

ROYAL GOVERNMENT OF CAMBODIA
MINISTRY OF PUBLIC WORKS AND TRANSPORT

Greater Mekong Subregion (GMS)
Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL),
ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and
UEIF Grant No. 0334 – CAM (UEIF)

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Contents

	Page
PART I FINANCIAL STATEMENTS	
Statement by the management	1
Report of the independent auditors	2
Statement of financial position	5
Statement of receipts and expenditure	6
Statement of the second generation imprest accounts	7
Notes to the financial statements	8
• Statement of withdrawals	23
• Statement of budgeted versus actual expenditure	26
PART II INDEPENDENT ASSURANCE REPORT ON COMPLIANCE	
Management assertion	27
Independent reasonable assurance report	28
Statement of Compliance with Loan and Grant Agreements	31

PART I

**Financial Statements
for the year ended 31 December 2018
and
Report of the Independent Auditors**



Ministry of Public Works and Transport

Statement by the management

We, do hereby, state that in our opinion:

- a) The accompanying financial statements, which comprise the statement of financial position as at 31 December 2018, the statement of receipts and expenditure and the statement of the second generation imprest account for the year then ended and notes, as set out on pages 5 to 26 of the GMS Southern Economic Corridor Towns Development Project ("the Project"), funded by the Asian Development Bank Loan No. 2983 – CAM (COL), ADB Strategic Climate Fund Loan No. 8265 – CAM (SCF), ADB Strategic Climate Fund Grant No. 0335 – CAM (SCF) and the Urban Environmental Infrastructure Fund Grant No. 0334 – CAM (JEIF) and implemented by the Ministry of Public Works and Transport ("MPWT", "the Project Management Unit" or "the PMU") are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements; and
- b) The disbursements shown in the financial statements were implemented according to the Loan and Grant Agreements ("the Agreements") and the Project was in compliance with all Loan and Grant covenants of the Agreements for the year ended 31 December 2018.

On behalf of the Project management:

H.E. Vong Piseth
Project Director
Deputy Director General
Ministry of Public Works and Transport

Phnom Penh, Kingdom of Cambodia

Date: 10 JUN 2019



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

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

Opinion

We have audited the accompanying financial statements of the GMS Southern Economic Corridor Towns Development Project (“the Project”), funded by the Asian Development Bank Loan No. 2983 – CAM (COL), ADB Strategic Climate Fund Loan No. 8265 – CAM (SCF), ADB Strategic Climate Fund Grant No. 0335 – CAM (SCF) and the Urban Environmental Infrastructure Fund Grant No. 0334 – CAM (UEIF) and implemented by the Ministry of Public Works and Transport (“MPWT”, “the Project Management Unit” or “the PMU”), which comprises the statement of financial position as at 31 December 2018, the statement of receipts and expenditure and the statement of the second generation imprest account for the year then ended and notes, comprising significant accounting policies and other explanatory information (“financial statements”), as set out on pages 5 to 26.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with basis of accounting and the accounting policies as described in Note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Project in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Emphasis of Matter - Basis of Accounting and Restriction on Use and Distribution

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

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

Management is responsible for the preparation of the financial statements in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PMU's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to cease operations or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISAs 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 CISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.

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

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

For KPMG Cambodia Ltd



Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

10 June 2019

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of financial position as at 31 December 2018

	Note	As at 31 December 2018 US\$	As at 31 December 2017 US\$
Current assets			
Cash on hand – ADB		52	49
Cash at banks	3	211,237	238,961
Advances	4	2,235,019	279,815
		<u>2,446,308</u>	<u>518,825</u>
Represented by:			
Fund balance at end of the year		<u>2,446,308</u>	<u>518,825</u>



H.E. Vong Piseth
Project Director



Mr. Mao Dor
Financial Specialist

Phnom Penh, Date: 10 JUN 2019

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

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of receipts and expenditure for the year ended 31 December 2018

	Note	For the year ended 31 December 2018					Total US\$	For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
		Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$			
Receipts									
Asian Development Bank	5 (a)	4,296,535	-	-	-	-	4,296,535	1,058,688	7,264,956
ADB Strategic Climate Fund	5 (b)	-	539,768	751,798	1,096,917	-	2,388,483	646,612	3,538,550
Government Counterpart Fund	5 (c)	-	-	-	-	55,155	55,155	121,481	275,979
		<u>4,296,535</u>	<u>539,768</u>	<u>751,798</u>	<u>1,096,917</u>	<u>55,155</u>	<u>6,740,173</u>	<u>1,826,781</u>	<u>11,079,485</u>
Expenditure by disbursement Category and finances									
Civil works	7	2,055,667	284,271	414,329	1,252,839	-	4,007,106	97,161	4,104,267
Consulting services	8	449,219	120,836	115,188	-	-	685,243	1,080,787	3,629,058
Non-expendable equipment		-	-	-	-	-	-	-	367,281
Incremental administration	9	64,441	-	-	-	55,900	120,341	177,161	532,571
		<u>2,569,327</u>	<u>405,107</u>	<u>529,517</u>	<u>1,252,839</u>	<u>55,900</u>	<u>4,812,690</u>	<u>1,355,109</u>	<u>8,633,177</u>
Excess of receipts over expenditure		<u>1,727,208</u>	<u>134,661</u>	<u>222,281</u>	<u>(155,922)</u>	<u>(745)</u>	<u>1,927,483</u>	<u>471,672</u>	<u>2,446,308</u>
Fund balance at beginning of the year		<u>225,641</u>	<u>54,586</u>	<u>50,156</u>	<u>155,922</u>	<u>32,520</u>	<u>518,825</u>	<u>47,153</u>	
Fund balance at end of the year		<u>1,952,849</u>	<u>189,247</u>	<u>272,437</u>	<u>-</u>	<u>31,775</u>	<u>2,446,308</u>	<u>518,825</u>	



