

# Audited Project Financial Statements

---

Project Number: 46074-001  
Loan/Grant Number: JFPR 9173  
Period covered: 1 January 2017 – 31 December 2017

## Grant 9173: REG: Greater Mekong Subregion: Livelihood Support for Corridor Towns

Prepared by: Ministry of Public Works and Transport (MPWT), Royal Government of Cambodia

For the Asian Development Bank  
Date by ADB: 31 May 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 the Ministry of Public Works and Transport, Royal Government of Cambodia.

**ROYAL GOVERNMENT OF CAMBODIA  
MINISTRY OF PUBLIC WORKS AND TRANSPORT**

**Greater Mekong Sub-region:  
Livelihood Support Corridor Towns Project**

ADB Grant No. 9173-REG  
(Financed by Japan Fund for Poverty Reduction)

**Financial Statements  
for the year ended 31 December 2017  
and  
Report of the Independent Auditors**

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Contents**

	<b>Page</b>
1. Statement by the management	1
2. Report of the independent auditors	2
3. Statement of financial position	5
4. Statement of receipts and expenditure	6
5. Statement of the imprest accounts	7
6. Notes to the financial statements	8
Appendix I: Statement of comparison between budget and actual expenditure	i

\* *This appendix does not form part of the audited financial statements and provided for information purpose only.*



Ministry of Public Works and Transport  
No.: 005 PMU/MPWT/LSCTP/18

## Statement by the management

We do hereby state that in our opinion:

- a) The accompanying financial statements, which comprise the statement of financial position as at 31 December 2017, the statements of receipts and expenditure, and imprest accounts for the year then ended and notes, comprising significant accounting policies and other explanatory information as set out on pages 5 to 18 of the Greater Mekong Sub-region: Livelihood Support Corridor Towns Project ("the Project"), funded by the Asian Development Bank Grant No. 9173-REG which financed by Japan Fund for Poverty Reduction and implemented by the Ministry of Public Works and Transport ("MPWT", "the Executing Agency" or "EA", "Project Management Unit" or "PMU") are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements; and
- b) The disbursements shown in the financial statements were implemented according to the Grant Agreement and the Project was in compliance with all grant covenants of the Agreement for the year ended 31 December 2017.

*On behalf of the Project's management:*

**Vong Pisith**  
Project Director  
Ministry of Public Works and Transport

Phnom Penh, Kingdom of Cambodia

Date: 30 MAY 2018



**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Statement of financial position  
as at 31 December 2017**

	Note	As at 31 December 2017 US\$
<b>Current assets</b>		
Cash at banks	3	12,354
		<hr/>
<b>Represented by:</b>		
Fund balance at end of the year		12,354
		<hr/>

*The accompanying notes form an integral part of these financial statements.*

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Statement of receipts and expenditure  
for the year ended 31 December 2017**

	Note	Year ended 31 December 2017 US\$	Period from 8 November 2013 to 31 December 2017 US\$
<b>Receipts</b>			
Asian Development Bank	4	159,057	159,057
<b>Expenditure by disbursement category</b>	5		
Civil works	6	123,457	123,457
Grant Management – EA consultants	7	20,072	20,072
Others – incremental administration cost	8	3,174	3,174
		146,703	146,703
Excess of receipts over expenditure		12,354	12,354
Fund balance at the beginning of the year		-	-
Fund balance at the end of the year		12,354	12,354

*The accompanying notes form an integral part of these financial statements.*

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Statement of imprest accounts  
for the year ended 31 December 2017**

	Note	Year ended 31 December 2017 US\$	Period from 8 November 2013 to 31 December 2017 US\$
<b>Receipts</b>			
Asian Development Bank	4	35,600	35,600
<b>Expenditure by disbursement category</b>	5		
Grant Management – EA consultants	7	20,072	20,072
Others – incremental administration cost	8	3,174	3,174
		23,246	23,246
Excess of receipts over expenditure		12,354	12,354
Fund balance at the beginning of the year		-	-
Fund balance at the end of the year		12,354	12,354
<b>Represented by:</b>			
Cash at bank	3	12,354	12,354

*The accompanying notes form an integral part of these financial statements.*

## **Ministry of Public Works and Transport Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

### **Notes to the financial statements for the year ended 31 December 2017**

These notes form an integral part of, and should be read in conjunction with, the accompanying financial statements.

