

Mekong River Commission Lao PDR

**Mekong Integrated Water Resources
Management Project**

(M-IWRM, IDA Grant No. H762)

Management Letter

Period from

17 August 2012 to 31 December 2013



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Hans Guttman
Chief Executive Officer
MRC Secretariat

18 July 2014

Dear Mr. Hans Guttman,

Mekong River Commission Lao PDR (“MRC” or “the Organisation”)

Management letter arising from the audit for the period from 17 August 2012 to 31 December 2013

Following the completion of the audit of the financial statements of Mekong Integrated Water Resources Management Project (“the Project”), for the period from 17 August 2012 to 31 December 2013, we set out in the attached report certain matters which came to our attention during the course of our audit and which we feel should be formally drawn to your attention.

The primary purpose of our examination of the accounts of the Project was to enable us to form an opinion on its financial statement for the period from 17 August 2012 to 31 December 2013 and its receipts and payments for the period from 17 August 2012 to 31 December 2013. Our examination of the accounts was performed on a sample basis and should not be relied upon to identify all irregularities and internal control weaknesses that may exist. Management must rely on a comprehensive system of internal controls within the Organisation as the principal safeguard against such irregularities.

This report is intended solely for the information and use of the Organisation and its Development Partner (World Bank) 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 Organisation’s staff throughout the course of the audit.

Yours sincerely,




Sukit Vongthavara
Partner

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Observation

There is no evidence to show that the bank reconciliation statements have been performed regularly for operational account to reflect the actual expenditure incurred of the World Bank-funded project with its designated account.

Implications

The purpose of performing regular bank reconciliations is to enable the management to identify any differences between its own cashbook and the balance as stated by the bank and to ensure that any differences can be accounted for and adjusted accordingly. If the management does not perform the bank reconciliations regularly, it increases the risk of not being able to identify any incorrect transactions and reconciling items and adjust for them on a timely basis. This increases the risk of fraud or error in the use of Project's funds.

Recommendation

The Project should perform the bank reconciliations once a month. If there are any discrepancies or reconciling items, they should be investigated and resolved promptly.

Management response

The M-IWRMP management agrees with the auditor's recommendation.

As stated in the MRC finance manual, all funds must be deposited into a designated bank account. In this connection, funds could be transferred from various Development Partners into separate bank accounts. As there are several Development Partners supporting the MRC with its thirteen programmes and three corporate service sections, MRC's operations is considered quite significant in size.

In order to smoothen these complex operations the following practice is in use. We have a pooling/operating account to accommodate daily operations for all kinds of payments. Those payments funded by Development Partners will be paid only through the pooling/operating account, not from the designated bank account. Meanwhile, in order to ensure sufficient funds in the pooling/operating account, a monthly withdrawal from each designated bank account will be made and transferred into the pooling/operating account. This pooling/operating account is reconciled monthly. Furthermore, in order to make sure that each designated bank account's balance is matched with fund received and actual expenditure incurred under each Development Partner, a quarterly reconciliation for each designated bank account is performed. However, in order to comply with the recommendation, the M-IWRMP will regularly reconcile the balance of the designated bank account to reflect the actual fund receipt and expenditure incurred in the pooling/operating account on a monthly basis.

Action: M-IWRMP will start implementing this recommendation from July 2014 onwards.

Person responsible: CEO and Chief of Finance and Administration Section

Timing: by July 2014