H.E. Vong Piseth
Project Director

Phnom Penh, Date: 10 JUN 2019

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



Mr. Mao Dor
Financial Specialist

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of the second generation imprest account for the year ended 31 December 2018

	Note	For the year ended 31 December 2018				Total US\$	For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
		Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$			
Receipts								
Asian Development Bank	5	154,002	-	-	-	154,002	224,696	659,135
ADB Strategic Climate Fund		-	-	-	-	-	65,521	96,124
		<u>154,002</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>154,002</u>	<u>290,217</u>	<u>755,259</u>
Expenditure by disbursement Category and finances								
Consulting services	8	74,727	21,515	20,295	-	116,537	42,680	259,402
Non-expendable equipment		-	-	-	-	-	-	27,976
Incremental administration	9	64,441	-	-	-	64,441	87,428	288,367
		<u>139,168</u>	<u>21,515</u>	<u>20,295</u>	<u>-</u>	<u>180,978</u>	<u>130,108</u>	<u>575,745</u>
(Deficit)/excess of receipts over expenditure		14,834	(21,515)	(20,295)	-	(26,976)	160,109	179,514
Fund balance at beginning of the year		153,783	27,330	25,377	-	206,490	46,381	-
Fund balance at end of the year		<u>168,617</u>	<u>5,815</u>	<u>5,082</u>	<u>-</u>	<u>179,514</u>	<u>206,490</u>	<u>179,514</u>
Represented by:								
Cash on hand – ADB		52	-	-	-	52	49	
Cash at banks		168,565	5,815	5,082	-	179,462	206,441	
		<u>168,617</u>	<u>5,815</u>	<u>5,082</u>	<u>-</u>	<u>179,514</u>	<u>206,490</u>	



H.E. Vong Piseth
Project Director

Phnom Penh, Date: 10 JUN 2019

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



Mr. Mao Dor
Financial Specialist

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements for the year ended 31 December 2018

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

1. Background and activities

The financing agreement (“the Agreement”) for the GMS Southern Economic Corridor Towns Development Project (“the Project”) between the Asian Development Bank (“ADB”) and the Royal Government of Cambodia (“RGC”) (represented by the Ministry of Economy and Finance (“MPWT”)) was signed on 8 April 2013. The agreement includes ADB Loan No. 2983 – CAM (COL), ADB Strategic Climate Fund Loan No. 8265 – CAM (SCF) and ADB Strategic Climate Fund Grant No. 0335 – CAM (SCF) in which ADB is acting in its capacity as an implementing agency of the Strategic Climate Fund (“SCF”), Urban Environmental Infrastructure Fund Grant No. 0334 – CAM (UEIF), whereby the ADB agreed to offer loan and grant amounting to Special Drawing Rights 24,023,000 (US\$37,000,000 equivalent at the time of loan negotiation); US\$5,000,000; US\$4,400,000 and US\$1,500,000; respectively. The Project is estimated to be cost at US\$47,900,000.

The effective date of the Project was 8 April 2013 and is expected to be completed by 30 June 2019. On 3 April 2017, the Project requested to the MEF to extend the Project’s completion from 30 June 2019 to 30 June 2021. The extension of the closing date was approved by ADB on 16 June 2017.

The objective of the Project is to improve urban infrastructure and services in the towns of Battambang, Bavet, Neak Loeung and Poipet.

ADB Loan No. 2983 – CAM (SF) is repayable over 23 years, from 1 May 2021 to 1 November 2044, with interest rates of 1% per annum during the grace period to 1 May 2021 and 1.5% per annum thereafter.

ADB Strategic Climate Fund Loan No. 8265 – CAM (SCF) is repayable over 30 years, from 1 May 2023 to 1 November 2052, with interest rate of 0.10% per annum.

On 14 December 2016, the Project, through the MEF, requested to the ADB to revise Loan and Grant categories and reallocation of Loan and Grant proceeds. The request was approved by the ADB on 26 January 2017.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

1. Background and activities (continued)

The tables below set forth the original and revised and reallocated categories of items of expenditure to be financed out of the proceeds of the financiers as follows:

a). Original and reallocated budget for ADB Loan No. 2983 – CAM (SF) – all amounts in SDR

Category No.		Item	Original allocation		Original % basis for withdrawal from Loan Account	Increase/ Decrease	%	Revised allocation		Revised % basis for withdrawal from Loan Account
Original	Revised		Category	Sub-category				Category	Sub-category	
1	1	Work	18,451,000					18,451,000		
	1A	Civil work Wastewater treatment and flood control				11,510,000	100.0%		11,510,000	62.4% *
	1B	Civil work Road and solid waste treatment				6,941,000	100.0%		6,941,000	100.0% *
1A		Battambang wastewater treatment		6,247,000	74.9%	(6,247,000)	(100.0%)			
1D		Bavet urban roads		5,010,000	100.0%	(5,010,000)	(100.0%)			
1F		Poipet wastewater treatment		1,576,000	68.0%	(1,576,000)	(100.0%)			
1C		Bavet wastewater treatment		1,277,000	68.0%	(1,277,000)	(100.0%)			
1G		Poipet solid waste management		1,931,000	100.0%	(1,931,000)	(100.0%)			
1E		Neak Loeung flood control		1,581,000	68.0%	(1,581,000)	(100.0%)			
1B		Battambang flood control		829,000	68.0%	(829,000)	(100.0%)			
2	2	Consulting services	2,436,844					2,383,002		
2A	2A	Project implementation support and capacity development		986,364	71.5%	318,027	32.2%		1,304,391	71.5% *
2B	2B	Detailed engineering design		580,519	77.6%	(107,033)	(18.4%)		473,486	77.6% *
2C	2C	Consultant supervision		788,961	77.6%	(264,836)	(33.6%)		524,125	58.0% *
2D	2D	External monitoring		81,000	100.0%				81,000	100.0% *
3	3	Equipment	227,273		100.0%	71,551	31.0%	298,824		
4	4	Training	97,403		100.0%			97,403	100.0%	
5	5	Incremental administration	467,532					467,532		
5A	5A	Project management unit		233,766	81.3%				233,766	100.0%
5B	5B	Project implementation unit		233,766	81.1%				233,766	100.0%
6	6	Unallocated	1,760,948			(17,709)	(1.0%)	1,743,239		
7	7	Interest during construction	582,000		100.0% **			582,000	100% **	
		Total	24,023,000					24,023,000		

