

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

Funded by the Global Environment Facility
 (“GEF”) through the United Nations
 Development Programme Vietnam Country
 Office (“UNDP”)

Management Letter

For the period from 1 October 2018 to 30
 September 2019

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Project “Conservation of Critical Wetland Protected Areas
and Linked Landscapes”
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Ref: UNDP-88048-2019.ML.EN
Contact: Pham Phuong Anh

Hanoi, 29 December 2019

Dear Mr. Nguyen The Chinh,

**Project “Conservation of Critical Wetland Protected Areas and Linked Landscapes”
Management Letter – For the period from 1 October 2018 to 30 September 2019**

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 2018 to 30 September 2019, funded by the Global Environment Facility (“GEF”) through 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 2018 to 30 September 2019 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. Project disbursement progress

Area: Project/Program activities

Risk severity: Medium

Cause: Resources

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 I 2019	Outcome 1: New wetland protected areas and relevant systemic capacities for their effective management established	44,729	1,381	3%
Quarter I 2019	Outcome 2: Integrity of wetland protected areas are secured within the wider wetland connected landscapes	22,272	-	0%
Quarter II 2019	Outcome 1: New wetland protected areas and relevant systemic capacities for their effective management established	91,461	49,573	54%
Quarter II 2019	Outcome 2: Integrity of wetland protected areas are secured within the wider wetland connected landscapes	68,944	5,876	9%
Quarter III 2019	Outcome 1: New wetland protected areas and relevant systemic capacities for their effective management established	112,988	51,263	45%
Quarter III 2019	Outcome 2: Integrity of wetland protected areas are secured within the wider wetland connected landscapes	61,839	39,795	64%

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

The PMU agrees with the auditor’s opinion.

Action: The PMU will continue to coordinate with related parties to accelerate activities and disbursement progress to ensure the project implementation progress.

Person-in-charge: PMU

Time: Quarter IV/2019

2. Delay in the procurement progress

Area: Project/Programme activities

Risk severity: Medium

Cause: Resources

Observation

During the audit, we noted that the implementation progress of some bidding packages were still slow compared to the approved contractor selection plan. Details are as follows:

Name of package	Responsible party	Time to start selecting contractors according to the contractor selection plan	Actual time of contractor selection
Demarcating boundary of Tam Giang-Cau Hai Wetland Protected Area	PMU	Quarter III/2019	25/11/2019
Procurement of Canoe to support patrol and supervision of the Tam Giang – Cau Hai Wetland Protected Area	PMU	Quarter III/2019	27/11/2019

Potential impact

Procurement is of integral part, greatly affecting the implementation progress of the project. 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.

Recommendation

We recommend that the PMU should accelerate the procurement progress to keep pace with the overall progress of the project.

Project Management’s responses

The PMU agrees with the audit opinions.

Action: The PMU will coordinate with related parties to accelerate the establishment progress of the Nature Reserve to ensure the project implementation progress.

Person-in-charge: PMU

Time: Quarter IV/2019

3. Perform reconciliations between FACE forms and CDRs

Area: Finance
Risk severity: Medium
Cause: Guidelines

Observation

Per our discussion with the Project Management Unit (PMU), we noted that the PMU has performed reconciliation between FACE forms and CDRs on a quarterly basis. However, these reconciliations have not been documented and archived at the PMU for future reference.

Potential impact

The failure to make and archive the regular reconciliation minutes between FACE forms and CDRs might lead to the risk that the Project is unable to prove its compliance on reconciliation and accuracy of the approved expenditure to the third party.

Recommendation

The reconciliations should be documented and archived at the PMU for later inspection and reference.

Project Management's responses

The PMU agrees with the auditor's opinion.

Action: The PMU will make reconciliation minutes

Person-in-charge: Project Accountant

Time: Quarter IV/2019

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

Area: Finance
Risk severity: Medium
Cause: Resources

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".

At the time of the audit, the Project has just declared VAT refunds for the invoices up to 31 December 2016 by the Biodiversity Conservation Agency ("BCA") component and 30 June 2018 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 deductible VAT balance as at 30 September 2019 was VND585,549,793.

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 Project activities.

Recommendation

The Project Management should declare and claim VAT refund at least once every six months as required by the HPPMG.

Project Management's responses

The PMU agrees with the auditor's opinion.

Action: The PMU will claim tax refund in accordance with current regulations.

Person-in-charge: Project Accountant

Time: Quarter IV/2019

5. Assets management

Area: General administration

Risk severity: Low

Cause: Human error

Observation

The Project has not purchased insurance for fixed assets as specified at Point 1.2.6, Part 4, Chapter 7 of the Harmonized Programme and Project Management Guidelines (HPPMG), Vietnam – United Nations Cooperation Project.

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.

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.

Project Management's responses

The PMU agrees with the auditor's opinion.

Action: The PMU will purchase the insurance in the next period for the assets for operation of the Nature Reserve management unit.

