

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

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

ADB Loan No. 3314 – CAM (SF)

**Financial Statements  
and Statement of Compliance  
for the year ended 31 December 2018**

# Ministry of Public Works and Transport

## Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

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# **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**

I do hereby state that in my opinion:

- (a) The accompanying financial statements, which comprise the statement of financial position as at 31 December 2018 and the statements of receipts and expenditures and imprest account for the year then ended and notes as set out on pages 5 to 17 of the Second Greater Mekong Subregion Corridor Towns Development ("the Project"), funded by the Asian Development Bank Loan No. 3314 – CAM (SF) and implemented by the Ministry of Public Works and Transport, are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies described in Note 2 to the financial statements.
- (b) The disbursements shown in the financial statements were implemented according to the Loan Agreement and the Project was in compliance with all loan covenants of the Agreements for the year ended 31 December 2018.

*Signed on behalf of the Project management:*

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

Phnom Penh, Kingdom of Cambodia

Date: 14 JUN 2019



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

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

### ***Opinion***

We have audited the accompanying financial statements of the Second Greater Mekong Subregion Corridor Towns Development (“the Project”), funded by the Asian Development Bank Loan No. 3314 – CAM (SF) implemented by the Ministry of Public Works and Transport (“the Project Management Unit” or “PMU”), which comprise the statement of financial position as at 31 December 2018 and the statements of receipts and expenditures and 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 17.

In our opinion, the accompanying financial statements of the Project for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the basis of accounting and the accounting policies as described in Note 2 to the financial statements.

### ***Basis for Opinion***

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



### ***Emphasis of Matter - Basis of Accounting and Restriction on use***

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

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



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

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

For KPMG Cambodia Ltd

Taing YoukFong  
Partner



Phnom Penh, Kingdom of Cambodia

14 June 2019

## Ministry of Public Works and Transport

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

#### Statement of financial position as at 31 December 2018

	Note	As at 31 December 2018 US\$	As at 31 December 2017 US\$
<b>Current assets</b>			
Cash at banks	3	352,408	184,209
Advances to consultants		-	32,413
		<u>352,408</u>	<u>216,622</u>
<b>Represented by:</b>			
Fund balance at end of the year		<u>352,408</u>	<u>216,622</u>



H.E. Vong Pisith  
*Project Director*



Mr. Dor Mao  
*Financial Management Specialist*

Phnom Penh, Kingdom of Cambodia

Date: 14 JUN 2019


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

## Ministry of Public Works and Transport

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

#### Statement of receipts and expenditures for the year ended 31 December 2018

	Year ended 31 December 2018		Year ended 31 December 2017 US\$	Cumulative period from 29 February 2016 to 31 December 2018
	ADB US\$	RGC US\$		
<b>Receipts</b>				
Asian Development Bank	961,934	-	317,333	2,094,229
Government counterpart fund	-	35,938	20,000	55,938
	<u>961,934</u>	<u>35,938</u>	<u>337,333</u>	<u>2,150,167</u>
<b>Expenditure by</b>				
Consulting services	729,472	-	673,882	1,403,354
Other incremental and administration costs	96,877	35,737	261,791	394,405
	<u>826,349</u>	<u>35,737</u>	<u>935,673</u>	<u>1,797,759</u>
Excess/(Deficit) of receipts over expenditures	135,585	201	(598,340)	352,408
Fund balance at beginning of the year/period	215,460	1,162	814,962	
Fund balance at end of the year/period	<u>351,045</u>	<u>1,363</u>	<u>216,622</u>	



H.E. Vong Pisith  
Project Director

Phnom Penh, Kingdom of Cambodia

Date: 14 JUN 2019



Mr. Dor Mao  
Financial Management Specialist

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

## Ministry of Public Works and Transport

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

#### Statement of imprest account for the year ended 31 December 2018

	Note	Year ended 31 December 2018 US\$	Year ended 31 December 2017 US\$	Cumulative period from 29 February 2016 to 31 December 2018 US\$
<b>Receipts</b>				
Asian Development Bank	4(a)	264,875	-	690,875
<b>Expenditure</b>				
Other incremental and administration costs	6	96,877	242,953	339,830
		96,877	242,953	339,830
Excess/(Deficit) of receipts over expenditure		167,998	(242,953)	351,045
Fund balance at beginning of the year		183,047	426,000	
<b>Fund balance at end of the year</b>		<b>351,045</b>	<b>183,047</b>	



