



Nexia
STT



**Project "Energy Efficiency Improvement in
Commercial and High-Rise Residential
Buildings (EECB) in Vietnam"
(Project ID: 92225)**

Management letter

Period from 1 July 2016 to 30 September 2017

Mr. Le Trung Thanh
National Project Director
Director General - Department of Science, Technology, and Environment,
Ministry of Construction (MOC)
Room No.2, 1st floor, CDC building
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Hanoi, Vietnam

Hanoi, 23 January 2018

To: Mr. Le Trung Thanh

Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings (EECB) in Vietnam" (Project ID: 91340)
Management Letter for the period from 1 July 2016 to 30 September 2017

Besides the procedures agreed with you with respect to the programme disbursements related to of the Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings (EECB) in Vietnam" ("the Project") for the period from 1 July 2016 to 30 September 2017, which was to enable us to form a report in accordance with International Standard on Related Services ("ISRS") 4400 as to the Statement for the period from 1 July 2016 to 30 September 2017, 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 July 2016 to 30 September 2017, 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 rating	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 letter has been prepared for the private use of the Donor and Project Management of the Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings (EECB) in Vietnam". Its contents should not be disclosed to other parties without our consent.

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: "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings (EECB) in Vietnam" bearing the Project ID number: 92225 in December 2017.

The purpose of the engagement was to carry out procedures of an advisory nature. The engagement covered the period from 1 July 2016 to 30 September 2017.

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 to be **Satisfactory**.

Highlights

This letter does not contain any recommendations.

Findings observed

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

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

Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings (EECB) in Vietnam" was funded by the United Nations Development Programme ("UNDP") and implemented by Department of Science, Technology, and Environment, Ministry of Construction (MOC) under the Agreement on 9 March 2016.

The objective of the Project is to improve the energy utilization performance of commercial and high-rise residential buildings in Ho Chi Minh City and Hanoi.

Total budget of the Project was USD22,476,550 (equivalent to VND492,011,679,500) for the period from April 2010 to April 2020 which included USD3,198,000 from ODA and USD19,278,550 from Vietnam Government.

Project's expenditures for the period from 1 July 2016 to 30 September 2017 under review was VND1,968,204,164.

As at 30 September 2017, the Project had 17 employees.

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Office Management

The management of Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings (EECB) in Vietnam" at the time of the engagement consisted of:

- Mr. Le Trung Thanh – Project Director
- Mr. Nguyen Cong Thinh – Deputy Project Director
- Ms. Hoang Thi Kim Cuc – Project Manager
- Ms. Nguyen Thi Thu – Project Accountant
- Mr. Nguyen Tuan Anh – Project Technical staff

3. Detailed Assessment

The details of the observations 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 had a proper operation manual;
- The Project Management followed the Agreement and regulations of MOC and UNDP;
- The Project prepared financial reports per regulations of MOC and UNDP and approved by the Project Leader;
- The Project maintained sufficient supporting documents and vouchers approved by the Project Leader;
- 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 the work plan and Agreement.

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

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 books and recorded in compliance with the MOC's accounting policies and UNDP's regulations;
- Duties were segregated between the accounting department and management. Specially, 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 a separate accounting sub-ledger to record all transactions and cash transfers by UNDP;
- The Project performed monthly bank reconciliation that was documented in writing;
- Cash count was monthly performed and documented in writing. The Project maintained cash balance limit – 100 million VND;
- All payments in excess of 20 million VND were paid by cash at bank; and
- All supporting documents were stamped "PAID".

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

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 followings:

- All procurements of goods and services were approved by Project Leader with sufficient supporting documents;
- Procurements of goods and services were consistent with the MOC's rules and procedures as well as comply with UNDP's agreement, including requirement for competitive procurement;
- Contracting methods were properly applied in accordance with the Law of Governance and regulations of UNDP and MOC; and
- Procurements of goods and services were carried out in accordance with approved Budget and cost norm.

No significant issues on controls over the contracting for procurement of goods and services and reporting systems were identified from our procedures.

D. Staffing and management of human resources

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

- Staff recruitments were included and budgeted in annual workplan as well as Project Documents;
- Remuneration was based on budget approved by the Donor;
- The salary were fully paid and recorded in the appropriate budget lines;
- Timesheets of staff were properly prepared and monitored;
- PIT amounts were properly withheld and paid by MOC; and
- The Project has signed labour contract with all staff and prepared detailed TOR for each position.

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

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 followings:

- Assets/property had security procedures to protect against theft, damage of loss of data;
- Assets were insured and managed in accordance with the regulations of UNDP and MOC;
- All assets were fully tagged and their status are updated to fixed assets register in a timely manner;
- Assets physical check were annually performed and documented in writing; and
- All assets transferred to staff were documented in handover minutes.

No significant issues on controls over the asset/property management, ICT and general issues and reporting systems were identified from our procedures.

F. Other observations – without audit recommendations

No significant issues were identified.



Nexia STT

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