#### **1. Background and activities**

The Greater Mekong Sub-region ("GMS"): Livelihood Support Corridor Towns Project ("the Project") is a pilot poverty reduction project in the GMS using a market development approach. Trade, traffic, tourism, and people flow are perceived to significantly increase in the East-West Economic Corridor ("EWEC") and Southern Economic Corridor ("SEC"). The Project aims to capitalise on these developments by helping poor informal traders enhance the production of their locally produced products and provide aesthetically attractive, environmentally sound, socially inclusive, and gender-responsive trade centers to market these products. The Project covers three distinct geographical locations within the GMS and includes the provincial towns of Battambang (Cambodia), Kaysone Phomvihane (Lao PDR) and Dong Ha City (Viet Nam). The Project locations are also situated along two major GMS economic development corridors – the Southern and the East-West Corridors. The three towns were selected based on: (i) the size of the towns, which although relatively large are not major urban areas; (ii) the tourism industry development potential which can contribute to local trade; (iii) movements of goods and people; and (iv) proximity to rural communities with producers of local goods.

The total cost of the project is estimated at \$2,860,000 equivalent including contingencies, of which US\$2,500,000 will be financed on a grant basis from the Japan Fund for Poverty Reduction ("JFPR"). Participating governments will provide the remaining US\$300,000 (US\$100,000 per country) equivalent in-kind in the form of land for markets, government counterpart staff, office space and other incidental expenses like newspaper advertisement for advertisement of bids, and language translation, among others. The ADB is contributing US\$60,000 to cover project incremental costs that will be used to finance: the preparation of the Grant Implementation Manual ("GIM"); assessment of the three project sites including conduct of associated workshops and preparation of project completion review and assessment report.

The Ministry of Public Works and Transport ("MPWT") is the Executing Agency ("EA") and the Project Management Unit ("PMU") for the project responsible for the overall management and coordination of the Project.

## **Ministry of Public Works and Transport Project Management Unit**

### **Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**

ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

#### **Notes to the financial statements (continued) for the year ended 31 December 2017**

### **1. Background and activities (continued)**

The Project was effective from 8 November 2013 in accordance with the Grant Implementation Manual ("GIM") and was originally expected to be completed on 30 November 2017 and subsequently was extended to 31 December 2018 according to approved letter from ADB dated 5 April 2016.

Although the Project's effective date was on 8 November 2013, the Project neither started its implementation activities nor hand receipt or expenditure incurred until 1 January 2017.

The objective of the Project is to reduce poverty in the three GMS urban towns by piloting a market development approach. The Project shall comprise the following Components:

#### *Component A: Construction of Three Small Markets*

The main output of this component is the construction and establishment of three new small markets, one in each of the project towns: Battambang (Cambodia), Kaysone Phomvihane (Lao PDR) and Dong Ha City (Viet Nam). Target beneficiaries are those vendors currently working as informal traders and comprise the self-employed urban poor in these towns. Beneficiary eligibility for selection and participation in the project must be: (i) currently engaged in informal market vending activities; and (ii) be willing to become members of the market vendors association that will be managed by newly formed Market Management Committees ("MMCs"). The MMCs will ensure that selection of beneficiaries is fair, transparent, and accepted by stakeholders in each town. Membership in the market vendors association under the Market Management Committee ("MMC") is required to use the market stalls; beneficiaries must be (i) engaged in informal market vending activities, and (ii) be members of the market vendors association. The MMC will ensure that the selection process is fair, accepted by the stakeholders, and transparent.

Component A will: (i) establish one night market facility located at the area adjacent to the former public library of the Municipality of Battambang; (ii) prepare an Initial Environment Evaluation ("IEE") that will identify potential environmental impacts and ensure measures are identified to mitigate them; (iii) conduct market demand and value chain analysis to assess demand and strengthen supply chains; (iv) selection of beneficiaries; (v) provide beneficiaries access and admission to vendor associations;

## **Ministry of Public Works and Transport Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2017**

### **1. Background and activities (continued)**

#### *Component A: Construction of Three Small Markets (continued)*

(vi) establish gender balanced MMCs; (vii) provide infrastructure and social support for women in terms of day care centers for their children with equitable vending spaces for women to ensure gender equity; (viii) conduct a beneficiary needs assessment to determine what additional social support is required to enhance women's participation in the project; and (x) conduct a gender assessment.

