

Audited Project Financial Statements

Project Number: 41456-033

Loan/Grant Number: 2961

Period covered: 18 September 2013 – 31 December 2016

VIE: Water Sector Investment Program – Tranche 2

Prepared by HaiPhongWACO

For the Asian Development Bank

Date received by ADB: 30 June 2017

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and Hai Phong PPC.

**REHABILITATING AND UPGRADING PROJECT OF
HAI PHONG WATER SUPPLY SYSTEM – PHASE 2**
Loan Agreement No. 2961 – VIE

AUDITED FINANCIAL STATEMENTS
Period from 18 September 2013 to 31 December 2016

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REPORT OF THE PROJECT MANAGEMENT UNIT

The Management Unit of City Water Supply and Sanitation of Hai Phong Water Joint Stock Company presents this report and the Financial Statements of the Rehabilitating and Upgrading Project of Hai Phong Water Supply System – Phase 2 ("The Project") for the period from 18 September 2013 to 31 December 2016.

The Project

The Rehabilitating and Upgrading Project of Hai Phong Water Supply System – Phase 2 is implemented under the Loan Agreement No. 2961 – VIE dated 23 May 2013 ("the Agreement") between the Government of the Socialist Republic of Vietnam and the Asian Development Bank.

The Project Management Unit

Members of the Project Management Unit in the period and to the reporting date are:

Mr. Tran Viet Cuong	Director
Mr. Nguyen Van Duc	Deputy Director
Mrs. Le Thi Huong	Chief Accountant

Auditors

The auditors of AASC Limited have taken the audit of financial statements of the Project.

Responsibilities of the Project Management Unit

The Project Management Unit is responsible for preparing the project financial statements, including Statement of Financial Position, Statement of Receipts and Disbursements, Statement of Imprest Account and Statement of Withdrawals, which comply with the accounting policies described in the attached Notes to the Financial Statements. The Project Management Unit assures that the accounting policies are appropriately selected and consistently applied.

The Project Management Unit assures that the accounting records were fully maintained to prepare the financial statements in accordance with the applied accounting policies and to disclose, with reasonable accuracy at any time, the financial position of the Project.

The Project Management Unit is also responsible for maintaining an effective internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and comply with relevant laws, regulations and other provisions of the funding agreement that could have a direct and material financial effect on the Project financial statements.

On behalf of the Project Management Unit



Tran Viet Cuong
Director

Hai Phong, 22 May 2017

No.: 1700/2017/BC.KTTC-AASC.DTNN2.

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To: The Management Unit City of Water Supply and Sanitation

Opinion

We have audited the financial statements of the Rehabilitating and Upgrading Project of Hai Phong Water Supply System – Phase 2 ("the Project") which comprise Statement of Financial Position as at 31 December 2016, Statement of Funds and Expenditures, Statement of Imprest Account, Statement of Withdrawals and Notes to the Financial Statements for the period then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion:

- ▶ The accompanying financial statements give a true and fair view of the financial position of the Project, including the balance of the Imprest Account as at 31 December 2016, funds received and expenditures incurred, movements of the Imprest Account for the period then ended in accordance with the basis of the principal accounting policies described in the Notes to the Financial Statements and the provisions of the Loan Agreement No. 2961 – VIE dated 23 May 2013.
- ▶ In addition, with respect to Statements of Expenditure, adequate supporting documents have been fully maintained to support to the replenishment requests submitted to the Asian Development Bank. The expenditures are eligible and in right purposes of the Loan Agreement No. 2961 – VIE dated 23 May 2013.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Project Management Unit in accordance with the international Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We would like to draw readers' attention to the following matters at Note 2c:

- ▶ Salary costs in "Project management costs" accumulated to 31 December 2016 of VND 3,154,207,700 are allocated upon people assigned to the Project and rates approved; and
- ▶ Value Added Tax funded by Hai Phong Water JSC is recorded, declared and deducted at Hai Phong Water JSC, thus it is not presented on the financial statements.

Our opinion is not qualified in respect of this matter.

