

**Mekong River Commission Lao PDR**

**Mekong Integrated Water Resources  
Management Project  
(M-IWRM, IDA Grant No. H762)**

Financial Statements for the year ended 31  
December 2017  
and  
Independent Auditors' Report

**Mekong River Commission Lao PDR**  
***Mekong Integrated Water Resources Management Project***  
***(M-IWRM, IDA Grant No. H762)***

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## **Project Information**

<b>Project</b>	Mekong Integrated Water Resources Management Project (M-IWRM, IDA Grant No. H762)
<b>Funding Agency</b>	International Development Association (“IDA”)
<b>Duration</b>	17 August 2012 – 30 June 2019
<b>Implementing Agency</b>	Mekong River Commission (“MRC”)
<b>Project Director</b>	Mr. Pham Tuan Phan (Chief Executive Officer, MRC Secretariat)
<b>Registered Office</b>	Mekong River Commission Office of the Chief Executive Officer 184 Fa Ngoum Road, P.O.Box 6101 Vientiane Capital, Lao PDR Tel: (856-21) 263 263 Fax: (856-21) 263 264
<b>Auditors</b>	KPMG Lao Co., Ltd. 10 <sup>th</sup> Floor Royal Square Office Building Samsenthai Road, Nongduong Nua Vilalge, Sikhotabong District, P.O. Box 6978 Vientiane Capital, Lao PDR



# Mekong River Commission

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## Statement of Management's Responsibilities

It is the responsibility of management to prepare financial statements of the Mekong Integrated Water Resources Management Project ("the Project") for the year ended 31 December 2017, which are prepared in all material respects in accordance with the accounting policies as described in Note 2 to the financial statements. 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 based on the accounting policies as described in Note 2; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Project will continue its operations.

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

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

On behalf of the management

Pham Tuan Phan  
Chief Executive Officer

Date: **30 JUN 2018**

Naruepon Sukumasavin  
Director of Administration Division

Date: **30 JUN 2018**



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## **Independent Auditors' Report**

### **To the Project Management, Mekong Integrated Water Resources Management Project**

#### ***Opinion***

We have audited the financial statements of the Mekong Integrated Water Resources Management Project ("M-IWRM, IDA Grant No. H762" or "the Project") which comprise the statement of cash receipts and payments for the year ended 31 December 2017, the statement of the designated bank account for the year then ended, 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 to the financial statements.

In our opinion, the financial statements of the Project for the year ended 31 December 2017 are prepared, in all material respects, in accordance with 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 Project 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***

Project Management is responsible for the preparation of the financial statements in accordance with the accounting policies as 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 misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project'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 Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Project Management.

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 Use**

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to provide information to the Project Management of Mekong Integrated Water Management Project to report to the donor IDA. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Project management and the donor IDA and should not be used by parties other than the Project management and the donor IDA. Our opinion is not modified in respect of this matter.

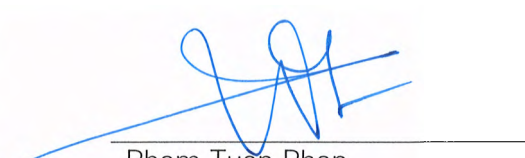
KPMG Lao Co., Ltd.  
Vientiane Capital  
Date: 30 JUN 2010

**Mekong River Commission Lao PDR**  
**Mekong Integrated Water Resources Management Project**  
**(M-IWRM, IDA Grant No. H762)**

**Statement of cash receipts and payments**  
**for the year ended 31 December**

	Note	2017 USD	2016 USD
<b>Receipts</b>	<b>5</b>	<b>1,762,056</b>	<b>1,742,713</b>
<b>Payments</b>			
Goods, Works, Incremental Operating costs, Training and Workshops	6	(766,600)	(488,871)
Consultants' Services	7	(891,574)	(717,833)
Management and administration fees	8	(314,452)	-
<b>Total payments</b>		<b>(1,972,626)</b>	<b>(1,206,704)</b>
<b>(Deficit)/surplus of receipts over payments</b>		<b>(210,570)</b>	<b>536,009</b>
Fund balance at the beginning of the year		407,676	(128,333)
<b>Fund balance at the end of the year</b>		<b>197,106</b>	<b>407,676</b>
<b>Represented by:</b>			
Cash at designated bank account		39,863	254,406
Expenses paid by using MRC (pooling account)	3	(44,438)	(77,268)
Advances	4	201,681	230,538
<b>Total</b>		<b>197,106</b>	<b>407,676</b>

