

**ACTION FOR ENVIRONMENT AND COMMUNITIES
MANAGEMENT REPORT
FOR THE PERIOD FROM 1 JULY 2013 TO 31 DECEMBER 2013**

ACTION FOR ENVIRONMENT AND COMMUNITIES

MANAGEMENT REPORT FOR THE PERIOD FROM 1 JULY 2013 TO 31 DECEMBER 2013

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Board of Directors and Management
Action for Environment and Communities
Mong Barang Village, Sangkat BH-E, Kampong,
Chhnang City, Kampong Chhnang Province,
Kingdom of Cambodia

**MANAGEMENT REPORT
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We have the pleasure to enclose our Management Letter following the completion of the audit of the financial statements of Action for Environment and Communities (“the Organization”), which comprise of the statement of financial position as of 31 December 2013 and the statement of activities and the statement of cash flows for the period from 1 July 2013 to 31 December 2013, during which we examined certain aspects of the entity’s system of internal control.

We have identified a number of areas where we believe it is appropriate for the Management to consider improvements to the accounting and internal control systems. Our recommendations have been set out in the attached report. The facts and our recommendations have been discussed with various responsible officials from the entity and their comments have been incorporated into text.

It must be appreciated that the matters raised in this report came to our attention during the conduct of our normal audit procedures which are designed primarily with a view to the expression of our opinion on the year end accounts. Our comments cannot, therefore, be expected to include all possible improvements in internal controls, which a more extensive special examination might reveal.

We would like to take this opportunity to express our appreciation for the co-operation we received from the Management and all staff during the course of our audit and hope to receive the same support and assistance in our future audits.

Yours faithfully,
APV (Cambodia) Co., Ltd

Maria Isabelita C. Manzon-Cabrera
Phnom Penh, Kingdom of Cambodia

Date:

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1- CASH AND BANK

1.1 Surprise cash count

Observation

Management does not have any guideline to conduct a surprise cash count randomly. As a result, there is no surprise cash count conducted by management during the period of audit.

Implication

No surprise cash count makes custodianship of cash susceptible to mishandling of cashier creating a situation where cash would be used for personal purposes which will lead to unavailability of cash in urgent situations and may lead to possible losses.

Recommendation

Surprise cash count helps ensure proper cash management. Surprise cash count needs to be conducted randomly.

Management's response

AEC will develop guidelines on surprise cash counts and will implement as soon as possible.

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1.2 Salaries paid by cash

Observation

The monthly staff salaries are paid by cash rather than transferring to individual bank accounts. Cash is withdrawn from the bank and paid to the staff.

Implication

Payment by cash is not secure and it could be incidentally lost.

Recommendation

We recommend that salaries should be paid through each individual's bank account in order to minimize risks.

Management's response

AEC will pay salary for all staff through their bank accounts instead of payment by cash. The Financial Department will be organizing this accordingly.

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2- FIXED ASSETS

2.1 Safeguards on fixed assets

Observation

There are no existing security guidelines to take care of the Organization's assets in the office during staff mission to other districts or provinces and during the long holiday. The office is closed without any security guard.

Implication

Fixed assets are the only tangible property of the Organization which are used to operate its activities. Without the proper guidelines on the security and care of these assets, it may be lost, stolen or damaged.

Recommendation

The Organization shall have their own security guidelines to ensure that the assets are properly safeguarded. For example, the 24 hours for security guard should be considered and the cost to be included in the Organization's budget.

Management's response

AEC will look for security guards to take care the office as and when the financial support is available. We will ensure that the security firm has security guard available in Kampong Chhnang province as well.

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3- FINANCIAL REPORT

3.1 No global financial report for management

Observation

There is no printed global monthly financial report for the Management and the Board other than the financial report for donors.

Implication

The financial report is the important tools for the Board and the Management to monitor the projects, activities, strategy thinking, fund raising and planning. If the Management is not aware of the global financial situation, it could lead to wrong decision making and may increase fund raising problem.

Recommendation

We recommend that the finance staff should prepare global financial report for the Board and the Management on the monthly basis.

Management's response

AEC's finance staff will produce monthly global financial report.

