Demand for Good Governance Project

Arbitration Council Foundation

Management letter

For the period from 25 June to 31 December 2009

Ernst & Young

ERNST & YOUNG

Demand for Good Governance Project

Arbitration Council Foundation

Management letter

For the period from 25 June to 31 December 2009

Ernst & Young

Ernst & Young (Cambodia) Ltd.
SSN Center No. 66, 3rd Floor, Room No. 03-04,
Norodom Blvd (41), Sangkat CheyChumneas,
Khan Daun Penh, Phnom Penh, Kingdom of Cambodia
Tel: +855 23 217 824/ 825
Fax: +855 23 217 805
www.ey.com

PRIVATE & CONFIDENTIAL

1 July 2010

Mr. Sok Lor
Executive Director
Demand for Good Governance
Arbitration Council Foundation
No. 72, Street 592 (Corner of Street 372)
Sangkat Boeung Kak II, Khan Toul Kork,
Phnom Penh, Cambodia

Dear Mr. Sok Lor

We have completed our audit of the financial statements of Arbitration Council Foundation under the Demand for Good Governance Project ("DFGG" or "the Project") for the period from 25 June to 31 December 2009. During the course of the engagement, we considered the Project's accounting policies, procedures, and internal controls relevant to our audit and, in accordance with our normal practice, we wish to highlight certain matters that came to our attention.

Our review of the accounting procedures and internal controls was conducted to assist us in expressing an opinion on the financial statements of the Project taken as a whole. This work was not primarily directed towards the discovery of weaknesses, detection of fraud, or other irregularities, other than those which would influence us in forming our opinion, and should not therefore be relied upon to show that no other weaknesses, detection of fraud, or other irregularities exist. Accordingly, the comments that follow refer only to those matters which have come to our attention during the course of our normal work and do not attempt to indicate all possible improvements which a special review might develop.

We enclose a summary of the points we noted during our audit, together with our recommendations thereon, as follows:

1. Verify that fund balance subject to reimbursement is in agreement with the amount declared per withdrawal application.
2. Verify that account balances per financial management report and accounting records are in agreement.

We would highly appreciate if you could keep us informed of future developments/changes in these areas and in the Project's accounting procedures and internal control system. In the meantime, please do not hesitate to contact us if you require further explanation or information.

We would also like to thank you and your staff for the cooperation you have extended to us during our recent audit visit. We look forward working with you and in providing you with the required assistance, if any, in the future.

Yours faithfully

ERNST & YOUNG (CAMBODIA) LTD.

Maria Cristina M. Calimbas
Partner

1. VERIFY THAT FUND BALANCE SUBJECT TO REIMBURSEMENT IS IN AGREEMENT WITH THE AMOUNT DECLARED PER WITHDRAWAL APPLICATION

Observation

During our audit of fund receipts and disbursements, we noted that the net fund balance subject for reimbursement from the World Bank was different from the amount per withdrawal application.

	US$
Total fund receipts for the period	177,630
Total disbursements for the period	240,400
Fund balance for reimbursement	**(62,770)**
Amount reimbursed per withdrawal application	62,734
Difference	**(36)**

Implication

Incorrect amount of reimbursement per withdrawal application to World Bank can lead to un-reconciled fund receipts and fund disbursements. If not corrected, World Bank may not reimburse the undeclared disbursement.

Recommendation

All the supporting documents should be reviewed and cross-checked to the withdrawal application before submission to the World Bank for reimbursement to avoid queries from the World Bank and to ensure completeness and accuracy of documentation.

Project management's response

We agree and have reinforced our review and cross-checking system for withdrawal applications. Regarding the particular observation noted above and as previously explained to auditors, the $36 discrepancy was due to typing error of vouchers into the SoE which caused the arithmetic error. This matter has since been resolved.

2. VERIFY THAT ACCOUNT BALANCES PER FINANCIAL MANAGEMENT REPORT AND ACCOUNTING RECORD ARE IN AGREEMENT

Observation

During our review of the Project's reports, we noted that there were variances between the financial management report submitted to the World Bank and the accounting record as detailed below:

Account code	*Account description*	*Per record*	*Per report*	*Variance*
61000-64000	Goods	27,264	27,264	-
61000-64000	Consulting Services	9,560	9,560	-
61000-64000	Training/Workshop	20,455	20,929	474
61000-64000	Incremental Operating Costs	82,887	81,431	(1,456)
61000-64000	ACF Operating Costs	101,431	101,216	(215)
		241,597	**240,400**	**(1,197)**

Implication

Variance between the accounting record and financial management report would affect the accuracy of transactions and balances captured in the accounting records. When not immediately reconciled and corrected, this would misstate the financial information.

Recommendation

The amount per financial management report should be reviewed and reconciled with the accounting record extracted from the system. The Project should immediately investigate the variances and correct any error to ensure that accounting record and reports are in agreement.

Project management's response

We agree and have reinforced our review and reconciliation system. Regarding the particular observation noted above and as previously explained to auditors, the variance was due to synchronisation issues arising from DFGG required changes to new chart of accounts, new reporting format and ACF's existing accounting software system and ACF's multiple sources of funds. Implementation of IDA-funded DFGG Project required ACF to change to new DFGG standardised chart of accounts, including new account codes; synchronisation issues, including between the new chart and codes, new required reporting format and ACF's accounting system and multiple (including non-DFGG/IDA) sources of funds, led to error of figures extracted by source of fund. This matter has since been resolved, variance has been rectified as recorded in last quarterly report and system has been adjusted accordingly.