



**Project “Energy Efficiency
Improvement in Commercial and High-
Rise Residential Buildings in Vietnam”**

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

Agreed-upon procedures on the Internal Control
System and expenditure for the funds provided by GEF
through UNDP and implemented by the Department of
Science, Technology and Environment, Ministry of
Construction

Management Letter

For the period from 1 July 2020 to 31 March 2021

Mr. Vu Ngoc Anh
National Project Director
Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings in Vietnam"
The Department of Science, Technology and Environment, Ministry of Construction ("MOC")
Room 2, 1st floor, 37 Le Dai Hanh Street,
Hai Ba Trung District, Hanoi

Ref : UNDP-EUEECB.ML.EN
Contact : Pham Phuong Anh

Hanoi, 30 June 2021

Dear Mr. Vu Ngoc Anh,

**Re: Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings in Vietnam"
Management Letter – for the period from 1 July 2020 to 31 March 2021**

Further to our procedures performed on the internal controls of the implementing partner and expenditures related to the Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings in Vietnam" ("the Project") for the period from 1 July 2020 to 31 March 2021, funded by the Global Environment Facility (GEF) through the United Nations Development Programme ("UNDP") and implemented by the Department of Science, Technology and Environment, Ministry of Construction ("MOC") ("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 July 2020 to 31 March 2021 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 Unit 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

Content	Risk severity	Page
1. Stamp "Paid from EECB/UNDP-GEF"	Low	3
2. Performing reconciliations between FACE forms and CDRs	Low	4
3. Compliance with regulations on Value Added Tax ("VAT") refund	Low	5
4. Bidding process	Low	6
5. Follow up the implementation of recommendations in previous audit		7



1. Stamp "Paid from EECB/UNDP-GEF"

Area: Finance

Risk severity: Low

Cause: Guidelines (*no detailed guideline*)

Observation

During the audit, we found that the Project stamped "Paid from EECB/UNDP-GEF" on invoices and payment vouchers according to the requirements and audit recommendations for the period from 1 October 2017 to 30 September 2018. However, other supporting documents issued and signed by the suppliers/consultants including contract, acceptance minute and payment request from suppliers/consultants were not stamped "Paid from EECB/UNDP-GEF".

Potential impact

Supporting documents such as contract, acceptance minute, payment request without stamping "Paid" may be at risk of being re-submitted for double payments or misused for other projects.

Recommendation

The Project Management Unit should ensure that all supporting documents for payments are stamped "Paid from EECB/UNDP-GEF" after the payments are made. This practice will prevent reusing supporting documents.

Project Management Unit's response

Action: The Project Management Unit has followed the recommendation of the Audit Report for the period from 1 October 2017 to 30 September 2018 and stamped on invoices and payment vouchers. This implementation of stamping "PAID from EECB/UNDP-GEF" on invoices and payments has been accepted by next auditor.

The Project Management Unit agrees with the auditor's recommendation. In order to strengthen the internal control process, the PMU will additionally stamp on the supporting documents as recommended by the auditor.

Person-in-charge: The Project Management Unit

Time: Before 31 July 2021

2. Performing reconciliations between FACE forms and CDRs

Area: Finance
Risk severity: Low
Cause: Guidelines (*no detailed guideline*)

Observation

We noticed that the Project reconciled FACE forms with CDRs at the year-end. However, to strengthen the internal control process, we recommend that the reconciliation should be performed on a quarterly basis.

Potential impact

Frequent reconciliation between FACE forms and CDRs might help the Project in detecting errors in CDRs and correcting in a timely manner.

Recommendation

We recommend the Project to proactively perform reconciliations between FACE forms and CDRs frequently, 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 Unit's response

Action: To enhance the internal control process, the Project Management Unit agrees with the auditor's recommendation. However, the activities implemented by the Project Management Unit have been closed since 31 March 2021, therefore, the Project Management Unit is unable to carry out the audit recommendation regarding this project.

Person-in-charge:

Time:

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

Area: Finance
Risk severity: Low
Cause: Human error

Observation

According to the guidance in HPPMG, Chapter 8, Clause VI, Section 2.1.1 and 2.1.2:

- 2.1.1. General provisions: "Procurement for UN-supported projects is VAT-refundable. In principle, VAT is paid from counterpart funds."
- 2.1.2. VAT accounting: "VAT is accounted for in a separate account and at the time of payment."

During the audit fieldwork, we found that the Project recognized a VAT refund of VND68,184,146 as an expense reduction, since this was recognized as an expense in the previous period. We also noted that except for this reduction, the Project correctly accounted for VAT, which is recorded in a separate account and at the time of payment.

Potential impact

This practice of accounting for VAT regarding the expense reduction not in accordance with the provisions of HPPMG leads to the fact that the cost of the project is not accurately reflected at the time of payment.

Recommendation

Although the Project has reduced the cost of VAT for the period from 1 July 2020 to 31 March 2021 and except for this reduction, the Project has complied with the provisions of HPPMG regarding VAT accounting, we still note this point to recommend that the Project should always follow the detailed donor instructions in the HPPMG.

Project Management Unit's response

Action: The Project Management Unit agrees with the auditor's recommendation. The PMU has complied with the provisions on VAT accounting in the HPPMG.
Person-in-charge:
Time:

4. Bidding process

Area: Procurement

Risk severity: Low

Cause: Guidelines (*no detailed guideline*)

Observation

During the audit, we noted that the Project has not posted the contractor selection results via public media related to the individual consulting bidding package No. 19 "Law, roadmap and action results on energy saving in the construction industry in Vietnam" and package No. 22 "Expert group to develop and implement training program on energy audit, renovation consultancy and energy management in high-rise buildings".

Potential impact

The Bidding Law in 2013, article 8 - Information on bidding and article 38 - The process of contractor selection stipulates the requirement of posting on the national bidding network system, the procurement newspaper and publicity of contractor selection results with bidding packages in general and for individual consulting bidding packages in particular.

Recommendation

The PMU should post the contractor selection results via public media in order to ensure the competitiveness in bidding and the validity of the bidding process.

Project Management Unit's response

Point d, Article 38, Bidding Law No. 43/2013 stipulates the publicity of contractor selection results for individual consultants. To implement this provision, similar to other bidding packages, the PMU has published on the Public Procurement website and the Procurement Newspaper; however, the website feature does not allow the posting of individual consultant selection results. Therefore, the PMU was unable to publicize the results of contractor selection for these two packages.


Action:

To ensure the information being widely publicized, the Project Management Unit agrees with the auditor's recommendation to post the contractor selection results via suitable public media. However, the activities implemented by the Project Management Unit have been closed since 31 March 2021, therefore, the Project Management Unit is unable to carry out the audit recommendation regarding this project.

Person-in-charge:

Time:

5. Follow up the implementation of recommendations in previous audit

Recommendations of the auditor in previous audit	Update the implementation status at 31 March 2021									
<p><u>Late Personal income tax ("PIT") payment</u> The Project Management Unit paid the PIT of quarter 1 of 2020 late according to the regulation, details as below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Payment</th> <th style="text-align: left;">Date</th> <th style="text-align: left;">Note</th> </tr> </thead> <tbody> <tr> <td>PIT Quarter 1 2020 – first payment</td> <td>30/06/2020</td> <td>61 days late</td> </tr> <tr> <td>PIT Quarter 1 2020 – second payment</td> <td>01/07/2020</td> <td>62 days late</td> </tr> </tbody> </table>	Payment	Date	Note	PIT Quarter 1 2020 – first payment	30/06/2020	61 days late	PIT Quarter 1 2020 – second payment	01/07/2020	62 days late	<p>Improved</p> 
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