Results-based Operation for Local Bridge Construction and Road Asset Management

Technical Assistance Component

Audited Financial Statements

Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

For the period from 4 October 2016 to 31 December 2017

2018 -08- 02
Results-based Operation for Local Bridge Construction and Road Asset Management
Technical Assistance Component
Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

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Results-based Operation for Local Bridge Construction and Road Asset Management
Technical Assistance Component
Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

STATEMENT OF THE COMPONENT MANAGEMENT BOARD

Project Management Unit 6 was assigned by the Ministry of Transport as the Owner Representative for Technical Assistance Component of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management” (“the Component”) using the World Bank’s credit and the counterpart funds from the Government of Vietnam. Project Management Unit 6 (“the Component Management Unit”) is responsible for the Financial Statements of Technical Assistance Component of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management” (“the Project”) for the period from 4 October 2016 to 31 December 2017.

The Project

The Project “Results-based Operation for Local Bridge Construction and Road Asset Management” was implemented by the Ministry of Transport (MOT) - the Socialist Republic of Vietnam according to Decision No. 330/QD-TTg dated 2nd March 2016 signed by the Prime Minister of the Socialist Republic of Vietnam and Decision No. 622/QD-BGTVT dated 2 March 2016 signed by the Minister of MOT. The Project was granted by the World Bank’s credit through International Development Association (“IDA”) under the Financing Agreement No. 5810-VN dated 4 July 2016, with the total amounts equivalent to 278,800,000 Special Drawing Rights (“SDR”), and the counterpart funds from the Government of the Socialist Republic of Vietnam for seven (7) years from 2016 to 2023.

The overall objective of the Project is to assist the Government and the Ministry of Transport in the National Strategy on Rural Transport Development and a National Program for Local Bridge Construction to ensure traffic safety in Ethnic Minority Areas and to improve access in rural areas with low accessibility, especially for areas where poor ethnic minority communities are located as well as other vulnerable groups such as single women and children.

The Project consists of: (i) A Program using the Results-Based Program (PforR) instrument (the Program), supported by a IDA credit of USD380.5 million; and (ii) Technical Assistance (the Project) using the Investment Project Financing (IPF) instrument, supported by a IDA credit of USD4.5 million.

The Project’s objectives are achieved by implementing the following components:

- Component 1: Improvement, rehabilitation of local roads (managed by Project Management Unit 6);
- Component 2: Local Bridge Construction (managed by Project Management 3); and
- Technical Assistance Component (managed by Project Management 6).

A Program using the PforR instrument to assist the Government’s program, consisting of two (2) Components 1 and 2 of the Project.

Component 1 – Improvement, rehabilitation of local roads has been managed by the Project Management Unit 6 and implemented in 14 provinces, including: Lao Cai, Ha Giang, Nam Dinh, Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Bac Kan, Quang Tri, Thua Thien Hue, Quang Nam, Lang Son, Cao Bang and Binh Dinh. The Component’s objective is to provide support to the National Strategy for Rural Transport Development, through: (a) strengthening its institutional capacity to plan, implement and improve maintenance activities of the local road network; and (b) the improvement, rehabilitation, periodic and routine maintenance of local roads based upon rolling Medium Term Expenditure Plans.
Results-based Operation for Local Bridge Construction and Road Asset Management

Technical Assistance Component

Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

STATEMENT OF THE COMPONENT MANAGEMENT BOARD (CONTINUED)

Component 2 – Local Bridge Construction has been managed by the Project Management Units 3, 4, 6 and 8 and implemented in 50 provinces, including: Ha Giang, Cao Bang, Lai Chau, Dien Bien, Son La, Lao Cai, Yen Bai, Lang Son, Bac Kan, Tuyen Quang, Thai Nguyen, Phu Tho, Hoa Binh, Quang Ninh, Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien Hue, Quang Nam, Quang Ngai, Binh Dinh, Gia Lai, Kon Tum, Dak Lak, Dak Nong, Lam Dong, Bac Giang, Vinh Phuc, Ninh Binh, Hai Duong, Phu Yen, Ninh Thuan, Khanh Hoa, Binh Thuan, Binh Phuoc, Tra Vinh, Dong Nai, Vinh Long, Hai Giang, Kien Giang, An Giang, Soc Trang, Bac Lieu, Ca Mau, Tay Ninh, Can Tho, Dong Thap and Ben Tre. The Component’s objective is to provide support to the National Strategy for Rural Transport Development, through: (a) the construction of small bridges in poor and ethnic minority communities and villages with missing or unsafe links in order to facilitate access to social services, schools, and clinics within the local road network; and (b) strengthening of local communities’ capacity to carry out bridge maintenance activities.

