

Audited Project Financial Statements

Project Number: 41456-033

Loan/Grant Number: 2961

Period covered: 18 September 2013 – 31 December 2017

VIE: Water Sector Investment Program – Tranche 2

Prepared by Bac Giang Water Clean JSC

For the Asian Development Bank

Date received by ADB: 3 December 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 Bac Giang PPC.



**WATER SUPPLY SYSTEM
FOR BAC GIANG CITY PROJECT**

AUDITED PROJECT FINANCIAL STATEMENTS

Loan Number 2961 – VIE (from 18/09/2013 to 31/12/2017)

Loan Number 3251 – VIE (from 29/03/2016 to 31/12/2017)

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REPORT OF THE PROJECT MANAGEMENT UNIT

The Management Unit of the Water supply system for Bac Giang city Project ("the Project") presents this report and the Project Financial statements for the period from 18 September 2013 to 31 December 2017.

The Project

The Water supply system for Bac Giang city Project is a sub-project of the Viet Nam Water Sector Investment Program, which is invested by Bac Giang Clean Water JSC ("Bac Giang WS"). In addition to the counterpart funds, the Project is also financed by the Asian Development Bank ("ADB") under Loan Number 2961 – VIE signed on 23 May 2013 and the Loan Number 3251 – VIE signed on 19 November 2015 ("the Agreements").

The Project Management Unit

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

Mr. Huong Xuan Cong	Director
Mr. Tran Dang Dieu	Deputy Director
Mr. Tran Duc Thanh	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 Budget versus Actual Disbursements, Statement of Advance Account(s) and Statement of Withdrawals and Reconciliation of Funds, which comply with the accounting policies described in the attached Notes to the Project 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 Project 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 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 agreement, including over the procurement progress, that could have a direct and material financial effect on the Project Financial statements ("the Requirements").

In addition, the Project Management Unit is responsible for complying with the Requirements applicable to the Project, in which:

The funds have been used in accordance with the conditions of the Loan Number 2961 – VIE signed on 23 May 2013 and the Loan Number 3251 – VIE signed on 19 November 2015;

The Advance Account procedures have been operated in accordance with the Asian Development Bank's Loan Disbursement Handbook;

Adequate supporting documents, with respect to Statement of Expenditures, 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 Number 2961 – VIE dated 23 May 2013 and the Loan Number 3251 – VIE signed on 19 November 2015.

Water supply system for Bac Giang city Project

Loan Number 2961 – VIE

Loan Number 3251 – VIE

On behalf of the Project Management Unit



Huong Xuan Cong
Director

Bac Giang, 10 November 2018

No.: 101118.001/ BCTC.FIS2

INDEPENDENT AUDITORS' REPORT ON THE PROJECT FINANCIAL STATEMENTS

**To: The Management Unit of the Water supply system for Bac Giang city Project
Bac Giang Clean Water JSC**

Opinion

We have audited the accompanying Project Financial statements of the Water supply system for Bac Giang City Project ("the Project") which comprise:

- ▶ Statement of Financial Position as at 31 December 2017, Statement of Receipts and Disbursements, Statement of Budget versus Actual Disbursements, Statement of Advance Account, Statement of Withdrawals and Reconciliation of Funds and Notes to the Project Financial statements for the period from 18 September 2013 to 31 December 2017, including a summary of significant accounting policies, of the Loan Number 2961 – VIE signed on 23 May 2013;
- ▶ Statement of Financial Position as at 31 December 2017, Statement of Receipts and Disbursements, Statement of Budget versus Actual Disbursements, Statement of Advance Account, Statement of Withdrawals and Reconciliation of Funds and Notes to the Project Financial statements for the period from 29 March 2016 to 31 December 2017, including a summary of significant accounting policies, of the Loan Number 3251 – VIE signed on 19 November 2015.

In our opinion:

- ▶ The accompanying Project Financial statements of the Loan Number 2961 – VIE signed on 23 May 2013 give a true and fair view of the financial position of the Project, including funds received and expenditures incurred for the period from 18 September 2013 to 31 December 2017 in accordance with the basis of the principal accounting policies described in the Notes to the Project Financial statements and the provisions of the Loan Number 2961 – VIE signed on 23 May 2013;
- ▶ The accompanying Project Financial statements of the Loan Number 3251 – VIE signed on 19 November 2015 give a true and fair view of the financial position of the Project, including the funds received and expenditures incurred for the period from 29 March 2016 to 31 December 2017 in accordance with the basis of the principal accounting policies described in the Notes to the Project Financial statements and the provisions of the Loan Number 3251 – VIE signed on 19 November 2015.

