

**Project “Conservation of Critical Wetland
Protected Areas and Linked Landscapes”**

Funded by United Nations Development
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Management Letter

For the period from 1 October 2016 to 30
September 2017

Mr. Nguyen The Chinh
National Project Director
Project "Conservation of Critical Wetland Protected Areas
and Linked Landscapes"
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Ref: UNDP-88048-2017.ML.EN
Contact: Pham Phuong Anh

Hanoi, 29 December 2017

Dear Mr. Nguyen The Chinh,

**Project "Conservation of Critical Wetland Protected Areas and Linked Landscapes"
Management Letter – For the period from 1 October 2016 to 30 September 2017**

Further to our procedures performed on the internal controls of the implementing partner and expenditures related to the Project "Conservation of Critical Wetland Protected Areas and Linked Landscapes" (Project ID. 88048) ("the Project") for the period from 1 October 2016 to 30 September 2017, funded by the United Nations Development Programme, Vietnam Country Office ("UNDP") and implemented by Institute of Strategy and Policy on Natural Resources and Environment ("ISPONRE"), Ministry of Natural Resources and Environment ("MONRE") ("the Implementing Partner" or "IP"), we are pleased to send you our management letter of the Project for your attention.

The primary purpose of our procedures for the period from 1 October 2016 to 30 September 2017 was to assist you in evaluating the functions of internal controls and project expenditures. We conducted the engagement in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements (ISRS 4400).


Our agreed upon procedures were performed on a sample basis and should not be relied upon to identify all irregularities and internal control weaknesses that may exist. The Management must rely on a comprehensive system of internal controls within its organization as the principal safeguard against such irregularities.

Our findings are grouped into the following categories:

- High** : Action that is considered imperative to ensure that the Implementing Partner is not exposed to high risks (i.e. failure to take action could result in major consequences and issues).
- Medium** : Action that is considered necessary to avoid exposure to significant risks (i.e. failure to take action could result in significant consequences).
- Low** : Action that is considered desirable and should result in enhanced control or better value for money.

We would like to take this opportunity to record our appreciation of the assistance and co-operation of the staff of the Project, particularly those in the finance department, throughout the course of the audit.

Yours sincerely,


Pham Phuong Anh
Partner

Summary of findings

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1. Perform reconciliations between FACE forms and CDRs

Risk severity: Low

Observation

The Project reconciled FACE forms with the CDRs once during the period, at the year-end, rather than a more frequent basis (e.g. quarterly).

Potential impact

The absence of regular reconciliation between FACE forms and CDRs might lead to the risk that expenditures being recognized in the incorrect period or errors in financial reports not being detected and corrected in a timely manner.

Recommendation

We recommend the Project should perform reconciliations between FACE forms and CDR on a quarterly basis with the approval of Project Director and/or Project Manager. The Project Management also should proactively obtain quarterly CDRs from UNDP for speeding up the reconciliation. Any significant and/or unusual reconciling items should be investigated and resolved promptly. It should be documented to demonstrate a good internal control procedure over funding and expenditure recording.

Project Management's responses

The Project requests UNDP to send CDRs to the Project Management Unit (PMU) quarterly to perform reconciliation. At the same time, the Project suggests that UNDP should send PMU CDRs with details of direct payment from UNDP for project's activities.

2. Submission of quarterly progress reports

Risk severity: Low

Observation

We noted that the Quarterly progress reports ("QPR") were not dated, therefore we do not have evidence about the date of submission of QPR. According to Point IV.3.1, Chapter 9 of the HPPMG, the deadline for submission is on the 15th day of the following quarter.

Potential impact

The absence of date in QPRs leads to the risk that the Project can not prove to the third parties that the procedures of report submission as regulated in the HPPMG have been performed in a timely manner.

Recommendation

We recommend that the Project should date the QPR to prove to the third parties that the procedures have been performed in a timely manner.

Project Management's responses

We agree with auditor's recommendation and we will submit QPR with FACE report.

3. Compliance with regulations on Value Added Tax ("VAT") refund

Risk severity: Low

Observation

As regulated in Point 2.1.3, Section VI, Chapter 8 of HPPMG on VAT refund and Revisions of HPPMG effective from 20 July 2016: "Periodically, at least once every six months, the Project Director is responsible for clearing the claims for VAT refund for each quarter, in accordance with the current State regulations".

Up to the audit fieldwork, the Project has just claimed for VAT refund twice on February 2017 by the Biodiversity Conservation Agency ("BCA") component and on August 2017 by the Institute of Strategy and Policy on Natural Resources and Environment ("ISPONRE") component. These two components are independent with each other in terms of VAT declaration and refund. The VAT deductible balance as at 30 September 2017 was VND709,960,999.

