

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 DAWACO

For the Asian Development Bank

Date received by ADB: 21 November 2017

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Grant Thornton

Financial Statements and Independent Auditors' Report

Da Nang Water Supply System Expansion Project,
stage 2012 - 2018

Viet Nam Water Sector Investment Program

Project 2 - Loan Agreement No. 2961 VIE, OCR
fund of ADB

For the period from 18 September 2013 to 31 December
2016

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Part I

Financial Statements

Report of the Project Management Unit

The Project Management Unit submits its report together with the audited financial statements of the Da Nang Water Supply System Expansion Project, stage 2012 – 2018 (“the Project”) for the period from 18 September 2013 to 31 December 2016 (“the period”).

The Project Management

The members of the Project Management 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. Ho Huong	Project Director
Mr. Bui Tho Ninh	Project Deputy Director
Mr. Phan Thinh	Chief Accountant

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 imprest account for the period from 18 September 2013 to 31 December 2016 and the balance of this account as at 31 December 2016; and
- the funds withdrawn for the period.

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 Agreement No. 2961-VIE between Socialist Republic of Vietnam and Asian Development Bank (“ADB”) and the Project Administration Manual;
- make judgements 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 Agreement No. 2961-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 14 which give a true and fair view of the fund balance of the Da Nang Water Supply System Expansion Project, stage 2012 – 2018 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 Imprest account for the Credit fund as at 31 December 2016 as well as movement of this account from 18 September 2013 to 31 December 2016, 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]

Ho Huong
Project Director

Da Nang, Vietnam
28 June 2017



Independent Auditors' Report

on the financial statements of
the Da Nang Water Supply System Expansion Project, stage 2012 – 2018
Loan Agreement No. 2961-VIE
for the period from 18 September 2013 to 31 December 2016

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No. 16-11-238

**To: Project Management Unit
Da Nang Water Supply System Expansion Project, stage 2012 – 2018**

Auditors' opinion

We have audited the accompanying financial statements of Da Nang Water Supply System Expansion Project, stage 2012 – 2018 financed under the Asian Development Bank Loan Agreement No. 2961-VIE, prepared on 28 June 2017, which include Balance Sheet as at 31 December 2016, Statement of income and expenditures, Statement of cash flow, Imprest account statement and Statement of loan withdrawals 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 14.

In our opinion, in all material respects:

- The accompanying financial statements have been prepared in accordance with the accounting policies described in Note 3 to the financial statements and the Project Administration Manual;
- The Project fund from Asian Development Bank has been used exclusively for the purposes of the Project in accordance with the Loan Agreement between Asian Development Bank and Vietnamese Government and no loans were used for other purposes;
- The accompanying statement of imprest account give a true and fair view of the balance of the imprest account as at 31 December 2016 and the Project's receipts and disbursements via this imprest account for the period from 18 September 2013 to 31 December 2016 in conformity with the relevant covenants of Loan Agreement No. 2961-VIE, the Project Administration Manual and relevant regulations established by the Asian Development Bank;
- Withdrawal Applications were adequately reconciled to the statements of expenditures ("SOEs") prepared by the Project Management Unit for the period from 18 September 2013 to 31 December 2016 and those SOEs were adequately supported by accounting vouchers.

Basic for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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 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

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 scepticism 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 management.

We communicate with the Management, 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.



GRANT THORNTON (VIETNAM) LIMITED

Hanoi, Vietnam
28 June 2017

Balance sheet

as at 31 December 2016

	Notes	31 December 2016 VND
ASSETS		
Cash		
Cash at bank	4	1,791,393,831
		1,791,393,831
Receivables		
Value added tax deductible		81,901,576
		81,901,576
Expenditures		
Project implementation expenditures	8	844,255,376
		844,255,376
TOTAL ASSETS		2,717,550,783
RESOURCES		
Liabilities		
Payables to suppliers		32,842,029
		32,842,029
Funds		
Credit fund from ADB	5	2,467,670,000
Counterpart fund	6	81,184,833
Other fund	7	1,398,957
Foreign exchange differences		134,454,964
		2,684,708,754
TOTAL RESOURCES		2,717,550,783

Da Nang, Vietnam
28 June 2017



Ho Huong
Project Director

Phan Thinh

Phan Thinh
Chief Accountant

for the period from 18 September 2013 to 31 December 2016

Da Nang, Vietnam
28 June 2017

Ho Huong
Project Director

Phan Thinh *Phan*
Chief Accountant

Statement of cash flows

for the period from 18 September 2013 to 31 December 2016

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

RECEIPTS

Credit fund from ADB	2,467,670,000
Counterpart fund	32,125,286
Other fund	1,398,957
	2,501,194,243

