ROYAL GOVERNMENT OF CAMBODIA
MINISTRY OF PLANNING
Enhancement of Poverty Analysis Capacity Project
Grant No. TF0A0113

Management Letter
for the year ended 31 December 2017
H.E. Madam Hang Lina  
Project Director  
Ministry of Planning  
Enhancement of Poverty Analysis Capacity Project  
No. 386, Preah Monivong Blvd  
Phnom Penh, Kingdom of Cambodia

28 May 2018

Your Excellency,

Management Letter – Audit for the year ended 31 December 2017

We have audited, in accordance with Cambodian International Standards on Auditing, the financial statements of the Enhancement of Poverty Analysis Capacity Project ("the Project"), funded by the various donors under the Trust Fund for Statistical Capacity Building ("TFSCB"), administered by the International Development Association (referred to as "the World Bank"), and implemented by the Ministry of Planning ("the Implementing Agency" or "IA" or "MoP") for the year ended 31 December 2017, and have issued our report thereon dated 25 May 2018. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal control relevant to the Project’s preparation of the financial statements 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. Accordingly, we do not express an opinion on the effectiveness of the Project’s internal control.

The maintenance of adequate control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the Project.
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 are summarised in the enclosed report.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures 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.

Our findings are grouped into the following audit areas:

1. Financial management including record keeping systems and controls;
2. Procurement of goods and services;
3. Assets/Inventory management;
4. Cash management; and
5. Compliance with the key covenants of the Grant/Loan agreements and/or local regulations.

The Project's written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Ministry of Economy and Finance, the World Bank and the Project's management.

Yours faithfully,
For KPMG Cambodia Ltd

[Signature]

[Name]
Partner
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1. Financial management including record keeping systems and controls

1.1 Use accounting software to record transactions

Observation

We noted that the Project has been using Excel Spreadsheets to record the daily transactions in a form of cash book. We further noticed that there were no complete financial statements i.e statement of income and expenditure or statement of sources and uses of funds and or statement of financial position being prepared by the Project.

Implication

Excel spreadsheets are not accounting software and prone to error easily. Without preparing financial statements, it is hard for the project management to have a whole picture of the financial performance of the Project for the effective use of the project's fund.

Recommendation

The Project should consider obtaining a simple accounting software to process its transactions and generate a reliable financial statements. Every month end, the financial statements should be prepared and reviewed by the Project management.

Management’s response

The recommendation is well taken and the Project will take proper actions.
1. Financial management including record keeping systems and controls (continued)

1.2 Proper recording of transactions in cash book

**Observation**

During our course of audit, we identified one incidence that the Project recorded wrong description of training expense as advance payment as below:

<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Reference</th>
<th>Description</th>
<th>Amount US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>22-May-17</td>
<td>BPV17/020</td>
<td>Advance for training on CPI (Meeting package)</td>
<td>280</td>
</tr>
</tbody>
</table>

**Implication**

The incidence may imply the weak control in monitoring of the Project's accounting records. This may also lead to wrong financial statements being generated. Administrative time may therefore also waste in investigating the error.

**Recommendation**

The Project should enhance its control over the recording process especially information recorded in the cash book which shall be reflected the real transaction and be properly reviewed by the Project management.

**Management's response**

The recommendation is well taken and the Project will take proper actions.
3. Asset/Inventory management

3.1 Tagging non-expandable equipment items

Observation

During our course of audit, we noted that certain non-expendable equipment items were not tagged. For example:

<table>
<thead>
<tr>
<th>No</th>
<th>Location</th>
<th>Class of assets</th>
<th>Asset ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mr. Chhuon Sothy, NIS/MoP</td>
<td>Laptop Computer</td>
<td>LC13/EPACP-NIS/95NX0F2</td>
</tr>
<tr>
<td>2</td>
<td>Project Office</td>
<td>Multi-Function Printer</td>
<td>MFP01/EPACP-GDP/F6W15A</td>
</tr>
<tr>
<td>3</td>
<td>ICT-NIS/MOP</td>
<td>Tablet</td>
<td>T022/EPACP-NIS/R52J50XTMVV</td>
</tr>
<tr>
<td>4</td>
<td>ICT-NIS/MOP</td>
<td>Tablet</td>
<td>T022/EPACP-NIS/R52J50XV1XB</td>
</tr>
<tr>
<td>5</td>
<td>NIS/MOP</td>
<td>Tablet</td>
<td>T022/EPACP-NIS/R52J21DCHQJ</td>
</tr>
<tr>
<td>6</td>
<td>NIS/MOP</td>
<td>Tablet</td>
<td>T022/EPACP-NIS/R52J21DCH9A</td>
</tr>
<tr>
<td>7</td>
<td>NIS/MOP</td>
<td>Tablet</td>
<td>T022/EPACP-NIS/R52HB1DS14P</td>
</tr>
<tr>
<td>8</td>
<td>NIS/MOP</td>
<td>Tablet</td>
<td>T022/EPACP-NIS/R52J30ARW1D</td>
</tr>
</tbody>
</table>

Implication

Lack of assets codes tagged, Project management will find it hard to keep track of all items and ensure those non-expendable equipment items are being properly maintained and used.

