

Financial Management Assessment

November 2013

Viet Nam: Ha Noi and Ho Chi Minh City Power Grid
Development Sector Project

Prepared by Economic Consulting Associates for the Asian Development Bank.

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1 Financial Management Assessment (Hanoi Power Corporation)

Abbreviations and acronyms

ADB	Asian Development Bank
AIF	Association of Southeast Asian Nations Infrastructure Fund
AMI	Advanced Metering Infrastructure
BST	Bulk Supply Tariff
CV	Curriculum Vitae
DAS	Distribution Automated System
DEP	Distribution Efficiency Project
D-FA	District Distribution Company Finance and Accounting Department
EA	Executing Agency
ERAV	Electricity Regulatory Authority of Viet Nam
EVN	Viet Nam Electricity
EVN HANOI	Hanoi Power Corporation
EVN HANOI-FA	Hanoi Power Corporation Finance and Accounting Department
EVN HCMC	Ho Chi Minh City Power Corporation
FMA	Financial Management Assessment
FMAQ	Financial Management Assessment Questionnaire
FMIS	Financial Management Information System
HCMC	Ho Chi Minh City
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFRS	International Financial Reporting Standards
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
NIB	Nordic Investment Bank
NPT	National Power Transmission Corporation
OCR	Ordinary Capital Resources
ODA	Official Development Assistance
PC	Power Corporation
PC1	Power Company No. 1
PCR	Project Completion Report
PECC	Power Engineering Consulting Company
PECC1	Power Engineering Consulting Company No. 1

Abbreviations and acronyms

PIU	Project Implementing Unit
PMB	Ha Noi Power Network Project Management Board
PMB-FA	Ha Noi Power Network Project Management Board Finance and Accounting Department
PDP	Power Development Plan
SDA	Swiss Agency for Development & Cooperation
SIDA	Swedish International Development Cooperation Agency
SOE	State Owned Enterprise
SPC	Safeguard Policy Statement
VAS	Vietnamese Accounting Standards

Currency Units

D	Viet Nam Dong
CHF	Swiss Franc
JPY	Japanese Yen
SEK	Swedish Kroner
\$	US Dollar

D1.00	=	\$0.000048
\$1.00	=	D20,828
as of 25 October 2012		

Introduction

A. Introduction

1. This Financial Management Assessment (FMA) has been completed for the Ha Noi Power Corporation (EVN HANOI) as part of the preparation of the proposed *Ha Noi and Ho Chi Minh City Power Grid Development Sector Project*. The primary objective of the assessment is to provide assurance that EVN HANOI will have sufficiently strong financial management systems and controls in place to properly manage and control project finances. The FMA has been prepared in accordance with the Asian Development Bank's (ADB) *Financial Management and Analysis of Projects (2005)* and *Financial Due Diligence: A Methodology Note (2009)*. A Financial Management Assessment Questionnaire was prepared prior to completing the FMA and is given in Appendix A of this report.

B. Project Description

2. The objective of the proposed project is to strengthen the capacity and reliability of the power systems in Viet Nam's two largest cities, Ha Noi and Ho Chi Minh City (HCMC). This will be achieved through the rehabilitation of and development of 220 kilovolt (kV) and 110 kV transmission systems. The project will also strengthen the institutional capacities of EVN HANOI and the Ho Chi Minh City Power Corporation (EVN HCMC) that are responsible for the supply of power in the respective cities.

3. The Government of Viet Nam has requested a sector loan from the ADB's ordinary capital resources (OCR) to finance a portion of the project cost. The proposed loan amount is \$172.7 million. The Government has requested co-financing of a further \$100.0 million for the project from the Association of Southeast Asian Nations Infrastructure Fund (AIF).

4. The energy sector has been set as priority in ADB's Country Partnership Strategy for Viet Nam (2012 - 2015). The strategy specifically identifies the expansion of the power transmission network as an area that ADB will provide support. The project complements ADB's ongoing multi-tranche financing facility for the Power Transmission Investment Program, which strengthens the transmission network owned and operated by the National Power Transmission Corporation (NPT). The Japan International Cooperation Agency (JICA), Kreditanstalt für Wiederaufbau (KfW) of Germany, and the World Bank are also supporting EVN HANOI and EVN HCMC among other power corporations (PC). However, the large physical investment requirements exceed the fund availability of these development partners. As such, the Government has requested ADB to provide financing to EVN HANOI and EVN HCMC to rehabilitate and develop their transmission systems to meet the rapid demand growths.

5. EVN HANOI has proposed 24 subprojects for financing under the project including rehabilitation and development of transmission lines and substations at the 220 kV and 110 kV voltage levels. Four priority subprojects have been proposed, the rehabilitation of the 110 kV substations at Son Tay, Tran Hung Dao and Phuong Liet and a new 110 kV substation and connecting transmission line and underground cable (total 5 km) to serve the new Noi Bai airport terminal building.

6. In addition to the physical infrastructure improvements to be provided under the project, a capacity development technical assistance is envisaged to accompany the project to develop EVN HANOI's utility management capacities including strategic corporate planning, investment planning, human resources management, financial management, accounting, internal control, customer services, monitoring and evaluation, and project implementation. Relevant trainings related to the introduction of elements of smart grid technology will also be considered. Specific

Implementing Entity

areas of intervention will be decided through coordination with the World Bank which also plans to provide capacity development assistance.

7. EVN HANOI will be the executing agency (EA) for its respective project component. Given that EVN HANOI is a wholly owned subsidiary company within the EVN Group, EVN will be the supervisory body overseeing project implementation by the PCs. Relevant experts recruited by ADB under a project preparatory technical assistance will be retained to assist with the preparation of bidding documents of the packages related to the core subprojects. During project implementation, a consulting firm or a team of individual experts are expected to be recruited independently by EVN HANOI to assist with project management including preparation of noncore subprojects and their bidding documents, and to ensure that all subprojects comply with ADB's Safeguard Policy Statement (SPS; 2009). Procurement will be based on international competitive bidding and national competitive bidding. Advanced contracting will be used for the core subprojects.

C. Implementing Entity

8. EVN HANOI was legally established in April 2010 under the authority of the 2005 Enterprise Law. Under this legal structure, EVN HANOI is a single member company with 100% ownership held by EVN. EVN HANOI's operations date back more than 60 years under various legal structures. For example, between 1995 and the establishment of EVN HANOI in its present form in 2010, it operated as the Ha Noi Power Company, under the supervision and control of EVN. Between 1983 and 1994, the Ha Noi power distribution system operated as a department within Power Company No. 1 (PC1), which has since been re-established as the Northern Power Corporation.

9. EVN HANOI is responsible for the ownership, management and operation of the power distribution system, as well as portions of the transmission network, within Ha Noi. Presently, the company's transmission network is limited to the 110 kV system. However, EVN has allocated specific 220 kV projects to the PCs in order to ease the investment burden on the National Power Transmission Corporation. The first such project to be assigned to EVN HANOI, which is presently in the preparation phase, is the Tay Ho 220 kV transmission system. EVN HANOI purchases bulk power from EVN and distributes this to the 6.5 million residents of Ha Noi through approximately 2 million customer connections.

10. The executive head of EVN HANOI is the Chairman, who is appointed by EVN and is responsible for representing shareholder interests. The Chairman also holds the position of General Director, who is responsible for the management and operation of EVN HANOI. Reporting to the General Director are five Deputy General Directors, each of whom oversees specific functional areas within EVN HANOI. The General Director, together with the four Deputy General Directors, comprises the Board of General Directors. The functions and responsibilities of this board are similar to what would be commonly referred to internationally as a senior management committee.

11. EVN HANOI consists of 37 operating units, one subsidiary company, and a head office comprising 16 departments (Figure 1). Of the 37 operating units, 29 are distribution companies, each responsible for electricity distribution within a specified geographic district of Ha Noi. These districts correspond to the Ha Noi government administrative districts. In addition to being responsible for the operation and maintenance of the distribution networks within their districts, the companies are responsible for capital investments valued at D20 billion or less. Although these distribution units are referred to as "companies", they do not have distinct legal status

Implementing Entity

from EVN HANOI. Instead, they are dependent accounting units within EVN HANOI, meaning that they are not financially independent from EVN HANOI. The distribution companies are also not managerially independent from EVN HANOI.

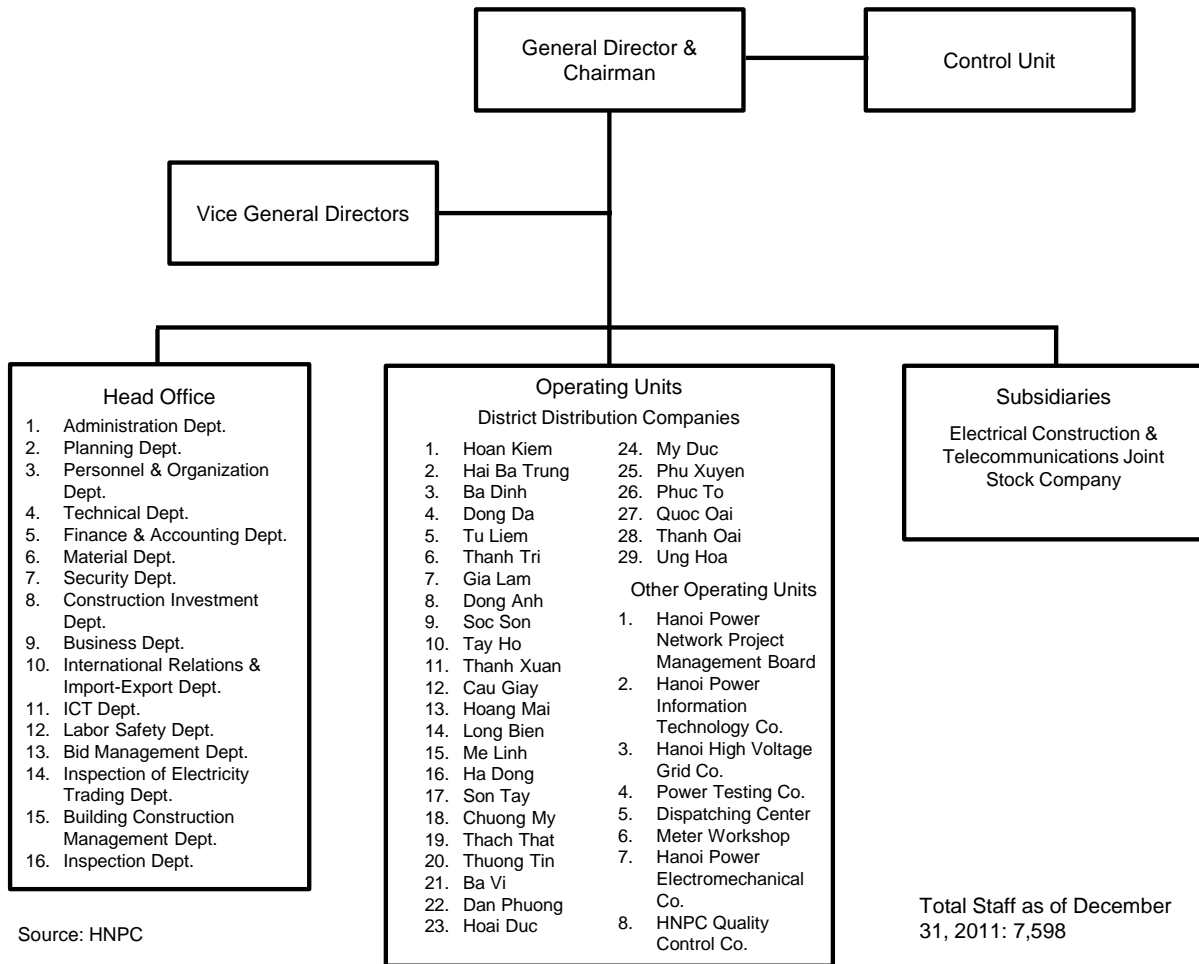
12. Of the other eight operating units within EVN HANOI, five provide technical support functions, while another unit manages the company's high voltage network. Another unit provides information technology services. The remaining unit is the Ha Noi Power Network Project Management Board (PMB), which is responsible for the implementation of major capital investments.

13. Within the EVN HANOI head office are 16 departments, each of which is under the direct supervision of the General Director. The Vice General Directors provide support and assistance to the General Director, but do not hold direct responsibility over specific departments or functions within head office.

14. As of December 31, 2011, EVN HANOI employed a total staff of 7,598, all on a full-time basis. Most of these staff are located within EVN HANOI's 29 district distribution companies. At the end of 2010, the total number of staff within EVN HANOI was 6,979. EVN HANOI states that the increase in staffing between the end of 2010 and 2011 was almost entirely due to the company's takeover a number of rural distribution systems during 2011. Over the past few years, the distribution networks under the management of rural communes have been transferred to the PCs.

15. EVN HANOI derives almost all of its revenue from the sale of electricity to retail customers. Electricity is sold according to the prescribed tariffs, which are set by Government and applied on a uniform basis through Viet Nam. For most customers, billings and collection are undertaken on a monthly basis according to metered electricity consumption. However, large consumers of electricity are billed more frequently. For example, customers with normal monthly consumption of 50,000 kWh – 100,000 kWh are billed twice per month. Customers consuming more than 100,000 kWh each month are billed three times per month. As a result, customer receivables are low relative to sales. For example, at the end of 2011, customer receivables were equivalent to only 13 days' worth of annual revenue.

Figure 1: EVN HANOI Organization Chart (2011)



Implementing Entity

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17. As an autonomous legal entity, EVN HANOI's revenues, expenses, assets, liabilities and equity are accounted for separately from EVN. However, EVN HANOI operates with limited management autonomy from EVN. EVN HANOI's financial policies and plans are under the management of EVN. For example, the EVN HANOI operating and capital budgets are subject to review and approval by EVN. The operating budget is established in coordination with a targeted profit, which is also set by EVN. EVN HANOI's borrowing plan to fund its capital investment program is subject to approval by EVN. EVN is responsible for formulating proposals for submission to the Energy Regulatory Agency of Viet Nam (ERAV) and other Government agencies for adjustments to the retail electricity tariffs. EVN HANOI's direct input into this tariff setting process is limited.

18. Presently, EVN sets the bulk supply tariff (BST) for all of its five power distribution corporations (PCs), which is by far the largest single expense item for EVN HANOI. EVN sets a different BST for each PC in order to achieve similar levels of profitability. This means that EVN has almost complete control over the profit level achieved by EVN HANOI. Under this mechanism, those PCs, such as EVN HANOI, which have a higher average retail tariff, are assigned a higher BST. The BST is often adjusted by EVN retroactively after the close of each financial year in order to reallocate profits between the PCs or between other EVN business units. Under the Government's reform program for the power sector, the Energy Regulatory Authority of Viet Nam (ERAV) is presently preparing a regulation for the setting of the BST. Under this regulation, EVN will no longer have the authority to set the BST. According to ERAV, the approval and enactment of this regulation is planned for 2013.

19. EVN HANOI has implemented several projects funded from official development assistance (ODA) sources, including ADB, Swedish International Development Cooperation Agency (SIDA), Swiss Agency for Development & Cooperation (SDA), Nordic Investment Bank (NIB), Japan International Cooperation Agency (JICA), and the World Bank (Table 1).

20. The performance of EVN HANOI in implementing past ODA funded projects is considered satisfactory, although delays in implementation have occurred. EVN HANOI states that the major cause of implementation delays, both for ODA and domestically funded projects, relates to resettlement and land compensation.

21. Four of the six projects listed in Table 1 were completed 7 – 15 years ago. However, the ongoing World Bank Distribution Efficiency Project (DEP) means that EVN HANOI has current experience in implementing ODA funded projects.

Table 1: EVN HANOI Experience in Implementing ODA Funded Projects

Project	Funding Agency	Loan/Grant Amount	Open – Close ^{1/}
1. Ba Dinh 2 - Ha Noi Distribution Project	Swedish International Development Cooperation Agency	Grant SEK 20 million	Jul 1994 – Jun 1998
2. Power Distribution and Rehabilitation Project (Loan 1358-VIE) ^{2/}	Asian Development Bank	Loan \$80 million ^{1/}	Sep1995 – Apr 2002
3. Pilot Load Management Project	Swiss Agency for Development & Cooperation (Grant) Credit Suisse First Boston (Loan)	Grant CHF 391,417 Loan CHF 391,417	Oct 2000 – Dec 2002
4. Ha Noi Load Dispatch Center Project	Nordic Investment Bank	Loan SEK 37.99 million	Nov 2003 – Jan 2006
5. Power Transmission and Distribution Network Development Project (Loan VNXV-5)	Japan International Cooperation Agency	Loan JPY 858 million	Mar 2008 - 2015
6. First Viet Nam Power Sector Reform Development Policy Operation (Loan 7868-VN, Credit 4711-VN)	World Bank (IBRD, IDA)	Loan \$50.69 million ^{4/}	May 2010 - 2012
7. Distribution Efficiency Project (Credit 5156-VN)	World Bank (IDA) + CTF	Loan \$74.3 million ^{5/}	November 2012 – 2017

EVN HANOI = Ha Noi Power Corporation, ODA = Official Development Assistance, SEK = Swedish Kroner, \$ = US dollar, CHF = Swiss Franc, JPY = Japanese Yen

IBRD = International Bank for Reconstruction and Development IDA = International Development Association

^{1/} Opening and closing dates of loan or grant

^{2/} Executing Agency was Power Company No. 1, now Northern Power Corporation. Implementation of Ha Noi components of the project were entrusted to Ha Noi Power Company after its formation in 1995.

