



**Mekong River Commission**  
**Lao PDR**

Management Letter  
Year ended 31 December 2016

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Mr. Pham Tuan Phan  
Chief Executive Officer  
Mekong River Commission

Date: 01 JUL 2017

Dear Mr. Pham Tuan Phan

**Management letter arising from our audit for the period from 1 January 2016 to 31 December 2016.**

Following the completion of the audit of the financial statements of the Mekong River Commission ("MRC" or "the Commission"), the period from 1 January 2016 to 31 December 2016, 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.

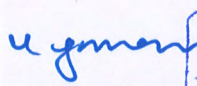
The primary purpose of our examination of the accounts of the Commission was enable us to form an opinion on its financial statements for the period from 1 January 2016 to 31 December 2016 and its receipts and payments for the period ended 31 December 2016. Our examination of the accounts was performed on a sample basis and should not be reply upon to identify all irregularities and internal control weaknesses that may exist. Management must reply on a comprehensive system of internal controls within the organization as the principle safeguard against such irregularities.


This report is internal solely for the information and use of the Commission and its partners and it isn't 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 Commission's staff throughout the course of the audit.

Should you require any further information or explanation, please do not hesitate to contact me email [ganesan@kpmg.co.th](mailto:ganesan@kpmg.co.th).

Yours sincerely,

  
Ganesan Kolandavelu  
Partner



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## 1. Long outstanding of advance

### *Observation*

From our checking over the advance to the staff, we found five advance payments which are outstanding over 90 days. Based on our discussion with the management, we found that these advances are mostly outstanding at Phnom Penh Office (OSP), due to the location, advance may taking more time to be cleared and the staff need to be reminded to clear the expense. Details are as below:

No	Description	Reference Number	Date	Amount in USD
1	Administration Assistant	DV001375	12/09/2016	300.00
2	OSP-Maintenance Technician	DV001104	14/07/2016	8,000.00
3	OSP – Administration Assistant	DV001394	13/09/2016	150.00
4	M & E Specialist	DV000544	04/04/2016	4,952.00
5	OSP – IT Assistant	DV001106	14/07/2016	7,133.00
<b>Total</b>				<b>20,535.00</b>

### *Implication*

MRC has the policies set for advance payments, i.e. if the advance not cleared within 45 days after the end of the activities, MRC will not approve additional advance requested by the project/staff and if over 90 days; the management will block all the expenditure of that project until the advance has been cleared.

Long outstanding advances which are over the maximum clearance date set by MRC indicate of deficiency of the used of the fund by the project management. This has increase the risk of misappropriation of funds.

### *Recommendation*

MRC already has the control in place for advances, however the management needs to make sure that the controls are implemented, and action should be taken for any long outstanding advance according to the policies.

### *Management response*

*Action:* The management concurs with the findings and recommendations. The management will make every effort to strengthen the control mechanism over the cash advance liquidation issue in the upcoming fiscal year. During the year 2016, it was a transition period for MRC, thus, there has been some overlooked in the advance monitoring. However, management will discuss with relevant staff members and National Focal Points to go through the implication of this liquidation of cash advance and go through their responsibilities to prevent further delay.

*Person responsible:* All divisions

*Timing:* Immediately

## 2. Long outstanding of account payable

### *Observation*

From our checking of accounts payable, we have checked 16 items and found 10 items, which should have been reversed and/or re-allocated. From our inquiry with the MRC management, we found that the account payable is booked according to the agreed contract. However when the actual expenditure occurred, some of it was less than what MRC has accrued. Below are the details of the outstanding account payable:

No	Payee Name	Reference No	Doc Date	Amount in USD
1	Huon Rath	OBAP 16-010	12/31/15	154.00
2	Ek Menrith	OBAP 16-012	12/31/15	154.00
3	Champa IT Private Enterprise	PPI000036	11/10/16	4,932.18
4	Winnercam International Logistics	OBAP 16-018	12/31/15	97.50
5	Naga Clinic	OBAP 16-020 - 025	12/31/15	740.00
6	Lao Japan Research Consulting Co., Ltd	OBAP 16-026	12/31/15	5,675.00
7	Haskoning Nederland B.V.	RC000079	01/28/16	524.93
8	Bureau of Meteorology, Australia	RC000013	02/10/16	529.60
9	Lao National Mekong Committee	OBAP 16-053	12/31/15	2,490.00
10	Vietnam National Mekong Commit	OBAP 16-060	12/31/15	553.20
Total				<b>15,850.41</b>

### *Implication*

Over booking of accounts payable may not present the actual position of the financial statements correctly.

### *Recommendation*

The management should update/reverse long outstanding account payables, if there no further expense to be made in the future.

### *Management response*

*Action:* Management concurs with the recommendation however, management would like to explain that MRCS will pay based on actual work done as specified in the contract. As per the above items some of them have not yet completed and work in progress during the period. Furthermore, some of them has completed within the shorter period, therefore some of consultants did not claim for the time that they did not work. Management took this seriously and will monitor accounts payable closely.

*Person responsible:* Finance team

*Timing:* Immediately

### 3. Misstatement over prepayment account

#### *Observation*

Prepayment was booked as credit balance (negative) and this was due the resigning of the staff during the year; and MRC received back the premium amount which was paid for the staff health insurance. The amount received back was also from the year 2015 and was not reversed or adjusted at year end.

<u>Year</u>	<u>Amount received back</u>
<u>2015</u>	7,399.00
<u>2016</u>	172.70
	<u>7,572.70</u>

#### *Implication*

Incorrect booking of the account could result in wrong presentation of the financial statements.

#### *Recommendation*

The prepayment account should properly reconcile, follow up and update as soon as there is any change. In addition, the amount received back from previous year (i.e. 2015) should be adjusted.

#### *Management response*

*Action:* The management concurs with the findings and recommendations. As the year 2015 and 2016 was the restructuring period for the MRC. As a result, there has been some overlooked by relevant people. Furthermore, MRCS has migrated from old accounting system to the new accounting system which caused some overlooked in this item. The management will make every effort to improve the system to prevent further issue.

*Person responsible:* Finance and HR Team

*Timing:* Immediately

#### **4. The implementation of the new accounting system**

##### ***Observation***

MRC changed the accounting system from Microsoft Dynamics SL (Solomon) to Microsoft Dynamics NAV (Navision) at the end of 2015. The system has not yet been fully implemented by MRC, this is due to the system is new to the staff, many accounts and amount needed adjustment and re-import from the previous year system.

This caused the delay of the financial report and took more time for the finance staff to reconcile and properly roll forward from 2015; and checking on the monthly financial report in 2016.

##### ***Implication***

The delay of the work may cause MRC to miss the deadline to submit the reports to the donors. The report produce may be incorrect and result in more adjustments at later stage.

##### ***Recommendation***

MRC needs to make sure that the new accounting system is suitable to the Organization; and the staff who will use the system knows how to use the system properly.

##### ***Management response***

*Action:* The management concurs with the findings and recommendations. There has been lots of changes in reporting requirements and system flow since the first installation of the software. As a result, the system is now not functioning 100% which some core functions are not working. The management aware of the issues and we are working with the software provider to improve the system and we have also discussed with relevant donors to provide technical support in making this system fully functioning. The management will make every effort to improve this issue

*Person responsible:* Finance and IT team

*Timing:* Immediately

**Status of issue in previous year's management letter**

*No issue raised in 2015*