* % of total expenditure claimed, exclusive of taxes and duties imposed with the facilities of the borrower;

** Total amount due.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

1. Background and activities (continued)

b). Original and reallocated budget for ADB SCF Loan No. 8265 – CAM (SCF) – all amounts in US\$

Category No.		Item	Original allocation		Original % basis for withdrawal from Loan Account	Increase/ Decrease	%	Revised allocation		Revised % basis for withdrawal from Loan Account
Original	Revised		Category	Sub-category				Category	Sub-category	
1	1	Work	3,780,000				0.0%	3,780,000		
	1A	Civil work Wastewater treatment and flood control				3,780,000	100.0%		3,780,000	15.3% *
1A		Battambang wastewater treatment		1,745,000	13.6%	(1,745,000)	(100.0%)			
1E		Poipet Loeung wastewater treatment		609,000	17.0%	(609,000)	(100.0%)			
1C		Bavet wastewater treatment		494,000	17.0%	(494,000)	(100.0%)			
1D		Neak Loeung flood control		611,000	17.0%	(611,000)	(100.0%)			
1B		Battambang flood control		321,000	17.0%	(321,000)	(100.0%)			
2	2	Consulting services	623,000					739,028		
2A	2A	Project implementation support and capacity development		300,000	14.2%	68,163	22.7%		368,163	14.2% *
2B	2B	Detailed engineering design		139,000	12.1%	(38,570)	(27.7%)		100,430	12.1% *
2C	2C	Consultant supervision		184,000	11.7%	86,435	47.0%		270,435	22.0% *
3	3	Incremental administration	80,000					1,291		
	3A	Project management unit		40,000	9.0%	(38,709)	(97.0%)		1,291	
	3B	Project implementation unit		40,000	9.0%	(400,000)	(100.0%)			
4	4	Interest during construction	13,000		13.9%		0.0%	13,000		100% **
5	5	Unallocated	504,000		1.5%**	(37,319)	(7.4%)	466,681		
		Total	5,000,000					5,000,000		

* % of total expenditure claimed, exclusive of taxes and duties imposed with the facilities of the borrower.

** Total amount due.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

1. Background and activities (continued)

c). Original and reallocated budget for ADB SCF Grant No. 0335 – CAM (SCF) – all amounts in US\$

Category No.		Item	Original allocation		Original % basis for withdrawal from Loan Account	Increase/ Decrease	%	Revised allocation		Revised % basis for withdrawal from Loan Account
Original	Revised		Category	Sub-category				Category	Sub-category	
1	1	Work	3,270,000					3,270,000		
	1A	Civil work Wastewater treatment and flood control				3,270,000	100.0%	3,270,000	22.3% *	
1A		Battambang wastewater treatment		1,481,000	11.5%	(1,481,000)	(100.0%)			
1E		Poipet wastewater treatment		536,000	15.0%	(536,000)	(100.0%)			
1C		Bavet wastewater treatment		434,000	15.0%	(434,000)	(100.0%)			
1D		Neak Loeung flood control		537,000	15.0%	(537,000)	(100.0%)			
1B		Battambang flood control		282,000	15.0%	(282,000)	(100.0%)			
2	2	Consulting services	590,000					702,096		
2A	2A	Project implementation support and capacity development		304,000	14.3%	66,756	22.0%	370,756	14.3% *	
2B	2B	Detailed engineering design		119,000	10.3%	(33,510)	(28.2%)	85,490	10.3% *	
2C	2C	Consultant supervision		167,000	10.7%	78,580	47.2%	245,850	20.0% *	
2D	2D	External monitoring								
3	3	Incremental administration	87,000					1,391		
3A		Project management unit		43,000	9.7%	(41,609)	(97.0%)	1,391		
3B		Project implementation unit		44,000	9.9%	(44,000)	(100.0%)			
4	4	Unallocated	453,000		12.5%	(26,488)		426,513		
		Total	4,400,000					4,400,000		

* % of total expenditure claimed, exclusive of taxes and duties imposed with the facilities of the borrower.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)

for the year ended 31 December 2018

1. Background and activities (continued)

d). Original and reallocated budget for UEIF Grant No. 0334 – CAM (UEIF) – all amounts in US\$

Category No.		Item	Original allocation		Original % basis for withdrawal from Loan Account	Increase/Decrease	%	Revised allocation		Revised % basis for withdrawal from Loan Account
Original	Revised		Category	Sub-category				Category	Sub-category	
1	1	Work	1,254,000					1,500,000		
	1A	Material recovery facilities				1,390,000	100%		1,500,000	100%*
1A		Battambang material recovery facilities		430,000	100%	(430,000)	(100%)			
1B		Bavet material recovery facilities		382,000	100%	(382,000)	(100%)			
1C		Poipet material recovery facilities		442,000	100%	(442,000)	(100%)			
2		Consulting services	109,000							
2A		Battambang material recovery facilities		37,000	100%	(37,000)	(100%)			
2B		Bavet material recovery facilities		33,000	100%	(33,000)	(100%)			
2C		Poipet material recovery facilities		39,000	100%	(39,000)	(100%)			
3	3	Unallocated	137,000			(27,000)				
		Total	1,500,000					1,500,000		

* % of total expenditure claimed, exclusive of taxes and duties imposed with the facilities of the borrower.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),

ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)

for the year ended 31 December 2018

2. Significant accounting policies

(a) Basis of accounting

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

- Amounts due from Government Counterpart is initially recognised as advances until they are settled; and
- Advanced payments made to suppliers are initially recognised as receivables and only recognised as payments when they have been liquidated by supporting invoices.

