

VIET NAM

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1. Executive Summary

In September 2015 – October 2015, Gavi’s Programme Audit unit undertook an audit of the cash programmes in the Socialist Republic of Viet Nam, implemented by the Ministry of Health. The audit covered various Gavi supported programmes implemented during the period 1 January 2012 to 30 June 2015 including Health System Strengthening, Immunisation Services Support, the Measles Rubella campaign and Vaccine Introduction Grant.

Audit rating

The Audit assessed the Viet Nam Ministry of Health’s management of Gavi funds as **satisfactory**, which means that “Internal controls and risk management practices were adequately established and functioning well. No critical-risk areas were identified. Overall, the entity’s objectives are likely to be achieved.”

This rating was awarded notwithstanding a number of weaknesses which were identified in the management, justification and timeliness of accounting for advances to provinces. In response, the audit has proposed 13 recommendations, of which 31% were rated as high priority, to mitigate risks that may affect the achievement of Gavi funded programme objectives.

Table 2: Summary of the overall audit rating by programme audit classification:

Category	Audit Rating
Budgeting and Financial Management	Partially satisfactory
Expenditure and disbursements	Partially satisfactory
Procurement	Satisfactory
Asset Management	Satisfactory
Overall rating	Satisfactory

Key issues

Drawn-out programme Implementation	There were delays in implementing activities due to the extended government approval processes and a drawn-out lag between the time taken for funds to be advanced, activities undertaken and expenditures justified. For details, refer to audit findings 3.1.1, 3.3.2 and 4.2.1.
Management of Cash Advances	USD 4.4 million cash advances to the programme partners at the provincial levels for MR campaign activities were not proactively managed and remained unsettled for a period of four to fourteen months. The advances were not incrementally cleared and reported as expenditures even though many of the activities were implemented. For details, refer to audit findings 3.1.1 and 4.2.1
Value Added Tax expenditures	The immunisation partners implementing the MR campaign, charged at least USD 260,264 VAT expenditure, whilst the programme was eligible for VAT exemption. This contrasted with the unit managing the HSS programme which had a put in place a process to obtain exemption and reclaim VAT. For details, refer to audit finding 4.1.1.

Salary Supplements	Some of the CPMU staff that received salary supplements for their involvement with the Gavi funded programme also received similar allowances from other programmes. The immunisation project unit also received salary supplements. Refer to audit findings 3.2.1 and 4.1.2 for details.
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The audit also identified some good practices, namely: the overall success in the nation-wide Measles Rubella campaign; general adherence to Financial Management Regulations; a requirement for dual signatories when making disbursements; and a tiered system of reviewing supporting documents for expenditures.

2. Objectives, Scope & Background

2.1 Objectives of the audit

In line with Gavi's Transparency and Accountability Policy, the main objective of the Gavi audit is to ensure that funds were spent in accordance with the terms and conditions agreed with Gavi and that the resources were being used for intended purposes.

As a consequence, the audit team assessed the control processes regarding the reliability and integrity of financial, managerial and operational information, the effectiveness of operations, the safeguarding of assets and compliance with respective national policies and procedures.

2.2 Scope of the audit

The work was performed in the central level including visits to three provinces of Ha Giang, Lao Cai and Nghe An. The audit team visited five locations including: the Health System Strengthening - Central Programme Management Unit (the CPMU) office; the National Institute of Hygiene and Epidemiology (which implemented the Expanded Programme on Immunisation or EPI); and field visits to the three provinces mentioned above.

The audit covered the period from 1 January 2012 to 30 June 2015, during which expenditures of VND 343,130,093,225 (USD 16,257,034) were incurred and reported by the Ministry of Health, Viet Nam.

The audit reviewed 66% of procurement¹ expenses and 35% of non-procurement expenses. Overall, the sample of transactions reviewed represented 48% of total expenditures.

Transactions were primarily selected from on-going programmes, with a focus on more recent HSS, MR campaign and VIG activities from 2014 and 2015. The ISS programme initially started in 2008 and was subsequently extended up until 31 December 2014. No new ISS cash disbursement was made after 1 April 2011, and any recent ISS expenditure was from funds left over from 2011.

¹ Includes procurements that were not yet recognised as expenses. For example, procurements contracts awarded but goods not yet delivered.

Year		HSS	ISS	MR campaign & VIG	Total	% coverage
USD						
2012	Total expenditures	77,918	332,783	-	410,701	-
	Total expenditures tested	36,689	17,657	-	54,346	13%
2013	Total expenditures	2,562,488	330,351	8,937	2,901,776	-
	Total expenditures tested	577,861	35,918	-	613,779	21%
2014	Total expenditures	4,260,661	144,728	5,240,523	9,645,912	-
	Total expenditures tested	1,476,824	13,842	3,471,820	4,962,486	51%
Jan-Jun 2015	Total expenditures	1,271,393	-	2,027,253	3,298,646	-
	Total expenditures tested	737,741	-	1,365,388	2,103,128	64%
Total expenditures		8,172,459	807,862	7,276,713	16,257,034	
Total expenditures tested		2,829,115	67,417	4,837,208	7,733,740	48%
Overall Audit Coverage		35%	8%	67%		

2.3 Background

The Government of Viet Nam, through the Ministry of Health (MoH) has been receiving cash based support from Gavi since 2001. The cash support was disbursed by Gavi as grant funding for several windows: Health System Strengthening (HSS) programme – aimed at supporting countries to deliver effective, efficient and sustainable health services; Immunisation Services Support (ISS) programme – to improve immunisation coverage; cash support for the operational costs of a Measles-Rubella campaign (MR campaign); and Vaccine Introduction Grants (VIG), collectively referred to as “the Grants”.

During the reviewed period from 1 January 2012 to 30 June 2015, Gavi disbursed cash grants totalling USD 37,096,623 for HSS, ISS, MR campaign and the VIG programmes in Viet Nam, and the corresponding expenditures reported was USD 16,257,034. Actual expenditures were higher than reported because various completed activities were not yet recorded as expenditures as the documentation associated was not yet validated.

