

Lao Road Sector Project 2

(Under the Financing Agreement for Credit Nos. H5920-LA and H6515-LA between the Government of Lao PDR ("GOL") and the International Development Association ("IDA"), the Financing Agreement between GOL and Nordic Development Fund ("NDF") and Agreements between GOL and European Investment Bank ("EIB"), Agreement between GOL and Asian Infrastructure Investment Bank ("AIIB"))

Management Letter

For the year ended 31 December 2021



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STRICTLY PRIVATE AND CONFIDENTIAL

30 June 2022

Mr. Oun Xayavongkaisone
Deputy Director General
Department of Finance
Ministry of Public Works and Transport
Vientiane Capital
Lao PDR

Management Letter for the year ended 31 December 2021

Dear Mr. Oun Xayavongkaisone,

We have completed our audit of the financial statements of the Lao Road Sector Project 2 ("the Project"), which is funded by the International Development Association and Government of Lao PDR Under the Financing Agreement for Credit Nos. H5920-LA and H6515-LA between the Government of Lao PDR ("GOL") and the International Development Association ("IDA"), the Financing Agreement between GOL and Nordic Development Fund ("NDF") and Agreements between GOL and European Investment Bank ("EIB") and Agreement between GOL and Asian Infrastructure Investment Bank ("AIIB"). for the year ended 31 December 2021. During course of the engagement, we have reviewed the accounting system and internal controls of the Project and in accordance with our normal practice, we wish to highlight certain matters that came to our attention.

We enclose a memorandum of the points we have noted together with our recommendations and the comments from the Project's management. We wish to emphasize that the maintenance of an adequate control structure designed to fulfil control objectives and compliance with prevailing regulation and agreements are the responsibility of the Project's management. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, controls found to be functioning now may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the Project.

It should also be noted that our review of the accounting procedures and internal controls was carried out to assist us in expressing an opinion on the financial statements of the Project as a whole. This work was not primarily directed towards the discovery of weaknesses, or the 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 which follow refer only to those matters which have come to our attention during course of our normal audit work and do not attempt to indicate all possible improvements had a special review been performed.

This report is intended solely for the information and use of the Project's management and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Yours faithfully



Enclosure

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MANAGEMENT LETTER (continued)
for the year ended 31 December 2021

I. FINDINGS, IMPLICATION AND RECOMMENDATIONS

1. Incompleteness of accounting record

Observation and implication

During our audit we noted that the project did not recognize expenditure for loan fee according to the AIIB agreement amounting to 75,000 USD.

The misstatement led to understatement of expenditure and wrong record of fund received from AIIB. The respective adjustment below has been made to the financial statements for the year ended 31 December 2021:

Dr/Cr	Account	Amount	Currency
Dr	Fee expense (Component 1)	75,000.00	USD
Cr	12200215.37.19.01.04.0000.0035	(75,000.00)	USD

Recommendation

We recommend Project to strictly monitor all the expenses and carefully recheck the condition of every contract or agreement with third party to avoid similar misstatement in the future.

Response from the Project's management

Due to the donor's or contract management of Ministry of Finance had lacked notification or cooperation with the Planning and Finance Department of Ministry Public works and Transportation, when there is any cost of fees occurred under contract so that the finding incurred. The Project agreed with the recommendation.

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MANAGEMENT LETTER (continued)
for the year ended 31 December 2021

2. Fund Recognize

Observation and implication

During our audit we noted that some transactions of direct disbursement during 2021 have been recorded in 2020 based on the the fund confirmation letter of 2021 from NDF Grant. The misstatement led to understatement of expenditures and fund receipt of the year 2021 and incorrect reporting to donor, as detailed below:

Date of recording	Actual date of payment	Amount Original	Original CCY	Amount USD Equivalent
3-Dec-20	15-Jan-21	56,853	USD	56,853
18-Dec-20	15-Jan-21	54,427	USD	54,427
2-Jul-20	24-Mar-21	143,516	EUR	160,812
2-Jul-20	24-Mar-21	86,799	EUR	97,255
2-Jul-20	24-Mar-21	45,279	EUR	50,712
17-Jul-20	23-Apr-21	81,575	EUR	92,996
			Total	513,055

Recommendation

The Project should regularly perform fund reconciliation and strictly review the supporting document before recording. The accountant should make sure the completeness of payment with full set of documents including evidence of payments in order to avoid misstatement in the future.

Response from the Project's management

The Project agreed with recommendation

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MANAGEMENT LETTER (continued)
for the year ended 31 December 2021

II. STATUS OF PRIOR YEAR'S MANAGEMENT LETTER POINTS

We would like to reiterate the status of findings in prior year's management letter as follows:

No.	Areas of comments	Status of implementation	Project's Management response
1.	Late advance clearance The Project should strictly comply with the advance clearance timeline as stated in the Financial Manual.	Implemented.	We agree.