

**Project “Capacity Building for the Ratification
and Implementation of the Nagoya Protocol on
Access and Benefit Sharing in Vietnam”**

Funded by United Nations Development Programme
Vietnam Country Office (“UNDP”)

Agreed-upon procedures on the Internal Control System
and expenditure for the portion of funds provided by UNDP
and implemented by the Biodiversity Conservation Agency
(“BCA”), Ministry of Natural Resources and Environment
(Vietnam Environment Administration)

Report of Factual Findings

For the period from 1 October 2016 to 30 September 2017

REPORT OF FACTUAL FINDINGS

To the United Nations Development Programme Representative in Vietnam and Director of the Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam"

We have performed the procedures which have been agreed with you and enumerated on pages 4 to 11 in the Section 2 with respect to the internal controls of the implementing partner and expenditures 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 2016 to 30 September 2017, funded by the United Nations Development Programme, Vietnam Country Office ("UNDP") and implemented by the Biodiversity Conservation Agency ("BCA"), Ministry of Natural Resources and Environment (Vietnam Environment Administration) ("the Implementing Partner" or "IP").

Objective

The objective of this engagement is to carry out certain procedures to which we have agreed and report to you on factual findings obtained from the procedures performed.

Standards and Ethics

Our engagement was undertaken in accordance with:

- International Standard on Related Services ('ISRS') 4400 *Engagements to perform agreed upon procedures regarding Financial Information* as promulgated by the International Federation of Accountants ("IFAC"); and
- the *Code of Ethics for Professional Accountants* issued by the IFAC.

Procedures performed

As requested, we have only performed the procedures set out on pages 4 to 11 of Section 2 and reported the results to you.

These procedures have been determined solely by UNDP and were performed to assist the Implementing Partner in assessing the internal control of the financial management system in evaluating whether the expenditure incurred by the Project for the period from 1 October 2016 to 30 September 2017 were:

- made in conformity with the approved budget;
- for the approved purpose;
- in compliance with the relevant regulations and rules, policies and procedures; and
- supported by properly approved vouchers and other supporting documents.

The sufficiency of the procedures in achieving the above mentioned purpose or any other purpose is solely the responsibility of UNDP. In other words, we are not responsible for making any representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Because the procedures performed by us did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the functioning of the internal controls and the expenditure incurred by the Project for the period from 1 October 2016 to 30 September 2017.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Project in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Use of this Report

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the items specified above and does not extend to any financial statements of the implementing partner, taken as a whole.

Mazars Vietnam Co., Ltd.



Pham Phuong Anh

Audit Partner

Audit Practicing Registration Certificate

No. 1102-2013-177-1

Hanoi, Vietnam

29 December 2017

1. Background information

The Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam" is funded by the Global Environment Facility (GEF) Trust Fund via UNDP Vietnam with the expected total ODA grant of \$2,000,000. The Project is implemented by the Biodiversity Conservation Agency ("BCA"), Ministry of Natural Resources and Environment (Vietnam Environment Administration). The project duration is 4 years from January 2016 to December 2019.

The project's goal is to contribute to the conservation and sustainable use of globally significant biodiversity in Viet Nam by strengthening the capacity building for the ratification and implementation of the Nagoya Protocol on Access to genetic resources and Benefit Sharing ("ABS").

The Project consists of four (04) project components:

- | | |
|----------------|--|
| Component I: | Creating an enabling national policy, legal and institutional framework for ABS; |
| Component II: | Developing administrative measures for implementation of national ABS legal framework; |
| Component III: | Increasing awareness and capacity of all relevant stakeholders for implementation of national ABS framework; and |
| Component IV: | Demonstrating private-public-community partnerships on access and benefit sharing. |

2. Detailed procedures performed and findings

2.1 Obtained documentation describing the Implementing Partner's financial management internal controls and report

Detailed work performed

We obtained documentation describing the IP's financial management internal controls and report on whether the documentation includes controls related the following areas of financial management:

(a) Payment management

Authorization of expenditures, including Funding Authorization and Certification of Expenditure ("FACE") forms and requests for direct payment. These include:

- Expenditures authorized in accordance with United Nations Harmonised Programme and Project Management Guidelines ("HPPMG"), revisions to HPPMG, and Implementing Partner ("IP") policies and procedures if applicable;
- Expenditures included in activities detailed in the approved work plan; and
- Expenditures supported by documentation consistent with HPPMG, revisions to HPPMG, the Harmonized Approach to Cash Transfers ("HACT") framework and IP policies and procedures.