Potential impact

Delay in performing procedures for VAT refund will lead to delays and/or difficulties in recovering such amounts that could be utilised for other activities.

Recommendation

The Project Management should declare and claim VAT refund at least once every six months as required by the HPPMG. If the Project Management considers that the amount of VAT refund for a semi-annual period is insignificant and not worth claiming, we recommend it should officially inform and get approval by the UNDP.

Project Management's responses

BCA component claimed VAT for VAT invoices up to 2016 and is claiming VAT for VAT invoices in 2017.

ISPONRE component claimed VAT for VAT invoices up to Jun 2017 and is claiming VAT for VAT invoices of the last 6 months of 2017 period.

The VAT deductible to claim in some quarters is very small, therefore, we consider the amount of VAT refund for a quarter is insignificant and not worth claiming. Normally, Project Management claims the VAT for refund when the balance is about 10% of next quarter's budget.

4. Project disbursement progress

Risk severity: Low

Observation

We noted that the disbursement progress of some project outcomes was relatively slow during the period under review. Details are as follow:

Period	Outcome	Approved Budget	Actual expenditure	Unit: USD Absorption capacity %
Quarter II 2017	Outcome 1: New wetland protected areas and relevant systemic capacities for their effective management established	158,959	84,858	54%
Quarter III 2017	Outcome 1: New wetland protected areas and relevant systemic capacities for their effective management established	154,992	103,792	67%
Quarter III 2017	Outcome 2: Integrity of wetland protected areas are secured within the wider wetland connected landscapes	77,532	26,874	35%

Potential impact

Delays due to any reasons are unfavorable to the Project. Delays in project activities may result in constraints in the time available for the following years' activities of the Project. There may be a risk of poor quality performance in order to meet the shorter deadline. Moreover, if the Project's duration needs to be extended, it may require more funding.

Recommendation

The Project management should keep monitoring the progress of the Projects on a regular basis (e.g. monthly), identifying any delay and its reasons in order to take appropriate actions if necessary. Additionally, the Project should also consider whether the timeframe in the work plan is practicable or the timing and the tasks set up are needed to be revised.

Project Management's responses

We have recently submitted to UNDP the revised budget for 2017 that has been adjusted to the actual progress of the project.

5. Segregation of duties

Risk severity: Medium

Observation

The BCA component has a bank account at Vietcombank, and has registered four signatures for this account, including Component Director as the account holder and three (3) project staff members as the second signatures. However, one of the three project staff member is Ms. Ha Huong Giang - accountant of the project.

Potential impact

The accountant who prepares and also can sign the payment documents might lead to difficulty in ensuring the segregation of duties in the payment process, resulting in risks in the financial management of the project.

Recommendation

The BCA component should not authorize those directly involved in the payment process to sign on payment documents.

Project Management's responses

Audit recommendation which states that "The BCA component should not authorize those directly involved in the payment process to sign on payment documents" is not clear. Responsibilities for the preparation of documents, payment request, for control and approval of documents are included in BCA component's regulations. As there is a certain number of staff carrying out the Project, no one other than those involved in payment process will be able to sign payment documents.

The template of Authorization Letter provided by Vietcombank is the principal template to be used by the Project in transactions related to the bank transfer, deposit and withdrawal. Vietcombank requires those in charge of transactions with the bank (including transferring documents, obtaining bank documents, bank statements, etc) have to be registered with the bank by filling in this template. Ms Ha Huong Giang is one of three registered project staff. Ms Giang is responsible for transactions with bank, including delivering payment orders to the bank, obtaining payment orders, bank slip for storage, performing reconciliation, obtaining bank statements and other payment-related transactions as Project's regulations.

Per UNDP's recommendation in the internal audit for the year 2016, BCA revised the scheme and assigned Ms. Tran Thi Kim Tinh – Project coordinator, to sign on payment orders. Therefore, Ms Giang did not sign on those documents to comply with UNDP's requirement.

6. Errors in the supplier selection records

Risk severity: High

Observation

Per our review, we found out that the service for pavilion construction for the tree-planting ceremony in Thai Binh on 5 February 2017 was selected by competitive shopping method. SVT Media was the supplier with the lowest price and signed the contract with the project. However, the evaluation report on competitive shopping results, the submission report of suppliers selection and decision on selecting suppliers have wrongly stated Minh Tien company as the winning supplier.

Besides, regarding the expense for equipment rental at the tree-planting ceremony in Thai Binh on 5 February 2017, the winning contractor is Hong Van Company. However, the quotation of this contractor had arithmetical errors (the quoted price was lower than the total price of detailed items). If the quotation is accurate, Hong Van would not win the bid.

Potential impact

Failure to ensure the validity and accuracy of supplier selection records may result in difficulty for the Project to explain the reason to third parties. In addition, bid results may be considered as not convincing by the third party if the Project chose the winner based on inaccurate quotation.

