

**POVERTY REDUCTION FUND PROJECT II FUNDED
BY THE INTERNATIONAL DEVELOPMENT
ASSOCIATION UNDER GRANT AGREEMENT No.
H685-LA**



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**STATEMENT OF RECEIPTS, DISBURSEMENTS AND
FUND BALANCE
FOR THE PERIOD FROM 11 OCTOBER 2011
(COMMENCEMENT DATE) TO 30 SEPTEMBER 2012**

**POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL
DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No.H685-LA**

CONTENTS	Page
Statement by Project management	1
Independent auditor's report	2
Statement of receipts and disbursements	4
Statement of fund balance	5
Notes to the financial statements	6

STATEMENT BY PROJECT MANAGEMENT

On 14 July 2012, the International Development Association (“IDA”) and the Government of the Lao People’s Democratic Republic (“GoL”) signed Grant Agreement number H685-LA to provide a grant of SDR15,800,000 (equivalent to USD25,000,000) for the purpose of financing the Poverty Reduction Fund II (“the Project”).

The GoL shall carry out the Project through the Poverty Reduction Fund (“PRF” or “Project Implementing Entity”) under the Subsidiary Grant Agreement signed by the GoL and PRF on 2 August 2011, in which PRF commits to the objective of the Project and undertakes to carry out such objective.

The objective of the Project is to improve access to and utilisation of basic infrastructure and services for the Project’s targeted poor communities in a sustainable manner through inclusive community and local development processes. The Project has been managed by the Project management (executive director). Project activities mainly cover 284 groups of villages (“Kum Ban”) in Lao PDR to support local community development in poor areas. The implementation of the Project was approved by the IDA on 11 October 2011.

The Project activities consist of the following components:

Component 1: Community Development Sub-grants

Component 2: Local and Community Development Capacity Building and Learning

Component 3: Project Management

The Project maintains its records and prepares its financial statements under the cash receipts and disbursements basis of accounting. Any direct payments made by IDA for Project expenditure are recorded by the Project at the time they take place.

The following components of the financial statements summarise the Project’s financial position and performance for the period from 11 October 2011 (commencement date) to 30 September 2012:

- Statement of receipts and disbursements
- Statement of fund balance
- Notes to the financial statements

As the responsible officials, we hereby state that the financial statements for the period from 11 October 2011 (commencement date) to 30 September 2012, to the best of our knowledge and belief:

- have been prepared in accordance with the IDA’s requirements, and
- have been prepared, in all material respects, in accordance with the basis of accounting set out in Note 2 of the financial statements.

We also hereby state that the statement of cash receipts and disbursements only includes costs which are eligible under Grant Agreement No. H685-LA and adequate supporting documentation has been maintained for these costs.

On behalf of the Project:



Mr. Bounkouang Souvannaphanh
Executive Director
Date: 26 March 2013

Mrs. Boualy Sayavong
Head of Finance and Administration Division
Date: 26 March 2013



INDEPENDENT AUDITOR'S REPORT

To the Government of Lao PDR, the Management of the Project and the International Development Association on the financial statements of the Poverty Reduction Fund Project II under Grant Agreement No.H685 – LA.

We have audited the financial statements of the Poverty Reduction Fund Project II ("the Project") funded by the International Development Association ("IDA") under Grant Agreement No. H685-LA, which comprise the statement of receipts and disbursements for the period from 11 October 2011 (commencement date) to 30 September 2012, the statement of fund balance as at 30 September 2012 and other explanatory information. The financial statements have been prepared by the management of the Project in accordance with the accounting policies described in Note 2 to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the Project for the period from 11 October 2011 (commencement date) to 30 September 2012 are prepared, in all material respects, in accordance with the accounting policies described in Note 2 to the financial statements.



INDEPENDENT AUDITOR'S REPORT (continued)

Basis of accounting

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 Project's management to complying with the financial reporting requirements of the Project. As a result, the financial statements may not be suitable for other purposes.

Other matters

This report is intended for the information of the Project, the IDA and Government of Lao PDR, and for no other purpose. However, upon release by the IDA, this report will be a matter of public record and its distribution will not be limited. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, except where expressly agreed by our prior consent in writing.

For PricewaterhouseCoopers (Lao) Co., Ltd.



