THE SECOND NORTHERN MOUNTAINS POVERTY REDUCTION PROJECT (ADDITIONAL FINANCING)

Credit Number 5596 - VN
Hoa Binh Province

AUDITED FINANCIAL STATEMENTS
For the year ended at 31 December 2017

2018 -06- 2 9
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REPORT OF THE PROJECT MANAGEMENT UNIT


The Project

The Project is implemented under the Credit Number 4698 - VN between the Socialist Republic of Vietnam and the International Development Association ("IDA"), which was signed in May 2010, brought into effect in August 2010 and completed in August 2015. On 09 July 2015, the Additional Financing of USD 150 million, the Credit Number 5596-VN ("the Agreement"), was signed to finance the costs associated with the (a) continuation and expansion of the Project's support to poverty reduction effort in the existing six project provinces of the poorest region of Vietnam's Northwest; (b) increasing the Project poverty reduction impacts upon additional districts and communes; (c) scaling-up and deepening of the participatory local development planning (known as SEDP) and contribute to institutionalizing this approach in the Vietnamese Government's national poverty reduction programs; and (d) enhancement of sustainable livelihoods through further common interest group (CIG) development, and the strengthening of partnerships between farmer groups and agro-businesses.

The Provincial Project Management Unit

Members of the Provincial Project Management Unit in the year and to the reporting date are:

Mr. Bui Minh Trang Director
Mrs. Nguyen Thi Hong Hanh Deputy Director
Mrs. To Thanh Thuy Chief Accountant

Auditors

The auditors of AASC Limited have taken the audit of financial statements of the Project.

Responsibilities of the Provincial Project Management Unit

The Provincial Project Management Unit is responsible for preparing the project financial statements, including Statement of Receipt, Disbursement and Fund balance; Statement of Designated account and Statement of Withdrawals, which comply with the accounting policies described in the attached Notes to the Financial Statements. The Provincial Project Management Unit assures that the accounting policies are appropriately selected and consistently applied.

The Provincial Project Management Unit assures that the accounting records were fully maintained to prepare the financial statements in accordance with the applied accounting policies and to disclose, with reasonable accuracy at any time, the financial position of the Project.

The Provincial Project Management Unit is also responsible for maintaining an effective internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and comply with relevant laws, regulations and other provisions of the funding agreement that could have a direct and material financial effect on the Project financial statements.

On behalf of the Provincial Project Management Unit

Bui Minh Trang
Director

Hoa Binh, 25 June 2018
INDEPENDENT AUDITORS’ REPORT ON THE FINANCIAL STATEMENTS

To: The Project Management Unit of the Second Poverty Reduction Project
   – Hoa Binh Province

Opinion

We have audited the accompanying financial statements of the Second Northern Mountains Poverty Reduction Project ("the Project") - Additional Financing implemented in Hoa Binh which comprise Statement of Receipt, Disbursement and Fund balance, Statement of Designated account, Statement of Withdrawals 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 give a true and fair view of the financial position of the Project, including the balance of the Designated account as at 31 December 2017, funds received and disbursements paid, movements of the Designated account for the year then ended in accordance with the basis of the principal accounting policies described in the Notes to the Financial Statements and the provisions of the Credit Number 5596-VN dated 09/07/2015.

> In addition, with respect to Statements of Expenditure, adequate supporting documents have been fully maintained to support to the replenishment requests submitted to the World Bank. The expenditures are eligible and in right purposes of the Credit Number 5596-VN dated 09/07/2015.

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Project Management Unit in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Provincial Project Management Unit for the Financial Statements

The Provincial Project Management Unit is responsible for the preparation of the financial statements in accordance with the principal accounting policies described in Notes 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 misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to cease operations, or has no realistic alternative but to do so.
Auditor’s Responsibilities for the Audit of the 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, but not for the purpose of expressing an opinion on the effectiveness of the Project’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Project to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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 the Provincial Project 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.