^{3/} Total approved loan amount of which only a portion was allocated to EVN HANOI.

^{4/} Total loan and credit amount is \$311.6 million equivalent. Portion of total loan allocated to EVN HANOI is \$50.69 million.

^{5/} Portion of loan allocated to EVN HANOI.

Source: EVN HANOI

Personnel

22. EVN HANOI has previously participated in one ADB funded project, the Power Distribution and Rehabilitation Project¹, which was completed in 2002. EVN HANOI was not executing agency (EA) because at the time of project preparation and approval, the distribution system in Ha Noi was still part of PC1. After the formation of the Ha Noi Power Company in 1995, the Ha Noi components of the project were entrusted to Ha Noi Power Company. The Project Completion Report (PCR) issued in 2005 states that significant delays were incurred as a result of delays in the appointment of consultants, lack of data for existing facilities, changes to preliminary designs, increase in the number of approving parties to the designs, availability of domestic consultants, and delays in the compensation and resettlement portion. Despite the delay in the project completion, the PCR rated the project as “successful”.

23. In addition to projects implemented with ODA funding, EVN HANOI also implements an ongoing capital investment program funded from other sources, mostly domestic bank loans. In 2011, EVN HANOI's capital investments totaled D1,519 billion (\$74 million), up from D1,141 billion (\$61 million) in 2010. While capital investments reduced in 2012 to D1,042 billion (\$50 million), EVN HANOI is projecting further large increases from 2013 onwards.

24. Limited human resources have contributed to project implementation delays within other EVN companies. EVN HANOI states that it plans to increase its project implementation capacity by establishing a second PMB. Initially, it is envisaged that this second PMB would be responsible for the EVN HANOI components of the proposed ADB funded Ha Noi and Ho Chi Minh City Power Grid Development Sector Project. It would then assume responsibility for other projects in the future. However, the establishment of this second PMB is still very much in an early planning stage. EVN HANOI has yet to issue any approval for the establishment of a second PMB.

D. Personnel

25. **Overview.** Accounting and financial management for capital investments is undertaken both at the EVN HANOI head office level and within the PMB. For operations, accounting functions relating to revenue and expenses are split between the EVN HANOI head office and district distribution companies. In both cases, the head office provides an oversight and supervision role over the PMB and distribution companies. As shown in Table 2, there are presently 305 staff within the various finance and accounting departments, at the head office, district and PMB levels.

26. **EVN HANOI Finance & Accounting Department.** The Finance and Accounting Department (EVN HANOI-FA) is headed by the EVN HANOI Chief Accountant. The Chief Accountant reports to the EVN HANOI General Director. The department is responsible for accounting, financial reporting, preparation of annual accounts, maintaining the general ledger, financial budgeting and updating of accounting policies and procedures. As illustrated in Figure 2, EVN HANOI-FA presently employs 32 staff in four main groups as follows:

- (i) Business Production (10 staff). Responsible for finance and accounting policies, taxes, cash management, fixed assets management, salaries and social insurance.
- (ii) Capital Investment (11 staff). Responsible for project funding, finalization of project accounts, management of project equity and debt.

¹ Power Distribution and Rehabilitation Project, Loan 1358-VIE, approved June 8, 1995.

Personnel

- (iii) Financial Statements & Financial Planning (6 staff). Responsible for consolidation of internal financial statements, preparation of consolidated EVN HANOI financial statements, financial planning, revenue and operating expense management, and management of EVN HANOI-FA software.
- (iv) Rural Projects (3 staff). Responsible for accounting and financial management of rural distribution projects.

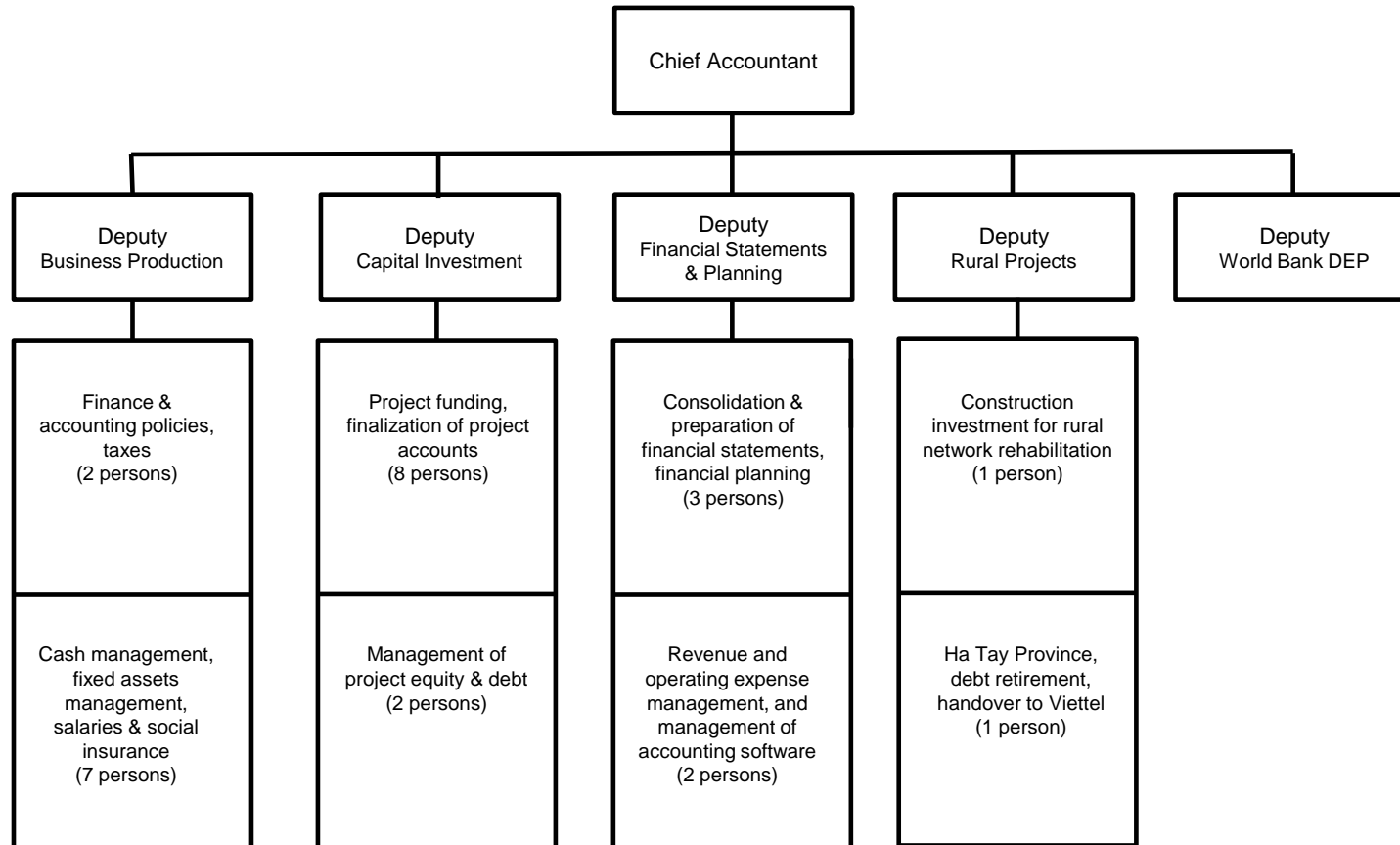
27. Each of these four groups is under the direction of a Deputy Chief Accountant, who in turn report to the Chief Accountant. In addition to the four deputies responsible for each of these groups, a fifth deputy has recently been appointed oversee the World Bank DEP, which is in its initial stages of implementation.

28. All EVN HANOI-FA staff report directly to the Chief Accountant who is assisted by a Deputy Director of Finance. All staff members within EVN HANOI-FA have been assigned specific roles and functions within in the department. The positions have written job descriptions that clearly stipulate duties, responsibilities and limits of authority. Most of the staff members are adequately qualified with many holding undergraduate or post-graduate university degrees. Summary job descriptions and qualifications for mid-level and senior staff within EVN HANOI-FA are given in Appendix B of this report.

29. The number of staff within EVN HANOI-FA is considered adequate. While the majority of EVN HANOI-FA staff can meet the core functions and responsibilities of their respective positions, the quality of staff varies. This is reflective of both EVN HANOI recruitment practices as well as its staff compensation structure. EVN HANOI reports increasing difficulty in recruiting qualified and experienced accounting and financial staff. As Viet Nam's private sector continues to develop, attracting qualified accounting and financial staff to state companies, such as EVN HANOI, has become increasingly challenging. While EVN HANOI can offer stable long-term employment, it cannot offer a financial compensation package that can compete with the private sector. EVN HANOI's ability to address this challenge is limited given that it is subject to Government and EVN policies and regulations relating to employment and staff compensation.

30. **District Distribution Company Finance & Accounting Departments.** There are finance and accounting departments (D-FA) within each of the 29 district distribution companies. Under the supervision of EVN HANOI-FA, the D-FAs are responsible for recording and managing revenues and expenditures within each district. The total number of staff employed in the 29 D-FAs is approximately 230, all on a full-time basis (Table 2). An organization chart for a typical district distribution company, the Hoan Kiem District Distribution Company, is given in Figure 3.

Figure 2: EVN HANOI Finance and Accounting Department Organization Chart



Source: HNPC

Total Staff: 32

Table 2: EVN HANOI Finance & Accounting Staffing Levels

Unit	No. of Staff
EVN HANOI Head Office	32
PMB	13
District Distribution Companies	230
Other EVN HANOI	30
Total Staff	305

EVN HANOI = Han Noi Power Corporation

Source: EVN HANOI

31. **PMB Finance & Accounting Department.** The PMB has its own Finance and Accounting Department (PMB-FA) which holds direct responsibility for the accounting and financial management functions relating to the various construction projects being implemented by the PMB. These functions include project disbursements, cash management, contractor payables, PMB internal accounting and financial management, participation in tender evaluations, fixed asset accounting, loan disbursements and accounting for financing charges during construction, payment and accounting of taxes, and preparation of project accounts and reports. The total number of staff in PMB-FA is presently 13, all on a full-time basis. The organization of the PMB is illustrated in Figure 4.

32. **Staff Appointment & Rotation.** Accounting and financial staff are initially recruited on one year employment contract. Upon completion of this one year contract, performance is reviewed and if considered satisfactory, the individual is then offered permanent employment. There is no formal policy for personnel transfer. EVN HANOI states that transfers of accounting staff are undertaken only when absolutely necessary in an effort to maintain stability and ensure a high level of experience in each position. While the benefits of this approach are appreciated, it is recommended that EVN HANOI consider rotating staff on a regular basis, particularly those responsible for processing, monitoring and payments. This would provide for more effective control and greater flexibility in the use of staff.

33. **Training.** EVN HANOI states that it has an overall company policy to support staff training, but that this does not provide specific targets or staff entitlements to training. For accounting and finance staff, training is provided on an as-required basis. This includes in-house training to update the skills of its staff. In addition, EVN HANOI staff also attend training workshops organized by EVN and MOF to ensure staff are familiar with changes in accounting standards and procedures as well as changes in tax regulations. Accounting personnel are also sent for external short courses at local or overseas educational institutions. EVN HANOI stated that access to overseas training, as well as the impact of this training, can be limited because of a lack of sufficient English language capacity amongst many of its accounting staff.

Figure 3: Hoan Kiem District Distribution Company Organization Chart

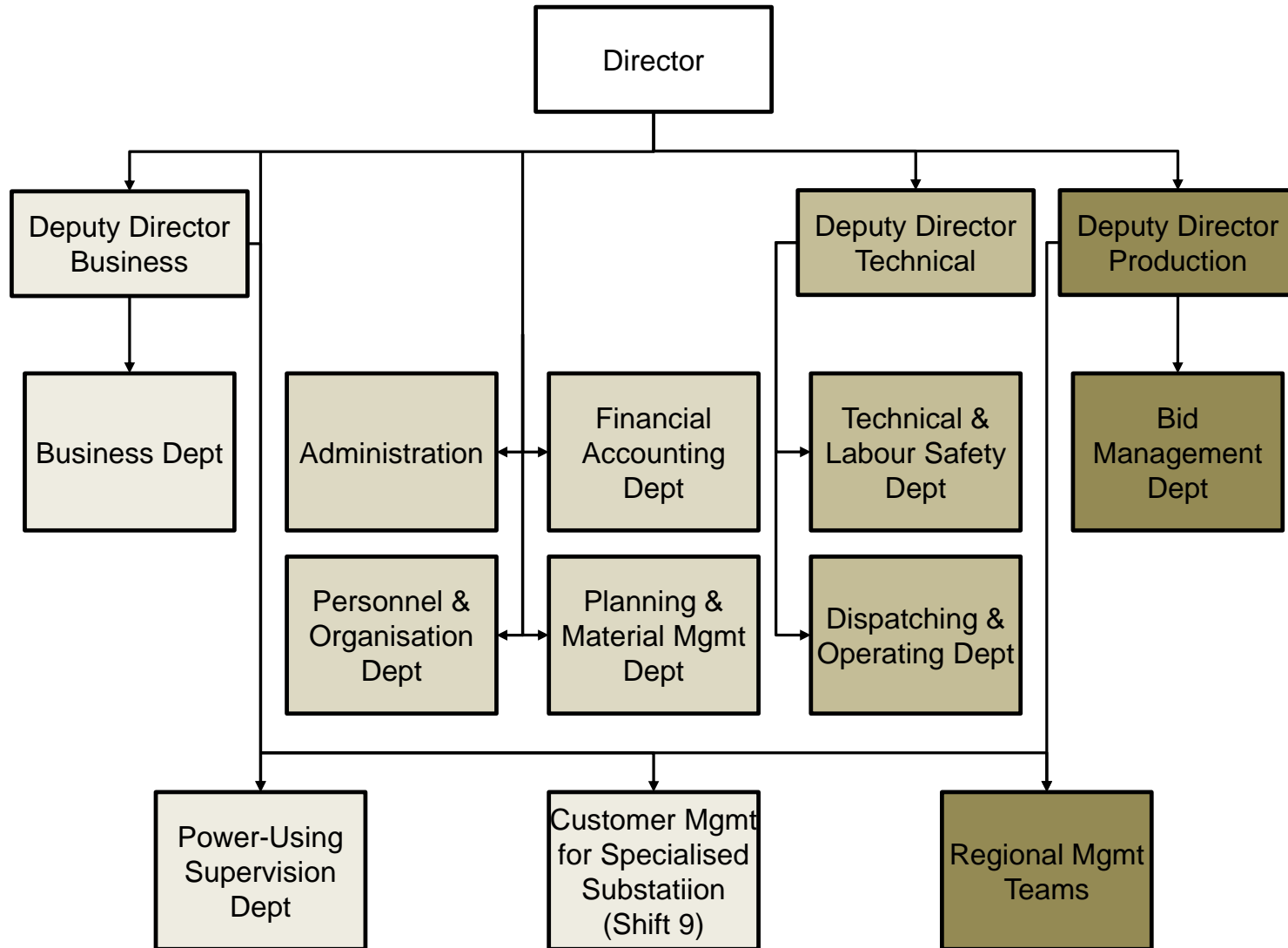
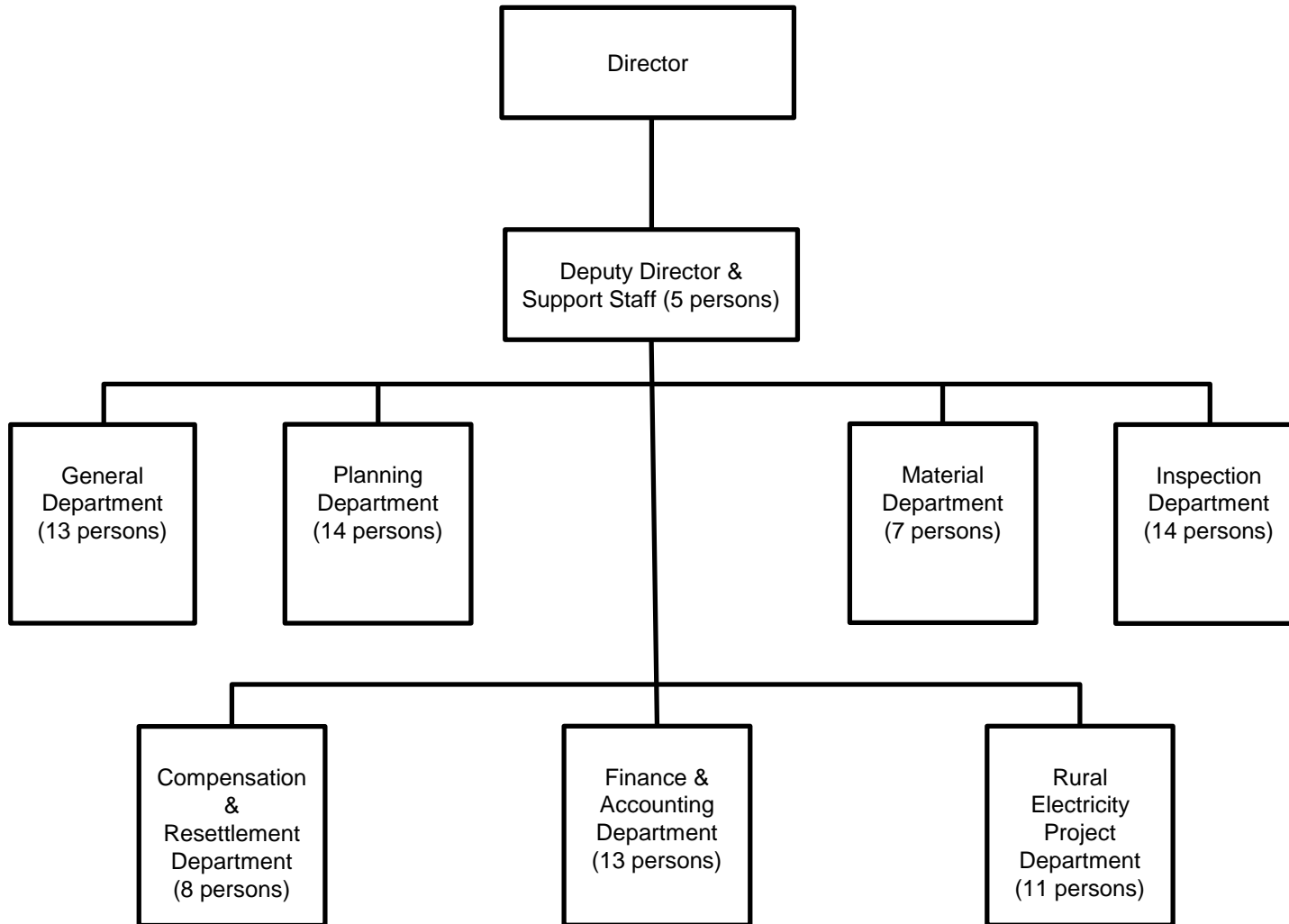