*The notes on pages 7 to 11 are an integral part of these financial statements.*

  
 \_\_\_\_\_  
 Pham Tuan Phan  
 Chief Executive Officer

Date: **30 JUN 2018**

  
 \_\_\_\_\_  
 Naruepon Sukumasavin  
 Director of Administration Division

Date: **30 JUN 2018**

**Mekong River Commission Lao PDR**  
**Mekong Integrated Water Resources Management Project**  
**(M-IWRM, IDA Grant No. H762)**

**Statement of designated bank account**  
**for the year ended 31 December**

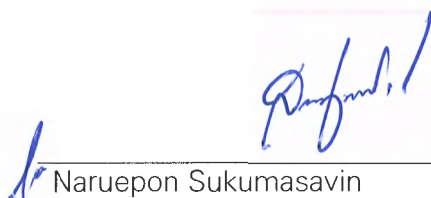
	Note	2017 USD	2016 USD
<b>Receipts</b>	5	1,762,056	1,742,713
<b>Payments</b>			
Payments made out of MRC pooling account		(1,972,626)	(1,206,704)
Increase of cash at MRC pooling account		(32,830)	(314,760)
Decrease / (increase) of advances		28,857	(24,300)
		<u>(1,976,599)</u>	<u>(1,545,764)</u>
<b>(Deficit) / Surplus of receipts over payments</b>		<b>(214,543)</b>	<b>196,949</b>
Fund balance at the beginning of the year		254,406	57,457
<b>Fund balance at the end of the year</b>		<b><u>39,863</u></b>	<b><u>254,406</u></b>
Represented by:			
<b>Cash at designated bank account</b>		<b><u>39,863</u></b>	<b><u>254,406</u></b>

*The notes on pages 7 to 11 are an integral part of these financial statements.*



Pham Tuan Phan  
Chief Executive Officer

Date: **30 JUN 2018**



Naruepon Sukumasavin  
Director of Administration Division

Date: **30 JUN 2018**



**Mekong River Commission Lao PDR**  
***Mekong Integrated Water Resources Management Project***  
***(M-IWRM, IDA Grant No. H762)***

**Notes to the financial statements**  
**for the year ended 31 December 2017**

**1. Principal activities**

The Mekong River Commission (MRC) was established by the 1995 Agreement on Co-operation for the Sustainable Development of the Mekong River Basin, between the governments of Cambodia, Laos, Thailand and Vietnam. In accordance with this Agreement, the mission of the MRC is “to promote and coordinate sustainable management and development of water and related resources for the countries’ mutual benefit and the people’s well-being by implementing strategic programmes and activities and providing scientific information and policy advice”.

The Mekong Integrated Water Resources Management Project (M-IWRMP) is one of the MRC’s programmes with financial support from AusAID (from 2009 to 2014) and the World Bank (2012-2019). The overall objective of the M-IWRMP is to improve the enabling framework and capacity for Integrated Water Resources Management (IWRM) in the Lower Mekong Basin (LMB) Countries and strengthen the role of MRC as the facilitator of significant water resources development, guided by IWRM principles.

The M-IWRMP consists of 3 components: Regional, Transboundary and National. The project has been funded by AusAID with a grant of AUD 7 million in support of the regional component. From August 2012, the World Bank funding more than USD 8 million come on line after the effectiveness of the financial agreement between the WB/IDA and the MRC Secretariat (MRCS).

The objective of the Project is to establish key examples of IWRM practices in the LMB at the regional, national and sub-national levels, thus contributing to more sustainable river basin development in the LMB.

The project constitutes the first phase of the Program and consists of the following parts, the Recipient acknowledging and confirming that the Association shall not provide any financial or technical support under the Project for the Processing of a Dam in the mainstream Mekong.

The main activities of the Project in the period are set out in the comparison of budget and actual expenditure.

**2. Summary of significant accounting policies**

The following significant accounting policies have been adopted by the Project in the preparation of these financial statements:

**(a) Basis of financial statements preparation**

The financial statements, which are expressed in United States Dollar (“USD”), have been prepared in accordance with the modified cash basis of accounting. The accounting policies have been applied consistently throughout the period.

**(b) Cash**

Cash comprises cash on hand and balances with banks.

**Mekong River Commission Lao PDR**  
***Mekong Integrated Water Resources Management Project***  
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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**2. Summary of significant accounting policies (continued)**

**(c) Foreign exchange**

The Project maintains its accounting records in USD in accordance with the MRC accounting system for all transactions. All cash is held in USD. Transactions in currencies other than USD during the period have been 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 receipts and payments.