The Technical Assistance Component implemented by Project Management Unit 6, consisting of activities that are necessary to complete the PforR, namely activities related to: (a) auditing the Program; (b) improving the capacity of implementing agencies in environmental and social management; and (c) the Local Road Asset Management Systems support, climate resilience in the road network, and community and women based road maintenance.

Component Management Board

The members of the Component Management Board are responsible for the management of the Technical Assistance Component of the Project during the period and at the date of this report are as follows:

- Mr. Nguyen Huu Long Director (from 13 October 2017)
- Mr. Pham Tuan Anh Director (till 13 October 2017)
- Mr. Pham Ngoc Bien Deputy Director
- Mr. Le Tuan Khanh Head of Finance and Accounting Department
- Mr. Pham Xuan Trung Deputy Head of Project Implementation Department 1

Auditors

The accompanying Financial Statements for the period from 4 October 2016 to 31 December 2017 have been audited by NEXIA STT Co., Ltd.

Responsibility of the Component Management Board in respect of the Financial Statements

The Component Management Board is responsible for the Financial Statements which give a true and fair view of the financial position and designated account balance of the Technical Assistance Component as at 31 December 2017 and of its sources and uses of funds, operations of designated account and total funds withdrawn for the period from 4 October 2016 to 31 December 2017. In preparing the Financial Statements, the Component Management Board is required to select suitable accounting policies and then apply them consistently.
Results-based Operation for Local Bridge Construction and Road Asset Management
Technical Assistance Component

Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

STATEMENT OF THE COMPONENT MANAGEMENT BOARD (CONTINUED)

The Component Management Board is responsible for ensuring that proper accounting records are kept which enable the Financial Statements to be prepared in compliance with the accounting policies set out in Note 2 to the Financial Statements. The Component Management Board is also responsible for safeguarding the assets of the Component and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Component Management Board assumes the responsibility to provide, and has provided, the auditors with all accounting records, supporting and other documents, minutes, any pertinent information and explanations, either orally or by written confirmation, necessary for the audit.

Approval of the Financial Statements

We hereby approve the accompanying Financial Statements of the Project "Results-based Operation for Local Bridge Construction and Road Asset Management" – Technical Assistance Component on pages 11 to 20 which give a true and fair view of the financial position and designated account balance as at 31 December 2017 and its sources and uses of funds, operations of designated account and total funds withdrawn during the period from 4 October 2016 to 31 December 2017 in accordance with the accounting policies as described in Note 2 to the Financial Statements and grant withdrawals have been adequately reconciled to the statements of expenditures prepared by the Component during the period, and such statements of expenditures were adequately supported. The Financial Statements were prepared in compliance with the Applicable Provisions of the Agreement and other Guidance from the World Bank.

On behalf of the Component Management Board

Mr. Pham Ngoc Bien
Deputy Director
Hanoi, 25 July 2018
INDEPENDENT AUDITORS’ REPORT
On Component Financial Statements

To: The Management Board of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management” Technical Assistance Component

Audit opinion

We have audited the accompanying Balance Sheet as at 31 December 2017, the Consolidated Statement of Sources and Uses of Funds, the Statement of Designated Account and the SOE Withdrawal Schedule for the period from 4 October 2016 to 31 December 2017 (collectively referred to as the “Financial Statements”) of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management” – Technical Assistance Component (“the Component”) implemented by World Bank’s credit through International Development Association (“IDA”) and counterpart funds, and summary of significant accounting policies and other explanatory information.

