

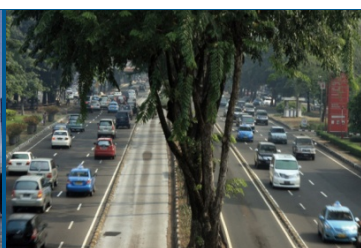
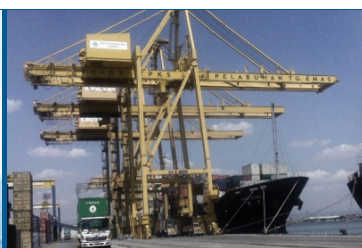


Australia Indonesia Partnership
Kemitraan Australia Indonesia



FINANCIAL MANUAL OF OPERATIONS (Version 2.0)

October 2009
(updated April 2010 to include Water and Sanitation Initiative)



INDONESIA INFRASTRUCTURE INITIATIVE



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LIST OF ACRONYMS & ABBREVIATIONS

A/C	Account
AUD	Australian Dollars
AusAID	Australian Agency for International Development
CPG	Commonwealth Procurement Guidelines
DD	Deputy Director
EINRIP	Eastern Indonesian National Roads Improvement Project
FD	Facility Director
FFA	Flexible Funding Arrangements
FMA	Commonwealth Financial Management and Accountability Act, 1997
FX	Foreign Exchange
GoA	Government of Australia
Gol	Government of Indonesia
IEG	Infrastructure Enhancement Grant
IEI	Immediate and Emerging Issues
IFGIA	Infrastructure for Growth Imprest Account
IndII	Indonesia Infrastructure Initiative Facility
MES	Monitoring and Evaluation Specialist
SMEC	SMEC (International) Pty Ltd
SPS	Strategic Partnership Support
TD-T	Technical Director – Transport
TD-P&R	Technical Director – Policy & Regulatory
TD-W	Technical Director – Watsan
WSIA	Water and Sanitation Imprest Account

PART A: BACKGROUND

1. Introduction

1.1 Background to the Indonesia Infrastructure Initiative (IndII) facility

The goal of the Facility is to improve infrastructure provision by reducing policy, regulatory, capacity and financing constraints on infrastructure expenditure at the national and sub-national levels.

The facility objectives are to support the GOI national and sub-national governments to:

- implement efficient and effective management for government infrastructure programs and projects at national and sub-national levels, including those financed by loans and grants from the Multilateral Development Banks (MDBs);
- build a more conducive regulatory and policy environment for infrastructure investment; and
- enhance the economic and social impact of priority infrastructure projects.

IndII's program of work involves the following four components:

Component 1: Transport (T)

Objective: More efficient and effective infrastructure investment through better identification, coordination, planning and implementation of infrastructure projects in the Transport sector that have potential to make a contribution to economic growth.

Component 2: Policy and Investment (P&I)

Objective: More efficient and effective infrastructure investment through reducing uncertainty in the policy, regulatory and financing environment.

Component 3: Water and Sanitation (WSI)

Objective: More efficient and effective infrastructure investment through better identification, coordination, planning and implementation of infrastructure projects in the water and sanitation sector that have potential to make a contribution to economic growth.

Component 4: Infrastructure Enhancement Grants (IEG) Is IEGs a component

Objective: Enhanced economic and social impact of infrastructure projects through providing financial support to priority infrastructure projects.

Components 1, 2 and 3 each have two sub-components: *Immediate and Emerging Issues (IEI)* and *Strategic Partnership Support (SPS)*. The first of these sub-components is used for scoping potential activities and for other preliminary engagements, or where there is a clear need to be addressed that does not require a more intensive strategic partnership arrangement. Under the *SPS* sub-component, IndII forms partnerships with national and sub-national government agencies, which are likely to involve a range of interventions of differing lengths and subject matter, including institutional strengthening and other capacity building support.

In addition to the above components, IndII's program of work also includes assisting AusAID with the implementation of key elements of the Australian Government Water and Sanitation initiative, for example, the city sanitation masterplan activities, as well as technical assistance in support of the Water and Sanitation Hibah activities.