Figure 4: Ha Noi Power Network Project Management Board Organization Chart



Source: HNPC

Total Staff: 86

Accounting Policies and Procedures

34. **Experience with ADB Financed Projects.** As noted earlier, EVN HANOI participated in the ADB funded Power Distribution and Rehabilitation Project (Loan 1358- VIE). However, this loan closed 10 years ago. Furthermore, EVN HANOI was not the EA for the project. Instead, PC1, which is now the Northern Power Corporation, was the EA. EVN HANOI states that many of the accounting staff involved in the implementation of this project are still employed by the company. However, this experience is now dated and those with this prior experience are now in relatively senior positions and, therefore, probably would not be involved in day to day implementation of the proposed project. As a result, accounting staff to be assigned functions relating to the proposed project, both in EVN HANOI-FA and PMB-FA, will require training in order to ensure that they are familiar with ADB procedures and requirements

35. While EVN HANOI experience with ADB financed projects is limited, the company can receive assistance and support from EVN, which has extensive experience with ADB financed projects.

E. Accounting Policies and Procedures

36. **Accounting Standards.** EVN HANOI prepares its accounts in accordance with Vietnamese Accounting Standards (VAS) and uses accrual based accounting. Therefore, EVN HANOI's annual financial statements are prepared and audited in accordance with VAS. Separate Vietnamese and English language versions of these audited financial statements and accompanying notes are prepared. Beginning with the 2011 financial year, EVN HANOI has also had its annual financial statements prepared and audited in accordance with International Financial Reporting Standards (IFRS). The IFRS statements and accompanying notes are presented in the English language only. The financial year is the 12 month period ending December 31. Typically, the VAS audited financial statements are issued within 4 – 5 months after the close of the financial year. However, the 2011 statements were not issued until June 29, 2012, almost six months after the close of the financial year. The 2011 IFRS financial statements were issued on July 2, 2012. Those for 2012 were issued on 28 June 2013.

37. VAS has been established by the Accounting and Auditing Policy Department of the Ministry of Finance (MOF). Over the past decade, changes to VAS have been introduced that have made it more consistent with IFRS. However, important differences continue to exist. For example, under VAS, the unrealized portion of foreign exchange losses can be deferred for a period of up to five years in order to avoid a net loss. Under IFRS, no such deferral is allowed. However, because EVN HANOI's foreign currency borrowings have to date been limited, this has not led to significant differences in reported profitability under VAS and IFRS. In 2011, EVN HANOI reported a net loss of D404.8 billion under VAS while the loss was D407.4 billion under IFRS.

38. **Project Accounting.** EVN HANOI is required to establish and maintain its project accounts in accordance with Decision No. 214/2000/QD-BTC, issued by MOF in December 2000. These standards are applied on all ADB funded projects in Viet Nam and are assessed as satisfactory. EVN HANOI accounting staff are knowledgeable of these standards and have considerable prior experience in their application.

39. **Accounting Policies & Procedures.** EVN HANOI’s accounting policies and procedures are largely based on those of MOF and EVN. In accordance with these policies and procedures, EVN HANOI has issued a series of manuals that specify its accounting policies and procedures. The manuals are distributed to the appropriate personnel and are readily available within EVN HANOI-FA as reference. The manuals comprise:

- (i) MOF accounting policies and procedures
- (ii) EVN accounting policies and procedures
- (iii) EVN HANOI accounting policies, procedures and regulations. The main accounting and financial regulations issued by EVN HANOI and presently in use are listed in Table 3.

40. The manuals cover routine financial management and related administrative activities.

41. **Chart of Accounts.** The EVN HANOI chart of accounts is based on VAS and appears to incorporate sufficient scope and detail to meet the company’s requirements. The chart of accounts, to a four digit level of detail, is given in Appendix C.

Table 3: EVN HANOI Accounting & Financial Regulations

Regulation	Issue Date
1. Decentralization on Tax and Financial Management of EVN HANOI Units	May 2012
2. Debt Management	February 2012
3. Fixed Assets Accounting and Management	January 2012
4. Settlement of Completed Projects	January 2012
5. Materials Accounting and Management	January 2012
6. Capital Sources and Assets Inventory Regime	January 2012
7. Internal Expenditure Regime	October 2011

EVN HANOI = Ha Noi Power Corporation
Source: EVN HANOI

42. **Segregation of Duties.** Functional responsibilities in the transaction chain are segregated, including separate personnel responsible for authorization to execute a transaction, record a transaction, and to take custody of the relevant assets. In order to avoid any potential conflict of interest, monthly bank reconciliations are performed by staff not involved in transactions and with no authority over approval of such transactions.

43. **Budgeting.** EVN HANOI prepares detailed budgets annually and budgets are monitored against performance. Actual expenditures are compared against budgets regularly and explanations are required for significant variations from budget. If budgets are exceeded, approval to increase the budget must be obtained from the approving authority or the Board. However, approval is usually not sought after the budget has been exceeded. The EVN HANOI Planning Department holds overall responsibility for budget preparation but this is undertaken in coordination with EVN HANOI-FA.

Accounting Policies and Procedures

44. **Capital Budget Preparation.** The preparation of the capital budget is undertaken using both a top-down and bottom-up approach. For the high voltage network (110 kV, 220 kV), the capital budget is based on EVN's five year development plan as approved by the Ministry of Industry and Trade (MOIT). However, because of funding limitations, the annual budget for the high voltage network may have to be set at levels below that specified in the EVN plan. For medium and low voltage investments, five year plans are prepared by each of the 29 district distribution companies and submitted to EVN HANOI and the Ha Noi Peoples' Committee for review and approval. Based on the approved five year plans, a proposed capital budget is submitted by each of the distribution companies to EVN HANOI. These budget proposals are reviewed by the EVN HANOI Planning Department, with input from other departments, including EVN HANOI-FA. The focus of the Planning Department's review is confirmation of need and consistency with the five year development plan. EVN HANOI-FA's review focuses on funding availability. After these reviews have been completed, and any revisions made, the capital budget is approved by the EVN HANOI General Director.

45. **Operating Budget Preparation.** The preparation of the operating budget normally begins in November of the prior year. Each operating unit within EVN HANOI, as well as the head office, prepares a proposed budget plan for the upcoming year. The plans are prepared on the basis of the overall EVN five year plan, as well as actual financial and operating data for the first nine months of the current year. The proposed budgets are then submitted to EVN HANOI, typically by mid-December, and reviewed by the Planning Department, EVN HANOI-FA, and the Personnel and Organization Department. Based on any revisions to the plans made as a result of these reviews, the individual budgets for each unit are consolidated and submitted to EVN for approval. Approval of the EVN HANOI budget by EVN is typically issued in February or March of the current year. After approval, EVN HANOI then assigns an approved operating budget to each of its units.

46. **Longer-Term Financial Planning.** As noted above, capital investment plans are prepared and approved for a five year period. The plan is prepared in accordance with the targets set out in the national 10 year Power Development Plan (PDP). The current PDP was approved in July 2011 and covers the period from 2011 to 2020. Given the requirement to meet national PDP targets, limitations on the financial capacity of EVN HANOI to fund investments may not be fully incorporated into the plan. Therefore, PDP targets may be set at levels above that which EVN HANOI is likely to be able to fund. Projects included in the current year budget that cannot be funded due to lack of available budget are normally moved into the upcoming year's budget. This can lead to a significant backlog in unfunded projects. Furthermore, project implementation schedules generally reflect PDP requirements and may not be always be realistically achievable by EVN HANOI. As a result, actual project implementation and completion often lags behind those set out in the PDP.

47. EVN HANOI prepares a five year operating plan, which is submitted to EVN for approval. The plan is used by EVN HANOI for its internal planning purposes as well as by EVN for its financial and tariff planning. All of the PCs submit these plans, which are then used by EVN to develop its proposals for adjustments to retail tariffs. The operating plan includes projected energy sales, operating revenues and operating expenses. The plan does not include projected cash flows or a balance sheet. Therefore, the plan is limited in terms of providing a tool through which EVN HANOI's projected financial performance and position can be assessed. Another limitation of this plan is that only a single base case is prepared. Given the uncertainty regarding future retail and bulk tariffs, inflation rates, sales growth and actual capital investment levels, a more dynamic scenario based approach to planning would be more applicable.

Accounting Policies and Procedures

48. **Payments.** EVN HANOI's invoice processing procedures require independent comparison of quantities and prices against purchase order and goods received and checking for accuracy of calculations. Controls exist for preparation of the payroll with any changes to payroll requiring proper authorization.

49. **Conflict of Interest.** In its FMAQ, EVN HANOI stated that it has established policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provides safeguards to protect the company from them (FMAQ 4.26). However, the company could not provide these policies and procedures for review and verification. Instead, the company stated that its procurement procedures safeguard the company against conflict of interest and related party transactions. Conflict of interest is concept not yet a widely understood within Vietnamese companies except where this directly relates to corruption and to overt forms of collusion.

50. **Bank Account Management & Cash Handling.** Checks require two signatories, the General Director and Chief Accountant. Should one of these persons not be available to perform this function, as a result of travel, leave, or illness, this function is assigned by the signatory to another qualified person within EVN HANOI, typically a Deputy General Director. Payments made by check must have two authorized signatories, regardless of the amount. A more efficient payment processing procedure could be achieved by having lower level signatories authorized to sign lower value checks and higher level signatories to sign higher value checks. This would allow time for more thorough checking of documents by signatories, particularly for the higher value checks. However, despite the advantages, it appears unlikely that EVN HANOI would adopt such a procedure, at least over the short to medium terms. Maintaining highly centralized authority over payments is typical amongst Vietnamese state owned enterprises (SOEs) including those within the EVN group. EVN HANOI would not adopt a different procedure until it had been endorsed or prescribed by EVN or Government.

51. EVN HANOI states that its cashbooks are up to date and adequate to the needs of EVN HANOI. Bank accounts are reconciled monthly and any unusual items are reviewed and brought to the attention of higher management.

52. **Safeguard over Assets.** EVN HANOI appears to have adequate systems in place to safeguard its fixed assets. All fixed assets are registered and recorded. Fixed assets disposals follow procedures set by MOF. A physical count of fixed assets and stocks is undertaken once per year.

53. **Insurance Coverage.** Insurance coverage varies depending on the asset type. Insurance is maintained on transmission facilities of 110 kV and above. Buildings are insured against fire. Vehicles are insured for third party claims as per Government requirements. Other assets are generally not insured. However, during construction, assets funded from loans are normally insured in accordance with the terms of the loan agreements.

54. EVN HANOI staff are not directly insured by EVN HANOI against death, injury or disability. Instead, the Government labor insurance fund provides coverage in the case of such events. Additionally, EVN HANOI maintains a staff welfare fund that is used to cover a portion of the costs associated with injury and disability and to pay families of staff, in the event of death.

55. **Retention of Accounting and Supporting Documents.** EVN HANOI retains accounting and supporting documents for 15 years as required under MOF regulations (Decision No. 218/2000/QD-BTC). Documents are filed onsite for three years. After three years, documents

Internal Audit

are archived in an offsite storage facility. Only authorized persons have access to both the onsite and offsite records. Financial transaction records are available online in the EVN HANOI accounting software and accessible to authorized staff.

F. Internal Audit

56. There is presently no internal audit function within EVN HANOI. However, as required by Government regulation, it has established a “control unit” responsible for undertaking functions somewhat similar to that of the internal audit. All Vietnamese state companies are required to establish a control unit, which reports to the Chairman. The control unit assists the Board of Management in inspecting and supervising the company’s management in financial operations, and in complying with the law, the rules and regulations of the company and the resolutions and decisions of the Board of Management. More specifically, the EVN HANOI control unit has the following functions and responsibilities:

- (i) To check the lawfulness, honesty, and prudence of EVN HANOI’s Board Members in the organization and implementation of EVN’s rights, as well as in the management of EVN HANOI’s business;
- (ii) To appraise the financial statements, business performance, and management assessment reports before they are submitted to EVN or the relevant State agencies by EVN HANOI; this appraisal report must be submitted to EVN;
- (iii) To make proposals to EVN for the modification, the organizational structure of EVN HANOI’s business management and operation; and,
- (iv) Other duties as stipulated in the company charter or as requested, decided by EVN.

57. The control unit presently has 12 staff, of which three are senior staff appointed by EVN. These senior staff include the Chief Controller, who is specifically charged with the review of EVN HANOI financial statements and supporting information. Based on its functions and responsibilities, the control unit operates with a wider range of powers than would a traditional internal audit unit. However, control units often do not function to their full potential. This is a common situation in many state companies in Viet Nam where the control unit is established to meet the Government requirement to do so, but then less emphasis is given to ensuring that the unit functions effectively. Staffing inadequacies within the control units, as well as a lack of priority by the Board in using the control unit, are the most common causes limiting effectiveness. EVN HANOI staff stated that the control unit is effective in meeting its responsibilities, but this could not be verified. However, with 12 staff, the EVN HANOI control unit is more fully staffed than that of many other comparable SOEs in Viet Nam.

G. External Audit

58. EVN HANOI’s VAS and IFRS financial statements are audited by a firm of external auditors. Up until 2010, only VAS financial statements were prepared and audited. However, in 2011 EVN HANOI began also having an audit undertaken of the IFRS financial statements, and this audit report included both 2011 and 2010. To date, all external audits have been undertaken by Deloitte Viet Nam Company Limited, which also undertakes the audit of EVN’s accounts, as well as a number of the other companies within the EVN group. There is no statutory requirement to change the auditor at specified intervals.

59. The auditor issued an unqualified opinion on the 2011 VAS financial statements, meaning that these statements are assessed to provide a true and fair view of the financial position,

Reporting and Monitoring

financial performance, and cash flows of EVN HANOI. However, the auditor's letter of opinion noted two matters. The first relates to the revaluation of fixed assets undertaken by independent valuation company. This revaluation amount as of July 1, 2011 has not been reflected in EVN HANOI's financial statements for 2011 because final Government approval to incorporate the revaluation had not yet been issued. Approval for incorporation of the revaluation into the financial statements as at 31 December 2012 was subsequently authorized under MOF Official Letter No. 566/BTC-CDKT dated 11 January 2013. The second matter relates to EVN HANOI's deferral of the non-current portion of unrealized foreign exchange losses, which is authorized under MOF Circular No. 2012009/TT-BTC, but is not provided for under VAS.

