Medium Cities Development Project
Vinh City Sub-project

Under the Financing Agreement for Credit No. 5031 – VN ("Financing Agreement") between the Government of the Socialist Republic of Vietnam and the International Development Association ("IDA")

Financial statements
31 December 2017
Medium Cities Development Project
Vinh City Sub-project


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Medium Cities Development Project
Vinh City Sub-project


REPORT OF THE SUB-PROJECT'S MANAGEMENT

The management of the Medium Cities Development Project - Vinh City Sub-project ("the Sub-project") presents this report and the financial statements of the Sub-project as at 31 December 2017 and for the year then ended.

THE RESPONSIBILITY OF SUB-PROJECT'S MANAGEMENT IN RESPECT OF THE FINANCIAL STATEMENTS

The Sub-project's management is responsible for the financial statements as at 31 December 2017 and for the year then ended which give a true and fair view of:

- the receipts, disbursements and fund balance for the year ended 31 December 2017;
- the balance of the designated account as at 31 December 2017 and its movements for the year then ended; and
- the statements of expenditures for the year ended 31 December 2017.

In preparing these financial statements, the Sub-project's management is required to:

- select suitable accounting policies and then apply them consistently in accordance with the Financing Agreement (For Credit No. 5031 – VN) (the "Financing Agreement") between the Government of the Socialist Republic of Vietnam and the International Development Association ("IDA"), the Project Implementation Manual ("PIM") and other applicable laws and regulations;
- state whether applicable accounting policies have been followed, subject to any material departures disclosed and explained in the financial statements; and
- design and implement an effective internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Sub-project's management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the Sub-project's fund balance and its receipts and disbursements for the reporting period and ensuring that the accounting records comply with PIM. They are also responsible for safeguarding the assets of the Sub-project and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Sub-project's management confirms that they have complied with the above requirements in preparing the accompanying financial statements for the year ended 31 December 2017.
Medium Cities Development Project
Vinh City Sub-project


REPORT OF THE SUB-PROJECT'S MANAGEMENT (continued)

STATEMENT BY THE SUB-PROJECT'S MANAGEMENT

The Sub-project's management does hereby state that, in its opinion:

- The accompanying financial statements give a true and fair view of the fund balance of the Sub-project as at 31 December 2017, the receipt and disbursement for the year then ended, the balance of designated account as at 31 December 2017 and its movements for the year then ended and the statement of expenditures for the year then ended in accordance with the accounting policies as described in Note 3 to the financial statements and PIM;
- The funds provided by IDA and the Government of Vietnam are utilised for the purposes defined in the Financing Agreement;
- The Sub-project complies with the Financing Agreement, PIM and other applicable laws and regulations; and
- The Sub-project designs and implements an effective internal control system to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error, as well as to ensure compliance with the Financing Agreement, PIM and other laws and regulations applicable to the Sub-project.

For and on behalf of the Sub-project's management:

Mr Nguyen Trung Dung
Director of Sub-project

Vinh, Vietnam

29 June 2018
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To: Management of the Medium Cities Development Project – Vinh City Sub-project

Opinion

We have audited the financial statements of Medium Cities Development Project - Vinh City Sub-project ("the Sub-project"), as set out on pages 5 to 17, which comprise the statement of receipt, disbursement and fund balance as at 31 December 2017 and for the year then ended, the statement of designated account and the statement of expenditures for the year ended 31 December 2017 and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Sub-project are prepared, in all material respects, in accordance with the accounting policies as described in Note 3 to the financial statements and the Project Implementation Manual ("PIM").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Sub-project in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Vietnam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Accounting Policies

We draw attention to Note 3 to the financial statements, which describes the accounting policies. Our opinion is not modified in respect of this matter.

Responsibilities of the Sub–Project’s Management on the Financial Statements

The Sub-project's management is responsible for the preparation of these financial statements in accordance with the accounting policies as described in Note 3 to the financial statements and PIM, and for such internal control as the Sub-project’s management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.
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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with the Sub-project’s management 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 and on behalf of Ernst & Young Vietnam Limited

Le Duc Truong  
Deputy General Director  
Audit Practising Registration Certificate No. 0816-2018-004-1