By Paiboon Turkoon
Partner
Vientiane, Lao PDR

Date: 26 March 2013

POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012

	Notes	From 11 October 2011 (commencement date) to 30 September 2012 USD
Receipts		
Grant Agreement Number IDA 685-LA		
- Fund received	3	4,613,600
Total receipts		4,613,600
Disbursements by component		
Component 1: Community Development Sub-Grants		254,408
Component 2: Local and Community Development Capacity Building and Learning		1,027,673
Component 3: Project Management		1,642,489
Total disbursements	4	2,924,570
Surplus of receipts over disbursements		1,689,030



Mr. Bounkouang Souvannaphanh
Executive Director
Date: 26 March 2013

Mrs. Boualy Sayavong
Head of Finance and Administration Division
Date: 26 March 2013

The accompanying notes on pages 6 to 13 form an integral part of the financial statements
Auditor's report – page 2 and 3

POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

STATEMENT OF FUND BALANCE
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012

	Notes	As at 30 September 2012 USD
Opening fund balance		-
Surplus		<u>1,689,030</u>
Closing fund balance		<u>1,689,030</u>
<i>Represented by:</i>		
Cash on hand and cash at banks	5	1,462,425
Advances	6	<u>226,605</u>
		<u>1,689,030</u>



Mr. Bounkouang Souvannaphanh
Executive Director
Date: 26 March 2013

Mrs. Boualy Sayavong
Head of Finance and Administration Division
Date: 26 March 2013

The accompanying notes on pages 6 to 13 form an integral part of the financial statements
Auditor's report – page 2 and 3

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012

1. General information

On 14 July 2012, the International Development Association ("IDA") and the Government of the Lao People's Democratic Republic ("GoL") signed Grant Agreement number H685-LA to provide a grant of SDR15,800,000 (equivalent to USD25,000,000) for the purpose of financing the Poverty Reduction Fund II ("the Project").

The GoL shall carry out the Project through the Poverty Reduction Fund ("PRF" or "Project Implementing Entity") under the Subsidiary Grant Agreement signed by the GoL and the PRF on 2 August 2011, in which the PRF commits to the objective of the Project and undertakes to carry out such objective.

The objective of the Project is to improve access to and utilisation of basic infrastructure and services for the Project's targeted poor communities in a sustainable manner through inclusive community and local development processes. The Project has been managed by Project management (executive director). Project activities mainly cover 284 groups of villages ("Kum Ban") in Lao PDR to support local community development in poor areas. The implementation of the Project was approved by the IDA on 11 October 2011.

As of 30 September 2012, the Project had 230 full-time staff and an international advisor.

The Project activities consist of the following components:

Component 1: Community Development Sub-grants

1. Support Kum Bans in planning community and local development activities.
2. Carry out community development sub-projects in villages through the provision of community development sub-grants made available by the Project to Kum Ban committees to finance such sub-projects in accordance with the provisions of the sub-grant agreements.

Component 2: Local and Community Development Capacity Building and Learning

1. Strengthen the capacity of Kum Bans and villages to, inter alia, (a) assess their needs, (b) plan community development sub-projects, and (c) implement and supervise community development sub-projects.
2. Strengthen the GOL's institutional capacity at the provincial and district levels to, inter alia, improve the quality of service delivery; promote participatory planning, accountability and transparency mechanisms; and, facilitate dialogue between provinces, districts and communities and between various sector ministries with other entities supporting rural development.
3. Strengthen, at the central level, (a) the National Committee for Rural Development and Poverty Eradication (NLCRDPE)'s institutional capacity, and (b) the PRF's coordination with line ministries and other entities supporting rural development.
4. Undertake project monitoring and evaluation activities.

Component 3: Project Management

1. Support Project implementation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012

1. **General information** (continued)

These three components are implemented in Vientiane, Huaphan, Savannakhet, Xiengkhuang, Saravan, Louangnamtha, Sekong, Attapeu, Phongsaly, Oudomxay and Louangprabang.

The Project's address is Poverty Reduction Fund, Souphanouvong Road, Vientiane, Lao People's Democratic Republic.

The Project's financial statements were authorised for issue by the Project management on 26 March 2013.

2. **Significant accounting policies**

a. **Basis of preparation**

The financial statements are expressed in United States dollars ("USD"), and have been prepared under the historical cost convention and the cash basis of accounting, except for advances. Under the cash basis of accounting, transactions are recorded when cash is paid or received by the Project. Advances are included in the statement of fund balance and presented as 'advances outstanding' in the statement of fund balance until the advance is cleared by its owner and recorded as a payment.