#### *Component B: Microfinance Support for Market Vendors*

Under this component, market vendors will be offered microfinance loans ranging from at attractive rates through a local microfinance provider accessible to the target beneficiaries in the three towns.

Component B will: (i) provide beneficiaries with accessible Microfinance Institution ("MFI") loans appropriate to the needs of the vendors and their Small and Medium-sized Enterprise ("SMEs"); (ii) with support of the national project management consultant, provide support for the MFI to draft and implement MFI credit and training manuals and courses targeting beneficiaries, especially women.

#### *Component C: Training and Awareness Campaigns*

The main output of this component is to develop the capacity of stakeholders, primarily local government and community representatives, to effectively manage, operate, and sustain market facilities.

Component C will: (i) build capacity of all stakeholders throughout the course of the project to support effective communication between all stakeholders, especially local government officials and poor informal vendors that are marginalized from the formal trading sector; (ii) build capacity to manage, operate, and maintain the physical infrastructure provided by the project; (iii) support the operations of the MMC; (iv) provide assistance to informal market vendors to join the respective vendor associations; and (v) with the assistance of the MFI and training resource persons, build capacity and confidence of the urban poor, especially women, to establish their own successful market enterprises based on sound business principles and the provision of quality service and products.

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2017**

**1. Background and activities (continued)**

*Component D: Project Management and Consulting Services*

This component will support the delivery of project management, monitoring, and audit services to the stakeholders. Internal management, operational and financial control systems will be established by the PMU, and the Project Implementation Unit ("PIU").

Component D will: (i) with the assistance of the EA, the PMU and PIU, and engage local-based MFI and NGO or resource persons to implement the project in the three GMS countries; (ii) equip and support the PMU and PIU to coordinate stakeholders and implement the project; (iii) strengthen government counterpart capacity to coordinate interagency cooperation to promote pro-poor SMEs; (iv) develop and implement the project's socioeconomic and environmental monitoring and evaluation systems, and prepare the baseline, quarterly, mid-term, and completion reports; (v) conduct participatory planning and evaluation of the project's bi-annual work plans in consultation with stakeholders and beneficiary representatives; (vi) conduct an annual external audit of project accounts with the external audit firm; and (vii) develop and implement an exit strategy based on sound and long-term financial and social sustainability.

**Ministry of Public Works and Transport  
Project Management Unit**

Greater Mekong Sub-region: Livelihood Support Corridor Towns Project  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

Notes to the financial statements (continued)  
for the year ended 31 December 2017

**1. Background and activities (continued)**

The table below show the summary of cost estimate for the whole project in US\$:

Grant Component / Input, Expenditure Category	Component A	Component B	Component C	Component D	Total (Input)	%
Civil works	1,050,000	-	-	-	1,050,000	42.00
Microfinance loans	-	405,000	-	-	405,000	16.20
Training and awareness campaigns	-	-	123,000	-	123,000	4.92
Grant management	-	-	-	692,000	692,000	27.28
Contingencies (0-10% of total estimated grant fund) (use of contingencies requires prior approval by ADB)	105,000	60,000	25,000	40,000	230,000	9.20
Sub-total financed by JFPR grant	1,155,000	465,000	148,000	732,000	2,500,000	100
Government contribution	75,000	75,000	75,000	75,000	300,000	-
Community contribution (mostly in-kind)	-	-	-	-	-	-
ADB incremental costs	-	-	-	60,000	60,000	-
<b>Total estimated costs</b>	<b>1,230,000</b>	<b>540,000</b>	<b>223,000</b>	<b>867,000</b>	<b>2,860,000</b>	-

**Ministry of Public Works and Transport  
Project Management Unit**

Greater Mekong Sub-region: Livelihood Support Corridor Towns Project  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

Notes to the financial statements (continued)  
for the year ended 31 December 2017

**1. Background and activities (continued)**

The table below show the summary of cost estimate for Cambodia in US\$:

Grant Component / Input, Expenditure Category	Component A	Component B	Component C	Component D	Total (Input)	%
Civil works	350,000	-	-	-	350,000	42.00
Microfinance loans	-	135,000	-	-	135,000	16.20
Training and awareness campaigns	-	-	41,000	-	41,000	4.92
Grant management	-	-	-	230,000	230,000	27.28
Contingencies (0-10% of total estimated grant fund) (use of contingencies requires prior approval by ADB)	35,000	20,000	9,000	14,000	78,000	9.20
Sub-total financed by JFPR grant	385,000	155,000	50,000	244,000	834,000	100
Government contribution	25,000	25,000	25,000	25,000	100,000	-
Community contribution (mostly in-kind)	-	-	-	-	-	-
ADB incremental costs	-	-	-	20,000	20,000	-
<b>Total estimated costs</b>	<b>410,000</b>	<b>180,000</b>	<b>75,000</b>	<b>269,000</b>	<b>954,000</b>	

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2017**

**2. Significant accounting policies**

**(a) Basis of accounting**

The financial statements, which are expressed in United States Dollars ("US\$"), have been prepared in accordance with a modified cash receipts and disbursements basis of accounting. This is a basis of accounting that is designed to meet the requirements of the Project; it is not designed to produce financial statements that are compatible with International Financial Reporting Standards. Under this basis of accounting, income is recognised when funds are received in cash and expenditure is recognised when payments are made rather than when it is incurred, except for the advanced payments made to suppliers that are initially recognised as a receivable and only recognised as payments when they have been liquidated by supporting invoices.

**(b) Statements of imprest accounts**

The statement of imprest accounts is prepared in accordance with the Grant Agreement, and is purely used to receive and disburse for expenditure financed by the ADB grant proceeds.

**(c) Non-expendable equipment**

The cost of non-expendable equipment is charged to the statement of receipts and expenditure upon acquisition. For control and management purposes, a memorandum account for non-expendable equipment is maintained by way of a non-expendable equipment listing.

**(d) Foreign currency transactions**

The Project executes transactions and maintains its accounting records primarily in United States Dollars ("US\$"). Transactions in currencies other than US\$ are converted into US\$ at the rates of exchange prevailing on the transaction dates. Cash and bank balances in currencies other than US\$ are translated into US\$ at the open market rates of exchange at the period end. All foreign exchange differences are recognised in the statement of receipts and expenditure.

**3. Cash at banks**

Cash at banks represent cash balance of the imprest accounts in National Bank of Cambodia ("NBC") held by the Executing Agency.

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2017**

**4. Receipts**

	Year ended 31 December 2017 US\$	Period from 8 November 2013 to 31 December 2017 US\$
Initial advances from imprest accounts (i)	35,600	35,600
Direct payments (ii)	123,457	123,457
	<u>159,057</u>	<u>159,057</u>

- (i) The receipts from Asian Development Bank for Grant No. 9173-REG was paid into imprest accounts held by the Ministry of Public Works and Transport at the NBC. This is a separate bank account held exclusively for Grant No. 9173-REG.
- (ii) Direct payments represent payments made by ADB directly to the suppliers on behalf of the Project.

**5. Expenditure by disbursement category and financiers**

Particulars	ADB			RGC		Total
	% of financing	Actual expenditure		Actual expenditure		
	%	US\$	%	US\$	%	
Civil works	100	123,457	100	-	-	123,457
Grant Management – EA consultants	100	20,072	100	-	-	20,072
Others – incremental administration cost	100	3,174	100	-	-	3,174
Total payments – for the year ended 31 December 2017	100	146,703	100	-	-	146,703
% of total project costs – for the year ended 31 December 2017		15.38%				15.38%
% of total project costs – for the period from 8 November 2013 to 31 December 2017		15.38%				15.38%

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Notes to the financial statements (continued)  
for the year ended 31 December 2017**

**6. Civil works**

Civil works represent the construction work of Battambang Night Market. The construction is expected to be completed in May 2018. During the year, the expenditures were paid directly by ADB.

