

Mekong River Commission Lao PDR

**Mekong Integrated Water Resources
Management Project
(M-IWRM, IDA Grant No. H762)**

**Management Letter
For the year ended 31 December 2015**



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Chief Executive Officer
Mekong Integrated Water Resources Management Project (M-IWRM)
Mekong River Commission Lao PDR
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Vientiane Capital, Lao PDR

09 AUG 2016

Dear Mr. Pham Tuan Phan

**Mekong Integrated Water Resource Management Project (M-IWRM)
Management Letter arising from the audit for the year ended 31 December
2015**

We have audited the financial statements of Mekong Integrated Water Resources Management Project ("M-IWRM" or "the Project") for the year ended 31 December 2015. In planning and performing our audit of the financial statements of the Project, in accordance with International Standards on Auditing, we designed our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements comprises of statement of cash receipts and payments, and the statement of designated bank account and therefore may not bring to light all weaknesses in internal controls that may exist. We aim, however, to use our knowledge of the Project gained during our work to make comments and suggestions that we hope will be useful to you. During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and have been set out in the attached report.

This communication is intended solely for the information and use of management, others within the Project and is not intended to be and should not be used by anyone other than these specified parties.



We would like to take this opportunity to record our appreciation of the assistance and co-operation of the Project's staff throughout the course of the audit.

Should you require any further information or explanation, please do not hesitate to contact me or Umair Javed Imam at ganesan@kpmg.co.th or uimam@kpmg.com respectively.

Yours sincerely,


Ganesan Kolandavelu
Partner



Summary of findings and recommendations	Page
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1. Differences in Interim Financial Report (IFR) and general ledger

Observation

We found difference between total expenditures reported in Interim Financial Report (IFR) and general ledger.

Particulars	As per IFR		As per GL		Difference	
	Year to Date 2015	Cumulative to Date	Year to Date 2015	Cumulative to Date	Year to Date 2015	Cumulative to Date
	USD	USD	USD	USD	USD	USD
Total Project Expenditure	1,278,472	2,027,945	1,271,513	2,020,986	6,959	6,959

The difference of USD 6,959 is appearing due to following transactions:

Period Posted	Date	Description	Reference No. 2	Voucher No.	Amount US\$	Mapping to Solomon code	Mapping to Activity code	Mapping to Category code
Dec'15	31/12/2015	Adj to 2. 13809AULW BL30-00-05	JV018035	018581	(6,268.93)	30-00-02	E.1	(1)
Dec'15	31/12/2015	MAF adj JV018581 for Dec 15	MAF11	018582	(689.58)	70-00-00	F.2	(3)
					<u>(6,958.51)</u>			

We found that JV018581 and JV018582 was posted in GL on April 2016 for an adjustment related to Q4 2015, this adjustment reduced the overall expenditure of the year 2015. Thus, the adjustment did not have effect in IFR submitted to World Bank for Q4 2015 and Q1 2016.

Implications

Every quarter IFR is submitted to donor (World Bank) for tracking of project expenditure and financial position of the project. If any adjustment is posted after submission of IFR it will create difference between the GL balance and IFR without proper reconciliation in IFR for that quarter.

Recommendation

It is recommended to post adjustment(s), if any, on time before submission of IFR and reconcile IFR with GL prior submission to World Bank.

Management response

The MRCS management agrees on the recommendation. End of the year 2015 is the time that many projects of MRCS going to finish their activities for project closing. The issue was happened due to the adjustment process that come up with delay of additional fund approval

Action: The Project management team will make sure the adjustment will be done in time, prior the submission to the World Bank.

Person responsible: CEO and Administration Division

Timing: July 2016

2. Imprest Accounts – Long outstanding Instalments and clarification of accounting policy in finance manual

Observation

Instalments as an Imprest Account were given to Riparian Governments implementing partners (Thailand, Laos, Vietnam and Cambodia). Those instalments were issued for project implementation and carrying out of programme activities.

However, we found that the imprest accounts are long outstanding since 2014, these imprest accounts are un-cleared or un-adjusted. Any expenditure that may have been paid from those imprest accounts money is not recorded in project expenditure and/ or refund of unutilized money to the Project's finance. The balances in those imprest accounts are stagnant without movement/adjustment since 2014.

	2015 USD	2014 USD
Cambodia National Mekong Committee	62,856	62,856
Lao Mekong IWRM Project Lao and Thailand	29,495	13,014
Vietnam National Mekong Committee	24,620	24,620
Lao Mekong IWRM Project Lao and Cambodia	18,500	18,500
Nam Kam – Xebanghieng	17,853	12,271
Songhla-Tonle Sap	16,250	16,250
	169,574	147,511

Further, we have observed that the finance manual do not provide clear and comprehensive accounting policy regarding clearance of instalments given as an imprest account.

Implications

When the instalments given as an imprest accounts are not cleared or reported in project expenditure, there are significant possibilities of expenses being under recorded and reported. Further, when the accounting policy regarding clearance of instalments given as an imprest account is not comprehensively defined in the finance manual, it may create misinterpretation on understanding and practical implementation of the said policy.

Recommendation

It is recommended that management should design and implement controls over checking on a frequent basis for example monthly or quarterly about utilization of instalments given as an imprest account and make sure that all project related expenses paid from those imprest accounts are correctly recorded and reported in the project expenditure.

Further, management should draft a clear accounting policy for clearance of instalments given as an imprest account.

Management response

The management agrees with the auditor's recommendation. Refer to the Finance Manual (Page 42) and our current practice, MRCS sends the reminder to national project coordinator of each transboundary project if the imprest accounts are not reported within the designated time frames.

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Action: The Project management team will work closely with national project coordinators of Transboundary projects to improve the mechanism to control the expenditures of Imprest Account.

Person responsible: CEO and Administration Division

Timing: July 2016