1.2 IndII financial management facilities

IndII's financial management program is structured on two Imprest Accounts through which SMEC International Pty Limited, as IndII's Facility Manager, oversees the management of funds - under the direction of the Facility Management Board. The two Imprest Accounts are:

1. *Indonesia Infrastructure Initiative – Infrastructure for Growth Imprest Account (IFGIA)*;
2. *Indonesia Infrastructure Initiative – Water and Sanitation Imprest Account (WSIA)*.

The *Indonesia Infrastructure Initiative – Infrastructure for Growth Imprest Account (IFGIA)* is used for activities funded from the IFGI allocation and involves all four IndII components, namely (i) Transport; (ii) Policy and Investment; and (iii) Water and Sanitation and (iv) Infrastructure Enhancement Grants (IEG).

The *Indonesia Infrastructure Initiative – Water and Sanitation Imprest Account (WSIA)* is used for activities funded from the WSI allocation.

The Government of Indonesia (GoI) will also establish a special account for Water and Sanitation Hibah activities. Operating and reporting guidelines for the special account is included in the Annexes to this manual.

The Government of Australia (GoA) is a signatory to the Paris Declaration on Aid Effectiveness¹. Furthermore, AusAID's conceptual framework for IndII was informed by the Paris Declaration. IndII's funding mechanisms, including their use (where appropriate) of GoI's financial management and procurement systems, sit firmly within that conceptual framework.

Part B of this Financial Manual of Operations deals with the day-to-day financial operations of IndII.

Part C of this Manual outlines the operational guidelines for management of the IndII Imprest Accounts in line with the direction provided in *AusGuidelines 3.8*.

To ensure that this Financial Manual of Operations reflects good financial practices, it has been reviewed within six months of the IFGIA becoming operational and will be subject to regular annual reviews thereafter.

¹ *Paris Declaration on Aid Effectiveness – March 2005*

PART B: INDII OFFICE FINANCIAL MANAGEMENT PROCEDURES

2. Financial and accounting systems

2.1 Bank accounts and reconciliations

All payments out of any IndII-managed bank account will be authorised and have full and complete supporting documentation. All cheques written against any IndII-managed bank account and signed by the authorised signatories will be recorded in the SMECNet accounting cashbook by the IndII Finance Manager, which is then uploaded into the SMECNet system on a fortnightly basis. In all cases, a Cheque Payment Voucher will be fully acquitted and filed.

INDII-managed bank accounts do not have an overdraft facility. Originals of all bank statements are collected at the end of each month and immediately reconciled in the program accounting system. Expenditure cash-sheets and bank reconciliations will be completed within the first week of the proceeding month (e.g. the August bank reconciliation and cash-sheets are due to be submitted by 7 September) by the SMEC Management Team for the IndII Imprest Account. The IndII-managed bank accounts in Indonesia shall be reconciled by the IndII financial management staff in the IndII Office. All reconciliations are to be sent to the IndII Project Coordinator.

All monies in the imprest accounts will be kept separate from SMEC's other monies at all times.

2.2 Signature authorisations

Each of the INDII-managed Program bank accounts will have at least three (3) signatories. Where a signatory leaves, resigns, or their employment is terminated, a replacement will be quickly appointed and the redundant signatory removed. The IndII long-term advisers – the Facility Director (FD), Deputy Director (DD), Technical Director – Infrastructure Project Management (TD-IPM) and Technical Director – Policy and Regulatory (TD-P&R) will all be signatories on all INDII office accounts. A list of signatories to all the bank accounts will be maintained and updated. This will be the responsibility of the IndII Finance Manager, overseen by the Program Coordinator.

The Facility Director will grant cheque signing authority and approval for any changes. All cheques will require two (2) approved signatories. The signatory cannot be the same person who makes the request for the payment.

No AusAID employee will be a signatory on the bank account at any time.

3. Financial administration

3.1 Accounting register

An assets register and identification system will be developed and implemented in accordance with Clause 10 of Part B of the Contract. All assets greater than AUD\$2000 in value will be registered through the use of an Asset Registration Form, with copies of the register and individual forms with details provided within seven days of procurement. The management of assets will also comply with AusAID's Asset Policy.

