



**Project "Energy efficiency improvement in
commercial and high-rise residential
buildings in Vietnam"
(Project ID: 00092225)**

Management Letter

Period from 1 October 2018 to 30 September 2019

Mr. Vu Ngoc Anh
Director of the Department of Science, Technology and Environment/National Project Director
Project "Energy efficiency improvement in commercial and high-rise residential buildings in Vietnam"
Ministry of Construction, 37 Le Dai Hanh street, Hai Ba Trung district
Hanoi, Vietnam

Hanoi, 17 January 2020

To: Mr. Vu Ngoc Anh

**Project "Energy efficiency improvement in commercial and high-rise residential buildings in Vietnam"
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Besides the procedures agreed with you with respect to the programme disbursements of the Project "Energy efficiency improvement in commercial and high-rise residential buildings in Vietnam" ("the Project") for the period from 1 October 2018 to 30 September 2019, 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 October 2018 to 30 September 2019, 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 October 2018 to 30 September 2019, 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. Rating 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 from 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 was provided and presented by NEXIA STT Co., Ltd.

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 Report is solely for the purpose set forth in the above objective.

This report has been prepared for, only for, UNDP and the Project and for no other purpose. We do not accept or assume responsibility for any other purpose for which this report is used or to any other person to whom this report is shown or into whose hands it may come, except where expressly agreed by our prior consent in writing. However, this report is a matter of public record and its distribution is not limited.

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 in Vietnam" (Project ID: 00092225) in December 2019.

The purpose of the engagement was to carry out procedures of an advisory nature. The engagement covered the period from 1 October 2018 to 30 September 2019.

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**, except for section **B.1** and **B.2**.

Highlights

This letter contains 2 recommendations. Refer to section **B.1** and **B.2**.

Findings observed

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

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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

The Project "Energy efficiency improvement in commercial and high-rise residential buildings in Vietnam" was funded by the Global Environment Facility (GEF) through the United Nations Development Program (UNDP) Vietnam and was assigned to the Department of Science, Technology and Environment to be the Project Owner under Decision No. 209/QD-BXD approving the Project Document dated 9 March 2016 issued by the Ministry of Construction.

The target of the Project is to improve energy efficiency in commercial buildings and high-rise apartment buildings in Hanoi and Ho Chi Minh city.

The total budget of the Project for the period from April 2016 to April 2020 was USD22,476,550 (equivalent to VND492,011,679,500) including ODA funded by GEF through UNDP of USD3,198,000 and counterpart funds from the Government of Vietnam of USD19,278,550.

The Project's expenditures for the period from 1 October 2018 to 30 September 2019 were VND9,885,496,034.

Office Management

The management of the Project "Energy efficiency improvement in commercial and high-rise residential buildings in Vietnam" at the time of the engagement consisted of:

- Mr. Vu Ngoc Anh - National Project Director
- Mr. Nguyen Cong Thinh - Deputy Project Director
- Mr. Dinh Chinh Loi - Project Coordinator
- Ms. Hoang Thi Kim Cuc - Project Manager
- Ms. Bui Thi Bach Yen - Project Accountant/Administrator

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3. Detailed Assessment

The details of the observation 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 operated in compliance with the regulations of the Government of Vietnam on the management and usage of ODA capital, the operation regulations of the PMU and Agreement with the Donors;
- The Project prepared financial reports in accordance with UNDP regulations, and financial reports were approved by the National Project Director;
- The Project maintained sufficient supporting documents, vouchers approved by the National Project Director;
- 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 work plans and the Agreement.

No significant issues on controls over the overall Project management were identified from our procedures.

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B. Financial operations, controls and cash/fund management

We checked samples of controls over the financial operations and cash/fund and noted the followings:

- The Project applied accounting procedures and maintained accounting records, records in accordance with Vietnamese Accounting Standards 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;
- Bank reconciliation was monthly performed and documented in writing;
- The Project did not maintain any petty cash and all payments were paid by bank transfer;
- All Project documents were stamped "PAID". However, there were insufficient information on one set of payment documents (refer to **B.1**); and
- We noted some issues regarding Value Added Tax ("VAT") refunds of the Project (refer to **B.2**).

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B.1 Insufficient information on one set of payment documents

**Priority: Low
Possible cause: Human error**

Observation

During our spot check, we noted that dates of 3 quotations for the training activity in Can Tho city on 6 and 7 June 2019 were not specified.

We understand that it was the mistake of the Project's staff who missed to check such information in the quotations.