AASC Limited

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

Hanoi, 25 June 2018

Nguyen Pham Hung
Auditor in-charge
CPA Registered No.: 2893-2015-002-1
# The Second Northern Mountains Poverty Reduction Project – Additional Financing

**Financial Statements**

**Hoa Binh Province**

**Year ended 31 December 2017**

## STATEMENT OF RECEIPT, DISBURSEMENT AND FUND BALANCE

*For the year ended 31 December 2017*

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>Accumulated to 31/12/2016 (Represented) VND</th>
<th>Year 2017 VND</th>
<th>Accumulated to 31/12/2017 VND</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Receipt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Received from the IDA</td>
<td>118,558,820,583</td>
<td>90,465,603,184</td>
<td>209,024,423,767</td>
</tr>
<tr>
<td>2</td>
<td>Received from the Vietnamese Government</td>
<td>7,402,052,600</td>
<td>7,713,836,700</td>
<td>15,115,889,300</td>
</tr>
<tr>
<td>3</td>
<td>Other receipts</td>
<td>15,045,656,596</td>
<td>6,424,207,094</td>
<td>21,469,863,690</td>
</tr>
<tr>
<td></td>
<td>Total Receipt</td>
<td>141,006,529,779</td>
<td>104,603,446,978</td>
<td>245,609,976,757</td>
</tr>
<tr>
<td>II.</td>
<td>Disbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>District economic development</td>
<td>38,844,765,400</td>
<td>53,349,654,500</td>
<td>92,194,449,900</td>
</tr>
<tr>
<td>2</td>
<td>Commune development budget</td>
<td>53,655,826,000</td>
<td>62,587,684,000</td>
<td>116,243,501,000</td>
</tr>
<tr>
<td>3</td>
<td>Capacity building</td>
<td>2,687,599,500</td>
<td>3,737,493,500</td>
<td>6,425,093,000</td>
</tr>
<tr>
<td></td>
<td>Total Disbursement</td>
<td>111,049,615,565</td>
<td>133,348,817,451</td>
<td>244,398,433,016</td>
</tr>
<tr>
<td>III.</td>
<td>Surplus/ (Deficit)</td>
<td>29,956,914,214</td>
<td>(28,745,370,473)</td>
<td>1,211,543,741</td>
</tr>
</tbody>
</table>

**Foreign exchange differences**

- 744,813,980 (98,968,401) 645,845,579

**Fund balance at the year/period**

- 30,701,728,194 1,857,389,320

**Presented by:**

- Cash at bank | 30,745,892,455 | 1,924,092,981 |
- Payable for deposit to open a bank account | (41,000,000) | (41,735,200) |
- Payable for performance security | (3,164,281) | (3,164,281) |
- Payable for maternity allowance received on behalf of staff | - | (21,804,200) |

- 30,701,728,194 1,857,389,320
### STATEMENT OF DESIGNATED ACCOUNTS

**For the period:** from 01/01/2017 to 31/12/2017  
**Account holder:** The Project Management Unit of the Second Poverty Reduction Project – Hoa Binh Province  
**Account No:** 3000201003962  
**Bank:** Viet Nam Bank for Agriculture and Rural Development – Hoa Binh branch  
**Address**  
No. 6, Cu Chinh Lan street, Phuong Lam Ward, Hoa Binh District, Hoa Binh

#### PART A: ACTIVITES

<table>
<thead>
<tr>
<th>Note</th>
<th>USD</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td></td>
<td>963,406.58</td>
</tr>
<tr>
<td>Add: Total amounts deposited by the IDA</td>
<td></td>
<td>4,014,832.56</td>
</tr>
<tr>
<td>Deduct: Total amounts withdrawn</td>
<td></td>
<td>(4,939,873.74)</td>
</tr>
<tr>
<td>Closing balance</td>
<td></td>
<td>38,365.40</td>
</tr>
</tbody>
</table>