3.2 Procurement and purchasing

For all procurement activities IndII will:

- Determine supplies required for proper implementation of each approved activity and include the anticipated costs of such supplies in the activity budget;
- Ensure all procurement is consistent with the principles of the Commonwealth Procurement Guidelines, in particular, observing the Core Principle of achieving value for money and the supporting principles;

- Maintain complete and accurate records documenting the procedures followed in procuring, and the particulars of supplies;
- Ensure supplies are maintained, including taking appropriate steps to ensure that manufacturer's warranties of supplies are secured and warranty conditions followed;
- Ensure all supplies are free from defects in design, material, manufacture or workmanship. SMEC will replace defective supplies under warranty provisions or at its own cost; and
- Ensure that SMEC will use the supplies for purposes permitted under its contract with AusAID, and that the supplies at all times remain free from any encumbrance.

The IndII Facility Director is responsible for in-country procurement activities, including:

- Preparation and maintenance of this procurement procedure and associated tools (standard letters, documents & spreadsheets) and ensuring that they meet client and program needs;
- Assigning and assisting program personnel to incorporate and use the procurement procedure and tools; and
- Gaining quotes or initiating Requisitions for Procurement – through appropriate ordering and procurement forms.

The IndII Finance Manager and/or Office Manager will oversee IndII procurement under the direction of the Facility Director (FD). Their responsibilities include:

- Preparing procurement forms;
- Sourcing suitable product/service information, product specifications, catalogues, brochures and vendor registrations;
- Preparing preliminary equipment/ services/ works lists, budgets and schedules and obtaining FD approval;
- Preparing or obtaining suitable specifications/ Terms of Reference/ Bill of Materials and Scope of Works for the equipment/ services/ works listed, and obtaining FD approval;
- Obtain FD approval of procurement, and raise purchase order;
- Report any problems or delays to the FD;
- Ensure that purchases are received in accordance with the orders, inspected against specifications/TOR and accepted;
- Accept and process invoices; and
- Ensure that goods are entered on Assets Register, where relevant.

The procurement of all goods will be in accordance with the IndII Procurement Guidelines.

3.3 Invoice payment procedure

With the exception of travel allowances, reimbursement of staff advances and ongoing recurrent expenditure (such as phone bills, photocopy leases etc.), all invoices incurred by the Program will relate to goods and services supplied on the issue of an official IndII purchase order.

Procurement invoices must be accompanied by a Purchase Order form, and copies of quotations from other suppliers where the purchase is over AUD\$500. Administration Officers will follow the following procedure when processing procurement invoices:

- Attach a copy of purchase order to invoice and check that invoice is endorsed for goods/services received;
- Ensure that a cheque for payment is attached to invoice together with other relevant documentation for approval by the FD who then signs the cheque;
- Stamp all invoices and supporting documentation 'paid';, and
- Staple copies of all documents for any one transaction together and retain in cheque number order on file. A photocopy of the cheque will be attached.

Note: *Payments of greater value than A\$50,000 will be made as direct payments from SMEC Head Office, unless a request is submitted to and approved by the SMEC International General Manager, Social Development Group.*

3.4 Capital purchases

All purchases must be undertaken in accordance with the principles of AusAID's Procurement Guidelines, SMEC program accounting and IndII Financial Management procedures, as summarised below:

- Seek quotes (where possible at least three) from suppliers;
- Summarise quotes on procurement form;
- Submit form to FD for approval;
- Raise purchase order;
- On receipt of invoice, verify that goods have been received in good order and in accordance with PO, match the purchase and raise a cheque for payment;
- Register equipment in the asset register; and
- Affix asset sticker to equipment.

Where SMEC is purchasing goods or services on behalf of IndII, it is a requirement that an Inspection &/or Commissioning Agent verify conformance of such goods or services at the contractor's premises. SMEC must ensure that the right of the client to undertake such verification is established within the purchasing documents.

The Inspection and/or Commissioning Agent may be the Client, the Recipient or an agent specifically appointed 'in country' by the program. The Inspection and/or Commissioning Agent's responsibilities include inspections against specifications and contract at various milestones, supervision of works, supervision or performance of installation and commissioning of procured equipment and acceptance.

All purchases of materials or equipment procured for the program shall be through the issue of a purchase order, which provides a complete description of items being procured.

3.5 Use of cash

Money is paid from the IndII petty cash account for such actions as minor creditors' claims or sundry cash purchases.