In our opinion, in all material respects:

a) the Balance Sheet and the Consolidated Statement of Sources and Uses of Funds give a true and fair view of the financial position of the Technical Assistance Component as at 31 December 2017 and of its sources and uses of funds for the period from 4 October 2016 to 31 December 2017 in conformity with the accounting policies described in Note 2;

b) the Statement of Designated Account and the SOE Withdrawal Schedule give a true and fair view of the designated account balance as at 31 December 2017 and of operations of the designated account, and of the funds withdrawn for the period from 4 October 2016 to 31 December 2017, in conformity with the accounting policies described in Note 2; and

c) the Statements of Expenditures and Summary Sheets are fully prepared and maintained with adequate supporting documents to support for the replenishment requests submitted to the World Bank. Funds disbursed through the statements of expenditures and summary sheets are utilized for purposes defined in the Financing Agreement No. 5810-VN.

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 Component in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in accordance with ISAs, 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.
Responsibilities of Component Management for the Financial Statements

Component Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with Note 2 and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements of the Component 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 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.

A further description of the auditors’ responsibilities for the audit of the Financial Statements are included in Appendix I of this auditors’ report. This description, which is represented at page 21, forms part of our auditors’ report.
INDEPENDENT AUDITORS’ REPORT
On Compliance with the Applicable Laws, Regulations, Procurement Procedures
and Other Provisions of the Financing Agreements

To: The Management Board of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management”
Technical Assistance Component

Audit opinion

We have audited the Compliance with the Applicable Laws, Regulations, Procurement Procedures and Other Provisions of the Financing Agreement No. 5810-VN of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management” – Technical Assistance Component (“the Component”) implemented by World Bank’s credit through International Development Association (“IDA”) and counterpart funds for the period from 4 October 2016 to 31 December 2017.

In our opinion, the Component was, in all material respects, in compliance with the applicable laws, regulations, the procurement procedures and other provisions of Financing Agreement No. 5810-VN that could have a direct and material effect on the Component’s Financial Statements for the period from 4 October 2016 to 31 December 2017.

Basis for Opinion

We conducted our engagement in accordance with International Standards on Assurance Engagements 3000, “Assurance Engagements other than Audits or Reviews of Historical Financial Information”, issued by the International Auditing and Assurance Standards Board. Our responsibility is to express an opinion on the Component’s compliance with the requirements, based on our procedures. We are independent of the Component in accordance with the ethical requirements that are relevant to our audit of the financial statements in accordance with ISAs, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Component Management

The Component Management Board is responsible for compliance with the Applicable Laws, Regulations, Procurement Procedures and Other Provisions of the Financing Agreement No. 5810-VN that could have a direct and material effect on the Financial Statements for the period from 4 October 2016 to 31 December 2017.
Auditors’ Responsibilities

Our responsibility is to express an opinion on the Component’s compliance with the requirements, based on our procedures. We conducted our engagement in accordance with International Standards on Assurance Engagements 3000, “Assurance Engagements other than Audits or Reviews of Historical Financial Information”, issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements, plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the Component has complied with the requirements.

An assurance engagement to report on the compliance with regulatory and contractual requirements at a Component involves performing procedures to obtain evidence about whether the Component’s activities are free of material noncompliance with the requirements. The procedures selected depend on the auditor’s judgment, including the assessment of risks that the Component does not comply with the requirements and whether such noncompliance could have a direct and material effect on the Component’s Financial Statements. Our procedures included testing the compliance with the requirements that we consider necessary to provide reasonable assurance that the requirements are complied by the Component.

NEXIA STT Co., Ltd.
Nguyen Thanh Trung
General Director
Audit Practicing Registration Certificate
No. 0518-2018-225-1

Audit report No.: 2018/HN-AUD/WB-LRAMP

Hanoi, 25 July 2018
INDEPENDENT AUDITORS' REPORT

On the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the Financial Statements as well as of internal control over financial reporting

To: The Management Board of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management”
Technical Assistance Component

Audit opinion

We have audited, in accordance with International Standards on Auditing, the Financial Statements of the Project “Results-based Operation for Local Bridge Construction and Road Asset Management” - Technical Assistance Component (“the Component”) implemented by World Bank’s credit through International Development Association (“IDA”) and counterpart funds for the period from 4 October 2016 to 31 December 2017 and issued the auditors’ report thereon expressing an unqualified opinion on those Financial Statements.