The table below illustrates Gavi’s cash disbursements to the MoH during the period from 1 January 2012 to 30 June 2015:

Gavi non-vaccine disbursements to the MoH in USD					
	2012	2013	2014	2015	Total
HSS	3,689,552	12,900,284	-	4,247,712	20,837,548
ISS	-	-	-	-	-
MR campaign	-	8,159,650	6,741,925	-	14,901,575
VIG	-	1,357,500	-	-	1,357,500
Total	3,689,552	22,417,434	6,741,925	4,247,712	37,096,623

US Dollar (USD) and Vietnam Dong (VND) all figures in this report were calculated using: (i) average monthly exchange rates during the reviewed periods for transactions; (ii) and spot rates as at December

year end or June end, as appropriate, for balances. The exchange rates used were obtained from the Ministry of Finance's website.

2.4 Applicable grant agreements, policies and regulations

An Aide Memoire signed between the MoH of Vietnam and Gavi In March 2012, provided terms and procedures for management of the HSS and ISS cash grants. In October 2013, both parties signed on a Partnership Framework Agreement (PFA) which was applicable to both vaccine and cash grants provided to the country.

CPMU and EPI each developed individual Financial Management Regulations which prescribed management of the programme funds in the areas of bank account, advances, expenditures, cost norms on per diem, travel allowances, procurements, fixed assets, liability contracts and maintenance of accounting records. While both Financial Management Regulations were approved by the MoH, only CPMU's were similarly reviewed by the Gavi secretariat.

Entities subject to the CPMU's Financial Management Regulations were: the CPMU and the ten provincial Health Departments that implemented Gavi funded programme. Entities subject to the EPI's Financial Management Regulations were: principal programme partners and Preventive Health Centres at 63 provinces.

The CPMU Financial Management Regulations also required that for each province, a provincial level PMU responsible for managing Gavi funds should sign a liability contract for their respective programme implementation.

3. Health Systems Strengthening Programme – Detailed Findings

The HSS programme (phase 2) was implemented by the MoH's Planning and Finance Department from 2012 and is expected to end by 2015. The programme focused on ten provinces with difficult socio-economic conditions: Ha Giang, Bac Kan, Tuyen Quang, Lao Cai, Hoa Binh, Nghe An, Ha Tinh, Kon Tum, Dak Nong and Kien Giang. The main objectives of the programme were: human resources development such as the provision of six to nine month training courses for village health workers; training courses on the expanded programme on immunisation for district hospital staff; commune health workers and training courses on maternal and child health for commune health workers; delivery basic health services through ensuring adequate supply of essential equipment for health facilities; and management capacity improvement such as supporting monitoring and evaluation activities, reviews and workshops.

The MoH established a central programme management unit (CPMU) which was responsible for the overall project management of the HSS funds and for most of the associated procurement activities. In the ten programme provinces, the HSS delegated the management of programme activities to Provincial Departments of Health which acted as provincial programme management units (PPMU). The PPMUs remained under the CPMU's control.

3.1 Budgeting and Financial Management

	Audit Rating
<ul style="list-style-type: none"> • Material advances amounting to USD 51,188 related to implementation of training activities for commune health staffs on EPI and MCH were outstanding for six months or longer. • A number of differences in bank reconciliations were not followed-up. • Large advances were routinely paid in cash instead of by bank transfer. • Due to long time-lags, advances were cleared slowly, resulting in overall programme expenditure being significantly understated. 	<p>Partially satisfactory</p>

3.1.1 Inadequate management of advances

The HSS CPMU's Financial Management Regulations approved by Gavi on 29 November 2012 and subsequently by the MoH on 30 January 2013, stated that advances should be cleared promptly after the activities were completed.

(i) Advances issued to a cashier of a provincial health department were unsettled for long periods.

Total advances of VND 1,107,193,000 (USD 51,188) were disbursed to a cashier of Ha Giang Health Department for implementation of training activities for commune health staffs on EPI and MCH. The advances were paid in several instalments and were aged between four to six months. According to the CPMU, matching supporting documents relating to all of these advances were received by the Provincial Health Department as at 30 June 2015, resulting in the advance only being fully justified by September 2015.

Further, the cashier to which the funds were transferred, was not eligible to receive the advances. Ha Giang People's Committee, on 3 August 2012, issued decision letter 1504/QD-UBND which established a list of the HSS programme staff eligible for receiving advances. However, the cashier was not on this list, so was technically not eligible to receive the advances. The CPMU explained that although the cashier was not an HSS programme staff, she was included in the plan to implement training courses which was approved by Department of Health. They considered their practice to be in line with the expectation that programme activities were to be implemented in a coordinated way by the Vietnam Government, and clarified that a similar situation also happened in other provinces.

(ii) Advances from HSS CPMU to provincial levels were not monitored by individual activities and by aging

The CPMU disbursed various advances to provincial PMUs to implement activities in provinces. Advances were intended for training, support of outreach immunisation spots, and monitoring and evaluation activities were made on ad hoc basis. In addition, advances for programme management activities were made bi-annually. Each quarter, the provincial PMUs reported to the CPMU on the status of advances including opening balances, advances received, advances retired and closing balances by budget line.

Despite receiving data on the status of advances from the provinces, the CPMU was not proactive in putting in place a suitable monitoring mechanism of the outstanding balances. Specifically, by extrapolating from the data, it was possible to review a breakdown of the advances by individual activities and by aging. However, this was not done.

(iii) Delays in implementation of program activities and delays in recognition of expenditures for completed/partially completed activities

There were significant delays in recognition of expenditures related to the activities that were already completed, and no expenditure was recorded for partly completed activities.

