

Audited Project Financial Statements

Project Number: 41456-033

Loan/Grant Number: 2961

Period covered: 18 September 2013 – 31 December 2018

VIE: Water Sector Investment Program – Tranche 2

Prepared by Thai Nguyen Water JSC

For the Asian Development Bank

Date received by ADB: 1 July 2019

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 Access to Information Policy and as agreed between ADB and Thai Nguyen PPC.

**THAI NGUYEN CITY WATER SUPPLY SYSTEM
DEVELOPMENT PROJECT**

Loans Agreement No. 2961 – VIE and 3251 – VIE

AUDITED FINANCIAL STATEMENTS

For the period from 18 September 2013 to 31 December 2018

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REPORT OF THE PROJECT MANAGEMENT UNIT

The Management Unit of Construction Project of Thai Nguyen Water JSC presents this report and the Financial Statements of Thai Nguyen City Water Supply System Development Project ("the Project") for the period from 18 September 2013 to 31 December 2018.

The Project

Thai Nguyen City Water Supply System Development Project is implemented under the Loan Agreement No. 2961 – VIE dated 23 May 2013 and the Loan Agreement No. 3251 – VIE dated 19 November 2015 ("the Agreements") between the Vietnamese Government and the Asian Development Bank.

The Project Management Unit

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

Mr. Nguyen Quang Mai	Chairman of the Board of Directors
Mr. Nguyen Ba Quyet	Director
Mr. Le Huy Phu	Deputy Director
Mrs. Pham Thi Thanh Ngan	Deputy Director – 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, 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 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 also 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 Agreement No. 2961 – VIE dated 23 May 2013 and the Loan Agreement No. 3251 – VIE dated 19 November 2015.

On behalf of the Project Management Unit



Nguyen Quang Mai
Chairman of the Board of Directors

Thai Nguyen, 31 May 2019



Nguyen Ba Quyet
Director

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS**To: The Management Unit of Construction Project***Opinion*

We have audited the accompanying financial statements of the Thai Nguyen City Water Supply System Development Project ("the Project") which comprise Statement of Financial Position as at 31 December 2018, Statement of Receipts and Disbursements, Statement of Budget versus Actual Disbursements, and Notes to the Financial Statements for the period from 18 September 2013 to 31 December 2018, including a summary of significant accounting policies, as set out on pages from 06 to 14.

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 Advance Account as at 31 December 2018, funds received and expenditures incurred, movements of the Advance Account for the year 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 and the Loan Agreement No. 3251 – VIE dated 19 November 2015.

Emphasis of Matter

We would like to draw readers' attention to the Advance Account of the Project which has not been opened yet to date, thus it is not presented in the financial statements.

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.

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 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 the Project Management Unit 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.



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

Hanoi, 31 May 2019

A handwritten signature in blue ink, appearing to read "Pham Hung".

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

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	31/12/2018	
		Loan	Loan
		No. 2961-VIE VND	No. 3251-VIE VND
CURRENT ASSETS		-	2,368,924,184
Cash on hand		-	12,000,000
Other receivables		-	533,637
Deductible Value added tax		-	406,390,547
Advances to contractors	03	-	1,950,000,000
NON-CURRENT ASSETS		100,743,288	7,655,275,691
Project Implementation Expenditures	04	100,743,288	7,655,275,691
TOTAL ASSETS		100,743,288	10,024,199,875
CURRENT LIABILITIES		-	922,171,999
Payables to contractors	05	-	922,171,999
FUNDS		100,743,288	9,102,027,876
Project Implementation Funds		100,743,288	9,102,027,876
- The Asian Development Bank	06	100,044,900	1,967,452,228
- Thai Nguyen Water JSC		698,388	7,122,575,648
- Others		-	12,000,000
TOTAL RESOURCES		100,743,288	10,024,199,875