Responsibilities of Management for the Financial Statements

The Project Management Unit is responsible for the preparation of the financial statements in accordance with the principal accounting policies described in Notes to the Financial Statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the Project's preparation and fair presentation of the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AASC Limited



Do Manh Cuong
Deputy General Director
CPA Registered No.:
0144-2013-002-1

Hanoi, 22 May 2017

Nguyen Pham Hung
Auditor in-charge
CPA Registered No.:
2893-2015-002-1

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	31/12/2016 VND
CURRENT ASSETS		369,918,837
Cash at bank	03	369,918,837
NON-CURRENT ASSETS		54,427,066,346
Project Implementation Expenditures	07	54,427,066,346
TOTAL ASSETS		54,796,985,183
CURRENT LIABILITIES		768,975,415
Payables to contractors	06	739,229,455
Payables to staff		27,979,480
Other payables		1,766,480
FUNDS		54,028,009,768
Project Implementation Funds		53,753,013,677
- The Asian Development Bank	04	17,421,630,944
- Hai Phong City State budget		17,014,000,000
- Hai Phong Water Joint Stock Company		19,317,382,733
Foreign exchange differences	05	274,996,091
TOTAL RESOURCES		54,796,985,183

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Period ended 31 December 2016

	Note	Incurred and accumulated to 31/12/2016 VND
I. RECEIPTS		
1. Received from the Asian Development Bank		17,421,630,944
2. Received from Hai Phong City State budget		17,014,000,000
3. Received from Hai Phong Water Joint Stock Company		19,317,382,733
4. Others		1,766,480
		53,754,780,157
II. DISBURSEMENTS		
1. Resettlement and Land Acquisition		22,704,631,900
2. Consulting Services		17,068,077,386
3. Interest charges and commitment fees		6,517,428,717
4. Project management costs		3,168,289,410
5. Others		4,103,848,804
	08	53,562,276,217
III. FOREIGN EXCHANGE DIFFERENCES		
1. Foreign exchange differences due to revaluation of cash balance		177,414,897
		177,414,897
IV. RECONCILIATION AS AT CLOSING		
Presented by:		
Cash at bank		369,918,837

STATEMENT OF IMPREST ACCOUNT

For the period: from 18 September 2013 to 31 December 2016
 Account No: 2100206000210
 Bank: Vietnam Bank for Agriculture and Rural Development – Hai Phong City Branch
 Address: No. 283 Lach Tray, Ngo Quyen District, Hai Phong City
 Agreement No.: 2961-VIE

	Note	USD
PART A: ACTIVITIES		
Opening balance		-
Add: Total amounts deposited by the ADB		499,505.37
Deduct: Total amounts withdrawn		(484,574.54)
Closing balance		14,930.83

PART B: RECONCILIATION

1. Amount advanced by the ADB		499,505.37
2. Add: amount supplemented by the ADB		-
3. Present outstanding amount advanced to		499,505.37
4. Closing balance of the Imprest Account		14,930.83
5. Add: Amounts withdrawn but not yet claimed	(i)	484,574.54
6. Total advances accounted for		499,505.37

(i) Notes:	USD
Consulting Services	484,574.54
	484,574.54

STATEMENT OF WITHDRAWALS

Loan Agreement No. 2961 – VIE

For the period ended 31 December 2016

Withdrawal applications			Claimed		Received		Variances	Note
No.	Date	Currency	Advance	Amount	Date	Amount		
				(a)		(b)		
Imprest account								
HP001	07/05/2015	USD	500,000.00	500,000.00	23/06/2015	499,505.37	494.63	(1)
Total			500,000.00	500,000.00		499,505.37	494.63	

(1) The amount received is corresponding to the disbursement schedule for the next 6 months from the date of application.

NOTES TO THE FINANCIAL STATEMENTS

Period ended 31 December 2016

1. Background

The Rehabilitating and Upgrading Project of Hai Phong Water Supply System – Phase 2 ("the Project") is a sub-project of the Viet Nam Water Sector Investment Program – Project 2 ("the Program") implemented under the Loan Agreement No. 2961 – VIE dated 23 May 2013 ("the Agreement") between the Government of the Socialist Republic of Vietnam and the Asian Development Bank.

Total budget of the Loan under the Agreement is USD 212,000,000 for 15 projects in 12 provinces, of which USD 207,000,000 is for 6 projects in Hai Phong, Quang Tri, Thua Thien Hue, Da Nang, Dak Lak and Binh Duong which are provinces with the best preparation and USD 5,000,000 for the remaining 9 projects. Hai Phong Water JSC is entitled to borrow USD 56,800,000 to implement the Project.

The objective of the Investment Program is: the sustainable provision of safewater in Viet Nam through improvement in the efficiency of Vietnamese water utilities. In which, the main objectives of the project are: (i) constructing 3 new Water Treatment Plants with capacity of 25,000 m³/day each, upgrading a Water Treatment Plant to capacity of 200,000 m³/day and converting a Water Treatment Plant to a pumping station; (ii) constructing approximately 80 km of transmission mains, including booster pumping station(s); and (iii) constructing distribution systems for about 20,000 households.

