

**Mekong River Commission
Administration Reserve Fund**

**Financial Statements
and
Independent Auditors' Report
Year ended 31 December 2017**

Mekong River Commission Lao PDR

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Mekong River Commission

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Report of the MRCS Management

The Management of the Mekong River Commission Secretariat (“MRCS”) presents its report and the financial statements of the Mekong River Commission for the year ended 31 December 2017.

Principal activities during 2017

After considerable progress in the planning, operational, structural, staff and financial reforms in 2016, MRCS was newly equipped in 2017 to work on the implementation of the MRC Strategic Plan. Due to the low implementation level in 2016, many activities were carried over into 2017.

In the 2017, MRCS managed to implement many activities in cooperation with the Member Countries (“MCs”) and various partners. This included include: successful Procedures for Notification, Prior Consultation and Agreement (“PNPCA”) process on Pak Beng Hydropower project and the work on a joint action plan, enhanced stakeholder engagement, and finalization of the Council Study.

In addition, the ongoing reform is still in process, it is based on the identification of core work areas at the regional and national levels to allow for a decentralization of Core River Basin Management Functions (CRBMFs) from the MRC to the line agencies of its Member Countries. A Regional Roadmap was approved by the MRC Council in 2014, providing guidance for the decentralization process and for the different areas of the institutional reform (structural, operational, staffing, and financial reforms as well as the transition period), with the aim to move towards a leaner and more efficient organization.

All internal manuals of the organization are currently being reviewed to reflect and integrate all the approved policy changes as well as new procedures. The MRC has also been able to implement a very active and effective communication strategy that has made MRC’s work better understood and more visible in the region.

The achievements of the reform are quite remarkable, and MRCS appears as a generally functioning organization. Therefore, MRCS would like to take this opportunity to thank our Member Countries, Development Partners, Dialogue Partners and all relevant stakeholders for their friendship and support during year 2017.



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Report of the MRCS Management (continued)

The MRCS Management

The members of the MRCS Management who held office during the year and at the date of this report are:

Pham Tuan Phan	Chief Executive Officer from 18 January 2016
Naruepon Sukumasavin	Director of Administration Division from 1 July 2016 Director of Planning Division until 30 June 2016
Truong Hong Tien	Director of Environment Division from 01 August 2016 Director of Technical Support Division until 31 July 2016 Officer-in-Charge of the MRC Secretariat until 17 January 2016
Hatda An Pich	Director of Planning Division from 01 July 2016
Bounlap Phethany	Director of Technical Support Division until 17 January 2018
Somsanith Ninthavong	Chief Financial Officer from 01 December 2016
Vu Thu Hong	Chief Human Resources Officer from 01 December 2016



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Statement of Management's Responsibilities

It is the responsibility of management to prepare financial statements for the year ended 31 December 2017 in all material respect the state of affairs of the MRC as at the end of the year and of the surplus or deficit for that year. In preparing those financial statements, management is required to:

- Select suitable accounting policies and apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- Maintain financial records and prepare the financial statements in accordance with the policies and procedures of the Mekong River Commission; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue its operations.

MRCS Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Commission. Members of MRC management have a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Commission and to prevent and detect fraud and other irregularities.

MRCS Management confirms that the MRC has complied with the above requirements in preparing the financial statements.

On behalf of the management

Pham Tuan Phan
Chief Executive Officer

Date: **25 MAY 2018**

Naruepon Sukumasavin
Director of Administration Division

Date: **25 MAY 2018**



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Independent Auditors' Report

To: The Members of the Joint Committee of the Mekong River Commission

Opinion

We have audited the financial statements of the Administration Reserve Fund (“ARF”) of the Mekong River Commission (“MRC” or “the Commission”), which comprise the statement of income and expenditure and fund balance for the year ended 31 December 2017, and notes, comprising significant accounting policies and other explanatory information. The financial statements have been prepared by the Management based on the accounting policies as described in Note 2.