DISBURSEMENTS

Works	-
Goods	-
Consulting services	831,006,714
Administrative expenses	13,248,662
	844,255,376

SURPLUS OF RECEIPTS OVER DISBURSEMENTS	1,656,938,867
FOREIGN EXCHANGE DIFFERENCES	134,454,964
CASH BALANCE AT THE BEGINNING OF THE PERIOD	-
CASH BALANCE AT THE END OF THE PERIOD	1,791,393,831

Da Nang, Vietnam

28 June 2017



Ho Huong
Project Director

Phan Thinh
Chief Accountant

Statement of Imprest account

For the period: From 18 September 2013 to 31 December 2016
Account numbers: 999996879999
Depository Bank: Lien Viet Post Joint Stock Commercial Bank – Da Nang Branch
Address: 140 Nguyen Thi Minh Khai, Hai Chau District, Da Nang, Vietnam
Credit Agreement: No. 2961-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:	
Advance from ADB during the period	115,000.00
Replenishment to Imprest Account during the period	-
Less:	
Total amount withdrawn from Imprest Account	36,217.00
Closing balance as at 31 December 2016	78,783.00

Part B- Account reconciliation

Amount advanced by ADB at 18 September 2013	-
Amount advanced by ADB during the period	115,000.00
Outstanding amount advanced to the Imprest Account as at 31 December 2016	115,000.00
Account balance as at 31 December 2016	78,783.00
Add:	
Amount withdrawn but not yet claimed	36,217.00
Outstanding amount advanced to the Imprest Account as at 31 December 2016	115,000.00

Da Nang, Vietnam
28 June 2017



Ho Huong
Project Director

Phan Thinh
Chief Accountant

Statement of loan withdrawals

for the period from 18 September 2013 to 31 December 2016

Withdrawal number	Date of application	Amount claimed – For the period from 18 September 2013 to 31 December 2016				Amount disbursed
		Advance	Works	Goods	Consulting services	
		USD	USD	USD	USD	USD
DA001	13 March 2015	115,000.00	-	-	-	115,000.00
		115,000.00	-	-	-	115,000.00

Da Nang, Vietnam
28 June 2017



Ho Hong
Project Director

Phan Thinh
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 following water supply companies ("WSCs") as follows:

Items	Project Holders	Million USD
Sub-Project 1: Dinh 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
Total		212.00

Under the Sub-Loan Agreement dated 29 July 2013, the Social Republic of Vietnam of Vietnam agreed to Da Nang Water Supply Joint Stock Company (DAWACO) on-lending an amount of maximum USD30 million to implement Da Nang Water Supply System Expansion Project, stage 2012 – 2018 ("the Project"). In addition, DAWACO committed to contribute a counterpart fund of USD6.3 million for the Project. Then, total financing are allocated by categories as follows:

No.	Categories	Counterpart fund		Million USD
		ADB fund	from DAWACO	
1	Works	15.97	2.88	18.85
2	Goods	11.57	2.08	13.65
3	Consulting services	1.59	0.16	1.75
4	Interest and committed charges	0.87	0.07	0.94
5	Other expenses unallocated	-	1.11	1.11
	Total	30.00	6.30	36.30

The objectives of the Project are:

- Constructing approximately 151km of transmission and distribution mains D200-1,000;
- Rehabilitating and replacing approximately 40km of distribution main;
- Implementing an institution strengthening program; and
- Implementing and operational management contract to improve and upgrade maintenance and operational procedures.

Project Management Unit's office is located at 57 Xo Viet Nghe Tinh, Hai Chau District, Da Nang, 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 Imprest 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 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 recognized 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:

- Credit fund from ADB: Funds are recognised when direct payment from ADB to suppliers or/and receipts from ADB to Imprest Account.
- Counterpart fund: Fund is recognised when direct payment from DAWACO to suppliers.
- 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 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 at bank

		31 December 2016
	USD	VND equivalent
Imprest account	78,783.00	1,789,949,760
Current account 1	63.24	1,436,813
Current account 2	-	7,258
	78,846.24	1,791,393,831

5 Credit fund from ADB

For the period from 18 September 2013 to 31 December 2016

	USD	VND equivalent
Advance from ADB to imprest account	115,000.00	2,467,670,000

6 Counterpart fund

For the period from 18 September 2013 to 31 December 2016

	VND
Counterpart fund from DAWACO	81,184,833

7 Other fund

Other fund represents interest income incurred during the period.