Hanoi, Vietnam

29 June 2018
## Statement of Receipt, Disbursement and Fund Balance

as at 31 December 2017 and for the year then ended

<table>
<thead>
<tr>
<th>Notes</th>
<th>Description</th>
<th>Cumulative for the period from 12 January 2012 to 31 December 2017</th>
<th>For the year ended 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>VND</td>
<td>VND</td>
</tr>
<tr>
<td>4.1</td>
<td>Contribution from International Development Association</td>
<td>1,388,590,542,455</td>
<td>320,554,244,283</td>
</tr>
<tr>
<td>5</td>
<td>Contribution from the Government of Vietnam</td>
<td>1,387,135,743,625</td>
<td>505,000,143,872</td>
</tr>
<tr>
<td>6</td>
<td>Other receipts</td>
<td>855,743,890</td>
<td>454</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL RECEIPT</strong></td>
<td><strong>2,776,582,029,970</strong></td>
<td><strong>825,554,388,609</strong></td>
</tr>
<tr>
<td>7.1</td>
<td>Basic urban infrastructure upgrading and service improvement</td>
<td>150,305,356,322</td>
<td>15,246,275,418</td>
</tr>
<tr>
<td></td>
<td>Urban water supply and environmental sanitation</td>
<td>643,168,767,481</td>
<td>134,285,346,699</td>
</tr>
<tr>
<td></td>
<td>Urban roads and bridges system</td>
<td>443,628,413,233</td>
<td>185,701,831,970</td>
</tr>
<tr>
<td></td>
<td>Sub-project management support and technical assistance</td>
<td>122,869,149,440</td>
<td>35,299,988,319</td>
</tr>
<tr>
<td></td>
<td>Disbursements for preparation period of the Sub-project</td>
<td>1,341,551,211,202</td>
<td>517,668,294,069</td>
</tr>
<tr>
<td></td>
<td>Other expenses</td>
<td>920,471,388</td>
<td>551,435</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL DISBURSEMENT</strong></td>
<td><strong>2,702,443,369,066</strong></td>
<td><strong>888,202,287,900</strong></td>
</tr>
<tr>
<td></td>
<td><em>(DEFICIT)/SURPLUS OF RECEIPT OVER DISBURSEMENT</em></td>
<td></td>
<td><em>(62,647,899,291)</em></td>
</tr>
<tr>
<td></td>
<td>Foreign exchange differences</td>
<td>1,757,221,739</td>
<td>26,810,226</td>
</tr>
<tr>
<td></td>
<td><strong>FUND BALANCE AT THE BEGINNING OF THE YEAR/PERIOD</strong></td>
<td>74,138,660,904</td>
<td><strong>138,516,971,708</strong></td>
</tr>
<tr>
<td></td>
<td><strong>FUND BALANCE AT THE END OF THE YEAR/PERIOD</strong></td>
<td>75,895,882,643</td>
<td><strong>75,895,882,643</strong></td>
</tr>
<tr>
<td></td>
<td>In which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>72,974,058,143</td>
<td>72,974,058,143</td>
</tr>
<tr>
<td></td>
<td>Other receivables</td>
<td>2,921,824,500</td>
<td>2,921,824,500</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td>75,895,882,643</td>
<td>75,895,882,643</td>
</tr>
</tbody>
</table>

*Mr Phan Huu Huong*
Chief Accountant of Sub-project

Vinh, Vietnam

29 June 2018
Medium Cities Development Project
Vinh City Sub-project


STATEMENT OF DESIGNATED ACCOUNT
as at 31 December 2017 and for year then ended

BALANCE AND MOVEMENTS OF DESIGNATED ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>USD</th>
<th>VND equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance as at 31 December 2016</td>
<td></td>
<td>4,500,000</td>
<td>102,240,059,855</td>
</tr>
<tr>
<td>Add</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount deposited by the International Development Association</td>
<td>4.2</td>
<td>14,116,694</td>
<td>320,553,835,848</td>
</tr>
<tr>
<td>Transfer from bank interest account to net off against fee charged by intermediary bank</td>
<td></td>
<td>18</td>
<td>408,435</td>
</tr>
<tr>
<td>Deduct</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amount withdrawn</td>
<td>7.1</td>
<td>16,118,069</td>
<td>364,988,500,830</td>
</tr>
<tr>
<td>Foreign exchange difference</td>
<td></td>
<td>421</td>
<td>(26,810,226)</td>
</tr>
<tr>
<td>Ending balance as at 31 December 2017</td>
<td>8</td>
<td>2,498,643</td>
<td>57,832,613,534</td>
</tr>
<tr>
<td>Ending balance as at 31 December 2017 per bank statement</td>
<td>8</td>
<td>2,498,643</td>
<td>57,832,613,534</td>
</tr>
</tbody>
</table>
Medium Cities Development Project
Vinh City Sub-project


