

**Project "Energy Efficiency Improvement in
Commercial and High-Rise Residential
Buildings in Viet Nam"**

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 Department
of Science, Technology and Environment, Ministry of
Construction

Report of Factual Findings

For the period from 1 October 2017 to
30 September 2018

REPORT OF FACTUAL FINDINGS

To the United Nations Development Programme Representative in Vietnam and Director of the Project “Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings in Viet Nam” (EECB)

We have performed the procedures which have been agreed with you and enumerated on pages 4 to 11 in Section 2 with respect to the internal controls of the implementing partner and expenditures related to the Project “Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings in Viet Nam” (EECB) (Project ID.92225) (“the Project”) for the period from 1 October 2017 to 30 September 2018, funded by the United Nations Development Programme, Vietnam Country Office (“UNDP”) and implemented by the Department of Science, Technology and Environment, Ministry of Construction (“MOC”) (“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 2017 to 30 September 2018 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 2017 to 30 September 2018.

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. 1102-2018-177-1

Hanoi, Vietnam
23 January 2019

1. Background information

The Project "Energy Efficiency Improvement in Commercial and High-Rise Residential Buildings in Viet Nam" is funded by the Global Environment Facility (GEF) Trust Fund via UNDP Vietnam with the expected total ODA grant of USD3,198,000. The Project is implemented by the Department of Science, Technology, and Environment, Ministry of Construction ("MOC").

The objective of the Project is to reduce intensity of GHG emissions from the building sector in Viet Nam.

The Project consists of three (3) components:

- Component 1: Improvement and Enforcement of Energy Efficiency Building Code;
- Component 2: Building Market Development Support Initiatives; and
- Component 3: Building Energy Efficiency ("EE") Technology Applications and Replications.

The Project will be implemented over a 4-year period, from 2016 to 2019.

The Project will focus on the following expected outcomes:

- Outcome 1.1: Enforced, improved and comprehensive policy, legal, and regulatory frameworks on the energy efficient design, construction and operation of commercial and high-rise residential buildings;
- Outcome 1.2: Strengthened compliance of the energy efficiency building code for commercial and high-rise residential buildings in Hanoi and HCMC;
- Outcome 2: Increased local capacity in the EE design, construction and operation of commercial and high-rise residential buildings; and
- Outcome 3: Increased use of EE building materials and application of EE building technologies in HCMC and Hanoi



2. Detailed procedures performed and findings

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

Detailed work performed

We obtained documentation describing the IP's financial management internal controls and checked on whether the documentation includes controls related to 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 activity 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 clearly transparent segregation of duties (individuals involved in the payment process); and
- Recognition of expenditures is 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 National Implementation Modality (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") is recorded properly for VAT claim actions;
- VAT claim/refund actions carried out in accordance with VAT claim/refund workflow released by UNDP in 2014;
- Personal Income Tax ("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 revisions 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 49% 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 clearly 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 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

Our factual finding on controls over budget estimation and revision is as follows:

Description	Factual findings					
Monitoring project activities' progress	During the audit, we noted that the actual disbursement progress of some activities for the period from 1 October 2017 to 30 September 2018 were relatively low as follows:					
		Activities	Description	Approved budget	Actual expenditure	USD Disbursement rate
		Activity 1	Result 1.1: The regulatory frameworks, laws and comprehensive policy on design, construction, operation of energy-saving for commercial buildings, residential buildings are upgraded and enforced.	29,834	10,525	35%
		Activity 2	Result 1.2: Compliance with energy-saving building standards will be enhanced in commercial buildings and residential buildings in Hanoi and Ho Chi Minh city.	41,567	26,940	65%
		Activity 4	Result 3: The usage of materials and application of energy-saving construction technology in Hanoi and Ho Chi Minh City.	64,072	40,401	63%
		Activity 5	Operation Expense	14,348	8,320	58%

For details of recommendations, refer to Point 1 – Management Letter.

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 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.