Expenditures made in accordance with applicable policies and procedures, which include:

- Expenditures made within the approved budget;
- Expenditures made following a clear transparent segregation of duties (individuals involved in the payment process); and
- Recognition of expenditures in accordance with UNDP accounting methodology.

(b) Budget estimation and revision:

- Budget estimation is made based on approved DPO/project document and work-plans;
- Budget estimation is prepared based on policies, standards and cost norms applied to UN/UNDP supported projects; and
- Budget revisions are made based on provided conditions and in line with the prescribed procedures.

(c) Financial reporting and management in line with UN/UNDP CO's requirements:

- Completed FACE form for request of cash transfers are duly submitted and in accordance with HPPMG, revisions to HPPMG and UNDP CO's NIM advance requirements;
- Quarterly reconciliations are carried out between FACE and CDR;
- A monitoring system of cash transfers (NIM advances) is set up to manage cash received and expended; and
- FACE form for quarterly reporting of expenditure is properly prepared and duly submitted in accordance with HPPMG, revisions to HPPMG and UNDP CO's NIM advance requirements.

Other finance related issues:

- Value Added Tax ("VAT") recorded properly for VAT claim actions;
- VAT claim/refund actions carried out in accordance with VAT claim/refund workflow released by UNDP in 2014;
- PIT amounts properly calculated and paid as regulated by the law; and
- Financial delivery rate against the work-plans duly monitored for corrective actions as/if required.

(d) Adequacy of the accounting operations and reporting systems:

- The IP has an accounting manual or guidelines;
- The IP applies accounting procedures and maintains accounting books and records in accordance with the Accounting Law;
- The accounting methodology complies with applicable standards of the Government and UNDP;
- Duties are segregated between the components of the accounting and management departments. Specifically, roles and responsibilities of individuals involved in project financial management must be clearly defined;
- The IP maintains a separate official accounting record/sub-ledger to record transactions against cash transfers by the agency;
- The IP prepares and documents a monthly bank reconciliation for the separate bank account receiving the agency's funds; and
- Cash use is properly monitored and managed in accordance with HPPMG and revisions to HPPMG.

(e) Maintenance and security of accounting records:

- IP facilities have security procedures to protect against theft, damage or loss of data; and
- The IP has a document retention policy that conforms with agency requirements.

(f) Procurement/contracting of supplies and services:

- Bidding Plans are prepared, submitted and amended in accordance with the Bidding Law;
- Competitive bids are obtained for expenditures described in the work plan and in accordance with HPPMG, revisions to HPPMG and the Bidding Law;
- Relevant bidding methods are applied in accordance with HPPMG, revisions to HPPMG and the Bidding Law;
- Vendors consistently implement the IP's rules and procedures and agreements with the agency;
- Procurement of supplies and services is consistent with the IP's rules and procedures and its agreements with the agency, including requirements for competitive procurement;
- Supplies and services agree with those required by the work plan; and
- Contracting methods appropriately applied in accordance with the Bidding Law and contracts are regularly managed in accordance with HPPMG and revisions to HPPMG.

(g) Asset management:

- Inventory of fixed assets is maintained (format B04-DA in the Accounting Handbook);
- Assets are insured and managed in accordance with HPPMG and revision to HPPMG; and
- Safe-guarding assets. IP facilities have security procedures to protect against theft, damage or loss of data.

Findings

No significant issues noted on documentation describing the Implementing Partner's financial management internal controls;

We noted that closely based on Harmonized Programme and Project Management Guidelines ("HPPMG"), revisions to HPPMG, and Harmonized Framework for Cash Transfers to Implementing Partners ("HACT"), the Project Management set up financial management internal controls with aim to properly use all funding resources from UNDP and Government in order to achieve projects' target and objectives.

2.2 Selected a sample of control instances during the period under review for the attestation engagement

Detailed work performed

We selected samples, amounting to 40% of control instances during the period under review for the attestation engagement, for each control. Selections were made randomly. For each control selected we performed the following procedures:

- (a) Obtained relevant supporting documentation to check that the control occurred as described; and
- (b) Checked that the actual date of control implementation was within 14 business days of the occurrence.

The procedures on samples of control instances were performed at the Project Management Office. Detailed procedures on samples of control instances are as follows:

2.2.1 Payment management

a) Authorization of expenditures, including FACE forms and requests for direct payment

These include:

- Expenditures authorized in accordance with HPPMG, revisions to HPPMG, and IP policies and procedures if applicable;
- Expenditures included in activity detailed in the approved work plan; and
- Expenditures supported by documentation consistent with HPPMG, revisions to HPPMG, HACT framework and IP policies and procedures.