For "normal" (standard) purchases, an advance form is completed with signatures, and placed in the Petty Cash box. When the purchase has been completed, any remaining cash is returned to the officer responsible for Petty Cash, together with a receipt attached to Cash Payment Voucher for the purchase made. A Cash Payment Voucher will be completed each time a Cash Note is used to make a purchase.

3.6 Internal control over cash

The following basic internal control features that are to be observed when handling cash:

- All cash will be kept in the cash box and under no circumstances should cash be left on office tables. When not in use, cash will be returned to the safe.
- Vouchers will be approved for payment before being paid.
- When there is transfer of cash from one person to another, a signature will be obtained.
- Either the FD or delegate will check and reconcile cash at least weekly; a record of this will be kept for audit purposes.
- When the Facility receives cash, a receipt will be written; the original of the receipt will be given to the person who paid the money.

If there is a deficiency in the cash amount, a check will immediately be undertaken of invoices and receipts against the respective entries in order to try to locate the deficiency. As a last resort, any deficiencies in cash will need to be reconciled by the person responsible for the handling of the cash.

In the event that a surplus occurs in a cash count and the reason for the surplus cannot be found, a receipt will be raised for the surplus and a notation made: "unexplained surplus from cash count - date./../..". This amount should be banked intact and is not to be used to offset deficiencies.

PART C: IMPREST ACCOUNT MANAGEMENT

4. Banking facilities

4.1 Overview

The IndII Imprest Accounts (IndII-IA) operate through three permanent bank accounts (A/C) – two Australian dollar-denominated bank accounts (IFGIA AUD A/C and WSIA AUD A/C) located in Australia; and an Indonesia rupiah-denominated bank account (IFGIA IDR A/C) located in Jakarta. All monies in the imprest accounts will be kept separate from SMEC's other moneys at all times.

4.2 AUD-denominated bank accounts

The IFGIA AUD account and WSIA AUD accounts have been established by SMEC at the ANZ Banking Corporation in Melbourne. These accounts are managed and operated by SMEC International in Canberra with oversight by the Chief Financial Officer and the Financial Controller SMEC Corporate Office, Melbourne. Following acquittal of the previous tranche and on request from IndII, supported by projected cash-flows, AusAID will deposit tranches into this bank account, quarterly. From the IFGIA AUD account and WSIA AUD account, SMEC pays authorised activity expenses incurred outside Indonesia. Funds are also transferred from the IFGIA AUD account to the IFGIA AUD/IDR account to meet projected IFGI activity authorised expenditure incurred in Indonesia.

4.3 AUD/IDR-denominated bank account

An IFGIA AUD/IDR account has been opened by SMEC at the Panin Bank in Jakarta (which is majority owned by ANZ Banking Corporation). It is managed and operated by IndII in Jakarta. As outlined above, funds are transferred from the IFGIA AUD account to the IFGIA AUD/IDR account to meet projected IFGIA activity authorised expenditure incurred in Indonesia, and such expenditure is paid out of those funds.

5. Accounting policy and procedures

The IFGIA and WSIA will operate on an accrual accounting system. The Facility will also report on commitments and receivables in its reports to AusAID and to the IndII Facility Management Board.

IDR-sourced activity expenditure will be reported in AUD; similarly, off-shore-sourced activity expenditure will be reported in AUD. Where consolidated activity financial reports are required, these will be reported in AUD using the mean inter-bank exchange rate for each month of reporting.

6. Chart of accounts

The IFGIA and WSIA Chart of Accounts complies with SMEC's account code classification used in SMECNet, which, as noted above is SMEC's integrated web-based business and project management system. Accounting data will be classified and compiled by activity with IFGI and WSI components kept separate at all times.

7. Financial management and control

7.1 Internal controls

Internal controls are management procedures designed to ensure efficiency and effectiveness in operations; to improve management decision making; to protect resources; and to ensure

maintenance and reporting of reliable information and execution of operations consistent with established management policy. Internal controls, therefore, are an integral part of the mechanisms used by IndII and SMEC, as Facility Manager, to regulate and guide operations. Internal controls are distinguished as *accounting* and *administrative controls*:

- *Accounting controls* are necessary to ensure that activities associated with authorising, processing, recording and reporting financial transactions are properly controlled and that the information resulting from these activities is reliable and useful.
- *Administrative controls* are necessary to ensure that all resources, including personnel, are properly obtained, maintained, and used; that decisions regarding the expenditure of funds are based on reliable information; and that budgets are properly developed and monitored to ensure consistency between planned and actual expenditure.