The financial statements are prepared for the information of and use by the management of Project, the Ministry of Economy and Finance, and the Asian Development Bank. As a result, the financial statements may not be suitable for another purpose

(b) Statement of the second generation imprest account

The statement of the second generation imprest account is prepared in accordance with the Loan and Grant agreements, and is purely used to receive and disburse for expenditure funded by the ADB loan and grant proceeds.

(c) Non-expendable equipment

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

(d) Foreign currency transactions

The Project transacts its operations and maintains its accounting records primarily in US\$. Transactions in currencies other than US\$ are converted into US\$ at the rates of exchange prevailing on the transaction dates. Cash on hand and advances bank balances in currencies other than US\$ are translated into US\$ at the open market rates of exchange at the period end. All foreign exchange differences are recognised in the statement of receipts and expenditure and the statement of the second generation imprest account.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)

for the year ended 31 December 2018

3. Cash at banks

	As at 31 December 2018						As at 31 December 2017 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$	Total US\$	
Imprest account – ADB	168,565	5,815	5,082	-	-	179,462	206,441
Imprest account – RGC	-	-	-	-	31,775	31,775	32,520
	<u>168,565</u>	<u>5,815</u>	<u>5,082</u>	<u>-</u>	<u>31,775</u>	<u>211,237</u>	<u>238,961</u>

4. Advances

	As at 31 December 2018						As at 31 December 2017 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$	Total US\$	
M.T.A Construction and Xinjiang Beixin Road and Bridge Group Co. Ltd (JV)	1,036,119	-	-	-	-	1,036,119	-
Beijing Urban Construction Group Co. Ltd,	748,113	183,432	267,355	-	-	1,198,900	-
Taing Cheng Oing Construction and Import Export Co., Ltd	-	-	-	-	-	-	155,922
Resource Development Consultant (Pvt) Ltd	-	-	-	-	-	-	123,893
	<u>1,784,232</u>	<u>183,432</u>	<u>267,355</u>	<u>-</u>	<u>-</u>	<u>2,235,019</u>	<u>279,815</u>

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)

for the year ended 31 December 2018

5. Receipts

(a) Asian Development Bank

	For the year ended 31 December 2018					For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$		
Replenishments	154,002	-	-	-	-	154,002	392,607
Initial advances	-	-	-	-	-	-	41,832
Sub-total *	154,002	-	-	-	-	154,002	434,439
Direct payments**	4,142,533	-	-	-	-	4,142,533	6,830,517
	4,296,535	-	-	-	-	4,296,535	7,264,956

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

5. Receipts

(b) ADB Strategic Climate Fund

	For the year ended 31 December 2018						For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$	Total US\$		
Replenishments	-	-	-	-	-	-	65,521	14,708
Initial advances	-	-	-	-	-	-	-	15,895
Sub-total *	-	-	-	-	-	-	65,521	30,603
Direct payments**	-	539,768	751,798	1,096,917	-	2,388,483	581,091	3,507,947
	-	539,768	751,798	1,096,917	-	2,388,483	646,612	3,538,550

(c) Government Counterpart Fund

	For the year ended 31 December 2018						For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$	Total US\$		
Replenishments	-	-	-	-	55,155	55,155	121,481	225,979
Initial advances	-	-	-	-	-	-	-	50,000
Sub-total *	-	-	-	-	55,155	55,155	121,481	275,979

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

5. Receipts (continued)

- * The receipts from Asian Development Bank for Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), and ADB SCF Grant No. 0335 – CAM (SCF), and ADB UEIF Grant No. 0334 – CAM (UEIF) were paid into the first generation imprest account held by the Ministry of Economy and Finance. This is a separate bank account held exclusively for Loans and Grants at the National Bank of Cambodia. These receipts were then disbursed to the second generation imprest account held by the Ministry of Public Works and Transport at the Foreign Trade Bank of Cambodia.
- ** The direct payments represent payments made directly for consulting services and non-expendable equipment from ADB fund on behalf of the Project.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)
for the year ended 31 December 2018

6. Expenditure by disbursement category and finances

Particulars	ADB Loan No. 2983 - CAM			ADB SCF Loan No. 8265 - CAM			ADB SCF Grant No. 0335 - CAM			ADB SCF Grant No. 0334 - CAM			Royal Government of Cambodia ("RGC")		Total US\$
	% of financing	Actual expenditure		% of financing	Actual expenditure		% of financing	Actual expenditure		% of financing	Actual expenditure		Actual expenditure		
	%	US\$	%	%	US\$	%	%	US\$	%	%	US\$	%	US\$	%	
Consulting services															
<i>Project implementation and capacity development</i>	71.50	449,219	65.56	14.20	120,836	17.63	14.30	115,188	16.81	-	-	-	-	-	685,243
<i>Construction supervision</i>	58.00	174,988	58.00	22.00	66,374	22.00	20.00	60,341	20.00	-	-	-	-	-	301,703
Non-expendable equipment	100.00	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civil Work															
<i>Wastewater treatment plant and Flood control</i>	62.40	1,159,379	62.40	15.30	284,271	15.30	22.30	414,329	22.30	-	-	-	-	-	1,857,979
<i>Urban road and solid waste</i>	100.00	896,288	100.00	-	-	-	-	-	-	-	-	-	-	-	896,288
<i>Material recovery facilities</i>	-	-	-	-	-	-	-	-	-	100.00	1,252,839	100.00	-	-	1,252,839
Incremental administration															
<i>Project Management Unit</i>	81.30	49,810	66.42	9.00	-	-	9.70	-	-	-	-	-	25,180	33.58	74,990
<i>Project Implementation Unit</i>	81.10	14,631	32.26	9.00	-	-	9.90	-	-	-	-	-	30,720	67.74	45,351
Total payments – for the year ended 31 December 2018		2,569,327			405,107			529,517			1,252,839		55,900		4,812,690
% of total project costs – for the year ended 31 December 2018		6.94%			8.10%			12.03%			83.52%		0.12%		10.05%
% of cumulative expenses to total project costs – for the period from 8 April 2013 to 31 December 2018		14.36%			16.15%			20.90%			90.00%		0.51%		18.02%