As at 30 June 2015, the total unspent HSS budget was USD 12.7 million, equivalent to 61% of the total overall HSS budget of USD 20.8m. This contrasted unfavourably with the work plan of activities, which indicated that the entire budget was supposed to be exhausted by that date.

The primary reasons for low budget burn rate were as follows:

- The recognition of expenditures was routinely delayed due to the extensive period of time necessary to collect, compile and justify the supporting documentation. Approximately USD 1.4 million unspent budget on Objective 1 (Support human resource development for health) refers, which was largely related to the provision of 6-9 month long training courses for village health workers;
- Funds were committed for USD 8.5 million for the procurement of essential equipment for health facilities, but the tender processes were not all yet complete and goods were not expected to be delivered until the end of Q4 2015; and
- USD 1.3 million of the budget was unspent due to: i) late start of monitoring and evaluation activities at the beginning of the grant; ii) savings on local workshops, monitoring activities etc. and iii) cancellation of activities such as local workshops etc.

Budgetary control was adequate with respect to the procurement and to the delayed activities. However In relation to objective 1 of the HSS grant, the advance of USD 1.4 million was yet to be justified. The advance was released to village health workers, for which the expenditures were planned to be recognised only after completion of the activities in Q3/2015. However since the activities related to the training were planned to occur over a period of six to nine months, it was confirmed that the zero spend against this advance was not an accurate reflection of the current status of the activities, since some of the activities were partially complete.

Cause

The Financial Management Regulations did not include a timeframe or detailed guidance for how long it should take for advances to be justified. The CPMU also did not have suitable policies or procedures for monitoring the detail movement and aging of advances.

Risk/Effect

Ineffective management of advances increases the likelihood of ineligible expenditures not being timely detected and resolved.

Recommendation 1 (High Priority)

It is recommended that the CPMU:

- (i) establishes a clear timeframe for settlement of advances, including a remediation process for unjustified advances within the timeframe.
- (ii) monitors all outstanding advances according to a breakdown by detailed activity and by aging.

Management comments

The CPMU agree with those recommendation. We would like to clarify and propose the following actions:

(I) there are some clauses regarding the settlement of advance in the project's financial regulations approved by Ministry of Health, but it is not clear enough. CPMU will set a clear timeframe, i.e. 1 month for short-training courses and 3 months for other activities to all 10 provinces. The CPMU will assign a focal financial staff to regularly follow-up this issue. This action is planned to take effect from April 1 2016.

(ii) All outstanding advances have been monitored in the accounting software, but not paid attention in proper manner. The CPMU will assign financial staff to follow-up this issue and regularly report to the CPMU Director. This action will applied from now on.

3.1.2 Inadequate bank and cash management

(i) Differences in bank reconciliations not followed up

The CPMU's Financial Management Regulations approved by Gavi and MoH in January 2013 require that bank reconciliations are performed on a monthly basis.

However, the bank reconciliation of 30 June 2015 between the CPMU account and the corresponding provincial State Treasury and HSS Cashbook for Ha Giang province reflected an unknown difference of VND 24,932,200 (USD 1,159). There was no evidence that the provincial office had followed up or investigated the difference.

Following the completion of the audit fieldwork, the difference was subsequently investigated and resolved. The CPMU explained that the difference was identified due to three transactions: (i) a cut-off error of funds transferred (VND 24,680,000/USD 1,147) not yet to be processed by the bank; and two past recording errors from January and April 2015 (VND 252,200/ USD 12).

Cause

Human errors and lack of supervision by CPMU on bank reconciliation exercise.

Risk/Effect:

Failure to timely complete and follow up unexplained differences in bank reconciliations increases the risk that errors will not be promptly identified and resolved.

Recommendation 2 (Medium Priority)

The HSS CPMU should ensure that all provinces timely complete their bank reconciliation as required. The bank reconciliations should clearly document and demonstrate how reconciling items were investigated, and all such records should be retained on file.

Management comments

The CPMU agree with those recommendation. The project's financial regulations stipulate bank reconciliation, but some provinces do not pay much attention. The CPMU will send a letter to all 10 province to remind about this issue by March 31 2015. The CPMU will assign a financial staff to check with provinces quarterly. All records is retained in accounting software.

(ii) High levels of cash payments

The CPMU's 2013 Financial Management Regulations encouraged that payments be done by bank transfer. Payments in cases such as personal expenditures, purchases of petroleum, and smaller transactions with value less than VND 5 million (USD 230) were expected to be paid in cash.

However, during the period 2013-2015 multiple advances of large value for training and supervision activities were paid in cash instead of bank transfers. Specifically, the CPMU approved 87 cash advance payments disbursed to programme officers with amounts ranging in value from above VND 5 million (USD 230) up to VND 570 million (USD 26,000).

According to HSS CPMU, most of the above-mentioned advances related to the payment of per diems² and/or allowances for a group of training participants and consequentially it was impractical to make multiple small payments by bank transfer. Furthermore, in some provinces, cash had to be used as the local banking system did not provide bank transfers or the training participants did not have a personal bank account.

² According to the CPMU, individual per diem amounts paid to the participants were below VND 1 million (USD 46).

Cause

Internal controls were circumvented in order to expedite programmatic activities.

Risk/Effect

Cash is vulnerable to misappropriation or loss. High levels of cash payments exposes the CPMU to the possibility of cash being misused, lost and as well as putting staff physical security at risk due to their carrying large amounts of cash.

Recommendation 3 (Medium Priority)

The CPMU should attempt to minimize cash payments. Where possible, cash advances of significant value to programme officers, should be disbursed via electronic transfer to a bank in a proximity to the training venue.

Management comments

The CPMU agree with those recommendation. The project's financial regulation has regulated that the use of cash payments should be minimised except some cases in far and remote venue that the bank system do not exist or do not work properly. The CPMU will issue a letter to all provinces to tighten this regulation by April 1 2016 and monitor this issues regularly.