#### PART B: RECONCILIATION

1. Amount advanced by the IDA | | 2,581,764.84 |
2. Add: Amount supplemented by the IDA | | 800,000.00 |
3. Deduct: Amount recovered by the IDA | | (2,647,758.55) |
4. Present outstanding amount advanced to | | 734,006.29 |
5. Closing balance | | 38,365.40 |
6. Add:  
   - Amounts withdrawn but not yet claimed | (1) | 695,625.89 |
   - Overseas bank charges | | 15.00 |
7. Total advances accounted for | | 734,006.29 |

(1) Note

<table>
<thead>
<tr>
<th></th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and Innovation Grants</td>
<td>332,744.74</td>
</tr>
<tr>
<td>Works, Goods, Consultants' services, Training and Incremental Operating Costs</td>
<td>362,881.15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>695,625.89</strong></td>
</tr>
</tbody>
</table>
### Statement of Withdrawals

**For the year ended 31 December 2017**

<table>
<thead>
<tr>
<th>Withdrawal application</th>
<th>Date</th>
<th>Advance</th>
<th>Grants and Innovation Grants</th>
<th>Consultants' services, Training and Incremental Operating Costs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>USD</td>
<td>Converted to VND</td>
<td>USD Converted to VND</td>
<td>USD</td>
</tr>
<tr>
<td><strong>Designated account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>07/HB/NMPRP2</td>
<td>12/01/2017</td>
<td>-</td>
<td>275,790.14</td>
<td>6,180,836,300</td>
<td>406,305.93</td>
</tr>
<tr>
<td>08/HB/NMPRP2</td>
<td>20/01/2017</td>
<td>-</td>
<td>1,148,665.60</td>
<td>25,819,374,500</td>
<td>2,086,300.90</td>
</tr>
<tr>
<td>09/HB/NMPRP2</td>
<td>20/01/2017</td>
<td>-</td>
<td>56,599.32</td>
<td>1,271,243,000</td>
<td>56,599.32</td>
</tr>
<tr>
<td>10/HB/NMPRP2</td>
<td>20/01/2017</td>
<td>800,000</td>
<td>17,968,000,000</td>
<td></td>
<td>800,000.00</td>
</tr>
<tr>
<td>11/HB/NMPRP2</td>
<td>10/05/2017</td>
<td>-</td>
<td>426,938.38</td>
<td>9,632,772,000</td>
<td>519,459.32</td>
</tr>
<tr>
<td>12/HB/NMPRP2</td>
<td>13/06/2017</td>
<td>-</td>
<td>211,138.87</td>
<td>4,780,572,000</td>
<td>856,509.02</td>
</tr>
<tr>
<td>13/HB/NMPRP2</td>
<td>18/09/2017</td>
<td>-</td>
<td>200,521.20</td>
<td>4,535,059,000</td>
<td>581,795.76</td>
</tr>
<tr>
<td>14/HB/NMPRP2</td>
<td>23/08/2017</td>
<td>-</td>
<td>108,049.09</td>
<td>2,444,070,500</td>
<td>155,151.72</td>
</tr>
<tr>
<td><strong>Total amounts</strong></td>
<td></td>
<td>800,000</td>
<td>17,968,000,000</td>
<td>2,427,702.60</td>
<td>5,462,121.99</td>
</tr>
</tbody>
</table>
The Second Northern Mountains Poverty Reduction Project –
Additional Financing
Credit Number 5596 - VN
Hoa Binh Province

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2017

1. Background

The Socialist Republic of Vietnam has received a credit from the International Development Association ("IDA") in the amount of USD 150 million toward the cost of the Second Northern Mountains Poverty Reduction Project ("the Project") under the Credit Number 4698 – VN, which was signed in May 2010, brought into effect in August 2010 and completed in August 2015.

