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KELLY MCDONOUGH  
Diane McDough

Independent Auditors' Report  
To the Board of Trustees/ Oversight Committee of  
**Foundation for the Conservation of  
Natural Resources  
(NATURA Foundation)  
Conservation Fund for the  
Chagres National Park  
(Chagres Fund)**

Accounts Rendition Statement and  
Auditors' Report  
For the year ended on 12-31-11

April 10, 2012

**Foundation for the Conservation of Natural Resources  
(Natura Foundation)  
Conservation Fund for the Chagres National Park  
(Chagres Fund)  
Content of the Accounts Rendition Statements and Auditors' Report  
December 31, 2011**

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**Independent Auditors' Report to the Board of Trustees/Oversight Committee of Foundation for the Conservation of Natural Resources (Natura Foundation), Administrator of the Conservation Fund for the Chagres National Park (Chagres Fund)**

We have audited the accompanying accounts rendition statement of the Conservation Fund for the Chagres National Park (Chagres Fund), managed by the Foundation for the Conservation of Natural Resources (Natura Foundation) for the period from January 1 to December 31, 2011, as well as a summary of the main significant accounting policies and other explanatory notes.

*Management's Responsibility for the Accounts Rendition Statement*

The Project Management is responsible for the preparation and fair presentation of the accounts rendition statement in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining relevant controls for the preparation and fair presentation of the accounts rendition statement in order to be free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' Responsibility*

Our responsibility is to express an opinion on the accounts rendition statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the accounts rendition statement is free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts rendition statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the accounts rendition statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the accounts rendition statement of Chagres Fund, 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 internal control of Chagres Fund. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Fund's Management, as well as evaluating the overall presentation of the accounts rendition statement.

We consider that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The policy of Chagres Fund is to prepare the accompanying accounts rendition statement on the basis of inflows and outflows of cash. On this basis, the income is recognised when received rather than when earned and expenses are recognised when paid rather than when incurred.

*Opinion*

In our opinion, the accounts rendition statement present fairly, in all material respects, the funds received, costs incurred and expenditures for the period from January 1 to December 31, 2011, in conformity with the terms of the agreement and with the accounting basis described in the Note No. 2.



April 10, 2012  
Panama, Republic of Panama

Foundation for the Conservation of Natural Resources  
(Natura Foundation)  
Conservation Fund for the Chagres National Park  
(Chagres Fund)  
Accounts rendition statement  
For the year ended December 31, 2011  
(Expressed in United States dollars)

	Budget	Accumulated previous period 12/31/2010	Completed 01/01/2011 to 12/31/2011	Accumulated 12/31/2011	Budget balance as of 12/31/2011	Questioned costs Ineligibles Undocumented	Notes
Total budget of the investment fund							
Beginning balance as of July 10, 2003	US\$ 5,000,000				US\$ 1,757,651		
<b>INCOME:</b>							
Grants received		US\$ 3,004,063	US\$ 345,902	US\$ 3,349,965			4
Other Income		60,967	34,301	95,268			5
Total income received		3,065,030	380,203	3,445,233			
<b>DISBURSEMENTS:</b>							
Short-term grants program		515,648	-	515,648			6
Long-term grants program		1,464,328	189,810	1,654,138			7
Success measures		181,318	-	181,318			
Co-management		374,537	32,762	407,299			8
Fund managing entity		432,946	51,000	483,946			9
Total disbursements		2,968,777	273,572	3,242,349			
Excess of income over disbursements		96,253	106,631	202,884			
Cash return of the long-term grants program		65,663	-	65,663			
Available cash at beginning of year		-	161,916	-			
Available cash at end of year		US\$ 161,916	US\$ 268,547	US\$ 268,547			10

**Foundation for the Conservation of Natural Resources  
(NATURA Foundation)  
Conservation Fund for the Chagres National Park  
(Chagres Fund)  
Notes to the Accounts Rendition Statement  
Period from January 1 to December 31, 2011**

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**1. Organization Information**

The Foundation for the Conservation of Natural Resources (Natura Foundation) is a non-profit organization, legally constituted on March 28, 1991; its mission is to promote environmental conservation and sustainable development through the management of resources to improve the quality of life.