Emphasis of Matter

We draw readers' attention to Note 1 of the financial statements which describes the Project has been closed before the expected closing dates of Loan Number 2961 – VIE signed on 23 May 2013 and the Loan Number 3251 – VIE signed on 19 November 2015 under the Notification No. 120/TB-TU which was issued on 25 November 2016 by Provincial Standing Committee of Bac Giang province. Bac Giang Clean Water JSC is carrying out procedures for the Project's closure.

Our opinion is not qualified in respect of this matter.

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Project 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.

Responsibilities of Management for the Project Financial statements

The Project Management Unit is responsible for the preparation of the Project Financial statements in accordance with the principal accounting policies described in Notes to the Project 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 Project Financial statements, the Project Management Unit 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 Project Financial statements

Our objectives are to obtain reasonable assurance about whether the Project 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 Project Financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the Project 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.
- ▶ 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 Project Financial statements, including the disclosures, and whether the Project Financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



Đo Mạnh Cường
Deputy General Director
CPA Registered No.:
0744-2018-002-1

Hanoi, 10 November 2018

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

STATEMENT OF FINANCIAL POSITION

Loan Number 2961 – VIE

As at 31 December 2017

	Note	31/12/2017 VND
CURRENT ASSETS		2,910,230,781
Value added tax		810,230,781
Advance to contractors		2,300,000,000
NON-CURRENT ASSETS		11,141,083,162
Project Implementation Expenditures		11,141,083,162
TOTAL ASSETS		14,051,313,943
FUNDS		14,051,313,943
Fund received from the Asian Development Bank	03	9,808,292,413
Counterpart funds		4,198,766,347
Foreign exchange differences (due to payments)		44,255,183
TOTAL RESOURCES		14,051,313,943

STATEMENT OF FINANCIAL POSITION

Loan Number 3251 – VIE

As at 31 December 2017

	<u>Note</u>	<u>31/12/2017</u> VND
NON-CURRENT ASSETS		905,323,101
Project Implementation Expenditures		905,323,101
TOTAL ASSETS		905,323,101
FUNDS		905,323,101
Fund received from the Asian Development Bank	03	903,465,290
Counterpart funds		1,857,811
TOTAL RESOURCES		905,323,101

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Loan Number 2961 – VIE

Period from 18 September 2013 to 31 December 2017

	Note	Incurred and accumulated to 31/12/2017 VND
RECEIPTS		
Fund received from the Asian Development Bank		9,808,292,413
Counterpart fund		4,198,766,347
		14,007,058,760
DISBURSEMENTS		
Consulting Services		13,717,499,264
Interest charges and commitment fees		116,614,282
Project Management		172,745,214
	04	14,007,058,760
RECONCILIATION AS AT CLOSING		-

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Loan Number 3251 – VIE

Period from 29 March 2016 to 31 December 2017

	<u>Note</u>	Incurred and accumulated to 31/12/2017 VND
RECEIPTS		
Fund received from the Asian Development Bank		903,465,290
Counterpart fund		1,857,811
		<u>905,323,101</u>
DISBURSEMENTS		
Interest charges and commitment fees		903,465,290
Project Management (On-lent fee)		1,857,811
	04	<u>905,323,101</u>
RECONCILIATION AS AT CLOSING		<u><u>-</u></u>