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4- PENSION FUND

4.1 No bank account, policy and system for pension fund

Observation

There is no written pension fund policy and procedure and there is no separate bank account to keep the fund (5% from staff and 5% from Organization). Currently, the funds are kept in a secured box but there is no system or spreadsheet to monitor the collection of funds by individual staff.

Implication

In the absence of appropriate pension fund policy and procedures, there is a high risk of misstatements and loss control of the fund.

Recommendation

We recommend the Organization should establish the pension fund policy and procedure to ensure that fund was properly monitored and safeguarded.

Management's response

AEC discussed with the Board of Directors about pension fund policy and will set up the policy during the next board meeting.

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5- TAXATION

5.1 Wrong percentage of withholding tax

Observation

According to the Article 25, section 6 of the Law on Taxation, withholding tax of 15% is to be withheld on the income received by a physical person on the performance of services including management, consulting, and similar services. However, the Organization has only withheld and paid 10% of the total service fee.

Implication

With this non-compliance with Cambodian Law of Taxation, the Organization is at risk of reassessment from the Tax Department and may be subjected to pay the tax with interest of 2% per month and penalties up to 40% of the unpaid tax.

Recommendation

We recommend that the Organization should consider disclosing and withholding voluntarily the tax on fringe benefits to the Tax Department to reduce its risk of tax penalties.

Management's response

AEC will take tax from consulting service and similar services according to the Cambodian Law of Taxation as soon as possible.

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6. STATUS OF PRIOR YEAR RECOMMENDATION

RECOMMENDATION	STATUS
<p>1. Physical count of fixed asset</p>	
<p>We recommend that physical asset count should be performed at least once a year or at end of each financial year using the asset count sheet and count result should be reconciled with the fixed asset list. Asset sticker code should be attached to the item to identify as property of the Organization. After the count is performed, the count sheet should be signed by the staff that counted and checked by the staff who witnessed the count. Using the count sheet, the final fixed asset list should then be prepared and submitted to the management and a copy should be kept in the accounting for verification and reference</p>	<p>Implemented</p>
<p>2. Segregation of duties in the finance department</p>	
<p>We recommend that the Organization should consider segregating the major functions in the finance department. Recording of financial transactions should be assigned to Admin Finance officer and cash handling function (Cash on Hand and Petty Cash Fund) should be assigned to Accounting Assistant. The admin Finance Officer will then monitor or check the cash fund with the Accounting Assistance regularly by conducting surprise cash count or spot check of unrecorded expenses in the system. Through this there is proper segregation of duties and good internal controls against manipulation of records and misuse of funds.</p> <p>We also recommend, in case that the Organization has no sufficient fund to hire an Accounting Assistant to handle the cash fund or, there is no existing staff to handle the cash fund, surprise cash count should be conducted monthly or quarterly as mitigating control for the Admin and Finance Officer who is the Cashier of the Organization. Through this, the Organization can ensure that there is proper cash handling of cash funds, and cash fund always reconciles with the balances in the accounting system.</p>	<p>Not Implemented</p>

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6. STATUS OF PRIOR YEAR RECOMMENDATION (Continues)

RECOMMENDATION	STATUS
<p>3. No reference number from the voucher to the supporting documents</p>	
<p>We recommend that the Project Staffs should properly and completely accomplish the finance voucher with all the required information especially with the reference numbers on the voucher to the supporting documents. The Project staff should assign the reference number to the supporting documents, arrange the supporting documents accordingly by type of Expenses and then note the reference numbers in the finance vouchers. Through these all expenses are traceable and verifiable from the voucher to the supporting documents and vice versa and ensure that there are no supporting documents like the invoice or receipt that are missing. This will also facilitate easy confirmation of expenses to the sellers or vendors by the management and external parties.</p>	<p>Implemented</p>
<p>4. Different reference transaction number from the system to the voucher</p>	
<p>We recommend that Admin Finance Officer should prepare the voucher properly by putting he references number to the voucher and correctly posting it to the accounting system. Should the Admin Finance Officer found out that there is a wrong reference number or transaction date, he or she should cross out the wrong references number or transaction date, sign on it and write the correct number corresponding to the amount of expenses. The manager should then counter sign on the change to approve the changes made and then the Admin Finance Officer should then post the new number to the system. The Accountant should not make direct change to the accounting system without correcting the accounting voucher. This is to ensure proper documentation and authorization on the accounting voucher. This is to ensure proper documentation and authorization on the accounting voucher and the information in the accounting system.</p>	<p>Implemented</p>

