

# Audited Project Financial Statements

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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 CUALOWACO

For the Asian Development Bank

Date received by ADB: 29 June 2018

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 Nghe An PPC.



Grant Thornton

# **Financial statements and Independent Auditors' Report**

Cua Lo Water Supply Upgrading and Expanding Project

Viet Nam Water Sector Investment Program

Project 2 - Loan Number 2961-VIE and Project 3 - Loan  
Number 3251-VIE, OCR fund of ADB

For the period from 18 September 2013 to 31 December  
2016

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## Report of the Project Management Unit

The Project Management Unit (PMU) was established in 2001 to manage the Cua Lo Water Supply Upgrading and Expanding Project (the Project) for the period from 2001 to 2010.

### The Project Management Unit

The PMU is a unit of the Ministry of Natural Resources and Environment (MNR) and is responsible for the day-to-day management of the Project. The PMU is located in Hanoi, Vietnam.

### Project Management Unit

The PMU is a unit of the Ministry of Natural Resources and Environment (MNR).

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### Structure of the Project Management Unit

The PMU is a unit of the Ministry of Natural Resources and Environment (MNR).

## Part I Financial Statements

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# Report of the Project Management Unit

The Project Management Unit submits its report together with the audited financial statements of the Cua Lo Water Supply Upgrading and Expanding Project ("the Project") for the period from 18 September 2013 to 31 December 2016.

## The Project Management Unit

The members of the Project Management Unit are responsible for overall direction and management of the Project during the period and to the date of this report were:

### Project Management Unit

Mr. Nguyen Huu Luan	Director of Project Management Unit
Mr. Nguyen Dau Luong	Deputy Director of Project Management Unit
Ms. Dam Thi Thanh Thuy	Chief Accountant of Project Management Unit

## Statement of the Project Management Unit

The Project Management Unit is responsible for preparing Financial Statements for the period from 18 September 2013 to 31 December 2016 ("the period") which give a true and fair view of:

- the financial position of the Project;
- the funds received and expended for the period;
- the cash flow during the period;
- the activities of the advance account for the period from 18 September 2013 to 31 December 2016 and the balance of this account as at 31 December 2016;
- the funds withdrawn for the period; and
- the actual expenditures and budget.

In preparing those Financial Statements, the Project Management Unit is required to:

- select suitable accounting policies and then apply them consistently in accordance with the Loan Agreements No. 2961-VIE and 3251-VIE between Socialist Republic of Vietnam and Asian Development Bank ("ADB") and the Project Administration Manual;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting principles have been followed, subject to any material departures disclosed and explained in the financial statements; and
- design and implement an effective internal control system for the purpose of properly preparing and presenting the financial statements so as to minimise errors and frauds.

The Project Management Unit is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Project and to ensure that the accounting records comply with the accounting system as described in Note 3 to the financial statements and the Project Administration Manual. The Project Management Unit is responsible for ensuring that the project funds are used only for the purposes of the Project, in accordance with the provisions of Loan Agreements No. 2961-VIE and 3251-VIE as well as legal requirements applicable to the Project. They are also responsible for safeguarding the assets of the Project and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Project Management Unit confirms that they have complied with the above requirements in preparing the financial statements.

## Approval of the financial statements

We hereby approve the accompanying financial statements on pages 6 to 15 which give a true and fair view of the fund balance of Cua Lo Water Supply Upgrading and Expanding Project as at 31 December 2016, the funds received and expenditures for the period from 18 September 2013 to 31 December 2016, Statement of cash flow for the period from 18 September 2013 to 31 December 2016, the balance of the Project's Advance Account for the Loans from ADB as at 31 December 2016 as well as movement of this account for the period from 18 September 2013 to 31 December 2016 and statements of actual expenditures and budget, in accordance with the accounting policies as described in Note 3 to the financial statements. In the opinion of the Project Management Unit, the loan withdrawals have been adequately reconciled to the statements of expenditure prepared by the Project during the period, and such statements of expenditure were adequately supported.

On behalf of the Project Management Unit,



*[Signature]*

**Nguyen Huu Luan**  
Director of Project Management Unit

Nghe An, Vietnam  
20 June 2018





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## Independent Auditors' Report

on the financial statements of  
Cua Lo Water Supply Upgrading and Expanding Project  
Loan Number 2961-VIE and 3251-VIE  
for the period from 18 September 2013 to 31 December 2016

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No. 16-11-239-2

To: The Project Management Unit  
Cua Lo Water Supply Upgrading and Expanding Project

### Auditors' opinion

We have audited the accompanying financial statements of Cua Lo Water Supply Upgrading and Expanding Project financed under the Asian Development Bank Loan Agreements No. 2961-VIE and No. 3251-VIE, prepared on 20 June 2018, which include Balance Sheet as at 31 December 2016, Statement of income and expenditures, Statement of cash flow, Statement of advance account, Statement of loan withdrawals and Statement of actual expenditures and budget for the period from 18 September 2013 to 31 December 2016, and a summary of significant accounting policies and other explanatory notes (collectively referred to as "Financial Statements") as set out on pages from 6 to 15.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position as at 31 December 2016 as well as of the funds received and expenditures and the cash flows of the Project for the period from 18 September 2013 to 31 December 2016 then ended in conformity with the accounting policies described in Note 3 of the Notes to the financial statements.