**(d) Accounting reporting period**

The financial accounting year starts on 1 January and ends on 31 December.

**(e) Comparison of budget and actual payments**

The approved budget is developed on the same accounting and classification basis and for the same period as for the financial statements.

**(f) Receipts recognition**

Fund receipt from Development Partner (World Bank) is recognised as income when cash is credited to the project's designated bank account. Bank interest is recognised when credited to the project's bank account and recorded in the following month. Receipts and revenue are recognised upon cash receipts.

**(g) Expenditure recognition**

Expenditure is recognised when paid, except for: staff health and life insurance premiums, personal telephone costs charged to staff which are recognised on an accrual basis, and advance to National Mekong Committees, projects and employees, which are recognised when cleared.

Amount for expenditures is withdrawn from project's designated bank account and deposited to MRC's own account (MRC pooling account). All payments are made from MRC pooling account.

**(h) Management and administration fees**

Management and administration fees are calculated at a percentage of 11% of the projects expenditure and are recognised as revenue under the Operating Expenses Budget fund (OEB) and as expense under the World Bank-funded project. These are used to cover the expenses of the MRC Secretariat in rendering technical and administrative services to the projects.

**Mekong River Commission Lao PDR**  
**Mekong Integrated Water Resources Management Project**  
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**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**3. Balance at MRC pooling account**

The pooling account of MRC receives funds from various donors, including World Bank. As at 31 December 2017, balance of Operating Bank Account for World Bank Funds included in MRC pooling account was USD (45,178), which is different from Expenses paid by using MRC (pooling account) stated in the Statement of cash receipts and payments by an amount of USD (740). This is the adjustment the Project Management made in 2017 to reduce the expenditure incurred in 2016.

Funds are periodically transferred from project's designated bank account to MRC pooling account. During 2017, MRC's own funds were utilised for the project. Subsequently during Quarter 1 of 2018, an amount of USD 634,660 was transferred by the donor to project's designated bank account which was then reimbursed to MRC pooling account.

	<b>2017 USD</b>	<b>2016 USD</b>
MRC pooling account	(44,438)	(77,268)
	<u><b>(44,438)</b></u>	<u><b>(77,268)</b></u>

**4. Advances**

	<b>2017 USD</b>	<b>2016 USD</b>
Cambodia National Mekong Committee	62,856	62,856
Lao Mekong IWRM Project Lao and Cambodia	40,700	40,700
Participants of Training Workshop	-	38,081
Lao Mekong IWRM Project Lao and Thailand	29,495	29,495
Vietnam National Mekong Committee	24,620	24,620
Nam Kam – Xebanghieng	20,853	17,853
Tonle Sap-Songkhla Project (Cambodia-Thailand)	16,250	16,250
DSA advances for supporting staffs	-	683
WADV00137 – Cash Advance for MRC photo Contest	6,907	-
	<u><b>201,681</b></u>	<u><b>230,538</b></u>

**5. Receipts**

	<b>2017 USD</b>	<b>2016 USD</b>
Funds received from IDA-World Bank	1,757,630	1,739,190
Interest income	4,426	3,523
	<u><b>1,762,056</b></u>	<u><b>1,742,713</b></u>

**Mekong River Commission Lao PDR**  
**Mekong Integrated Water Resources Management Project**  
**(M-IWRM, IDA Grant No. H762)**

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**6. Goods, Works, Incremental Operating costs, Training and Workshops**

	<b>2017 USD</b>	<b>2016 USD</b>
National Indicative Plan	-	99,666
Wetland Management (Lao-Thailand)	43,335	75,192
Transboundary Environmental Impact Assessment (TbEIA) guidelines	149,878	60,346
The MRC Procedures Implementation Support	36,897	49,299
Communication	95,953	44,594
Staff cost	-	38,174
Fisheries (Lao-Cambodia)	64,508	32,450
Water Resources Management Sesan-Srepok (Cambodia-Vietnam)	75,438	29,063
Project management	84,203	-
Project coordination	-	23,431
Tonle Sap-Songkhla Project (Cambodia-Thailand)	63,862	20,968
Water Resources Management Delta Water Resources (Cambodia-Vietnam)	118,813	15,661
Feedback opinions from local stakeholders to refine the MRC activities	-	27
Inception support	33,713	-
	<b><u>766,600</u></b>	<b><u>488,871</u></b>

