

**Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening
Project (FSNP)**

**Financial Statements
and
Independent Auditors' Report
For the year ended 31 December 2022**

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)

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Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)

Project information

Project	Lao PDR Financial Sector Safety Net Strengthening Project ("FSNP"), IDA 65710	
Funding agencies	International Development Association (IDA), the World Bank Group	
Duration	27 October 2020 to 31 December 2024	
Implementing agency	Deposit Protection Office, Bank of the Lao PDR	
Project management	Ms. Daomanivone Vilayvieng Mr. Bolisath Southichack	Deputy Director General of DPO, Project Director Deputy Chief of Division of DPO, Project Manager
Registered office	Lao PDR Financial Sector Safety Net Strengthening Project/FSNP Deposit Protection Office, Bank of the Lao PDR #144, 4th floor, ICONIC Building Phonxay Avenue, Phonxay Village Xaysettha District Vientiane Capital, Lao PDR, Tel.: (856 21) 410 212; Fax: (856 21) 410 213	
Auditors	KPMG Lao Co., Ltd. 10th Floor, Royal Square Office Building, Samsenthai Road, Nongduong Nua Village, Sikhotabong District, P.O.Box 6978, Vientiane, Lao PDR	



Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity

Bank of the Lao PDR
Deposit Protection Office

Statement of management's responsibilities

It is the responsibility of management to prepare financial statements of Lao PDR Financial Sector Safety Net Strengthening Project ("FSNP or the Project") for the year ended 31 December 2022, which are prepared in all material respect in accordance with the accounting policies as described in Note 2 to the financial statements. In preparing these financial statements, management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- Maintain financial records and prepare the financial statements based on the accounting policies as described in Note 2 to the financial statements; and
- Prepare the financial statement on going concern basis under it is inappropriate to assume that the Project will continue operations in the foreseeable future.

Project Management of Lao PDR Financial Sector Safety Net Strengthening Project ("FSNP") is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position and performance of the Project. Members of project management have a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Project and to prevent and detect fraud and other irregularities.

Project Management confirms that the Project has complied with the above requirements in preparing the financial statements.

On behalf of the management,

Ms. Daomanivone VILAYVIENG
Deputy Director General of DPO
Project Director
Deposit Protection Office
Bank of the Lao PDR
Date: 15 May 2023



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Independent Auditors' Report

To the Project Management of the Lao PDR Financial Sector Safety Net Strengthening Project

Opinion

We have audited the financial statements of the Lao PDR Financial Sector Safety Net Strengthening Project ("FSNP" or "the Project"), which comprise the balance sheet as at 31 December 2022, statements of receipts and payments by component, receipts and payments by category, and designed bank account for the year ended 31 December 2022, and notes, comprising summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements as at 31 December 2022 and result of the project for the year ended 31 December 2022 are prepared, in all material respects, in accordance with the accounting policies as described in Note 2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standard) (IESBA Code) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter- Basic of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 (a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Project management to report to donor. As a result, the financial statements may not be suitable for other purpose. Our report is intended solely for the Project management and donor, and should not be used by or distributed to other parties. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements

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



In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern, and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

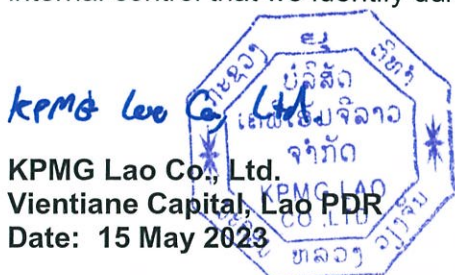
Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Project to cease to continue as a going concern.

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



Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Balance sheet

		31 December 2022	31 December 2021
<i>In USD</i>	<i>Note</i>		
Opening of fund balance		197,529	-
Excess of receipts over payments		(144,051)	197,529
Fund balance at the end of the year		53,478	197,529
Represent by:			
Cash and cash equivalents	6	53,478	197,529

The accompanying notes are an integral part of these financial statements.



Ms. Daomanivone VILAYVIENG
Deputy Director General of DPO
Project Director
Deposit Protection Office
Bank of the Lao PDR
Date: 15 May 2023

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Statement of receipts and payments by component

<i>In USD</i>	<i>Note</i>	For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
Receipts	3	-	6,481,945	6,481,945
Payments				
Capitalization of deposit protection office equity fund	4	-	6,163,000	6,163,000
Institutional capacity building for DPO and project management	5	138,858	121,416	260,274
		138,858	6,284,416	6,423,274
Unrealise foreign exchange loss		5,193	-	5,193
Total payments:		144,051	6,284,416	6,428,467
Excess of receipts over payments		(144,051)	197,529	53,478

The accompanying notes are an integral part of these financial statements.