In connection with our audit of the Financial Statements, we also examined the effectiveness of internal control over compliance with requirements that could have a direct and material financial effect on the Financial Statements as well as of internal control over financial reporting.

In our opinion, the Component has maintained, in all material respects, effective internal control over compliance with requirements that could have a direct and material financial effect on the Financial Statements as well as of internal control over financial reporting for the period from 4 October 2016 to 31 December 2017.

Basis for Opinion

We conducted our engagement in accordance with International Standards on Assurance Engagements 3000. Our responsibility is to express an opinion on the effectiveness of internal control over compliance with requirements that could have a direct and material effect on the Financial Statements as well as internal control over financial reporting based on our examination. We are independent of the Component in accordance with the ethical requirements that are relevant audit evaluates the effectiveness of internal controls on the compliance of the requirements that may directly and materially affect the financial statements as well as internal control purposes in preparation of financial statements in Vietnam, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Component Management

The Component management is responsible for designing and maintaining effective internal control over compliance with requirements that could have a direct and material effect on the Financial Statements as well as over financial reporting for the purpose of properly preparing and presenting the financial statements so as to minimize errors and frauds; and take responsibility for its assertions as to the effectiveness of such internal control.
Auditors’ Responsibilities

Our responsibility is to express an opinion on the effectiveness of internal control over compliance with requirements that could have a direct and material effect on the Financial Statements as well as internal control over financial reporting based on our examination.

Our examination was conducted in accordance with International Standard on Assurance Engagement 3000, accordingly, included obtaining an understanding of internal control over compliance with requirements that could have a direct and material effect on the Financial Statements as well as of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances to obtain sufficient appropriate evidence on which to base our opinion.

Because of inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not to be prevented or detected on a regular basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NEXIA STT Co., Ltd.
Nguyen Thanh Trung
General Director
Audit Practicing Registration Certificate
No. 0518-2018-225-1

Audit report No.: 2018/HN-AUD/WB-LRAMP

Hanoi, 25 July 2018
Results-based Operation for Local Bridge Construction and Road Asset Management
Technical Assistance Component
Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

BALANCE SHEET
As at 31 December 2017

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>As at 31/12/2017 VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Cash at bank – Designated Account</td>
<td>1,128,936,694</td>
</tr>
<tr>
<td>4</td>
<td>Advances to contractors/suppliers</td>
<td>853,798,000</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>1,982,734,694</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>As at 31/12/2017 VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Payables to contractors</td>
<td>548,986,187</td>
</tr>
<tr>
<td>6</td>
<td>Internal payables</td>
<td>1,100,928,314</td>
</tr>
<tr>
<td></td>
<td><strong>Fund balance</strong></td>
<td><strong>332,820,193</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Fund balance, end of the period</strong></td>
<td><strong>332,820,193</strong></td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL RESOURCES</strong></td>
<td><strong>1,982,734,694</strong></td>
</tr>
</tbody>
</table>

Prepared by:

Le Tuan Khanh
Head of Finance and Accounting Department
Hanoi, 25 July 2018

Approved by:
Pham ngoc Bien
Deputy Director

The accompanying notes form an integral part of the Financial Statements
Results-based Operation for Local Bridge Construction and Road Asset Management
Technical Assistance Component
Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

CONSORTIUM STATEMENT OF SOURCES AND USES OF FUNDS
For the period from 4 October 2016 to 31 December 2017

<table>
<thead>
<tr>
<th>Period from 4/10/2016 to 31/12/2017</th>
<th>VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note</td>
<td></td>
</tr>
<tr>
<td>Sources</td>
<td></td>
</tr>
<tr>
<td>Funds received from the World Bank</td>
<td>7.1</td>
</tr>
<tr>
<td>Counterpart funds</td>
<td>8.1</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Uses of funds</td>
<td></td>
</tr>
<tr>
<td>1. Technical Assistance</td>
<td>7.2</td>
</tr>
<tr>
<td>2. Investment projects preparation</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus of sources against uses of funds</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange differences</td>
<td>9</td>
</tr>
<tr>
<td>Fund balance, end of the period</td>
<td></td>
</tr>
</tbody>
</table>