STATEMENT OF RECEIPTS AND DISBURSEMENTS

For the period from 18 September 2013 to 31 December 2018

	<u>Note</u>	<u>Accumulated to 31/12/2018</u>	
		<u>Loan</u>	<u>Loan</u>
		<u>No. 2961-VIE</u>	<u>No. 3251-VIE</u>
		<u>VND</u>	<u>VND</u>
RECEIPTS			
Received from the Asian Development Bank		100,044,900	1,967,452,228
Received from Thai Nguyen Water JSC		698,388	7,122,575,648
Others (*)		-	12,000,000
		100,743,288	9,102,027,876
DISBURSEMENTS			
Resettlement and Land Acquisition		-	179,333,000
Consulting Services		-	5,755,544,200
Interest charges and commitment fees		100,044,900	1,967,452,228
Project management		-	1,058,159,200
Others		698,388	129,005,611
	07	100,743,288	9,089,494,239
RECONCILIATION AS AT CLOSING		-	12,533,637
<i>Presented by:</i>			
Cash on hand		-	12,000,000
Other receivables		-	533,637

(*) The proceeds from sale of bidding documents.

STATEMENT OF BUDGET VERSUS ACTUAL DISBURSEMENTS
For the period from 18 September 2013 to 31 December 2018

Categories	Budget Disbursements (*)				Actual Disbursements				Variance			
	Loan No. 2961-VIE	Loan No. 3251-VIE	Counterpart funds	Total	Loan No. 2961-VIE	Loan No. 3251-VIE	Counterpart funds	Total	Loan No. 2961-VIE	Loan No. 3251-VIE	Counterpart funds	Total
	VND	VND	VND	VND	VND	VND	VND	VND	VND	VND	VND	VND
Resettlement and Land Acquisition	-	-	180,000,000	180,000,000	-	-	179,333,000	179,333,000	-	-	(667,000)	(667,000) 100%
Consulting Services	-	-	5,369,514,000	5,369,514,000	-	-	5,755,544,200	5,755,544,200	-	-	386,030,200	386,030,200 107%
Interest charges and commitment fees	100,044,900	1,967,452,228	-	2,067,497,128	100,044,900	1,967,452,228	-	2,067,497,128	-	-	-	- 100%
Project management	-	-	1,058,159,200	1,058,159,200	-	-	1,058,159,200	1,058,159,200	-	-	-	- 100%
Others	-	-	454,535,000	454,535,000	-	-	129,703,999	129,703,999	-	-	(324,831,001)	(324,831,001) 29%
	<u>100,044,900</u>	<u>1,967,452,228</u>	<u>7,062,208,200</u>	<u>9,129,705,328</u>	<u>100,044,900</u>	<u>1,967,452,228</u>	<u>7,122,740,399</u>	<u>9,190,237,527</u>	<u>-</u>	<u>-</u>	<u>60,532,199</u>	<u>60,532,199 101%</u>

(*) Budget disbursement of the audited period was prepared based upon the Project Management Unit's estimate and the Project's implementation progress.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 18 September 2013 to 31 December 2018

1. Background

Thai Nguyen City Water Supply System Development Project ("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") and the Viet Nam Water Sector Investment Program – Project 3 ("the Program") implemented under the Loan Agreement No. 3251 – VIE dated 19 November 2015 ("the Agreement") between the Vietnamese Government and the Asian Development Bank ("ADB").

Total budget of the Loan under the Agreement No. 2961 – VIE 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. Thai Nguyen Water JSC is entitled to borrow USD 610,000 to implement the Project. Total budget of the Loan under the Agreement No. 3251 – VIE is USD 142,500,000 for 7 projects in 5 provinces. Thai Nguyen Water JSC is entitled to borrow USD 24,890,000 to implement the Project.

The objective of the Program is: the sustainable provision of safe water in Viet Nam through improvement in the efficiency of Vietnamese water utilities. In which, the main objectives of the Project are: supplying clean water sufficiently and timely to ensure the quantity and quality for those who have demand for water use, local people in 19 inner towns and suburban communes of Thai Nguyen city; upgrading water supply services, ensuring safe water and sustainable development by improving clean water production capacity, developing water supply networks, expanding the water supply system of the whole system to improve living conditions and health of people in Thai Nguyen city.