3.2 Expenditures and Disbursements

	Audit Rating
CPMU staff received significant salary supplements from Gavi, with at least two individuals also receiving additional amounts from other donor-funded programmes. Staff did not maintain time records in support of the actual level of effort contributed.	Partially Satisfactory

3.2.1 Salary supplements paid to government staff without adequate protocols

The Partnership Framework Agreement signed by the Government of Viet Nam and Gavi on 9 October 2013 states that “any salary supplements to government staff in the central Ministry of Health or at provincial level shall be made at level commensurate with levels paid to other project/PMU staff by other development partners with similar levels of responsibility for similar activities. Any salary supplements shall be subject to Health Sector Coordination Committee and Gavi Secretariat approval prior to disbursement of the first tranche of HSS funds”. Similarly the Aide Memoire on 15 March 2012 stipulates that salary supplements should be compatible with allowances provided by other development partners.

At its core, five government staff made up the CPMU, whose individuals were each eligible to receive salary supplements. These five received Gavi salary supplements in the form of a monthly allowance in addition to their full government salary. The supplements were paid in accordance with CPMU’s Financial Management Regulations, which had been approved by Gavi on 29 November 2012 and by the MoH on 30 January 2013.

The monthly allowances paid to the five government staff were progressively reduced in three annual steps. Thus over a 32-month period, from 1 November 2012 (beginning of the programme) to 30 June 2015, the salary supplements paid out to the five staff totalled VND 1,971,007,000 (approximately USD 93,492). This compared unfavourably to the total government salary paid out to these staff over the same 32-month period, which based on the November 2014 monthly dollarised rate, totalled approximately USD 56,320.

The five staff worked part-time implementing the HSS programme, however the salary supplements were provided without clear performance indicators. Similarly there were no time records of the personal level of effort contributed to demonstrate that the participating staff receiving allowances were accurately compensated.

In addition, at least two of the government staff also received salary supplements from another donor funded programme at the same time. It was not discussed whether any of the remaining three staff also received other donor-funded salary supplements.

Cause

Although the salary supplement scheme was approved by the Gavi on 29 November 2012, there was a lack of transparency in agreement on what donors would contribute, resulting in additive supplements being paid rather than an arrangement where donors would fund a respective share of reasonable costs. There was no sufficient oversight in place to regulate the equity and basis for what supplement payments were paid.

Risk/Effect: Medium

The level of salary supplements appears to have occurred without: (i) clear performance indicators; (ii) clarity on how the scheme was to be administered in conjunction with other donor supplements; (iii) what basis there was to justify the level of the incentives paid; (iv) transparency in ensuring that the additional work put in by the individuals concerned, was commensurate with their additional remuneration.

Recommendation 4 (Medium Priority)

The CPMU should clarify with Gavi in term of revision of the salary and allowance scheme and establish a clear protocol to assess; i) individual performance in conjunction with responsibilities assigned; ii) clarification with Gavi and other donors on the basis of supplements and/or incentive paid and iii) maintain time records to keep track the actual level of effort of government staff.

Management comments

At the beginning of the project, the GAVI has approved the TORs and allowance scheme of government staff. In reality, allowances has reduced gradually and currently is equal to 30% of basic government salary, about 75 to 145 USD per person per month. This level is similar to other projects.

According to your recommendation, the CPMU propose that each CPMU's government staff will prepare a report every month and submit to the CPMU. This is applied since April 1 2016. The project coordinator is responsible for follow-up this issue.

3.3 Procurement and asset management

During the period from 1 January 2012 to 30 June 2015, the CPMU conducted a number of tender processes including the procurement of equipment and services for administrative offices, district health centres and village health stations.

	Audit Rating
<ul style="list-style-type: none"> Tender documents were not finalised promptly. 	Satisfactory

3.3.1 Exception to tendering procedure

Per the National Assembly's Tendering Law No. 43/2013/QH13, dated 26 November 2013 and the Government's Decree No. 63/2014/ND-CP, dated 26 June 2014, all proposals received are to be evaluated in accordance with the tender specifications and requirements, so as to ensure that only bidders who meet the minimum requirements are considered.

On 7 August 2014, the requirements for tender No. 35 for a contract of approximately VND 25 billion were approved by the Director of the HSS Programme. The requirements specified that all eligible bidders had to demonstrate a past track record of at least three similar contracts, each with a minimum value of VND 25 billion (USD 1.1 million) to establish their credentials and experience.

Several qualified bids were received. However when first submitted, the Trading and Technology Company Limited (TNT) bid did not technically meet the overall requirements, as the details of only two contracts met the requirements.

Thereafter, on 19 September 2014, TNT sent an official letter No. 123/CV-TNT/14 to the HSS tender evaluation committee, providing a copy invoice of an on-going March 2013 contract with another client, for VND 31.5 billion. In its letter TNT indicated that it had invoiced its client in December 2013, for 90% completion of the work, equivalent to VND 25.6 billion. Based on this additional information, the HSS's tender evaluation committee concluded that TNT met the requirements.

As a consequence, on 25 September 2014 the HSS tender evaluation committee agreed that TNT should be awarded the contract as it offered the lowest price among the bidders. The final contract value awarded was for VND 24,698,746,000 (USD 1,171,556).

From discussion with HSS management, it was determined that the particular situation surrounding this procurement was deemed an isolated incident, and that in general HSS were considered to be compliance with the national procurement and bidding regulations.

As a result, no recommendation is raised on this observation.

3.3.2 Delay in finalising the tender documents

There was a long lead time to complete USD 8.5million worth of tenders in 2015 due to the lengthy approval process of the MoH.

As at 30 June 2015, HSS grant had an unspent budget, allocated for procurement of health facility equipment, of USD 8.5 million. The unspent budget constituted 91% of the total budget allocated for the procurement. As per the workplan the budget was supposed to be exhausted by that date. The total budget allocated for the procurement was USD 9.7 million.

