

**Project "Capacity Building for the
Ratification and Implementation of the
Nagoya Protocol on Access and Benefit
Sharing in Vietnam"
(Project ID: 91409)**

Management letter

Period from 1 October 2019 to 30 June 2020

Mr. Nguyen Van Tai
Project Director
Vietnam Environment Administration (VEA)
Ministry of Natural Resources and Environment (MONRE)
Detech building, No.8 Ton That Thuyet, My Dinh
Hanoi, Vietnam

Hanoi, 30 December 2020

To: Mr. Nguyen Van Tai

**Re: Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam" (Project ID: 91409)
Management letter for period from 1 October 2019 to 30 June 2020**

Besides the procedures agreed with you with respect to the programme disbursements related to the Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam" ("the Project") for the period from 1 October 2019 to 30 June 2020, which was to enable us to form a report in accordance with International Standard on Related Services ("ISRS") 4400 for the period from 1 October 2019 to 30 June 2020, we also performed a review of internal control and systems in accordance with the terms of reference for our engagement.

Following the completion of the engagement and the examination of the Project's management for the period from 1 October 2019 to 30 June 2020, we set out in the attached report certain matters.

The following ratings have been defined so that management can put in context the opinions given in internal audit reports.

A. Ratings for overall performance of internal control system

The harmonized rating system being applied by the internal audit services of UNICEF, UNFPA, WFP, UNDP and UNOPS effective 1 January 2010 is based on the following principles:

- There are three categories: (a) satisfactory, (b) partially satisfactory, and (c) unsatisfactory.
- The elements of the rating system will take into account the audited office's internal control system and risk management practices and their impact on the achievement of office objectives.

The descriptions of the ratings are as follows:

Standard ratings	Description
Satisfactory	Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the IP's objectives.
Partially satisfactory	Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect achievement of the IP's objectives..
Unsatisfactory	Internal controls, governance and risk management processes were either not established or not functioning well. The issues identified were such that the IP's overall objectives could be seriously compromised.

B. Rating for priorities of audit recommendations, possible causes and functional areas

The observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized observation provides a basis by which the NEXIA STT Co., Ltd. country office management is to address the issues.

The following categories of priorities are used:

Rating	Description
High	Action that is considered imperative to ensure that the agency 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.

The following categories of possible causes are used:

- **Compliance:** Failure to comply with prescribed agency regulations, rules and procedures.
- **Guidelines:** Absence of written procedures to guide staff in the performance of their functions.
- **Guidance:** Inadequate or lack of supervision by supervisors.
- **Human error:** Mistakes committed by staff entrusted to perform assigned functions.
- **Resources:** Lack of or inadequate resources (funds, skills, staff, etc.) to carry out an activity or function.

The following categories of functional areas are used:

- General policy;
- Project/programme activities;
- Finance;
- Human resources;
- Procurement;
- Information technology; and
- General Administration

This Report is solely for the purpose set forth in the above objective.

This report has been prepared for, and only for, UNDP and the Project and for no other purpose. We do not accept or assume responsibility for any other purpose for which this report is used or to any other person to whom this report is shown or into whose hands it may come, except where expressly agreed by our prior consent in writing. However, this report is a matter of public record and its distribution is not limited.

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



Yours sincerely,

Nguyen Viet Nga
Deputy General Director

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1. Introduction

Background

NEXIA STT Co., Ltd. conducted an engagement in accordance with Institute of Internal Auditors' International Professional Practices Framework (IPPF) regarding the Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam" bearing the Project ID number: 91409 from 22 to 23 October 2020.

The purpose of the engagement was to carry out procedures of an advisory nature. The engagement covered the period from 1 October 2019 to 30 June 2020.

Overall Assessment

Based on the weighted rating of individual areas per agency guidance, the overall level of internal control with respect to the Project's operations is considered to be **Satisfactory**. It should be noted that we consider the level of internal control in all areas, except for **C1** to be **Satisfactory**.

Highlights

This letter contains 1 recommendation. Refer to **C1**.

Findings observed

The details of the observation are contained in the subsequent Audit Subjects A to F of the report.

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2. Audit Objectives, Scope and Operational Overview

Objectives

A management letter is meant to communicate observations, findings and recommendations related to deficiencies in internal control identified and findings by the third-party service provider during the engagement performed in accordance with Institute of Internal Auditors' International Professional Practices Framework (IPPF).

Scope

During the engagement, relevant samples of documents and transactions for the period covered by the engagement were reviewed. Discussions were held with the Project's staff and personnel throughout the engagement.