Implication

Insufficient information on Project documents may cause difficulties for the Project staff in managing documents. In addition, this may also lead to difficulties for third parties to review and check the Project documents.

Recommendation

The Project staff should ensure that all information on the Project documents are complete and appropriate. For the above quotations, the Project should update dates or take notes on such quotations to pay more attention for other activities.

Furthermore, the Project staff who is in charge of collecting quotations and the Project managers should carefully perform the review of information on the Project documents to minimize possible similar errors.

PMU's responses

Although the quotations were not dated, the content of the quotations specified the date of service incurred. Accordingly, the impact of the lack of quotations' dates was insignificant. The PMU acknowledges the auditor's recommendations.

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B.2 Value added tax ("VAT") refunds of the Project

Priority: High
Possible cause: Guidelines

Observation

According to Section 6.a, Article 1, Circular No. 130/2016/TT-BTC dated 12 August 2016 of the Ministry of Finance, "For the Projects funded by Official Development Assistance (ODA) non-refundable aids, project owners or main contractors or organizations that foreign sponsors designate to manage the projects shall receive a refund of Value added taxes ("VAT") input which had been paid for goods and services purchased in Vietnam for these programs or projects."

In addition, according to the provisions of Point 2.1. Procedures for Value added tax refund, Article 2 - Tax management within the framework of UN-supported projects, Section VI of HPPMG, "Periodically, at least every 6 months, the Project Director is responsible for completing the procedures for VAT refund of each quarter according to the current regulations of Vietnam. For cases where the project has completed VAT refund procedures but until the audit time but the VAT has not been reimbursed, the United Nations Charity Organization (UNCO) will not deduct this amount from the advance funding for project activities in the next quarter".

During our spot check, we noted that the Project could not claim VAT input for the period from 1 October 2018 to 30 September 2019 (total amount of input VAT of the period was VND605,127,485 - included VAT amount directly paid by UNDP).

We understand that the reason for failures in VAT refunds for the period from 1 October 2018 to 30 September 2019 was that the Tax Authority required the beneficiary to be the owner of the Project - ie. the Department of Science, Technology and Environment. However, the Department of Science, Technology and Environment was not eligible to receive tax refunds. Therefore, according to the guidance of the Tax Authority in December 2019, the Ministry of Construction needs to supplement the document appointing the PMU to directly implement and receive tax refunds. Currently, the PMU is in the process of supplementing relevant documents for additional submission to the Tax Authority.

Implication

Failure to claim VAT input for the period from 1 October 2018 to 30 September 2019 may affect the Project's funding sources.

Recommendation

We recommend that the PMU should continue to complete required documents and follow up the process so that VAT can be claimed.

In case VAT is not refundable, the PMU should supplement explanatory documents and seek advice from the Donor.

PMU's responses

On 31 December 2019, the Ministry of Construction issued Official Letter No. 483/BXD-VP to Hanoi Tax Department on the Project's VAT refunds, according to the Official Letter, "The Ministry of Construction appointed the Project Management Unit to directly implement VAT refunds of the Project on behalf of the Project Owner - the Department of Science Technology and Environment and the Project Owner would not perform any tax refund for the Project". Up to now, the Official Letter has been received by the Tax Authority and is in the process of handling documents.

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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:

- Procurement of goods and services was approved by the Project Director with sufficient supporting documents;
- Procurement of goods and services was consistent with the IP's rules and procedures as well as complied with UNDP's agreement, including requirements for competitive procurement;
- Contracting methods were properly applied in accordance with the Government, UNDP and VAST regulations; and
- Procurement of goods and services was carried out in accordance with approved budget and cost norm.

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

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D. Staffing and management of human resources

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

- The MOC issued decisions to appoint part-time staff and job allocations were prepared accordingly. Part-time staff were entitled to monthly work allowance from the counterpart fund – the State Budget;
- Recruitment of employees is included and budgeted in the annual work plan as well as the Project Document;
- Recruited staff as regulated by the Donor signed labour contracts with the Project. Their monthly salaries were fully paid and recorded in appropriate budget lines; and
- PIT of Project staff were finalized by the PMU and paid to the State Budget.

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

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E. Asset/property management, ICT and general issues

We checked samples of controls over the asset/property, ICT and general issues and noted the followings:

- Assets/property had security procedures to protect against theft, damage of loss of data;
- Assets were managed in accordance with the UNDP and PMMU's regulations;
- All assets were fully tagged and their status were updated to fixed assets register in a timely manner;
- Assets physical check was 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, ICT and general issues were identified from our procedures.

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F. Other observations

No significant issues were identified.