



**GOVERNMENT OF THE KINGDOM OF CAMBODIA
NATIONAL COMMITTEE FOR SUB-NATIONAL
DEMOCRATIC DEVELOPMENT SECRETARIAT (“NCDDS”)**

**Integration of Social Accountability into National and
Sub-National Systems (Phase II) Project**

IBRD/IDA Grant Agreement Number TF0C1738

**Management Letter
for the year ended 31 December 2025**



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5 June 2026

Your Excellency,

Management Letter – Audit for the year ended 31 December 2025

We have audited in accordance with Cambodian International Standards on Auditing, the financial statements of the Integration of Social Accountability into National and Sub-National Systems (Phase II) Project ("the Project"), financed under International Bank for Reconstruction and Development ("IBRD")/International Development Association ("IDA") Grant Agreement Number TF0C1738, implemented by the National Committee for Sub-National Democratic Development Secretariat ("NCDDS") or the Implementing Agency ("IA"), for the year ended 31 December 2025, and have issued our report thereon dated 5 June 2026. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Project's internal controls.

The maintenance of adequate controls designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal controls, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time 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.



Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Project gained during our work to make comments and suggestions that we hope will be useful to you.

Our findings are grouped into the following audit areas:

1. Compliance with the key covenants of the Loan/Grant agreements and/or local regulations;
2. Accounting records and internal control system;
3. Procurement and contract management of goods and services;
4. Cash management;
5. Assets and inventories management; and
6. Sub-National or sub-grants/Field inspection visit.

During our audit, we noted a matter involving internal controls and other operational matters that is presented for your consideration. The comment and recommendation, all of which have been discussed with the appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarised in the enclosed report.

The Project's written response to our comment and recommendation has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Ministry of Economy and Finance and the Project management.

Yours faithfully,
For **KPMG Cambodia Ltd**


Guek Teav
Partner





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1. Compliance with the key covenants of the Loan/Grant agreements and/or local regulations

1.1. No separate tax identification number

Observation

During the course of our audit, we noted that the Project did not have its own separate tax identification number (“TIN”) from the General Department of Taxation (“GDT”). Based on confirmation from Project Management, we understand that, in accordance with NCDDS’ internal procedures, tax declarations for all projects under NCDDS are consolidated and submitted by the central team to the GDT on an aggregated amount basis, rather than being prepared and filed separately by each individual project team.

Implication

Aggregating monthly tax declarations for multiple projects and reporting them in lump sum with other projects under the NCDDS may make it more difficult to confirm that all projects tax amounts are completely and consistently included in the consolidated tax declaration, and any differences at project level may not be readily identifiable.

Recommendation

We recommend that if the Project can’t submit tax declarations separately, the Project should obtain the tax declaration working paper from NCDDS and perform periodic reconciliations against its own tax records to verify and substantiate that the project’s tax amounts have been accurately included in the consolidated tax declaration.

Management’s response

The consolidation and submission of tax declarations for all projects under a single tax identification number is in accordance with the internal procedures established by the NCDDS finance and administration department. Under this arrangement, the NCDDS central team is responsible for preparing and submitting the aggregated tax declarations to the General Department of Taxation on behalf of all projects.



2. Accounting records and internal control system

2.1. Inappropriate recognition of prior-period audit adjustments

Observation

We noted that the Project has recorded audit adjustments relating to a prior period in the current year’s Statement of cash receipts and payments. These adjustments had already been identified and agreed upon the prior year’s audit. Based on our understanding with the Project, management attempted to reflect these corrections in the financial statements. However, due to timing differences in recording the adjustments, the treatment applied resulted in an overstatement of current year payments in the financial statements.

Implication

Since the project have to comply with Cash Basis CPSAS, include these adjustments in current-year record can reduces the accuracy and consistency of financial reporting and may lead to misinterpretation of the actual performance as it is not aligned to the period that those expenditures have been incurred.

Recommendation

The Project should capture all audit adjustments in the period that related to those transactions incurred in accordance with Cash Basis CPSAS.

Management’s response

The adjustments have been recorded and cleared in 2025. The management acknowledge the observation and will improve the recording in the future implementation.



2. Accounting records and internal control system (continued)

2.2. Improve control over consultant agreement

Observation

During the course of our audit, we noted that the consultant contract number ISAF/NCDDS/IC/05B/25, total payments made amounted to US\$7,583, exceeding the approved and signed contract value of US\$7,540 (inclusive of withholding tax) by US\$43. Based on our discussion with project management, the variance arose from the error in daily rate calculation during the contract preparation.

There is no adjustment being made to the financial statements as the amount is immaterial.

Implication

When the payments exceed the contractually approved ceiling, it may indicate a weakness in contract monitoring and payment controls. If not properly managed, such instances could set an unintended precedent and increase the risk of non-compliance with contractual terms.