STATEMENT OF DESIGNATED ACCOUNT (continued)
as at 31 December 2017 and for the year then ended

RECONCILIATION OF DESIGNATED ACCOUNT

<table>
<thead>
<tr>
<th>Description</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial withdrawal</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Addition</td>
<td></td>
</tr>
<tr>
<td>Adjustment of disbursement limit (*)</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Deduct</td>
<td></td>
</tr>
<tr>
<td>Amount recovered by the International Development Association</td>
<td>-</td>
</tr>
<tr>
<td>Amount refunded to the International Development Association</td>
<td>-</td>
</tr>
<tr>
<td>Ending balance of advance from International Development Association to designated account as at 31 December 2017</td>
<td>4,500,000</td>
</tr>
<tr>
<td>Ending balance of designated account as at 31 December 2017</td>
<td>2,498,643</td>
</tr>
<tr>
<td>Add</td>
<td></td>
</tr>
<tr>
<td>Amount withdrawn and not yet claimed as at 31 December 2017</td>
<td>2,001,357</td>
</tr>
<tr>
<td>Fee charged by intermediary bank</td>
<td>18</td>
</tr>
<tr>
<td>Deduct</td>
<td></td>
</tr>
<tr>
<td>Transfer from bank interest account to net off against fee charged by intermediary bank</td>
<td>18</td>
</tr>
<tr>
<td>Ending balance of advance to designated account as at 31 December 2017</td>
<td>4,500,000</td>
</tr>
</tbody>
</table>

(*) According to the World Bank’s announcement of the change in the designated account limit dated 21 July 2016 which apply to 2016 and from the withdrawal application No. 20, the disbursement limit was increased by USD1,500,000 to USD4,500,000.

Mr Phan Huu Huong
Chief Accountant of Sub-project

Mr Nguyen Trung Dung
Director of Sub-project

Vinh, Vietnam
29 June 2018
Medium Cities Development Project  
Vinh City Sub-project  


**STATEMENT OF EXPENDITURES**  
for the year ended 31 December 2017

<table>
<thead>
<tr>
<th>Withdrawal Application No.</th>
<th>Construction</th>
<th>Consultant</th>
<th>Tools and equipments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>VND equivalent</td>
<td>USD</td>
<td>VND equivalent</td>
</tr>
<tr>
<td>Withdrawal Application No. 23/DAVI</td>
<td>4,155,649</td>
<td>93,687,680,201</td>
<td>217,532</td>
<td>4,931,159,393</td>
</tr>
<tr>
<td>Withdrawal Application No. 24/DAVI</td>
<td>1,110,487</td>
<td>25,148,784,296</td>
<td>346,066</td>
<td>7,658,573,096</td>
</tr>
<tr>
<td>Withdrawal Application No. 25/DAVI</td>
<td>1,007,392</td>
<td>22,825,822,654</td>
<td>148,954</td>
<td>3,375,834,821</td>
</tr>
<tr>
<td>Withdrawal Application No. 26/DAVI</td>
<td>2,105,429</td>
<td>47,769,904,994</td>
<td>48,455</td>
<td>1,999,681,686</td>
</tr>
<tr>
<td>Withdrawal Application No. 27/DAVI</td>
<td>3,230,838</td>
<td>73,314,716,761</td>
<td>208,582</td>
<td>4,733,579,547</td>
</tr>
<tr>
<td>Withdrawal Application No. 28/DAVI</td>
<td>1,168,128</td>
<td>26,494,325,214</td>
<td>307,002</td>
<td>6,963,668,199</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>12,777,923</td>
<td>289,241,234,120</td>
<td>1,276,593</td>
<td>28,962,496,742</td>
</tr>
</tbody>
</table>

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Mr Phan Huu Huong  
Chief Accountant of Sub-project

Vinh, Vietnam  
29 June 2018

Mr Nguyen Trung Dung  
Director of Sub-project
Medium Cities Development Project
Vinh City Sub-project


NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2017 and for the year then ended

1. THE SUB-PROJECT BACKGROUND

The Government of the Socialist Republic of Vietnam has received a credit from the International Development Association ("IDA") with total credit facility of USD210 million to finance for the Medium Cities Development Project under the Financing Agreement for Credit No. 5031 – VN ("Financing Agreement").

The Financing Agreement for the Medium Cities Development Project was signed on 12 January 2012 between the Government of the Socialist Republic of Vietnam and IDA, and was brought into effect after 90 days from the date of signing this Financing Agreement. The Project development objectives are to increase access to improved urban infrastructure services in Lao Cai city of Lao Cai province, Phu Ly city of Ha Nam province and Vinh city of Nghe An province in a sustainable and efficient manner.