**7. Consultants' Services**

	<b>2017 USD</b>	<b>2016 USD</b>
Staff cost	-	487,662
Project management	516,047	-
Transboundary Environmental Impact Assessment (TbEIA) guidelines	75,780	62,300
Communication	219,491	57,940
Fisheries (Lao-Cambodia)	-	27,000
Feedback opinions from local stakeholders to refine the MRC activities	-	21,000
Water Resources Management Delta Water Resources (Cambodia-Vietnam)	6,750	20,750
Wetland Management (Lao-Thailand)	24,811	19,325
Water Resources Management Sesan-Srepok (Cambodia-Vietnam)	8,119	13,950
Tonle Sap-Songkhla Project (Cambodia-Thailand)	15,876	4,106
National Indicative Plan	-	3,800
National consultants	24,700	-
	<b><u>891,574</u></b>	<b><u>717,833</u></b>

**Mekong River Commission Lao PDR**  
***Mekong Integrated Water Resources Management Project***  
***(M-IWRM, IDA Grant No. H762)***

**Notes to the financial statements**  
**for the year ended 31 December 2017 (continued)**

**8. Management and administration fees**

Management and administration fees in 2017 is USD 182,404 USD (2016: USD 132,048). In 2016 the amount was not charged to the expenditure account as per the amount has been subsequently charged as expenditure in quarter of 2017. Total management and administration fees in 2017 amounts to USD 314,452.

**Mekong River Commission Lao PDR**  
**Mekong Integrated Water Resources Management Project**  
**(M-IWRM, IDA Grant No. H762)**

**Comparison of budget and actual payments**  
**for the year ended 31 December 2017**

*(Appendix)*

World Bank Components	Actual		Budget*		Variance			Project Appraisal Document ("PAD")	
	1 January 2017 to 31 December 2017	Cumulative to date	1 January 2017 to 31 December 2017	Cumulative to date	1 January 2017 to 31 December 2017	Cumulative to date	Cumulative to date	Total budget	Remaining budget as at 31 December 2017
	USD	USD	USD	USD	USD	USD	%	USD	USD
<b>Component 1: Bilateral Transboundary Projects: MS</b>									
1. Fisheries (Lao-Cambodia)	64,508	186,767	95,000	489,900	30,492	303,133	62	535,200	348,433
2. Water Resources Management Sesan-Srepok (CAM-VN)	83,556	168,626	100,000	351,700	16,444	183,074	52	354,000	185,374
3. Wetland Management (Lao - Thailand)	73,145	285,888	100,000	429,634	26,855	143,746	33	354,000	68,112
4. Water Resources Management Delta Water Resources (CAM-VN)	125,563	195,183	100,000	349,600	(25,563)	154,417	44	354,000	158,817
5. Tonle Sap-Songkhla Project (Cambodia-Thailand)	79,738	204,071	100,000	409,522	20,262	205,451	50	457,000	252,929
6. Inception support (for 4 proposals)	33,713	107,205	40,000	344,865	6,287	237,660	69	126,800	19,595
<b>Sub-total</b>	<b>460,223</b>	<b>1,147,740</b>	<b>535,000</b>	<b>2,375,221</b>	<b>74,777</b>	<b>1,227,481</b>	<b>52</b>	<b>2,181,000</b>	<b>1,033,260</b>
<b>Component 2: Support to MRC-MIWRM Activities: MS</b>									
1. Transboundary EA Guidelines	225,658	390,089	280,000	641,837	54,342	251,748	39	560,000	169,911
2. National Indicative Plan Consultations (NIPs)	-	97,197	115,000	235,000	115,000	137,803	59	200,000	102,803
3. Communications	310,443	531,003	280,000	583,000	(30,443)	51,997	9	706,300	175,297
4. Rules for Water Utilization	61,597	301,685	180,000	486,000	118,403	184,315	38	400,000	98,315
5. Support to Phase 1, 2, and 3 Projects	-	137,283	-	284,110	-	146,827	52	289,000	151,717
<b>Sub-total</b>	<b>597,698</b>	<b>1,457,257</b>	<b>855,000</b>	<b>2,229,947</b>	<b>257,302</b>	<b>772,690</b>	<b>35</b>	<b>2,155,300</b>	<b>698,043</b>

**Mekong River Commission Lao PDR**  
**Mekong Integrated Water Resources Management Project**  
**(M-IWRM, IDA Grant No. H762)**