Prepared by:

Le Tuan Khanh
Head of Finance and Accounting Department
Hanoi, 25 July 2018

Approved by:

Pham Ngoc Bien
Deputy Director

The accompanying notes form an integral part of the Financial Statements
Results-based Operation for Local Bridge Construction and Road Asset Management
Technical Assistance Component
Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

**STATEMENT OF DESIGNATED ACCOUNT**
For the period from 4 October 2016 to 31 December 2017

<table>
<thead>
<tr>
<th>Account No.:</th>
<th>1480201013666</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account holder:</td>
<td>Technical Assistance – LRAMP Project</td>
</tr>
<tr>
<td>Bank:</td>
<td>Vietnam Bank for Agriculture and Rural Development – Western Hanoi Branch</td>
</tr>
<tr>
<td>Address:</td>
<td>Lot A1K, Duy Tan, Cau Giay district, Hanoi</td>
</tr>
<tr>
<td>Financing Agreement No.:</td>
<td>5810-VN</td>
</tr>
</tbody>
</table>

**Part A – Account activities**

<table>
<thead>
<tr>
<th>Note</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 4 October 2016</td>
<td>0</td>
</tr>
<tr>
<td>Add: Total amount advanced to the Designated Account</td>
<td>7 300,000.00</td>
</tr>
<tr>
<td>Deduct: Total amount withdrawn</td>
<td>(249,683.12)</td>
</tr>
<tr>
<td>Bank charges</td>
<td>(65.00)</td>
</tr>
<tr>
<td>Balance as at 31 January 2018</td>
<td>3 50,251.88</td>
</tr>
</tbody>
</table>

**Part B – Account reconciliation**

<table>
<thead>
<tr>
<th>Note</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount advanced from the World Bank</td>
<td>7 300,000.00</td>
</tr>
<tr>
<td>Deduct: Amount recovered by the World Bank</td>
<td>-</td>
</tr>
<tr>
<td>Outstanding amount advanced to the Designated Account as at 31 January 2018</td>
<td>300,000.00</td>
</tr>
<tr>
<td>Balance of Designated Account as at 31 January 2018</td>
<td>3 50,251.88</td>
</tr>
<tr>
<td>Add: Amount withdrawn and not yet claimed</td>
<td>10 249,683.12</td>
</tr>
<tr>
<td>Bank charges incurred at Vietnam Bank for Agriculture and Rural Development – Western Hanoi Branch</td>
<td>55.00</td>
</tr>
<tr>
<td>Bank charges incurred at Citibank New York (intermediate bank)</td>
<td>10.00</td>
</tr>
<tr>
<td>Total advances to Designated Account as at 31 January 2018</td>
<td>300,000.00</td>
</tr>
</tbody>
</table>

Prepared by:

Le Tuan Khanh  
Head of Finance and Accounting Department  
Hanoi, 25 July 2018

The accompanying notes form an integral part of the Financial Statements
Results-based Operation for Local Bridge Construction and Road Asset Management
Technical Assistance Component

Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

SOE WITHDRAWAL SCHEDULE – ACCOUNT NO. 1480201013666
For the period from 4 October 2016 to 31 December 2017

<table>
<thead>
<tr>
<th>Withdrawal applications</th>
<th>Categories</th>
<th>Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Date</td>
<td>USD</td>
</tr>
<tr>
<td>01-TVC</td>
<td>10/10/2017</td>
<td>300,000.00</td>
</tr>
</tbody>
</table>

Total advanced amount

300,000.00

Prepared by:

Le Tuan Khanh
Head of Finance and Accounting Department

Approved by:

Pham Ngoc Bien
Deputy Director

Hanoi, 25 July 2018

The accompanying notes form an integral part of the Financial Statements
Results-based Operation for Local Bridge Construction and Road Asset Management

