

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

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

Management letter

For the period from 1 October 2017 to
30 September 2018

Mr. Vu Ngoc Anh
Project Director
Project "Energy Efficiency Improvement in Commercial
and High-Rise Residential Buildings in Viet Nam"
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Ref: UNDP-92225-2018.ML.EN
Contact: Pham Phuong Anh

Hanoi, 23 January 2019

Dear Mr. Vu Ngoc Anh,

**Project "Energy Efficiency Improvement in Commercial and High-Rise Residential
Buildings in Viet Nam"
Management Letter – For the period from 1 October 2017 to 30 September 2018**

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 Viet Nam" (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"), 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 2017 to 30 September 2018 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).

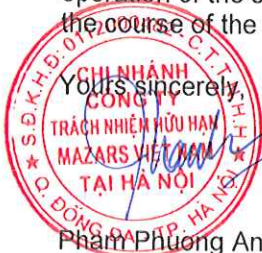
Our agreed upon procedures were performed on a sample basis and should not be relied upon to identify all irregularities and internal control weaknesses that may exist. The Management must rely on a comprehensive system of internal controls within its organization as the principal safeguard against such 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,



Pham Phuong Anh
Partner

Summary of findings

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1. Monitoring project activities' progress

Risk severity: Low

Observation

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 slow 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% |

Potential impact

Delays due to any reasons are unfavorable to the Project. Delays in Project activities may result in constraints in the time available for the following years' activities of the Project. There may be a risk of poor quality performance in order to meet the shorter deadline. Moreover, if the Project's duration needs to be extended, it may require more funding.

Recommendation

The Project management should keep monitoring the progress of the Projects on a regular basis (e.g. monthly), identifying any delay and its reasons in order to take appropriate actions if necessary. Additionally, the Project should also consider whether the timeframe in the work plan is practicable or the timing and the tasks set up are needed to be revised.

Project Management's responses

The Project Management Unit fully complied with the requirements of the Project Implementation Management Regulation on measuring and monitoring project implementation. In detail, Project Management Unit organized annual, quarterly, monthly meetings and ad-hoc meetings to resolve arising issues.

The project disbursement rate has not been unsatisfactory due to the emerge of many unexpected technical issues during project implementation, which resulted from the EECB project addressing emerging issues in Vietnam and Vietnam's limited international experience on energy saving in constructions. Nevertheless, the Project Management Unit recognizes comments of the auditor and makes efforts to resolve the issues.

2. Perform reconciliations between FACE forms and CDR

Risk severity: **Low**

Observation

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).

Potential impact

The absence of regular reconciliation between FACE forms and CDRs might lead to the risk that expenditures being recognized in the incorrect period or errors in financial reports not being detected and corrected in a timely manner.

Recommendation

We recommend the Project should proactively perform reconciliations between FACE forms and CDR on a quarterly basis with the approval of Project Director and/or Project Manager. 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's responses

The CDR report is produced by UNDP and sent to the Management Board at the time after the year ended. And the FACE report of the project is signed after being reviewed and agreed by the Program Officer, hence there are no errors in recording of the cost in the period.

3. Submission of quarterly progress report

Risk severity: Low

Observation

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.

Potential impact

The absence of date in FACE forms leads to the risk that the Project can not prove to the third parties that the procedures of report submission as regulated in the HPPMG have been performed in a timely manner.

Recommendation

We recommend that the Project Management should date the FACE forms to prove to the third parties that the procedures have been performed in a timely manner.

Project Management's responses

The FACE forms of the project is signed by the Project Director after expenditures in the quarterly report being reviewed and agreed by UNDP Program Officer. The lack of signing date at the Project Director's signature was a mistake in the implementation process. This error does not affect to the recording of cost by activities.

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

Risk severity: Low

Observation

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 for the period, as follows:

| 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 adjusted on the accounting software in the FACE forms of quarter 4.

Potential impact

This practice is not complied with UNDP regulation. It may lead to delay in performing procedures of VAT refund and difficulty in recovering such amounts that could be utilised for other activities.

Recommendation

The Project Management should record VAT separately, declare and claim VAT refund at least once every six months as required by the HPPMG in point 2, Section IV, Chapter 8 of HPPMG on VAT refund and revisions of HPPMG.

If the Project Management considers that the amount of VAT is immaterial for claiming refund, we recommend it should officially inform and get approval by the UNDP.

Project Management's responses

The Project Management Unit agrees with the point about the delay of tax refund and will refund VAT in the first quarter of 2019.

Up to the audit filedwork, the Project has adjusted on the accounting software and reduced cost respectively in the FACE forms of quarter 4. Simultaneously, the Project has not claimed tax refund, thus, this tax expense is still eligible.

5. Stamp "Paid by EECB grant"

Risk severity: Low

Observation

We noted that the stamp "Paid by EECB" was stamped mainly on invoices, and other supporting documents were unmarked. 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.

Potential impact

We understand that those supporting documents were supported for the disbursement of Project activities. However there might be a risk that these supporting documents are re-submitted for double payments or misused for other Projects.

Recommendation

The Project Management should ensure that all original invoices and other supporting documents for payments need to be stamped "Paid by EECB" after the payments were made. This practice will prevent reusing supporting documents and tighten the internal controls on cash payments. Other supporting documents that need to be stamped include payment requests, payment vouchers and certificate for payment.

Project Management's responses

The Project Management Unit has implemented financial managements in accordance with the General Management Regulation of the Harmonized Programme and Project Management Unit Guidelines (HPPMG). The mentioned content is not stated in this Regulation.