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

7. Civil works

	For the year ended 31 December 2018						For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$	Total US\$		
Battambang Waste Water								
Treatment	1,159,379	284,271	414,329	-	-	1,857,979	97,161	1,955,140
Bavet Urban Road	896,288	-	-	-	-	896,288	-	896,288
Material Recover facilities	-	-	-	1,252,839	-	1,252,839	-	1,252,839
	<u>2,055,667</u>	<u>284,271</u>	<u>414,329</u>	<u>1,252,839</u>	<u>-</u>	<u>4,007,106</u>	<u>97,161</u>	<u>4,104,267</u>

Payment for civil works were made directly to suppliers by ADB on behalf of the Project during the year.

8. Consulting services

	For the year ended 31 December 2018						For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$	Total US\$		
Project implementation support and capacity development	274,231	54,462	54,847	-	-	383,540	754,770	2,516,783
Construction supervision	174,988	66,374	60,341	-	-	301,703	-	301,703
Detailed engineering design	-	-	-	-	-	-	326,017	810,572
	<u>449,219</u>	<u>120,836</u>	<u>115,188</u>	<u>-</u>	<u>-</u>	<u>685,243</u>	<u>1,080,787</u>	<u>3,629,058</u>
The expenditure can be allocated as followed:								
Direct payments	374,492	99,321	94,893	-	-	568,706	1,038,107	3,369,656
Replenishments	74,727	21,515	20,295	-	-	116,537	42,680	259,402
	<u>449,219</u>	<u>120,836</u>	<u>115,188</u>	<u>-</u>	<u>-</u>	<u>685,243</u>	<u>1,080,787</u>	<u>3,629,058</u>

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

9. Incremental administration

	For the year ended 31 December 2018						For the year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
	Loan No. 2983 US\$	Loan No. 8265 US\$	Grant No. 0335 US\$	Grant No 0334 US\$	RGC US\$	Total US\$		
	Project Management Unit	49,810	-	-	-	25,180		
Project Implementation Unit	14,631	-	-	-	30,720	45,351	66,329	204,681
	<u>64,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,900</u>	<u>120,341</u>	<u>177,161</u>	<u>532,571</u>
The expenditure can be analysed as followed:								
Direct payments	-	-	-	-	-	-	-	-
Replenishments	64,441	-	-	-	55,900	120,341	177,161	532,571
	<u>64,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,900</u>	<u>120,341</u>	<u>177,161</u>	<u>532,571</u>

All payment on incremental administration were made through imprest account during the year.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

10. Statement of disbursement

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

		Year ended 31 December 2018 US\$	Year ended 31 December 2017 US\$	Cumulative for the period from 8 April 2013 to 31 December 2018 US\$
ADB Fund claims during the year/period				
Direct payments		6,531,016	1,415,083	10,202,229
Reimbursements		154,002	290,217	500,779
Initial advance		-	-	254,500
Subtotal	(A)	<u>6,685,018</u>	<u>1,705,300</u>	<u>10,957,508</u>
Total expenditure mad during the year/period	(B)	4,812,690	1,355,109	8,633,177
Expenditure made out of Government Counterpart Fund	(C)	(55,900)	(89,733)	(244,204)
Expenditure incurred but not yet claimed	(D)	(180,979)	-	(228,989)
Expenditure claimed but not yet incurred during the year/period	(E)	-	-	-
Expenditure incurred in previous year, received current year	(F)	154,002	160,109	154,002
Advance payment to suppliers	(G)	2,235,019	279,815	2,514,834
Advance in previous year/period, recognised as expense in current year/period	(H)	(279,814)	-	(279,814)
Initial advance	(I)	-	-	254,500
Total eligible expenditure claimed (A = J = B + C + D + E + F + G + H + I)	(J)	<u>6,685,018</u>	<u>1,705,300</u>	<u>10,803,506</u>

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

11. Commitments

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

	As at 31 December 2018 US\$	As at 31 December 2017 US\$
Contracted, but not yet paid:		
Consulting services	1,514,357	1,891,408
Civil works	12,204,613	921,307
	<u>13,718,970</u>	<u>2,812,715</u>

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)
for the year ended 31 December 2018

12. Statement of withdrawals

Withdrawal Application		Category					
No	Date	Currency	Civil works	Consulting services	Non-expendable equipment	Incremental administration	Total
ADB Loan No. 2983 – CAM (COL)							
A0030	1-Jun-18	US\$	-	80,371	-	-	80,371
A0031	15-Jul-18	US\$	-	81,074	-	-	81,074
A0032	26-Aug-18	US\$	-	74,991	-	-	74,991
A0033	26-Aug-18	US\$	-	66,197	-	-	66,197
A0034	10-Nov-18	US\$	1,030,559	-	-	-	1,030,559
A0035	26-Nov-18	US\$	781,164	-	-	-	781,164
A*		US\$	243,944	71,858	-	-	315,802
A**		US\$	-	74,728	-	64,441	139,169
	Sub-total (a)	US\$	2,055,667	449,219	-	64,441	2,569,327
ADB SCF Loan No. 8265 – CAM (SCF)							
B0030	1-Jun-18	US\$	-	15,962	-	-	15,962
B0031	15-Jul-18	US\$	-	16,101	-	-	16,101
B0032	26-Aug-18	US\$	-	14,893	-	-	14,893
B0033	26-Aug-18	US\$	-	-	-	-	-
B0034	12-Nov-18	US\$	252,685	25,109	-	-	277,794
B*		US\$	31,586	27,256	-	-	58,842
B**		US\$	-	21,515	-	-	21,515
	Sub-total (b)	US\$	284,271	120,836	-	-	405,107