Water supply system for Bac Giang city Project

Loan Number 2961 – VIE

Loan Number 3251 – VIE

Financial Statements
Period ended 31 December 2017

STATEMENT OF BUDGET VERSUS ACTUAL DISBURSEMENTS

Period ended 31 December 2017

Categories	Budget (*)			Actual			Variance			Total	Rate
	Counterpart fund		Total	Counterpart fund		Total	Counterpart fund		Total		
	ADB fund	VND		ADB fund	VND		ADB fund	VND			
Civil Works	116,006,000,000	14,782,000,000	131,388,000,000	-	-	-	(116,606,000,000)	(14,782,000,000)	(131,388,000,000)	0%	
Resettlement and Land Acquisition	-	11,285,000,000	11,285,000,000	-	-	-	-	(11,285,000,000)	(11,285,000,000)	0%	
Project management	-	2,251,000,000	2,251,000,000	-	174,603,025	174,603,025	174,603,025	(2,076,396,975)	(1,901,793,950)	8%	
Consulting Services	13,892,000,000	5,772,000,000	19,464,000,000	9,691,478,131	4,026,021,133	13,717,499,264	(4,000,521,898)	(1,745,978,867)	(5,746,500,736)	70%	
Other (including Interest charges and commitment fees)	5,093,000,000	4,437,000,000	9,520,000,000	1,620,279,572	-	1,020,279,572	(4,062,720,428)	(4,437,000,000)	(8,499,720,428)	11%	
Provision	15,694,000,000	8,028,000,000	23,922,000,000	-	-	-	(15,694,000,000)	(8,028,000,000)	(23,922,000,000)	0%	
	151,275,000,000	46,555,000,000	197,830,000,000	10,711,757,703	4,200,624,158	14,912,381,861	(140,386,638,272)	(42,354,375,842)	(182,743,015,114)	8%	

(*) The period budget disbursement was prepared on the Project Management Unit's estimate and the Project's status.

STATEMENT OF WITHDRAWALS AND RECONCILIATION OF FUNDS

Loan Number 2961 – VIE

Period from 18 September 2013 to 31 December 2017

Withdrawal applications				Received		Variances
Number	Date	Currency	Amount claimed	Date	Amount	
			(a)		(b)	(b) - (a)
Direct payment (Consulting services)						
BG001	19/08/2016	USD	182,637.15	29/08/2016	182,637.15	-
BG002	24/08/2017	USD	246,490.85	01/09/2017	246,490.85	-
Total			429,128.00		429,128.00	-

NOTES TO THE PROJECT FINANCIAL STATEMENTS

Period ended 31 December 2017

1. Background

The Water supply system for Bac Giang city Project ("the Project") is a sub-project of the Viet Nam Water Sector Investment Program ("the Program"), which is invested by Bac Giang Clean Water JSC. In addition to the counterpart funds, the Project is financed by the Asian Development Bank ("ADB") under the Loan Number 2961 – VIE and the Loan Number 3251 – VIE ("the Agreements"). Some milestones of these agreements are as follows:

Agreement	Signing date	Effective date	Closing date (expected)
Loan No. 2961-VIE	23 May 2013	18 September 2013	30 June 2020
Loan No. 3251-VIE	19 November 2015	29 March 2016	31 December 2020

The Project has been closed before the expected closing dates under the Notification No. 120/TB-TU which was issued on 25 November 2016 by Provincial Standing Committee of Bac Giang province ("the Notification No.120/TB-TU"). Bac Giang Clean Water JSC is carrying out procedures for the Project's closure.

The main objectives of the Project are (i) Expanding the water supply system of Bac Giang city in order to meet the demands for water of the city until 2020, and (ii) Ensuring water users in the project area can have stable access to clean and sanitary water;

The Project includes 03 components as below:

Component 1: The source works (included: Water channel, pre-sedimentation and raw water pumping station) located at Km 31 +500 of the right dike of Thuong River, in Bui hamlet, Song Mai Commune, with the area of about 4.23 ha

Component 2: Water Treatment Plant No. 2, capacity 25,000m³/day at the altitude +55 and +50 in Thong hill (Quang Phuc mountain) in Song Mai commune with the area of about 2.4 ha

Component 3: The distribution network is designed for phase 1 until 2020 and for the expanded capacity of phase 2 until 2030 and raw water pipe line DN700 in Song Mai commune

The Project is managed by the Management Unit of the Water supply system for Bac Giang city Project of Bac Giang Clean Water JSC ("the Project Management Unit"), and its office is located at No. 386 Xuong Giang street, Ngo Quyen ward, Bac Giang city, Bac Giang province.

2. Principal Accounting Policies

a. Basis of accounting

The annual accounting period commences from 1st January to 31st December. Because the Project has been closed before the expected closing dates under the Notification No. 120/TB-TU, the first period (and now also is the last period) commences from 18 September 2013 to 31 December 2017 for the Loan Number 2961 – VIE and from 29 March 2016 to 31 December 2017 for Loan Number 3251 – VIE.

The Project Financial statements are prepared under the requirements of the Asian Development Bank and in accordance with Vietnamese Accounting Standards and Circular No. 195/2012/TT-BTC dated 15 November 2012. Statement of Receipts and Disbursements is prepared on the cash basis.