60. The auditor issued a qualified opinion on the IFRS statements, meaning that with exception of specific items, the financial statements are assessed to provide a true and fair view of the financial position, financial performance, and cash flows of EVN HANOI. The exception noted related to the accounting treatment of financial assets and liabilities. In accordance with VAS, EVN HANOI carries its financial assets at cost or face value, less a provision, if applicable, for any impairment in these assets. Also in accordance with VAS, EVN HANOI carries its financial liabilities at face value, less any principal repayments, regardless of any changes in the fair value of these liabilities. However, these methodologies are not in accordance with IFRS. This highlights a challenge in the preparation of the financial statements in accordance with IFRS. Since, the underlying accounting system has been established and functions entirely in VAS, the IFRS financial statements have to be prepared on the basis of VAS data. As a result, by preparing, it may not be always possible to comply in full with IFRS requirements. This is not unique to EVN HANOI and also affects other Vietnamese companies preparing IFRS financial statements. This same exception was noted for EVN and many of its subsidiary companies. For the 2012 IFRS statements, the same qualification was made. Additionally, the auditor noted that the revaluation of assets had been undertaken on the basis of individual assets rather than, as required by IFRS, being applied to each class of assets as a whole.

61. Upon review of the audited IFRS financial statements for 2011, two issues were noted, both of which relate to the presentation of foreign exchange losses. First, the foreign exchange loss was incorrectly presented as a gain in the income statement. Second, the unrealized portion of the foreign exchange loss was incorrectly omitted from the cash flow statement. In both financial statements, adjusting entries in other line items compensated for the errors in the presentation of foreign exchange losses. These issues appear to have been corrected in the restated 2011 statements provided with the audited 2012 IFRS financial statements,.

62. There is a shortage of qualified auditors in Viet Nam, particularly those certified to undertake audits on the basis of IFRS. As the volume of business increases rapidly for all auditing firms in the country, the average level of experience of staff within these firms has declined. This decline in experience level has been partially offset by improvements in the education standards and related professional qualifications. Therefore, while the overall quality of external audits performed has been generally improving in Viet Nam, these improvements may be uneven and there continues to be the potential for deficiencies and oversights in the performance of these audits.

H. Reporting and Monitoring

63. **Financial Statements.** Financial statements, which consist of an income statement balance sheet and cash flow statement are prepared and issued by EVN HANOI on a quarterly basis in accordance with MOF requirements. These quarterly statements are prepared in

Information Systems

accordance with VAS. As noted above, EVN HANOI prepares its annual financial statements in accordance with both VAS and IFRS.

64. A shortcoming in the quarterly reporting is that while a cash flow statement is generated by EVN HANOI's accounting and financial management software, it is not always accurate. The cause is due to deficiencies in the accounting software, which is provided by EVN and is used by EVN and all its wholly owned subsidiaries, including EVN HANOI. Therefore, this problem not only affects EVN HANOI but also EVN and all of its subsidiaries. An additional shortcoming in the quarterly reports is that there can be considerable lags between the scheduled and actual date of capital expenditures transactions. As a result, there are often apparent unexplained discrepancies between expected and actual expenditures made during the period.

65. In addition to the quarterly financial statements, the individual operating units within EVN HANOI, including the 29 district distribution companies, prepare monthly revenue and expenditure statements. These monthly statements are submitted to EVN HANOI-FA for verification and used as inputs in the preparation of the EVN HANOI quarterly financial statements.

66. **Budget Control.** Budget control is undertaken on a quarterly basis in which actual revenue and expenditures are compared to the plan amounts as set out in the budget. Monitoring performance against budget only on this quarterly basis is not an optimal means for budget control. Monitoring budget compliance on a monthly basis would be much more effective in limiting budget overruns. However, it does not appear that EVN HANOI presently has the resources to move from quarterly to monthly budget control.

67. **Project Reporting.** The PMB has significant project implementation experience, but is limited in terms of experience with ADB funded projects. The PMB employs standardized project reporting systems and procedures, which appear to be sufficient for the proposed ADB funded project.

68. The PMBs maintain separate accounts for each project. For the proposed ADB funded project, the PMB would prepare a quarterly progress reports which are typically submitted to ADB. The reports will include a summary of project expenditures during the reporting period. In addition, within six months of the close of the financial year, EVN HANOI would also submit to ADB the annual audited accounts for the project.

I. Information Systems

69. EVN HANOI's financial information systems are largely computerized using accounting software developed and provided to EVN HANOI by EVN. As noted above, EVN and all of its wholly owned subsidiaries use this software. The standardization of accounting software ensures that the subsidiaries meet the accounting and reporting requirements of EVN. This also facilitates the consolidation of subsidiary financial information by EVN. The software has undergone regular upgrades and revisions, both to improve functionality and to comply with changes in accounting standards and regulations. EVN HANOI states that staff are adequately trained to operate the accounting software.

70. As noted earlier, deficiencies in the accounting software, in terms of the generation of the cash flow statement have been found to exist. However, EVN HANOI staff appear to be generally satisfied with the software, although most do not have experience in using other

Subproject Financial Appraisal

accounting software. In any case, EVN HANOI is required by EVN to use the existing software and, therefore, could not make a change even if it deemed this to be beneficial.

J. Subproject Financial Appraisal

71. The proposed project is to be funded in part through an ADB sector loan. Under a sector loan, the borrower or EA is primarily responsible for identifying, prioritizing, formulating, appraising and implementing each subproject in accordance with technical, financial and economic appraisal criteria, including social and environmental criteria, mutually agreed to between ADB and the borrower or EA. Therefore, under the proposed project, EVN HANOI will take the lead role in the appraisal of each subproject.

72. Projects and subprojects being proposed for implementation by EVN and its subsidiaries are evaluated in accordance with Government Decree No. 12/2009/CP-ND, which specifies the requirements for project feasibility studies. These criteria include the requirement to undertake financial analyses, but no specific methodology is prescribed. EVN and its subsidiaries, including EVN HANOI, normally contract out project feasibility studies to EVN's power engineering consulting companies (PECC). Four such companies operate, with one, PECC1, being based in Ha Noi. The PECCs are familiar with ADB financial analysis requirements and have undertaken such analyses for past ADB funded projects implemented by EVN and its subsidiaries. Based on reviews of these previous analyses, the quality of work varies considerably, from good to very poor.

K. Funds Flow

73. The borrower for the proposed loan is the Socialist Republic of Viet Nam. The loan would be provided to Viet Nam from ADB's Ordinary Capital Resources (OCR) and then on-lent through MOF to EVN HANOI with the same interest rate and tenor as the ADB loan to Viet Nam. In addition, a fee of 0.25% per year on the disbursed amount of the loan would be payable by EVN HANOI to MOF (0.05%) and the onlending agency (0.20%). When the loan becomes effective, a loan account will be opened within ADB in the name of the borrower and the loan amount will be credited to that account. All disbursements of the loan will be carried out in accordance with *ADB's Loan Disbursement Handbook (2012)*.

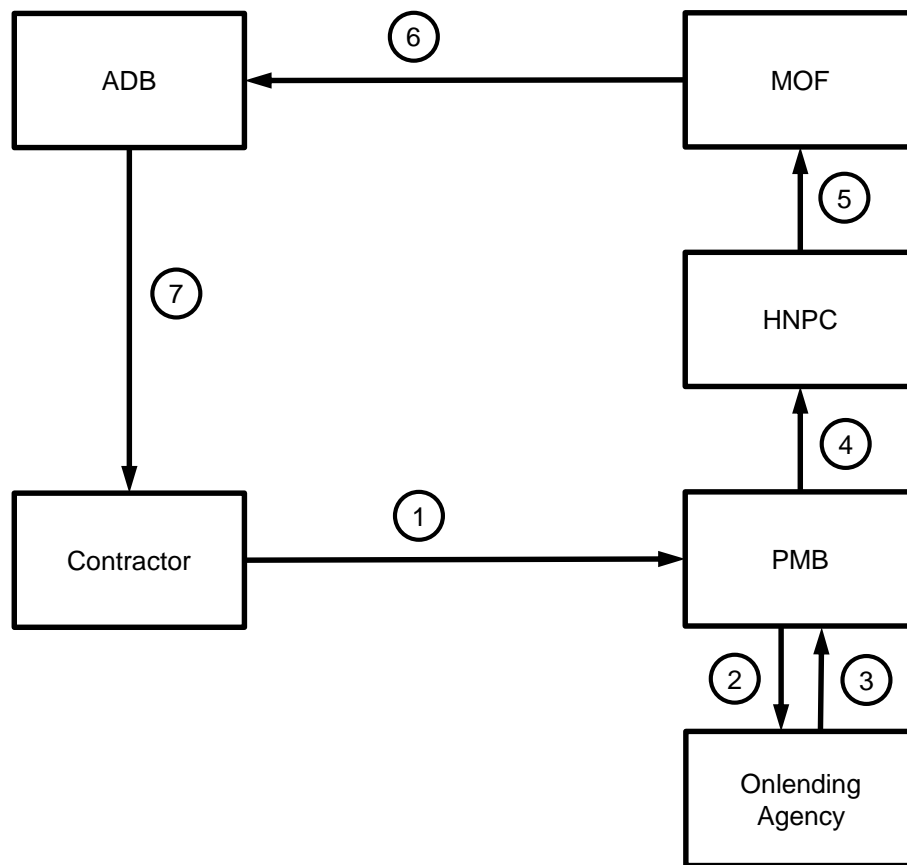
74. **Disbursements.** EVN and its subsidiary companies have employed both the direct payment and commitment procedures for previous and ongoing ADB funded projects. A summary description of each procedure is provided below. Disbursement of the loan will be subject to (i) the loan agreement(s) having been declared effective by ADB; (ii) MOF and EVN HANOI having submitted sufficient evidence of authority of the person(s) who will sign the withdrawal applications; (iii) all conditions precedent having been met; (iv) confirmation that all parties involved in disbursement are from ADB member countries; and (v) EVN HANOI presenting evidence to ADB that goods and services requested by EVN HANOI for ADB financing shall or have been produced in and procured from ADB member countries.

75. **Direct Payment Method.** Under the direct payment method, at the borrower's request, ADB makes payment directly to the contractor or supplier. The direct payment can be applied to: (i) payment for civil works contracts; (ii) payment for consulting services; and, (iii) payment for contracts not requiring a letter of credit. The disbursement process is illustrated in Figure 5 and summarized as follows:

Funds Flow

- (i) The PMB sends documents supporting the contractor's payment request to onlending agency for approval.
- (ii) The PMB submits a payment request, with supporting documentation, to EVN HANOI head office.
- (iii) EVN HANOI head office verifies, sign and submits withdrawal application to MOF for co-signature and sends to ADB for processing the payment directly to the contractor.

Figure 5: Flow of Funds – Loan Disbursements under Direct Payment Procedure



- ① Contractor submits payment request and supporting documentation to PMB.
- ② PMB sends document to the onlending agency for approval of the amount of work.
- ③ Issuance of approval by onlending agency.
- ④ PMB submits payment dossier to EVN HANOI head office.
- ⑤ EVN HANOI head office checks payment dossier and then signs and submits withdrawal application to MOF for co-signature.

Funds Flow

- ⑥ MOF sends approved payment request to ADB for processing payment directly to the contractor.
- ⑦ ADB makes payment directly to contractor.

Risk Assessment

Commitment Method. Under the commitment method, ADB, at the borrower's request, reimburses a commercial bank for payments made to a contractor or supplier against a letter of credit. Under this method, ADB issues a commitment letter to the advising or negotiating bank in the supplier's country. The letter of credit issued by the borrower's bank becomes operative only upon issuance of the commitment letter. The disbursement process is summarized as follows:

- (i) The PMB submits to EVN HANOI head office a request, together with supporting documentation, to open a letter of credit. EVN HANOI head office reviews the documentation, and if it issues approval, it then requests the issuing bank (commercial bank) to open the letter of credit.
- (i) EVN HANOI head office sends the opened letter of credit to MOF for co-signature and then sends the letter of credit to ADB.
- (ii) ADB reviews, accepts and issues the Commitment Letter to the advising bank nominated by the contractor and will pay the bank the full amount or commitment amount to pay through the letter of credit.
- (iii) The contractor sends the documentation to the advising bank for review. The advising bank then sends the documentation to the issuing bank. The issuing bank also checks the documentation and, given that the documentation complies with all terms and conditions of the letter of credit, accepts to pay the amount. In the case discrepancies in the documentation, the PMB issues a letter to EVN HANOI head office to accept all discrepancies and head office, if it agrees, then notifies the issuing bank to accept the documentation. The issuing bank sends a telex to the advising bank to accept to pay the contractor.

76. **Repayments.** The repayment term of the loan is to be confirmed. Repayment of principal and interest will be funded from EVN HANOI's operating revenue.

L. Risk Assessment

77. The control risks that exist within EVN HANOI are not expected to pose a significant risk to the proper management and control of project finances for proposed loan. EVN HANOI and its PMB have considerable experience in managing the implementation of capital investment projects, including those funded by ODA sources.

78. Potential control risks are assessed and summarized below.

79. **Implementing Agency.** As noted above, EVN HANOI and its PMB have considerable prior experience in managing the implementation of large capital investment projects. The PMB has been established and function for the sole purpose of project implementation. However, the experience of EVN HANOI and PMB in implementing ADB funded projects is limited to a single project, which was completed 10 years ago. However, the performance of EVN HANOI and its PMB in implementing other ODA funded projects is considered satisfactory. Furthermore, EVN HANOI can draw upon assistance from EVN, which has extensive experience in implementing ADB funded projects.

80. With an increase in the number of projects being implemented by the PMB, particularly those funded by ODA, EVN HANOI is planning to establish a second PMB. This new PMB will

Risk Assessment

be staffed from within EVN HANOI and be responsible for the proposed ADB funded Ha Noi and Ho Chi Minh City Power Grid Development Sector Project. Establishing this second PMB will provide additional project implementation capacity and ease the burden on the existing PMB. However, since this new PMB has yet to be established or even approved, the number of staff to be assigned, as well as the qualifications and experience of these staff is unknown. Therefore, the control risk associated with the implementing agency is assessed as being moderate.

81. **Funds Flow.** The proposed funds flow and disbursement arrangements have been satisfactorily employed by EVN and its subsidiary projects in previous and ongoing ADB funded projects. While EVN HANOI does not have any recent experience with ADB funded projects, it can draw upon the experience available within EVN and its subsidiaries. Therefore, the control risk associated with the funds flow is assessed as being moderate.

82. **Staffing.** EVN HANOI and PMB staff have considerable experience in the implementation of large capital projects, but no recent experience with ADB funded projects. Furthermore, the staff within the existing PMB are presently responsible for a large number of projects, including those funded by JICA and the World Bank. EVN HANOI plans to address the human resources constraints within the existing PMB by establishing a new PMB, which will be responsible for the proposed ADB project. Training will be required to ensure that staff within this new PMB are familiar with ADB standards and requirements. EVN HANOI accounting and finance staff have demonstrated a satisfactory capacity to execute their wider functions and responsibilities. However, the quality of existing staff varies considerably. As a result, the more capable staff within EVN HANOI may bear a disproportionate share of the total workload. As EVN HANOI's business volumes continue to grow, all staff will need to perform at satisfactory levels and this may prove to be a challenge for some. With increasing pressure on EVN and its subsidiaries, including EVN HANOI, to operate in a more cost effective manner, simply hiring more staff to cope with an increasing workload is less possible. Therefore, EVN HANOI needs to focus on improving the capabilities of existing staff. Where recruitment of new staff is possible, it needs to be more effective in attracting the most qualified individuals available. Lastly, there is no policy for staff rotations within EVN HANOI-FA or within the PMB. It is recommended that EVN HANOI consider rotating staff on a regular basis, particularly those responsible for processing, monitoring and making payments. On this basis, the control risk associated with staff is assessed as being moderate.

83. **Accounting Policies & Procedures.** EVN HANOI's accounting policies and procedures adhere to MOF and EVN requirements and appear to be sufficient to meet its functions and responsibilities as they relate to the proposed loan. Therefore, no deficiencies appear to exist that would pose a risk to the loan. On this basis, the control risk associated with accounting policies and procedures is assessed as being low.

84. **Internal Audit.** Presently, there is no dedicated internal audit function within EVN HANOI, although the existing control unit holds functions and responsibilities somewhat similar to those of an internal audit unit. However, many control units in Vietnamese state companies do not function to their full potential, both to an insufficient staffing as well as lack of priority accorded by the Board of Management. EVN HANOI staff stated that the control unit is effective in meeting its responsibilities, but this could not be verified. In the absence of better information, the control risk associated with internal audit is assessed as being moderate.

85. **External Audit.** EVN HANOI's VAS and IFRS financial statements are audited by a firm of external auditors. The project accounts are also externally audited. Although there is some

Risk Assessment

concern regarding the experience level of auditor staff, and errors were noted in the 2011 IFRS financial statements, the quality of the audits appears to be generally satisfactory. Therefore, the control risk associated with the external audit is assessed as being low to moderate.

86. Financial Reporting. The annual financial statements are prepared on the basis of both VAS and IFRS and are audited. Additionally, unaudited financial statements are prepared on a quarterly basis by EVN HANOI and by the PMB. This includes the preparation of financial reports by the PMB for each individual project under implementation. Delays were noted in the reporting of capital expenditures by the PMB, which affect the quarterly reports, but not the annual reports. Furthermore, while reporting is generally satisfactory, reporting only a quarterly basis, rather than monthly, is not optimal from a budget control perspective. Therefore, it is recommended that EVN HANOI consider moving toward a monthly reporting system, particularly for larger projects. On this basis, the control risk associated with financial reporting is assessed as being low to moderate.