The main activities of the Project include:

- ▶ Constructing an intake, pumping station and about 0.17 km D800 raw water pipeline, and ancillary works;
- ▶ Constructing new Water Treatment Plants with capacity of about 50,000 m³/day each and ancillary works;
- ▶ Constructing two treated water tanks (2 x 5,000 m³), pumping stations, chemical houses, and ancillary works;
- ▶ Constructing about 22 km of D300-800 transmission, about 20 km of D100-200 distribution pipes, about 62 km D50 service network pipeline;
- ▶ Supplying and installing about 4,134 household connections

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

The Project is managed by the Management Unit of Construction Project ("the PMU"), one of Thai Nguyen Water JSC's units, and its office is located at Group 1 Ben Oanh Street, Trung Vuong Ward, Thai Nguyen City.

According to Official Letter No. 14890/BTC-QLN dated 28 November 2018 which confirms the cancellation of the amount invested in the connection with the sub-project of the Vietnam Water Sector Investment Program – Project 2, the Loan Agreement No. 2961 – VIE of Thai Nguyen City Water Supply System Development Project since 01 December 2018.

2. Principal Accounting Policies

a. Basis of accounting

The annual accounting period commences from 1st January and ends at 31st December. The first accounting period is from 18 September 2013 to 31 December 2018 (in which, the Loan Agreement No. 2961 – VIE is from 18 September 2013 to 01 December 2018).

The financial statements are prepared under the requirements of the Asian Development Bank and in accordance with Vietnamese Accounting Standards, 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).

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 the foreign currencies are translated into VND using the exchange rates announced by the Ministry of Finance at the date of receiving the funds or at the date of direct payment made to contractors/suppliers.

Transactions in foreign currencies are converted to VND under actual exchange rates of the serving bank on their transaction dates. All exchange differences from these transactions are recorded as "Exchange rate differences" account and presented as "Exchange rate differences" on the Statement of Financial Position.

c. Funds and Expenditures

Funds:

- ▶ Funds received from the Asian Development Bank are recorded when direct payments are made from ADB to contractors/suppliers or remittance are made into the Advance Account. Of which, capitalization of interest charges and commitment fees are recognized upon announcement by the Vietnam Development Bank ("VDB") – Thai Nguyen branch (twice per year);
- ▶ Counterpart funds received from Thai Nguyen 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's expenditures, excluding value added tax ("VAT"), 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 Thai Nguyen Water JSC;
- ▶ VAT is declared and claimed at Thai Nguyen Water JSC, and it is recorded separately on the Project's financial statements.

3. Advance to contractors

	31/12/2018 VND
Consulting Services	
Duong Thanh Water and Contruction JSC	1,950,000,000
	<u>1,950,000,000</u>

4. Project Implementation Expenditures

	31/12/2018 VND
Resettlement and Land Acquisition	170,812,640
Consulting Services (*)	4,337,492,910
Consulting on preparing reports for making Feasibility Study Report	1,230,014,546
Consulting on preparing Investment Project Report	925,260,909
Consulting on preparing Environmental Impact Assessment Report and Resettlement Action Plan	708,922,727
Consulting on verification of construction drawing and cost estimation	470,800,000
Consulting on topographical and geological survey	404,710,909
Consulting on preparing a permit for exploitation and use of Ho Nui Coc's surface water	288,663,637
Consulting on preparing Financial Capacity and Bidding Capacity	196,672,727
Consulting on project verification	83,402,000
Consulting legal services	25,000,000
Consulting on verification of preparing report for making investment project	4,045,455
Interest charges and commitment fees	2,067,497,128
Project management (*)	1,047,020,302
Others (*) (**) (***)	133,195,999
	<u>7,756,018,979</u>

(*) Including VND 423,950,847 financed by the counterpart fund arising before the effective date of the Agreement.