Recommendation

The non-expendable equipment shall be tagged with asset codes which are consistent with those recorded in the non-expendable equipment listing.

Management’s response

The recommendation is well taken and the Project will take proper actions to ensure that the asset tags be placed with all project assets.
5. Compliance with the key covenants of the Grant/Loan agreements and/or local regulations

5.1. Compliance with withholding tax regulation

Observations

(i) During the course of our audit, we noted that the Project made payments to local consultants which are subject to withholding tax of 15% of payments. The Project deducted the withholding tax amounts from those consultants before making payments, however, the Project has not declared and remitted the taxes to the General Department of Taxation ("GDT").

(ii) The Project incorrectly deducted salary tax from the National Project Coordinator ("the Consultant") rather than withholding tax.

These issues were also raised following the previous year's audit.

Implications

(i) Failure to comply with withholding tax regulation, the Project may be subject to tax assessment which could result in the imposition of penalties of up to 40% of unpaid tax together with interest accruing at the rate of 2% per month.

(ii) The incorrect deduction of tax amount will lead to overpayment to the Consultant and overstatement of the Project's expenditure.

Recommendations

(i) All taxable obligation should be properly declared and remitted to the GDT within the required timeframe (i.e. 15th of the following month).

(ii) We recommend that the Project should withhold the correct tax amount to ensure compliance with tax regulations and correctly records the Project expenditure.

Management's response in 2016

The recommendation is well taken and the Project will take proper actions to pay the withholding taxes to the GDT soon.
5. Compliance with the key covenants of the Grant/Loan agreements and/or local regulations (continued)

5.1. **Compliance with withholding tax regulation (continued)**

*Management's response in 2017*

The recommendation is well taken and the Project will take proper actions to pay the withholding taxes to GDT soon. The Project paid the withholding taxes from all individual consultants and consultancy firms to GDT in March 2018. The reason for late payment of the withholding taxes is because the Project does not have adequate amount of budget in the Designated Account for all expenditures and the process for disbursement takes a little long.
## Status of previous period’s recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Observation</th>
<th>Implication</th>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Compliance with the Project Financial Management Manual</td>
<td>Based on the Project Financial Management Manual (&quot;PFMM&quot;), the Project is required to record advances when making advanced payment to staff to implement the Project's activity. When the advances are cleared, the journal vouchers will then be prepared by the Finance Officer to recognise the expenses and approved by the Project management. However, the Project recorded expense at the time of making cash advance to staff on below transaction.</td>
<td>It may be difficult for the Project to monitor the clearance date and supporting documents of the advance if no proper entries trail were recorded in the general ledger.</td>
<td>The Project should comply with the PFMM to record advanced payment and clearance.</td>
</tr>
<tr>
<td>1.2</td>
<td>Improve control over supporting documents</td>
<td>During the course of our audit, we noted that the following training expenses were not supported by the attendance list of participants.</td>
<td>Without attendance list signed by the participants, the Project may find it difficult to determine whether the refreshment and lunch claims were reasonable. This may increase the risk of misappropriate or misuse of the Project's fund.</td>
<td>The attendance list should be prepared for all training and signed by the participants and properly attached with the payment vouchers.</td>
</tr>
</tbody>
</table>
### Status of previous period's recommendations (continued)

<table>
<thead>
<tr>
<th>No.</th>
<th>Observation</th>
<th>Implication</th>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td><strong>Compliance with withholding tax regulation</strong></td>
<td>(i) Failure to comply with withholding tax regulation, the Project may be subject to tax assessment which could result in the impose of penalties of up to 40% of unpaid tax together with interest accruing at the rate of 2% per month. &lt;br&gt; (ii) The incorrect deduction of tax amount will lead to overpayment to the Consultant and overstatement of the Project’s expenditure.</td>
<td>(i) All taxable obligation should be properly declared and remitted to the GDT within the required timeframe (i.e. 15th of the following month). &lt;br&gt; (ii) We recommend that the Project should withhold the correct tax amount to ensure compliance with tax regulations and correctly records the Project expenditure</td>
<td>Not implemented. Refer to management letter No.5.1</td>
</tr>
<tr>
<td></td>
<td>During the course of our audit, we noted that the Project made payments to local consultants which are subject to withholding tax of 15%. The Project deducted the withholding tax amounts from those consultants before making payments, however, the Project has not declared and remitted the taxes to the General Department of Taxation (&quot;GDT&quot;).&lt;br&gt; (i) The Project incorrectly deducted salary tax from the National Project Coordinator (&quot;the Consultant&quot;) rather than withholding tax. This resulted in overpayment of US$415 to the Consultant and under declaration of withholding tax.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>