

**ACTION FOR ENVIRONMENT AND COMMUNITIES
MANAGEMENT LETTER
FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014**

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**Board of Directors and Management
Action for Environment and Communities (AEC)**

Mong Barang Village, Sangkat BH-E, Kampong,
Chhnang City, Kampong Chhnang Province,
Kingdom of Cambodia

**MANAGEMENT LETTER
FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014**

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 30 June 2014 and the statement of activities and the statement of cash flows for the period from 1 January 2014 to 30 June 2014, during which we examined certain aspects of the organization’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

Sea Piseth
Phnom Penh, Kingdom of Cambodia

Date:

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1. CASH & BANK

1.1 Internal control regarding access to safe

Observation

Safe combination and the keys that are used to access the safe are kept only by one person in the Finance Department instead of being kept separately by two different persons.

Implications

Maintaining safe combination and keys by two different persons is a very important tool to prevent risk of unnecessary access into safe and losing cash or using cash outside the purpose of grants agreement.

Recommendations

Safe combination and keys to access the safe should be held and kept by two (2) separate persons from different departments. In the absence of one staff who responsible for the safe, we recommend that the management team should make arrangements to be the second person to access the safe (this process is to be documented whenever it is used), instead of another staff having the sole control and access to the safe.

Management's responses

Currently, the key and combination to the safe are held by two different staff. In the absence of one of the staff, both the safe combination numbers and safe key are held by the other staff. Therefore, in the event that one staff is absent, a manager will be the replacement to keep the safe key and/or safe combination holder. AEC will ensure that key and combination will be held separately by two different persons.

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2. UNRECORDED TRANSACTION

Observation

Salary tax and pension fund were withheld and deducted from the staff. However, those transactions were not properly recorded in the financial position of the Organization.

Implication

Even though the salary tax and pension fund is properly controlled, the financial position does not present fairly if those transaction are off the recorded.

Recommendation

We recommend that all transactions relevant to the Organization shall be properly recorded or disclosed in the financial statement in order to ensure that these present fairly in all material respect.

Management's response

AEC agrees and is satisfied with the recommendation. AEC will record salary tax and pension fund starting from July 2014.

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3- SUPPORTING DOCUMENT

3.1 Committee on approval of quotation

Observation

Reference to the Article III of the financial policy of the Organization, “the acquisition of physical item in which its cost per item is more than USD 200 should have at least 3 quotations from different suppliers and to be approved by the committee.”

We observed that the following purchases have been approved in the meeting but the approval on quotation was not recorded in the minutes of meeting.

Date	Reference	Descriptions	Amount in USD
06/27/2014	PV14-0267	Purchase new motor Honda dream model 2014	1,870
06/05/2014	PV14-0214	Purchase new computer laptop for admin used easy to take a long with	695

Implication

Documentation is very important process to ensure that there are enough supporting evidences to every approved transaction. In absence of this documentation, the validity and accuracy of the approved transaction is not guaranteed.

Recommendation

We would like to recommend that every approval in the meeting should be documented in the minutes of meeting as a supporting document.

Management’s response

AEC had decided to purchase items because the comparison of quotation had been precisely discussed in meeting. AEC will included the quotation’s comparison in the minutes of meeting.

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4. FIXED ASSETS REGISTER, PHYSICAL VERIFICATION, AND IDENTIFICATION CODE

Observation

During our audit we noted that the Organization did not update a fixed assets register and the duplicate number were tagged into the different fixed assets.

Implication

Failure to maintain and properly update the fixed assets register could lead to difficulties in ascertaining the completeness and accuracy of the Organization's records. Proper documentation and update of fixed assets register would facilitate early detection of any losses or unrecorded property and equipment in the Organization.

Recommendation

We recommend the maintenance and update of a fixed assets register and this register should include the following information:

- Description of fixed assets,
- Acquisition date and costs,
- Reference of supporting documentations,
- Location of user, Identification number, and
- Present state of the asset based on the latest physical verification.
- Serial Number

To properly monitor the fixed assets, we recommend that regular physical count and verification should be performed by the Organization. The result of the physical count and verification should be compared with the fixed assets register and any discrepancies should be investigated and communicated to the appropriate management personnel of the Organization.

The physical inspection records should be prepared properly by the parties involved and reviewed by Management. These records should be retained for future reference.

Fixed assets should be tagged with appropriate identification code. The fixed assets keeper shall record all fixed assets in the asset register list whenever there are acquisition or disposal.

Management's response

AEC agrees with the recommendation.

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5. STATUS OF PRIOR YEAR RECOMMENDATIONS

RECOMMENDATION	STATUS
Surprise cash count	
Surprise cash count helps ensure proper cash management. Surprise cash count needs to be conducted randomly.	Implemented
Salaries paid by cash	
AEC will pay salary for all staff through their bank accounts instead of payment by cash. The Financial Department will be organizing this accordingly.	Implemented
Safeguards on fixed assets	
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 Response:	Not implemented
There are a few security company in the province. The fee would be costly if security is hired from Phnom Penh. Even though we want hire from the community but the fee is still costly which AEC is not able to afford the payment. AEC is seeking the support from donor.	
No global financial report for management	
We recommend that the finance staff should prepare global financial report for the Board and the Management on the monthly basis.	Implemented
No bank account, policy and system for pension fund	
We recommend the Organization should establish the pension fund policy and procedure to ensure that fund was properly monitored and safeguarded.	Implemented
Wrong percentage of withholding tax	
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.	Implemented