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)
for the year ended 31 December 2018

12. Statement of withdrawals (continued)

Withdrawal Application		Category					
No	Date	Currency	Civil works	Consulting services	Non-expendable equipment	Incremental administration	Total
ADB SCF Grant No. 0335 – CAM (SCF)							
C0030	1-Jun-18	US\$	-	16,074	-	-	16,074
C0031	15-Jul-18	US\$	-	16,215	-	-	16,215
C0032	26-Aug-18	US\$	-	14,998	-	-	14,998
C0033	26-Aug-18	US\$	-	22,827	-	-	22,827
C0034	12-Nov-18	US\$	368,293	-	-	-	368,293
C*		US\$	46,036	24,779	-	-	70,815
C**		US\$	-	20,295	-	-	20,295
	Sub-total (c)	US\$	414,329	115,188	-	-	529,517
UEIF Grant No. 0334 – CAM (UEIF)							
D0005	9-Feb-18	US\$	217,797	-	-	-	217,797
D0006	1-Mar-18	US\$	148,075	-	-	-	148,075
D0007	26-Mar-18	US\$	93,019	-	-	-	93,019
D0008	1-Jun-18	US\$	141,413	-	-	-	141,413
D0009	15-Jul-18	US\$	210,223	-	-	-	210,223
D0010	29-Jul-18	US\$	188,876	-	-	-	188,876
D0011	23-Nov-18	US\$	97,515	-	-	-	97,515
D*		US\$	155,921	-	-	-	155,921
	Sub-total (d)	US\$	1,252,839	-	-	-	1,252,839

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued)
for the year ended 31 December 2018

12. Statement of withdrawals (continued)

Withdrawal Application		Category					
No	Date	Currency	Civil works	Consulting services	Non-expendable equipment	Incremental administration	Total
Government Counterpart Fund							
R006	31-Jul-18	US\$	-	-	-	30,590	30,590
R007	29-Nov-18	US\$	-	-	-	24,565	24,565
R*		US\$	-	-	-	745	745
	Sub-total (e)	US\$	-	-	-	55,900	55,900
Grand total (a+b+c+d+e)		US\$	4,007,106	685,243	-	120,341	4,812,690

*This refer to expenditure incurred but not yet claim as the date of report.

**This refer to advance incurred in previous year, claimed as expense current year as the date of report.



H.E. Vong Piseth
Project Director

Phnom Penh, Date: 10 JUN 2019



Mr. Mao Dor
Financial Specialist

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Notes to the financial statements (continued) for the year ended 31 December 2018

13. Statement of budgeted versus actual expenditure

No.	Description	Year ended 31 December 2018				Year ended 31 December 2017			Cumulative period from 8 April 2013 to 31 December 2018		
		Budget US\$	Actual US\$	Variance US\$	% of variance	Budget US\$	Actual US\$	Variance US\$	Budget US\$	Actual US\$	Variance US\$
1	Civil works	4,253,334	4,007,106	246,228	6%	78,954	97,161	(18,207)	35,053,210	4,104,267	30,948,943
2	Consulting services	766,675	685,243	81,432	11%	1,200,999	1,080,787	120,212	6,923,567	3,629,058	3,294,509
3	Equipment	-	-	-	0%	-	-	-	177,000	367,281	(190,281)
4	Training	-	-	-	0%	-	-	-	111,000	-	111,000
5	Incremental administration	137,084	120,341	16,743	12%	159,613	177,161	(17,548)	794,697	532,571	262,126
6	Service charge	-	-	-	0%	-	-	-	6,000	-	6,000
7	Unallocated	-	-	-	0%	-	-	-	2,802,000	-	2,802,000
8	Interest during construction	-	-	-	0%	-	-	-	287,000	-	287,000
9	Land acquisition and settlement*	-	-	-	0%	-	-	-	1,560,000	-	1,560,000
10	Physical contingency*	-	-	-	0%	-	-	-	431,000	-	431,000
	Total	5,157,093	4,812,690	344,403	7%	1,439,566	1,355,109	84,457	48,145,474	8,633,177	39,512,297

* Expenditure funded by RGC's contribution.



H.E. Vong Piseth
Project Director

Phnom Penh, Date: 10 JUN 2019



Mr. Mao Dor
Financial Specialist



Ministry of Public Works and Transport

Management assertion

I, on behalf of the Project's management, do hereby state that:

- (a) The Project's funds have been used, in all material respects, in accordance with the conditions of Loan Agreement No. 2983 – CAM (COL), ADB Strategic Climate Fund Loan No. 8265 – CAM (SCF), ADB Strategic Climate Fund Grant No. 0335 – CAM (SCF) and the Urban Environmental Infrastructure Fund Grant No. 0334 – CAM (UEIF) (“the Agreements”) for year ended 31 December 2018.
- (b) The Project has complied, in all material respects, with the covenants set out in the Agreements for the year ended 31 December 2018.
- (c) The Project has complied, in all material respects, with the statement of expenditure (“SOE”) procedure set out in ADB's Loan/Grant Disbursement Handbook for the year ended 31 December 2018.
- (d) The Project has complied, in all material respects, with the Imprest/Advance Account procedure set out in ADB's Loan/Grant Disbursement Handbook for the year ended 31 December 2018.