APPENDICES

APPENDICES

Appendix A Financial Management Assessment Questionnaire

Project: Viet Nam - Ha Noi and Ho Chi Minh City Power Grid Development Sector Project

This Financial Management Assessment Questionnaire (FMAQ) has been completed for EVN HANOI as part of the preparation of the proposed Ha Noi and Ho Chi Minh City Power Grid Development Sector Project in accordance with the Asian Development Bank's *Financial Management and Analysis of Projects (2005)* and *Financial Management Assessment Guidelines (2010)*.

Financial Management Assessment Questionnaire

Topic	Response	Remarks
1. Implementing Agency		
1.1 What is the entity's legal status / registration?	<p>Ha Noi Power Corporation (EVN HANOI), for which this Assessment is being made, is a State owned single member limited liability company and is owned by EVN.</p> <p>Main tasks:</p> <ul style="list-style-type: none"> Operational management and sales of electricity from 0.4KV to 110KV for Ha Noi area. EVN HANOI also participates in the survey, design, installation, construction power and telecommunication projects; design evaluation and monitoring of power network projects up to 110kV. 	<p>EVN HANOI History:</p> <ul style="list-style-type: none"> French Colonial: Bo Ho Lighting Factory After liberation: Ha Noi Power Department 1955-1964: Ha Noi Power Factory 1965-1966: Ha Noi Power Supply Department 1967-1982: Power Distribution and Management Department-Region 1 1983-1994: Ha Noi Power Department 1995-3/2010: Ha Noi Power Company From 4/2010-Now: Ha Noi Power Corporation
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, through EVN. Capital Projects financed by ADB, World Bank.	Participated in 1 ADB project, which closed in 2002.

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
1.3 What are the statutory reporting requirements for the entity?	1. Annual financial statements to EVN 2. Tax reporting	
1.4 Is the governing body for the project independent?	Yes, EVN HANOI is an independent accounting entity. However it is still dependent on parent EVN for financing.	
1.5 Is the organizational structure appropriate for the needs of the project?	Yes. EVN HANOI has experience in successfully implementing large projects.	
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Provided and shown in FMA report – see Figure 5.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	Yes	
2.3 What have been the major problems in the past in receipt of funds by the entity?	No major problems	
2.4 In which bank will the Imprest Account be opened?	EVN HANOI will open the Imprest Account at any Bank for the prescription of the State Bank, if required	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Yes	EVN HANOI has experience in managing loan projects from WB and ADB (through EVN) or ODA loan (see FMA report – Table 1)
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	Yes	Partially only as the foreign exposure from ODA loans needs to be better managed.
2.8 How are the counterpart funds accessed?	Addition of ADB lending, EVN HANOI has counterpart funds to pay directly to contractor	
2.9 How are payments made from the counterpart funds?	Counterpart funds are paid by transferring to PMB for payment after payment documents are checked and verified by the head office..	
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Not applicable.	No projects have been implemented by communities or NGOs.
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	Not applicable.	As above.

Appendix A Financial Management Assessment
Questionnaire

Topic	Response	Remarks
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	<p>Organization chart provided and in FMA – Figure 2.</p> <p>Finance Department has total 32 employees.</p> <p>Key positions:</p> <ul style="list-style-type: none"> • Chief accountant: Bachelor of Economics , General charge • Deputy Head in charge of business production: Bachelor of Economics . • Deputy Head in charge of capital investment: Bachelor of Economics . • Deputy Head in charge of rural projects: Bachelor of Economics • Deputy Head in charge of financial reports, fixed assets, overhaul: Bachelor of Economics • Deputy Head in charge of DEP – WB Project: Bachelor of Economics 	
3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.	See 3.1 above and FMA Report – Appendix B.	
3.3 Is the project finance and accounting function staffed adequately?	Yes	
3.4 Is the finance and accounts staff adequately qualified and experienced?	Yes	Staff can meet requirements but quality and experience of staff varies.

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
3.5 Is the project accounts and finance staff trained in ADB procedures?	No	Accounting staff have recently participated in WB training course, but also require training in ADB procedures.
3.6 What is the duration of the contract with the finance and accounts staff?	Staff are recruited on a permanent basis after a 1 year probationary period.	Recruitment procedure consistent with Vietnamese labor laws.
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	Not applicable for EVN HANOI Finance & Accounting Department. However, new PMB to be established to manage ADB project.	New PMB still in planning stage. No date set yet for establishment.
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	
3.11 At what frequency are personnel transferred?	Transfer restriction for accounting staff, only done when absolutely necessary to create an accounting team with high stability and expertise.	
3.12 What is training policy for the finance and accounting staff?	EVN HANOI has overall training policy, but no specific policy regarding training of accounting staff.	Financial employees are sent regularly to study domestically or abroad. They are also updated about financial procedures and related issues every year.

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4. Accounting Policies and Procedures		
4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?	Yes. EVN HANOI employs Viet Nam accounting standards.	
4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?	Yes	
4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?	Yes	
4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?	Yes. Directly paid by donors (financiers).	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	Yes	Retained in 15 years and only authorized person can access the document in according to Decision no 218/2000/QĐ-BTC of Ministry of Finance.
<i>Segregation of Duties</i>		
4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?	Each employee in charge of each partial accounting function has specific assignment work.	
4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?	Yes	
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Yes, under accounting policy, staff performing bank reconciliations are not permitted to approve transactions.	
<i>Budgeting System</i>		
4.10 Do budgets include physical and financial targets?	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Yes	
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Usually approval is sought after budget is exceeded.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Usually approval is sought after the budget is exceeded.	
4.14 Who is responsible for preparation and approval of budgets?	PMB prepares, Planning Department, Finance & Accounting Department review and submit EVNHANOI and EVN for approval	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Yes	
<i>Payments</i>		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes	
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	Yes	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes. Salary increments are authorized by human resources committee. Changes to names in payroll are authorized by Personnel Department.	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
<i>Policies And Procedures</i>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	Accrual basis	
4.21 What accounting standards are followed?	Vietnamese accounting standards.	Beginning in 2011, audited IFRS financial statements are also produced.
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes	
4.23 Is the accounting policy and procedure manual updated for the project activities?	Yes	
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Yes	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	Cannot be verified. See FMA Report – Section E.

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.27 Are manuals distributed to appropriate personnel?	Yes	
<i>Cash and Bank</i>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	Mr Trần Đức Hùng, General Director Mrs Lê Thị Thần, Chief Accountant	Both signatures required.
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.33 Are all receipts deposited on a timely basis?	Yes	
<i>Safeguard over Assets</i>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes, these are specified in financial management regulations.	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes. Annually or upon request with the State's inventory.	
4.37 Are assets sufficiently covered by insurance policies?	Yes	
<i>Other Offices and Implementing Entities</i>		
4.38 Are there any other regional offices or executing entities participating in implementation?	No	EVN HANOI plans on establishing a second PMB to be responsible for ADB project but this has not yet taken place
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
<i>Other</i>		
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Yes	
5. Internal Audit		
5.1 Is there an internal audit department in the entity?	Yes	EVN HANOI has control unit which has functions somewhat similar to Internal Audit
5.2 What are the qualifications and experience of audit department staff?		See Appendix B.
5.3 To whom does the internal auditor report?	Reports to General Director	
5.4 Will the internal audit department include the project in its work program?	Yes	
5.5 Are actions taken on the internal audit findings?	Yes	
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	Yes. Deloitte Viet Nam Company Limited	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No. Issuance in accordance with EVN regulations.	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	IFRS audit beginning in 2011.
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Yes. Deloitte will undertake project audit.	
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	Yes. State Audit, Inspectorate of MOF, Government.	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	Yes. Vietnamese accounting standards.	IFRS financial statements prepared beginning in 2011.
7.2 Are financial statements prepared for the implementing unit?	Yes	
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Every 3 months.	
7.4 Does the reporting system need to be adapted to report on the project components?	Yes	
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Not yet.	It is expected that in the future will deploy the business management system ERP.

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes	
7.7 Are financial management reports used by management?	Yes	
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	Yes	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Yes, automatically by the accounting software.	
8. Information Systems		
8.1 Is the financial management system computerized?	Accounting system is computerized, but MIS is not yet computerized.	
8.2 Can the system produce the necessary project financial reports?	Not yet.	
8.3 Is the staff adequately trained to maintain the system?	Yes	

Topic	Response	Remarks
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	

Appendix B Summary Job Descriptions and Qualifications of EVN HANOI Accounting Staff

1. EVN HANOI Finance and Accounting Department

Name: Le Thi Than
Position: Chief Accountant
Duties Control all accounting activities of the company
Education: Bachelor of Economics

Name: Bui Kim Yen
Position: Deputy Head of accounting and finance department
Duties

- Regulations, policies of accounting, finance, and tax.
- The regulations of electrical business activities.
- Managing the salary and regulations for staff.
- Managing the equipment and fixed assets.
- Mobilization of medium-term loans to buy tools and equipment, and minimal repair rural grid.
- Participating in the settlement of investment.

Education: Bachelor of Economics

Name: Nguyen Thi Tuyet Mai
Position: Deputy Head of accounting and finance department
Duties

- Regulations and policies on construction investment accounting.
- Regulations on managing the construction investment and capital settlement on construction investment.
- Managing the capital depreciation and long-term loans.
- Participating in planning construction investment and locating the capital of construction investment.
- Mobilization of long-term loans for construction investment.
- In charge of settlement on capital construction investment.

Education: Bachelor of Economics

Name: Hoang Duc Thieu
Position: Deputy Head of accounting and finance department
Duties

- Charge of construction investment (the loans IVO project, and Development and Investment Fund loan, Ha Noi).
- Solving the problems around exist Ha Tay, and existing telecom business after the transference.
- Supervising the debt collection from Viettel.

Education: Bachelor of Economics

Appendix B Summary Job Descriptions and Qualifications of EVN HANOI Accounting Staff

Name: **Nguyen Gia Cuong**
Position: Deputy Head of accounting and finance department
Duties

- In charge of financial statements and financial plan.
- Managing the accounting software, inventory software and financial statement regulations.
- Managing the revenue, cost, price, and profit of electrical business activities.
- Managing the capital for business, overhaul capital and external capital.
- Distributing and managing funds.
- Preparing the financial plan.
- Preparing the unified financial statement.

Education: Bachelor of Economics

Name: **Dinh Thi Ky**
Position: Deputy Head of accounting and finance department
Duties

- In charge of DEP project – World Bank loans.
- Working with responsibility and task as chief accountant of DEP.
- Preparing the financial statement for DEP project directly.
- In charge of settlement on capital of existing ADB project.

Education: Bachelor of Economics

2. Ha Noi Power Network Project Management Board

Name: **Pham Doan Au**
Position: Head of accounting department
Duties

- In charge of accounting and finance activities in PMB.
- Balancing financial funds flows, checking and supervising each project's capital resources.
- Checking and approving documents for payment and settlement.
- Checking and approving financial statements.

Education: Bachelor of Economics – specializing in business accounting.

Name: **Tran Thu Ha**
Position: Deputy Head of accounting department
Duties

- In charge of operating the accounting and finance activities as assigned by head of accounting department.
- Settling the project as assigned, making settlement.

Appendix B Summary Job Descriptions and Qualifications of EVN HANOI Accounting Staff

- Supervising project capital resources, construction investment fund, basic depreciation.
- Preparation of financial statements.
- Mobilizing the medium-term loans for purchasing tools and preparation of the rural power grid.

Education: Master of Business Administration

Name: **Nguyen Thi Nguyet**

Position: Deputy Head of accounting department

- Duties**
- Managing the operation of accounting activities as chief accountant allocates
 - Settling the construction as job allocated, making construction settlements
 - Supervising the project funds, construction investment funds, and the basic depreciation
 - Preparing financial statements
 - Mobilizing the medium-term loan to purchase tools and equipment and prepare the rural grid.

Education: Master of Economics

3. Ha Noi Control Unit (Internal Audit)

Name: **Tran Van Thuong**

Position: Chief Controller

- Duties**
- Check the legality, honesty, prudence of leaders in management of EVN HANOI's business under the rights of EVN
 - Participate in steering and evaluating the financial reports, business reports, evaluation reports of the management of EVN HANOI following regulations of the Controllers before EVN HANOI submit to EVN or state companies involved
 - Other duties follow the regulations and charter of EVN HANOI

Education: Master of Business Administration

Name: **Hoang Lien Son**

Position: Deputy Head of Control Unit

- Duties**
- Directly responsible for control of construction investment
 - Directly in charge of controlling the electricity business

Education: Master of Economics

Name: **Nguyen Thanh Tam**

Position: Deputy Head of Control Unit

- Duties**
- Head of Internal Audit – DEP World Bank
 - Perform duties and responsibilities of the

*Appendix B Summary Job Descriptions and
Qualifications of EVN HANOI Accounting Staff*

Head of Internal Audit – DEP

- Directly established Internal Audit Report for DEP
- Directly responsible for the control of finance and accounting, financial appraisal reports

Education: Master of Business Administration

Appendix C EVN HANOI Chart of Accounts

The EVN HANOI chart of accounts provided in this appendix is a summarized version of the full chart of accounts. All accounts having three and four digit account codes are listed. However, sub-accounts within these accounts, which have codes exceeding four digits are not included.

111	Cash on hand
1111	Cash on hand-Viet Nam Dong
1112	Cash on hand-foreign currency
1113	Cash on hand- gold, precious stone, silver
112	Cash in bank
1121	Cash in bank-Viet Nam Dong
1122	Cash in bank-foreign currency
1123	Cash in bank-gold, precious stones, silver
113	Cash in transit
1131	Cash in transit-Viet Nam Dong
1132	Cash in transit-foreign currency
121	Short-term security investments
1211	Short-term security investments-stocks
1212	Short-term security investments-bonds, treasury bills
128	Other short-term investments
1281	Other short-term investments-term deposits
1282	Other short-term investments-stocks
1283	Other short-term investments-bonds
1288	Other short-term investments-other short-term investments
129	Provision for devaluation of short-term investment
131	Receivable from customers
1311	Receivable from customers-electricity
1312	Receivable from customers-telecommunications and information technology
1313	Receivable from customers-other production
1314	Receivable from customers-services
1315	Receivable from customers-sale goods
1316	Receivable from customers-financial activities
1318	Receivable from customers-other production
133	Value added tax deductible
1331	Value added tax deductible-goods, services
1332	Value added tax deductible-fixed assets
1333	Value added tax deductible-value added tax is refunded
136	Internal receivable
1361	Capital in dependent units
1362	Receivable between EVN and dependent units

Appendix C EVN HANOI Chart of Accounts

1363	Receivable between corporation and dependent units
1364	Receivable between company and dependent units
1365	Internal receivable in dependent units
1368	Other
138	Other receivables
1381	Other receivable-shortage assets awaiting resolution
1382	Other receivable-paid awaiting for resolution
1383	Other receivable-receivable for compensation for material
1384	Other receivable- temporary lending
1385	Other receivable-receivable for equitization
1388	Other receivable-other receivable
1389	Other receivable-receivable for telecommunications and information technology
139	Provision for bad debts
1391	Provision for bad debts-electricity
1392	Provision for bad debts-telecommunications and information technology
1398	Provision for bad debts-other
141	Advances
142	Short-term prepayments
144	Short-term collateral & deposits
1441	Short-term collateral & deposits-Viet Nam Dong
1442	Short-term collateral & deposits-foreign currency
151	Purchased goods in transit
152	Raw materials
1521	Raw materials-fuel
1522	Raw materials-raw materials
1523	Raw materials-accessories
1524	Raw materials-raw materials for construction
1525	Raw materials-residue
1526	Raw materials-semi-production
1528	Raw materials-other raw material
153	Instruments and tools
1531	Instruments and tools-instruments and tools
1532	Instruments and tools-packing
1533	Instruments and tools-instruments and tools for lease
154	Goods in process
1541	Goods in process-electricity
1542	Goods in process-telecommunications and information technology
1543	Goods in process-other production
1544	Goods in process-services
155	Finished goods
156	Purchases

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1561	Purchases-price of purchases
1562	Purchases-cost of purchases
1567	Purchases-real estate
157	Goods in transit for sale
158	Goods in bonded warehouse
159	Provision for devaluation of inventory
161	Non-business expenditures
1611	Non-business expenditures-current period
1612	Non-business expenditures-prior periods
171	Government bonds transaction
211	Tangible fixed assets
2111	Tangible fixed assets- buildings&architectural models
2112	Tangible fixed assets-equipment & machines
2113	Tangible fixed assets-transportation & transmit instrument
2114	Tangible fixed assets-Instruments & tools for management
2115	Tangible fixed assets-long term trees, working &dead animals
2118	Tangible fixed assets-other fixed assets
212	Fixed assets of finance leasing
2121	Fixed assets of finance leasing-Building &architecturalmodels
2122	Fixed assets of finance leasing-equipment & machines
2123	Fixed assets of finance leasing-transportation & transmit instrument
2124	Fixed assets of finance leasing-Instruments & tools for management
2128	Fixed assets of finance leasing-other fixed assets
213	Intangible fixed assets
2131	Intangible fixed assets-land use rights
2132	Intangible fixed assets-establishment & productive rights
2133	Intangible fixed assets-patents & creations
2134	Intangible fixed assets-trademarks
2135	Intangible fixed assets-software
2136	Intangible fixed assets-licenses& concession licenses
2138	Intangible fixed assets-other intangible fixed assets
214	Depreciation of fixed assets
2141	Depreciation of fixed assets-tangible fixed assets
2142	Depreciation of fixed assets-financial leasing fixed assets
2143	Depreciation of fixed assets-intangible fixed assets
2147	Depreciation of fixed assets-investment real estate
217	Investment real estate
221	Investment in equity of subsidiaries
222	Joint venture capital contribution
223	Investment in joint-ventures
228	Other long term investments