**Comparison of budget and actual payments**  
**for the year ended 31 December 2017**

*(Appendix)*

	Actual		Budget*		Variance			Project Appraisal Document ("PAD")	
	1 January 2017 to 31 December 2017	Cumulative to date	1 January 2017 to 31 December 2017	Cumulative to date	1 January 2017 to 31 December 2017	Cumulative to date	Cumulative to date	Total budget	Remaining budget as at 31 December 2017
World Bank Components	USD	USD	USD	USD	USD	USD	%	USD	USD
<b>Component 3: Project Management Support: MS</b>									
1. Project Management	600,253	2,069,099	780,000	2,244,842	179,747	175,743	8	2,791,300	722,201
2. MRC Administration (11%)	314,452	514,730	367,500	921,650	53,048	406,920	44	812,400	297,670
<b>Sub-total</b>	<b>914,705</b>	<b>2,583,829</b>	<b>1,147,500</b>	<b>3,166,492</b>	<b>232,795</b>	<b>582,663</b>	<b>18</b>	<b>3,603,700</b>	<b>1,019,871</b>
Open Risk Model PNPCA (Already Closed)	-	11,490	-	60,000	-	48,510	81	60,000	48,510
<b>Sub-total</b>	<b>-</b>	<b>11,490</b>	<b>-</b>	<b>60,000</b>	<b>-</b>	<b>48,510</b>	<b>81</b>	<b>60,000</b>	<b>48,510</b>
<b>Total Project Expenditure</b>	<b>1,972,626</b>	<b>5,200,316</b>	<b>2,537,500</b>	<b>7,831,660</b>	<b>564,874</b>	<b>2,631,344</b>	<b>34</b>	<b>8,000,000</b>	<b>2,799,684</b>

**Mekong River Commission Lao PDR**  
***Mekong Integrated Water Resources Management Project***  
***(M-IWRM, IDA Grant No. H762)***  
**Comparison of budget and actual payments**  
***for the year ended 31 December 2017 (continued)***

**Analysis of variances between actual and budget payments\***

*(\*Source of Information: Interim Financial Reports submitted to World Bank on quarterly basis and discussion with the Programme Manager)*

In 2017, the budget analysis shows a positive variance of 564,874\$ due to the fact that most activities were under spent. Explanation on causes of the variance per category/ component is provided below.

1. Delay on approval of the transboundary project document and the project launching: the transboundary project component was planned to complete project implementation plan (PIP) and start implementation in 2013. However, the transboundary projects were fully launched in 2014. The launch of the project which was delayed the most was the Mekong-Sekong transboundary fisheries project between Cambodia and Lao PDR, officially starting in July 2014 and the inception workshop was not held until January of 2015. Therefore, the transboundary project has less than four (4) years to complete the project objectives instead of six (6) years as planned.

2. Member countries and Line Agencies unfamiliar with the MRC Imprest account system: Imprest accounts are fixed amounts made available in advance to the transboundary projects which are expenses directly related to the approved PIP and can be charged to the Imprest account. The monthly imprest accounts report shall be accompanied with a request for replenishment of the imprest balance. This is to provide flexibility to the member countries to manage their budget. However, the Project Coordination and Management Unit (PCMU) found that it was the member countries, particularly Line Agencies, which are not familiar with the imprest account regulation and utilization which cause delay on the replenishment of the imprest balance. As a result, project implementation was delayed from lack of cash flow in the project imprest account. This is accumulating impact to the overall project implementation progress. The PCMU has provided instruction and training on imprest account replenishment to the member countries. Recently, the replenishment of the imprest balance has been improved.

3. Time consumed on public participation process in member countries: Over the years of implementation, rounds of national stakeholders were conducted to ensure greater 'efficiency and effectiveness' of project outcomes and improve 'empowerment' of individual's particularly local stakeholders who are involved with the Project. This is an important knowledge generation and dissemination platform. However, time needed to involve stakeholders took longer than planned (at least two rounds of national consultation in each Outcome) which prolonged the project implantation and delayed on the Project completion

4. Member countries foresee on not being able to finish the core transboundary projects by financing agreement closing date: PCMU organized the Project Coordination and Management meeting on August 29, 2017 for the purpose of updating progress on the Project implementation of components under M-IWRMP. It was found that three core transboundary project (Group 1) has an approximate progress of 50-65% towards completion of the Project. The member countries foresaw that the Outcome 2 (identify coordination mechanism on identified transboundary issues) will be completed by February to March 2018.