### Basis for 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 the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Vietnam, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibility of the Project Management Unit for the financial statements

The Project Management Unit are responsible for the preparation and fair presentation of these financial statements in accordance with accounting policies as described in Note 3 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.

## Auditors' Responsibility for the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Project 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 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 Project Management Unit.

We communicate with the Project Management Unit, 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.

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# Balance sheet

as at 31 December 2016

	Notes	31 December 2016 VND
<b>ASSETS</b>		
Cash and cash equivalents		145,748,139
Cash	4	145,748,139
Expenditures		10,244,488,800
Project implementation expenditures	7	10,244,488,800
<b>TOTAL ASSETS</b>		<b>10,390,236,939</b>
<b>FUNDS</b>		
Funds		10,390,236,939
- Loan from Asian Development Bank	5	6,971,144,149
- Counterpart fund	6	3,419,092,790
<b>TOTAL RESOURCES</b>		<b>10,390,236,939</b>

Nghe An, Vietnam  
20 June 2018

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Nguyen Huu Luan  
Director of Project Management Unit

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Dam Thi Thanh Thuy  
PMU's Chief Accountant

# Statement of income and expenditures

for the period from 18 September 2013 to 31 December 2016

	Notes	For the period from 18 September 2013 to 31 December 2016 VND
<b>INCOME</b>		<b>10,390,236,939</b>
Loan from Asian Development Bank	5	6,971,144,149
Counterpart fund	6	3,419,092,790
<b>EXPENDITURES</b>	7	<b>10,244,488,800</b>
Site clearance		718,556,000
Works		-
Goods		-
Consulting services		8,531,637,771
Interest and commitment charge		454,178,108
Administrative expenses		540,116,921
<b>Surplus of income over expenditures</b>		<b>145,748,139</b>
Foreign exchange differences		-
<b>Fund balance at the beginning of the period</b>		<b>-</b>
<b>Fund balance at the end of the period</b>		<b>145,748,139</b>

Nghe An, Vietnam  
20 June 2018

**Nguyen Huu Luan**  
Director of Project Management Unit

**Dam Thi Thanh Thuy**  
PMU's Chief Accountant

# Statement of cash flows

for the period from 18 September 2013 to 31 December 2016

	Note	For the period from 18 September 2013 to 31 December 2016 VND
<b>RECEIPTS</b>		<b>9,940,204,310</b>
Loan from Asian Development Bank		6,521,111,520
Counterpart fund		3,419,092,790
<b>DISBURSEMENTS</b>		<b>9,794,456,171</b>
Site clearance		718,556,000
Works		-
Goods		-
Consulting services		8,531,637,771
Interest and commitment charge		4,145,479
Administrative expenses		540,116,921
<b>Surplus of sources over uses of funds</b>		<b>145,748,139</b>
Foreign exchange differences		-
<b>Cash balance at the beginning of the period</b>		<b>-</b>
<b>Cash balance at the end of the period</b>		<b>145,748,139</b>



Nguyen Huu Luan  
Director of Project Management Unit

Dam Thi Thanh Thuy  
PMU's Chief Accountant



# Statement of advance account

For the period: From 18 September 2013 to 31 December 2016  
Account numbers: 403841000000536  
Depository Bank: The Vietnam Development Bank – Nghe An Branch  
Address: No 45, Duy Tan Road, Hung Phuc Ward, Vinh City, Nghe An  
Credit Agreement: No. 2961-VIE and 3251-VIE  
Currency: USD

For the period  
from 18 September 2013  
to 31 December 2016  
USD

## Part A- Account activity

Opening balance as at 18 September 2013

Add:

Replenishment to Advance Account during the period

Less:

Total amount withdrawn from Advance Account

Closing balance as at 31 December 2016

## Part B- Account reconciliation

Amount advanced by ADB at 18 September 2013

Amount advanced by ADB during the period

Outstanding amount advanced to the Advance Account as at 31 December 2016

Account balance as at 31 December 2016

Add:

Amount withdrawn but not yet claimed

Outstanding amount advanced to the Advance Account as at 31 December 2016



Nguyen Huu Luan  
Director of Project Management Unit


Dam Thi Thanh Thuy  
PMU's Chief Accountant


# Statement of loan withdrawals

for the period from 18 September 2013 to 31 December 2016

			Amount claimed – For the period from 18 September 2013 to 31 December 2016				Amount disbursed	
Withdrawal number	Date of application	Advance USD	Consulting				Date	Amount USD
			Works USD	Goods USD	services USD	Total USD		
Loan Number 2961-VIE								
CL001 –								
Direct payment	27 January 2016	-	-	-	183,095.00	183,095.00	27 January 2016	183,095.00
CL002 –								
Direct payment	9 August 2016	-	-	-	109,857.00	109,857.00	9 August 2016	109,857.00
					292,952.00	292,952.00	292,952.00	

Nghe An, Vietnam  
20 June 2018

  
**Nguyen Huu Luan**  
Director of Project Management Unit

  
**Dam Thi Thanh Thuy**  
PMU's Chief Accountant

# Statement of actual expenditures and budget

for the period from 18 September 2013 to 31 December 2016

For the period from 18 September 2013 to 31 December 2016				
	Actual expenditures	Budget expenditures (i)	% of actual expenditures over budget	Variances
	VND	VND		VND
Site clearance	718,556,000	720,000,000	100%	(1,444,000)
Works	-	-	-	-
Goods	-	-	-	-
Consulting services	8,531,637,771	8,731,465,800	98%	(199,828,029)
Interest and commitment charge	454,178,108	448,600,000	101%	5,578,108
Administrative expenses	540,116,921	500,000,000	108%	40,116,921
	<b>10,244,488,800</b>	<b>10,400,065,800</b>	<b>99%</b>	<b>(155,577,000)</b>

- (i) Source of the budget expenditures is in accordance with Expenditures Plan for the years 2016 and 2017 prepared by Project Management Unit – Cua Lo Water Supply Joint Stock Company in September 2017.

Nghe An, Vietnam  
20 June 2018

  
**Nguyen Huu Luan**  
Director of Project Management Unit



**Dam Thi Thanh Thuy**  
PMU's Chief Accountant



# Notes to the financial statements

for the period from 18 September 2013 to 31 December 2016

## 1. The Project

On 23 May 2013, the Social Republic of Vietnam of Vietnam ("Borrower") signed Loan Agreement No. 2961-VIE - Viet Nam Water Sector Investment Program - Project 2, OCR fund of ADB, with Asian Development Bank ("ADB"). The financing amount under the Loan Agreement is USD212 million which allocated to the following water supply companies ("WSCs"):

Items	Project Holders	Million USD
Sub-Project 1: Binh Duong	BIWASE	39.90
Sub-Project 2: Dak Lak	DAKWACO	24.59
Sub-Project 3: Da Nang	DAWACO	30.00
Sub-Project 4: Hai Phong	HPWWSCo	56.80
Sub-Project 5: Quang Tri	QTWASUCO	20.50
Sub-Project 6: Thua Thien Hue	HUEWACO	35.16
Non-Physical Investments	Other WSCs	5.05
<b>Total</b>		<b>212.00</b>

Subsequently on 19 November 2015, the Social Republic of Vietnam of Vietnam ("Borrower") continuously signed Loan Agreement No. 3251-VIE - Viet Nam Water Sector Investment Program - Project 3, OCR fund of ADB, with Asian Development Bank ("ADB"). The financing amount under the Loan Agreement is USD142.5 million which allocated to the following water supply companies ("WSCs"):

Project Holders	Million USD
Quang Nam Water Supply and Sewerage JSC	23.30
Nghe An Water Supply Single Owner Co., Ltd	18.96
Cua Lo Water Supply Joint Stock Company	12.48
Thai Hoa Water Supply Single Owner Co., Ltd	9.21
Song Chu Water Supply Single Owner Co., Ltd	28.68
Bac Giang Water Supply and Sewerage Single Owner Co., Ltd	18.96
Thai Nguyen Water Supply Joint Stock Company	23.42
Interest and commitment charge allocated to WSCs	7.49
<b>Total</b>	<b>142.50</b>

Under the Subsidiary Loan Agreement dated 9 July 2013 for Loan Agreement No 2961-VIE and Subsidiary Loan Agreement dated 11 May 2016 for Loan Agreement No 3251-VIE, the Social Republic of Vietnam agreed Cua Lo Water Supply Joint Stock Company ("CUALOWACO") on-lending amounts of maximum USD370,000 and USD13,190,000, respectively to implement Cua Lo Water Supply Upgrading and Expanding Project ("the Project") with counterpart fund committed from CUALOWACO of USD2,910,000. Total financing under Subsidiary Loan Agreements are allocated by categories as follows:

No.	Categories	ADB fund	Counterpart fund from		Million USD
			CUALOWACO		
1	Construction work and equipment expense	9.85	-		9.85
2	Project administrative expenses	-	0.37		0.37
3	Consulting services for construction investment	1.39	-		1.39
4	Taxes	-	1.48		1.48
5	Compensation and site clearance expense	-	0.27		0.27
6	Provision expense	1.75	0.63		2.38
7	Interest, commitment and bank charges	0.57	-		0.57
8	Other expenses	-	0.16		0.16
Total		13.56	2.91		16.47

The objectives of the Project are:

- Build a water plant with capacity of 10,000 m3 per day;
- Construction of pipeline and distribution pipe D100-400;
- Investing in pipeline network services D40-90;
- Construction of a booster pump station, office building and auxiliary facilities; and
- Install water supply points for 7352 households.