The normal accounting period for the Project is from 1 October to 30 September each year. The first financial statements were prepared from the effective date of the Project, 11 October 2011, to 30 September 2012.

b. **Cash receipts**

Cash receipts represent cash received from the IDA, and are recognised when they are actually received rather than when earned or, in the case of direct payments by the IDA, when the Project receives a notification of payment advice regarding the payment from the IDA.

c. **Cash disbursements**

Cash disbursement represent all cash expenses of the Project for the activities funded by the IDA, paid in line with the Project's objectives and approved budgets. They are recorded when disbursed, except for advances, which are recognised as expenses after they are cleared and evidence of payment is received by the Project.

d. **Disbursements of sub-grants**

Sub-grants are made available by the Project from the proceeds of the financing to Kum Bans located in the Project's targeted provinces to finance the carrying out of sub-projects under components 1 and 2, in accordance with the provisions of the sub-grant agreement.

The disbursement of sub-grants made to Kum Bans by the Project are recognised as expenditure on the date money is transferred to the Kum Bans.

POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012**

2. Significant accounting policies (continued)

c. Fixed assets

The cost of fixed assets is charged to expenditure at the time the disbursements are made. Fixed assets purchased are charged to the category to which they relate. The Project maintains fixed asset registers at each location, which include vehicles, office equipment and furniture, for control purposes only.

f. Advances

Advances represent amounts paid in advance to the Project employees for the purpose of travel to provinces, districts or overseas or for meetings, workshops or conferences. Advance payments for Project activities are credited to cash and debited to the advance account at the time the advance is provided to the recipient of the advance. The expenses related to the advanced amount will only be recorded to the related expenditure category line on the date of liquidation, and any excess amount will be debited to the cash account upon receipt by the Project. Outstanding advances are included in the statement of fund balance and presented as advances.

f. Foreign currency

The measurement and presentation currency of the Project is USD. Transactions arising in currencies other than USD are translated to USD using the rate prevailing at the transaction dates. Cash balances in currencies other than USD are translated into USD using the rate at the period end. All foreign exchange differences arising are included in the statement of receipts and disbursements. The exchange rate prevailing as at 30 September 2012 was USD1:LAK7,986.

g. Designated account replenishments

The designated account replenishments represent cash received by the Project under grant agreement number H685-LA. The designated account is replenished by the IDA in accordance with the Statement of Expenditure ("SOE") and the Withdrawal Application form, which are prepared by the Project and approved by the National Treasury, Ministry of Finance, Lao PDR.

The replenishments are made to the designated account at the Bank of Lao PDR ("BoL") and are used exclusively to cover the IDA's share of eligible expenses under grant agreement number H685-LA.

POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012

3. Designated bank account replenishments

Application number	Date of application	Particulars	USD
No.001*	14 November 2011	DA-A IDA H685-LA	2,500,000
No.002	27 March 2012	DA-A IDA H685-LA	431,807
No.003	17 May 2012	DA-A IDA H685-LA	821,580
No.004	24 May 2012	DA-A IDA H685-LA	293,181
No.005	18 June 2012	DA-A IDA H685-LA	317,417
No.006	7 August 2012	DA-A IDA H685-LA	249,615
Total replenishments of designated account no. 0000010092800127			4,613,600

Withdrawal applications ("W/A") for the Project are submitted to the IDA by the Project management through the Ministry of Finance.

* W/A No.001 represent an advance amount from the IDA to the Project for the initial implementation activities of the Project.

4. Summary of disbursements

	For the period from 11 October 2011 (commencement date) to 30 September 2012 (USD)
Component 1: Community Development Sub-Grants	
• Equipment sub-project	-
• Infrastructure sub-project	-
• Kum Bans training	254,408
Sub-total expenditure of component 1	254,408
Component 2: Local and Community Development Capacity Building and Learning	
• Other consultants	52,895
• Sub-grant monitoring	197,338
• Capacity building	777,440
Sub-total expenditure of component 2	1,027,673
Component 3: Project Management	
• Local staff salaries	1,274,159
• International advisors	69,767
• External audit	-
• Goods and equipment	256,881
• Works	20,956
• Incremental operating cost	20,726
Sub-total expenditure of component 3	1,642,489
Total disbursement	2,924,570

POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012

4. Summary of disbursements (continued)

Component 1: Community Development Sub-Grants - The main activity of this component is the provision of training to residents of 284 selected Kum Bans in 11 targeted provinces. Training sessions mainly relate to community development planning and coordination among the team. Those training sessions are eligible Project activities.

