

Audited Project Financial Statements

Project Number: 46443-002

Loan Number 3314

Period covered: 1 January 2017 to 31 December 2017

CAM: Second Greater Mekong Subregion Corridor Towns Development Project

Prepared by Department of Public Works and Transport – Kampot and Sihanoukville
Provinces

For the Asian Development Bank
Date received by ADB: 4 June 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 Department of Public Works and Transport – Kampot and Sihanoukville Provinces.

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

**Second Greater Mekong Subregion Corridor Towns
Development Project**

ADB Loan No. 3314 – CAM (SF)

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

Ministry of Public Works and Transport

Second Greater Mekong Subregion Corridor Towns Development Project ADB Loan No. 3314 – CAM (SF)

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



Ministry of Public Works and Transport
No.: 013 PMU/MPWT/CTDP-2/18

Statement by the management

I do hereby state that in my opinion:

- (a) The accompanying financial statements, which comprise the statement of financial position as at 31 December 2017 and the statement of receipts and expenditure, statement of imprest account for the year then ended and notes as set out on pages 5 to 15 of the Second Greater Mekong Subregion Corridor Towns Development ("the Project"), funded by the Asian Development Bank Loan No. 3314 – CAM (SF) and implemented by the Ministry of Public Works and Transport, 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.
- (b) The disbursements shown in the financial statements were implemented according to the Loan Agreement and the Project was in compliance with all loan covenants of the Agreements for the year ended 31 December 2017.

Signed on behalf of the Project management:

H.E. Vong Pisith
Project Director
Ministry of Public Works and Transport

Phnom Penh, Kingdom of Cambodia

Date: **31 MAY 2018**



KPMG Cambodia Ltd
4th Floor, Delano Center
No. 144, Street 169, Sangkat Veal Vong
Khan 7 Makara, Phnom Penh
Kingdom of Cambodia
+855 23 216 899 | kpmg.com.kh

Report of the independent auditors To the Ministry of Economy and Finance Royal Government of Cambodia

Opinion

We have audited the accompanying financial statements of the Second Greater Mekong Subregion Corridor Towns Development ("the Project"), funded by the Asian Development Bank Loan No. 3314 – CAM (SF) implemented by the Ministry of Public Works and Transport ("the Project Management Unit" or "PMU"), which comprise the statement of financial position as at 31 December 2017 and the statement of receipts and expenditure, the statement of imprest account for the year then ended and notes, comprising significant accounting policies and other explanatory information ("financial statements"), as set out on pages 5 to 15.

In our opinion, the accompanying financial statements of the Project for the year ended 31 December 2017 are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies as described in Note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). 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 the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Appendix I, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Emphasis of Matter - Basis of Accounting and Restriction on use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting and the accounting policies adopted by the Project. The financial statements are prepared for the information of and use by the management of the Project, the Ministry of Economy and Finance ("MEF") and the Asian Development Bank ("ADB"). As a result, the financial statements may not be suitable for another purpose. Our audit report is intended solely for the management of the Project, MEF and ADB and should not be used by or distributed to other parties. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the basis of accounting and the accounting policies described in Note 2 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 misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PMU's ability to continue as a going concern, disclosing, as applicable, matters related 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.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditors' Responsibility 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 auditors' 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 CSAs 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 CSAs, 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 PMU'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 in the 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 PMU to cease to continue as a going concern.

We communicate with those charged with governance 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.

For KPMG Cambodia Ltd



Taing YoukFong
Partner



Phnom Penh, Kingdom of Cambodia

31 May 2018

Ministry of Public Works and Transport

Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

Statement of financial position

As at 31 December 2017

	Note	As at 31 December 2017 US\$	As at 31 December 2016 US\$
Current assets			
Cash at banks	3	184,209	426,000
Advances to consultants	4	32,413	388,962
		<u>216,622</u>	<u>814,962</u>
Represented by:			
Fund balance at end of the year		<u>216,622</u>	<u>814,962</u>

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

Ministry of Public Works and Transport

Second Greater Mekong Subregion Corridor Towns Development Project ADB Loan No. 3314 – CAM (SF)

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

	Note	Year ended 31 December 2017			Period from 29 February 2016 31 December 2016 US\$	Cumulative period from 29 February 2016 to 31 December 2017 US\$
		ADB US\$	RGC US\$	Total US\$		
Receipts						
Asian Development Bank	5(a)	317,333	-	317,333	814,962	1,132,295
Government Counterpart fund	5(b)	-	20,000	20,000	-	20,000
		<u>317,333</u>	<u>20,000</u>	<u>337,333</u>	<u>814,962</u>	<u>1,152,295</u>
Expenditure						
Consulting services	6	673,882	-	673,882	-	673,882
Other incremental and administration costs	7	242,953	18,838	261,791	-	261,791
		<u>916,835</u>	<u>18,838</u>	<u>935,673</u>	<u>-</u>	<u>935,673</u>
(Deficit)/excess of receipts over expenditure		<u>(599,502)</u>	<u>1,162</u>	<u>(598,340)</u>	<u>814,962</u>	<u>215,622</u>
Fund balance at beginning of the year/period		814,962	-	814,962	-	-
Fund balance at end of the year/period		215,460	1,162	216,622	814,962	