Findings

No significant issues noted on controls over authorization of expenditures, including FACE forms and requests for direct payment.

b) Expenditures made in accordance with applicable policies and procedures, which include:

- Expenditures made within the approved budget;
- Expenditures made following a clear transparent segregation of duties (individuals involved in the payment process); and
- Recognition of expenditures is in accordance with UNDP accounting methodology.

Findings

No significant issues noted on controls over expenditures made in accordance with applicable policies and procedures.

2.2.2 Budget estimation and revision

- Budget estimation is made based on approved DPO/project document and work-plans;
- Budget estimation is prepared based on policies, standards and cost norms applied to UN/UNDP supported projects; and
- Budget revisions are made based on provided conditions and in line with the prescribed procedures.

Findings

No significant issues noted on controls over budget estimation and revision.

2.2.3 Financial reporting and management in line with UN/UNDP Country Office ("CO") 's requirements

- Completed FACE form for request of cash transfers are duly submitted and in accordance with HPPMG, revisions to HPPMG and UNDP CO' s NIM advance requirements;
- Quarterly reconciliations are carried out between FACE and CDR;
- A monitoring system of cash transfers (NIM advances) is set up to manage cash received and expended; and
- FACE form for quarterly reporting of expenditure is properly prepared and duly submitted in accordance with HPPMG, revisions to HPPMG and UNDP CO's NIM advance requirements.

Other finance related issues:

- VAT is properly recorded for VAT claim actions;
- VAT claim/refund actions carried out in accordance with VAT claim/refund workflow released by UNDP in 2014;
- PIT amounts properly calculated and paid as regulated by the law; and
- Financial delivery rate against the work-plans duly monitored for corrective actions as/if required.

Findings

No significant issues noted on controls over financial reporting and management in line with UN/UNDP Country Office ("CO") 's requirements.

2.2.4 Adequacy of the accounting and financial operations and reporting systems

- The IP has an accounting manual or guidelines;
- The IP applies accounting procedures and maintains accounting books and records in accordance with the Accounting Law;
- The accounting methodology complies with applicable standards of the Government and UNDP;
- Duties are segregated between the components of the accounting and management departments. Specifically, roles and responsibilities of individuals involved in project financial management must be clearly defined;
- The IP maintains a separate official accounting record/sub-ledger to record transactions against cash transfers by the agency;
- The IP prepares and documents a monthly bank reconciliation for the separate bank account receiving the agency's funds; and
- Cash use is properly monitored and managed in accordance with HPPMG and revisions to HPPMG.

Findings

No significant issues noted on controls over adequacy of the accounting and financial operations and reporting systems.

2.2.5 Maintenance and security of accounting records

- IP facilities have security procedures to protect against theft, damage or loss of data; and
- The IP has a document retention policy that conforms with agency requirements.

Findings

No significant issues noted on controls over maintenance and security of accounting records.

2.2.6 Procurement/contracting of supplies and services

- Bidding Plans are prepared, submitted and amended in accordance with the Bidding Law;
- Competitive bids are obtained for expenditures described in the work plan and in accordance with HPPMG, revisions to HPPMG and the Bidding Law;
- Relevant bidding methods are applied in accordance with HPPMG, revisions to HPPMG and the Bidding Law;
- Vendors consistently implement the IP's rules and procedures and agreements with the agency;
- Procurement of supplies and services is consistent with the IP's rules and procedures and its agreements with the agency, including requirements for competitive procurement;
- Supplies and services agree with those required by the work plan; and
- Contracting methods appropriately applied in accordance with the Bidding Law and contracts are regularly managed in accordance with HPPMG and revisions to HPPMG.

Findings

No significant issues noted on controls over Procurement/contracting of supplies and services

2.2.7 Asset management

- Inventory of fixed assets is maintained (format B04-DA in the Accounting Handbook);
- Assets are insured and managed in accordance with HPPMG and revisions to HPPMG; and
- Safe-guarding assets. IP facilities have security procedures to protect against theft, damage or loss of data.

Findings

As at 30 September 2017, the Project does not have fixed assets.