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2281	Other long term investments-stocks
2282	Other long term investments-bonds
2288	Other long term investments-other long-term investments
229	Provision for devaluation of long-term investments
241	Construction in process
2411	Construction in process-fixed assets purchases
2412	Construction in process- capital construction
2413	Construction in process-overhauls of fixed assets
242	Long-term prepayments
2421	Long-term prepayments-rentals
2422	Long-term prepayments - insurance and charge
2423	Long-term prepayments - instruments and tools
2424	Long-term prepayments - lending and issued bonds
2425	Long-term prepayments - receiving rural distribution network
2428	Long-term prepayments -other expenses
243	Deferred income tax assets
244	Long- term collateral & deposits
2441	Long term collateral & deposits-Viet Nam Dong
2442	Long term collateral & deposits-foreign currency
311	Short-term loans
3111	Short-term loan-Viet Nam Dong
3112	Short-term loan-foreign currency
315	Long term loans due to date
3151	Long term loans due to date-loans
3152	Long term loans due to date-finance leasing
3153	Long term loans due to date-bonds
3158	Long term loans due to date-other
331	Payable to sellers
3311	Payable to sellers-paying to seller of materials
3312	Payable to sellers-construction contractors
3313	Payable to sellers- overhaul contractors
3318	Payable to sellers-other
333	Taxes and payable to state budget
3331	Value added tax
3332	Special consumption tax
3333	Import & export duties
3334	Profit tax
3335	Personal income tax
3336	Natural resources tax
3337	Land & housing tax, land rental charges
3338	Other taxes

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3339	Fees, charges& other payables
334	Payable to employees
3341	Payable to employees-payable to employees
3348	Payable to employees- payable to other employees
335	Accruals
3351	Accruals-overhauls
3352	Accruals-interest on loans
3358	Accruals-other
336	Internal payables
3362	Payables between EVN and dependent units
3363	Payables between corporation and dependent units
3364	Payables between company and dependent units
3365	Internal receivables in dependent units
3368	Other
3369	Temporary increase fixed assets
337	Construction contract progress payment due to customers
338	Other payables
3381	Surplus assets awaiting resolution
3382	Trade union fees
3383	Social insurance
3384	Health insurance
3385	Equitization payable
3386	Short-term deposits received
3387	Unrealized turnover
3388	Other payables
3389	Unemployment insurance
341	Long-term borrowing
3411	Long-term borrowing- bank
3412	Long-term borrowing- other
342	Long-term liabilities
3421	Long-term liabilities-finance leasing
3422	Long-term liabilities-other
343	Issued bonds
3431	Bond face value
3432	Bond discount
3433	Additional bonds
344	Long-term deposits received
347	Deferred income taxes
351	Provision fund for severance allowances
352	Provisions for payables
353	Bonus fund- welfare fund

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3531	Bonus fund
3532	Welfare fund
3533	Welfare fund used to acquire fixed assets
3534	Bonus for management
3535	Death benefits
356	Science and technology development fund
3561	Science and technology development fund
3562	Science and technology development fund used to acquire fixed assets
411	Working capital
4111	Working capital- charter equity
4112	Working capital- surplus equity
4118	Working capital- other capital
412	Differences upon asset revaluation
413	Foreign exchange differences
4131	Foreign exchange differences revaluation at the end final year
4132	Foreign exchange differences incurred during capital construction period
414	Investment & development funds
415	Financial reserve funds
417	Supporting equitization of state-owned companies
4171	Corporation
4172	Company
418	Other funds
419	Stock funds
421	Undistributed earnings
4211	Undistributed earnings - previous year undistributed earnings
4212	Undistributed earnings - current year undistributed earnings
4213	Payable and receivable difference of project management board and non-profit units
441	Construction investment fund
4411	Construction investment fund- state budget
4412	Construction investment fund- additional charter equity
461	Budget resources
4611	Previous year budget resources
4612	Current year budget resources
466	Budget resources used to acquire fixed assets
511	Sales
5111	Sales - electricity
5112	Sales - telecommunications and information technology
5113	Sales - products sold
5114	Sales - services rendered
5115	Sales - allowances
5116	Sales - materials sold

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5117	Sales - investments in real estate
5118	Sales - other
512	Internal gross sales
5121	Internal gross sales- electricity
5122	Internal gross sales- telecommunications and information technology
5123	Internal gross sales - products sold
5124	Internal gross sales - services rendered
5125	Internal gross sales - materials sold
5128	Internal gross sales - other
515	Financial activities income
5151	Financial activities income - interest
5152	Financial activities income - sale discount
5153	Financial activities income - distributed dividend, profit
5154	Financial activities income - short-term and long-term securities investment income
5155	Financial activities income - other investment income
5156	Financial activities income - foreign exchange difference
5157	Financial activities income - transfer capital income
5158	Financial activities income - other financial activities income
521	Sale discounts
531	Sale returns
532	Devaluation of sale price
611	Purchases
6111	Raw material purchases
6112	Goods purchases
621	Direct raw materials cost
622	Direct labor cost
623	Executing machine using cost
6231	Executing machine using cost - labor cost
6232	Executing machine using cost - material cost
6233	Executing machine using cost- production tool cost
6234	Executing machine using cost- executing machine depreciation
6237	Executing machine using cost- outside purchasing services cost
6238	Executing machine using cost - other cost
627	General operation cost
6271	General operation cost - labor cost
6272	General operation cost - material cost
6273	General operation cost- production tool cost
6274	General operation cost - fixed asset depreciation
6275	General operation cost- natural resources tax
6276	General operation cost - repair of fixed asset expense
6277	General operation cost - outside purchasing services cost

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6278	General operation cost - other cash expense
6279	General operation cost - other cost
631	Production cost
632	Cost of goods sold
6322	Cost of goods sold - telecommunications and information technology
6323	Cost of goods sold - other products
6324	Cost of goods sold - services
6325	Cost of goods sold - other businesses
6327	Cost of goods sold - investments in real estate
635	Financial activities expenses
6351	Financial activities expenses - lending expense
6352	Financial activities expenses - sale discount expense
6353	Financial activities expenses - investment expense
6354	Financial activities expenses - short-term and long-term securities investment expense
6355	Financial activities expenses - other investment income
6356	Financial activities expenses - foreign exchange difference expense
6357	Financial activities expenses - transfer capital expense
6358	Financial activities expenses - other financial activities expense
641	Selling expenses
6411	Selling expenses - labor cost
6412	Selling expenses - materials, packing cost
6413	Selling expenses - tools cost
6414	Selling expenses - fixed asset depreciation
6415	Selling expenses - warranty cost
6416	Selling expenses - repair fixed asset expense
6417	Selling expenses - outside purchasing services cost
6418	Selling expenses - other cash expense
6419	Selling expenses - other cost
642	General & administration expenses
6421	General & administration expenses - labor cost
6422	General & administration expenses - management tools
6423	General & administration expenses - stationery cost
6424	General & administration expenses - fixed asset depreciation
6425	General & administration expenses - taxes, fees and charges
6426	General & administration expenses - provisions
6427	General & administration expenses - outside purchasing services cost
6428	General & administration expenses - other cash expenses
6429	General & administration expenses - other costs
711	Other income
7111	Other income - income from assets
7112	Other income - income from customer fines and penalties

Appendix C EVN HANOI Chart of Accounts

7113	Other income - received from bad debts written off
7114	Other income - deferred tax and state budget
7115	Other income - received from unidentified debtors
7116	Other income - gifts, bonus income
7117	Other income – income paid for part-time representative
7118	Other income – income from prior year not reported in prior year
7119	Other income - other income
811	Other expenses
8111	Other expenses - income from assets
8112	Other expenses - expenses from customer fines and penalties
8113	Other expenses - return bad debts written off expense
8114	Other expenses - deferred tax and state budget
8115	Other expenses - expenses from unidentified creditors
8117	Other expenses – expenses related to part-time representative
8119	Other expenses – other expenses
821	Business Income tax charge
8211	Current business income tax charge
8212	Deferred business income tax charge
911	Evaluation of business results
9111	Electricity
9112	Telecommunications and information technology
9113	Other products
9114	Services rendered
9115	Financial activities result
9116	Other businesses
9117	Investment in real estate
9118	Other activities
9119	Business results after tax

2 Financial Management Assessment (Ho Chi Minh City Power Corporation)

Abbreviations and acronyms

ADB	Asian Development Bank
AIF	Association of Southeast Asian Nations Infrastructure Fund
AMI	Advanced Metering Infrastructure
BST	Bulk Supply Tariff
CV	Curriculum Vitae
DAS	Distribution Automated System
DEP	Distribution Efficiency Project
D-FA	District Distribution Company Finance and Accounting Department
EA	Executing Agency
ERAV	Electricity Regulatory Authority of Viet Nam
EVN	Viet Nam Electricity
EVN HANOI	Hanoi Power Corporation
EVN HANOI-FA	Hanoi Power Corporation Finance and Accounting Department
EVN HCMC	Ho Chi Minh City Power Corporation
FMA	Financial Management Assessment
FMAQ	Financial Management Assessment Questionnaire
FMIS	Financial Management Information System
HCMC	Ho Chi Minh City
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFRS	International Financial Reporting Standards
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
MOF	Ministry of Finance
MOIT	Ministry of Industry and Trade
NIB	Nordic Investment Bank
NPT	National Power Transmission Corporation
OCR	Ordinary Capital Resources
ODA	Official Development Assistance
PC	Power Corporation
PC1	Power Company No. 1
PCR	Project Completion Report
PECC	Power Engineering Consulting Company
PECC1	Power Engineering Consulting Company No. 1

Abbreviations and acronyms

PIU	Project Implementing Unit
PMB	Ha Noi Power Network Project Management Board
PMB-FA	Ha Noi Power Network Project Management Board Finance and Accounting Department
PDP	Power Development Plan
SDA	Swiss Agency for Development & Cooperation
SIDA	Swedish International Development Cooperation Agency
SOE	State Owned Enterprise
SPC	Safeguard Policy Statement
VAS	Vietnamese Accounting Standards

Currency Units

D	Viet Nam Dong
CHF	Swiss Franc
JPY	Japanese Yen
SEK	Swedish Kroner
\$	US Dollar

D1.00 = \$0.000048

\$1.00 = D20,828

as of 25 October 2012

Introduction

A. Introduction

1. This Financial Management Assessment (FMA) has been completed for the Ho Chi Minh City Power Corporation / EVN Ho Chi Minh City (EVN HCMC) as part of the preparation of the proposed *Ha Noi and Ho Chi Minh City Power Grid Development Sector Project*. The primary objective of the assessment is to provide assurance that EVN HCMC will have sufficiently strong financial management systems and controls in place to properly manage and control project finances. The FMA has been prepared in accordance with the Asian Development Bank's (ADB) *Financial Management and Analysis of Projects (2005)* and *Financial Due Diligence: A Methodology Note (2009)*. A Financial Management Assessment Questionnaire was prepared prior to completing the FMA and is given in Appendix A of this report.

B. Project Description

2. The objective of the proposed project is to strengthen the capacity and reliability of the power systems in Viet Nam's two largest cities, Ha Noi and Ho Chi Minh City (HCMC). This will be achieved through the rehabilitation of and development of 220 kilovolt (kV) and 110 kV transmission systems. The project will also strengthen the institutional capacities of EVN HCMC and EVN Ha Noi (EVN HANOI) that are responsible for the supply of power in the respective cities.

3. The Government of Viet Nam has requested a sector loan from the ADB's ordinary capital resources (OCR) to finance a portion of the project cost. The proposed loan amount is \$172.7 million. The Government has requested co-financing of a further \$100.0 million for the project from the Association of Southeast Asian Nations Infrastructure Fund (AIF).

4. The energy sector has been set as priority in ADB's Country Partnership Strategy for Viet Nam (2012 - 2015). The strategy specifically identifies the expansion of the power transmission network as an area that ADB will provide support. The project complements ADB's ongoing multi-tranche financing facility for the Power Transmission Investment Program, which strengthens the transmission network owned and operated by the National Power Transmission Corporation (NPT). The Japan International Cooperation Agency (JICA), Kreditanstalt für Wiederaufbau (KfW) of Germany, and the World Bank are also supporting EVN HANOI and EVN HCMC among other power corporations (PC). However, the large physical investment requirements exceed the fund availability of these development partners. As such, the Government has requested ADB to provide financing to EVN HANOI and EVN HCMC to rehabilitate and develop their transmission systems to meet the rapid demand growths.

5. EVN HCMC has proposed 13 sub-projects for financing under the project, comprising a mix of new 220 kV and 110 kV substations and lines. Four priority sub-projects have been proposed which are the construction of a new 220 kV line and underground cable from Binh Chanh to a new substation located in District 8 which will also be a sub-project financed under the project and the construction of a new 110 kV line and underground cable to serve a new substation located at Tham Luong to be financed under the project.

6. In addition to the physical infrastructure improvements to be provided under the project, a capacity development technical assistance is envisaged to accompany the project to develop EVN HCMC's utility management capacities including strategic corporate planning, investment planning, human resources management, financial management, accounting, internal control, customer services, monitoring and evaluation, and project implementation. Relevant trainings related to the introduction of elements of smart grid technology will also be considered. Specific

Implementing Entity

areas of intervention will be decided through coordination with the World Bank which also plans to provide capacity development assistance.

7. EVN HCMC will be the executing agency (EA) for its respective project component. Given that EVN HCMC is a wholly-owned subsidiary company within the EVN Group, EVN will be the supervisory body overseeing project implementation by the PCs. Relevant experts recruited by ADB under a project preparatory technical assistance will be retained to assist with the preparation of bidding documents of the packages related to the core subprojects. During project implementation, a consulting firm or a team of individual experts are expected to be recruited independently by EVN HCMC to assist with project management including preparation of noncore subprojects and their bidding documents, and to ensure that all subprojects comply with ADB's Safeguard Policy Statement (SPS; 2009). Procurement will be based on international competitive bidding and national competitive bidding. Advanced contracting will be used for the core subprojects.

C. Implementing Entity

8. EVN HCMC, previously known as Ho Chi Minh City Service of Power Management and Distribution, was established on 7th August 1976 as a unit belonging to the Southern Power Company. On 9th May 1981 the Ministry of Electricity renamed the units under the Ministry of Electricity: Southern Power Company into Power Company 2 (which has now been re-established as the Southern Power Corporation) and Ho Chi Minh City Power Service. In 1995, the units serving HCMC were established as the HCMC Power Company as a unit within EVN (EVN Decision 0129/EVN/TCCB-LD, dated 4th March 1995). In March 2010, it was converted to a one member company wholly owned by EVN.

9. EVN HCMC is responsible for the ownership, management and operation of the power distribution system, as well as portions of the transmission network, within HCMC. Presently, the company's transmission network is limited to the 110 kV system. However, EVN has allocated specific 220 kV projects to the PCs in order to ease the investment burden on the National Power Transmission Corporation. EVN HCMC purchases bulk power from EVN and distributes this through approximately 1.8 million customer connections.

10. The executive head of EVN HCMC is the Chairman, who is appointed by EVN and is responsible for representing shareholder interests. The Chairman also holds the position of General Director, who is responsible for the management and operation of EVN HCMC. Reporting to the General Director are five Deputy General Directors, each of whom oversees specific functional areas within EVN HCMC. The General Director, together with the four Deputy General Directors, comprises the Board of General Directors. The functions and responsibilities of this board are similar to what would be commonly referred to internationally as a senior management committee.

11. EVN HCMC consists of 20 operating units, four subsidiary "companies", and a head office comprising 16 departments (Figure 1). Of the 20 operating units, 15 are district power or distribution companies, each responsible for electricity distribution within a specified geographic district of HCMC. In addition to being responsible for the operation and maintenance of the distribution networks within their districts, the companies are responsible for capital investments valued at D20 billion or less. Although these distribution units are referred to as "companies", they do not have distinct legal status from EVN HCMC. Instead, they are dependent accounting

Implementing Entity

units within EVN HCMC, meaning that they are not financially independent from EVN HCMC. The distribution companies are also not managerially independent from EVN HCMC.