The Project consists of three sub-projects, one for each city. Each of these sub-projects is divided into four components as listed below:

- Component 1 - Basic urban infrastructure upgrading and service improvements;
- Component 2 - Urban water supply and environmental sanitation;
- Component 3 - Urban roads and bridges; and
- Component 4 - Project management support and technical assistance.

The estimated number of beneficiaries from the Project is approximately 35,000 peoples who can get access to water supply system of the Project; a number of 191,000 people can take advantage of environmental sanitation improvement, meanwhile 30% of normal travelling time will be saved by dint of the appearance of new urban roads; and each city is responsible for preparing the sustainable and comprehensive development plan related to urban asset management.

For Vinh City Sub-project ("the Sub-project"), there are four (04) components implemented, including:

(i) Component 1 - Basic urban infrastructure upgrading and service improvement, including:
   - Construction of Quan Bau resettlement area 12.8 ha, including site leveling, road networks, water supply and drainage systems, power supply, street lighting, and open space;
   - Construction of Hamlet 5 - Nghi Phu resettlement area 11.7 ha, including site leveling, road networks, water supply and drainage systems, power supply, street lighting, and open space; and
   - Construction and/or improvement of (i) sanitary facilities for 32 primary and secondary schools; (ii) hand washing facilities for 14 schools; (iii) construction of toilets for 7 schools; and hand washing facilities and construction of toilets for 11 schools.
Medium Cities Development Project
Vinh City Sub-project


NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2017 and for the year then ended

1. SUB-PROJECT BACKGROUND (continued)

(ii) Component 2 - Urban water supply and environmental sanitation:
- Rehabilitation and upgrading the Bac Channel in 3 sections (1.25 km, 2.06 km, and 1.4 km), including construction of a box culvert channel, stone pitching, service roads, sidewalks, street lighting, and landscaping;
- Constructing of interceptors along both sides of the Bac Channel, connecting to the wastewater pumping station (below);
- Constructing a regulating lake at the end of the Bac Channel, area 53 ha, with stone pitching, service roads, sidewalks, street lighting, and landscaping;
- Rehabilitation and upgrading of the moat/drainage channels around the Vinh Citadel, including dredging, rock pitching, service roads, street lighting, and landscaping;
- Upgrading the existing Cua Nam Lake, including (i) dredging and rock pitching; (ii) constructing a wastewater pumping station capacity 3,100 m³ per day; and (iii) constructing a pressure pipeline from the pumping station to the Hong Bong Channel;
- Upgrading the main drainage channel from Channel No. 3 to the Dong Vinh Channel; and
- Increasing the capacity of the city's main wastewater pumping station from 12,600 to 25,000 m³ per day.

(iii) Component 3 - Urban Roads and Bridges:
- Construction of the Hung Tay - Vinh Road, 6.21 km long, to an initial 4 lane standard, including an initial 2 lane bridge with 443 m long over the main north-south railway; and
- Construction of the road to link national way NH46 to Lam River edge's road, 8.25 km long, to an initial 2 lane standard.

(iv) Component 4 - Project Management Support and Technical Assistance include:
- The scope includes: (i) support to the PMU for all activities, including procurement, reporting, financial and other monitoring; (ii) supervision of all construction works; and (iii) an IEC program;
- The scope covers independent services for (i) environment and resettlement monitoring; (ii) financial audit; and (iii) post-evaluation;
- The scope will cover, as separate programs, for (i) urban planning; (ii) asset management and capacity building; (iii) Internal Audit Capacity Building; and (iv) Safeguards Management Capacity Building;
- The scope provides for equipment and resources for the Sub-project's management and for city agencies involved with the technical assistance program above;
- The scope includes training and relevant study tours for city officials, the Sub-project's management's staff and staff of utility agencies; and
- The scope, which will be counterpart funding financed, is Sub-project's salaries, office and other expenses related to the Sub-project's management.
Medium Cities Development Project
Vinh City Sub-project


NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2017 and for the year then ended

1. SUB-PROJECT BACKGROUND (continued)

Achievements of the Sub-project include:

- Install 12.5 km water supply pipeline (level 2 and level 3);
- Install 19.5 km wastewater collection and treatment system (level 2 and level 3);
- Construct and install 6 km drainage system (including separate water wells);
- Construct 14.5 km road (including 3 bridges); and
- A number of 32 schools are fully equipped with sanitation facilities.