Technical Assistance Component

Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

NOTES TO THE FINANCIAL STATEMENTS

For the period from 4 October 2016 to 31 December 2017

1. Project background

The Project "Results-based Operation for Local Bridge Construction and Road Asset Management" was implemented by the Ministry of Transport (MOT) - the Socialist Republic of Vietnam according to Decision No. 330/QD-TTg dated 2nd March 2016 signed by the Prime Minister of the Socialist Republic of Vietnam and Decision No. 622/QD-BGTVT dated 2 March 2016 signed by the Minister of MOT. The Project was granted by the World Bank's credit through International Development Association ("IDA") under the Financing Agreement No. 5810-VN dated 4 July 2016, with the total amounts equivalent to 278,800,000 Special Drawing Rights ("SDR"), and the counterpart funds from the Government of the Socialist Republic of Vietnam for seven (7) years from 2016 to 2023.

The overall objective of the Project is to assist the Government and the Ministry of Transport in the National Strategy on Rural Transport Development and a National Program for Local Bridge Construction to ensure traffic safety in Ethnic Minority Areas and to improve access in rural areas with low accessibility, especially for areas where poor ethnic minority communities are located as well as other vulnerable groups such as single women and children.

The Project consists of: (i) A Program using the Results-Based Program (PforR) instrument (the Program), supported by a IDA credit of USD380.5 million; and (ii) Technical Assistance (the Project) using the Investment Project Financing (IPF) instrument, supported by a IDA credit of USD4.5 million.

The Project's objectives are achieved by implementing the following components:

- Component 1: Improvement, rehabilitation of local roads (managed by Project Management Unit 6);
- Component 2: Local Bridge Construction (managed by Project Management 3); and
- Technical Assistance Component (managed by Project Management 6).

A Program using the PforR instrument to assist the Government's program, consisting of two (2) Components 1 and 2 of the Project.

Component 1 – Improvement, rehabilitation of local roads has been managed by the Project Management Unit 6 and implemented in 14 provinces, including: Lao Cai, Ha Giang, Nam Dinh, Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Bac Kan, Quang Tri, Thua Thien Hue, Quang Nam, Lang Son, Cao Bang and Binh Dinh. The Component's objective is to provide support to the National Strategy for Rural Transport Development, through: (a) strengthening its institutional capacity to plan, implement and improve maintenance activities of the local road network; and (b) the improvement, rehabilitation, periodic and routine maintenance of local roads based upon rolling Medium Term Expenditure Plans.
Results-based Operation for Local Bridge Construction and Road Asset Management

Technical Assistance Component

Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

Component 2 – Local Bridge Construction has been managed by the Project Management Units 3, 4, 6 and 8 and implemented in 50 provinces, including: Ha Giang, Cao Bang, Lai Chau, Dien Bien, Son La, Lao Cai, Yen Bai, Lang Son, Bac Kan, Tuyen Quang, Thai Nguyen, Phu Tho, Hoa Binh, Quang Ninh, Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien Hue, Quang Nam, Quang Ngai, Binh Dinh, Gia Lai, Kon Tum, Dak Lak, Dak Nong, Lam Dong, Bac Giang, Vinh Phuc, Ninh Binh, Hai Duong, Phu Yen, Ninh Thuan, Khanh Hoa, Binh Thuan, Binh Phuoc, Tra Vinh, Dong Nai, Vinh Long, Hau Giang, Kien Giang, An Giang, Soc Trang, Bac Lieu, Ca Mau, Tay Ninh, Can Tho, Dong Thap and Ben Tre. The Component's objective is to provide support to the National Strategy for Rural Transport Development, through: (a) the construction of small bridges in poor and ethnic minority communities and villages with missing or unsafe links in order to facilitate access to social services, schools, and clinics within the local road network; and (b) strengthening of local communities' capacity to carry out bridge maintenance activities.

The Technical Assistance Component implemented by Project Management Unit 6, consisting of activities that are necessary to complete the PforR, namely activities related to: (a) auditing the Program; (b) improving the capacity of implementing agencies in environmental and social management; and (c) the Local Road Asset Management Systems support, climate resilience in the road network, and community and women based road maintenance.