Ms. Daomanivone VILAYVIENG
Deputy Director General of DPO
Project Director
Deposit Protection Office
Bank of the Lao PDR
Date: 15 May 2023

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Statement of receipts and payments by category

<i>In USD</i>	<i>Note</i>	For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
Receipts	3	-	6,481,945	6,481,945
Payments				
Expenditure for PBCs	4	-	6,163,000	6,163,000
Consultant services	5	65,713	63,378	129,091
Incremental operating cost	5	36,800	29,116	65,916
Training	5	33,327	-	33,327
Goods	5	3,018	28,922	31,940
		138,858	6,284,416	6,423,274
Unrealise foreign exchange loss		5,193	-	5,193
Total payments:		144,051	6,284,416	6,428,467
Excess of receipts over payments		(144,051)	197,529	53,478

The accompanying notes are an integral part of these financial statements.



Ms. Daomanivone VILAYVIENG
Deputy Director General of DPO
Project Director
Deposit Protection Office
Bank of the Lao PDR
Date: 15 May 2023

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Statement of designated bank account

<i>In USD</i>	<i>Note</i>	For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
Receipts	3	-	6,481,945	6,481,945
Total receipts		-	6,481,945	6,481,945
Payments				
Payments		144,051	6,284,416	6,428,467
Increase (decrease) of cash at project's operating account		(47,428)	57,659	10,231
Increase of cash at project's holding account		-	19	19
Increase of cash on hand		280	40	320
Total payments:		96,903	6,342,134	6,439,037
Excess of receipts over payments		(96,903)	139,811	
Fund balance at the beginning of the period		139,811	-	
Fund balance at the end of the period		42,908	139,811	
Represented by:				
Cash at designated bank account,				
Bank of the Lao PDR	6	42,908	139,811	

The accompanying notes are an integral part of these financial statements.



Ms. Daomanivone VILAYVIENG
Deputy Director General of DPO
Project Director
Deposit Protection Office
Bank of the Lao PDR
Date: 15 May 2023

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

1. Principal activities

The Government of Lao PDR has received funding from the World Bank Group for the Financial Sector Safety Net Strengthening Project (US\$35 million). The objective of the Project is to strengthen the financial and institutional capacity of the Deposit Protection Office (DPO) to fulfil its deposit insurance mandate.

The Deposit Protection Office (DPO) is the Project Implementing Agency and will be responsible for the overall supervision, execution, and management of Financial Sector Safety Net Strengthening Project (FSNP). The project shall be governed by Bank of the Lao PDR and shall be implemented through the existing DPO and concerned departments. DPO shall be responsible for formulating policy and strategy, setting standards, allocating resources, monitoring, providing technical support including the training of officials concerned, playing a role in quality assurance systems and technical auditing, and carrying out impact evaluations, planning, budgeting, procurement, contract management, quality control, and reporting.

The project is part of a broader strategy to strengthen the overall financial safety net, through strengthening the supervision and resolution of deposit-taking financial institutions, as well as the mechanism to be compliant with the rules and regulations for timely payouts of depositors in the case of bank failures. In light of the existing vulnerabilities in the banking sector, it is imperative to bolster the DPO's financial and institutional capacity with World Bank (WB) support. As demonstrated by the lessons from the global financial crisis, the establishment of a credible deposit insurance system is critical for financial sector stability, including maintaining public confidence and protecting less sophisticated and small depositors.

The Project includes two components:

- (i) Capitalization of Deposit Protection Office Equity Fund using Performance-based Condition (PBCs), whereby the WB funds are disbursed in tranches based upon verification of achievement of the pre-agreed PBCs; and
- (ii) Institutional capacity building for DPO and project management so DPO is empowered to perform its legally-mandated function (deposit payout), as evidenced by progress towards compliance with International Association of Deposit Insurers (IADI) Core Principles.

The Project is implemented by the DPO, Other agencies involved in project implementation include the Bank of the Lao PDR (BOL) and Ministry of Finance (MOF).

2. Summary of significant accounting policies

The following significant accounting policies have been adopted by the Project in the preparation of these financial statements:

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

2. Summary of significant accounting policies (continued)

a) Basis of financial statements preparation

The financial statements are prepared in accordance with the accounting policies of the Project consist of the Balance sheet, statements of receipts and payments by component, receipts and payments by category, and statement of designated bank account, which is expressed in United States Dollars ("USD"). The financial statements have, therefore, not been designed for those who are not familiar with the accounting policies of the Project.