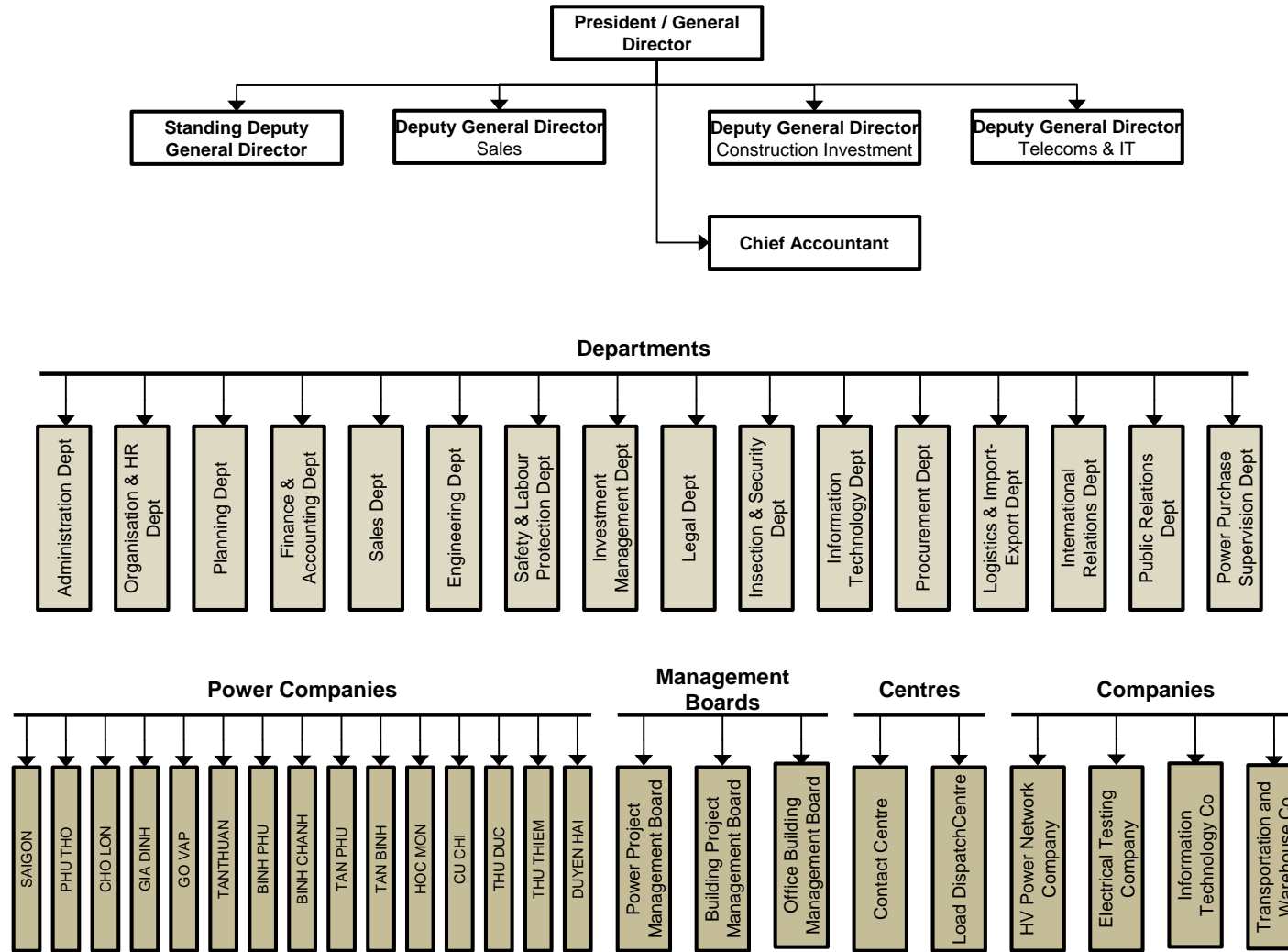
12. Of the other five operating units within EVN HCMC, three are project management boards. Two of these boards are responsible for buildings and offices and one, the HCMC Power Project Management Board (PMB), is responsible for the implementation of major capital investments. The other two operating units are the contact centre and load dispatch centre. The four subsidiary companies are responsible for managing the high voltage network, electrical testing, information technology and logistics. Similar to the district power companies, these are in effect divisions within EVN HCMC rather than companies in their own right.

13. Within the EVN HCMC head office are 16 departments, each of which is under the direct supervision of the General Director. The Vice General Directors provide support and assistance to the General Director, but do not hold direct responsibility over specific departments or functions within head office.

14. As of December 31, 2011, EVN HCMC employed a total staff of 7,428, all on a full-time basis. Staff numbers have remained broadly constant since 2005, when EVN HCMC employed 7,412 staff.

15. EVN HCMC derives almost all of its revenue from the sale of electricity to retail customers. Electricity is sold according to the prescribed tariffs, which are set by Government and applied on a uniform basis through Viet Nam. For most customers, billings and collection are undertaken on a monthly basis according to metered electricity consumption. However, large consumers of electricity are billed more frequently. For example, customers with normal monthly consumption of 50,000 kWh – 100,000 kWh are billed twice per month. Customers consuming more than 100,000 kWh each month are billed three times per month. As a result, customer receivables are low relative to sales.

Figure 1: EVN HCMC Organization Chart



Source: EVN HCMC

Implementing Entity

16. As an autonomous legal entity, EVN HCMC's revenues, expenses, assets, liabilities and equity are accounted for separately from EVN. However, EVN HCMC operates with limited management autonomy from EVN. EVN HCMC's financial policies and plans are under the management of EVN. For example, the EVN HCMC operating and capital budgets are subject to review and approval by EVN. The operating budget is established in coordination with a targeted profit, which is also set by EVN. EVN HCMC's borrowing plan to fund its capital investment program is subject to approval by EVN. EVN is responsible for formulating proposals for submission to the Energy Regulatory Agency of Viet Nam (ERAV) and other Government agencies for adjustments to the retail electricity tariffs. EVN HCMC's direct input into this tariff setting process is limited.

17. Presently, EVN sets the bulk supply tariff (BST) for all of its five power distribution corporations (PCs), which is by far the largest single expense item for EVN HCMC. EVN sets a different BST for each PC in order to achieve similar levels of profitability. This means that EVN has almost complete control over the profit level achieved by EVN HCMC. Under this mechanism, those PCs, such as EVN HCMC, which have a higher average retail tariff, are assigned a higher BST. The BST is often adjusted by EVN retroactively after the close of each financial year in order to reallocate profits between the PCs or between other EVN business units. Under the Government's reform program for the power sector, the Electricity Regulatory Authority of Viet Nam (ERAV) is presently preparing a regulation for the setting of the BST. Under this regulation, EVN will no longer have the authority to set the BST. According to ERAV, the approval and enactment of this regulation is planned for 2013 but, to date, this has not occurred.

18. EVN HCMC has implemented several recent projects funded from official development assistance (ODA) sources, including the Japan International Cooperation Agency (JICA), and the World Bank (Table 1). Three of these are ongoing including the World Bank-funded Distribution Efficiency Project (DEP). EVN HCMC is, therefore, familiar with the requirements of managing ODA-funded projects.

Table 1: EVN HCMC Experience in Implementing ODA Funded Projects

Project	Funding Agency	Loan/Grant Amount (US\$-equivalent)	Open – Close
1. Power Transmission and Distribution Network Development Project (Loan VNXV-5)	Japan International Cooperation Agency	53.8 million	2008 – 2015
2. Second Transmission and Distribution Project	World Bank (IBRD, IDA)	41.9 million	2006 – 2010
3. Second Transmission and Distribution Project – Additional Financing	World Bank (IBRD, IDA)		2011 – 2014
4. Distribution Efficiency Project (Credit 5156-VN)	World Bank (IDA) + CTF	70.3 million	2012 – 2018

ODA = Official Development Assistance

Source: EVN HCMC

Personnel

19. In addition to projects implemented with ODA funding, EVN HCMC also implements an ongoing capital investment program funded from other sources, mostly domestic bank loans. In 2011, EVN HCMC's capital investments totaled D968 billion (\$46 million), up from D562 billion (\$27 million) in 2010. While capital investments reduced slightly in 2012 to D922 billion (\$44 million), EVN HCMC is projecting further large increases from 2013 onwards.

D. Personnel

20. **Overview.** Accounting and financial management for capital investments is undertaken both at the EVN HCMC head office level and within the PMB. For operations, accounting functions relating to revenue and expenses are split between the EVN HCMC head office and district distribution companies. In both cases, the head office provides an oversight and supervision role over the PMB and distribution companies.

21. **EVN HCMC Finance & Accounting Department.** The Finance and Accounting Department (EVN HCMC-FA) is headed by the EVN HCMC Chief Accountant. The Chief Accountant reports to the EVN HCMC General Director. The department is responsible for accounting, financial reporting, preparation of annual accounts, maintaining the general ledger, financial budgeting and updating of accounting policies and procedures. As illustrated in Figure 2, EVN HCMC-FA is organised in four main groups as follows:

- (i) Business Production. Responsible for finance and accounting policies, taxes, cash management, fixed assets management, salaries and social insurance.
- (ii) Capital Investment. Responsible for project funding, finalization of project accounts, management of project equity and debt.
- (iii) Financial Statements & Financial Planning. Responsible for consolidation of internal financial statements, preparation of consolidated EVN HCMC financial statements, financial planning, revenue and operating expense management, and management of EVN HCMC-FA software.
- (iv) Rural Projects. Responsible for accounting and financial management of rural distribution projects.

22. Each of these four groups is under the direction of a Deputy Chief Accountant, who in turn report to the Chief Accountant.

23. All EVN HCMC-FA staff report directly to the Chief Accountant who is assisted by a Deputy Director of Finance. All staff members within EVN HCMC-FA have been assigned specific roles and functions within in the department. The positions have written job descriptions that clearly stipulate duties, responsibilities and limits of authority. Most of the staff members are adequately qualified with many holding undergraduate or post-graduate university degrees. Summary job descriptions and qualifications for mid-level and senior staff within EVN HCMC-FA are given in Appendix B of this report.

24. While the majority of EVN HCMC-FA staff can meet the core functions and responsibilities of their respective positions, the quality of staff varies. This is reflective of both EVN HCMC recruitment practices as well as its staff compensation structure. EVN HCMC reports increasing difficulty in recruiting qualified and experienced accounting and financial staff. As Viet Nam's private sector continues to develop, attracting qualified accounting and financial staff to state companies, such as EVN HCMC, has become increasingly challenging. While EVN HCMC can offer stable long-term employment, it cannot offer a financial compensation package that can

Personnel

compete with the private sector. EVN HCMC's ability to address this challenge is limited given that it is subject to Government and EVN policies and regulations relating to employment and staff compensation.

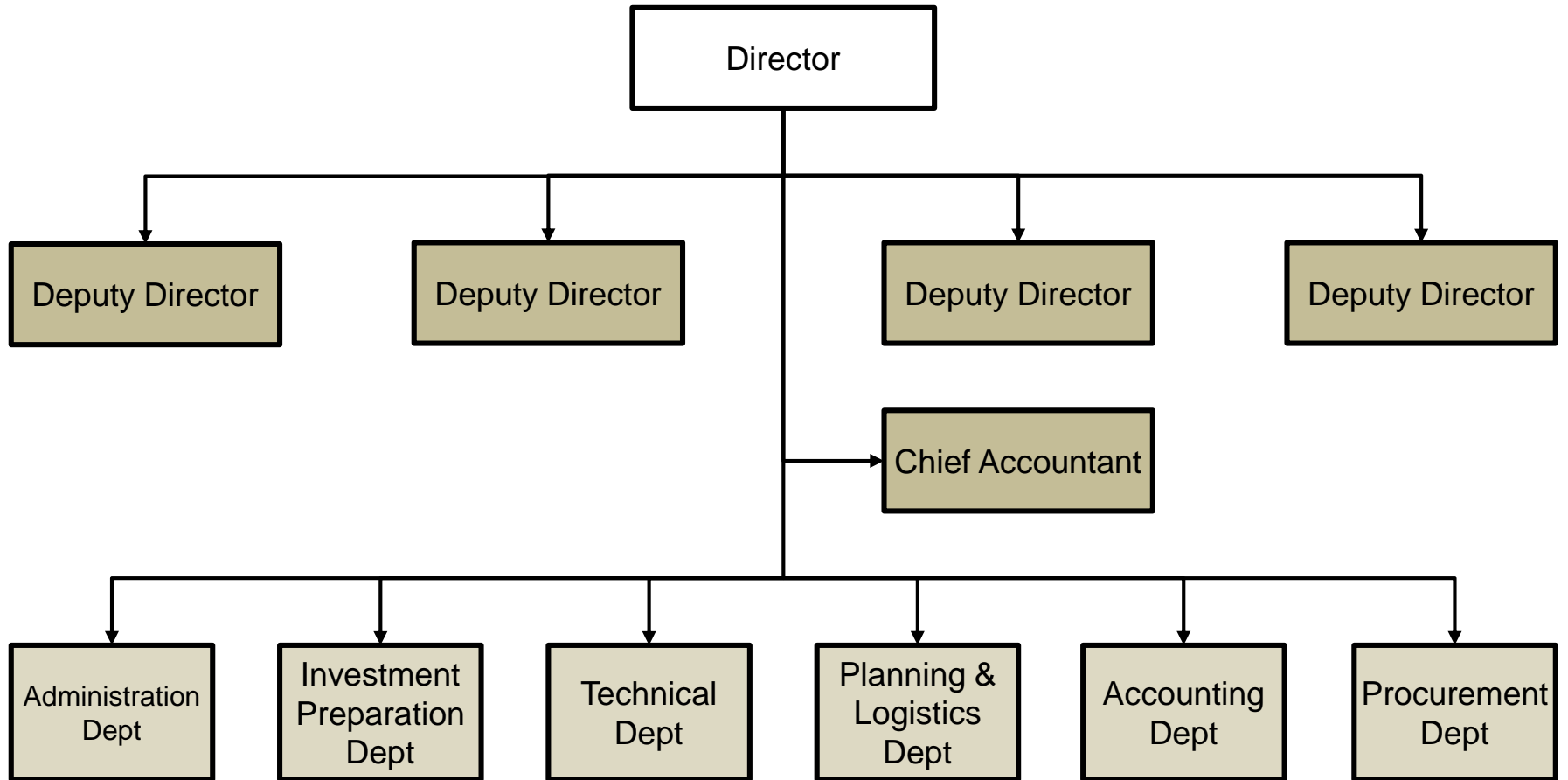
25. District Distribution Company Finance & Accounting Departments. There are finance and accounting departments (D-FA) within each of the district distribution companies. Under the supervision of EVN HCMC-FA, the D-FAs are responsible for recording and managing revenues and expenditures within each district.

26. PMB Finance & Accounting Department. The PMB has its own Finance and Accounting Department (PMB-FA) which holds direct responsibility for the accounting and financial management functions relating to the various construction projects being implemented by the PMB. These functions include project disbursements, cash management, contractor payables, PMB internal accounting and financial management, participation in tender evaluations, fixed asset accounting, loan disbursements and accounting for financing charges during construction, payment and accounting of taxes, and preparation of project accounts and reports. The organisation of the PMB is illustrated in Figure 2.

27. Staff Appointment & Rotation. Accounting and financial staff are initially recruited on one year employment contract. Upon completion of this one year contract, performance is reviewed and if considered satisfactory, the individual is then offered permanent employment. There is no formal policy for personnel transfer. While the benefits of this approach are appreciated, it is recommended that EVN HCMC consider rotating staff on a regular basis, particularly those responsible for processing, monitoring and payments. This would provide for more effective control and greater flexibility in the use of staff.

28. Training. EVN HCMC states that it has an overall company policy to support staff training, but that this does not provide specific targets or staff entitlements to training. For accounting and finance staff, training is provided on an as-required basis. This includes in-house training to update the skills of its staff. In addition, EVN HCMC staff also attend training workshops organized by EVN and MOF to ensure staff are familiar with changes in accounting standards and procedures as well as changes in tax regulations. Accounting personnel are also sent for external short courses at local or overseas educational institutions. EVN HCMC stated that access to overseas training, as well as the impact of this training, can be limited because of a lack of sufficient English language capacity amongst many of its accounting staff.

Figure 2: EVN HCMC Project Management Board Organisation Structure



Source: EVN HCMC

Accounting Policies and Procedures

29. **Experience with ADB Financed Projects.** EVN HCMC does not have recent experience with ADB financed projects. As a result, accounting staff to be assigned functions relating to the proposed project, both in EVN HCMC-FA and PMB-FA, will require training in order to ensure that they are familiar with ADB procedures and requirements

30. While EVN HCMC experience with ADB financed projects is limited, the company can receive assistance and support from EVN, which has extensive experience with ADB financed projects.