Natura Foundation has celebrated the agreement “Forest Conservation Agreement” with The Nature Conservancy (TNC) and the Government of the Republic of Panama, from July 10, 2003 until November 20, 2016, in order to develop the project named: Conservation Fund for the Chagres National Park (Chagres Fund).

Chagres Fund was created as a result of the first Debt for Nature Swap signed between the Panamanian and the United States Governments, under the Tropical Forest Conservation Act, established in the United States in 1998. Through this debt swap the Trust for the Tropical Forest Conservation, was established, in which for a period of fourteen (14) years the Government of the Republic of Panama will make annual disbursements until completing the amount of TEN MILLION dollars (US\$10,000,000), according to the terms of the agreement. These disbursements will be distributed as follow: fifty percent (50%) of each payment for the trust endowment fund and the remaining fifty percent (50%) for the Chagres Fund, which will be used in grants for Programs and Projects to be performed at the Chagres National Park and its buffer zone, by nonprofit organizations.

This Fund has as objective the conservation, maintenance and restoration of the forests of Chagres National Park and its buffer zone, including up to five (5) kilometers in adjacent areas to the Park boundaries. It will finance the Park management programs as well as environmental initiatives performed by nonprofit organizations that promote the Park conservation and contribute to reduce and mitigate the main threats identified in the area, according to what is stated in the Conservation Plan of Alto Chagres and the Management Plan of the Park.

**Foundation for the Conservation of Natural Resources  
(NATURA Foundation)  
Conservation Fund for the Chagres National Park  
(Chagres Fund)  
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Period from January 1 to December 31, 2011**

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**1. Organization Information (continued)**

The activities performed by Natura Foundation include managing, review, technical assistance, oversight and administrative functions to carry out the Grants Program, including processing disbursements applications required by Implementation Units that receive and manage financial resources that come from this Fund. The financial information of the projects that are financed is based on disbursements applications and it is prepared by the Implementation unit that performs the Project activities in accordance with the policies and procedures indicated by the Foundation for the Conservation of Natural Resources (Natura Foundation).

The accounts rendition statement of the Conservation Fund for the Chagres National Park (Chagres Fund) for the year ended December 31, 2011, was authorized for its issuance by the Executive Director – Mrs. Rosa Montañez Gallego, on April 10, 2012.

**2. Basis of preparation of the accounts rendition statement**

Natura Foundation prepares the Accounts Rendition Statement using the cash method to record the operations, since income and costs are recorded when they are received or disbursed; consequently, income that are not received and costs that are not disbursed, are not recorded.

The accounting policies have been consistently applied by the Foundation and are consistent with those policies used in previous years.

**Currency**

The accounts rendition statement is stated in dollars of the United States of America (US\$), which is on a par and freely exchangeable with the Balboa (B/.), the monetary unit of the Republic of Panama.

**Foundation for the Conservation of Natural Resources  
(NATURA Foundation)  
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(Chagres Fund)  
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Period from January 1 to December 31, 2011**

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**3. Chagres Fund Budget**

The estimated budget for the year ended December 31, 2011, was US\$440,735, which corresponds to pending disbursements of the previous year and disbursements related to estimations of the period 2011, which are described as follow:

<u>Activity description</u>	<u>Budget</u>
Short-term grants program	US\$ -
Long-term grants program	-
Strategic Lines (PE)	286,744
Transitional Annual Operating Plan	50,500
Baseline development	<u>12,000</u>
<b>Total Long-term grants program</b>	<b>349,244</b>
<b>Co-management</b>	<b>40,491</b>
<b>Fund Managing Entity</b>	<b><u>51,000</u></b>
<b>Total</b>	<b><u>US\$ 440,735</u></b>

**4. Trust fund ("Forest Action Fund")**

During the year ended December 31, 2011, the Foundation for the Conservation of Natural Resources (Natura Foundation) received the amount of US\$345,902 in concept of funds of the trust agreement to provide financial support to entities designated by the Oversight Committee for the management, conservation, and protection of natural resources duly identified in the Forest Conservation Agreement.