The Sub-project in Hai Phong includes 04 components as below:

- Do Son component (Rehabilitation and Construction of Do Son Water Supply System and adjacent areas): Construction of a new Hung Dao WTP with capacity of 25,000 m³/day; Rehabilitate/Convert the existing Do Son WTP into a booster pumping station; and Construction of 34 km transmission mains and rehabilitation of distribution systems (about 20,000 connections in Do Son, Duong Kinh, Kien Thuy districts and adjacent areas);
- Northern Cam River component (Construction of Water Supply System in Northern part of Cam River): Construction of a new Ngu Lao WTP 25,000 m³/day in Northern part of Cam River area, about 18 km transmission pipelines, and Tan Duong booster pumping station, Thuy Nguyen District;
- An Duong component (Upgrading of An Duong WTP): Rehabilitate/Upgrade An Duong WTP from 100,000 m³/day to 200,000 m³/day, including reservoirs, pumping system, chemical building, etc. and about 05 km transmission pipelines;
- Kim Son component (Construction of Kim Son Water Supply System): Construction of a new Kim Son WTP 25,000 m³/day, and about 21 km transmission pipelines.

The Project officially came into operation on 18 September 2013 and is expected to closed on 30 June 2020.

The Project is managed by the Management Unit of City Water Supply and Sanitation of Hai Phong Water JSC, and its office is located at No. 54 Dinh Tien Hoang, Hong Bang District, Hai Phong City.

2. Principal Accounting Policies

a. Basis of accounting

The first accounting period commenced from 18 September 2013 to 31 December 2016. The annual accounting period commenced from 1st January to 31st December.

The financial statements are prepared in accordance with the requirements of the Asian Development Bank and presented in Vietnam Dong (VND), except for Statements of Imprest Account and Statement of Withdrawals which are prepared in United State Dollar (USD).

The Management Unit is applying the Circular 195/2012/TT-BTC for accounting. Statement of Receipts and Disbursements is prepared on the cash basis. Other financial statements are prepared in accordance with the principal accounting policies are summarized as below:

b. Foreign currencies

Funds received from the Asian Development Bank in foreign currency are translated into VND under exchange rate of Vietnam Bank for Agriculture and Rural Development – Hai Phong City Branch on the date of remittance made into Imprest Account or direct payment made to contractors.

Transactions in foreign currencies are translated to VND under the actual exchange rate of Vietnam Bank for Agriculture and Rural Development – Hai Phong City Branch on the date of the transaction. Monetary items denominated in foreign currencies are revalued annually at the actual exchange rate (buying exchange rate with assets / selling exchange rate with liabilities) of Vietnam Bank for Agriculture and Rural Development – Hai Phong City Branch at balance sheet date. All exchange differences from these transactions are recorded into "Foreign exchange differences" account and presented as "Foreign exchange differences" on Statement of Financial Position.

c. Funds and Expenditures

Funds:

- Funds received from the Asian Development Bank (ADB) are recorded when direct payments are made from ADB to contractors/suppliers or remittance are made into Imprest Account. Of which, capitalization of interest charges and commitment fees are recognized upon announcement by the ADB (twice per year);
- Counterpart funds of the Hai Phong City State budget are recorded when payments are made directly to contractors/suppliers of the Project or funds remitted to the Hai Phong Water JSC for settlement of project's activities;
- Funds received from Hai Phong Water JSC are recorded when payments are made directly to contractors/ suppliers or funds remitted to the PMU for settlement of the project's activities.

Expenditures:

- The Project expenditures (not including tax) are recorded when they are actually incurred, except for salary costs in "Project management costs" that are allocated upon people assigned to the Project and rates approved by the funds of Hai Phong Water Supply JSC;
- Value Added Tax funded by Hai Phong Water Supply JSC is recorded, declared and deducted at Hai Phong Water JSC, thus it is not presented on the financial statements.

d. Imprest Account and its interest

Imprest Account is the deposit account in USD opened at Vietnam Bank for Agriculture and Rural Development – Hai Phong City Branch for the Project's activities. Payments made via Imprest Account are for eligible expenditures of the Project in accordance with provisions of the Loan Agreement No. 2961 – VIE dated 23 May 2013.

Interests of the Imprest Account are considered as receipts of Hai Phong Water Joint Stock Company and initially recorded as Other payables in Statement of Financial Position and used to cover bank charges. They are recognized as fund on a systematic basis over the periods necessary to match them with bank charges which they are intended to compensate. At the end of the Project, outstanding interests will be returned to the Vietnamese Government. In case bank charges are not fully covered by the interests, the Project Management Unit will plan to settle by the Counterpart funds (according to Circular No. 218/2013/TT-BTC dated 31 December 2013 and the replacing Circular No.111/2016/TT-BTC dated 30 June 2016 which comes into force from 01 November 2016).

