



## **Asia Pacific Accounting and Audit Services Sole Co; Ltd**

House No. 01, Unit No. 01, Nongthatai Village, Chanthabouly District

Vientiane Capital, Lao PDR

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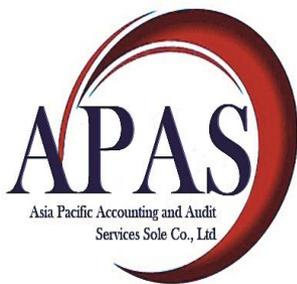
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## **Microfinance Association**

*(funded by Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH, Savings Bank Foundation for International Cooperation, United Nations Development Program/United Nations Capital Development Fund, Appui au Developpement Autonome, Luxembourg, Swiss Agency for Development and Cooperation and other donors)*

Management Letter

31 December 2014



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Vientiane Capital, Lao PDR

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### **PRIVATE & CONFIDENTIAL**

Ms. Pamouane Phetthany  
Director  
Microfinance Association  
Vientiane Capital; Lao PDR

30 March 2015

### **Management Letter for the year ended 31 December 2014**

Dear Ms.Pamouane

We have now completed our audit of the financial statements of the Microfinance Association (“the MFA”) or previously was known as Microfinance Working Group in Lao PDR (“MFWG”) funded by Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH, Saving Bank Foundation for International Cooperation, United Nations Development Program/United Nations Capital Development Fund, Appui au Developpement Autonome, Luxembourg, and Swiss Agency for Development and Cooperation and other donors as at and for the year ended 31 December 2014. During the course of the engagement, we have reviewed the MFA’s accounting system and internal controls over its activities and, in accordance with our normal practice; we wish to highlight certain matters that came to our attention.

Our review of the accounting systems and internal controls was conducted to assist us in expressing an opinion on the financial statements of the MFA as at and for the year ended 31 December 2014. Our work was not primarily directed towards the discovery of weaknesses, or 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 exist. Accordingly, the comments that follow refer only to those matters which have come to our attention during the course of our normal audit work and do not attempt to indicate all possible improvements had a special review been performed.

We enclose a memorandum of the points we have noted during our audit together with our recommendations and the MFA Management’s comments. We also followed-up on prior year’s recommendation and included the status of each recommendation in the attached memorandum.

In order to assist the MFA Management in efficiently addressing the points we have noted and improve the MFA’s current system of internal controls, we have classified our findings and recommendations under the following categories:

- **High Priority:** This is very critical to the MFA’s operation and strategy in the short-term hence, requiring immediate actions within 12 months or, this will have very significant financial consequence.
- **Medium Priority:** This is essential for the MFA’s operation and strategy in the next 2-3 years or somewhat having significant financial impact.
- **Low Priority:** This is important for the MFA to consider for its operation and strategy in the long-term which, nevertheless, require improvement. It has no immediate or significant financial impact.

We summarise below the areas highlighted in our Management Letter.

No.	Recommendations	Level of priority
1.	We recommend that upon the MFA receive the permanence license from the Ministry of Home Affairs, the employees contracts should be replaced the consulting contract and the MFA should calculate, withhold and remit the PIT to the tax authority by base on the current Lao Tax Law (revised version date 20 December 2011. The PIT should be declared and remitted not letter than 15 <sup>th</sup> day following the end of the month.	High
2.	We recommend that the MFA Management should review actual expenditures against budget regularly in order to timely identify the financial status of the MFA and any material budget variance should be identified, investigated and documented. The variance analysis would also help the MFA to plan for the implementation the pending activities during the year.	High

We shall be pleased to be kept informed of future developments/changes in the internal control procedures and, in the meantime, please do not hesitate to contact us if you require further explanations or information

We take this opportunity to place on record our appreciation for the assistance and co-operation extended to us by the MFA Management and its staff during our recent audit.

Yours faithfully

Ounheuan Amkhavanh  
Managing Director

Vientiane Capital

30 March 2015

# **Microfinance Association**

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Management Letter  
31 December 2014

## **1. Ensure compliance with prevailing Tax Law to avoid possible penalties**

### ***Observation and Implication***

We understand that the MFA has received the temporary license from the Ministry of Home Affairs ("MOHA") for establishing an association in the Lao PDR. We also understand that the MFA has prepared the consulting contract for hiring consultant. Therefore, during the year, the MFA did not calculate, withhold, declare and remit personnel income tax ("PIT") to the tax authorities in according to the Article No 45,46,47,48,49,50 of the Tax Law of Lao PDR (revised version date 20 December 2011). However, we would like to draw attention that when the MFA receive the permanence license from the MOHA employee contracts should be maintained and replaced the consulting contract and the PIT should be calculated, withhold and remitted to the Tax Authority.

