

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 Song Chu One Member Ltd. Co.

For the Asian Development Bank

Date received by ADB: 9 November 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 Thanh Hoa PPC.

**CONSTRUCTION OF THE WATER SUPPLY SYSTEM
IN NGHI SON ECONOMIC ZONE,
THANH HOA PROVINCE PROJECT**

MANAGEMENT LETTER

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

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

ASIAN DEVELOPMENT BANK



Disbursement Operations
Division (V/DO)

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REPORT OF THE PROJECT MANAGEMENT UNIT

The Project Management Unit of the Construction of the water supply system in Nghi Son Economic Zone, Thanh Hoa province Project ("the Project Management Unit") presents this report and the Project Financial statements of the Construction of the water supply system in Nghi Son Economic Zone, Thanh Hoa province Project ("the Project") for the period from 18 September 2013 to 31 December 2017.

The Project

The Project is a sub-project of the Viet Nam Water Sector Investment Program, which is invested by Song Chu One Member Limited Liability Company. 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. Le Van Nhi	Director
Mr. Le Van Thuy	Standing Deputy Director
Mr. Le Van Minh	Deputy Director
Mr. Le Huu Huyen	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 Expenditures 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;
- 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.

On behalf of the Project Management Unit 



Le Van Nhi
Director

Thanh Hoa, 25 September 2018

No.: 250918.017/BCTC.FIS2

INDEPENDENT AUDITORS' REPORT ON THE PROJECT FINANCIAL STATEMENTS

**To: The Management Unit of the Construction of the water supply system
in Nghi Son Economic Zone, Thanh Hoa province Project
Song Chu One Member Limited**

Opinion

We have audited the accompanying Project Financial statements of the Construction of the water supply system of Nghi Son Economic Zone, Thanh Hoa province Project ("the Project") which comprises:

- ▶ Statement of Financial Position as at 31 December 2017, Statement of Receipts and Disbursements, Statement of Budget versus Actual Expenditures, 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;
- ▶ Statement of Financial Position as at 31 December 2017, Statement of Receipts and Disbursements, Statement of Budget versus Actual Expenditures 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.

In our opinion:

- ▶ The accompanying Project Financial statements 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 give a true and fair view of the financial position of the Project, including 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 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 Decision No. 1981/QĐ-UBND which was signed on 10 June 2016 by Chairman of the People's Committee of Thanh Hoa province. Our opinion is not qualified in respect of this matter.

Basis for 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 Project Management Unit 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.

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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 the 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.



Do Manh Cuong
Deputy General Director
CPA Registered No.:
0744-2018-002-1

Hanoi, 25 September 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		2,146,789,908
Value added tax		2,116,789,908
Advance to Nong Cong District compensation council		30,000,000
NON-CURRENT ASSETS		24,658,082,222
Project Implementation Expenditures		24,658,082,222
TOTAL ASSETS		26,804,872,130
CURRENT LIABILITIES		1,018,390,117
Payables to contractors		1,018,390,117
FUNDS		25,786,482,013
Fund received from the Asian Development Bank	05	17,527,437,907
Counterpart funds		8,194,652,669
Foreign exchange differences		64,391,437
TOTAL RESOURCES		26,804,872,130

STATEMENT OF FINANCIAL POSITION

Loan Number 3251 - VIE
As at 31 December 2017

	Note	31/12/2017 VND
CURRENT ASSETS		42,472,727
Value added tax		42,472,727
NON-CURRENT ASSETS		1,404,188,213
Project Implementation Expenditures		1,404,188,213
TOTAL ASSETS		1,446,660,940
CURRENT LIABILITIES		47,200,000
Payables to contractors		47,200,000
FUNDS		1,399,460,940
Fund received from the Asian Development Bank	05	979,460,940
Counterpart funds		420,000,000
TOTAL RESOURCES		1,446,660,940

STATEMENT OF RECEIPTS AND DISBURSEMENTS
Loan Number 2961 – VIE
Period from 18 September 2013 to 31 December 2017

	Note	Inurred and accumulated to 31/12/2017 VND
RECEIPTS		
Fund received from the Asian Development Bank		17,527,437,907
Counterpart fund		8,184,652,669
- Received from Thanh Hoa province state budget		5,168,000,000
- Received from Song Chu One Member Limited		3,026,652,669
		<u>25,722,090,576</u>
DISBURSEMENTS		
Consulting Services		21,897,205,729
Interest charges and commitment fees		520,847,550
Project management and other disbursements		3,368,428,724
	06	<u>25,786,482,013</u>
FOREIGN EXCHANGE DIFFERENCES		
Foreign exchange differences		<u>64,391,437</u>
		<u>64,391,437</u>
RECONCILIATION AS AT CLOSING		<u>-</u>