3. Cash at bank

	31/12/2016
	VND
Imprest Account (USD)	340,994,938
Deposit Account (VND)	28,923,899
	369,918,837

4. Funds received from the Asian Development Bank

	Incurred and accumulated to 31/12/2016	
	USD	Equivalent to VND
Imprest account		
<i>Advance</i>	499,505.37	10,904,202,227
Capitalization of interest charges and commitment fees	296,238.41	6,517,428,717
		17,421,630,944

5. Foreign exchange differences

	31/12/2016
	VND
Foreign exchange differences due to payment	97,581,194
Foreign exchange differences due to revaluation of cash balance	177,414,897
	274,996,091

6. Payables to contractors

	31/12/2016
	VND
Consulting services	
Technical Department - Hai Phong Water joint stock company	576,094,000
Others	
Hai Phong Construction design consultant joint stock company	163,135,455
	739,229,455

7. Project Implementation Expenditures

a) By categories

	31/12/2016 VND
Consulting Services	17,741,752,580
Interest charges and commitment fees	6,517,428,717
Resettlement and Land Acquisition	22,704,631,900
Project management costs	3,196,268,890
Others	4,266,984,259
	54,427,066,346

b) By funding

	31/12/2016 VND
The Asian Development Bank	17,357,359,812
Hai Phong City State budget	17,014,000,000
Hai Phong Water Supply Joint Stock Company	20,055,706,534
	54,427,066,346

Expenditures are financed under the Loan Agreement No. 2961 - VIE dated 23 May 2013 as below:

Categories	Funding rate (%)
Works;	83.10%
Equipment;	86.90%
Consulting services;	66.90%
Interest charges and commitment fees	100%

c) Reconciliation between Project Implementation Expenditures on Statement of Financial Statement and Disbursement on Statement of Receipts and Disbursements

	VND	VND
Project Implementation Expenditures		54,427,066,346
Deduct:		
Payables to contractors	(739,229,455)	
Foreign exchange differences due to payment	(97,581,194)	
Payables to staff	(27,979,480)	
		(864,790,129)
Disbursements accumulated to closing		53,562,276,217

8. Disbursement

No.	Package	Content	Disbursement plan			Actual disbursement			Rate
			ADB fund	Counterpart Fund	Total	ADB fund	Counterpart Fund	Total	
			VND	VND	VND	VND	VND	VND	
1	CS1	Detailed Design Consultant and Bid Support for Do Son, An Duong components	26,523,600,000	4,226,400,000	30,750,000,000	10,742,349,901	4,783,881,485	15,526,231,386	50%
2	CS3	Consultant Construction Supervision and Contract Management (CMC) for Do Son and An Duong components	4,814,793,000	2,382,207,000	7,197,000,000	-	-	-	0%
3	CS7	Financial audit consultancy	820,000,000	210,000,000	1,030,000,000	-	-	-	0%
4	CF1	Detailed design of water distribution network in Do Son area	-	2,716,545,455	2,716,545,455	-	1,541,846,000	1,541,846,000	57%
5	CF2	Mine clearance for Do Son and An Duong components	-	213,032,000	213,032,000	-	157,078,000	157,078,000	74%
6	CF4	Audit finalization of capital for 04 components	-	260,000,000	260,000,000	-	-	-	0%
7	CF5	Verification of estimates for Do Son and An Duong components	-	470,000,000	470,000,000	-	408,412,727	408,412,727	87%
8	CF7	Geological survey for Do Son and An Duong components	-	3,262,696,650	3,262,696,651	-	3,099,561,817	3,099,561,817	95%
9		Resettlement and Land Acquisition (Remaining cost in Hung Dao Water Plant)	-	30,704,631,900	30,704,631,900	-	22,704,631,900	22,704,631,900	74%
10		Interest and commitment charges	8,600,000,000	-	8,600,000,000	6,517,428,717	-	6,517,428,717	76%
11		Project management costs	-	4,400,000,000	4,400,000,000	-	3,168,289,410	3,168,289,410	72%
12		Other disbursements	-	2,200,000,000	2,200,000,000	-	438,796,260	438,796,260	20%
Total			40,758,393,000	51,045,513,005	91,803,906,005	17,259,778,618	36,302,497,599	53,562,276,217	58%



9. Subsequent events

There have been no significant events occurring after the reporting date, which would require adjustments or disclosures to be made in the financial statements.

10. Approval of the Financial Statements

The financial statements were approved by Project Management Unit for issuance on 22 May 2017.




Tran Viet Cuong
Director

Hai Phong, 22 May 2017

Le Thi Huong
Chief Accountant