Separation of duties is a critical element of internal control. The following separation of duties must be complied with at all times:

- The person who signs cheques or authorises ANZ Online payments must not be the person who writes the cheques or prepares the ANZ Online payments, or does the accounting.
- Bank statements must be reconciled by a person other than the person who signs cheques or authorises ANZ Online payments.
- Bank statement reconciliations must be reviewed and signed by a person other than the person who prepared the bank reconciliation.
- The person who authorises procurements must not be the person who verifies receipt of the goods or services.

7.2 Fraud and corruption

“Fraud” means dishonestly obtaining a benefit by deception or other means. SMEC and its subcontractors, including the IndII team, shall not engage in any fraudulent activity. SMEC is responsible for ensuring that its staff and its subcontractors’ staff are responsible and accountable for preventing and reporting any fraud or suspected fraud as part of their routine responsibilities.

The IndII Facility Director must report in writing to AusAID Jakarta within five (5) working days if any detected, suspected, or attempted fraudulent activity occurs involving AusAID-provided funds. This written report must provide, where known:

- name of any personnel or subcontractors involved;
- the allegation(s), including a chronological account of the facts giving rise to the allegation(s);
- the names of the suspected offender(s) (where known);
- details of witnesses;
- copies of relevant documents;
- references to any relevant legislation;
- a nominated contact officer;
- any other relevant information (e.g. political sensitivities, any other party or agency that has been informed, involved or that can assist with investigations);
- the status of any inquiries commenced by SMEC;
- SMEC’s contract with AusAID – where money has been misappropriated, pay to AusAID or the project the full value of the AusAID funds that have been misappropriated; and
- where an item of property has been misappropriated, either return the item to AusAID or the facility or if the item cannot be recovered or has been damaged so that it is no longer usable, replace the item with one of equal quality.

AusAID may choose to suspend funds, and/or start procedures to recover funds at this time.

Following the conclusion of an investigation, where the investigation finds that a party other than the SMEC, an employee of SMEC or a subcontractor of SMEC, has acted in a fraudulent manner, SMEC shall, at its own cost:

- Make every effort to recover any AusAID funds or funded property acquired or distributed through fraudulent activity, including without limitation, one or both of the following:
 - Taking recovery action in accordance with recovery procedures, including civil litigation, available in Indonesia; and
 - Referring the matter to the Indonesian National Police.
- Keep AusAID informed, in writing, on a monthly basis, of the progress of the recovery action(s).

If, after all reasonable action has been taken to recover the funds or funded property and full recovery has not been achieved or recovery has only been achieved in part, SMEC must provide to AusAID all information, records and documents required by AusAID, who will make a decision on the way forward.

The AusAID publication – *Tackling corruption for growth and development – a policy for Australian development assistance on anti-corruption* (March 2007) – defines corruption as: “the misuse of entrusted power for personal gain.” The above publication outlines Australia’s anti-corruption approach as focussing on three mutually reinforcing elements:

- building constituencies for anti-corruption reform;
- reducing opportunities for corruption; and
- changing incentives for corrupt behaviour.

INDII will use activities funded through the IndII-IAs to support the above approach. The above elements will be incorporated, where appropriate, in each IndII-IA activity’s TOR.

7.3 Record retention

IndII will at all times maintain full, true, separate and up-to-date accounts and records in relation to the IFGIA and WSIA. Such accounts and records will:

- record all receipts and expenses in relation to the supplies and services, including those involving foreign exchange transactions;
- be kept in a manner that permits them to be conveniently and properly audited;
- enable the extraction of all information relevant to the operations of the IndII-IAs;
- contain details of the disposition of any supplies as agreed to by AusAID such as replacement, write-off or transfer to GoI departments or agencies;
- provide AusAID with statements of IFGIA and WSIA revenue and expenditure in the prescribed form on a regular basis for the duration of SMEC’s contract;
- be available for immediate inspection upon request by AusAID all accounts and records; and
- hold the accounts and records for the term of SMEC’s contract with AusAID and for a period of seven (7) years from the date of expiry or termination of the contract.