(**) Borrowing cost for Loan Agreement No. 2961 – VIE is VND 698,388.

(***) Including borrowing cost, cost of bidding, investment project appraisal, approval of detail urban planning, ... which are financed by the counterpart fund.

5. Payable to contractors

	<u>31/12/2018</u>
	VND
Consulting Services	
Viet Nam Water, Sanitation and Environment JSC	538,035,999
Thai Nguyen Institute of Construction planning	235,400,000
Construction and Development Consultants Thai Nguyen JSC	145,182,000
Others	
Thai Nguyen Department of Finance	3,554,000
	<u>922,171,999</u>

6. Funds received from the Asian Development Bank

	<u>Accumulated to 31/12/2018</u>	
	USD	Converted to VND
Loan Agreement No. 2961 – VIE	4,577.37	100,044,900
Capitalization of interest charges and commitment fees	4,577.37	100,044,900
Loan Agreement No. 3251 – VIE	88,203.04	1,967,452,228
Capitalization of interest charges and commitment fees	88,203.04	1,967,452,228
		<u>2,067,497,128</u>

7. Disbursements

a. Disbursements by categories and by funds

	Accumulated to 31/12/2018				Total VND
	Loan	Loan	Counterpart	funds VND	
	No. 2961 - VIE VND	No. 3251 - VIE VND			
Resettlement and Land Acquisition	-	-	179,333,000		179,333,000
Consulting Services	-	-	5,755,544,200		5,755,544,200
Consulting on preparing reports for making Feasibility Study Report	-	-	1,085,592,000		1,085,592,000
Consulting on preparing Investment Project Report	-	-	868,000,000		868,000,000
Consulting on preparing Environmental Impact Assessment Report and Resettlement Action Plan	-	-	658,990,000		658,990,000
Consulting on topographical and geological survey	-	-	300,000,000		300,000,000
Consulting on preparing a permit for exploitation and use of Ho Nui Coc's surface water	-	-	317,530,000		317,530,000
Consulting on preparing Financial Capacity and Bidding Capacity Assessment Report	-	-	216,340,000		216,340,000
Consulting on verification of construction drawing and cost estimation	-	-	235,400,000		235,400,000
Consulting on project verification	-	-	91,742,200		91,742,200
Consulting legal services	-	-	27,500,000		27,500,000
Consulting on verification of preparing report for making investment project	-	-	4,450,000		4,450,000
Consulting on surveying, designing construction drawing, estimating cost and construction bidding documents, equipments and supervising	-	-	1,950,000,000		1,950,000,000
Interest charges and commitment fees	100,044,900	1,967,452,228	-		2,067,497,128
Project management	-	-	1,058,159,200		1,058,159,200
Others (*) (**)	-	-	129,703,999		129,703,999
	100,044,900	1,967,452,228	7,122,740,399		9,190,237,527

(*) (**) Note 4

Disbursements financed under the Loan Agreement No. 3251 – VIE dated 19 November 2015 are as below:

Categories	Funding rate (%) (*)
Works	100.00%
Consulting Services	100.00%
Interest charges and commitment fees	100.00%

(*) Excluded tax.

b. Reconciliation between Project Implementation Expenditures on Statement of Financial Position and Disbursement on Statement of Receipts and Disbursements as at 31/12/2018

	VND	VND
Project Implementation Expenditures		7,756,018,979
Add:		
Advances to contractors	1,950,000,000	
Deductable Value added tax	406,390,547	
		2,356,390,547
Deduct:		
Payables to contractors		(922,171,999)
Disbursements accumulated to closing		9,190,237,527


8. 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.

9. Approval of the Financial Statements

The financial statements were approved by Project Management Unit for issuance on 31 May 2019.


Nguyen Quang Mai
Chairman of the Board of Directors


Nguyen Ba Quyet
Director


Pham Thi Thanh Ngan
Chief Accountant

Thai Nguyen, 31 May 2019