Recommendation

We recommend that management strengthen procedures for monitoring consultant payments against approved contract values, including any adjustments arising from partial-month services, to ensure total payments do not exceed the contractual limits. Where error identified, there should be amendment made to the original contract with approval from authorise person.

Management’s response

We note that the error amount is modest and does not materially affect the overall contract implementation. Nevertheless, we recognize the importance of maintaining consistency in calculation methods to ensure accuracy and compliance with contractual provisions.



6. Field inspection visit

6.1. Sub-national inspection

Observation

During our site inspection, we noted that the Health Center - *ጽሑፊ*, covered under the project scope listing had been upgraded to a Referral Hospital. As a result, the facility no longer falls within the original project’s scope. The Project did not identify this information before our site visit on 7 April 2026, as per our inquiry with the Project, this Health Center was converted into Referral Hospital in accordance with Inter-ministerial Prakas. MOH.0011.S.N.K/Prk dated 29 November 2023. However, due to the system limitation, the Project is unable to remove this service provider from the database as doing so would result in loss of historical data relating to the period before this Health Center was upgraded into Referral Hospital.

Implication

The failure to timely identify and update the change in status of the Health Center to a Referral Hospital may result in inaccuracies in the Project’s service provider scope listing. This could affect the relevance and reliability of project monitoring, reporting as well as activities or facilities outside the approved project’s scope may continue to be included unintentionally.

Recommendation

We recommend that the Project strengthen procedures for periodically reviewing and updating the service provider’s scope listing to ensure it remains accurate and aligned with current regulatory and operational developments. This should include timely monitoring of relevant inter-ministerial Prakas and formal communication with implementing agency.

Management’s response

We noted to the issue and of course the database being updated and restructured which expected to complete by end of 2026. The update database will address this kind of issue.



Status of the previous year’s audit observation and recommendation

No.	Observation	Recommendation	Management response	Status																																											
1.	<p>AWPB Monitoring</p> <p>During the course of our audit, we noted that the approved budget is not comparable to actual payments in some categories for the period from 13 October 2023 to 31 December 2024. The significant variances were noted below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="3" style="text-align: center;">Description</th> <th colspan="4" style="text-align: center;">Period from 13 October 2023 to 31 December 2024</th> </tr> <tr> <th style="text-align: center;">Budget</th> <th style="text-align: center;">Actual</th> <th colspan="2" style="text-align: center;">Variance</th> </tr> <tr> <th style="text-align: center;">US\$</th> <th style="text-align: center;">US\$</th> <th style="text-align: center;">US\$</th> <th style="text-align: center;">%</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">By Cost Categories</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td style="text-align: left;">Goods</td> <td style="text-align: right;">576,199</td> <td style="text-align: right;">333,554</td> <td style="text-align: right;">242,645</td> <td style="text-align: right;">42%</td> </tr> <tr> <td style="text-align: left;">Consulting services</td> <td style="text-align: right;">432,513</td> <td style="text-align: right;">252,377</td> <td style="text-align: right;">180,136</td> <td style="text-align: right;">42%</td> </tr> <tr> <td style="text-align: left;">Training costs</td> <td style="text-align: right;">706,464</td> <td style="text-align: right;">597,995</td> <td style="text-align: right;">108,469</td> <td style="text-align: right;">15%</td> </tr> <tr> <td style="text-align: left;">Operating costs</td> <td style="text-align: right;">788,737</td> <td style="text-align: right;">586,080</td> <td style="text-align: right;">202,657</td> <td style="text-align: right;">26%</td> </tr> <tr> <td style="text-align: left;">Total</td> <td style="text-align: right;">2,503,913</td> <td style="text-align: right;">1,770,006</td> <td style="text-align: right;">733,907</td> <td style="text-align: right;">29%</td> </tr> </tbody> </table>	Description	Period from 13 October 2023 to 31 December 2024				Budget	Actual	Variance		US\$	US\$	US\$	%	By Cost Categories					Goods	576,199	333,554	242,645	42%	Consulting services	432,513	252,377	180,136	42%	Training costs	706,464	597,995	108,469	15%	Operating costs	788,737	586,080	202,657	26%	Total	2,503,913	1,770,006	733,907	29%	<p>The Project should use their best estimates and experience to set a more realistic budget based on the work plans and expected payments. The budget should be reviewed against actual payments regularly and revised, if required with approval from donors for monitoring purpose.</p> <p>In addition, the Project should speed up its disbursement rate in order to catch up the burn rate that fell behind in the previous year.</p>	<p>We’ve noted the auditor’s finding for improvement. However, this was a direct implication of the first budget advance, which was received in February 2024. Funds were subsequently disbursed to the Sub-National Administrations (SNAs) in April 2024 due to some arrangements and preparations on fund transfer. This cause delays in some activity implementations, which was previously informed and discussed with the World Bank during the 7th Implementation Support Mission.</p>	Implemented.
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