



YISHNU D.K. MUSAI & CO.

Corner Eastern Main Road and Dandrade Street,
Tacarigua, Trinidad W.I. (P.O. Box 4962-Tunapuna)
Phone/Fax: 640-6836, 640-8912, 640-1066
Email: accounts@vdkm.com
URL : www.vdkm.com



Association of Caribbean States
5 – 7 Sweet Briar Road St. Clair
Port of Spain

Re: Association of Caribbean States
Financial Statements Year Ended December 31, 2011

July 9, 2013

Letter of Comment

In accordance with our normal practice we are writing to draw your attention to various matters, which arose during the course of our audit of the Association's accounts for the year ended December 31, 2011.

Qualitative aspects of the entity's accounting practices and financial reporting

The entity has prepared its financial statements under International Financial Reporting Standards (IFRS). We have not become aware of any material departure from these standards, nor did we come across any areas of the financial statements which departed from the entity's adopted accounting policies.

Letter of Representation

A draft of our proposed letter of representation is attached. It needs to be completed on your letterhead and signed by the Financial Manager and the Secretary General as soon as possible. We will not be able to sign our audit report until the letter of representation is obtained.

Functional Currency

All monetary amounts quoted in this report are expressed in United States Dollars

Uncorrected mis-statements

During the course of our audit of the financial statements we have become aware of certain immaterial misstatements. These have all been corrected and are listed in Appendix 1 to the management representation letter.

Expected modifications to the audit report

There are no expected modifications to the auditors' opinion on the financial statements and our audit opinion will be unqualified.

Material weaknesses in the internal control environment

As you are aware from our letter of engagement, our audit procedures were directed towards testing the accounting systems in operation upon which we based our assessment of the accounts. We wish to draw attention to the following:

As at 31 December 2011 the Head of Budget and Administration and Accounting Officer positions were both vacant. In addition the External Accountant of many years had resigned. In 2012 an Accounting Officer and subsequently, a Financial Manager, were appointed. In the interim the accounting function was carried out by an outsourced firm – but this measure proved to be inadequate.

Such a situation as transpired in 2011 would have compromised internal controls and indeed, did result in a significant delay in completing the audit for the year 2011. Our approach to the audit factored in the increased risk due to inadequate internal controls and our audit tests were planned accordingly. Whilst there was evidence of improper controls - there was no evidence of material misstatement due to fraud or error. The Financial Manager provided all information required to our satisfaction and there was mutual agreement in dealing with all matters discussed.

In discussions carried out with staff of the Association, a common thread of concern was the retention of competent individuals especially in key areas. The position of Financial Manager has now been filled, albeit temporarily. There are still vacancies in the key areas of Administration (Administrative/ Human Resource Manager) and Project Management. Whilst we are aware that there may be budgetary and policy constraints we believe that it is in the best interest of the Association that these vacancies be filled in a timely manner.

Contributions Due

68% of contributions for 2011 had been received in 2011 (63% in 2010). The average receivables period remains high at 286 days in 2011 (279 days in 2010). We note that as at December 31, 2011 the following outstanding amounts would account for 74% of the receivables:

- Venezuela (\$402,961 – 2 years), El Salvador (\$107,967 – 3 years), Dominican Republic (\$132,598 – 3 years plus), Netherlands Antilles (\$72,096 – 3 years plus) and Jamaica (\$104,121 – 2 years plus).

Antigua and Barbuda (\$103,089 – 10 years plus) and Dominica (\$56,545 – 7 years) have been delinquent in payments over a number of years. As at the closing date of the audit no payments were made by these members towards outstanding contributions. Serious consideration has to be given as to the ability or willingness of these members to settle their dues.

Value Added Tax (VAT) Refunds

Outstanding VAT refunds for the years 2009 to 2011 stood at \$59,973 as at December 31, 2011. However as at the date of the audit report all VAT refunds up to December 2012, with the exception of three months in 2010, were received.

Expenditure

There was a surplus margin of 11% in 2011 (17% in 2010). There was no evidence of unusual expenditure. Financial Management Expenses were 164% over budget due primarily to outsourced accounting services.

Current ratio

The association maintains a very healthy ratio of current assets to current liabilities of 23%. However, as mentioned previously, the receivables figure, which is a substantial part of current assets, has to be monitored.

Fixed Assets

All computers used by the Association as at 31 December 2011 were in a usable condition – though the majority was old and outdated. A new computer system and workstations were acquired in January 2013 through a contribution from Colombia and it is the intention of management to dispose of all computers deemed obsolete.

Special Fund

All Special Fund transactions tested were accounted for properly and all such transactions appeared to be valid. There were however some gaps evident in the documentation/recording process and some difficulties in accessing information. There should be clear documentation procedures for donors and programmes/projects and other aspects of the Special Fund. The following should also be noted:

- Subsequent to December 31, 2011, there were changes made to the Association's Banking structure. These changes encompassed: (i) the streamlining of banking operations using one bank - RBC Royal Bank (Trinidad and Tobago) Ltd. - for all bank accounts (both operational and special fund) and (ii) Creation of new bank accounts. Following are the changes made:
 - Transfer of main unrestricted Special Fund account from Republic Bank Ltd. (RBL) to RBC.
 - Closing of the Unit Trust Mutual Funds Investment account.
 - New separate bank account account for the Caribbean Sea Commission.
 - New separate bank account for France – unrestricted contributions.
 - New separate bank account for Information Technology.
 - Transfer of RBL TT (Martinique) special fund to RBC TT special fund.
 - Closure of RBL US (Martinique) account which was at zero balance.
- To date the position of Project Manager has not been filled.
- The total balance in the special fund bank accounts as at December 31, 2011 differed by \$6,374 from the special fund balance. This difference was analyzed by our Firm in an audit carried out on the Special Funds for the years 2009 and 2010. It was recommended that this amount should be transferred from the operational

bank account into the special fund bank account to reflect the actual balance in the Special Funds account.

Other matters required by International Standards of Auditing to be communicated

There are no other matters that we are required by the International Standards of Auditing to communicate to you.

We would like to express our thanks to all the staff for their assistance during the course of our audit.

Two Way Communication

We have evaluated the two way communication between us as auditors and those charged with governance and in our opinion this has been adequate for the purpose of the audit.

Confidentiality

This letter has been prepared for the sole use of the Ministerial Council and Secretariat of the Association of Caribbean States. It must not be disclosed to third parties, quoted or referred to, without our prior written consent. No responsibility is assumed by us to any other person.

If we can be of further assistance please contact us at our office.

Yours faithfully

Vishnu D.K. Musai & Co.

Vishnu D.K. Musai & Co.
Chartered Accountants