Person-in-charge: PMU

Time: Quarter IV/2019

6. Monitoring the contract performance and payment process

Area: Finance
Risk severity: Low
Cause: Resources

Observation

During the audit, we noted that a number of payments to the contractors as well as performance progress of some contracts were still slow compared to the approved contractor selection plan. Details are as follows:

Date	Description	Voucher	Amount (VND)	Date of invoice/ acceptance minute	Date of payment
7/12/2018	Payment for air ticket – Invoice 0001081	18/12/258	5,070,000	31/10/2018	7/12/2018
31/12/2018	First paymen (20%) contract 02/HĐTVH - ĐNN/2018	18/12/293	90,500,000	1/8/2018	31/12/2018
3/5/2019	First payment (20%) 02/HĐTVH- ĐNN/2018	19/05/11	135,800,000	28/12/2018	3/5/2019
28/6/2019	Payment for air ticket – Invoice 002065	19/06/38	35,490,000	31/5/2019	28/6/2019

In addition, the contract No. 02/HĐTVH-ĐNN/2018 specifies the contract closing date to be 30 June 2019. Per our observation, due to the delay in payment, the contract has only been paid for the first time by May 2019. However, the Project has not signed the extension document for the above-mentioned contract.

Potential impact

We understand that because the extension of implementation of the Project was prolonged, the Project delayed payments to the suppliers. However, slow payment and contract performance issues may lead to difficulties for the Project in the management of actual expenditure and project progress.

Recommendation

We recommend that the Project make payments to its suppliers on a timely basis. Besides, the PMU should check and review the contract terms to comply with and avoid relevant legal risks.

Project Management’s responses

The PMU agrees with the auditor’s opinion.

Action: The PMU learns the recommendations. In next period, the PMU will work with stakeholders to promote the implementation of planned activities and administrative procedures. Any late payments are informed to suppliers to avoid relevant legal risks.

Person-in-charge: Project Accountant

Time: Quarter IV/2019

7. Payment of salary

Area: Human resources

Risk severity: Low

Cause: Resources

Observation

We noted that the Project has not paid salaries to component officials on a monthly basis. Specifically, the Project paid salaries for these officials for the working period from January to June 2019 on July 2019.

Potential impact

The failure to pay salaries for the officials on a timely basis might result in the risk that the financial situation of the Project is not fully and promptly reflected. This is also an indicator of non-compliance with the current local laws and regulations.

Recommendation

The PMU should record the allowances for the project officials on a timely basis to ensure full and prompt presentation of the financial situation as well as to comply with current regulations.

Project Management's responses

The PMU agrees with the recommendation of the auditor. Regarding the late salary payment to component officials, in addition to the changes in the internal payment process, it is due to a long time for the Project to agree on the payment forms.

Action: The PMU agrees with the auditor's opinion

Person-in-charge: Project Accountant

Time: Quarter IV/2019

8. Stamp “Paid from UNDP/GEF grant”

Scope: Finance
Risk severity: Low
Cause: Human error

Observation

Under the UNDP regulations, all supporting documents for project expenditures must be stamped "Paid from UNDP/GEF grant". 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. Details are as follows:

Date	Description	Amount (VND)
12/31/2018	First payment (20%) contract 02/HĐTVH - ĐNN/2018	90,500,000
5/3/2019	First payment (20%) contract 02/HĐTVH-ĐNN/2018	135,800,000
9/13/2019	Second payment (40%) contract 02/HĐTVH-ĐNN/2018	339,500,000

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 are needed to be stamped includes payment request, payment voucher and certificate for payment.

Project Management’s responses

The PMU agrees with the auditor’s opinion.

Action: The PMU learns the recommendations and additionally stamps as soon as there are audit findings.

Person-in-charge: Project Accountant

Time: Quarter IV/2019

9. Accuracy of the supporting documents

Area: Finance
Risk severity: Low
Cause: Human error

Observation

We noted that the minutes of liquidation related to the contract No. 06/HĐTV-ĐNN/2017 on 12 September 2019 and the minutes of liquidation related to the contract No. 05/HĐTV - ĐNN/2018 on 2 September 2018 clearly stated the remaining payment amount to the contractor is VND0. However, in fact, at the time two parties signed the acceptance minutes, the Project was still obliged to pay 20% of the contract value. Besides, after the date of the minutes of contract liquidation, the Project paid the remaining amount.

In addition, the vouchers and documents related to the contract named as “Consultancy on making videos about the role of wetlands in human life” No. 05/HĐTV-ĐNN/2018 signed on 23 October 2018 all refer to the contract No. 08/HĐTV-ĐNN/2018 signed on 23 October 2018.

Potential impact

The fact that payment documents have differences as mentioned above can lead to the risk that the expenditure were not considered as appropriate and valid expenditure of the Project. Besides, it also demonstrates the lack of transparency and non-compliance in the expenditure management.

Recommendation

The Project should maintain the consistency of documents to ensure accounting transparency and satisfy third parties and the Donors in terms of internal control system.

Project Management’s responses

The PMU agrees with the auditor’s opinion.

Action: The PMU learns the recommendations, and it will monitor the contract number more strictly and completely as soon as there are audit findings.

Person-in-charge: PMU

Time: Quarter IV/2019