Cause

Delays in procuring equipment were due to the MoH's lengthy approval process of tender documents.

Risk/Effect:

- Budgeted activities may be less relevant to programme requirements, if the time passed between the plan and actual execution of activities is excessive;
- Programme funds could lose value once crystallised into local currency, due to the devaluation against United State Dollar if monies are not promptly spent.

Recommendation 5 (High Priority)

The HSS CPMU, in close cooperation with the MoH, should monitor progress in implementation of activities as per the work plan, and streamline the approval process for tender documents in future to minimise the lead time.

Management comment

The CPMU fully agree with this recommendation. The CPMU will tighten the collaboration with the MOH. The CPMU will invite MOH staff in charge of work plan and procurement to attend all mid-year and end-of-year review meeting of the project to better understand the project activities. The project coordinator will be responsible for follow-up any delay and timely report to CPMU's board of directors in monthly meeting of the CPMU since April 1 2016.

3.3.3 Small assets not insured

Clause 10 of the Partnership Framework states that the Government "shall maintain, where available at a reasonable cost, all-risk property insurance on the programme assets and comprehensive general liability insurance with financially sound and reputable insurance companies."

The CPMU did not have an overall guideline/policy to determine what type/value of the assets were eligible or not for insurance. Except for the vehicles, other assets procured with HSS grants were not insured. The uninsured assets were mainly: desktops, laptops and furniture.

The CPMU stated that it had chosen to not insure its small assets, so as to prioritise spending Gavi funds on direct activities to achieve the programme objectives. Further it did not see the cost benefit in insuring these smaller items since to date no insurance loss or claim had been experienced.

Further, there was no documented evidence to support the CPMU's decision to not insure its other programme assets.

Cause

Apart from the programme vehicle (which was insured), the HSS CPMU did not consider that risk property insurance or general liability insurance was necessary given the low level of perceived risk to assets.

Risk/Effect:

Gavi resources may be wasted should loss, theft or damage occur to programme assets, as there was no property insurance or general liability insurance in place.

Recommendation 6 (Low Priority)

The CPMU should develop a policy on the eligibility/non-eligibility of the programme assets for insurance. The policy should consider cost benefit analysis in regards to potential financial and programmatic loss due to damage to the small assets (e.g. vaccines, computers, etc.). Further, should it choose not to purchase any risk property insurance on assets or general liability insurance, the HSS CPMU should document its justification and basis for this decision.

Management comments

As explained before with GAVI and audit team, in Vietnamese practice, insurance policy is often applied to vehicle and high-value assets. However, according to your recommendation, the CPMU will develop an insurance policy for project assets, with consideration of risk level, value of assets and cost benefit analysis. The CPMU will submit it to GAVI and Ministry of Health for approval.

4. Expanded Programme on Immunisation – Detailed findings

Grant funding earmarked for the Expanded Programme on Immunisation (EPI) was disbursed by Gavi, through the Ministry of Health (MoH), and was managed and implemented under the direct control of the National Institute of Hygiene and Epidemiology (NIHE). The cash was disbursed via several grants as follows: Health System Strengthening (HSS) programme – aimed at supporting countries to deliver effective, efficient and sustainable health services; Immunisation Services Support (ISS) programme – to improve immunisation coverage; cash support for the operational costs of a Measles-Rubella campaign (MR campaign); and Vaccine Introduction Grants (VIG).

Grant objectives were principally to: improve quality of immunisation services in all provinces in Vietnam (ISS); to reduce the incidence of measles and rubella and eventually eliminate the diseases in near future and to lessen the burden of congenital rubella syndrome; and to facilitate the timely and effective implementation of critical activities in the national vaccine introduction plan before new vaccines being introduced.

Both the MR Campaign and VIG (MR) grants were disbursed by Gavi to the EPI team in 2013 and 2014, with funds expected to be fully utilised by the end by 2016. The activities for these two grants were being implemented across all 63 provinces in Viet Nam.

The EPI team delegated the management of most of its programme activities via four principal programme partners. Namely: (i) Ho Chi Minh Pasteur Institute; (ii) Nha Trang Pasteur Institute; (iii) Highlands Institute of Health and Epidemiology; and (iv) National Institute of Hygiene and Epidemiology – North Office. Similarly these partners further delegated the activities to be executed through Preventive Health Centres (PHC) located at provincial, district and commune levels.

4.1 Expenditures and disbursements

	Audit Rating
<ul style="list-style-type: none"> • Gavi funds were subject to VAT payments. • Salary supplements paid to some of the staff without clear eligibility criteria on the incentive 	Partially Satisfactory

4.1.1 Expenditures were inclusive of value added tax

Under Circular 219/2013/TT-BTC dated 31 December 2013 issued by the Ministry of Finance, goods and services which are sold and rendered to organisations for non-refundable aid purposes are not subject to VAT in Viet Nam. VAT on goods and services purchased and paid by the organisations which received non-refundable aid are refundable based on guidelines of Ministry of Finance.

Clause 15 of the Partnership Framework Agreement states that “Gavi funds provided under this Agreement shall not be used to pay any taxes, customs, duties, toll or other charges imposed on the importation of vaccine and related supplies. The Country shall use its reasonable efforts to set up appropriate mechanisms to exempt from duties and taxes all purchases made locally and internationally with Gavi funds.”

Based on the review of expenditures relating to the MR campaign, it was noted that VAT was routinely paid on transactions. From a sample of expenditures reviewed, the associated invoices included a total VAT amount of VND 5,511,995,818 (USD 260,264) paid on goods and services funded by Gavi. However no action had been taken by the EPI team towards securing exemption with the local tax authorities and getting VAT payments refunded.

The entire amount of VAT paid on Gavi funded expenditures for the period from 1 January 2012 to 30 June 2015 has not yet been quantified.