Findings

Our factual findings on controls over financial reporting and management in line with UN/UNDP CO’s requirements are as follows:

Description	Factual findings
Perform reconciliations between FACE forms and CDR	The Project reconciled FACE forms with the CDRs once during the period, at the year-end, rather than a more frequent basis (e.g. quarterly). For details of recommendations, refer to Point 2 – Management Letter.
Submission of quarterly progress report	We noted that FACE forms in the period from 01 October 2017 to 30 September 2018 were not dated. According to point IV.3.1, article 9 of HPPMG, the deadline for submission is on the 15th of the following quarter. For details of recommendations, refer to Point 3 – Management Letter.

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

As regulated in point 2, Section IV, 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 of VAT refund for each quarter, in accordance with State regulations".

Up to the audit fieldwork, we noted that the Project has just claimed for VAT refund for the period from 01 October 2017 to 31 December 2017 and has not received any amount from the Tax authorities. Besides, the Project has not claimed for VAT refund for the period from 01 January 2018 to 30 September 2018.

In addition, by observation during the audit, a VAT amount was recorded on the expense of the project, as follows:

VND				
Date	Description	Document No.	Amount with VAT	VAT
30/7/2018	Payment telecommunication service for the month of May, June 2018	1807/32	1,541,286	(140,117)

Per our discussion, the Project has just adjusted on the accounting software in the FACE forms of Quarter 4.

For details of recommendations, refer to Point 4 – Management Letter.

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 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, revisions 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 controls over the asset management.

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 49% 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).

Findings

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

Description

Stamp "Paid from EECB grant"

Factual findings

We noted that the stamp "Paid by EECB" was stamped mainly on invoices, and other supporting documents were unmarked. However, as per discussion with the Project Management and in accordance with HPPMG, chapter 7, section 4 about stamp "PAID", the stamp "PAID by XXX" is only required to stamp into the invoices.

Besides, the Project only stamped "PAID" for all invoices instead of "Paid by EECB grant" for the period from 1 October 2017 to 31 December 2017.

For details of recommendations, refer to Point 5 – Management Letter.

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

			VND
Activity code	Activity name	Reviewed amount	Date of finalization in FACE form
Activity 2	Advertising fee for the packages EECB-08 and 09/ Construction Newspaper	13,636,364	08/01/2018
Activity 4	Per-diem in the trip to HN from 09-10/2017/Mr. Hien	2,168,251	08/01/2018
Activity 2	Local return e-tickets to HCM and Nha Trang (3-5/11/2017/2017)	22,174,545	08/01/2018
Activity 4	Advertising fee for the package EECB-14/ Construction Newspaper	13,636,364	08/01/2018
Activity 4	VAT/Local return e-tickets to HCM	13,152,000	08/01/2018
Activity 2	DSA for Nha Trang trip 03-04/11/2017/Mr. Thanh	3,044,882	08/01/2018
Activity 4	The meeting room 13/12/2017	3,000,000	08/01/2018
Activity 1	Net amount for the payment (10%) to implement the Inception report of the package EECB-03	47,141,222	08/01/2018
Activity 3	Net amount for the payment (10%) to implement the Inception report of the package EECB-11	43,065,000	08/01/2018
Activity 2	Net amount for the payment (10%) to implement the Inception report of the package EECB-06	39,284,352	08/01/2018
Activity 5	Laptop Dell Inspiron 5739	20,363,636	08/01/2018
Activity 5	Stationery Quarter IV/2017	11,654,200	08/01/2018
Activity 5	The management fee and bank statement printing fee 20-31/12/2017	671,000	08/01/2018
Activity 5	bank fee 01/2018	176,000	12/03/2018
Activity 5	DSA for Mr. Nguyen Trung Hoa	1,702,800	12/03/2018
Activity 5	Payment telecommunication service T11,12/2017	961,000	12/03/2018
Activity 3	Vacancy announcement for position of project support National Senior Technical Specialist/Vietnam News Paper	4,363,636	12/03/2018
Activity 5	interpretation for the meeting	4,291,056	12/03/2018
Activity 5	Payment Airline ticket for Mr. Hoa	6,590,000	12/03/2018
Activity 5	Payment printing, market table calendar 2018 contract	22,500,000	12/03/2018
Activity 5	DSA in HCM City_Mr. Nguyen Cong Thinh	3,405,600	12/03/2018
Activity 5	Airport taxi	810,000	12/03/2018
Component 2	Second and Third payment for EECB-13 contract/Mr. Phung	78,568,704	19/05/2018
Activity 2	Payment return e-tickets for HCM workshop (19/6/2018)	64,100,000	06/07/2018
Activity 3	Gross June salary/Ms. Thoa	55,417,157	06/07/2018
Activity 3	Gross June salary/Ms. Cuc	38,033,500	06/07/2018
Activity 3	Gross June salary/Ms. Lan	21,895,810	06/07/2018
Activity 3	Gross June salary/Ms. Yen	21,551,686	06/07/2018
Activity 2	Request advance workshop in Ho Chi Minh_DSA of participant workshop	32,624,000	06/07/2018
Activity 4	Net amount for the payment (10%) to report of the package EECB-13_3rd payment/ Nguyen Ngoc Tu	150,812,099	06/07/2018
Activity 2	Payment return e-tickets travel to Da Nang attend GEF sixth Assembly in Da Nang	40,140,000	06/07/2018
Activity 2	Payment service contract workshop in Ho Chi Minh (19/6/2018)	25,000,000	06/07/2018