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6. STATUS OF PRIOR YEAR RECOMMENDATION (Continues)

RECOMMENDATION	STATUS
5. High cash payment	
We recommend that the Organization should consider paying the big expenses by check to facilitate payment. The Organization should also set up a policy on cash and check can start from \$200 in order to maximize the time of the Finance Staff to more important task than withdrawing money from the bank every time payment is made to the seller or vendor. Through this, the Organization can also lower the risk robbery, loss, theft and other irregularities.	Implemented
6. Approval on photocopied voucher	
We recommend that the Admin Finance Officer should ensure that all Finance Vouchers including the photocopied Finance Voucher should be signed approved by the ED before these are cleared and recorded in the system and sent to the donors. This is to ensure that all transactions in the accounting system are properly documented and authorized or approved by Executive Director or Approving Officer. In cases where photocopying of Finance Voucher and supporting documents comes first for immediate submission to the donor, the Finance Officer should then ensure that the photocopied Finance Vouchers have been subsequently signed by the ED and/or explanation have been made on the Finance Voucher.	Implemented
7. Withholding tax on service fee not withheld	
We recommend that all rental fees and consultancy fees/constructor fees payments should be withheld with 15% withholding taxes, respectively, in adherence to the Cambodian Tax Law. The amount withheld should then be remitted to the tax department every 15th day of the following month. This will ensure that the Project is complying with the required tax payments and avoid tax exposure in the future.	Not Implemented

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6. STATUS OF PRIOR YEAR RECOMMENDATION (Continues)

RECOMMENDATION	STATUS
8. Supporting documents for salary tax computation	
<p>We recommend that the Human Resource personnel or Admin Finance Officer should require from the staff who have family or who clam for tax deduction to provide proper documents such as family records for proper computation of staff salary tax payment. This will ensure that salary tax deductions and computations are true, legitimate and correct.</p>	<p>Implemented</p>
9. Use of licensed software	
<p>We recommend that the Organization should use licensed software to process their Organization and financial information. This is to ensure that all the programs used will run smoothly and that important information of the Organization is safe and protected with licensed software. IT support will always be availed from the manufacturer in case there are difficulties on the use of the software or breakdowns on the software.</p>	<p>Not Implemented</p>
10. Password security	
<p>We recommend that some of the staff of the Organization that are using computers should set up password to their respective computers to prevent unauthorized changes on the important information on the computer. Password should also be changed regularly to avoid unauthorized access to the computes data file. Through this the computer data files are properly protected from unauthorized changes or access and protects the integrity of the computer data files and accounting records.</p>	<p>Implemented</p>

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6. STATUS OF PRIOR YEAR RECOMMENDATION (Continues)

RECOMMENDATION	STATUS
<p>11. Back up management</p>	
<p>We recommend that regular back up of Project and financial files should be performed (e. g .monthly or quarterly back up) and back up files should be stored in an external data drive. The backup mediums should be stored or kept in a safe place in the Organization like safe or vault and another back up should be stored off-site to ensure that project and financial information of the Organization is secured in a safe place in case of fire or other calamities.</p> <p>We recommend that formal written policies and procedures for data back-up, maintenance and restoration should be prepared and implemented within the Organization particularly in the finance department considering that most of the financial information is stored electronically.</p> <p>The policies and procedures would contain the data to be backed up, frequently, personal in charge for back up, testing and restoration of data and proper procedures to follow when back up is performed. Through this finance and project data is properly protected and kept in a safe place.</p>	<p>Not Implemented</p>
<p>12. Cash box</p>	
<p>We recommend that the Saving Group should have a Cash box for safekeeping of the cash funds and important documents of the Saving Group. The Cash Box should be securely in the house of the cashier or the one who keep the cash fund so that unauthorized persons or thieves cannot easily open/steal the money or important documents of the Saving Group. Through this, the cash funds are protected and avoid loss cash funds due to robbery of fire.</p>	<p>Implemented</p>