Recommendation

The Project management should ensure the accuracy and appropriateness of the suppliers selection documents, avoid errors and request for clarification with suppliers if there is any incorrect information on the quotation.

Project Management's responses

We agree with auditor's findings. This was due to typographical errors of the preparer. We will recheck the supporting documents as recommended.

7. Assets management

Risk severity: Low

Observation

During the audit, we noted several issues as follows:

- ISPONRE component did not purchase insurance for its fixed assets as required in Point 1.2.6, Part 4, Chapter 7 of HPPMG.
- ISPONRE component did not prepare Handover minutes of fixed assets assigned to project staff with signature of the receiving staff.
- During the physical count of fixed assets on 8 December 2017, we observed that one fixed asset was not stamped with asset information:

Asset	Code
HP Printer M402D	WCP020

Potential impact

Fixed assets are susceptible to loss, misappropriation, or misuse, particularly popular items or items of high value. If no insurance purchased, the Project may suffer financial losses in the event of damage or loss of assets and impairment of the Project's ability to meet its objectives.

Failure to prepare Handover minutes of fixed assets assigned to project staff might undermine the efficient fixed asset management and protection, and cause difficulties in assigning responsibility to reimburse or repair for damaged or lost assets.

Failure to stamp information on all fixed assets might lead to the risk of loss or misuse of asset.

Recommendation

We recommend that the Management should purchase insurance for all assets that have been procured by or transferred to the Project. If it finds it difficult or unreasonable in purchasing insurance for assets, the Project should discuss with UNDP to find a reasonable solution for this matter that works best for the benefit of the Project.

The Project should prepare handover minutes of assets assigned to project staff and make sure all fixed assets are appropriately stamped.

Project Management's responses

We agree with auditor's findings and will supplement missing documents.

The project has tagged all assets as regulated. However in the process of using, the tag of an asset was stripped. We will retag this asset.

8. Stamp "Paid from UNDP/GEF grant"

Risk severity: Low

Observation

During the audit, we found that the stamp "Paid from UNDP/GEF grant" was stamped mainly on the invoices, and other supporting documents were almost unmarked. Under the UNDP regulations, all supporting documents for project expenditures must be stamped "Paid from UNDP/GEF grant".

Potential impact

We understand that those supporting documents were to support the disbursement for Project activities. However there might be a risk that these supporting documents are re-submitted for double payments or misused for other projects.

Recommendation

The Project Management should ensure that all original invoices and other supporting documents for payments are stamped "Paid from UNDP/GEF grant" after the payments were made. This practice will prevent reusing supporting documents and tighten the internal control on cash payments. Other supporting documents which is needed to be stamped includes payment request, payment voucher and certificate for payment.

Project Management's responses

As regulated in HPPMG, we just need to stamp "Paid from UNDP/GEF grant" on paid invoices. If the UNDP requests us to stamp "Paid from UNDP/GEF grant" on other supporting documents, they have to specify what supporting documents which need to be stamped are.

9. Supporting documents

Risk severity: Medium

Observation

Per our review of supporting documents, we noticed some issues as below:

a) Attach Terms of Reference ("TOR") to Consulting Contract

As stated in HPPMG, Chapter 5, Point III – Recruitment of national project consultant/expert, TOR is a mandatory component of the contract. However, we noticed that TORs were not attached to contracts signed between consultants and ISPONRE component, despite "Terms of Reference attached with Contract" clearly stated in the contract.

b) Attach TOR to the payment vouchers of the workshop expenses

ISPONRE component did not attach the TOR to the payment vouchers relevant to disbursement of organizing the workshop. According to HPPMG, TOR regulates the objectives, scope of work, outputs, approach and implementation plan of the activity that will provide sufficient information for third parties in verifying the accuracy and appropriateness of the payment supporting documents.

c) Lacking information on contract and contract liquidation

A contract and a contract liquidation were lacked of contract number/contract liquidation number and the signing date. Detail are as follows:

Contract/Contract liquidation no.	Date of contract/contract liquidation	Description	Amount (VND)
Not specified	Not specified	Expense for workshop in Thai Binh – invoice no. 0003326	52,727,273

d) Lacking information on quotations

Most of the suppliers' quotations for contracts signed with ISPONRE component were not dated. Besides, we also found some quotations without stamps and signatures, details are as follows:

Supplier	Description	Amount (VND)
Hoa Binh Group, Thien Ha, Saigontourist	Payment of event expense in Tram Chim	52,250,000
Svt Media, Thai Binh Agriculture Product, Minh Tien	Workshop expense in Thai Binh – invoice no. 0003326	52,727,273

e) Request for payment signed by a legitimate representative of the contractor

As stated in HPPMG, Chapter 7, Point II, payments to contractors are only made after the Project Director had received and approved the Request for payment signed by a legitimate representative of the contractor. However, we observed that ISPONRE did not request the contractor to prepare these supporting documents.