On 09 July 2015, the Additional Financing ("the Credit Number 5596-VN" or "the Agreement") of USD 150 million was signed to finance the costs associated with the (a) continuation and expansion of the Project's support to poverty reduction efforts in the existing six project provinces of the poorest region of Vietnam's Northwest; (b) increasing the Project poverty reduction impacts upon additional districts and communes; (c) scaling-up and deepening of the participatory local development planning (known as SEDP) and contribute to institutionalizing this approach in the Vietnamese Government's national poverty reduction programs; and (d) enhancement of sustainable livelihoods through further common interest group (CIG) development, and the strengthening of partnerships between farmer groups and agro- businesses. The Agreement officially came into operation since 07/10/2015 and is expected to close on 30/06/2018.

The objective of the Project is to enhance the living standards of the Project's beneficiaries by improving: (i) their access to productive infrastructure; (ii) the productive and institutional capacities of local governments and communities; (iii) Commune integrated investment planning; (iv) Market linkages and business innovations.

The Project includes the following parts:

Part 1: District Economic Development

Provision of support for the implementation of District Socio-Economic Development Plans focusing on productive infrastructure for local employment and income generation, and diversification of the livelihoods of the rural poor; including:

- Provision of support for financing small and medium size investment projects including but not limited to intra-commune roads, small-scale irrigation schemes, drinking water supplies and rural markets; and
- Provision of support to improve supply side and market institutions for the poor including: (i) carrying out of research and analytical studies to identify market opportunities and create enabling environment; (ii) establishing partnerships with banks, nongovernmental organizations, private sector for providing dedicated linkage support to rural producers and microenterprises; and (iii) provision of Innovation Grants to promote innovative business ideas and unconventional approaches for business linkages for the rural poor.

Part 2: Commune Development Budget

Provision of Grants to finance Sub-Projects to support the implementation of the Commune Development Plans, including:

- Small scale communal infrastructure activities including, but not limited to, road repair, micro-irrigation systems, and markets;
- Livelihood support to the poor to assist them to form common interest groups, develop necessary skills and explore linkage with credit and markets;
- Support for women's social and economic development activities; and
- Operation and maintenance.
Part 3: Capacity Building and Communication

Strengthening human resource capacity of all Project stakeholders at central, Province, District, Commune, and Village levels, including capacity building for:

- District and Commune staff to prepare socio-economic development plans and facilitate their process;
- Project staff and local cadre training on Project implementation and management;
- Training on job skills and knowledge for employment opportunities;
- Safeguarding assets of communes and households including understanding and mitigating natural disaster risks, and climate change adaptation;
- Information sharing and learning and communication; and
- Institutional development.

Part 4: Project Management

Provision of support for effective Project management, monitoring, and evaluation, including facilitation of implementation, coordination, and quality enhancement efforts, in addition to internal and external supervision and auditing.

The Project is implemented in 6 provinces, including Lao Cai, Yen Bai, Hoa Binh, Son La, Dien Bien and Lai Chau by the Ministry of Planning and Investment of Vietnam under a decentralized system consisting of 6 implementing the Provincial Project Management Units ("PPMUs"). Each PPMU shall be responsible for managing and coordinating the implementation of the Project's activities within its respective Province, including preparing and implementing provincial annual work and procurement plans and budgets; managing procurement, financing management, and disbursement; coordinating and managing capacity building plans and training; and providing technical support and guidance to Districts, Communes and Villages.

In Hoa Binh, the Project is implemented by Hoa Binh Provincial Department of Planning and Investment, and managed by the Project Management Unit of the Second Poverty Reduction Project – Hoa Binh Province ("Hoa Binh PPMU") which has its office in Hoa Binh Department of Planning and Investment at No.3, Tran Hung Dao Street, Hoa Binh Province, and 05 district Project management units ("DPMUs") and 42 commune development boards ("CDBs"), including:

- Da Bac DPMU and CDBs;
- Tan Lac DPMU and CDBs;
- Lac Son DPMU and CDBs;
- Yen Thuy DPMU and CDBs; and
- Mai Chau DPMU and CDBs.

2. Principal Accounting Policies

a. Basis of preparation of the Financial Statements

The annual accounting period commences from 1st January and ends at 31st December.