The EPI team stated that they were not aware of the Partnership Framework Agreement requirement to avoid incurring unnecessary or refundable taxes. However, in contrast the CPMU from the Health Systems Strengthening programme was aware of the tax and duties exemption requirements and had process to ensure tax exemption and that VAT on goods and services was reclaimed.

Cause

- Non-compliance with the Partnership Framework Agreement;
- Failure to secure existing tax exemption opportunities.

Risk/Effect:

Inefficient use of Gavi funds on discretionary spending, as more resources could have been available for programme activities.

Recommendation 7 (High Priority)

- MOH should consistently apply the VAT exemption granted by the local government to avoid unnecessary VAT payments in relation to Gavi programmes.
- EPI should quantify the total VAT paid, in relation to Gavi programmes, for the period 2012-2015 and make efforts in obtaining refunds from the local tax authorities.

Management comments

VAT Tax reclaim for period 2012-1015:

We have contacted and discussed with the local tax authorities but we cannot complete the process, because they requested us to registry a tax identification number before implementing the project. This it no longer feasible now.

We accept your recommendation and we will complete the VAT tax reclaim process for the next GAVI projects.

4.1.2 Salary supplements paid to government staff without adequate protocols

The Aide Memoire signed between the Government of Viet Nam and Gavi on 15 March 2012 stipulates that salary supplements in terms of responsibility and salary level should be compatible with allowances provided by other development partners for similar levels of responsibility for similar activities.

Under MR campaign and VIG grants, 10 staff from the central EPI unit were nominated to work on the Gavi funded programmes and were eligible for a top-up allowance. The eligible staff were the Director, two Vice-Directors, a secretary, four coordinators, a Chief Accountant and an Accountant. In addition, another 17 staff from principle programme partners were included in the wider immunisation programme team. All 27 individuals received the Gavi salary supplement in the form of allowances, in addition to their full government salary.

The allowances were paid in accordance with the EPI's Financial Management Regulations which was approved by the Ministry of Finance on 6 May 2014. However, there was no documentation on file that these salary allowances (as well as the EPI's Financial Management Regulations) were ever approved by the Gavi secretariat.

The allowance were provided without clear performance indicators. Similarly there were no time records of the personal level of effort contributed to demonstrate that the participating staff receiving allowances were accurately compensated. It was not discussed whether any of the 37 staff also received any other donor-funded salary supplements.

Cause

There was lack of transparency and accountability in agreeing what Gavi funding the immunisation programme team would pay, what these payments were for, and how to regulate the salary supplements.

Risk/Effect:

Providing salary supplements without clear performance indicators undermines the principle, value and basis for any such incentives.

Recommendation 8 (Medium Priority)

In future, the EPI management should clarify with Gavi in term of revision of the salary and allowance scheme and establish a clear protocol to: i) assess individual performance in conjunction with responsibilities assigned; ii) clarify with Gavi and other donors on the basis of supplements and/or incentive paid and iii) maintain timesheets to keep track the actual level of effort of government staff.

Management comments

List of EPI employees who received allowance under GAVI project has been approved by Vietnam MoH for Project Manager Board. They will receive the allowance corresponding to their contributions for the project. Each employee can only receive management allowance from one project and they cannot receive allowance from other donors.

EPI has submitted cost norm including allowance rate for Project Manager Board applied for the next GAVI projects (IPV introduction). The expenditures will be followed with GAVI's approval.

4.2 Budgeting and financial management

<ul style="list-style-type: none"> Advances disbursed to programme partners at the provinces were not proactively monitored. Due to long time lags, advances were cleared slowly, resulting in overall programme expenditures being significantly understated. 	Audit Rating Partially satisfactory
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4.2.1 Inadequate management of advances

According to the EPI's Financial Management Regulations approved by the MoH on 6 May 2014, advances should be promptly cleared after the work (i.e. activities) is completed.

(i) Advances to principal programme partners and PHCs were not adequately monitored

The EPI team disbursed MR Campaign advances to its principal programme partners and the provincial Preventive Health Centres for training, subject inspection, monitoring, and immunisation support activities. As at 30 June 2015, the overall unjustified advance balance disbursed to programme partners totalled VND 95,274,210,543 (USD 4,404,725).

The only monitoring of these advances was of the total balance held by each programme partner. The EPI team had access to detailed listing information on the advances broken down by individual PHC amounts (in accordance with their individual liability contracts) and it therefore was feasible to extrapolate and derive an aging report if necessary. However, the EPI team confirmed that it did not proactively monitor how promptly the associated expenses were justified and the advances cleared.

As at 30 June 2015, the programme partners advance balances were as follows:

No.	Programme partners' name	Advance balance (VND)	Advance balance (USD)
1	Ho Chi Minh Pasteur Institute	32,569,470,543	1,505,755
2	Nha Trang Pasteur Institute	15,581,000,000	720,342
3	Highlands Institute of Health and Epidemiology	6,157,000,000	284,651
4	National Institute of Health and Epidemiology – North Office	40,966,740,000	1,893,977
	Total advance balance	95,274,210,543	4,404,725

(ii) Advances were cleared slowly, so expenditures were understated

The four principal programme partners advance balances totalling VND 95,274,210,543 (USD 4,404,725) were outstanding for a period ranging from six to fourteen months. A breakdown of the aging was as follows: 1% over 12 months - VND 917 million; 98% from 6 to 12 months - VND 93,159,370,543 and 1% less than 6 months - VND 1,197,500.

On 22 October 2015, the central EPI team stated that all of these advances were now fully retired. The reasons provided for slow clearance of advances was due to: the practice of waiting until the time the activities were completely implemented; delays by EPI and/or the principal programme partners to

collate and forward the provinces' supporting documents; and delays in reviewing and validating the supporting documentation by the central EPI team and the programme partners.

As a result of the delays in clearing the outstanding advances, the corresponding expenditures were recognised belatedly.

Cause

Lack of guidelines established by the EPI team on specific timeframe as to when advances should be justified and retired by the programme partners and by the PHC.