These Financial statements are presented in Vietnam Dong (VND), except for Statement of Withdrawals and Reconciliation of Funds which are prepared in United State Dollar (USD). These Project 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 converted to VND under selling exchange rate of JSC Bank for Foreign Trade of Vietnam ("VCB") on the date of remittance made into Advance Accounts or direct payment made to contractors/suppliers.

Transactions in others foreign currencies are converted to VND under the actual exchange rate of VCB on transaction dates. Monetary items denominated in foreign currencies are revalued annually at the actual exchange rate of VCB at balance sheet date. All exchange differences from these transactions are recorded and presented as "Foreign exchange differences" on Statement of Financial Position.

c. Funds and ExpendituresFunds:

Funds received from the Asian Development Bank (ADB) are recorded when direct payments are made from the ADB to contractors/suppliers or remittance are made into the Advance Account(s). Capitalization of interest charges and commitment fees are recognized upon announcement by the ADB (twice per year);

Counterpart funds are recorded when payments are made directly to contractors/suppliers of the Project or funds remitted to the Project Management Unit for settlement of the Project's activities by Bac Giang Clean Water JSC.

Expenditures:

The Project's expenditures (excluding tax) are recorded when they are actually incurred;

Value added tax is declared and deducted at Bac Giang Clean Water JSC. Value added tax deductibles is separately presented as an item on Statement of Financial Position.

d. Advance Accounts and their interest

Advance Accounts are the deposit accounts in USD opened at the serving bank for the Project's activities. Payments made via the Advance Accounts are for eligible expenditures of the Project in accordance with provisions of the Loan Number 2961 – VIE signed on 23 May 2013 and the Loan Number 3251 – VIE signed on 19 November 2015.

Interest of the Advance Accounts is considered as receipts of Bac Giang Clean Water JSC and initially recorded as Other payables in Statement of Financial Position. They are used to cover bank charges. At the end of the Project, outstanding interests will be returned to Bac Giang Clean Water JSC. In case bank charges are not fully covered by the interests, Bac Giang Clean Water JSC will plan to settle by the counterpart funds (according to Circular No.111/2016/TT-BTC dated 30 June 2016).

3. Funds received from the Asian Development Bank

	Incurred and accumulated to 31/12/2017	
	USD	Converted to VND
Loan Number 3251 – VIE		
Capitalization of interest charges and commitment fees	39,721.49	903,465,290
Loan Number 2961 – VIE		
Direct payments	434,253.02	9,808,292,413
Capitalization of interest charges and commitment fees	429,128.00	9,691,478,131
	5,130.02	116,814,282
		10,711,757,703

Water supply system for Bac Giang city Project

Loan Number 2961 – VIE

Loan Number 3251 – VIE

Financial Statements

Period ended 31 December 2017

4. Disbursements

	Loan Number 2961 – VIE		Loan Number 3251 – VIE	
	ADB fund VND	Counterpart funds VND	ADB fund VND	Counterpart funds VND
Consulting Services	9,691,478,131	4,026,021,133	-	-
Interest charges and commitment fees	116,814,282	-	903,465,290	-
Project Management	-	172,745,214	-	1,857,811
	9,808,292,413	4,198,766,347	903,465,290	1,857,811
				905,323,101

Disbursements for the Project are financed under the Loan Number 2961 – VIE dated 23 May 2013 and the Loan Number 3251 – VIE signed on 19 November 2015 as below:

Agreement	Categories	Funding rate (%)
Loan Number 2961 – VIE	Consulting Services, Interest charges and commitment fees	100% expenditures excluding tax
Loan Number 3251 – VIE	Civil Works, Consultant Services, Interest charges and commitment fees	100% expenditures excluding tax

5. Reconciliation between Project Implementation Expenditures on Statement of Financial Position and Disbursement on Statement of Receipts and Disbursements as at 31 December 2017 (Loan Number 2961 – VIE)

	VND
Project Implementation Expenditures	11,141,083,162
Adjusted for:	
Value added tax	610,230,781
Advance to contractors	2,300,000,000
Foreign exchange differences (due to payments)	(44,255,183)
Disbursements accumulated to closing	14,007,058,760

6. Subsequent events

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

7. Approval of the Project Financial statements

The Project Financial statements were approved by the Project Management Unit for issuance on 10 November 2018.



Huong Xuan Cong
Director

Bac Giang, 10 November, 2018

Tran Duc Thanh
Chief Accountant