The financial statements are prepared in accordance with the requirements of the International Development Association and presented in Vietnam Dong (VND), except for the Statement of Designated Account is prepared in United State Dollar (USD) and Statement of Withdrawals is prepared in VND and USD.

The financial statements are prepared for funds received and disbursements paid in Hoa Binh province.

The principal accounting policies are summarized as below:

b. Foreign currencies

Receipts from the IDA and disbursements in foreign currencies are converted to VND under exchange rates announced by the service bank (mentioned at Note 2d) at transaction dates.
Before 2017, monetary items denominated in foreign currencies were not revalued annually at balance sheet date as the provisions on Circular No. 195/2012/TT-BTC dated 15 November 2012. However, to provide more reliable and relevant information of the Project's financial position, such items are annually re-evaluated at actual exchange rates (buying exchange rate with assets / selling exchange rate with liabilities) of the serving bank at the balance sheet date on the Financial Statements of 2017. All exchange differences as a result of the revaluation are recorded and presented as "Foreign exchange differences" on Statement of Receipt, Disbursement and Fund balance (Note 9).

c. Receipts and Disbursements

Receipts:

➤ Receipts from the IDA are recorded when remittance made into the Designated Account or direct payment made to contractors/suppliers.

➤ Receipts from the Vietnamese Government are recorded when payments are made directly from the Vietnam Government to contractors/suppliers of the Project or funds are remitted to Hoa Binh PPMU and DPMUs for settlement of the Project's activities.

➤ Other receipts include receipts from beneficiary contribution and surplus/(deficit) of bank interests over bank charges. In particular, receipts from beneficiary contribution are recorded when that are actually paid to the CDBs.

Disbursements:

Disbursements are recognized when payments are made by the Project to contractors/suppliers or beneficiaries for relevant activities under the Projects' parts.

d. Designated account and its interest

Designated account is the deposit account in USD opened at Viet Nam Bank for Agriculture and Rural Development – Hoa Binh Branch for the Project's activities. Payments made via the Designated account are for eligible expenditures of the Project in accordance with the provisions of the Credit Number 5596-VN dated 09/07/2015. These payments also contain amounts transferred to the DPMUs' accounts for settlement of the Project's activities at district level, commune level and villa level under withdrawal applications are made by the DPMUs.

Interests of the deposit account in VND is considered as receipt of the Project and initially recorded as Other receipts in Statement of Receipt, Disbursement and Fund balance and used to cover bank charges. At the end of Project, outstanding interests will be returned to the Vietnamese Government. In case bank charges are not fully covered by the interests, it will be settled by the Vietnamese Government (according to circular No. 111/2016/TT-BTC dated 30 June 2016).

3. Receipts from the International Development Association

<table>
<thead>
<tr>
<th></th>
<th>Year 2017</th>
<th>Accumulated to 31/12/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Converted to USD</td>
<td>Converted to VND</td>
</tr>
<tr>
<td>Designated account</td>
<td>USD</td>
<td>VND</td>
</tr>
<tr>
<td>Advance</td>
<td>800,000.00</td>
<td>17,968,000,000</td>
</tr>
<tr>
<td></td>
<td>3,799,985.00</td>
<td>84,417,667,750</td>
</tr>
<tr>
<td>Reimbursement</td>
<td>3,214,832.56</td>
<td>72,497,603,184</td>
</tr>
<tr>
<td></td>
<td>5,564,492.44</td>
<td>124,606,756,017</td>
</tr>
<tr>
<td></td>
<td><strong>4,014,832.56</strong></td>
<td><strong>90,465,603,184</strong></td>
</tr>
<tr>
<td></td>
<td><strong>9,364,477.44</strong></td>
<td><strong>209,024,423,767</strong></td>
</tr>
</tbody>
</table>
The Second Northern Mountains Poverty Reduction Project –
Additional Financing
Credit Number 5596 - VN
Hoa Binh Province
Financial Statements
Year ended 31 December 2017