2.3 Obtained a listing of all project-related expenditures during the period under review for the attestation engagement and performed checking procedures

Detailed work performed

- a) We randomly selected a sample of expenditures amounting to at least 54% of total expenditures during period under review. We provided a detailed listing of expenditures selected as samples.
- b) For each sample selection we performed the following procedures:
 - Verified that documentation exists to support the expenditure in accordance with the Implementing Partner's rules and procedures and agreements with the agency, including a transparent selection process for procurement of goods and services;
 - Verified that activity was in accordance with the work plan;
 - Verified that expenditures have been properly reviewed and approved in accordance with the Implementing Partner's rules and procedures and agreements with the agency;
 - Verified that expenditures were properly reflected on the certified FACE form submitted to the agency;
 - Traced the sample transactions into the Implementing Partner's accounting records and bank statement;
 - Verified that supporting documents were stamped 'PAID from XXX grant', indicating which agency funded the transaction;
 - Verified that submission of the FACE form was consistent with the periodicity-of-disbursement requirement in the HACT framework (two weeks); and
 - Compared the price paid for goods or services against agreed standard rates (if readily available).

*Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol
on Access and Benefit Sharing in Vietnam"
Report of Factual Findings
for the period from 1 October 2016 to 30 September 2017*

Findings

Our factual findings on expenditures during the period under review are as follows:

Description	Factual findings
Supporting documents	<p>During the audit, we noted that the attendant list dated 25 July 2017 in the document number PC37 dated 30 June 2017 comprising six (06) pages were not stamped on all adjoining edges of all six (06) pages in accordance with Circular No.01/2011/TT-BNV dated 19 January 2011 on Instructions on formats and presentation of administrative documents. The attendant list dated 19 July 2017 in PC31 dated 28 September 2017 was only stamped on adjoining edges of five (05) out of six (06) pages.</p> <p>For details of recommendations, refer to Point 1 – Management Letter.</p>
Long outstanding advances	<p>During the audit, we noted that as at 30 September 2017, an outstanding advance for Lao Cai workshop including per diem, travelling expenses, and telephone expenses on 16 August 2017 which was shown in document No. PC29 dated 15 August 2017 with the value of VND11,680,000 has not been settled. According to Point 1.1.5, Section I, Chapter VII of the Revisions to the Vietnam – United Nations Harmonised Programme and Project Management Guidelines (HPPMG), advances are only allowed to be withdrawn within five (05) working days prior to the starting date of the activity and must be settled within five (05) working days after the activity is completed.</p> <p>For details of recommendations, refer to Point 2 – Management Letter</p>

Appendix 1: List of expenditure transactions for which the agreed-upon procedures have been performed

a) List of expenditure transactions in the FACE form

Activity code	Activity name	Reviewed amounts (VND)	Date of finalization in FACE form
1.1.1.5	Expense for consultant service contract regarding the survey, evaluation and comment on the draft decree	604,397,273	7/7/2017
1.1.1.6	Payment for contract of workshop organization related to Decree at Ho Chi Minh City on 25/7/2017	92,802,727	4/10/2017
4.1.1.2	First payment for consultant fee (20%) and second payment (40%) for consultant service contract regarding the evaluation of the pilot selection model at Lao Cai province.	88,236,000	4/10/2017
1.1.1.6	Expense for workshop related to Decree dated 19/7/2017 at La Thanh Hotel	79,281,364	4/10/2017
5.1.1	Salary expense for Quarter II/2017 for Project Manager.	114,732,000	7/7/2017
5.1.1	Salary expense for Quarter II/2017 for Project Interpreter cum Secretary	64,864,000	7/7/2017
5.1.1	Salary expense for Quarter II/2017 for Project Accountant (Part-time)	54,204,000	7/7/2017
Total		1,098,517,364	
Amounts in FACE forms submitted to UNDP for the period from 1 October 2017 to 30 September 2017		2,048,847,208	
Percentage of reviewed expenditures		54%	

Appendix 1: List of expenditure transactions for which the agreed-upon procedures have been performed (continued)

b) List of direct payment reported in CDRs

Activity code	Activity name	Reviewed amount (USD)
1.1.1.5	Payment 20% of contract with Biodiversity Conservation Center to review and finalize the ABS Decree	7,668
4.4.3.2	Payment of contract with Thien Ha International Tourist and Investment Consultant Company Limited which is of assistance to the inception workshop from 15 to 17 December, 2016 at Sapaly Hotel, Lao Cai	4,389
Total		12,057
Amounts in CDRs for the period from 1 October 2016 to 30 September 2017 (excluded UNDP procure and pay and UNDP support services)		17,803
Percentage of reviewed expenditures		68%