2. Summary of significant accounting policies

The significant accounting policies, which have been adopted by the Component Management Board in the preparation of the Financial Statements, are as follows:

Reporting currency

The Financial Statements, including the Balance Sheet and the Consolidated Statement of Sources and Uses of Funds are expressed in Vietnam Dong ("VND"), except for the Statement of Designated Account and SOE Withdrawal Schedule which are expressed in United States Dollar ("USD"), are prepared considering the requirements of World Bank.

Basis of preparation of the Financial Statements

The Financial Statements are prepared and presented by the Component in accordance with requirements of the World Bank (WB), complied with Vietnamese Accounting Standards and Circular No. 195/2012/TT-BTC dated 15 November 2012 issued by the Ministry of Finance guiding the accounting regime applicable to investors. The financial statements are prepared on modified cash basis under the financial year regulated by the Vietnamese Government, including payments in January of the following year for expenditures incurred before 31 December of the prior year. This basis of accounting is considered appropriate to the operation of Component by the management.

Funds

IDA funds are recorded when credited to the Designated Account of the Component.

The counterpart funds of the Vietnamese Government are recorded when payments are made directly from the Vietnamese Government to contractors/suppliers of the Component or when received.

The funds are recorded under the budget year, including payments from IDA funds and counterpart funds in January of the following year for expenditures incurred before 31 December of the prior year.
Results-based Operation for Local Bridge Construction and Road Asset Management

Technical Assistance Component

Under the Financing Agreement No. 5810-VN between the International Development Association and the Government of the Socialist Republic of Vietnam

Expenditures

Expenditures financed by IDA are recorded when the obligation to pay them arises rather than when actually paid.

Expenditures financed by the counterpart funds are recorded when they are approved by the State Treasury except for expenditures for contractors/suppliers on completion of works or completion of contracts, and advances to staffs, advances to contractors/suppliers.

Overall management expenses are recognized and monitored by Project Management Unit 6 for all projects managed by Project Management Unit 6, then allocated to individual projects in accordance with their corresponding annual budget, ensuring that accumulated management expenses of each Project do not exceed its overall approved budget.

Fiscal year

The first fiscal period of the Component is from 4 October 2016 to 31 December 2017 for completion volume of works/contracts and from 4 October 2016 to 31 January 2018 for disbursements volume. Succeeding fiscal years will be from 1 January to 31 December for completion volume of works/contracts and to 31 January of the following year for disbursements volume.

Foreign exchange differences

IDA funds received in United States Dollar ("USD") are converted into Vietnam Dong ("VND") under exchange rates ruled by the Ministry of Finance in the funds withdrawal months.

Transactions incurred in the year via the Designated Account are converted into VND using exchange rates ruled by the Project bank at the dates of transaction for expenditures denominated in VND and using exchange rates ruled by the Ministry of Finance at the months of transactions for expenditures denominated in USD.

Foreign exchange differences are taken up in the Consolidated Statement of Sources and Uses of Funds.

Designated Account

Designated Account is a deposit account in USD opened at Vietnam Bank for Agriculture and Rural Development – Western Hanoi Branch, which was held by the Project Management Unit 6 for settlements of the Technical Assistance Component’s activities. Payments made via Designated Account are for eligible expenditures of the Component in accordance with provisions of the Financing Agreement No. 5810-VN dated 4 July 2016.
3. Cash at bank – Designated Account

This represented the designated account balance of the Project Management Unit 6 at Vietnam Bank for Agriculture and Rural Development – Western Hanoi Branch, which was converted into Vietnam Dong ("VND") as at 31 January 2018 because payments from IDA funds were recorded under the budget year (year ended 31 January 2018). The original currency balance of this account as at 31 January 2018 was USD50,251.88.

4. Advances to contractors/suppliers

These represented advances to VNC Construction Joint Stock Company from the World Bank's funds to implement consultancy contract on building solutions to adapt to climate change for local bridges and roads under the Technical Assistance Component of the Project.