Disbursements received in the previous year US\$3,004,063

**Disbursements received from January 1 to December 31, 2011**

On May 26, 2011	US\$ 173,246
On November 25, 2011	<u>172,656</u>
	<u>US\$ 345,902</u>
Total received as of December 31, 2011	<u>US\$ 3,349,965</u>



**Foundation for the Conservation of Natural Resources  
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**5. Other income**

Other income correspond to the sale of assets (five motorcycles and three vehicles) with the amount of US\$33,315 and interest earned on savings account with the amount of US\$786 exclusive of the Chagres Fund in Banco General, S. A. for the year started on January 1 to December 31, 2011.

**6. Grants program – short-term**

The short-term grant program corresponds to disbursements granted to recipients of grants of less than three (3) years of duration that meet the objectives and strategies of the Management Plan of Chagres National Park and the Conservation Plan of Alto Chagres.

During the period from January 1 to December 31, 2011, there were no grants programs – short-term.

**7. Grants program – long-term**

The long-term grants program corresponds to disbursements performed for investments aimed to strengthening the operations and performance of Chagres National Park, that revert in conservation or management actions that meet the objectives and strategies of the management plan of Chagres National Park and the Conservation Plan of Alto Chagres.

Investments in this component are made through organization designated for the Co-Management of the Park.

During the period from January 1 to December 31, 2011, the detail of disbursements performed was:

<u>Description</u>	<u>Amount</u>
<b>Long-Term Grant Program</b>	
Strategic Lines (PE)	US\$ 130,144
Transitional Annual Operating Plan	50,500
Baseline development	<u>9,166</u>
<b>Total Long-term grants program</b>	<u>US\$ 189,810</u>

**Foundation for the Conservation of Natural Resources  
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**8. Co-Management**

The Co-management comprises disbursements made to the executing organization that provides acquisition services of goods and services and personnel recruitment, performing payments to third parties as approved in the Annual Operating Plan and annual budget by the Oversight Committee. For the year 2011, there was a total amount of US\$32,762 invested in Co-Management, which was paid to Chagres Foundation, who is responsible for the Co-Management of the Chagres Park, by approval of the Oversight Committee.

**9. Fund managing entity**

Comprises disbursements made to the fund managing entity (Natura Foundation) in order to perform the functions, which are established in the forest conservation agreement, in the article IV, item 4.1 and in the article VII, section (h). The cost incurred for this program for the year 2011, was US\$51,000.

**10. Reconciliation of available cash**

As of December 31, 2011, the available cash is disclosed as follows:

Available cash as of December 31, 2010	US\$ 161,916
Plus: income received as of December 31, 2011	345,902
Interests earned	786
Sale of asset	33,515
Less: Incurred costs (disbursements)	<u>273,572</u>
Available cash as of December 31, 2011	<u>US\$ 268,547</u>

The net cash available in bank is disclosed as follows:

Total cash in Banco General, S.A. in the saving account No 04-81-01-301341-1  
US\$.268,547.

**Independent auditors' report to the Board of Trustees/Oversight Committee, Foundation for the Conservation of Natural Resources (Natura Foundation) and the Conservation Fund for the Chagres National Park (Chagres Fund)**

Dear Sirs:

This report presents the results of our audit for the period from January 1 to December 31, 2011, the resources arising from the Conservation Fund for the Chagres National Park (Chagres Fund) as of that date, which are managed by the Foundation for the Conservation of Natural Resources (Natura Foundation).

**Background**

The Foundation for the Conservation of Natural Resources (Natura Foundation) is a non-profit organization, legally constituted on March 28, 1991. Its mission is to promote environmental conservation and sustainable development through the management of resources to improve the quality of life.

As of July 10, 2003, Natura Foundation manages the Grants Program with funds from the Trust for the Tropical Forest Conservation. This trust was established on July 10, 2003, by the Government of Panama, the Government of the United States of America and The Nature Conservancy (TNC). The objective of this trust is to maintain and invest in a continuous manner conservation actions, maintenance and restoration of tropical forest land located in Chagres National Park and its buffer zone of 5 kilometers during the term of the Forest Conservation Agreement.