On behalf of the Project management:

H.E. Vong Piseth
Project Director
Deputy Director General
Ministry of Public Works and Transport

Phnom Penh, Kingdom of Cambodia

Date: 10 JUN 2019

PART II

**Independent Assurance Report on Compliance
with the Loan and Grant Agreements
for the year ended 31 December 2018**



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

INDEPENDENT REASONABLE ASSURANCE REPORT

To the Ministry of Economy and Finance

on the Statement of Compliance

We refer to the Loan Agreement No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF) (“the Agreements”), which sets out the requirements for GMS Southern Economic Corridor Towns Development Project (“Project”) to comply with the Loan and Grant covenants.

Pursuant to the terms of the Agreements, the management of the Project has prepared a Statement of Compliance with the Agreements (the “Statement of Compliance”), a copy of which is attached to this independent assurance report.

We were engaged by the Ministry of Economy and Finance (“MEF”) to report on the Project’s Statement of Compliance with the Agreements as set out on pages 31 to 35 for the year ended 31 December 2018 in the form of an independent reasonable assurance conclusion about whether the Statement of Compliance is, in all material respects, prepared in compliance with the requirements set out in the Agreements.

Our report is intended to provide a conclusion on the following specific matters, established by the terms of the Agreements whether:

- (i) The Project’s funds have been used, in all material respects, for the purposes of the Project in accordance with the terms and conditions set out in the Agreements.
- (ii) The Project has complied, in all material respects, with the covenants of the Agreements.
- (iii) The Project has complied, in all material respects, with the statement of expenditure (“SOE”) procedure set out in ADB’s Loan/Grant Disbursement Handbook for the year ended 31 December 2018.
- (iv) The Project has complied, in all material respects, with the Imprest/Advance Account procedure set out in ADB’s Loan/Grant Disbursement Handbook for the year ended 31 December 2018.



Management's Responsibilities

The management of the Project is responsible for the preparation of the Statement of Compliance that is free from material misstatement in accordance with those requirements set out by the Agreements and for the information contained therein on pages 31 to 35.

This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the Statement of Compliance that is free from material misstatement, whether due to fraud or error. It also includes ensuring the Project's compliance with those requirements set out in the Agreements; selecting and applying policies; making judgements and estimates that are reasonable in the circumstances; and maintaining adequate records in relation to the Statement of Compliance. The management of the Project is also responsible for preventing and detecting fraud and for identifying and ensuring that the Project complies with laws and regulations applicable to its activities. The management is responsible for ensuring that staff involved with the preparation of the Statement of Compliance are properly trained, information systems are properly updated and that any changes in reporting encompass all significant reporting units.

Our Responsibilities

Our responsibility is to examine the Statement of Compliance prepared by the management and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with Cambodian International Standard on Assurance Engagements (CISAE) 3000, Assurance Engagement Other than Audits or Reviews of Historical Financial Information. That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain reasonable assurance about whether the Statement of Compliance is properly prepared in accordance with the relevant terms and conditions set out in the Agreements, in all material respects.

We apply Cambodian International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Procedures Performed

The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Statement of Compliance whether due to fraud or error.

In making those risk assessments, we have considered internal controls relevant to the preparation of the Statement of Compliance, in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Project's internal control over the preparation of the Statement of Compliance.

Our engagement also included assessing the appropriateness of the Statement of Compliance, the suitability of the criteria being the terms and conditions specified by the Agreements, used by the Project's management in preparing and presenting the Statement of Compliance in the circumstances of the engagement, obtaining an understanding of the compilation of the financial and non-financial information in the Statement by enquiry of management, reference to the Agreements and performance of testing on the Project's management assertions on a sample basis.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the Project’s Statement of Compliance is, in all material respects, prepared in compliance with the requirements of the Agreements, in particular the following assertions by management of the Project are properly represented, in all material respects:

- (i) The Project’s funds have been used, in all material respects, for the purposes of the Project in accordance with the terms and conditions set out in the agreements.
- (ii) The Project has complied, in all material respects, with the covenants of the Agreements.
- (iii) The Project has complied, in all material respects, with the statement of expenditure (“SOE”) procedure set out in ADB’s Loan/Grant Disbursement Handbook for the year ended 31 December 2018.
- (iv) The Project has complied, in all material respects, with the Imprest/Advance Account procedure set out in ADB’s Loan/Grant Disbursement Handbook for the year ended 31 December 2018.

Restriction on Use of Our Report

Our report should not be regarded as suitable to be used or relied on by any party other than the Project, MEF and ADB for any purpose or in any context. Any party other than the Project, MEF and the ADB who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

We accept or assume no responsibility and deny any liability to any party other than the Project, MEF and ADB for our work, for this independent reasonable assurance report, or for the conclusions we have reached.

Our report is released to the Project, MEF and the ADB on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent.

For KPMG Cambodia Ltd

Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

10 June 2019

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of Compliance with the Loan and Grant Agreements for the year ended 31 December 2018

1. Criteria

This Statement of Compliance is prepared in accordance with the criteria determined by the ADB in accordance with the Loan Agreement No. ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF), ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF) (“the Agreements”), which sets out the requirements for the GMS Southern Economic Corridor Towns Development Project (“the Project”) to comply with and is prepared by the Project’s management based on the key relevant provisions in which the Project’s management believes are important to report on and is not intended to cover the complete set of the Agreements taken as a whole. These criteria are described below. The Project management has assessed its compliance with the relevant requirements and included the results of its assessment below.