Risk/Effect:

- Inadequate management of advances increases the likelihood that inappropriate expenditure or misappropriation of funds will not be promptly detected and resolved.
- Delays will result in the programme expenditures being understated, and hence hinder planning, oversight and reporting efforts.

Recommendation 9 (High Priority)

The EPI management should develop supplementary operational guidance in support of its Financial Management Regulations and liability contracts, so as to strengthen the principal programme partners' advance management as follows:

- establish a clear timetable which is mutually agreed by the EPI team, the principal programme partners and the provincial Preventive Health Centres, as to the deadlines by which documentation is to be submitted and advances justified. In addition it is suggested that a protocol for remediation be developed which describes actions and sanctions to be carried out when advances are not timely justified;
- as far as is practicable, ensure that the EPI team and principal programme partners regularly travel to the field to collect the documentation to clear advances and that these documents are promptly reviewed; and
- develop an additional report analysing the breakdown of advances by detailed activities and by aging. This report should be prepared and updated by both the CPMU (EPI team) and regional PMU (principal programme partners).

Management comments

We will follow your recommendations. We will coordinate with Regional EPI Manager to consider the feasibility and duration of our activities in future.

Monitoring and supportive supervision will be strengthened at all levels for all activities.

4.2.2 No recognition of interest income earned on programme funds

In accordance with Annex 2, Section 25.2 of the Partnership Framework Agreement states that “any interest on the funds disbursed by Gavi to Viet Nam shall be accounted for and used solely for the programme purposes.”

At the central level, ISS and VIG grants were deposited in a bank account which received funds from multiple donors. As at 24 July 2014 and over the period reviewed, this bank account had received bank interest of VND 981,715,900 (USD 46,483) on the comingled funds.

However, the central EPI team did not credit or allocate any of the bank interest earned to the ISS/ VIG programmes and no mechanism was in place to proportionately allocate interest earned across the respective funding sources. Similarly, the corresponding 2014 audited financial statements did not reflect any interest income earned.

Cause

Lack of procedure and oversight in treasury operations.

Risk/Effect:

Programme funds were not credited to the Gavi account as contractually agreed.

Recommendation 5 (Low Priority)

- The EPI team should determine and calculate the total interest income earned since opening the bank account and proportionally allocate the respective funds to Gavi funded programmes;
- The interest income generated retrospectively should be reported to Gavi, and if significant or where the programme has closed, the EPI team should agree with Gavi on how to use the surplus funds.

Management comments

For the ISS project, we didn't open a separate account but used the NIHE's account. The interest of ISS fund has been reported and approved by Vietnam MoF (aid certification) and MoH for use.

MR and VIG grants have been monitored with a separate account. After closing the project, bank interest from that fund will be reported to GAVI, then the fund will be used for EPI activities following MoF's and MoH's procedures in Vietnam.

4.2.3 Gavi's funds not maintained in an interest bearing bank account

At sub-national levels, respective EPI teams did not deposit Gavi programme funds into interest-bearing bank accounts.

In accordance with clause 25.1 of the Partnership Framework “funds in the possession of the Country shall remain, to the extent practicable, in an interest-bearing bank account at a reasonable commercial rate available in the Country, until they are used for the Programme(s).”

Gavi funds relating to the MR campaign and the vaccine introduction grant were transferred from EPI central to its programme partners based in the provinces. However these funds were deposited at non-interest bearing provincial State Treasury bank accounts. The specific bank accounts concerned were designated to receive funds from multiple sources at the provincial level.

The central EPI unit explained that funds were transferred directly by Ministry of Finance to the respective provincial State Treasury accounts, and that the provincial partners' banking arrangements were not under their EPI's direct control.

Cause

Factors beyond EPI's immediate control.

Risk/Effect:

Additional resources attributable to Gavi are not credited to the immunisation programme.

Recommendation 6 (Low Priority)

Where practicable, the EPI team should request that its provincial programme partners open a dedicated and interest-bearing back account to maintain Gavi funds.

Management comments

EPI has recommended provincial PMCs to open a separate bank account for GAVI project but it will depend on provincial policy.

4.3 Asset management

	Audit Rating
Lack of guidance by EPI to provincial programme partners on the operational management of assets.	Satisfactory

4.3.1 Inadequate management of programme assets

According to the EPI's Financial Management Regulations approved by the MoH on 6 May 2014, the EPI team and its principal programme partners and the Preventive Health Centres at provinces are responsible for the safeguarding, maintenance and recording of programme assets. Per the Financial Management Regulations, as a minimum the following procedures should be in place:

- An asset register should be maintained and be updated. The funding source for each asset should be recorded;
- Assets should each be assigned a separately identifiable code and tag identifying the item; and
- Regular physical asset verifications should be performed, at least annually, to inspect the existence, location and status of all assets.

The following observations were noted on the EPI national office and at various Preventive Health Centres in Ha Giang, Nghe An and Lao Cai provinces.

- (i) At the EPI national office – located National Institute of Hygiene and Epidemiology ('NIHE')

The list of Gavi funded assets located at the NIHE comprised three laptops and one desktop computer. The EPI team maintains a fixed asset register in an Excel spreadsheet for the whole National Institute of Hygiene and Epidemiology, which includes a column indicating those instances where the assets were funded by Gavi. However, it is noted that one desktop computer did not carry an identification tag.

(ii) In Ha Giang, Nghe An and Lao Cai Provinces

The Gavi-funded programme assets disbursed to three selected Preventive Health Centres included: vaccine carriers, vaccine preservation refrigerators and icepack freezers. It is noted:

- The Preventive Health Centres maintained a fixed asset register but the listing did not specify the funding source for these assets;
- No separately identifiable codes/tags were assigned to assets; and
- There was no evidence that physical asset counts were annually performed.

As such, the audit team was unable to match the physical assets available to the list of assets funded by Gavi. It is also noted that several programme assets were not used yet and were unpacked since delivery in late 2014.