H.E. Vong Pisith  
Project Director



Mr. Dor Mao  
Financial Management Specialist

Phnom Penh, Kingdom of Cambodia

Date: 14 JUN 2019

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

# **Ministry of Public Works and Transport**

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

ADB Loan No. 3314 – CAM (SF)

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

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

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

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

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

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

#### Notes to the financial statements (continued)

for the year ended 31 December 2018

### 1. Background and activities (continued)

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

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

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

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

### 2. Significant accounting policies

#### (a) Basis of accounting

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

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

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

## 2. Significant accounting policies (continued)

### (b) Non-expendable equipment

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

### (c) Foreign currency transactions

The Project transacts its operations and maintains its accounting records primarily in United States Dollars ("US\$"). Transactions in currencies other than US\$ are converted into US\$ at the rates of exchange prevailing on the transaction dates. Cash and bank balances in currencies other than US\$ are translated into US\$ at the open market rates of exchange at the year end date. All foreign exchange differences are recognised in the statement of receipts and expenditure.

### (d) Statement of imprest account

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

## 3. Cash at banks

	As at 31 December 2018			As at
	ADB US\$	RGC US\$	Total US\$	31 December 2017 US\$
Imprest accounts				
ADB – Project Coordination Unit	351,045	-	351,045	183,047
Government Counterpart Fund	-	1,363	1,363	1,162
	<u>351,045</u>	<u>1,363</u>	<u>352,408</u>	<u>184,209</u>

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

## Ministry of Public Works and Transport

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

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

#### 4. Receipts

##### (a) Asian Development Bank

	Year ended 31 December 2018 US\$	Year ended 31 December 2017 US\$	Cumulative period from 29 February 2016 to 31 December 2018 US\$
Initial advance	-	-	426,000
Replenishment (*)	264,875	-	264,875
Direct payment (**)	697,059	317,333	1,403,354
	<u>961,934</u>	<u>317,333</u>	<u>2,094,229</u>

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

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

##### (b) Government Counterpart fund

	Year ended 31 December 2018 US\$	Year ended 31 December 2017 US\$	Cumulative period from 29 February 2016 to 31 December 2018 US\$
Imprest account	<u>35,938</u>	<u>20,000</u>	<u>55,938</u>



**Ministry of Public Works and Transport**

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

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

**7. Expenditure by disbursement category**

Particulars	ADB		Royal Government of Cambodia		Total
	% of financing	Actual expenditure	Actual expenditure	%	
Consulting services	100	729,472	-	0%	729,472
Other incremental and administration costs	100	96,877	35,737	100%	132,614
<b>Total payments – for the year ended 31 December 2018</b>		<b>826,349</b>	<b>35,737</b>		<b>862,086</b>
<b>% of total project costs – for the year ended 31 December 2018</b>		<b>2.17%</b>	<b>0.09%</b>		<b>2.26%</b>
<b>% of cumulative expenses to total project costs – for the period from 29 February 2016 to 31 December 2018</b>		<b>4.58%</b>	<b>0.14%</b>		<b>4.72%</b>

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

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

### 8. Commitment

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

	As at 31 December 2018 US\$	As at 31 December 2017 US\$
Consulting services	1,421,687	2,079,529
Consultants	34,000	79,400
	<u>1,455,687</u>	<u>2,158,929</u>

### 9. Statement of disbursement

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

	Year ended 31 December 2018 US\$	Year ended 31 December 2017 US\$	Cumulative period from 29 February 2016 to 31 December 2018 US\$
<b>ADB Fund claims during the year/period</b>			
Initial advance	-	-	426,000
Replenishment	264,875	-	264,875
Direct payments	697,059	317,333	1,403,354
Subtotal (A)	<u>961,934</u>	<u>317,333</u>	<u>2,094,229</u>
<b>Total expenditure made during the year/period (B)</b>	862,086	935,673	1,797,759
<i>Expenditure made out of Government</i>			
Counterpart fund (C)	(35,737)	(18,838)	(54,575)
Expenditure not yet claimed (D)	(74,955)	(242,953)	(74,955)
<i>Expenditure incurred in prior year but claimed during the year/period</i>	242,953	-	-
Initial advance (E)	-	-	426,000
<i>Advance incurred in prior period but recorded as expenditure in the current year (G)</i>	(32,413)	(356,549)	-
<b>Total eligible expenditure claimed (H=A+B+C+D+E+F+G) (H)</b>	<u>961,934</u>	<u>317,333</u>	<u>2,094,229</u>