In our opinion, the accompanying financial statements are prepared in all material respects, the statement of income and expenditure for the year ended 31 December 2017 and the statements of fund balance for the year then ended in accordance with the accounting policies as described in Note 2 to the financial statements.

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Commission’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 liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material

misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes the basis of accounting. The financial statements are prepared to assist the MRCS Management in meeting the reporting requirements of the MRC's Joint Committee and its partners. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Commission and its partners and should not be distributed to or used by parties other than the Commission or its partners.


KPMG Lao Co., Ltd.
KPMG LAO
CO., LTD.
Vientiane Capital
Lao PDR

Date: **25 MAY 2018**

Mekong River Commission – Administration Reserve Fund (ARF)

Statement of income and expenditure and fund balance

For the year ended 31 December 2017

	Note	2017 USD	2016 USD
INCOME			
Revenue			
Interest	3	40,739	-
TOTAL INCOME		40,739	-
EXPENDITURE			
Salary and Fee		(33)	-
Employment Benefit Cost	4	(241,436)	-
Official Travel	5	(3,408)	-
Consultants		(5,062)	-
Office costs	6	(50,676)	-
Maintenance and Running cost of equipment	7	(3,050)	-
Publication, Printing and others		(662)	-
Financial cost		(125)	-
		(304,452)	-
Allocated Administrative Reserve Fund	8	94,367	(94,367)
TOTAL EXPENDITURE		(210,085)	(94,367)
Movement in Fund Balance for the year		(169,346)	(94,367)
Fund Balance as at 1 January		4,537,327	4,631,694
Fund Balance as at 31 December		4,367,981	4,537,327



Pham Tuan Phan
Chief Executive Officer

Date: **25 MAY 2018**



Naruepon Sukumasavin
Director of Administration Division

Date: **25 MAY 2018**

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

1. GENERAL INFORMATION

The Mekong River Commission (“MRC” or “the Commission”) was established in 1995 with the signing of the Agreement on the Cooperation for the Sustainable Development of the Mekong River Basin. The MRC Member Countries are Cambodia, the Lao PDR, Thailand and Viet Nam, with China and Myanmar as Dialogue Partners.

Since its establishment, the MRC has strived to develop work programmes and strategies to best serve its mission to promote and coordinate sustainable management and development of water and related resources for the countries’ mutual benefit and the people’s well-being. Over the years, with a vision to bring about an economically prosperous, socially just and environmentally sound Mekong River Basin, the MRC has placed regional cooperation and basin-wide planning at the heart of its operation.

The Commission is governed by a Council which comprises of the environment and water ministers of the four Member Countries. The Council Members would review and mutually conclude on the management and development of water and related resources. These decisions and policies are then put into action by the MRC Joint Committee, which comprises senior officials at no less than Head of Department level of the four countries, and supported by national line agencies including the Ministry of Foreign Affairs.

The Commission’s technical and administrative functions fall under an operational arm, the MRC Secretariat (“MRCS”), which is led by a Chief Executive Officer. Currently there are about 72 staff members (2016: 76 staff members) based in the Secretariat offices in Vientiane, Lao PDR and in the Flood Centre in Phnom Penh, Cambodia.

MRCS facilitates regional meetings of the Member Countries and provides technical advice on joint planning, coordination and cooperation. It also works closely with the four countries’ coordinating bodies, the National Mekong Committees (“NMCs”), and other state agencies.

Mekong River Commission – Administration Reserve Fund (ARF)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of accounting

The financial statements, which are expressed in United States Dollar (“USD”), have been prepared on a modified cash basis. The significant policies adopted in the preparation of the financial statements are set out below.

- *Income recognition*

Fund receipt from Development Partners is recognised as income when cash is credited to the Commission’s designated bank accounts. Direct payments made by Development Partners to contractors are recognised as income upon Development Partners’ notice to the Commission.

Contribution from Riparian Governments is recognised as income when cash is credited to the Commission’s bank accounts.