**Objectives of the Chagres Fund**

The Conservation Fund for the Chagres National Park (Chagres Fund) is an initiative to contribute with the protection, conservation and management of Chagres National Park (ChNP), by the constitution of a fund, through which the management programs of the Park will be financed. It includes financing of environmental initiatives or projects performed by nonprofit organizations, that tend to reduce and mitigate the main threats identified in the area, according to what is stated in the Conservation Plan of Alto Chagres and the Management Plan ChNP.

According to the tropical forest conservation law, funds arising from debt swap by nature agreements created under such law will be used to finance activities oriented to:

- Restoration, protection or sustainable use of plants and animals species.
- Protection, restoration and management of protected areas.
- Ecosystem management practices based on scientific methods.
- Research and identification of medicinal uses of tropical forest plants and forest bioprospecting.
- Strengthening of the institutional, technical and scientific capacity of beneficiary organizations.
- Support to communities in the development of friendly practices with the environment.

#### **Objective and scope of the audit**

The main objective is to perform a financial audit of the funds arising from the Conservation Fund for the Chagres National Park (Chagres Fund) managed by the Foundation for the Conservation of Natural Resources (Natura Foundation) for the year started on January 1 to December 31, 2011.

The specific objectives of the audit are:

1. To evaluate and obtain sufficient understanding of the internal control structure in the management of the fund to evaluate the control risk and identify reportable conditions, including material weaknesses of the internal control structure. This evaluation must include internal controls related to required cost-sharing contributions.
2. To perform tests to determine if the administrator of the fund complied, in all material respects, with the agreement terms and applicable laws and regulations related to programs financed by the Conservation Fund for the Chagres National Park (Chagres Fund).
3. To determine if the technical and service assistances performed by the beneficiary were used for the purposes intended under the agreement, if they were accurately documented and if they were recorded properly.
4. To determine if the fund administrator has taken adequate corrective actions on recommendations of previous audit reports.

Our audit was conducted in accordance with International Standards on Auditing and therefore includes the accounting records proof, according to the circumstances.

The scope of our work consisted of the following:

1. Audit the Account Rendition Statement of the Conservation Fund for the Chagres National Park (Chagres Fund).
2. Review and evaluate the internal control structure established by Natura Foundation related to the operations of the Chagres Fund Project to obtain sufficient understanding of the design of relevant control policies and procedures and if such policies and procedures are functioning adequately.
3. To determine if Natura Foundation has complied in all material respects, with the terms of the agreement and other laws and applicable regulations, and determine those aspects of non-compliance that may have a direct and material effect on the account rendition statement of Chagres Fund.
4. To determine if the technical and services assistances performed by the beneficiary were used for the purposes intended under the agreement, if they were accurately documented and if they were recorded properly.

### **Audit results**

#### **Internal control structure**

Our study and evaluation of the internal control structure so far revealed a satisfactory condition to record, process, summarize and report financial information consistent with management's assertions in the accounts rendition statement.

#### **Compliance with the terms of the agreement, laws and applicable regulations**

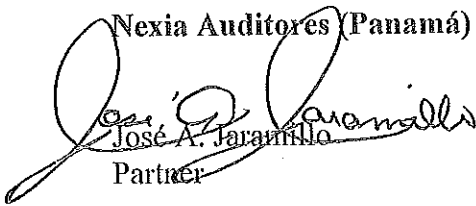
As part of obtaining a reasonable assurance about whether the accounts rendition statement does not contain material misstatements and with the purpose of forming an opinion on compliance with term of the agreement, laws and applicable regulations, we performed tests that there results indicate that there is compliance, in all material respects, with the terms of the agreement, laws and applicable regulations that may affect the Conservation Fund for the Chagres National Park (Chagres Fund).

**Follow-up of previous audit recommendations**

The follow-up of previous audit recommendations performed to the management of the Conservation Fund for the Chagres National Park (Chagres Fund) has revealed that the controls are functioning and are applied consistently, and that there were no findings revealed of the previous audit that may require follow-up.

