregation of duties). Following these procedures means:

5.1.2.1. Appropriate documentation of the policies and procedures, covering management of finances, accounting, procurement and financial reporting.

5.1.2.2. Suitable authorization procedures, e.g. for the award of contracts by authorized personnel.

5.1.2.3. Appropriate segregation of duties and responsibilities (for instance certain responsibilities such as authorization, custody, record keeping and accounting duties should be segregated).

5.1.2.4. Adequate measures for safeguarding project assets, including cash and bank balances.

5.1.2.5. Arrangements for carrying out accounting reconciliation and independent verification of assets and records.

5.1.2.6. Arrangements for storing project documents and restricting access to authorized personnel.

5.1.3. Control activities should be an integral part of the daily activities of the MSIF. An effective internal control system requires that an appropriate control structure be set up, with control activities defined at every level of organization. These should include: (i) top level reviews; (ii) appropriate activity controls for different departments; (iii) a system of approvals and authorizations; (iv) and a system of verification and reconciliation.

### 5.2. Control Environment

5.2.1. MSIF control environment covers the following areas:

- 5.2.1.1. Adequate organizational structure enabling MSIF to monitor and control activities.
- 5.2.1.2. Independent board (NSC), which is involved in monitoring the decisions and activities of MSIF management thus reducing the likelihood of unauthorized acts.
- 5.2.1.3. Competent management/key staff providing sufficient coverage in all MSIF key functions.
- 5.2.1.4. MSIF2 PIP/budget is realistic and based on reasonable assumptions.
- 5.2.1.5. MSIF management has sufficient reliable and relevant information produced on a timely basis to effectively monitor MSIF2 Project activities.
- 5.2.1.6. MSIF has an adequate Operational Manual used to control activities and to ensure staff accountability.
- 5.2.1.7. MSIF2 Project will have an effective and independent auditor familiar with WB requirements.

### **5.3. Accounting System**

- 5.3.1. MSIF has adequate written statements and explanations of its accounting policies and procedures such as:
  - 5.3.1.1. Operational Manual and Financial Handbook.
  - 5.3.1.2. Chart of accounts.
  - 5.3.1.3. Specification of accounting records, accounting procedures and the required supporting documentation.
  - 5.3.1.4. Assignment of responsibilities and delegation of authority.
  - 5.3.1.5. Documentation and approval requirements for recording transactions and making journal entries.
- 5.3.2. MSIF internal control system is able to ensure that financial records are reliable and complete. In particular, the internal control system ensures proper recording and safeguarding of assets and resources, adherence to financial management policies and orderly and efficient conduct of business.

### **5.4. Bank and Cash Balances**

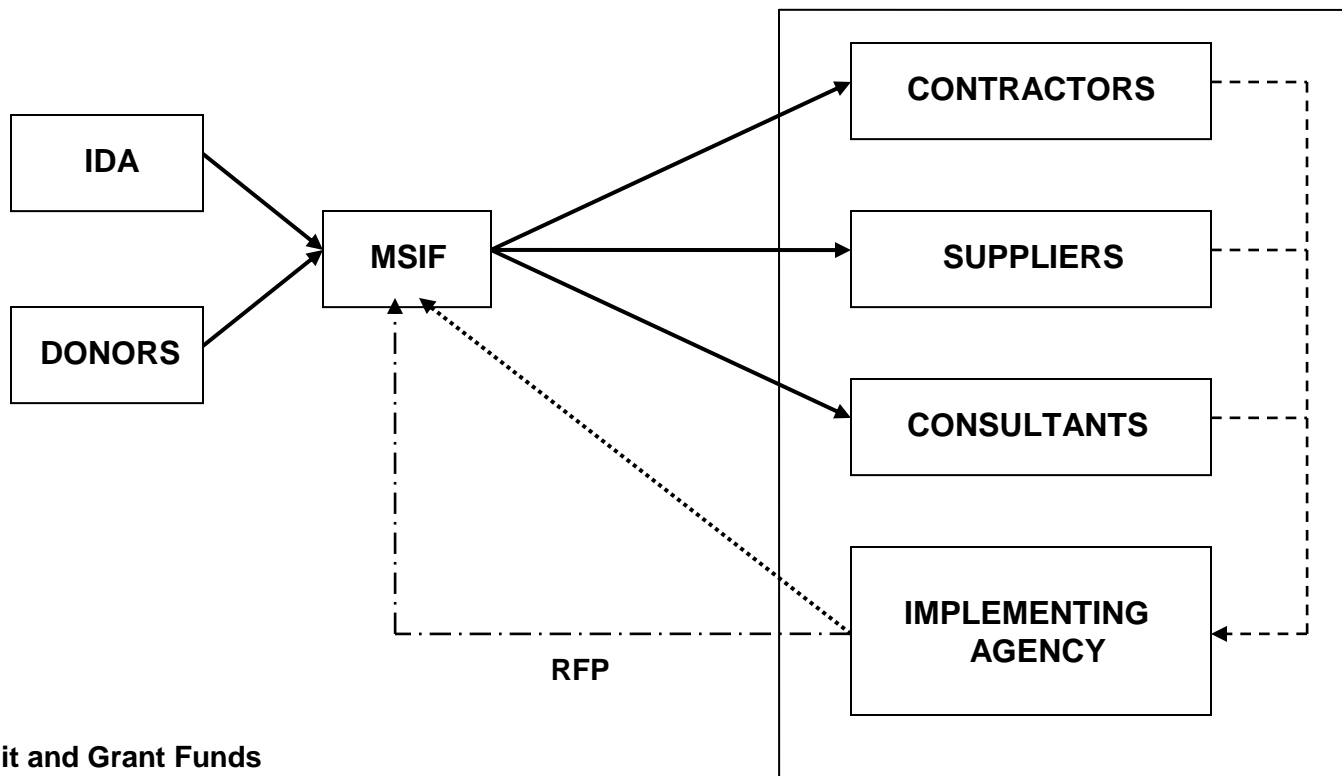
- 5.4.1. FAD is responsible for maintaining an adequate control of the accounting information that is registered in 1C accounting system.

- 5.4.2. MSIF has procedures for effective checks such as:
  - 5.4.2.1. Comparison of payment orders/checks with disbursement records.
  - 5.4.2.2. Examination of actual signatures and endorsements with those authorized.
  - 5.4.2.3. Numerical sequence of payment orders.
  - 5.4.2.4. Reconciliation of general ledger and other accounts.
  - 5.4.2.5. Comparison between bank statements and accounting records regarding amounts and dates of sums received.
  - 5.4.2.6. Checking the calculations of the columns and rows of cashbooks, and reconciling the balances on the cashbook and bank statements at regular intervals.
- 5.4.3. MSIF has procedures for disbursement approval and for the signing of payment orders.



CASH FLOW CHARTS

SUBPROJECTS



- > Credit and Grant Funds
- .....> Community Contribution
- > Invoice and Supporting Documents
- - - -> Request for Payment

CASH FLOW CHARTS