Cause

There was a lack of operational guidance from EPI team in setting out procedures for how immunisation programme assets should be managed and accounted for. The EPI's programme partners did not undertake their management of programme assets as required.

Risk/Effect:

In the absence of policies and procedures on asset management and the delegation of responsibility for the physical security and management of items, any potential damage, loss, or misuse of assets may not be timely detected and addressed.

Recommendation 7 (Medium Priority)

Based on the Financial Management Regulations approved by the MoH on 6 May 2014, the EPI team should develop additional guidance on the management and control for all assets distributed to programme partners, sub-programme partners i.e. the Preventive Health Centres at provinces. As a minimum, such operational guidance (supplementary to existing regulations) should include:

- Procedures for recording and tracking assets e.g. that an asset register should exist and be maintained up-to-date. Details on the assets including the funding source for each item should be recorded;
- Procedures for labelling assets, such as a separately identifiable code and tag identifying the item; and
- Procedures requiring routine physical asset verifications to be performed, at least annually, to inspect the existence, location and status of all assets.

Management comments

EPI is going to label all refrigerators, freezers and vaccine carriers supported by GAVI. Following Vietnam regulation, NIHE and provincial PMC have to conduct physical asset verification every year.

4.3.2 Small assets not insured

Clause 10 of the Partnership Framework states that the Government “shall maintain, where available at a reasonable cost, all risk property insurance on the programme assets and comprehensive general liability insurance with financially sound and reputable insurance companies.”

The ISS, MR Campaign and VIG programme assets consisted mainly of: vaccine preservation refrigerators, icepack freezers, vaccine carriers and laptops. However none of these assets were insured. Also, there was no overall guideline to determine what type/value of the assets were eligible or were excluded from insurance.

The management of the EPI team indicated that it prioritised spending funding on undertaking direct programme activities to achieve the programme objectives, over spending the same funds on insurance. In addition, it stated that the level of perceived risk to its assets was low.

Cause

The EPI management opted not to purchase any risk property insurance on programme assets or any general liability insurance during the 3.5 year period reviewed.

Risk/Effect:

Gavi resources may be wasted should loss, theft or damage occur to programme assets, as there was no insurance in place.

Recommendation 8 (Low Priority)

The central EPI team should undertake a cost benefit analysis to determine whether it should purchase risk property insurance on its assets (e.g. vaccines, computers, etc.) and/or general liability insurance. Further, should it choose not to purchase any insurance on its assets or general liability insurance, the central EPI team should document its justification and the basis for this decision.

Management comments

Equipments have been purchased using GAVI funds such as refrigerators, freezers, vaccine carriers, thermometers, etc. EPI has established and maintains a system to ensure that cold chain equipment operates well at all levels.

Annex 1 – Classification of expenditure

Adequately supported – Expenditures validated on the basis of convincing evidence (evidence which is sufficient, adequate, relevant and reliable) obtained by the auditors during the carrying out of their mission on the ground.

Inadequately supported – This covers two sub-categories of expenditure:

a) Purchases: This is expenditure for which one or more of the essential items of documentary evidence required by the country's regulations on procurement are missing such as procurement plan, tender committee review, request for quotation, invoice, contract, purchase order, delivery note for goods and equipment, pro-forma invoice, the final invoice, etc.

b) Programme activity: This is expenditure where essential documentation justifying the payment is missing. This includes but is not limited to travel without a travel authorisation, lack of a technical report or an activity report showing completion of the task, signed list by participants. Lack of the same documents to support liquidation of advances/floats given for meetings/trainings/workshops etc.

Irregular Expenditure – This includes any deliberate or unintentional act of commission or omission relating to:

a) The use or presentation of documents which are inaccurate, incomplete/falsified/inconsistent resulting in the undue use or payment of Gavi funds for activities, or the undue, withholding of monies from funds granted by Gavi,

b) Misappropriation of funds for purposes other than those for which they were granted.

Ineligible expenditures – Expenditure which does not comply with the country's programme/grant proposal approved by Gavi or with the intended purpose and relevant approved work plans and budgets.

Annex 2 – Audit Procedures and Reporting

Audit procedures

Using risk-based audit procedures, the audit included an analysis of reported expenditure (in the Annual Progress Reports or any other periodical financial reports), inquiry/ discussions, computation, accuracy checks, reconciliation and inspection of records/ accounting documents and the physical inspection of assets purchased and works performed using grant funds.

The following procedures were carried out:

- Review of the Financial Management arrangements for the programmes, focusing on the control procedures e.g. appropriation and approval, segregation of duties, roles and responsibilities, reconciliation, verification of delivery of goods and services, invoice verification, retirement of advances controls and imprest;
- Review of the arrangements for managing the bank accounts, including tracing withdrawals and transfers from the programme and designated accounts to determine that they are for eligible expenditures for the programmes;
- Verification, on a sample basis, of procurement undertaken to ensure that the applicable policies and procedures are strictly adhered to and that transparency and value for money is maintained;
- Review of the mechanism for channelling cash advances from the MoH to the various budget management centres at the various levels (regional and district) to ensure that there are adequate internal controls in place to timely liquidated such advances;
- Undertaking field visits to regions and districts to review flow of funds and to determine whether principal activities took place according to the work plan/ schedule of cash advances;
- Visit to the central, regional and district stores to ensure that stock management procedures are being well implemented;
- Physical verifications, on a sample basis, to check the actual delivery of goods, works and services purchased as per the source documents;
- Review of expenditure and identifying expenditures which are not eligible for funding from Gavi programme funds.

Reporting

On 22 October 2015 at the end of the Cash Programme Audit, the Audit team and Gavi's Director of Programme Audit discussed the key findings in separate formal meetings with the Health System Strengthening -Central Programme Management Unit and the National Institute of Hygiene and Epidemiology in its role as the central EPI team, so as to obtain management representations on the findings.