The financial statements have been prepared in accordance with modified cash basis of accounting where except for cash advance. Under this basis of accounting, receipts are recognised when funds are received in cash rather than when earned and payments are recognised when made rather than when incurred. This is a comprehensive basis of accounting that is designed to meet the requirements of the Project and its donors; it is not designed to produce financial statements that are compatible with International Financial Reporting Standards or other prominent generally accepted accounting principles.

b) Fixed assets

All purchases of equipment are recorded as payments in the statement of receipts and payments upon acquisition as goods. The Project maintains a Fixed Assets Register for control purposes.

c) Cash

Cash comprises cash on hand and balances with banks.

d) Foreign exchange

The Project maintains its accounting records in USD in accordance with the financial agreement. Transactions in currencies other than USD during the period have been translated into USD at rates approximating those ruling at the transaction dates, and if the fund, which has been replenished to operating account and apply different exchange rate, will be used combine rate. All exchange rate differences are recorded in the statement receipts and payments.

e) Accounting reporting period

The general financial accounting Project starts on 1 January and ends on 31 December.

The period from 27 October 2020 to 31 December 2021 is the first financial year since the project started (effective date). Consequently, the statement of cash receipts and payments by component, statement of cash receipts and payments by category and statement of designated bank account for the year ended 31 December 2022 comprise for twelve months whereas the comparative information presented for the period from 27 October 2020 to 31 December 2021 cover for fourteen months and four days, which result in the period present being not comparable.

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

2. Summary of significant accounting policies (continued)

f) Comparison of budget and actual payments

The approved budget is developed on the same accounting basis, same classification basis and for the same period as for the financial statements.

g) Receipt recognition

Fund receipt from IDA is recognised as receipt when cash is credited to the Project's Holding bank accounts for component 1 and Project's operation bank account for component 2.

h) Payment recognition

Payments are recognized when documents substantiating the Project's transactions are submitted and approved and the payment is made.

Categories of payments:

1. Expenditure for PBCs: Capitalization of Deposit Protection Office Equity Fund. Performance-Based Condition (PBC) payments will only be made upon submission of supporting documentation satisfactory to the Bank confirming the achievement of respective PBC or PBCs. PBC payment is valued in SDR, disbursed in USD into a Holding Currency Account, and immediately transferred to the Capitalization account in Lao Kip.

2. Direct Payment and Reimbursement will also be used. Reporting of expenditure paid from the Designated Account will be done quarterly based on the Statement of Expenditure.

i. Goods

Goods consists of office equipment, furniture, vehicles, computers and software. All purchases of goods are recorded as payments in the statement of cash receipt and payments upon acquisition as goods.

ii. Consultant service

Consultant services consist of national project coordinator, national procurement, national communication consultant, and national finance consultant at Lao PDR Financial Sector Safety Net Strengthening Project.

iii. Non-consultant service

Non-consultant services including media and outreach expenses such as brochure, poster, and video.

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

2. Summary of significant accounting policies (continued)

iv. Training

Training consists of capacity development (training courses) for DPO staff/concerned parties, knowledge exchange including study tours, attend meeting, seminar and workshop (internal and oversea).

v. Incremental operating cost

Incremental operating cost consist of leasing and/or routine repair and maintenance of facilities and office premises; fuel, office supplies, and consumables; communication expenses (including postage, telephone, and Internet costs); translation, printing, and photocopying expenses; bank charges, publications, and advertising expenses; travel insurance; project-related meeting expenses; project-related travel, subsistence, and lodging expense.

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

3. Receipts

<i>In USD</i>		For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
Fund receipt for PBCs:	Date			
- 01-PBC-FSNP-DPO	22-Sep-21	-	6,163,019	6,163,019
Advance to designated account				
- 01-FSN-DPO	25-Jan-21	-	144,960	144,960
- 02.1-WA-OC-FSNP-DPO	8-Sep-21	-	173,966	173,966
		-	6,481,945	6,481,945

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

4. Capitalization of deposit protection office equity fund

<i>In USD</i>	For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
PBC# A2, DPO Board and BOL Governor have each approved regulations on adjusted deposit premiums	-	2,462,355	2,462,355
PBC# B1, DPO and Bank of the Lao PDR have signed an updated memorandum of understanding acceptable to the Association regulating the flow of information between the two entities	-	2,462,354	2,462,354
PBC# C2, DPO Board has approved its Code of Ethics	-	1,238,291	1,238,291
Total	-	6,163,000	6,163,000

5. Institutional capacity building for DPO and project management

	For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
Consultant services			
Financial management consultant	22,848	16,572	39,420
Firm consultant	19,049	-	19,049
Procurement consultant	13,472	24,379	37,851
Project coordinator consultant	5,239	22,427	27,666

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

5. Institutional capacity building for DPO and project management (continued)

<i>In USD</i>	For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
Communication Specialist consultant	5,105	-	5,105
	65,713	63,378	129,091
Incremental operating cost			
Car rental	11,388	11,653	23,041
Office rental	9,631	10,900	20,531
Document translation	4,821	2,252	7,073
Advertisement	1,937	-	1,937
Photo Copier rental	1,340	-	1,340
Office stationeries	976	921	1,897
IT system maintenance	-	136	136
Others	6,707	3,254	9,961
	36,800	29,116	65,916
Training			
Dissemination of decree on deposit protection	15,592	-	15,592
Meeting	14,931	-	14,931
Training courses	2,804	-	2,804
	33,327	-	33,327