5. Payables to contractors

<table>
<thead>
<tr>
<th>Unit</th>
<th>IDA funds VND</th>
<th>Counterpart funds VND</th>
<th>Total VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mazars Vietnam Co., Ltd. (package CS2)</td>
<td>12,924,750</td>
<td>-</td>
<td>12,924,750</td>
</tr>
<tr>
<td>Investment and Development Center for Transportation (package TV01)</td>
<td>-</td>
<td>273,391,333</td>
<td>273,391,333</td>
</tr>
<tr>
<td>Vietnam Engineering and Consultant Joint Stock Company (package TV01)</td>
<td>-</td>
<td>262,670,104</td>
<td>262,670,104</td>
</tr>
<tr>
<td></td>
<td>12,924,750</td>
<td>536,061,437</td>
<td>548,986,187</td>
</tr>
</tbody>
</table>

These included the volume of completed works to be paid as at 31 January 2018 to contractors and temporary retentions for warranty of completed consultant contracts which would be paid to contractors at the end of warranty period. Payments from IDA and counterpart funds were recorded under the budget year (year ended 31 January 2018).

6. Internal payables

This represented the Project management expenses under the Technical Assistance Component from counterpart funds that were paid from 2017 budget of the Project Management Unit 6. These will be withdrawn and repaid to the Project Management Unit 6 in 2018.
7. Funds received from the World Bank

7.1. Withdrawals

The Project Management Unit 6 – Technical Assistance Component (funds received to Account 1480201013666)

<table>
<thead>
<tr>
<th>Receipts under withdrawal applications</th>
<th>Original amount</th>
<th>Equivalent to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period from 4/10/2016 to 31/12/2017</td>
<td>USD</td>
<td>VND</td>
</tr>
<tr>
<td>No.</td>
<td>USD</td>
<td>VND</td>
</tr>
<tr>
<td>01-TVC</td>
<td>300,000.00</td>
<td>6,805,273,150</td>
</tr>
<tr>
<td>Total funds replenished to Designated Account</td>
<td>300,000.00</td>
<td>6,805,273,150</td>
</tr>
</tbody>
</table>

7.2. Volume of completed works - Technical Assistance

<table>
<thead>
<tr>
<th>Period from 4/10/2016 to 31/12/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>VND</td>
</tr>
<tr>
<td>Internal Audit</td>
</tr>
<tr>
<td>Environmental and social management</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

These represented expenditures for the technical assistance component of the Project Management Unit 6, which were disbursed from the World Bank’s funds.

8. Counterpart funds

8.1. Withdrawals

<table>
<thead>
<tr>
<th>Period from 4/10/2016 to 31/12/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>VND</td>
</tr>
<tr>
<td>Counterpart funds</td>
</tr>
</tbody>
</table>
8.2. **Volume of completed works - Investment projects preparation**

<table>
<thead>
<tr>
<th>Period</th>
<th>VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>from 4/10/2016 to 31/12/2017</td>
<td>7,170,808,314</td>
</tr>
</tbody>
</table>

Consultants on investment projects preparation 5,600,880,000
Verification consultants 469,000,000
Project management expenses 1,100,928,314

These represented expenditures for the technical assistance component of the Project Management Unit 6, which were disbursed from counterpart funds.

9. **Foreign exchange differences**

These represented the foreign exchange rate difference arising from receipt and disbursement transactions incurred in foreign currencies during the period and from the revaluation of the cash at bank balances in foreign currencies as at 31 December 2017, using exchange rate of VND22,670/USD1 ruled by Vietnam Bank for Agriculture and Rural Development.

10. **Amount withdrawn and not yet claimed**

These represented payments for consultancy contracts under the technical assistance component of the Project. These expenses will be included in the next SOE Withdrawal Schedule.

Prepared by:

Le Tuan Khanh
*Head of Finance and Accounting Department*

Hanoi, 25 July 2018
Appendix I – Auditors’ Responsibilities for the Audit of the 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 related disclosures made by Component management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with Component Management Unit regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with Component Management Unit with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with Component Management Unit, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.