8 Expenditures

For the period from 18 September 2013 to 31 December 2016

	ADB fund VND	Counterpart fund VND	Total VND
Works	-	-	-
Goods	-	-	-
Consulting services	812,130,090	18,876,624	831,006,714
Administrative expenses	-	13,248,662	13,248,662
	812,130,090	32,125,286	844,255,376

In addition, there were some Project's expenditures incurred before 18 September 201 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 VND	Counterpart fund VND	Total VND
Works	-	-	-
Goods	-	-	-
Consulting services	-	78,534,075	78,534,075
Administrative expenses	-	53,180,000	53,180,000
	-	131,714,075	131,714,075

9 Reconciliation of actual expenditures to budget expenditures

For the period from 18 September 2013 to 31 December 2016

	Actual expenditures	Budget expenditures	% Disbursement	Variances
	VND	VND	%	VND
Works	-	-	-	-
Goods	-	-	-	-
Consulting services	831,006,714	836,526,306	99%	(5,519,592)
Administrative expenses	13,248,662	-	N/A	13,248,662
	844,255,376	836,526,306	101%	7,729,070

10 Approval for issuance of the financial statements

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

Da Nang, Vietnam
28 June 2017



[Signature]
Ho Huong
Project Director

[Signature]
Phan Thinh
Chief Accountant

Part II

Auditors' Report on the Compliance

Declaration of Project Management Unit on the Compliance

The Project Management Unit is committed to the following issues:

- The financial statements of the Project do not contain material misstatement, whether due to fraud or error; and presented fairly;
- The project complies with the regulations of the Loan Agreement and the Project Administration Manual;
- The project complies with relevant laws and regulations (in case there is a conflict between ADB's policies and regulations and other relevant laws and regulations, the project will prioritize the application of ADB'S policies and regulations);
- Procedures for payment through the imprest account is in accordance with the ADB Disbursement Handbook;
- Vouchers are kept in full to certify the above-mentioned payment requirements. Expenditures statement for reimbursement of eligible expenses and advances to the imprest account; and
- Effective design and implementation of internal controls, including control over the procurement process



On behalf of Project Management Unit,

[Signature]
Ho Huong
Project Director

Da Nang, Vietnam
28 June 2017



Independent Auditors' Report

on the Compliance of
Da Nang Water Supply System Expansion Project, stage 2012 – 2018
Loan Agreement No. 2961-VIE
for the period from 18 September 2013 to 31 December 2016

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**To: The Project Management Unit
Da Nang Water Supply System Expansion Project, stage 2012 – 2018**

We have audited the accompanying financial statements of Da Nang Water Supply System Expansion Project, stage 2012 – 2018 (“the Project”) financed under the Asian Development Bank Loan Agreement No. 2961-VIE, prepared on 28 June 2017, which include Balance Sheet as at 31 December 2016, Statement of income and expenditures, Statement of cash flow, Imprest account statement and Statement of loan withdrawals for the period from 18 September 2013 to 31 December 2016.

The Project Management Unit's Responsibility

The Project Management Unit is responsible for complying with Applicable Laws, Regulations and the Procurement Procedures and other Provisions of the Loan Agreement and other Guidance from the Asian Development Bank.

Auditors' Responsibility

Our responsibility is to express an opinion on the Project's compliance with the requirements, based on our procedures. We conducted our engagement in accordance with the International Standard on Assurance Engagement 3000, “Assurance Engagements other than Audits or Reviews of Historical Financial Information”, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the Project has complied with the requirements.

An assurance engagement to report on the compliance with regulatory and contractual requirements at a project involves performing procedures to obtain evidence about whether the Project's activities are free of material non-compliance with the requirements. The procedures selected depend on the auditor's judgment, including the assessment of risks that the Project does not comply with the requirements and whether such non-compliance could have a direct and material effect on the Project's Financial Statements. Our procedures included testing the compliance with the requirements that we consider necessary to provide reasonable assurance that the requirements are complied by the Project.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Auditor's opinion

In our opinion, the Project was, in all material respects, in compliance with Applicable Laws, Regulations and the Procurement Procedures and other Provisions of the Loan Agreement No. 2961-VIE and other Guidance from the Asian Development Bank that could have a direct and material financial effect on the Project's Financial Statements for the period from 18 September 2013 to 31 December 2016.

This report is intended for the information of Project Management Unit of the Project, ADB and related parties.

**GRANT THORNTON (VIETNAM) LIMITED***Grant Thornton*

Hanoi, Vietnam
28 June 2017



Grant Thornton

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