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

Ministry of Public Works and Transport

Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

Statement of imprest account for the year ended 31 December 2017

	Note	Year ended 31 December 2017 US\$	Period from 29 February 2016 to 31 December 2016 US\$	Cumulative period from 29 February 2016 to 31 December 2017 US\$
Receipts				
Asian Development Bank	5(a)	-	426,000	426,000
Expenditure				
Other incremental and administration costs	7	242,953	-	242,953
		242,953	-	242,953
(Deficit)/excess of receipts over expenditure		(242,953)	426,000	183,047
Fund balance at beginning of the year/period		426,000	-	
Fund balance at end of the year/period		183,047	426,000	

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

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Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

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 Loan Agreement No. 3314 – CAM (SF) for the Second Greater Mekong Subregion Corridor Towns Development ("Project") between the Asian Development Bank ("ADB") and the Royal Government of Cambodia ("RGC") (represented by the Ministry of Economy and Finance - MEF) was signed on 22 December 2015. Total project cost is approximately US\$38.10 millions, of which the ADB agreed to provide loan amounting to Special Drawing Rights 23,380,000 equivalent to US\$33 millions at the time of the loan negotiation and the RGC will finance US\$5.1 millions for the land acquisition and resettlement, salary supplements and project audits, taxes and duties, and in-kind government contribution of office space and office equipment.

The principal amount of ADB Loan No. 3314 – CAM (SF) will have a term of 32 years, including grace period of 8 years, and bear interest rate of 1% per annum during the grace period and 1.5%, thereafter, on the amount of loan withdrawn from the ADB and outstanding balance from time to time. This loan is repayable on a semi-annually instalment commencing from 1 April 2024 and ending on 1 October 2047.

The Project Management Unit ("PMU") established by the Ministry of Public Works and Transport acts as the Executing Agency ("EA"), and two Provincial Departments of Public Works and Transport (PDPWT) were established at Kampot Province and Sihanoukville Province to implement their respective project components.

The objective of the Project is improved urban services in the towns of Sihanoukville and Kampot, Kingdom of Cambodia. The Project comprises:

- (a) Construction of a new wastewater treatment plant and wastewater collection system in Kampot;
- (b) Closure of the current dump site, and the construction of a new managed landfill in Kampot;
- (c) Construction of primary storm water drains in priority urban area in Kampot;
- (d) Rehabilitation of existing dump site to a managed landfill in Sihanoukville; and
- (e) Construction of primary storm water drains in priority urban areas in Sihanoukville.

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

1. Background and activities (continued)

The table below sets forth the categories of items of expenditure to be financed out of the proceeds of the ADB Loan No. 3314 – CAM (SF) and the allocation of amounts of the Loan to each category:

Category			ADB Financing
Number	Item	Total Amount Allocated for ADB Financing (SDR) Category	Percentage and Basis for Withdrawal from the Loan Account
1	Works	15,714,000	100% of total expenditure claimed*
2	Equipment and materials	390,000	100% of total expenditure claimed*
3	Project implementation and capacity building	2,303,000	100% of total expenditure claimed*
4	Other incremental administration cost	397,000	100% of total expenditure claimed*
5	Interest charge	601,000	100% of amount due
6	Unallocated	3,975,000	
	Total	23,380,000	

* Exclusive of local taxes and duties imposed within the territory of the Borrower.

The financing agreement became effective for implementation from 29 February 2016 after signing date of the agreement, expected to be completed by 31 December 2020 and closing date shall be 30 June 2021.

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.

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

2. Significant accounting policies (continued)

(b) 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.

(c) Foreign currency transactions

The Project transacts its operations 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 year end date. All foreign exchange differences are recognised in the statement of receipts and expenditure.

(d) Statement of imprest account

The statement imprest account is prepared in accordance with the loan agreement and is purely used to receive and disburse for the expenditure financed by the ADB loan proceeds.

3. Cash at bank

	As at 31 December 2017			As at 31 December 2016
	ADB US\$	RGC US\$	Total US\$	US\$
Imprest accounts				
ADB – Project Coordination Unit	183,047	-	183,047	426,000
Government Counterpart Fund	-	1,162	1,162	-
	<u>183,047</u>	<u>1,162</u>	<u>184,209</u>	<u>426,000</u>

This represents the imprest account of ADB Loan No. 3314 - CAM (SF) and RGC fund which are maintained at the National Bank of Cambodia.

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

4. Advances to consultants

Advances to consultants represented the advance payment for consultant services to NJS Consultants Co., Ltd. (a joint venture with CEST Incorporated and Key Consultants (Cambodia) Co., Ltd) for the contract number MU/MPWT/CTDP2/QCBS/16/001 dated 14 October 2016.

The advance for the payments of US\$388,962 has been paid within 30 days after the effective date of the contract. It will be offset in equal instalments against the progress claimed by the consultants for the first twelve (12) months of the services until the advance payments have been fully cleared.