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Loan Number 3251 – VIE

Period from 29 March 2016 to 31 December 2017

	Note	Incurrd and accumulated to 31/12/2017 VND
RECEIPTS		
Fund received from the Asian Development Bank		979,460,940
Counterpart fund		420,000,000
- Received from Song Chu One Member Limited		420,000,000
		<u>1,399,460,940</u>
DISBURSEMENTS		
Consulting Services		420,000,000
Interest charges and commitment fees		979,460,940
	06	<u>1,399,460,940</u>
RECONCILIATION AS AT CLOSING		<u>-</u>

STATEMENT OF BUDGET VERSUS ACTUAL EXPENDITURES
Period from 18 September 2013 to 31 December 2017

Categories	Budget (*)		Actual			Variance		Total Rate		
	ADB fund	Counterpart Fund	Total	ADB fund	Counterpart Fund	Total	ADB fund		Counterpart Fund	
										VND
Civil Works	656,500,454,545	66,849,545,455	735,350,000,000	-	-	-	(66,849,545,455)	(66,849,545,455)	(735,350,000,000)	0%
Consulting Services	44,554,000,000	13,341,000,000	57,895,000,000	17,011,344,000	4,240,354,897	21,251,698,646	(27,542,655,991)	(3,300,645,363)	(36,643,301,354)	37%
Project management and other disbursements	662,000,000	18,591,000,000	20,453,000,000	-	3,310,263,289	3,310,263,289	2,448,763,289	(15,280,739,711)	(13,832,473,422)	16%
Interest charges and commitment fees	33,855,000,000	-	33,855,000,000	1,500,308,500	-	1,500,308,500	(33,454,691,500)	-	(32,454,691,500)	4%
Resettlement and Land Acquisition	-	29,000,000,000	29,000,000,000	-	-	-	-	(29,000,000,000)	(28,000,000,000)	9%
Provision	123,243,000,000	12,287,000,000	135,530,000,000	-	-	-	(123,243,000,000)	(12,287,000,000)	(135,530,000,000)	0%
	871,114,454,045	141,069,545,455	1,012,183,000,000	10,511,652,509	7,550,617,926	26,062,270,435	(849,232,638,747)	(133,617,927,529)	(882,610,466,276)	3%

(*) Pursuant to Decision 669/QĐ-UBND of Thanh Hoa People's Committee dated 26/02/2016 on approval of the Overall Plan and Funds Plan for 2016 of the Construction of the water supply system in Nghi Son Economic Zone, Thanh Hoa province Project, and Decision of Song Chu One Member Limited Company on the annual plan of implementation of the program, project for 2015.

STATEMENT OF WITHDRAWALS AND RECONCILIATION OF FUNDS

Loan Number 2961 – VIE

Period from 18 September 2013 to 31 December 2017

Withdrawal applications				Amount received		Variances (a) - (b)
Number	Date	Currency	Amount claimed	Date	Amount (b)	
Direct payment (Consulting services)						
N001	28/09/2015	USD	218,855.45	01/12/2015	218,855.45	-
N002	28/09/2015	VND	763,444,500	03/12/2015	763,444,500	-
N003	28/01/2016	USD	182,379.54	08/03/2016	182,379.54	-
N004	28/01/2016	VND	636,203,750	10/03/2016	636,203,750	-
N005	22/09/2016	USD	276,925.01	11/10/2016	276,925.01	-
N006	22/09/2016	VND	749,544,250	12/10/2016	749,544,250	-
Total in VND			2,149,192,500		2,149,192,500	-
Total in USD			678,160.00		678,160.00	-

NOTES TO THE PROJECT FINANCIAL STATEMENTS

Period ended 31 December 2017

1. Background

The Construction of the water supply system in Nghi Son Economic Zone, Thanh Hoa province Project ("the Project") is a sub-project of the Viet Nam Water Sector Investment Program ("the Program"), which is invested by Song Chu One Member Limited Liability Company ("Song Chu Company"). In addition to the counterpart funds, the Project is financed by the Asian Development Bank ("ADB") under the Loan Number 2901 – VIE and the Loan Number 3251 – VIE ("the Agreements"). Some milestones of these agreements are as follows:

Agreement	Signing date	Effective date	Expected closing date (*)
Loan No. 2861-VIE	23 May 2013	18 Sept. 2013	30 June 2020
Loan No. 3251-VIE	19 November 2015	29 March 2016	31 December 2020

(*) On 10/06/2016, Chairman of the People's Committee of Thanh Hoa province signed Decision No. 1981/QĐ-UBND to close the Project before the expected closing dates of the Agreements.