2. BASIS OF PREPARATION

The Sub-project's financial statements, except for the statement of designated account, are expressed in Vietnam dong ("VND"). The statement of designated account is expressed in United States dollars ("USD").

The Sub-project's financial statements are prepared in accordance with the accounting policies described in Note 3 and the Project Implementation Manual ("PIM"). Financial statements consist of expenditures incurred for preparation period of the Sub-project which were paid for the year ended 31 December 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

Contribution from International Development Association ("IDA")

Contributions from IDA are recognized when cash is deposited to the Sub-project's designated account which is managed by the Vinh City Sub-project's management, rather than when being committed or budgeted.

Contributions from Government of Vietnam ("Counterpart fund")

Contributions from Counterpart's fund are recognized when cash is deposited in the Sub-project's State Treasury Accounts or when disbursements are made through the State Treasury Accounts, rather than when being committed or budgeted.

Other receipts

Other receipts consist of:

- Interest income is recognized when cash is actually received after netting off with bank charge incurred during the year; and
- Income from sales of bidding documents is recognized when cash is actually received.

Disbursement

Except for advance to Sub-project's employees, disbursements are recognized when payments are approved by the Sub-project's Director and made to contractors, suppliers or beneficiaries for relevant Sub-project's activities under the Sub-projects' components.
Medium Cities Development Project
Vinh City Sub-project


NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2017 and for the year then ended

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign exchange differences

Receipts and disbursements in foreign currencies (other than VND) are converted into VND at the exchange rate ruling at the date of transaction. Monetary items included in the fund balance, which are denominated in foreign currencies, are translated into VND at the exchange rate quoted by Joint Stock Commercial Bank for Foreign Trade of Vietnam, Vinh City branch at the reporting date.

Foreign exchange differences are presented separately in the statement of receipt, disbursement and fund balance for the reporting year.

Advance to the Sub-project’s employees

Advances to Sub-project’s employees to implement Sub-project’s activities are carried as part of the fund balance until subsequent liquidation or clearance at approval of the Sub-project’s Director.

Capital expenditure and inventory

All items of capital expenditure and inventory are charged as the Sub-project’s expenses at the time of payments.

4. CONTRIBUTION FROM INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

4.1 Funds received from IDA as reported by the Sub-project

<table>
<thead>
<tr>
<th>Currency: VND</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated fund as at 31 December 2016</td>
<td>1,068,036,298,172</td>
</tr>
<tr>
<td>Increase during the year</td>
<td></td>
</tr>
<tr>
<td>Amount withdrawn under application No. 23/DAVI</td>
<td>99,577,334,102</td>
</tr>
<tr>
<td>Amount withdrawn under application No. 24/DAVI</td>
<td>33,034,668,987</td>
</tr>
<tr>
<td>Amount withdrawn under application No. 25/DAVI</td>
<td>26,191,233,729</td>
</tr>
<tr>
<td>Amount withdrawn under application No. 26/DAVI</td>
<td>50,293,943,770</td>
</tr>
<tr>
<td>Amount withdrawn under application No. 27/DAVI</td>
<td>78,023,239,978</td>
</tr>
<tr>
<td>Amount withdrawn under application No. 28/DAVI</td>
<td>33,433,823,717</td>
</tr>
<tr>
<td>Total increase during the year</td>
<td>320,554,244,283</td>
</tr>
<tr>
<td>Accumulated fund as at 31 December 2017</td>
<td>1,388,590,542,455</td>
</tr>
</tbody>
</table>
Medium Cities Development Project
Vinh City Sub-project


NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2017 and for the year then ended

4. CONTRIBUTION FROM INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)
(continued)

4.2. Reconciliation of funds received from IDA

<table>
<thead>
<tr>
<th>Description</th>
<th>USD</th>
<th>VND equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total amounts received from IDA as per statement of designated account</td>
<td>14,116,694</td>
<td>320,553,835,848</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fee charged by intermediary bank</td>
<td>18</td>
<td>408,435</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange difference</td>
<td>-</td>
<td>(939,273,421)</td>
</tr>
<tr>
<td>Total amounts disbursed by IDA as per Statement of Expenditures</td>
<td>14,116,712</td>
<td>319,614,970,862</td>
</tr>
</tbody>
</table>