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Activity code	Activity name	Reviewed amount	Date of finalization in FACE form
Activity 2	Payment hotel expenditure in Da Nang/ attend GEF sixth Assembly	12,250,000	06/07/2018
Activity 2	Non-simultaneous interpretation and translation of press release for the GEF sixth Assembly in Da Nang	6,071,760	06/07/2018
Activity 4	Payment printing 04 leaflets	3,000,000	06/07/2018
Activity 5	Payment telecommunication service (May, June 2018)	1,541,286	06/07/2018
Activity 3	Gross July salary/Ms. Cuc	38,033,500	06/07/2018
Activity 3	Gross July salary/Ms. Lan	21,895,810	06/07/2018
Activity 3	Gross July salary/Ms. Yen	21,551,686	06/07/2018
Activity 5	Bank fee 7/2018	566,768	06/07/2018
Component 1	Providing services for filming video for workshop in Ho Chi Minh (19/6/2018)	16,170,000	06/07/2018
Activity 5	Ink, cartridge and other printing machine components Quarter II/2018	8,640,000	06/07/2018
Activity 3	Payment 50% return e-tickets for study tour to the Netherlands, Spain and the United Kingdom (24 August 2018 – 10 September 2018)	199,008,510	06/07/2018
Activity 3	Advance DSA for study tour to the Netherlands, Spain and the United Kingdom (24 August 2018 – 10 September 2018)	522,467,712	06/07/2018
Activity 4	Payment design market 04 leaflets, standee for Project	19,602,000	06/07/2018
Activity 3	Gross July & August salary/Ms. Thoa	110,834,314	06/07/2018
Activity 3	Gross August salary/Ms. Cuc	38,033,500	06/07/2018
Activity 3	Gross August salary/Ms. Lan	21,895,810	06/07/2018
Activity 3	Gross August salary/Ms. Yên	21,551,686	06/07/2018
Activity 3	Last payments return e-tickets for study tour to the Netherlands, Spain and the United Kingdom (24 August 2018 – 10 September 2018)	199,008,510	06/07/2018
Activity 3	Payment insurance travel for study tour to the Netherlands, Spain and the United Kingdom (24 August 2018 – 10 September 2018)	4,408,000	06/07/2018
Activity 3	Gross August salary/Ms. Cuc	38,033,500	06/07/2018
Activity 3	Gross August salary/Ms. Lan	21,895,810	06/07/2018
Activity 3	Gross August salary/Ms. Yên	21,551,686	06/07/2018
Activity 3	Advance 20% to BK Company of the package EECB-15	250,000,000	06/07/2018
Total		2,403,946,712	
Amounts in FACE forms submitted to UNDP for the period from 1 October 2017 to 30 September 2018		4,895,318,114	
Percentage of reviewed expenditures		49%	