Standards

The engagement has been conducted as per the Institute of Internal Auditors' International Professional Practices Framework (IPPF).

Operational Overview

The Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam" was funded by the United Nations Development Programme ("UNDP") and implemented by Vietnam Environment Administration (VEA), under Agreement No. 674/QD-BTNMT dated 31 March 2016.

The objectives of the Project are to contribute to the conservation and sustainable use of globally significant biodiversity in Vietnam, via the strengthen national capacities on access and benefit sharing of genetic resources to facilitate the implementation of the Nagoya Protocol on Access and Benefit Sharing.

Included in the total budget of the Project for the period from 1 January 2016 to 1 January 2019 was ODA fund of USD2,000,000 (equivalent to VND43,722,000,000) and the counterpart fund of the Vietnamese agencies of USD200,000 (equivalent to VND4,489,000,000). Additionally, according to Decision No. 1595/QD-BTNMT dated 25 June 2019, the Project was extended to October 2020.

Project's expenditures for the period from 1 October 2019 to 30 June 2020 under review was VND7,636,935,675.

As at 30 June 2020, the Project had 10 employees.



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Office Management

The management of Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam" at the time of the engagement consisted of:

- Mr. Nguyen Van Tai – Project Director
- Mr. Pham Anh Cuong – Project Deputy Director
- Ms. Hoang Thi Thanh Nhan – Project Deputy Director
- Mr. Nguyen Ba Tu – Project Coordinator
- Ms. Nguyen Thi Minh Tham – Project Manager
- Ms. Ngo Thi Thu Hien – Project Chief Accountant

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3. Detailed Assessment

The details of the observation are contained in the subsequent **Audit Subjects A to F** of this report.

A. Overall Project Management

We checked samples of controls over the overall Project management and noted the followings:

- The Project operated in compliance with the regulations of the Government of Vietnam on the management and use of ODA capital, the provisions of the General Regulation on the management of Vietnam-United Nations cooperation programs and projects (HPPMG); 2017 UN-EU Guidance on financial management of local costs in development cooperation with Vietnam; Regulations on organization and operation of the Project Management Board, and agreements with the donors;
- The project prepared quarterly FACE Reports in accordance with UNDP regulations. At the time of the review, the Project has prepared five (5) FACE reports for expenses incurred from 1 October 2019 to 30 June 2020 (2 reports for Quarter IV in 2019, 1 report for Quarter I, and 2 reports for Quarter II in 2020). FACE reports were approved by 2 Deputy Project Directors - Ms. Hoang Thi Thanh Nhan and Mr. Pham Manh Cuong, submitted to UNDP within the prescribed deadline;
- The Project maintained sufficient supporting documents and vouchers which were approved by the Project Director;
- The Project had a document retention policy that conformed to UNDP's requirements;
- The segregation of duties within the Project structure was adequate; and
- Project's activities were carried out in accordance with work plans and the Project document.

No significant issues on controls over the overall Project Management were identified from our procedures.



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B. Financial operations, controls and cash/fund management

We checked samples of controls over the financial operations, controls and cash/fund management and noted the followings:

- The Project applied accounting procedures and maintained accounting records and documents in accordance with accounting regulations of the Government, as well as HPPMG of UNDP;
- Duties were segregated between the accounting department and management. Especially, roles and responsibilities of individuals involving in the project's financial management were clearly defined;
- Project's expenditures were paid according to approved budgets within the cost-norm approved by the Donor;
- The Project maintained separate accounting sub-ledgers to record all transactions and cash transfers by UNDP;
- The Project opened its own bank account to record transactions. The Project performed monthly bank reconciliation in writing which were approved by the Project Director ;
- The Project had no cash on hand transaction. All of transactions were paid by cash at bank; and
- All accounting documents were stamped "PAID".

No significant issues on controls over the financial operations, controls and cash/fund management were identified from our procedures.

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C. Contracting for procurement of goods and services

We checked samples of controls over the contracting for procurement of goods and services and noted the following:

- All procurement of goods and services was approved by the Project Director with sufficient supporting documents ;
- Procurement of goods and services was consistent with regulations and procedures of the Government, as well as complied with UNDP's agreements, including requirements for competitive procurements ;
- Contracting methods were properly applied in accordance with the HPPMG. In general, these methods complied with the Bidding Law and the Vietnamese Government regulations . The thresholds of the HPPMG were lower than those prescribed in the Bidding Law. We found that (i) Timing of approval and appraisal of some bidding packages were incompliant with those prescribed in the Bidding Laws and (ii) Information on the Bid dossiers was not responding with requirements in the Bid invitation documents (Refer to Section **C.1**); and
- Procurement of goods and services was carried out in accordance with approved budget and UN-EU cost norm.