Sincerely yours,

Nexia Auditores (Panamá)



José A. Jaramilla  
Partner

**Independent auditors' report to the Board of Trustees/Oversight Committee, Foundation for the Conservation of Natural Resources (Natura Foundation) and the Conservation Fund for the Chagres National Park (Chagres Fund) regarding the Internal Control Structure.**

We have audited the Accounts Rendition Statement of the Conservation Fund for the Chagres National Park (Chagres Fund), managed by the Foundation for the Conservation of Natural Resources (Natura Foundation) for the year stated on January 1 to December 31, 2011.

The administrator of the Conservation Fund for the Chagres National Park (Chagres Fund) is responsible of establishing and maintaining internal control structure. To comply with this responsibility, judgments and estimations of the Administration are required to evaluate the expected benefits and costs related to policies and procedures. The objectives of the internal control structure are to provide management with reasonable assurance, but not absolute, that assets are protected against losses due to unauthorized uses or dispositions; transactions are made according to Management authorizations and the terms of the agreements are recorded adequately to permit the preparation of the accounts rendition statement in conformity with current accounting policies. Due to limitations inherent to any internal control structure, misstatements or irregularities may occur and not be detected. Also, the projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in the conditions that the effectiveness of the design and the operation of policies and procedures may deteriorate.

In planning and performing our audit of the accounts rendition statement of the Chagres National Park (Chagres Fund) for the year from January 1 to December 31, 2011, we obtained an understanding of the internal control structure. In this regard, we obtained an understanding of the design of relevant policies and procedures and whether they were implemented, we evaluated the control risk to determine our audit procedures with the purpose of expressing an opinion on the accounts rendition statement and not to provide an assurance on the internal control structure and therefore we did not express such assurance.

We did not observe issues related to the internal control structure and its operation, that we consider, are situations that should be reported according to standards established by Instituto Americano de Contadores Públicos Certificados (AICPA). The reportable conditions refer to matters related to deficiencies in the design or operation of the internal control structure that according to our judgment may adversely affect the benefit ability to record, process, summarize and report financial information consistent with management's assertions in the accounts rendition statement.

Our consideration of the internal control structure would not necessarily reveal all aspects of the internal control structure that might be conditions that must be reported and therefore would not necessarily reveal all conditions to be reported that would also be considered important.

This report is only for the information of Natura Foundation, donors of the Conservation Fund for the Chagres National Park (Chagres Fund) and the Oversight Committee of Chagres Fund. However, once it is distributed, this report is a matter of public interest.



April 10, 2012

Panama, Republic of Panama



**Independent auditors' report to the Board of Trustees/Oversight Committee, Foundation for the Conservation of Natural Resources (Natura Foundation) and the Conservation Fund for the Chagres National Park (Chagres Fund) regarding Controls Compliance.**

We have audited the Accounts Rendition Statement of the Conservation Fund for the Chagres National Park (Chagres Fund), managed by the Foundation for the Conservation of Natural Resources (Natura Foundation) for the year started on January 1 to December 31, 2011.

Compliance with the terms of the agreement, laws and applicable regulations to the Conservation Fund for the Chagres National Park (Chagres Fund) is responsibility of the Executive Direct of the Foundation for the Conservation of Natural Resources (Natura Foundation). As part of obtaining a reasonable assurance about whether the accounts rendition statement is free of material distortions, we performed tests of compliance of the Foundation for the Conservation of Natural Resources (Natura Foundation), the Conservation Fund for the Chagres National Park (Chagres Fund), with certain terms of the agreement, laws and applicable regulations.

The results of our compliance tests indicate that with respect to the items tested, of the Foundation for the Conservation of Natural Resources (Natura Foundation), the Conservation Fund for the Chagres National Park (Chagres Fund) complied, in all material respects, with the terms of the agreement, laws and applicable regulations. Regarding the items that were not tested, we did not find any situation that called our attention and that could or make us think that the Foundation for the Conservation of Natural Resources (Natura Foundation), or the Conservation Fund for the Chagres National Park (Chagres Fund), has not complied in all material respects, with such regulations.

This report is only for the information of Natura Foundation, donors of the Conservation Fund for the Chagres National Park (Chagres Fund) and the Oversight Committee of Chagres Fund. However, once it is distributed, this report is a matter of public interest.