**7. Grant Management – EA consultants**

	Year ended 31 December 2017 US\$	Period from 8 November 2013 to 31 December 2017 US\$
Construction supervision	18,500	18,500
National gender specialist	1,572	1,572
	<u>20,072</u>	<u>20,072</u>

**8. Others – incremental administration cost**

	Year ended 31 December 2017 US\$	Period from 8 November 2013 to 31 December 2017 US\$
Mission and travelling expenses	1,990	1,990
Office supplies and running cost	1,169	1,169
Bank charge	15	15
	<u>3,174</u>	<u>3,174</u>

**Ministry of Public Works and Transport  
Project Management Unit**

Greater Mekong Sub-region: Livelihood Support Corridor Towns Project  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

Notes to the financial statements (continued)  
for the year ended 31 December 2017

**9. Statement of withdrawals**

Withdrawal application number	Request date	Currency	Civil works	Grant Management – EA consultants	Other – Incremental administration cost	Total
WA#0002	22-Aug-17	US\$	43,440	-	-	43,440
WA#0003	27-Nov-17	US\$	80,017	-	-	80,017
N/A (*)		US\$		20,072	3,174	23,246
<b>Total expenditure</b>			<b>123,457</b>	<b>20,072</b>	<b>3,174</b>	<b>146,703</b>

N/A (\*): This represents expenditure incurred during the year but not yet claimed as at 31 December 2017.

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2017**

**10. Statement of disbursement**

Details of statement of disbursement from ADB fund are as follows:

		Year ended 31 December 2017 US\$	Period from 8 November 2013 to 31 December 2017 US\$
<b>ADB Fund claims during year</b>			
Initial advance		35,600	35,600
Direct payments		123,457	123,457
Subtotal	(A)	159,057	159,057
<b>Total expenditure made during the year</b>	(B)	146,703	146,703
<i>Expenditure incurred during the year but not yet claimed</i>	(C)	(23,246)	(23,246)
<i>Initial advance during the year</i>	(D)	35,600	35,600
<b>Total eligible expenditure claimed (A=E=B+C+D)</b>	(E)	159,057	159,057

**11. Expenditure Commitments**

As at 31 December 2017, the Project has the following commitments:

	As at 31 December 2017 US\$
Contracted, but not yet paid:	
Civil works	166,144
Consulting services	38,428
	204,572

**12. Comparative figures**

This is the first set of financial statements prepared and there are no comparative figures as there was neither receipts nor expenditure incurred or paid from the effective date of the project until 1 January 2017.

**Ministry of Public Works and Transport  
Project Management Unit**

**Greater Mekong Sub-region: Livelihood Support Corridor Towns Project**  
ADB Grant No. 9173-REG (Financed by Japan Fund for Poverty Reduction)

**Appendix I: Statement of Comparison Between Budget and Actual Expenditure  
for the year ended 31 December 2017**

Description	Year ended 31 December 2017			Period from 8 November 2013 to 31 December 2017		
	Budget	Actual	Variance	Budget	Actual	Variance
	US\$	US\$	US\$	US\$	US\$	US\$
Civil works	145,267	123,457	(21,810)	145,267	123,457	(21,810)
Grant Management – EA consultants	20,500	20,072	(428)	20,500	20,072	(428)
Others – incremental administration cost	4,100	3,174	(926)	4,100	3,174	(926)
<b>Total</b>	<b>169,867</b>	<b>146,703</b>	<b>(23,164)</b>	<b>169,867</b>	<b>146,703</b>	<b>(23,164)</b>





## Contents

## Page

1. Compliance with the key covenant of the Grant/loan agreement and/or local regulations
- 1.1 Comply with withholding tax regulations

1

**1. Compliance with the key covenant of the Grant/loan agreement and/or local regulations**

**1.1. Comply with salary and withholding tax regulations**

*Observation*

During the year, the Project paid consultant fees to an individual consultant, National Gender Specialist. In accordance with tax regulations, these payments are subject to withholding tax and the Project is required to withhold and remit the tax to the General Department of Taxation ("GDT") on a monthly basis. However, the Project has neither withheld nor remitted the withholding tax to the GDT. We understand that the Ministry of Economy and Finance ("MEF") has clarified through a letter dated 26 March 2018 that Value Added Tax ("VAT") apply for civil work and consultant services is under responsibility of the Royal Government of Cambodia ("RGC"). The letter also mentioned that other relevant taxes are to be borne by respective contractor and/or consulting company.

*Implication*

Failure to comply with local tax regulation could expose the Project to the risk of penalties up to 40% of unpaid tax together with interest accruing at the rate of 2% per month.

*Recommendation*

We recommend the Project to review all payments subject to withholding tax and ensure that the tax is paid to the GDT in accordance with the withholding tax regulations, or request for a tax exemption from the MEF.

*Management's response*

The MPWT will further request the MEF to issue the letter of tax exemption for the contracts awarded in the previous year.