7.4 Signature authorisation

Authorised cheque signatories are listed below.

AUD-denominated IFGIA and WSIA in Australia:

- General Manager, SMEC Int., Social Development Group, Canberra, (Trevor Temple);
- Program Coordinator, SMEC Int., Social Development Group, Canberra, (Jeff Morgan);
- Banking & Funds Controller, SMEC Corporate Office, Melbourne (Connie Batson) – Alternative signatory; and
- Fin. Controller, SMEC Corporate Office, Melbourne (Andy Atkin) – Alternate signatory.

AUD/IDR-denominated IFGIA in Indonesia (Jakarta):

- IndII Facility Director (David Ray);
- IndII Deputy Director (Mark Collins);
- IndII Technical Director – Transport (David Shelley) – Alternative signatory;
- IndII Technical Director – P&R (Lynton Ulrich) – Alternative signatory;
- IndII Technical Director - Watsan (Jim Coucouvinis) – Alternative signatory.

Withdrawals cannot be made without the signatures of both principal signatories, except in circumstances where one of the principal signatories is absent; in which case, one approved nominee may act as an alternative signatory to the AUD-denominated IFGIA and WSIA in Australia, and IDR-denominated IFGIA in Indonesia, respectively. A written record of any signatory absences will be maintained within the IFGIA and WSIA files. AusAID employees will not be signatories on the bank accounts at any time.

7.5 Bank reconciliations

Reports will be reconciled monthly to ensure the accuracy and completeness of transactions posted to SMEC's accounting system. The following reconciliations will be undertaken monthly:

- AUD-denominated IFGIA bank reconciliation;
- AUD-denominated WSIA bank reconciliation; and
- AUD/IDR-denominated IFGIA bank reconciliation.

7.6 Financial reporting

Under its contract with AusAID, SMEC is required to provide to AusAID, within the 10 days following the end of each period (quarter), the balance of the Imprest account.

Quarterly reports will be prepared for both the IFGIA and WSIA that include details of the previous quarter's expenditure on all IFGI and WSI activities. These quarterly reports will include statements of expenditure incurred on each activity during the quarter:

- Statements will be prepared for the AUD and IDR components of the activity, with a consolidated statement in AUD using the mean monthly interbank exchange rate as the basis for currency conversions.

In accordance with its contractual requirements, IndII will, in preparing this report, review expenditure to verify that it has been made in accordance with the requirements of the Financial Manual of Operations. In addition, IndII will identify, within the quarterly financial reports, any processes or systems that, in its opinion, may inhibit accountable and transparent expenditure processes.

8. Budgeting and cash management

8.1 Cash-flow projections

IndII will, as part of the IFGIA and WSIA Quarterly fund requests, provide a cash-flow projection of funds for the upcoming quarter, denominated in AUD, for the AUD-denominated IFGIA and WSIA.

The projected cash-flow projections will reflect the anticipated Facility approved activity expenditure over the upcoming quarter.

8.2 Tranche request procedure

In accordance with Clause 16 of Part A of the Head Contract, funds for the IFGIA and WSIA AUD A/C will be advanced by AusAID to SMEC on a quarterly basis following AusAID's approval of the:

- acquittal of the previous payment;
- cash-flow projections of funds required for each subsequent payment, over the next twelve month period; and
- issuing of a correct and certified invoice.

The funds will be deposited into the ANZ Banking Corporation IFGIA AUD A/C or WSIA AUD A/C as required. SMEC will then transfer funds into the IFGIAAUD/IDR A/C at the Panin Bank based on the in-country cash-flow requirements. Internal transfers within the AUD/IDR A/C will occur on a needs basis, in line with on-going activities.

8.3 Bank charges and bank interest income

Bank charges relating to the three bank accounts will be paid with monies in those accounts and acquitted in the same way as other expenditure is acquitted.

If required, IndII will apply to the Indonesian Ministry of Finance (MoF) for exemption of withholding tax on interest income pursuant to the relevant Income Tax Act provision. IndII will give written notice to the Panin Bank of the exemption and ensure no withholding tax is deducted.

Annual interest earnings accrued to monies provided through either account will remain in those accounts and will be used for approved activity purposes and acquitted to AusAID as such.