Potential impact

- (a) Failure to attach TOR to consulting contracts might lead to the risk that parties signing the consulting contract do not abide fully by the TOR. This might cause difficulties in resolving potential conflicts regarding contract implementation.
- (b) Not attaching the workshop TOR to the payment voucher of workshop expenses leads to difficulty in proving with third parties the accuracy and appropriateness of the payment vouchers.
- (c) Lack of date on contracts and liquidation of contracts could lead to difficulties in determining when the contract takes effect, and from that, determining the timing of payments, rights and obligations of the parties involved.
- (d) If the date on the quotation is not filled in and the stamp is missing on the quotations, the Project might find it difficult in determining the time that the quotation is enforceable, the rights and obligations of the parties involved and it can affect the quoted price of the winning suppliers, which may be subject to change after the expiration date or without notification. It also leads to the difficulty for the Project to prove to the third parties that the bidding process was performed accurately and appropriately with sufficient documents.
- (e) Lack of Request for payment signed by a legitimate representative of the contractor and approved by Project Director might lead to the risk of payments made without appropriate approval.

Recommendation

- (a) The Project should attach TOR as an appendix of the consulting contract.
- (b) TOR for workshop activities should be attached to the payment voucher for the workshop expenses.
- (c) Contracts and contract liquidation should be numbered and dated.
- (d) Quotations must be dated, signed and stamped by the supplier.
- (e) The Project should request contractors to prepare Request for Payment signed by legitimate representative for Project Director's approval.

Project Management's responses

- (a) Contracts and contract components including TOR are adequately stored in a storage file of each bidding package. TOR is attached with Decision for approval of TOR approved by Project Director. In order to avoid extremely thick storage file, payment documents are stored with contracts which, in addition, include TOR's main contents.
- (b) The ISPONRE component will attach a copy of the TORs to the payment voucher for the workshop expenses.
- (c) We agree with auditor's findings.
- (d) We agree with auditor's findings.
- (e) When the Project has to make payment to the consultants, we will request the consultants sign on the Certification for payment accompanying with the output. This certification for payment will be transferred to Chief Accountant and used as a basis for payment.

10. Delay in consulting contract performance

Risk severity: Low

Observation

We found that the progress of some consulting contracts were behind schedule, hence the Project had to sign the contract extension appendices. Details are as follows:

Component	Procurement Package	Estimated completion time	Actual completion time
ISPONRE	Conduct assessment of threats to ecological integrity, identifying the threats reduction strategies in Thai Binh	31/3/2017	31/10/2017
ISPONRE	Conduct assessment of threats to ecological integrity, identifying the threats reduction strategies in Thua Thien Hue	31/3/2017	31/10/2017
ISPONRE	Conduct ecosystem services assessment and valuation in Thai Binh	31/3/2017	31/10/2017
ISPONRE	Conduct ecosystem services assessment and valuation in Thua Thien Hue	31/3/2017	31/10/2017
ISPONRE	Identify main stakeholders, management organization and other resources to operate this wetland conservation area	31/1/2017	31/10/2017
ISPONRE	Technical consultant to provide technical inputs for development of working mechanism for local wetlands working group	31/10/2016	31/10/2017
ISPONRE	National Consultant to study on entry points for mainstreaming of wetland conservation into provincial development plan in Hue	31/1/2017	31/10/2017
ISPONRE	Conduct training need assessment on wetland conservation and management and sustainable use	31/12/2016	20/8/2017
BCA	Develop the proposal for new Decree on wetland management in Vietnam and assess the impact of new Decree and complete the Decree to submit Ministry of Natural Resources and Environment	15/9/2016	31/12/2017
BCA	Conduct training needs assessment on wetland conservation and management	31/12/2016	30/6/2017
BCA	Assess the demand of stakeholders in participation of wetland conservation area management and develop the map of wetland conservation area	4/7/2016	14/6/2017

Potential impact

The delay in performance of some packages from the Project's plan might lead to the risk that the Project's progress may not be assured. In addition, the quality of the bidding package implementation will also be affected.

Recommendation

The Project management should keep monitoring the progress of the bidding process, identifying any delay and its reasons in order to take appropriate actions if necessary.

Project Management's responses

Delays in contract performance are due to various reasons. For example, the consultants have to interview and synthesize the opinions of many different agencies to write output reports, hence if the survey could not be finished in a timely manner, it would affect the progress of the consultants' works. Other reason, such as floods in the central region, made it impossible for consultants to consult the opinions of agencies in central region on time.

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