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C.1 Improvement of bidding process

Rating: Medium
Possible causes: Human Error

Observation

During our review, we have conducted inspections of the processes, procedures as well as Bidding invitation documents of some procurement and consulting bidding packages implemented and managed by the Project Management Unit during the period from 1 October 2019 to 30 June 2020. We noted some findings regarding bidding and evaluation of some bidding packages as follows:

a) Timing of approving, praising was delayed compared with regulations

According to point k - Article 12, Bidding Law No. 43/2013/QH13 regarding period of selecting bidders and donors: "*Maximum period for approving or commenting on the result of selecting bidders was **10 days** from the date of the request for approval of Bidder selection result from Bid Solicitor or appraisal report (if any)*".

However, we found some decision approvals of Bidder selection result were behind schedule. Details were as follows:

Bid packages	Date of Report approval of Bidder selection result	Date of Decision approval of Bidder selection result	Period
Supporting the implementation of regulations on access to genetic resources (ABS) and benefit sharing	30/10/2019	13/11/2019	14 days
Development of financial agreement , reinvesting revenues from access to genetic resources and remaining biodiversity conservation	12/12/2019	24/12/2019	12 days

Besides, according to point h - Article 12, Bidding Law No. 43/2013/QH13 regarding period of selecting bidders and donors: "*The maximum evaluation time is **20 days** for each appraisal content: Bidder selection plan, Dossiers of invitation for expression of interest, bid invitation dossiers, Bidding documents, request for proposals, result of Bidder selection since the date of document submission*".

According to point i - Article 12, Bidding Law No. 43/2013/QH13 regarding period of selecting bidders and donors: "*The maximum period for approval the Dossiers of invitation for expression of interest, invitation for prequalification, request for proposals, and bidding documents is **10 days** since the date of the request for approval of Dossiers of invitation for expression of interest, invitation for prequalification, request for proposals, and bidding documents.*".

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For consulting bidding package "Support for strengthening wild genetic resources (expanding investigation, collecting and updating data on genetic resources and traditional knowledge in national parks, nature reserves selected)", period for approving and appraising document was behind schedule. Details were as follows:

Date of submission for approval of TOR for bidding invitation	Date of bidding evaluation report	Period from submission and evaluation days	Date of approval	Period from submission and approval day
17/10/2019	22/11/2019	36 days	12/12/2020	20 days

b) Information in Bid dossiers was not responding with requirements in Bid invitation documents

- It was regulated in Point 3 – Section 15. The specifications of the Bid dossiers and signature in the Bid dossiers – of the Bid invitation document implemented according to decision No. 1618/QĐ-TCMT dated 12 December 2019:
*"Bid dossiers must be typed and printed by ink which can not be removed, and **the number of pages was continuously typed.**"*

However, the bid dossiers of 3 bidders Nguyen Gia Environment Technology And Equipment, Technical Advice Company Limited, The Center for Biodiversity Conservation and Institute of Environmental Science and Climate change **were not** continuously typed.

This issue was not mentioned in the evaluation report of the bidding evaluation team. We understand that the bidding evaluation team focused on the content of the bid dossiers and did not evaluation the form of the bid dossiers.

- It was regulated in Clause 2, Section 13, Chapter II, Bidding Data Sheet of the Bid invitation document issued according to Decision No. 1618/QĐ-TCMT 12 December, 2019:

"b) Other document demonstrated the qualification and experience of Bidders:

Financial statements and the copy of one of the documents below:

- Report on the tax inspection in 2018;*
- Tax finalization certified by the tax administration agency or electronic tax finalization and documents demonstrate the fulfilment of tax obligations and compliance with declaration;*
- The tax authority's certification (for the whole year) on the fulfilment of tax obligations in 2018;*
- Audited report."*

However, the bid dossiers of both contractors - Nguyen Gia Environment Technology And Equipment, Technical Advice Company Limited and Institute of Environmental Science and Climate change just provided the Financial Statements without any of four above required documents.

This issue was not mentioned in the evaluation report of the bidding evaluation team. We understand that this is a consulting bidding package, so the bidding evaluation team prioritized the assessment of the expert's competence instead of the financial capacity. At the same time, through the interview, we understand that in the evaluation report of the bidding evaluation team, form No. 01 on inspecting the validity of the Technical Proposal Document, in the section of Documents proving the capacity and experience of the bidders, the bidding evaluation team ticked on the result column as Yes, which was typo errors.

