Ministry of Industry and Commerce
Department of Planning and Cooperation

National Implementation Unit
Enhanced Integrated Framework (EIF) Tier 2 Project
Management Letter
Year ended 31 December 2017
National Implementation Unit (NIU), Ministry of Industry and Commerce ("MoIC")

Management Letter arising from the audit for year ended 31 December 2017

Following the completion of the audit of the financial statements of Enhanced Integrated Framework (EIF) Tier 2 Project by National Implementation Unit ("the Project") for the year ended 31 December 2017, 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.

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 internal controls that may exist. Our 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.

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 (ganesan@kpmg.com) or Uimair Javed Imam (uimam@kpmg.com).

Yours sincerely,

Ganesan Kolandevelan
Audit Partner

Date: 30 Jun 2018
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1. Management advance clearance

**Observation**

We noted that advances clearance does not comply with the Financial Management Implementation Manual where advances are required to be cleared within 10 working days after completion of the activity, some examples are shown as below:

<table>
<thead>
<tr>
<th>Voucher advance</th>
<th>Advance date</th>
<th>Implementing agency</th>
<th>Description</th>
<th>Amount (USD)</th>
<th>Activities ended date</th>
<th>Clearance date</th>
<th>No. Overdue days</th>
</tr>
</thead>
<tbody>
<tr>
<td>AU-1985862E</td>
<td>27-Oct-17</td>
<td>DSM</td>
<td>Air tickets for attend the EIF /UN-ESCAP regional workshop one merging priorities in Least development</td>
<td>834</td>
<td>3-Nov-17</td>
<td>5-Dec-17</td>
<td>11</td>
</tr>
<tr>
<td>AU-1889463E</td>
<td>21-Mar-17</td>
<td>DSM</td>
<td>DSM Advance clearance payment For delegator from DSM Go to Visit and learn about assessment to be an assessors with BOA Vietnam during 26-31/3/2017</td>
<td>2,404.40</td>
<td>31-Mar-17</td>
<td>5-May-17</td>
<td>11</td>
</tr>
<tr>
<td>AU-1985869E</td>
<td>22-Nov-17</td>
<td>DSM</td>
<td>DSA Allowance for participate pre-packaged products training course that is held by DID, Khonekhaen, Thailand during date 26/11/-6/12/2017</td>
<td>6,068.37</td>
<td>6-Dec-17</td>
<td>22-Dec-17</td>
<td>2</td>
</tr>
<tr>
<td>AU-1928316E</td>
<td>9-Jun-17</td>
<td>DSM</td>
<td>DSA Allowance on the workshop on petrol quality examination training for staffs on 13-16/6/2017</td>
<td>2,974.78</td>
<td>16-Jun-17</td>
<td>6-Jul-17</td>
<td>4</td>
</tr>
<tr>
<td>AU-1928304E</td>
<td>18-May-17</td>
<td>DSM</td>
<td>Payment for fuel on the workshop on petrol quality examination training for staffs on 13-16/6/...</td>
<td>839.32</td>
<td>16-Jun-17</td>
<td>6-Jul-17</td>
<td>4</td>
</tr>
<tr>
<td>AU-1928316E</td>
<td>9-Jun-17</td>
<td>DSM</td>
<td>DSM Advance payment For Consultation meeting on scheme of test for Steel round bar and deformed bar on 22-25/5/2017 at Vanvieng</td>
<td>2,206.74</td>
<td>25-May-17</td>
<td>11-Jul-17</td>
<td>21</td>
</tr>
</tbody>
</table>
This issue was also raised during the audit for the year ended 31 December 2016.

Implication

- If advances are not cleared for a long period of time, this indicates that the related activities of the Project may have been delayed. The longer that advances remain unclear, the more difficult it will be to recover unused funds.

- In appropriate use of advance could reduce the effectiveness of the Project and as well increase a risk that donors will impose a penalty if these requirements are not followed.

Recommendation

- The Project should ensure that advances are cleared within 10 working days or within a month in advance for petty cash. All supporting documents should be obtained and any surplus funds should be returned to the Project.

- The Project should keep monitoring that the propose of using the advances are followed by Donor’s requirements as mentioned in the Financial Management Implementation.
Project management response — for the year ended 31 December 2016:

Action: Management agrees with the auditors' recommendations and noted that this issue is an ongoing issue. Over the period, management team have considered the issue and followed up with relevance responsible persons to improve this and it is cleared that the issue was improve. However, the management acknowledged that more to be done. Therefore, management team and our accountant and finance officers will work closely with the relevance departments to implement operating procedures to address the issue.

Person responsible: All related agencies

Timing: Immediate

Project management response — for the year ended 31 December 2017

Action: Agreed with the auditors' finding and recommendation, the project management acknowledged of this issue and tried to improve by forcing the advance holder to clear within the time allowed in the FM Manual, but due to many limitation of the advance holders such as times, work allocation and accounting skill, insufficient supporting document and no activity report at Implementing Agency to support the advance clearance, therefore, NIU returned document back to IA to complete and resubmit to NIU again.

Person responsible: All related/responsible persons

Timing: Every advance payment made to advance holder
Status of issues in previous year's management letter

<table>
<thead>
<tr>
<th>No</th>
<th>Issue</th>
<th>Status</th>
<th>2017 Ref.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Management advance clearance</td>
<td>Unresolved</td>
<td>1</td>
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</tbody>
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