The main objectives of the Project are:

- Up to 2020, 85% of the people living in the project area get supply water with water supply standard of 100 – 120 liters per person per day and 70,000 m³/day of raw water will be supplied for production and construction in Nghi Son Economic Zone.
- Up to 2030, 95% of the people living in the project area get supply water with water supply standard of 120 – 150 liters per person per day and 120,000 m³/day of raw water will be supplied for production and construction in Nghi Son Economic Zone;

The Project includes 03 components as below:

- Construction of raw water intake at Nam canal of Muc river, booster pumping station with capacity of 60,000 m³/day at Cong Liem commune, booster pumping station with capacity of 90,000 m³/day at Yen My lake, booster pumping station with capacity of 90,000 m³/day at Bau Da;
- Construction of 13.9 km of distribution network and 62.4 km of service pipeline;
- Construction of a new water treatment plant with a capacity of 20,000 m³/day in Truc Lam Town.

The Project is managed by the Project Management Unit – one of the subordinate units of Song Chu One Member Limited, and its office is located at No. 24 Pham Binh street, Ngoc Trao ward, Thanh Hoa city, Thanh Hoa province.

2. Principal Accounting Policies

a. Basis of accounting

The accounting period is from 18 September 2013 to 31 December 2017 for the Loan Number 2861 – VIE and from 29 March 2016 to 31 December 2017 for the Loan Number 3251 – VIE under the requirements of the Asian Development Bank.

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 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 monthly exchange rate of the Ministry of Finance in the month of direct payment made to contractors/suppliers, except capitalization of interest charges and commitment fees (Note 2c) in USD which is converted to VND under monthly exchange rate of the Ministry of Finance in the month of announcement by the ADB.

Transactions in foreign currencies are converted to VND under monthly exchange rate of the Ministry of Finance in the month of transaction. All exchange differences from these transactions are recorded and presented as "Foreign exchange differences" on Statement of Financial Position.

c. Funds and Expenditures

Funds:

- Funds received from the Asian Development Bank (ADB) are recorded when direct payments are made from ADB to contractors/suppliers or remittance are made into Advance Account. Of which, capitalization of interest charges and commitment fees are recognized upon announcement by the ADB (twice per year);
- Counterpart funds are recorded when Song Chu Company payments directly to contractors/suppliers or Thanh Hoa Province State budget remitted funds to the Song Chu Company for settlement of the Project's activities.

Expenditures:

- The Project's expenditures (excluding tax) are recorded when they are actually incurred;
- Value added tax is separately presented as an item on Statement of Financial Position.

3. Funds received from the Asian Development Bank

	Incurred and accumulated to 31/12/2017	
	Original currency	Converted to VND
Loan Number 3251 – VIE		979,460,940
Capitalization of interest charges and commitment fees (USD)	44,261.47	979,460,940
Loan Number 2961 – VIE		17,527,437,907
Direct payments		17,006,590,347
VND	2,149,192,500	2,149,192,500
USD	678,160.00	14,857,397,847
Capitalization of interest charges and commitment fees (USD)	23,463.21	520,847,560
		18,506,898,847

4. Disbursements

a. Disbursements by categories and by funding

The Agreements finance to 100% disbursements (excluding tax):

Agreement	Categories	Funded by			Total
		Loan 2961-VIE	Loan 3251-VIE	Counterpart funds (*)	
		VND	VND	VND	VND
Loan Number 2961 – VIE	Consulting Services, Interest charges and commitment fees	17,006,590,347	-	5,310,615,382	22,317,205,729
Loan Number 3251 – VIE	Civil Works, Consulting Services, Interest charges and commitment	520,847,560	979,460,940	-	1,500,308,500
		-	-	3,368,428,724	3,368,428,724
		17,527,437,907	979,460,940	8,679,044,106	27,185,942,953

(*) Including VND 420,000,000 VND for Consulting Services of Loan Number 3251 – VIE

(**) Other disbursements for appraisal of the Projects, contractor selection support, appraisal of settlement...

b. 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	VND
Project Implementation Expenditures		24,658,082,222
Add:		
Value added tax	2,116,789,908	
Advance to Nong Cong District compensation council	30,000,000	
		2,146,789,908
Deduct:		
Payable to contractors	(1,018,390,117)	(1,018,390,117)
Disbursements accumulated to closing		25,786,482,013

► Loan Number 3251 – VIE

	VND	VND
Project Implementation Expenditures		1,404,188,213
Add:		
Value added tax	42,472,727	
		42,472,727
Deduct:		
Payable to contractors	(47,200,000)	(47,200,000)
Disbursements accumulated to closing		1,399,460,940

5. 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.

6. Approval of the Project Financial statements

The Project Financial statements were approved by the Project Management Unit for issuance on 25 September 2018.



Le Van Nhi
Director

Thanh Hoa, 25 September, 2018

Le Huu Huyen

Le Huu Huyen
Chief Accountant