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Implication

Late appraisal and approval of documents and dossiers in the bidding process shows incompliance with the Vietnamese Laws. This is also difficult to satisfy the independent third parties that the bidding process were seriously executed and managed.

Inaccurate information in the technical proposal evaluation report and insufficient information in Bid dossiers of contractors without any clarification shows the negligence of the evaluation team during the bidding evaluation process. This may lead to the risk that these bidders will be selected without qualifying the basic criteria in the Bid invitation documents.

The typo errors might make it difficult to satisfy independent third parties about the accuracy of the evaluation report as well as the bidding is strictly implemented and managed

Recommendation

The Project Management Unit should note to report to the appraisal agency to ensure that the appraisal and approval of documents such as Bid invitation documents, Bid selection results are performed carefully, quickly and within the prescribed period as regulated by the relevant laws and regulations.

The bid evaluation team should ensure that information on the technical proposal evaluation report is accurately reflected as a basis for the evaluation of bidding results and awarding to the winning bidder. Any ambiguous information should be immediately verified during the bid evaluation. Only qualified bidders who meet all criteria noted in Bid invitation documents are to be selected to the next stage before being considered as the winning bidder.

PMU's response

Due to the high workload and the limited number of personnel, in some cases, the appraisal agency did not keep up with the prescribed schedule. However, PMU will note to report this issue to the appraisal body.

Regarding the issue of not numbering pages in continuously order at point (b2) above, in the evaluation process, the bidding evaluation team evaluated the bidding dossiers according to the criteria of the bidding invitation documents and the guidance of Circular 23/2015/TT-BKHDT on preparing evaluation report of the bid dossiers. In the circular, this does not mention or guide the evaluation of the form of the bid dossiers, so the evaluation report did not mention this issue.

Regarding the lack of documents proving the bidder's capacity and experience at point (b2) above, the bidding evaluation team inspected the financial statements and found that the bidders participating in the bid had no problem in "Not in dissolution process; not being found to be in bankruptcy or insolvency in accordance with the law". In addition, since this is a consulting bidding package package, the expert's competence is a priority. PMU agrees with the auditors and will absorb it in the future.

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D. Staffing and management of human resources

We checked samples of controls over the staffing and management of human resources and noted the following:

- The Vietnam Environment Administration had an establishment decision for assignment of part-time staff and allocation of specific tasks. Accordingly, monthly allowances for the part-time and operation costs of the Project staff were covered by the counterpart fund – the State budget;
- Project staff that was recruited externally as prescribed by the Donor signed labor contracts and prepared monthly timesheets. Their salaries were fully paid from the Donor's grant and recorded in the appropriate budget line;
- Project staff salaries and allowances were paid according to the approved budget; and
- The Project Management Unit was responsible for calculating PIT of the Project staff and making payments to the State budget .

No significant issues on controls over the staffing and management of human resources were identified from our procedures .

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E. Asset/property management, ICT and general issues

We checked samples of controls over the asset/property management, ICT and general issues and noted the following:

- There existed security procedures to protect assets/property against theft and damage;
- Assets were purchased property insurance and managed in accordance with regulations of UNDP and VEA;
- All assets were fully tagged and their status were updated on the fixed assets register in a timely manner; and
- Assets' physical check was annually performed and documented in writing .

No significant issues on Asset/property management, ICT and general issues were identified from our procedures

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F. Other observations

No significant issues were identified.

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4. Follow up spot check findings from the previous spot check

Period from 1/10/2018 to 30/9/2019	Descriptions	Update
1	<p>VAT input of the Project was missed to be claimed</p> <p>During the review (December 2019), the Project Management Unit ("PMU") had a VAT amount of VND508,273 for purchasing international air tickets to Sharm, EI Seikh, Egypt from 13 to 17 August 2018. This amount has not been refunded.</p>	No similar case occurred during the review period.
2	<p>Contract liquidation was not performed in a timely manner as regulations</p> <p>The contract liquidation of purchasing stationeries for the art contest - Activity 4.2.2.1 (Voucher No. 142 dated 30 September 2019) was not performed in a timely manner in accordance with contract's terms. Details were as follows:</p> <p>According to Point 1, Article V, service contract No. 104/HD DV/2019 between Project Management Board and business household - Tran Van Hung dated 10 April 2019 on the provision of stationeries, "<i>Within 5 days after the end of the activity, both parties must agree and liquidate the contract.</i>".</p> <p>The activity was completed on 13 May 2019; however two parties prepared the contract liquidation on 30 May 2019 (i.e. 12 days behind the deadline).</p>	No similar case occurred during the review period.