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

5. Institutional capacity building for DPO and project management (continued)

<i>In USD</i>	For the year ended 31 December 2022	For the period from 27 October 2020 to 31 December 2021	Cumulative to date
Goods			
IT equipment	2,487	17,831	20,318
Furniture equipment	531	10,286	10,817
Office equipment	-	805	805
	3,018	28,922	31,940
Total	138,858	121,416	260,274

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Notes to the financial statements
For the year ended 31 December 2022

6. Cash and cash equivalents

<i>In USD</i>	31 December 2022	31 December 2021
Designated bank account: Bank of the Lao PDR	49,908	139,811
Holding bank account: Bank of the Lao PDR	19	19
Operating bank account	10,230	57,659
Cash on hand	321	40
Total	53,478	197,529

7. Commitments

The Project has outstanding commitments as follows:

<i>In USD</i>	31 December 2022	31 December 2021
International Deposit Insurance Advisor	225,860	-
Firm consultant	25,035	-
Communication Specialist consultant	22,495	-
Office rental	8,734	-
Car rental	6,852	-
Procurement consultant	2,395	5,621
Financial management consultant	1,563	3,828
	292,934	14,622

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Comparison of budget and actual payments
For the year ended 31 December 2022

(Appendix)

This table represented the used of funds by activities, as set out in the Project Appraisal Document ("PAD"), compared with current budget. *(Financing Agreement No.6571-LA; dated 28 April 2020)								
<i>In USD</i>	Actual		Budget (Unaudited)		Variance (Unaudited)		Project Document *	
	31 December 2022	Cumulative to date	31 December 2022	Cumulative to date	31 December 2022	(%)	Total budget	Remaining budget as at 31 December 2022
Component 1: Capitalization of deposit protection office equity fund	-	6,163,000	21,195,000	27,358,000	21,195,000	100%	33,250,000	27,087,000
Component 2: Institutional capacity building for DPO and project management	138,858	260,274	254,283	375,699	115,425	53%	1,750,000	1,489,726
Unrealise foreign exchange loss	5,193	5,193	-	-	(5,193)	-100%	-	(5,193)
Total:	144,051	6,428,467	21,449,283	27,733,699	21,305,232	1%	35,000,000	28,571,533

Bank of the Lao PDR
Deposit Protection Office
Lao PDR Financial Sector Safety Net Strengthening Project (FSNP)
Comparison of budget and actual payments
For the year ended 31 December 2022

(Appendix)

Analysis of variances between budget and actual payments

Component 1:

During the year 2022, the Project have achieved for nine PBCs. However, the disbursement has been delayed due to pending the submission of first audit report which performed by the State Audit Organisation (SAO) to verifying the use and transfer of International Development Association (IDA) funds for the capitalisation of the Deposit Protection Office Equity Fund.

Component 2:

For component 2 that including goods, non-consulting services, consulting services, training and operating costs having total budget is USD 254,283 indicated goods for USD 6,000, Consultant service for USD 120,300, Training for USD 69,000 and Incremental Operating Cost for USD 58,983 in 2022. In actual payment during the period is amounting to USD 138,858 or 53% of the budget.

Goods

During the current semester, the project had purchased one set of furniture for international deposit advisor amounting to USD 531, two unit of laptop for technical staff of PIU-DPO and Project staff amounting to USD 2,487. This category covers 50% of the annual budget because the table and the laptop, which purchased by the project was low spec. That's why it is underspent.

Consultant service

The expenditure of consultant service category for the year 2022 is USD 65,713 which is cover 55% of the annual budget for 2022. This category also underspent because the payment of deposit insurance advisor and survey firm have not implemented. Moreover, the recruitment of communication specialist was delay and able to start in November 2022.

Training

For the year 2022, the project had paid for the dissemination of decree on deposit protection in different provinces, such as: Savannakhet, Xiengkhouang, and Luangprabang province. Moreover, the project also paid for air ticket for DPO delegates to participate meeting in USA and Indonesia. The expenditure of this category of the year 2022 is USD 33,327 which is cover 48% of the annual budget for 2022.

Incremental Operating Cost

The expenditure of incremental operating for the year is USD 36,800 which is cover 62% of the annual budget for 2022. The expense incurred from this category, mostly are car rental, translation, set up local network system and IT system maintenance service, and other administrative works, For the rest are some small expenses, such as: stationery, ink, bank fee, cleaning, stationery, monthly meeting, Etc.