4. Receipts from the Vietnamese Government

<table>
<thead>
<tr>
<th></th>
<th>Accumulated to 31/12/2016</th>
<th>Accumulated to 31/12/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VND</td>
<td>VND</td>
</tr>
<tr>
<td>Hoa Binh PPMU</td>
<td>939,155,800</td>
<td>1,010,992,400</td>
</tr>
<tr>
<td>Da Bac DPMU</td>
<td>1,538,185,000</td>
<td>1,595,427,000</td>
</tr>
<tr>
<td>Tan Lac DPMU</td>
<td>1,173,040,400</td>
<td>1,116,864,700</td>
</tr>
<tr>
<td>Lac Son DPMU</td>
<td>1,423,341,800</td>
<td>1,489,599,000</td>
</tr>
<tr>
<td>Yen Thuy DPMU</td>
<td>1,190,160,600</td>
<td>1,437,139,300</td>
</tr>
<tr>
<td>Mai Chau DPMU</td>
<td>1,138,169,000</td>
<td>1,063,614,300</td>
</tr>
<tr>
<td></td>
<td><strong>7,402,052,600</strong></td>
<td><strong>7,713,636,700</strong></td>
</tr>
</tbody>
</table>

5. Other receipts

<table>
<thead>
<tr>
<th></th>
<th>Accumulated to 31/12/2016</th>
<th>Accumulated to 31/12/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VND</td>
<td>VND</td>
</tr>
<tr>
<td>Beneficiary contributions related to livelihood activities</td>
<td>15,022,506,000</td>
<td>6,428,647,000</td>
</tr>
<tr>
<td>Surplus/(Deficit) of bank interests over bank charges</td>
<td>23,150,596</td>
<td>(4,439,906)</td>
</tr>
<tr>
<td></td>
<td><strong>15,045,656,596</strong></td>
<td><strong>6,424,207,094</strong></td>
</tr>
</tbody>
</table>
The Second Northern Mountains Poverty Reduction Project – Additional Financing
Credit Number 5596 - VN
Hoa Binh Province

Financial Statements
For the year ended 31 December 2017

6. Disbursements

Disbursement by categories:

<table>
<thead>
<tr>
<th>IDA Funds (*)</th>
<th>Counterpart Funds</th>
<th>Other Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>VND</td>
<td>VND</td>
<td>VND</td>
<td>VND</td>
</tr>
</tbody>
</table>

| Grants and Innovation Grants | 59,099,846,000 | 72,744,219,000 | 112,089,203,200 |
| Works, Goods, Consultants' services, Training and Incremental Operating Costs | 52,888,961,751 | 60,604,598,451 | 113,493,559,202 |

(*) Credit Number 5596-VN finances 100% of expenditures including taxes and duties.

Actual disbursement versus its plan by parts (exclude of disbursements are funded by others):

<table>
<thead>
<tr>
<th>Year 2017</th>
<th>Accumulated to 31/12/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Plan</td>
</tr>
<tr>
<td>VND</td>
<td>VND</td>
</tr>
</tbody>
</table>

| District economic development | 53,349,854,500 | 39,536,399,000 | 13,813,255,500 | 34.94% | 92,194,449,900 | 112,755,721,000 | (20,561,271,100) | (18.24%) |
| Commune development budget | 48,943,311,000 | 34,930,211,000 | 13,813,255,500 | 34.94% | 92,194,449,900 | 112,755,721,000 | (20,561,271,100) | (18.24%) |
| Capacity building and Communication | 3,737,493,500 | 1,503,842,500 | 67.33% | 6,425,093,000 | 8,778,151,000 | 2,353,058,000 | 26.81% |
| Project management | 13,673,985,451 | (1,075,864,549) | 7.29% | 29,535,380,116 | 32,345,815,000 | (2,810,434,884) | 8.69% |

| 119,704,444,451 | 70,533,000,000 | 49,171,444,451 | 69.71% | 223,673,275,016 | 241,393,700,000 | (17,720,424,984) | (7.34%) |
The Second Northern Mountains Poverty Reduction Project – Additional Financing
Credit Number 5596 - VN
Hoa Binh Province