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

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

#### 10. Statement of withdrawals

Withdrawal application number	Date	Currency	Consulting services	Goods	Other incremental and administrative costs	Total
<b>2018</b>						
<b>ADB</b>						
<i>Direct payments</i>						
A0005	28-Mar-18	US\$	188,357	-	-	188,357
A0006	16-May-18	US\$	121,043	-	-	121,043
A0008	19-Jun-18	US\$	118,764	-	-	118,764
A0009	25-Sep-18	US\$	158,926	-	-	158,926
A0010	6-Dec-18	US\$	109,969	-	-	109,969
			<b>697,059</b>	-	-	<b>697,059</b>
<i>Replenishment</i>						
A0007	17-Jul-18	US\$	-	-	-	264,875
<b>Subtotal (a)</b>			<b>697,059</b>	-	-	<b>961,934</b>
<b>RGC</b>						
R0002	23-Mar-18	US\$	-	-	18,838	18,838
R0003	16-Aug-18	US\$	-	-	17,100	17,100
<b>Subtotal (b)</b>			-	-	<b>35,938</b>	<b>35,938</b>
<b>Total (A)</b>			<b>697,059</b>	-	<b>35,938</b>	<b>997,872</b>

## Ministry of Public Works and Transport

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

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

#### 10. Statement of withdrawals (continued)

Withdrawal application number	Date	Currency	Consulting services	Goods	Other incremental and administrative costs	Total
<b>2017</b>						
<i>Direct payments</i>						
A0003	25-Sep-17	US\$	111,872	-	-	111,872
A0004	06-Dec-17	US\$	205,461	-	-	205,461
<b>Subtotal (c)</b>			<b>317,333</b>	-	-	<b>317,333</b>
<b>RGC</b>						
R0001	24-Nov-17	US\$	-	-	-	20,000
<b>Total (B)</b>			<b>317,333</b>	-	-	<b>337,333</b>
<b>2016</b>						
<i>Direct payments</i>						
A0001	19-Dec-16	US\$	388,962	-	-	388,962
<i>Initial advance</i>						
A0002	22-Dec-16	US\$	-	-	-	426,000
<b>Total (C)</b>			<b>388,962</b>	-	-	<b>814,962</b>
<b>Total</b>			<b>1,403,354</b>	-	<b>35,938</b>	<b>2,150,167</b>



H.E. Vong Pisith  
Project Director



Mr. Dor Mao  
Financial Management Specialist

Phnom Penh, Kingdom of Cambodia

Date: 14 JUN 2019

**Ministry of Public Works and Transport**

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

**Statement of budget versus actual expenditures**  
**for the year ended 31 December 2018**

**11. Statement of budget versus actual expenditures**

Description	Year ended 31 December 2018			Year ended 31 December 2017			Cumulative period from 29 February 2016 to 31 December 2018		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Investment									
Consulting services	768,312	729,472	38,840	965,568	673,882	291,686	1,733,880	1,403,354	330,526
Other incremental and administration cost	171,952	132,614	39,338	306,224	261,791	44,433	478,176	394,405	83,771
	<b>940,264</b>	<b>862,086</b>	<b>78,178</b>	<b>1,271,792</b>	<b>935,673</b>	<b>336,119</b>	<b>2,212,056</b>	<b>1,797,759</b>	<b>414,297</b>



H.E. Vong Pisith  
*Project Director*

Phnom Penh, Kingdom of Cambodia

Date: **14 JUN 2019**



Mr. Dor Mao  
*Financial Management Specialist*

## **PART II**

**Independent Assurance Report on Compliance  
With the Loan Agreement  
for the year ended 31 December 2018**



**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. 3314 – CAM (SF) ("the Loan Agreement") for year ended 31 December 2018.
- (b) The Project has complied, in all material respects, with the covenants set out in the Loan Agreement 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 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 Disbursement Handbook for the year ended 31 December 2018.

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

Phnom Penh, Kingdom of Cambodia

Date: 14 JUN 2019



KPMG Cambodia Ltd  
4<sup>th</sup> 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. ADB Loan No. 3314 – CAM (SF) (“the Loan Agreement”), which sets out the requirements for the Second Greater Mekong Subregion Corridor Towns Development Project (“the Project”) to comply with the Loan covenants.

Pursuant to the terms of the Loan Agreement, the management of the Project has prepared a Statement of Compliance with the Loan Agreement (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 Loan Agreement as set out on pages 23 to 28 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 Loan Agreement.

Our report is intended to provide a conclusion on the following specific matters, established by the terms of the Loan Agreement 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 Loan Agreement.
- (ii) The Project has complied, in all material respects, with the covenants of the Loan Agreement.
- (iii) The Project has complied, in all material respects, with the statement of expenditure (“SOE”) procedure set out in ADB’s Loan 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 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 Loan Agreement and for the information contained therein on pages 23 to 28.