Section	Description	Management’s assertions
Article III: Use of Proceed of Loan/Grant		
3.01	The Borrower shall cause the proceeds of the Loan and to be applied to the financing of expenditures on the Project in accordance with the provisions of the Agreements.	Yes, complied with.
3.02	The proceeds of the funds shall be allocated and withdrawn in accordance with the provisions of the attachment to Schedule 3 (for Loan) and Schedule 1 (for Grant) (See Appendix) to this Agreements, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.	Yes, complied with.
3.03	Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, items of expenditure to be financed out of the proceeds of the Loan and Grant in accordance with the provisions of Schedule 4 (See Appendix) of the Agreements.	Yes, complied with.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of Compliance with the Loan and Grant Agreements for the year ended 31 December 2018

1. Criteria (continued)

Section	Description	Management's assertions
Article IV: Particular Covenants		
4.02/ 4.03 (Grant No. 0334)	<p>(a) The Borrower shall:</p> <p>(i) Maintain separate accounts and records for the Projects;</p> <p>(ii) prepare annual financial statements for the Project in accordance with generally accepted accounting principles.</p> <p>(iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with International Standards for auditing or the national equivalent acceptable to ADB;</p> <p>(iv) as part of each such audit, have the auditor prepare a report which includes the auditor's opinions on</p> <p>(a) the use of loan procedures of imprest fund and statement of expenditure and</p> <p>(b) a management letter (which set out the deficiencies in the internal control of the project that were identified in the course of the audit, if any); and</p> <p>(v) Furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.</p>	<p>(a):</p> <p>(i) Yes, complied with</p> <p>(ii) The Project prepared the annual financial statements in accordance with a modified cash basis of accounting.</p> <p>(iii) Financial statements are audited by KPMG Cambodia.</p> <p>(iv) Refer to Report of Independent Auditor and the Independent Reasonable Assurance Report.</p> <p>(v) Yes, complied with.</p> <p>(b) Yes complied with.</p>

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),
ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of Compliance with the Loan and Grant Agreements for the year ended 31 December 2018

1. Criteria (continued)

Section	Description	Management's assertions
Article IV: Particular Covenants (continued)		
4.03	The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.	Yes, complied with.
ADB Loan disbursement handbook		
	The Borrower shall use the SOE procedure certifying to the eligibility of those expenditures claimed under SOE procedures, and proper use of the procedure in accordance with ADB's Loan Disbursement Handbook and the project documents.	Yes, complied with.
	The Borrower shall use the Imprest/Advance Account procedure set out in ADB's Loan Disbursement Handbook.	Yes, complied with.
	<p>Condition for Approval to Use the Advance Fund Procedure: For approval to use the advance fund procedure, the following conditions should be considered and met:</p> <ul style="list-style-type: none"> • Borrower's capacity: The borrower, EA, and or implementing agency (IA), as appropriate, must have adequate administrative and accounting capacity to establish sufficient internal control, accounting, and auditing procedure to ensure efficient use and operation of the procedures. If the EA/or IA's capacity is determined to be inadequate, the advance fund procedure should not be used. • Audit arrangement: The borrower, EA, and or I/A, as appropriate, must also have the capacity to arrange for periodic and annual independent audits of the advance fund procedure by auditors acceptable to ADB. 	Yes, complied with.
	<p>Establishing the Advance Account The borrower, EA, or IA is required to open a separate bank account (unless otherwise approved by ADB) for depositing advances. The advance account should be maintained in a bank account without restriction on withdrawing funds at any time and is opened in the name of the borrower, EA, IA, or the project, as appropriate</p> <p>The borrower, EA, or IA who established the advance account is accountable and responsible for proper use of advances to the advance account, including advances to the subaccount, if used.</p>	Yes, complied with.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),

ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of Compliance with the Loan and Grant Agreements for the year ended 31 December 2018

2. Appendix to the statement of compliance

Section	Description
Schedule 1: Allocation and withdrawal of Grant Proceeds	
2	Except as ADB may otherwise agree, the proceeds of the Grant shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.
3	Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table: (a) If the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may in consultation with the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and (b) If the amount of the Grant allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by in consultation with the Recipient, reallocate such excess amount to any other Category.
Schedule 3: Allocation and withdrawal of the loan proceeds	
4	The proceeds of the Loan shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.
5	The Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.
Schedule 4: Procurement of Goods, Works and Consulting Services	
1	The procurement of Goods, Works, and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines respectively.
3	Goods and Works shall only be procured on the basis of the methods of procurement set forth below: (a) International Competitive Bidding; (b) National Competitive Bidding; and (c) Shopping.

Ministry of Public Works and Transport

GMS Southern Economic Corridor Towns Development Project

ADB Loan No. 2983 – CAM (COL), ADB SCF Loan No. 8265 – CAM (SCF),

ADB SCF Grant No. 0335 – CAM (SCF) and UEIF Grant No. 0334 – CAM (UEIF)

Statement of compliance with the Loan and Grant Agreements for the year ended 31 December 2018

2. Appendix to the statement of compliance (continued)

Section	Description
Schedule 4: Procurement of Goods, Works and Consulting Services	
7	The Borrower shall not award any Works contract which involves environmental impacts until MPWT has: (a) Obtained the final approval of the IEE from the appropriate authority of the Borrower; and (b) Incorporated the relevant provisions from the EMP into the Works contract.
8	The Borrower shall not award any Works contract which involves involuntary resettlement impacts, until the Borrower has prepared and submitted to ADB the final RP based on the detailed design, and obtained ADB's clearance of such RP.
9	The Borrower shall apply Quality- and Cost-Based Selection for selecting and engaging Consulting Services.
10	The Borrower shall apply the methods for selecting and engaging the specified Consulting Services, in accordance with, among other things, the procedures set forth in the Procurement Plan.
11	The Borrower shall recruit any individual consultants for such services as agreed with ADB in accordance with procedures acceptable to ADB for recruiting individual consultants.
12 (a)	The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.
12 (b)	The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters.
13	The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the Consulting Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.