As at 31 December 2017, the Project has the outstanding advances of US\$32,413 and the amount was subsequently cleared on 29 March 2018.

5. Receipts

(a) Asian Development Bank

	Year ended 31 December 2017 US\$	Period from 29 February 2016 to 31 December 2016 US\$	Cumulative period from 29 February 2016 to 31 December 2017 US\$
Initial advance (*)	-	426,000	426,000
Direct payment (**)	317,333	388,962	706,295
	<u>317,333</u>	<u>814,962</u>	<u>1,132,295</u>

(*) The receipts from Asian Development Bank Loan No. 3314 – CAM (SF) were paid into the imprest account co-held by the Ministry of Economy and Finance ("MEF"), and the Ministry of Public Works and Transport at the National Bank of Cambodia. This is a separate bank account held exclusively for ADB Loan No. 3314 – CAM (SF).

(**) Direct payment represents payment made by the ADB directly to the consultant on behalf of the Project.

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Second Greater Mekong Subregion Corridor Towns Development Project

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

5. Receipts (continued)

(b) Government Counterpart fund

	Year ended 31 December 2017 US\$	Period from 29 February 2016 to 31 December 2016 US\$	Cumulative period from 29 February 2016 to 31 December 2017 US\$
Imprest account	20,000	-	20,000

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

6. Consulting services

	Year ended 31 December 2017		Period from		Cumulative period from
	ADB US\$	RGC US\$	29 February 2016 31 December 2016	29 February 2016 to 31 December 2017	
Consulting services-NJS Consultant Co., Ltd	673,882	-	-	-	673,882

7. Other incremental and administration costs

	Year ended 31 December 2017		Period from		Cumulative period from
	ADB US\$	RGC US\$	29 February 2016 31 December 2016	29 February 2016 to 31 December 2017	
Vehicles	106,500	-	-	-	106,500
Office equipment and furniture	45,369	-	-	-	45,369
Office renovation	21,683	-	-	-	21,683
Financial management specialist	20,800	-	-	-	20,800
Procurement specialist	17,600	-	-	-	17,600
Travel costs	17,566	-	-	-	17,566
Office running costs	8,772	-	-	-	8,772
Supplement allowances	-	17,640	-	-	17,640
Vehicle operation and maintenance	4,663	1,198	-	-	5,861
	242,953	18,838	-	-	261,791

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Second Greater Mekong Subregion Corridor Towns Development Project

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

8. Statement of withdrawals

Withdrawal application number	Date	Currency	Consulting services	Goods	Other incremental and administrative costs	Total
2017						
<i>Direct payments</i>						
A0003	25-Sep-17	US\$	111,872	-	-	111,872
A0004	06-Dec-17	US\$	205,461	-	-	205,461
Total			317,333	-	-	317,333
2016						
<i>Direct payments</i>						
A0001	19-Dec-16	US\$	388,962	-	-	388,962
<i>Initial advance</i>						
A0002	22-Dec-16	US\$	-	-	-	426,000
Total			814,962	-	-	814,962

9. Commitment

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

	As at 31 December 2017 US\$	As at 31 December 2016 US\$
Consulting services	2,079,529	2,436,078
Consultants	79,400	-
	<u>2,158,929</u>	<u>2,436,078</u>

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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 29 February 2016 to 31 December 2016 US\$	Cumulative period from 29 February 2016 to 31 December 2017 US\$
ADB Fund claims during the year/period			
Initial advance	-	426,000	426,000
Direct payments	317,333	388,962	706,295
Subtotal (A)	317,333	814,962	1,132,295
Total expenditure made during the year/period (B)	935,673	-	935,673
<i>Expenditure made out of Government</i>			
Counterpart fund (C)	(18,838)	-	(18,838)
Expenditure not yet claimed (D)	(242,953)	-	(242,953)
Initial advance (E)	-	426,000	426,000
Advance incurred but not yet clear during the period (F)	-	388,962	388,962
Advance incurred in prior period but recorded as expenditure in current year (G)	(356,549)	-	(356,549)
Total eligible expenditure claimed (H=A+B+C+D+E+F+G) (H)	317,333	814,962	1,132,295

Ministry of Public Works and Transport

Second Greater Mekong Subregion Corridor Towns Development Project

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Appendix I: Statement of comparison of the budgeted and actual expenditure for the year end 31 December 2017

Description	Year ended 31 December 2017			Period from 29 February 2016 to 31 December 2016			Cumulative period from 29 February 2016 to 31 December 2017		
	Budget US\$	Actual US\$	Variance US\$	Budget US\$	Actual US\$	Variance US\$	Budget US\$	Actual US\$	Variance US\$
Investment									
Consulting services	608,020	673,882	(64,862)	388,962	-	388,962	997,982	673,882	324,100
Incremental and administration cost	264,224	242,953	21,271	-	-	-	264,224	242,953	21,271
	873,244	916,835	(43,591)	388,962	-	388,962	1,262,206	916,835	345,371