5. CONTRIBUTION FROM THE VIETNAMESE GOVERNMENT

<table>
<thead>
<tr>
<th>Description</th>
<th>For the year ended 31 December 2017</th>
<th>Cumulative for the period from 12 January 2012 to 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount received from counterpart fund</td>
<td>522,481,297,694</td>
<td>1,386,717,211,650</td>
</tr>
<tr>
<td>Fund transferred from preparation period of the Sub-project</td>
<td>-</td>
<td>418,531,975</td>
</tr>
<tr>
<td>Refund of counterpart fund to the Vietnamese Government (*)</td>
<td>(17,481,153,822)</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>505,000,143,872</strong></td>
<td><strong>1,387,135,743,625</strong></td>
</tr>
</tbody>
</table>

(*) This amount was funded by the Vietnamese Government for land compensation. However, it has been more than one year since the disbursement date and the Sub-project's management has not yet paid out to the beneficiaries. In accordance with the guidance of Circular No. 08/2016/TT-BTC dated 18 January 2016 on management and payment of investment capital using the State budget, the Sub-project's management has returned this amount to the Vietnamese Government.
Medium Cities Development Project
Vinh City Sub-project


NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2017 and for the year then ended

6. OTHER RECEIPTS

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 31 December 2017</th>
<th>Cumulative for the period from 12 January 2012 to 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank interest – net of bank charges</td>
<td>454</td>
<td>51,343,890</td>
</tr>
<tr>
<td>Receipts from sales of bidding documents</td>
<td>-</td>
<td>804,400,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>454</td>
<td>855,743,890</td>
</tr>
</tbody>
</table>

Currency: VND
Medium Cities Development Project  
Vinh City Sub-project  


NOTES TO THE FINANCIAL STATEMENTS (continued) as at 31 December 2017 and for the year then ended

### 7. DISBURSEMENTS

#### 7.1. Disbursements by categories and sources of funds

<table>
<thead>
<tr>
<th>Items</th>
<th>For the year ended 31 December 2017</th>
<th>Cumulative for the period from 12 January 2012 to 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financed by IDA</td>
<td>Financed by the Government of Vietnam</td>
</tr>
<tr>
<td>Construction</td>
<td>334,814,764,087 - -</td>
<td>334,814,764,087</td>
</tr>
<tr>
<td>Consultant</td>
<td>30,373,736,743 - -</td>
<td>30,373,736,743</td>
</tr>
<tr>
<td>Tools and equipments</td>
<td>- -</td>
<td>-</td>
</tr>
<tr>
<td>Disbursements for preparation period of the Sub-project</td>
<td>- 518,286,984,059</td>
<td>- 518,286,984,059</td>
</tr>
<tr>
<td>Other expenses (*)</td>
<td>- - 551,435</td>
<td>551,435</td>
</tr>
</tbody>
</table>

**TOTAL** 364,988,500,830 523,213,236,635 551,435 888,202,287,900 1,332,516,213,900 1,369,007,683,778 920,471,388 2,702,443,369,066

(*) Other expenses include mainly payments for bidding process which is financed by receipts from the sales of bidding documents.
Medium Cities Development Project
Vinh City Sub-project


NOTES TO THE FINANCIAL STATEMENTS (continued)
as at 31 December 2017 and for the year then ended

7. DISBURSEMENTS (continued)

7.2. Actual disbursement and budget comparison

<table>
<thead>
<tr>
<th>Items</th>
<th>For the year ended 31 December 2017</th>
<th>Variance</th>
<th>%</th>
<th>Cumulative for the period from 12 January 2012 to 31 December 2017</th>
<th>Variance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual disbursement</td>
<td>Budget</td>
<td></td>
<td>Actual disbursement</td>
<td>Budget (*)</td>
<td></td>
</tr>
<tr>
<td>Basic urban infrastructure upgrading and service improvement</td>
<td>15,246,275,418</td>
<td>28,940,480,765</td>
<td>(13,694,205,347)</td>
<td>(47%)</td>
<td>150,305,356,322</td>
<td>163,999,561,669</td>
</tr>
<tr>
<td>Urban water supply and environmental sanitation</td>
<td>134,285,346,699</td>
<td>214,813,935,896</td>
<td>(80,528,589,197)</td>
<td>(37%)</td>
<td>643,168,767,481</td>
<td>723,697,356,678</td>
</tr>
<tr>
<td>Urban roads and bridges</td>
<td>185,701,831,970</td>
<td>281,208,549,274</td>
<td>(95,506,717,304)</td>
<td>(34%)</td>
<td>443,628,413,233</td>
<td>539,135,130,537</td>
</tr>
<tr>
<td>Sub-project management support and technical assistance</td>
<td>35,299,988,319</td>
<td>37,375,524,026</td>
<td>(2,075,535,707)</td>
<td>(6%)</td>
<td>122,869,149,440</td>
<td>124,942,685,147</td>
</tr>
<tr>
<td>Disbursements for preparation period of the Sub-project</td>
<td>517,668,294,059</td>
<td>520,447,000,000</td>
<td>(2,787,705,941)</td>
<td>(1%)</td>
<td>1,341,551,211,202</td>
<td>1,344,329,917,143</td>
</tr>
<tr>
<td>Other expenses</td>
<td>551,435</td>
<td>-</td>
<td>551,435</td>
<td>-</td>
<td>920,471,388</td>
<td>919,919,953</td>
</tr>
<tr>
<td>TOTAL</td>
<td>888,202,287,900</td>
<td>1,082,783,489,961</td>
<td>(194,581,202,061)</td>
<td>(18%)</td>
<td>2,702,443,369,066</td>
<td>2,897,024,571,127</td>
</tr>
</tbody>
</table>