8.4 Receivables

Receivables are amounts that are owing to either bank account but have not been received. There are four categories of receivables:

- AusAID tranche funds requested but not yet received into the AUD A/C;
- Monies owing on supplier credit and unused travel allowances;
- Interest earned on bank deposits; and
- Tax refunds not yet paid by MoF.

Receivables will be accounted for in the IFGIA and WSIA quarterly financial reports (refer Section 7.6 on Financial Reporting).

8.5 Disbursement procedures

All cheques written against the either bank account and signed by the authorised signatories will be recorded immediately in the SMECNet accounting cashbook module for the IFGIA and WSIA. Cheque Payment Vouchers will be fully acquitted before filing; unacquitted vouchers followed-up promptly.

Activity service provider expenditures will be closely monitored to ensure that Expense Claim forms are completed and sent to the IndII Jakarta Office in support of any disbursements.

9. Procurement

9.1 Procurement guidelines

All payments out of either bank account will be authorised and have full and complete supporting documentation. In all cases, a Cheque Payment Voucher will be completed. Activity acquittals will be completed for each activity by the IndII Jakarta Office monthly. With all procurement, IndII or the SMEC Management Team will:

- Determine what supplies are required for proper implementation of each approved activity and include the anticipated costs of such supplies in the activity budget (any amendments to these budgets must be approved by AusAID prior to the relevant procurement being initiated).
- Ensure all procurement is consistent with the principles of the Commonwealth Procurement Guidelines, in particular, achieving value for money.
- Maintain complete and accurate records documenting the procedures followed in procuring, and the particulars of supplies. and
- Ensure supplies are maintained, including taking appropriate steps to ensure that manufacturer's warranties of supplies are secured and warranty conditions followed.

IndII and/or the SMEC Management Team will ensure all supplies are free from defects in design, material, manufacture or workmanship. SMEC will replace defective supplies under warranty provisions or at its own cost.

SMEC will use the supplies for purposes permitted under its contract with AusAID and will ensure that the supplies at all times remain free from any encumbrance. All procurement will be in accordance with the IndII Procurement Guidelines.

9.2 Taxes on procurement

Approved activity procurements of imported goods are not subject to import duties, Customs, and other taxes in accordance with *General Agreement on Development Cooperation between the Government of Australia and the Government of the Republic of Indonesia*. IndII will ensure that taxes on such procurements are not being charged. Refunds due will be recorded as a receivable in the financial reports.

10. External audit and review

On every anniversary of the date of contract signature (28 July 2008), an audit of the IFGIA and WSIA (including both the AUD A/C and the AUD/IDR A/C) and all documentation relating to the accounts for the previous twelve months will be conducted by an independent auditor.

The audit will be completed within 28 days of each anniversary of the date of contract signature (i.e. by 25 August) and three copies of each audit report will be sent to AusAID within seven (7) days of the Contractor's receipt of the audit report (i.e. by 1 September). As follows:

- One copy will be sent to the relevant AusAID officer specified for the purposes of Standard Conditions Clause 40 (Notices) of the Contract:

AusAID Jakarta

Attention: Counsellor, Infrastructure and Regional Development

Australian Embassy

Jl. H.R. Rasuna Said Kav C15-16

Kuningan, Jakarta Selatan 12940

Indonesia.

- One copy will be sent to the Director, Audit at the following address:

AusAID

Attention: Director, Audit

GPO Box 887

Canberra ACT 2601

Australia.

- One copy will be sent to the Chief Finance Officer at the following address:

AusAID

Attention: Chief Finance Officer

GPO Box 887

Canberra ACT 2601

Australia.

A final independent audit of the IFGIA and WSIA and all documentation relating to the IndII Accounts will be provided with the Project Completion Report for the period since the last independent audit provided in accordance with the above. The cost of this audit is included in the Facility Operating Expenses and the cost of any corrections or remedial work required to the IndII-IA pursuant to audit findings is to be borne by SMEC.

The Accounts and all documentation relating to the IndII Accounts, including documentation related to the use of IndII funds may be subject to audit by or on behalf of AusAID at any time and from time to time.