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 Loan Agreement; 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 Loan Agreement, 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 issued by the International Ethics Standards Board for 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 Loan Agreement, used by the Project's management in preparing 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 Loan Agreement 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 Loan Agreement, 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 Loan Agreement.
- (ii) The Project has complied, in all material respects, with the covenants of the Loan Agreement.
- (iii) The Project has complied, in all material respects, with the statement of expenditure ("SOE") procedure set out in ADB's Loan 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 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



Taing YoukFong

Partner

Phnom Penh, Kingdom of Cambodia

14 June 2019

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

#### Statement of Compliance with the Loan Agreement 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. 3314 – CAM (SF) (“the Loan Agreement”), which sets out the requirements for the Second Greater Mekong Subregion 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 Loan Agreement 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
<b>Article III: Use of Proceed of Loan</b>		
3.01	The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement.	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 (See Appendix) to this Loan Agreement, 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 in accordance with the provisions of Schedule 4 (See Appendix) of the Agreement.	Yes, complied with.

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

#### Statement of Compliance with the Loan Agreement (continued) for the year ended 31 December 2018

#### 1. Criteria (continued)

Section	Description	Management's assertions
4.02	<p>(a) The Borrower shall:</p> <ul style="list-style-type: none"> <li>(i) Maintain separate accounts and records for the Projects;</li> <li>(ii) prepare annual financial statements for the Project in accordance with generally accepted accounting principles.</li> <li>(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;</li> <li>(iv) as part of each such audit, have the auditor prepare a report which includes the auditor's opinions on               <ul style="list-style-type: none"> <li>(a) whether the Project financial statements present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework;</li> <li>(b) whether the Project's funds were used only for the purposes of the Project or not;</li> <li>(c) the level of compliance with the financial covenants in the Loan Agreement;</li> <li>(d) compliance with the imprest fund procedure; and</li> <li>(e) compliance with use of 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; and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any).</li> </ul> </li> </ul>	<p>(a):</p> <ul style="list-style-type: none"> <li>(i) Yes, complied with</li> <li>(ii) The Project prepared the annual financial statements in accordance with a modified cash basis of accounting.</li> <li>(iii) Financial statements are audited by KPMG Cambodia Ltd.</li> <li>(iv) Refer to Report of Independent Auditor and the Independent Reasonable Assurance Report.</li> </ul>

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

#### Statement of Compliance with the Loan Agreement (continued) for the year ended 31 December 2018

#### 1. Criteria (continued)

Section	Description	Management's assertions
	<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>(v) Yes, complied with.</p> <p>(b) Yes complied with.</p>
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.
<b>ADB Loan disbursement handbook</b>		
	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.

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

#### Statement of Compliance with the Loan Agreement (continued) for the year ended 31 December 2018

##### 1. Criteria (continued)

Section	Description	Management's assertions
<b>Condition for Approval to Use the Advance Fund Procedure:</b>		
	<p>For approval to use the advance fund procedure, the following conditions should be considered and met:</p> <ul style="list-style-type: none"> <li>• <b>Borrower's capacity:</b> 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.</li> <li>• <b>Audit arrangement:</b> 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.</li> </ul>	Yes, complied with.
<b>Establishing the Advance Account</b>		
	<p>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

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

#### Statement of Compliance with the Loan Agreement for the year ended 31 December 2018

## 2. Appendix to the Statement of Compliance

Section	Description
<b>Schedule 3: Allocation and withdrawal of the loan proceeds</b>	
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.
<b>Schedule 4: Procurement of Goods, Works and Consulting Services</b>	
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.
4	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.
7	The Borrower shall cause the Project Executing Agency and each Project Implementing Agency not to award any Works contract: (a) which involves environmental impacts; which involves involuntary resettlement impacts
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 report based on the Project's detailed design, and obtained ADB's clearance of such report.
9	The Borrower shall apply Quality- and Cost-Based Selection for selecting and engaging Consulting Services.

## Ministry of Public Works and Transport

### Second Greater Mekong Subregion Corridor Towns Development Project

ADB Loan No. 3314 – CAM (SF)

#### Statement of Compliance with the Loan Agreement for the year ended 31 December 2018

#### 2. Appendix to the Statement of Compliance (continued)

Section	Description
<b>Schedule 4: Procurement of Goods, Works and Consulting Services</b>	
10 (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.
10 (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.
11	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.