The Project Management Unit's office is located at Block 1, Nghi Tan Ward, Cua Lo Town, Nghe An Province Vietnam.

## 2. Fiscal year and accounting currency

### 2.1 Fiscal year

The first fiscal year of the Project is from 18 September 2013 (effective date) to 31 December 2016. The following fiscal year is from 1 January to 31 December.

### 2.2 Accounting currency

The accounting records of the Project are maintained in Vietnamese Dong ("VND"). The financial statements are prepared in Vietnamese Dong except for the Advance Account statement and Statement of loan withdrawals, which are prepared in the original currency of United States Dollars ("USD") as required by the Asian Development Bank.

## 3. Accounting policies

### 3.1 Basis of preparation of financial statements

The financial statements, expressed in Vietnamese Dong ("VND"), are prepared under the requirements of Asian Development Bank and in accordance with Vietnamese Accounting Standards, specifically Circular 200/2014/TT-BTC dated 22 December 2014 by the Ministry of Finance and other applicable requirements, which are set out below.

### 3.2 Foreign exchange

Transactions arising in currencies other than the reporting currency of VND are translated at the prevailing exchange rates at transaction dates. Foreign exchange differences arising on translation are recognised separately in the statement of income and expenditures for the purpose of reconciliation of balance as at beginning and closing accounting period.



### 3.3 Recognitions of sources and uses of fund

Project sources and uses of fund are recognised as follows:

- Loan from Asian Development Bank: Funds are recognised when direct payment from ADB to suppliers or/and receipts from ADB to Advance Account except for Interest and commitment charge from ADB loan are recorded to expenditures and income based on accrual basis;
- Counterpart fund: Fund is recognised when direct payment from CUALOWACO to suppliers; and
- Expenditures are recognised when incurred.

### 3.4 Advance

Advances to contractors are recorded as expenditure when they are cleared (i.e. when related activities are completed and the supporting documents have been submitted to and approved by the Project management unit for advance clearance).

### 3.5 Payables

The amount payable is recorded on the basis of the amount payable in the future in respect of the assets and services received.

## 4. Cash

	31 December 2016
	VND
Cash on hand	144,738,450
Cash in bank	1,009,689
	<b>145,748,139</b>

## 5. Loan from Asian Development Bank

	For the period from 18 September 2013 to 31 December 2016	
	USD	VND equivalent
Direct payments	292,952.00	6,521,111,520
Interest and commitment charge	20,174.63	450,032,629
	<b>313,126.63</b>	<b>6,971,144,149</b>

## 6. Counterpart fund

	For the period from 18 September 2013 to 31 December 2016	
		VND
Counterpart fund from CUALOWACO		3,414,947,311
Interest and commitment charge		4,145,479
		<b>3,419,092,790</b>



## 7. Expenditures

	For the period from 18 September 2013 to 31 December 2016		
	Loan from ADB	Counterpart fund	Total
	VND	VND	VND
Site clearance	-	718,556,000	718,556,000
Works	-	-	-
Goods	-	-	-
Consulting services	5,928,283,200	2,603,354,571	8,531,637,771
Interest and commitment charge	450,032,629	4,145,479	454,178,108
Administrative expenses	-	540,116,921	540,116,921
	6,378,315,829	3,866,172,971	10,244,488,800

In addition, there were some Project's expenditures incurred before 18 September 2016 and not included in the Project's financial statements for the period from 18 September 2013 to 31 December 2016, as follows:

	For the period before 18 September 2013		
	ADB fund	Counterpart fund	Total
	VND	VND	VND
Site clearance	-	358,482,000	358,482,000
Works	-	-	-
Goods	-	-	-
Consulting services	-	605,632,245	605,632,245
Interest and commitment charge	-	-	-
Administrative expenses	-	139,429,469	139,429,469
	-	1,103,543,714	1,103,543,714

## 8. Approval for issuance of the financial statements

The financial statements were approved by the Project Management Unit and authorised for issue.

Nghe An, Vietnam  
20 June 2018



**Nguyễn Hữu Luan**  
Director of Project Management Unit



**Dam Thi Thanh Thuy**  
PMU's Chief Accountant