Financial Statements
Year ended 31 December 2017

7. Cash at bank

<table>
<thead>
<tr>
<th></th>
<th>31/12/2016</th>
<th>(Represented)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VND</td>
<td>VND</td>
</tr>
<tr>
<td>Designated account (USD) of Hoa Binh PPMU</td>
<td>869,935,445</td>
<td>21,898,231,563</td>
</tr>
<tr>
<td>Current accounts (VND) of Hoa Binh PPMU and DPMUs</td>
<td>24,985,428</td>
<td>5,164,261</td>
</tr>
<tr>
<td>Beneficiary contribution accounts (VND) of CDBs</td>
<td>817,637,745</td>
<td>7,951,169,200</td>
</tr>
<tr>
<td>WB fund accounts (VND) of DPMUs and CDBs</td>
<td>208,194,014</td>
<td>890,230,839</td>
</tr>
<tr>
<td>Interest accounts (VND) of DPMUs and CDBs</td>
<td>3,340,349</td>
<td>1,096,592</td>
</tr>
<tr>
<td></td>
<td><strong>1,924,092,981</strong></td>
<td><strong>30,745,892,455</strong></td>
</tr>
</tbody>
</table>

8. Subsequent events

There have been no significant events occurring after the reporting date, which would require adjustments or disclosures to be made in the financial statements.

9. Corresponding figures

The corresponding figures are the financial statements for the period from 09 July 2015 to 31 December 2016 which were audited by AASC Limited, in which the following items have been represented due to change of the policy to reevaluate the exchange rate difference at the end of the year (Note 2b):

<table>
<thead>
<tr>
<th>Items</th>
<th>Presented</th>
<th>Represented</th>
<th>Variances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements for the period from 09/07/2015 to 31/12/2016</td>
<td>VND</td>
<td>VND</td>
<td>VND</td>
</tr>
<tr>
<td>STATEMENT OF RECEIPT, DISBURSEMENT AND FUND BALANCE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange differences</td>
<td>-</td>
<td>744,813,980</td>
<td>744,813,980</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>30,001,078,475</td>
<td>30,745,892,455</td>
<td>744,813,980</td>
</tr>
</tbody>
</table>
10. Approval of the Financial Statements

The financial statements were approved by The Project Management Unit of The Second Poverty Reduction Project – Hoa Binh Province for issuance on 25 June 2018.

Bui Minh Trang
Director
Hoa Binh, 25 June 2018

To Thanh Thuy
Chief Accountant
**The Second Northern Mountains Poverty Reduction Project – Additional Financing**

**Credit Number 5596 - VN**

**Hoa Binh Province**

Financial Statements Year ended 31 December 2017

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**RECONCILIATION OF FUNDS**

Credit Number 5596-VN

*For the year ended at 31 December 2017*

<table>
<thead>
<tr>
<th>Withdrawal application</th>
<th>Amount claimed (a)</th>
<th>Amount received (b)</th>
<th>Variance (b-a)</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Designated account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>06/HB/NMPRP2 26/12/2016 USD</td>
<td>1,200,469.12</td>
<td>1,200,469.12</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>07/HB/NMPRP2 12/01/2017 USD</td>
<td>406,305.93</td>
<td>- (406,305.93)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>08/HB/NMPRP2 20/01/2017 USD</td>
<td>2,086,300.90</td>
<td>- (2,086,300.90)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>09/HB/NMPRP2 20/01/2017 USD</td>
<td>56,599.32</td>
<td>56,599.32</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>10/HB/NMPRP2 20/01/2017 USD</td>
<td>800,000.00</td>
<td>800,000.00</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>11/HB/NMPRP2 10/05/2017 USD</td>
<td>519,459.32</td>
<td>519,459.32</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>12/HB/NMPRP2 13/06/2017 USD</td>
<td>856,509.02</td>
<td>856,509.02</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>13/HB/NMPRP2 18/09/2017 USD</td>
<td>581,795.78</td>
<td>581,795.78</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>14/HB/NMPRP2 23/08/2017 USD</td>
<td>155,151.72</td>
<td>- (155,151.72)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td><strong>Total amounts</strong></td>
<td><strong>6,662,591.11</strong></td>
<td><strong>4,014,832.56</strong></td>
<td><strong>(2,647,758.55)</strong></td>
<td></td>
</tr>
</tbody>
</table>