(*) Cumulative budget for the period from 12 January 2012 to 31 December 2017 includes cumulative actual disbursement from 12 January 2012 to 31 December 2016 and approved budget for the year 2017.
Notes to the Financial Statements (continued)

8. CASH

<table>
<thead>
<tr>
<th></th>
<th>31 December 2017</th>
<th>31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at banks</td>
<td>57,845,102,797</td>
<td>102,253,100,099</td>
</tr>
<tr>
<td>Designated account</td>
<td>57,832,613,534</td>
<td>102,240,059,855</td>
</tr>
<tr>
<td>Other bank account</td>
<td>12,489,263</td>
<td>13,040,244</td>
</tr>
<tr>
<td>In which: bank interests</td>
<td>12,489,263</td>
<td>13,040,244</td>
</tr>
<tr>
<td>Cash at State Treasury</td>
<td>15,053,185,443</td>
<td>36,127,056,996</td>
</tr>
<tr>
<td>Cash on hands</td>
<td>75,769,903</td>
<td>27,063,413</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>72,974,058,143</strong></td>
<td><strong>138,407,220,508</strong></td>
</tr>
</tbody>
</table>

9. OTHER RECEIVABLES

Other receivables are the difference between the site clearance compensation paid to households and the compensation amount pursuant to the latest decision on compensation issued by the People's Committee of Vinh city.

Mr Phan Huu Huong
Chief Accountant of Sub-project

Mr Nguyen Trung Dung
Director of Sub-project

Vinh, Vietnam
29 June 2018
INDEPENDENT ASSURANCE REPORT ON COMPLIANCE

To: Management of the Medium Cities Development Project – Vinh City Sub-project

We have examined the compliance of the management of the Medium Cities Development Project – Vinh City Sub-project ("the Sub-project") with the applicable laws, regulations, procurement procedures and other provisions of the Financing Agreement between the Government of the Socialist Republic of Vietnam and the International Development Association ("IDA") (the "Financing Agreement") during the year ended 31 December 2017. The Sub-project’s management is responsible for the compliance with the Financing Agreement, the Project Implementation Manual ("PIM") and other laws and regulations applicable to the Sub-project (collectively referred to as "the Sub-project’s regulations").

Auditor’s Responsibility

Our responsibility is to express an opinion, based on our examination, on the compliance of the Sub-project’s management with the Sub-project’s regulations that could have a direct and material financial effect to the financial statements of the Sub-project during the year ended 31 December 2017. We conducted our examination in accordance with the principles of International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE 3000") insofar this standard could be usefully applied in this examination and in its specific compliance context. This standard requires that we comply with ethical requirements and that we plan and perform the examination to obtain reasonable assurance about whether the Sub-project’s management complies with the Sub-project’s regulations that could have a direct and material financial effect to the financial statements.

Our examination includes obtaining a sufficient understanding of the Sub-project and the Sub-project’s regulations; assessing the risk on non-compliance exists that could have a direct and material financial effect to the financial statements of the Sub-project; testing and evaluating, on a sample basis, the compliance of the Sub-project’s management with the Sub-project’s regulations based on the assessed risk; and performing such other procedures as we considered necessary in the circumstances.

We considered the following criteria in evaluating the compliance of the Sub-project’s management with the Sub-project’s regulations:

- the Sub-project’s management awareness of the Sub-project’s regulations;
- the implementation of the Sub-project’s regulations by the Sub-project’s management;
- the significance to the financial statements where the Sub-project’s management fails to comply with one requirement or several requirements in the Sub-project’s regulations, if any; and
- that a weakness or a deficiency existed where the Sub-project’s management fails to comply with one or several requirements in the Sub-project regulations that could have a direct and material financial effect to the financial statements.