Component 2: Local and Community Development Capacity Building and Learning- The disbursements for this component are mainly related to sub-grant monitoring and evaluation of training at the sub-grant level. In addition, the disbursements also related to capacity building, such as construction of school buildings, spillways and bridges at the sub-grant level.

Component 3: Project Management - The disbursements are mainly local staff salaries and an international advisor who work under the Project in all provinces. As of 30 September 2012, the Project had 230 local staff and international advisors who work for the Project.

5. Cash on hand and at banks

	As at 30 September 2012 USD
Cash on hand	
Cash on hand at Provinces	1,178
Cash on hand at Vientiane office	1,910
Total cash on hand	<u>3,088</u>
Cash at banks	
Operating accounts	
PRF II – Vientiane operating accounts	712,036
PRF II – Province operating accounts	80,311
Total operating accounts	<u>792,347</u>
Designated account – BoL (Note 7)	<u>666,990</u>
Total cash at banks	<u>1,459,337</u>
Total cash on hand and cash at banks	<u>1,462,425</u>

The cash on hand mainly consists of the individual petty cash balances maintained at each location for small payments made by the Project.

Cash at bank represents cash deposited in current accounts at local banks, with no interest.

Operating accounts are bank accounts opened at local banks at each location of the Project (11 bank accounts in the targeted provinces) to manage funds received from the designated account. Operating accounts are normally current accounts with no interest.

POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL
DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER
2012

5. Cash on hand and at banks (continued)

The details of the designated account are as follows:

Designated account

Account No.: 0000010092800127
Account Name: Poverty Reduction Fund Project H 685-LA
Depository Bank: Bank of Lao PDR
Type of account : Current account
Interest rate : Nil
Address: Yonet Road P.O. Box 2925 Vientiane, Lao PDR
Related credit : IDA Grant Agreement No. H685-LA
Currency: USD

6. Advances

Advances by province	As at 30 September 2012 USD
Vientiane	62,146
Hua Phan	35,343
Savannakheth	35,504
Salavan	10,019
Luang Namtha	12,804
Luang Prabang	2,469
Attapeu	25,312
Xiengkhouang	15,773
Sekong	24,776
Oudomxay	2,459
Total advances	<u>226,605</u>

Advances as at 30 September 2012 were mainly advances to the Project's staff to perform work for Kum Bans and village training. Training sessions mainly related to the design and materials used for construction and rural development plan training. All such advances were cleared in October and November 2012.

POVERTY REDUCTION FUND PROJECT II FUNDED BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER 2012

7. Statement of designated account

	As at 30 September 2012 USD
Opening balance	-
Add: Designated account replenishments (Note 3)	4,613,600
Less: Total disbursements for the period 11 October 2011 (commencement date) to 30 September 2012 (Note 4)	(2,924,570)
Less: Advances (Note 6)	(226,605)
Less: Replenishments to operating accounts (Note 5)	(792,347)
Less: Cash on hand (Note 5)	(3,088)
Closing balance	666,990

Reconciliation of designated account

	As at 30 September 2012 USD (USD)
Amount advanced to the Project by the IDA	2,500,000
Less: Total amount recovered by the IDA	-
Total advanced to the Project by the IDA	2,500,000
Designated account balance as at 30 September 2012	666,990
Vientiane operating bank accounts (Note 5)	712,036
Amounts withdrawn by the Project but not yet replenished by the IDA*	1,120,974
Total advanced to the Project by the IDA	2,500,000

* This amount was replenished through withdrawal applications (W/A) 7 and 8. The replenishment amounts for such W/A were received in October and November 2012.

POVERTY REDUCTION FUND PROJECT II FUNDED BY INTERNATIONAL DEVELOPMENT
ASSOCIATION UNDER GRANT AGREEMENT No. H685-LA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 11 OCTOBER 2011 (COMMENCEMENT DATE) TO 30 SEPTEMBER
2012

8. Commitments

The details of commitments as at 30 September 2012 are as follows:

	As at 30 September 2012 Total USD
Sub-grants contractors*	1,914,940
Total	1,914,940

* This mainly represents committed contracts for local contractors, which are all expected to be completed within three to six months after the reporting date. The committed balance includes contracts for civil works such as the construction of school buildings, spillways and bridges. These contracts are eligible activities under Finance Agreement number H685-LA.