(1) Recovered by the World Bank
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL SYSTEM

To: The Project Management Unit of the Second Poverty Reduction Project – Hoa Binh Province

We have audited, in accordance with International Standards on Auditing, the financial statements of the Second Northern Mountains Poverty Reduction Project ("the Project") - Additional Financing implemented in Hoa Binh for the year ended at 31 December 2017 and issued the auditor's report thereon dated 25 June 2018 expressing an 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 the internal control over financial reporting for the year ended at 31 December 2017.

Responsibilities of the Provincial Project Management Unit

The Provincial Project Management Unit is responsible for maintaining an effective internal control over compliance with requirements that could have a direct and material financial effect on the financial statements as well as the internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

Our examination was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised). That standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the Project has maintained an effective internal control over compliance with requirements that could have a direct and material financial effect on the financial statements as well as internal control over financial reporting.

Our examination included obtaining an understanding, testing, and evaluating the design and operating effectiveness of the internal control, and performing other procedures as we considered necessary in the circumstances to obtain sufficient appropriate evidence to provide a basis for our opinion.

Because of the 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. In addition, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Auditors' opinion

In our opinion, the Project has maintained an effective internal control over misstatements that could have a direct and material financial effect on the Project financial statements for the year ended 31 December 2017.

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

Hanoi, 25 June 2018

Nguyen Pham Hung
Auditor in-charge
CPA Registered No.: 2893-2015-002-1
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To: The Project Management Unit of the Second Poverty Reduction Project  
- Hoa Binh Province

We have audited, in accordance with the International Standards on Auditing, the financial statements of the Second Northern Mountains Poverty Reduction Project ("the Project") - Additional Financing implemented in Hoa Binh for the year ended 31 December 2017 and issued the auditor’s report thereon dated on 25 June 2018 expressing an opinion on those financial statements.

In connection with the audit of the financial statements, we also performed procedures on the Project’s compliance with the Credit Number 5596-VN dated 09/07/2015, law and regulations that have a direct and material effect on the Project’s financial statements for the year ended 31 December 2017 ("the Requirements").

Responsibilities of the Provincial Project Management Unit

The Project Management Unit is responsible for complying with the Requirements applicable to the Project.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Project’s compliance with the Requirements based on our procedures. We limited our tests of compliance to the requirements, and we did not test compliance with all laws and regulations applicable to the Project.

We performed our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000. That standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the Project has complied with the requirements.

An assurance engagement to report on the compliance with the requirements at the Project involves performing procedures to obtain evidence about whether the Project’s activities are free of material noncompliance with the requirements, including obtaining an understanding of the internal control relevant to the Project’s compliance with the requirements. The procedures selected depend on the auditors’ judgment, including the assessment of risks that the Project does not comply with the requirements and whether such noncompliance could have a direct and material financial effect on the Project’s financial statements. Our procedures included testing the compliance with the requirements we consider necessary to provide a reasonable assurance that the requirements are complied with the Project.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Auditors' opinion

In our opinion, the Project has complied with the Requirements that could have a direct and material financial effect on the Project's financial statements for the year ended 31 December 2017.

AASC Limited

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

Hanoi, 25 June 2018

Nguyen Pham Hung
Auditor in-charge
CPA Registered No.:
2893-2015-002-1