Bank interests are recognised as income when credited to the Commission’s bank accounts.

Other income and revenue are recognised upon cash receipts.

- *Expenditure recognition*

Expenditure is recognised when paid except for staff health and life insurance premiums, personal telephone and fax costs charged to staff, project related expenses and repatriation fee, which are recognised on accrual basis; and advances to National Mekong Committees, projects and employees, which are recognised when cleared.

b. Property and equipment

For control and management purposes, a memorandum account for property and equipment is maintained by way of a property and equipment listing. All property and equipment are expensed in full in the income and expenditure statement at the date of acquisition. Proceeds from disposal of property and equipment are recognised as a decrease in expenditure rather than an increase in income in the statement of income and expenditure.

c. Foreign currency transactions

Monetary assets and liabilities denominated in currencies other than USD are translated into USD at rates of exchange ruling at the balance sheet date. Transactions in currencies other than USD are translated into USD at the MRC operational rates of exchange on the date of the transactions. All exchange differences are recorded in the statement of income and expenditure.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Employee Benefit

The MRCs provided allowances and benefits to staff member in addition to salary. Type of allowances and benefits depends on the employment category.

- Post allowance: MRCS introduced the post allowance (PA) to compensate eligible staff members for any loss in income due to variations in the cost of living between difference countries and duty station.
 - For Riparian staff the percentage is currently set at 7% of the base salary
 - For International staff the percentage is regulated in accordance with the UN system.
- Hardship allowance: The hardship allowance (HA) is an allowance provided to Riparian Professional Staff and to International Staff assigned to a duty station outside their home country. It is an allowance to compensate for the degree of hardship experienced by staff assigned to a duty station abroad.

The HA shall be payable, regardless of whether the staff member is accompanies by his/her dependants, while assigned to duty station.

Other benefit are dependency allowance, housing allowance, health insurance education assistance.

- Provident Fund: All staff members holding a letter of Appointment for one year or more shall participate in a pension plan, known as the Provident Fund. The main purpose of this fund is to provide retirement, disability, and survivor's benefit for participating staff members.
 - Staff members shall contribute 7% of their base salary, through monthly payroll deductions.
 - The MRCS shall contribute to this fund the equivalent of 14% of the staff's member's base salary.

Mekong River Commission – Administration Reserve Fund (ARF)

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

3. INTEREST

This is interest earned on the Administration Reserve Fund (ARF), which is used to cover the ARF's expenditures and its use is subject to the approval by MRC Joint Committee (JC).

4. EMPLOYEE BENEFIT COST

	2017 USD	2016 USD
Assignment/Relocation allowance	20,165	-
Separation - all costs	221,271	-
	<u>241,436</u>	<u>-</u>

5. OFFICIAL TRAVEL COST

	2017 USD	2016 USD
Basket Fund		
DSA for travel within the Riparian Countries	2,142	-
Travel expenses within the Riparian Countries	1,266	-
	<u>3,408</u>	<u>-</u>

6. OFFICE COSTS

	2017 USD	2016 USD
Renovation work	40,551	-
Miscellaneous office costs	10,125	-
	<u>50,676</u>	<u>-</u>

7. MAINTENANCE AND RUNNING COST OF EQUIPMENT

	2017 USD	2016 USD
Fuel vehicles	70	-
Maintenance equipment	2,980	-
	<u>3,050</u>	<u>-</u>

8. ADMINISTRATIVE RESERVE FUND (ARF)

	2017 USD	2016 USD
ARF support to the Council Study Programme in 2016*	94,367	(94,367)
	<u>94,367</u>	<u>(94,367)</u>

(*)The amount has been reported as expense in 2016. MRC has reversed this amount as income of ARF in 2017, due to the reason that same amount has been reimbursed by the donor.



Pham Tuan Phan
Chief Executive Officer

Date: **2 5 MAY 2018**



Naruepon Sukumasavin
Director of Administration Division

Date: **2 5 MAY 2018**