In the event that AusAID becomes aware that any IndII money cannot be accounted for by SMEC, AusAID has the right to recover the amount in question (plus interest equal to the interest that would have been earned on the funds had they remained in the Imprest Account) from monies due and owing to SMEC under the Contract or as a debt due to the Commonwealth or by calling in the Unconditional Financial Undertaking referred to in Clause 17 of Part A of the Contract, whichever AusAID in its absolute discretion considers appropriate.

11. Termination of contract

If, upon premature termination of Contract 46379 between the Commonwealth of Australia represented by the Australian Agency for International Development and SMEC International Pty. Limited, or at the end of the Contract, money remains in either or both the IndII-IA bank accounts, SMEC will pay to AusAID the total amount of money (including any accrued interest) remaining in these accounts.

ANNEXE 1: GOVERNMENT OF INDONESIA SPECIAL ACCOUNTS FOR WATER AND SANITATION HIBAH

1. GoI, through the MoF will establish a Special Account in Bank Indonesia as part of GoI treasury. The Director General of Treasury (DGT) will manage this account with the Director General Fiscal Balance (DGFB) as the authorised entity to issue orders for payments.
2. The GoA, at the request from DGT, will deposit grant funds for the water (or sanitation) hibah into that account to pay all eligible claims as they are incurred. The initial deposit for this account will be 40 per cent of the total GoA grant. Replenishment of the account will be initiated by DGT through the submission of a "request for replenishment letter" to GoA. The amount to be replenished will be 30 per cent of the grant amount when the account balance is equal to two (2) months or less projected disbursement. During the operation of the grant there will be three (3) deposits to the special account, namely: 40 per cent of the total grant for an initial deposit and 30 per cent of the total grant for each of the two (2) replenishments.
3. The account will be in Australian Dollars (AUD) and claims for payments will be in Indonesian Rupiah (RPH). The Bank Indonesia will pay those claims in Rupiah using the prevailing exchange rate of Australian dollar to Rupiah on the date of the transfer. Bank Indonesia will use its Mid Rate which is declared on daily basis. Any foreign exchange gain accrued during the grant period may be applied to project-related activities upon approval from GoA. In the event of a foreign exchange loss due to an increase in the value of the Indonesian Rupiah against the dollar, the GoI will bear the risk and deposit additional funds to cover the remaining anticipated withdrawals.
4. Claims for payment from this account will be initiated by the submission of payment requests from the head of the local administration as the signatory to the "on granting" agreement (NPPH) to the DGFB. The payment request must be supported by an independent verification report confirming the number of new water (or sewer) connections. The calculation of the amount of the withdrawal request from the grant will conform to the grant value for each connection stated in the NPPH. The Directorate General of Human Settlement (DGHS), Ministry of Public Works, will endorse the request and this endorsement will represent a technical approval of the progress of the work. Claims for payment supported with verification reports and endorsement from DGHS will be processed by DGFB who will instruct DGT to release payments against its DIPA-HD (DGFB Budget Document). Payment of the grant will be made only to a separate treasury account established by the local government in a local bank. Any payments made that do not conform to these requirements may be classified as ineligible expenditure and be subject to reimbursement by GoI to the special account (see Clause 6 below).
5. At the end of the grant period, any remaining balance in the GoI special account will be refunded to GoA. The refund will be made when all eligible claims are paid and following DGFB assurance that there will be no more claims pending under their DIPA HD. That condition will be determined by an official notice from GoA which declares that grant is completed.
6. If any payments from the special account have been made for ineligible expenditures, and upon official notice from GoA regarding this matter, the GoI will reimburse these payments to the special account. If any ineligible expenditure is identified after the special account has been closed, GoI will reimburse the ineligible expenditure directly to GoA.
7. The DGT will submit a monthly bank statement of the special account to DGFB. The DGFB will submit to GoA a monthly reconciliation of the special account indicating details of payments and including a copy of the monthly bank statement from Bank Indonesia.
8. IndII will monitor the drawdown, utilisation and replenishment of funds from the special account and oversee

the reporting of the DGFB MoF to AusAID. IndII will submit independent reports to AusAID on the use of the special account funds. IndII will undertake assessment of the application of the funds at selected local governments to verify that the fund have been applied to eligible expenditure.

ANNEXE 2: SPECIAL ACCOUNT FOR GOI IMPLEMENTATION PROGRAM