### ***Implication***

No calculation, withholding, declaration and remittance of the personnel income tax to the tax authority may result in penalties being levied to both the MFA and its employee should the Revenue Department perform an inspection of the MFA's books and records.

### ***Recommendation***

We recommend that upon the MFA receive the permanence license from the Ministry of Home Affairs, the employees contracts should be replaced the consulting contract and the MFA should calculate, withhold and remit the PIT to the tax authority by base on the current Lao Tax Law (revised version date 20 December 2011). The PIT should be declared and remitted not letter than 15<sup>th</sup> day following the end of the month.

### ***MFA Management's response***

The MFA ensures that this is addressed as soon as the MFA has received its association permanent license and official stamp.

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Management Letter (continued)

31 December 2014

### **2. The budget variance analysis should be documented.**

#### ***Observation***

During the course of audit, we understand that the MFA prepared the comparison between the approved budget and actual expenditure for each budget line in the accounting software named QuickBook, however, it's noted that the MFA did not perform budget analysis for the variance of the budgets against actual.

#### ***Implication***

The absence of explanation and documentation the variance between approved budget and actual expenditure may lead to the errors, irregular transactions not being detected and corrected on a timely basis.

#### ***Recommendation***

We recommend that the MFA Management should review actual expenditures against budget regularly in order to timely identify the financial status of the MFA and any material budget variance should be identified, investigated and documented. The variance analysis would also help the MFA to plan for the implementation the pending activities during the year.

#### ***MFA Management's response***

The Management agrees with this recommendation and will do analysis quarterly from 2015.

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Management Letter (continued)

31 December 2014

### 3. Follow up the previous year's management letter points

Areas of comments	Year	Recommendation	Implementation status in the year	MFA Management's response
<b>1. MFA Management should be finalised, approved and implemented an operation manual and a financial guideline.</b>	2013	<p>We recommend that the MFA should take high priority to finalise, approve and implement its operation manual to strengthen the control over its cash receipts and disbursements. This would easy for MFA's staffs to follow their functions.</p> <p>The operation and accounting manual should also address the current weaknesses in the system; aid in establishing a uniform and consistent approach in the preparation of the MFA's financial reports; aid in evaluation present procedures and in formulating new ones, when required, and be used in the orientation and training of new personnel.</p>	Implemented.	Not applicable.
<b>2. Control and monitoring over fixed assets should be improved.</b>	2013	<p>We recommend that the MFA Management should double check this fixed assets and the description of the fixed assets in the fixed assets registration should be the same with the physical assets to avoid misunderstanding of the MFA Management during their performing physical inspection.</p>	Implemented.	Not applicable.

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Management Letter (continued)

31 December 2014

### 3. Follow up the previous year's management letter points (continued)

Areas of comments	Year	Recommendation	Implementation status in the year	MFA Management's response
<b>3. Ensure compliance with prevailing Tax Law to avoid possible penalties</b>	2013	We recommend that upon the MFA receive the permanence license from the Ministry of Home Affairs, the employees contracts should be replaced the consulting contract and the MFA should calculate, withhold and remit the PIT to the tax authority by base on the current Lao Tax Law (revised version date 20 December 2011. The PIT should be declared and remitted not later than 15 <sup>th</sup> day following the end of the month.	Not yet implemented. Refer to current year point number 1.	Refer to current year point number 1.
<b>4. Control over cash disbursement should be improved</b>	2013	We recommend that all payment vouchers should be signed by all authorised person as mention in the voucher form to ensure the completeness and appropriation of expenditure.	Implemented.	Not applicable.
<b>5. The budget variance analysis should be documented.</b>	2013	We recommend that the MFA Management should review actual expenditures against budget regularly in order to timely identify the financial status of the MFA and any material budget variance should be identified, investigated and documented.	Not yet implemented. Refer to current year point number 2.	Refer to current year point number 2.