We believe that our examination provides a reasonable basis for our opinion.
Opinion

In our opinion, the Sub-project's management complies, in all material respects, with the Sub-project's regulations that could have a direct and material financial effect to the financial statements of the Sub-project during the year ended 31 December 2017 based on the evaluating criteria above.

Other Matters

We draw attention to Appendix 1 – Management letter in which we discussed minor departures from the Sub-project's regulations which have no direct and material financial effect to the financial statements of the Sub-project but may put the Sub-project's objectives at risk.

This examination involved a historic evaluation of the compliance of the Sub-project's management with the Sub-project's regulations at a specific point of time. Thus, this examination does not provide assurance for future periods due to the risk of changes in the Sub-project's regulations, or that the degree of compliance with the Sub-project's regulations, may deteriorate.

For and on behalf of Ernst & Young Vietnam Limited

Le Duc Truong
Deputy General Director
Audit Practising Registration Certificate No. 0816-2018-004-1

Hanoi, Vietnam

29 June 2018
INDEPENDENT ASSURANCE REPORT ON THE EFFECTIVENESS OF INTERNAL CONTROL

To: Management of the Medium Cities Development Project – Vinh City Sub-project

We have audited the design and operating effectiveness of the internal control of the Medium Cities Development Project - Vinh City Sub-project ("the Sub-project") as operated by the management of the Sub-project ("the Sub-project's management") which existed during the year ended 31 December 2017. The internal control was set up for the purpose of managing risks to the achievement of the Sub-project’s objectives, including the reasonable prevention and detection of errors, irregularities and fraud. The internal control is the responsibility of the Sub-project's management.

Auditor’s Responsibility

Our responsibility is to express an opinion, based on our audit, on the effectiveness of the internal control that could have a direct and material financial effect to the financial statements of the Sub-project during the year ended 31 December 2017. We conducted our audit in accordance with the principles of International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE 3000") insofar this standard could be usefully applied in this audit and in its specific compliance context. This standard requires that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the internal control for the Sub-project is adequately designed for the purpose of the Sub-project and was operating effectively during the period covered by the audit.

Our audit included obtaining a sufficient understanding of the Sub-project and the internal control for the Sub-project; assessing the risk that a material weakness exists that could have a direct and material financial effect to the financial statements of the Sub-project; testing and evaluating, on a sample basis, the design and operating effectiveness of internal control based on the assessed risk; and performing such other procedures as we considered necessary in the circumstances.

We considered the following criteria in evaluating the effectiveness of the internal control:

- the requirement for design and implementation of the internal control in the Project Implementation Manual ("PIM");
- the appropriateness of the internal control for the Sub-project’s activities and objectives;
- the implementation of the internal control by the Sub-project's management to achieve its objective of prevention and detection of errors, irregularities and fraud that could have a direct and material financial effect to the financial statements of the Sub-project;
- the significance to the financial statements where one control or several controls did not operate as designed, if any; and
- that a weakness or a deficiency existed where a control or several controls did not reasonably prevent or detect risks that could have an adverse impact on the objectives of those internal controls which are to provide reasonable assurance that the financial statements are prepared, in all material respects, in accordance with the adopted accounting policies and PIM, that the funds are utilised for the purposes defined in the Financing Agreement between the Government of the Socialist Republic of Vietnam and the International Development Association ("IDA") ("the Financing Agreement") and that the Sub-project complies with the Financing Agreement, PIM and other applicable laws and regulations.

We believe that our audit provides a reasonable basis for our opinion.
Opinion

In our opinion, the Sub-project's internal control which existed during the year ended 31 December 2017, in all material respects, was adequately designed for the purpose of the Sub-project and operated in an effective manner, based on evaluating criteria above.

Other Matters

We draw attention to Appendix 1 – Management letter in which we discussed findings in relation to the internal control which have no direct and material financial effect to the financial statements of the Sub-project but may put the Sub-project's internal control effectiveness at risk.

This audit involved a historic evaluation of the internal control at a specific point of time. Thus, this audit does not provide assurance for future periods due to the risk that internal control may become inappropriate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

For and on behalf of Ernst & Young Vietnam Limited

Le Duc Truong
Deputy General Director
Audit Practising Registration Certificate No. 0816-2018-004-1

Hanoi, Vietnam
29 June 2018