  
April 10, 2012

Panama, Republic of Panama

**Independent auditors' report to the Board of Trustees/Oversight Committee, Foundation for the Conservation of Natural Resources (Natura Foundation) and the Conservation Fund for the Chagres National Park (Chagres Fund) regarding the follow-up of the previous audit recommendations.**

We have audited the Accounts Rendition Statement of the Conservation Fund for the Chagres National Park (Chagres Fund), managed by the Foundation for the Conservation of Natural Resources (Natura Foundation) for the year started on January 1 to December 31, 2011.

The follow-up on previous audit recommendations of the Conservation Fund for the Chagres National Park (Chagres Fund) is responsibility of the management of the Foundation for the Conservation of Natural Resources (Natura Foundation).

As part of obtaining a reasonable assurance about whether the accounts rendition statement is free of material misstatements, we have performed a follow-up on previous audit recommendations.

This follow-up of previous audit recommendations performed to the management of the Conservation Fund for the Chagres National Park (Chagres Fund) has revealed that the basic controls are functioning adequately and that there were no applicable findings in the previous audit that may require follow-up.

This report is only for the information of Natura Foundation, donors of the Conservation Fund for the Chagres National Park (Chagres Fund) and the Oversight Committee of Chagres Fund. However, once it is distributed, this report is a matter of public interest



April 10, 2012

Panama, Republic of Panama

**Independent auditors' report to the Board of Trustees/Oversight Committee, Foundation for the Conservation of Natural Resources (Natura Foundation) and the Conservation Fund for the Chagres National Park (Chagres Fund) regarding the Projects tours**

We made our visit in a selective manner to the protected area, ongoing projects and final stage projects, with the purpose of certifying the reasonable management of funds for the Conservation of the Chagres National Park giving to Chagres Foundation and other nonprofit organizations (NGOs). As part of our work, we performed an evaluation of accounting controls as appropriate.

The management of Natura Foundation is responsible of establishing and maintaining an accounting internal control system. To comply with this responsibility, estimations and judgments are required by Management to evaluate the expected benefits and the related costs of the control procedures.

**Chagres Fund Agreement No Fch-110701-SS-001**

We took as reference the reports of the year 2011, and verified that the detail of each budget account corresponded to the expenses performed per item and evidence of payments and accounting records. We reviewed any excess or use of funds in unauthorized items either by budget exhaustion and/or unreported transfer. We verified that the transfers authorized quarterly by Natura Foundation during the year 2011, were received and recorded by Chagres Foundation.

As a result of the visit to Chagres Foundation facilities we can mention:

- Bank reconciliations were reviewed and we confirmed that the expenses comply with the supporting information, emphasizing on the beneficiaries and amounts, as with the quotation policy. Also, that the deposit amount corresponded to the transfers assigned by Natura Foundation.
- We reviewed the checks with their respective invoices in order to confirm that they were according to the information described in the quotation as well as in the invoice and that the good was acquired.
- We were able to observe that the projects were executed based on the budget and complied with the objectives of the agreement by Natura Foundation.

We have developed the following recommendations concerning certain matters related to the internal control structure, which are presented below:

Observation:

- We observed that the bank reconciliations have no evidence of preparation and approval signature.

Possible risks of the situation:

- Having bank reconciliations without evidence prepared or reviewed; indicates that such bank reconciliations are not reviewed by a supervisor. Cash accounts are risk accounts by nature, which must also be balanced in books with the balance of the bank.


Recommendations:

- It is recommended that bank reconciliations should be verified and approved by another person other than who made them. As a result, the controls are maintained as well as an appropriate segregation of functions.

In the visit to the Project facilities located in ANAM Chilibre, we observed the progress of the project, from which we can mention:

- The construction of a lunchroom for the use of park rangers and tourists of the Chagres National Park, which was carried out totally and the execution of the project which was financed by the Chagres Fund through the Chagres Foundation.

According to the above mentioned we can point out that the Project development is carried out in a reasonable manner and it is complying with the agreement.

  
April 10, 2012  
Panama, Republic of Panama