Ms. Hoang Thi Thanh Nhan
Project Director
Project "Capacity Building for the Ratification and
Implementation of the Nagoya Protocol on Access and Benefit
Sharing in Vietnam"
DETECH Tower, No.8 Ton That Thuyet,
Hanoi, Vietnam

Ref: UNDP-91409-2017.ML.EN
Contact: Pham Phuong Anh

Hanoi, 29 December 2017

Dear Ms. Hoang Thi Thanh Nhan,

**Project "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam"
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 "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Vietnam" (Project ID.91409) ("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 the Biodiversity Conservation Agency ("BCA"), Ministry of Natural Resources and Environment (Vietnam Environment Administration) ("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,



CHÍNH HÀNH
CÔNG TY
TRÁCH NHIỆM HỮU HẠN
MAZARS VIỆT NAM
TẠI HÀ NỘI
Partner

10th & 11th FLOOR, VIET DRAGON TOWER, 141 NGUYEN DU STREET, DISTRICT 1 - HO CHI MINH CITY
TEL: +84 28 3824 1493 - FAX: +84 28 3822 8799 - contact-hcm@mazars.vn - www.mazars.vn

17th FLOOR, MIPEC TOWER, 229 TAY SON STREET, DONG DA DISTRICT - HANOI
TEL: +84 24 3936 1031 - FAX: +84 24 3573 9706 - contact-hanoi@mazars.vn - www.mazars.vn

MAZARS VIETNAM

Summary of findings

Content	Risk severity	Page
1. Supporting documents	Low	3
2. Long outstanding advances	Low	4

1. Supporting documents

Risk severity: Low

Observation

During the audit, we noted that the attendant list dated 25 July 2017 in the document number PC37 dated 30 June 2017 comprising six (06) pages were not stamped on all adjoining edges of all six (06) pages in accordance with Circular No.01/2011/TT-BNV dated 19 January 2011 on Instructions on formats and presentation of administrative documents. The attendant list dated 19 July 2017 in PC31 dated 28 September 2017 was only stamped on adjoining edges of five (05) out of six (06) pages.

Potential impact

Stamping on adjoining edges of all pages of a document to help verify its authenticity in case of dispute. Therefore, the fact that Project carelessly stamped affixed seals on those mentioned attendant lists might lead to the risk that the document could be modified or used for another purpose.

Recommendation

We recommend that the Project should fully stamp on adjoining edges of all pages of the documents in accordance with current regulations.

Project Management's responses

We agree with auditor's recommendation and will be more careful in stamping affixed seal for project documents.

2. Long outstanding advances

Risk severity: Low

Observation

During the audit, we noted that as at 30 September 2017, an outstanding advance for Lao Cai workshop including per diem, travelling expenses, and telephone expenses on 16 August 2017 which was shown in document No. PC29 dated 15 August 2017 with the value of VND11,680,000 has not been settled. According to Point 1.1.5, Section I, Chapter VII of the Revisions to the Vietnam – United Nations Harmonised Programme and Project Management Guidelines (HPPMG), advances are only allowed to be withdrawn within five (05) working days prior to the starting date of the activity and must be settled within five (05) working days after the activity is completed.

Potential impact

The Project management may face with difficulties in maintaining control over advances and ensuring that advances are being used for their intended purpose. If advances are not cleared promptly, it may lead to difficulties in recovering these amounts or further fund availability for other projects' activities.

Recommendation

The Project should build a stricter policy on advance management. Long outstanding advances should be followed up regularly to ensure timely clearance.

Project Management's responses

According to the Memorandum of Understanding between "Capacity Building for the Ratification and Implementation of the Nagoya Protocol on Access and Benefit Sharing in Viet Nam" ("ABS") Project Management and the Natural Resources and Environment Department of Lao Cai Province ("the Department") on coordination to implement the ABS Project, the Department coordinated with the ABS Project Management in order to organize the workshop of sharing information in terms of management of biological diversity, genetic resources in Lao Cai on 16 August 2017. The participants of the workshop came from villages, communes and districts. Furthermore, the allowance payment procedure for delegates requires the business assignment form with sufficient information. Hence, the Department had to spend much time to guide and collect enough supporting documents as prescribed. On 25 August 2017, the Department had issued the Official Letter No. 1745a/STNMT-MT notified about this issue and requested the ABS Project Management to extend the deadline for an advance finalization.