E. Accounting Policies and Procedures

31. **Accounting Standards.** EVN HCMC prepares its accounts in accordance with Vietnamese Accounting Standards (VAS) and uses accrual based accounting. Therefore, EVN HCMC's annual financial statements are prepared and audited in accordance with VAS. Separate Vietnamese and English language versions of these audited financial statements and accompanying notes are prepared. EVN HCMC has also has its annual financial statements prepared and audited in accordance with International Financial Reporting Standards (IFRS). The IFRS statements and accompanying notes are presented in the English language only. The financial year is the 12 month period ending December 31. Typically, the VAS audited financial statements are issued within 4 – 5 months after the close of the financial year

32. VAS has been established by the Accounting and Auditing Policy Department of the Ministry of Finance (MOF). Over the past decade, changes to VAS have been introduced that have made it more consistent with IFRS. However, important differences continue to exist. For example, under VAS, the unrealized portion of foreign exchange losses can be deferred for a period of up to five years in order to avoid a net loss. Under IFRS, no such deferral is allowed. However, this has not led to significant differences in reported profitability under VAS and IFRS. In 2012, EVN HCMC reported a net profit after tax but before inclusion of revaluation gains of D634 billion under VAS while the profits was D649 billion under IFRS.

33. **Project Accounting.** EVN HCMC is required to establish and maintain its project accounts in accordance with Decision No. 214/2000/QD-BTC, issued by MOF in December 2000. These standards are applied on all ADB funded projects in Viet Nam and are assessed as satisfactory. EVN HCMC accounting staff are knowledgeable of these standards and have considerable prior experience in their application.

Accounting Policies and Procedures

34. **Accounting Policies & Procedures.** EVN HCMC's accounting policies and procedures are largely based on those of MOF and EVN. In accordance with these policies and procedures, EVN HCMC has issued a series of manuals that specify its accounting policies and procedures. The manuals are distributed to the appropriate personnel and are readily available within EVN HCMC-FA as reference. The manuals comprise:

- (i) MOF accounting policies and procedures
- (ii) EVN accounting policies and procedures
- (iii) EVN HCMC accounting policies, procedures and regulations.

35. The manuals cover routine financial management and related administrative activities.

36. **Chart of Accounts.** The EVN HCMC chart of accounts is based on VAS and appears to incorporate sufficient scope and detail to meet the company's requirements. The chart of accounts, to a four digit level of detail, is given in Appendix C.

37. **Segregation of Duties.** Functional responsibilities in the transaction chain are segregated, including separate personnel responsible for authorization to execute a transaction, record a transaction, and to take custody of the relevant assets. In order to avoid any potential conflict of interest, monthly bank reconciliations are performed by staff not involved in transactions and with no authority over approval of such transactions.

38. **Budgeting.** EVN HCMC prepares detailed budgets annually and budgets are monitored against performance. Actual expenditures are compared against budgets regularly and explanations are required for significant variations from budget. If budgets are exceeded, approval to increase the budget must be obtained from the approving authority or the Board. However, approval is usually not sought after the budget has been exceeded. The EVN HCMC Planning Department holds overall responsibility for budget preparation but this is undertaken in coordination with EVN HCMC-FA.

39. **Capital Budget Preparation.** The preparation of the capital budget is undertaken using both a top-down and bottom-up approach. For the high voltage network (110 kV, 220 kV), the capital budget is based on EVN's five year development plan as approved by the Ministry of Industry and Trade (MOIT). However, because of funding limitations, the annual budget for the high voltage network may have to be set at levels below that specified in the EVN plan. For medium and low voltage investments, five year plans are prepared by each of the district distribution companies and submitted to EVN HCMC and the HCMC Peoples' Committee for review and approval. Based on the approved five year plans, a proposed capital budget is submitted by each of the distribution companies to EVN HCMC. These budget proposals are reviewed by the EVN HCMC Planning Department, with input from other departments, including EVN HCMC-FA. The focus of the Planning Department's review is confirmation of need and consistency with the five year development plan. EVN HCMC-FA's review focuses on funding availability. After these reviews have been completed, and any revisions made, the capital budget is approved by the EVN HCMC General Director.

40. **Operating Budget Preparation.** The preparation of the operating budget normally begins in November of the prior year. Each operating unit within EVN HCMC, as well as the head office, prepares a proposed budget plan for the upcoming year. The plans are prepared on the

Accounting Policies and Procedures

basis of the overall EVN five year plan, as well as actual financial and operating data for the first nine months of the current year. The proposed budgets are then submitted to EVN HCMC, typically by mid-December, and reviewed by the Planning Department, EVN HCMC-FA, and the Personnel and Organization Department. Based on any revisions to the plans made as a result of these reviews, the individual budgets for each unit are consolidated and submitted to EVN for approval. Approval of the EVN HCMC budget by EVN is typically issued in February or March of the current year. After approval, EVN HCMC then assigns an approved operating budget to each of its units.

41. **Longer-Term Financial Planning.** As noted above, capital investment plans are prepared and approved for a five year period. The plan is prepared in accordance with the targets set out in the national 10 year Power Development Plan (PDP). The current PDP was approved in July 2011 and covers the period from 2011 to 2020. Given the requirement to meet national PDP targets, limitations on the financial capacity of EVN HCMC to fund investments may not be fully incorporated into the plan. Therefore, PDP targets may be set at levels above that which EVN HCMC is likely to be able to fund. Projects included in the current year budget that cannot be funded due to lack of available budget are normally moved into the upcoming year's budget. This can lead to a significant backlog in unfunded projects. Furthermore, project implementation schedules generally reflect PDP requirements and may not be always be realistically achievable by EVN HCMC. As a result, actual project implementation and completion often lags behind those set out in the PDP.

42. EVN HCMC prepares a five year operating plan, which is submitted to EVN for approval. The plan is used by EVN HCMC for its internal planning purposes as well as by EVN for its financial and tariff planning. All of the PCs submit these plans, which are then used by EVN to develop its proposals for adjustments to retail tariffs. The operating plan includes projected energy sales, operating revenues and operating expenses. The plan does not include projected cash flows or a balance sheet. Therefore, the plan is limited in terms of providing a tool through which EVN HCMC's projected financial performance and position can be assessed. Another limitation of this plan is that only a single base case is prepared. Given the uncertainty regarding future retail and bulk tariffs, inflation rates, sales growth and actual capital investment levels, a more dynamic scenario based approach to planning would be more applicable.

43. **Payments.** EVN HCMC's invoice processing procedures require independent comparison of quantities and prices against purchase order and goods received and checking for accuracy of calculations. Controls exist for preparation of the payroll with any changes to payroll requiring proper authorization.

44. **Conflict of Interest.** In its FMAQ, EVN HCMC stated that it has established policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provides safeguards to protect the company from them (FMAQ 4.26). However, the company has not provided these policies and procedures for review and verification. Instead, the company stated that its procurement procedures safeguard the company against conflict of interest and related party transactions. Conflict of interest is concept not yet a widely understood within Vietnamese companies except where this directly relates to corruption and to overt forms of collusion.

45. **Bank Account Management & Cash Handling.** Checks require two signatories, the General Director and Chief Accountant. Should one of these persons not be available to perform this function, as a result of travel, leave, or illness, this function is assigned by the signatory to another qualified person within EVN HCMC, typically a Deputy General Director.

Internal Audit

Payments made by check must have two authorized signatories, regardless of the amount. A more efficient payment processing procedure could be achieved by having lower level signatories authorized to sign lower value checks and higher level signatories to sign higher value checks. This would allow time for more thorough checking of documents by signatories, particularly for the higher value checks. However, despite the advantages, it appears unlikely that EVN HCMC would adopt such a procedure, at least over the short to medium terms. Maintaining highly centralized authority over payments is typical amongst Vietnamese state owned enterprises (SOEs) including those within the EVN group. EVN HCMC would not adopt a different procedure until it had been endorsed or prescribed by EVN or Government.

46. EVN HCMC states that its cashbooks are up to date and adequate to the needs of EVN HCMC. Bank accounts are reconciled monthly and any unusual items are reviewed and brought to the attention of higher management.

47. **Safeguard over Assets.** EVN HCMC appears to have adequate systems in place to safeguard its fixed assets. All fixed assets are registered and recorded. Fixed assets disposals follow procedures set by MOF. A physical count of fixed assets and stocks is undertaken once per year.

48. **Insurance Coverage.** Insurance coverage varies depending on the asset type. Insurance is maintained on transmission facilities of 110 kV and above. Buildings are insured against fire. Vehicles are insured for third party claims as per Government requirements. Other assets are generally not insured. However, during construction, assets funded from loans are normally insured in accordance with the terms of the loan agreements.

49. EVN HCMC staff are not directly insured by EVN HCMC against death, injury or disability. Instead, the Government labor insurance fund provides coverage in the case of such events. Additionally, EVN HCMC maintains a staff welfare fund that is used to cover a portion of the costs associated with injury and disability and to pay families of staff, in the event of death.

50. **Retention of Accounting and Supporting Documents.** EVN HCMC retains accounting and supporting documents for 15 years as required under MOF regulations (Decision No. 218/2000/QD-BTC). Documents are filed onsite for three years. After three years, documents are archived in an offsite storage facility. Only authorized persons have access to both the onsite and offsite records. Financial transaction records are available online in the EVN HCMC accounting software and accessible to authorized staff.

F. Internal Audit

51. There is presently no internal audit function within EVN HCMC. However, as required by Government regulation, it has established a “control unit” responsible for undertaking functions somewhat similar to that of the internal audit. All Vietnamese state companies are required to establish a control unit, which reports to the Chairman. The control unit assists the Board of Management in inspecting and supervising the company’s management in financial operations, and in complying with the law, the rules and regulations of the company and the resolutions and decisions of the Board of Management. More specifically, the EVN HCMC control unit has the following functions and responsibilities:

- (i) To check the lawfulness, honesty, and prudence of EVN HCMC’s Board Members in the organization and implementation of EVN’s rights, as well as in the management of EVN HCMC’s business;

External Audit

- (ii) To appraise the financial statements, business performance, and management assessment reports before they are submitted to EVN or the relevant State agencies by EVN HCMC; this appraisal report must be submitted to EVN;
- (iii) To make proposals to EVN for the modification, the organizational structure of EVN HCMC's business management and operation; and,
- (iv) Other duties as stipulated in the company charter or as requested, decided by EVN.

52. Senior staff of the control unit are appointed by EVN. These include the Chief Controller, who is specifically charged with the review of EVN HCMC financial statements and supporting information. Based on its functions and responsibilities, the control unit operates with a wider range of powers than would a traditional internal audit unit. However, control units often do not function to their full potential. This is a common situation in many state companies in Viet Nam where the control unit is established to meet the Government requirement to do so, but then less emphasis is given to ensuring that the unit functions effectively. Staffing inadequacies within the control units, as well as a lack of priority by the Board in using the control unit, are the most common causes limiting effectiveness. EVN HCMC staff stated that the control unit is effective in meeting its responsibilities, but this could not be verified.

G. External Audit

53. EVN HCMC's VAS and IFRS financial statements are audited by a firm of external auditors. To date, all external audits have been undertaken by Deloitte Viet Nam Company Limited, which also undertakes the audit of EVN's accounts, as well as a number of the other companies within the EVN group. There is no statutory requirement to change the auditor at specified intervals.

54. The auditor issued a qualified opinion on the IFRS statements, meaning that with exception of specific items, the financial statements are assessed to provide a true and fair view of the financial position, financial performance, and cash flows of EVN HCMC. The exceptions noted related to the revaluation of assets and the accounting treatment of financial assets and liabilities. The auditor noted that there were unable to obtain appropriate information about the competence, capabilities and objectives of the independent valuer to satisfy themselves about the reliability of the revaluation results. With respect to the treatment of financial assets and liabilities, in accordance with VAS, EVN HCMC carries its financial assets at cost or face value, less a provision, if applicable, for any impairment in these assets. Also in accordance with VAS, EVN HCMC carries its financial liabilities at face value, less any principal repayments, regardless of any changes in the fair value of these liabilities. However, these methodologies are not in accordance with IFRS. This highlights a challenge in the preparation of the financial statements in accordance with IFRS. Since, the underlying accounting system has been established and functions entirely in VAS, the IFRS financial statements have to be prepared on the basis of VAS data. As a result, by preparing, it may not be always possible to comply in full with IFRS requirements. This is not unique to EVN HCMC and also affects other Vietnamese companies preparing IFRS financial statements. This same exception was noted for EVN and many of its subsidiary companies.

55. There is a shortage of qualified auditors in Viet Nam, particularly those certified to undertake audits on the basis of IFRS. As the volume of business increases rapidly for all auditing firms in the country, the average level of experience of staff within these firms has declined. This decline in experience level has been partially offset by improvements in the education standards and related professional qualifications. Therefore, while the overall quality

Reporting and Monitoring

of external audits performed has been generally improving in Viet Nam, these improvements may be uneven and there continues to be the potential for deficiencies and oversights in the performance of these audits.

H. Reporting and Monitoring

56. **Financial Statements.** Financial statements, which consist of an income statement balance sheet and cash flow statement are prepared and issued by EVN HCMC on a quarterly basis in accordance with MOF requirements. These quarterly statements are prepared in accordance with VAS. As noted above, EVN HCMC prepares its annual financial statements in accordance with both VAS and IFRS.

57. A shortcoming in the quarterly reporting is that while a cash flow statement is generated by EVN HCMC's accounting and financial management software, it is not always accurate. The cause is due to deficiencies in the accounting software, which is provided by EVN and is used by EVN and all its wholly owned subsidiaries, including EVN HCMC. Therefore, this problem not only affects EVN HCMC but also EVN and all of its subsidiaries. An additional shortcoming in the quarterly reports is that there can be considerable lags between the scheduled and actual date of capital expenditures transactions. As a result, there are often apparent unexplained discrepancies between expected and actual expenditures made during the period.

58. In addition to the quarterly financial statements, the individual operating units within EVN HCMC, including the 29 district distribution companies, prepare monthly revenue and expenditure statements. These monthly statements are submitted to EVN HCMC-FA for verification and used as inputs in the preparation of the EVN HCMC quarterly financial statements.

59. **Budget Control.** Budget control is undertaken on a quarterly basis in which actual revenue and expenditures are compared to the plan amounts as set out in the budget. Monitoring performance against budget only on this quarterly basis is not an optimal means for budget control. Monitoring budget compliance on a monthly basis would be much more effective in limiting budget overruns. However, it does not appear that EVN HCMC presently has the resources to move from quarterly to monthly budget control.

60. **Project Reporting.** The PMB has significant project implementation experience, but not with ADB financed projects. The PMB employs standardized project reporting systems and procedures, which appear to be sufficient for the proposed ADB financed project.

61. The PPMBs maintain separate accounts for each project. For the proposed ADB funded project, the PMB would prepare a quarterly progress reports which are typically submitted to ADB. The reports will include a summary of project expenditures during the reporting period. In addition, within six months of the close of the financial year, EVN HCMC would also submit to ADB the annual audited accounts for the project.

I. Information Systems

62. EVN HCMC's financial information systems are largely computerized using accounting software developed and provided to EVN HCMC by EVN. As noted above, EVN and all of its wholly owned subsidiaries use this software. The standardization of accounting software ensures that the subsidiaries meet the accounting and reporting requirements of EVN. This also facilitates the consolidation of subsidiary financial information by EVN. The software has

Subproject Financial Appraisal

undergone regular upgrades and revisions, both to improve functionality and to comply with changes in accounting standards and regulations. EVN HCMC states that staff are adequately trained to operate the accounting software.

63. As noted earlier, deficiencies in the accounting software, in terms of the generation of the cash flow statement have been found to exist. However, EVN HCMC staff appear to be generally satisfied with the software, although most do not have experience in using other accounting software. In any case, EVN HCMC is required by EVN to use the existing software and, therefore, could not make a change even if it deemed this to be beneficial.

J. Subproject Financial Appraisal

64. The proposed project is to be funded in part through an ADB sector loan. Under a sector loan, the borrower or EA is primarily responsible for identifying, prioritizing, formulating, appraising and implementing each subproject in accordance with technical, financial and economic appraisal criteria, including social and environmental criteria, mutually agreed to between ADB and the borrower or EA. Therefore, under the proposed project, EVN HCMC will take the lead role in the appraisal of each subproject.

65. Projects and subprojects being proposed for implementation by EVN and its subsidiaries are evaluated in accordance with Government Decree No. 12/2009/CP-ND, which specifies the requirements for project feasibility studies. These criteria include the requirement to undertake financial analyses, but no specific methodology is prescribed. EVN and its subsidiaries, including EVN HCMC, normally contract out project feasibility studies to EVN's power engineering consulting companies (PECC). Four such companies operate, with one, PECC3, being based in HCMC. The PECCs are familiar with ADB financial analysis requirements and have undertaken such analyses for past ADB funded projects implemented by EVN and its subsidiaries. Based on reviews of these previous analyses, the quality of work varies considerably, from good to very poor.

K. Funds Flow

66. The borrower for the proposed loan is the Socialist Republic of Viet Nam. The loan would be provided to Viet Nam from ADB's Ordinary Capital Resources (OCR) and then on-lent through MOF to EVN HCMC with the same interest rate and tenor as the ADB loan to Viet Nam. In addition, a fee of 0.25% per year on the disbursed amount of the loan would be payable by EVN HCMC to MOF (0.05%) and the onlending agency (0.20%). When the loan becomes effective, a loan account will be opened within ADB in the name of the borrower and the loan amount will be credited to that account. All disbursements of the loan will be carried out in accordance with *ADB's Loan Disbursement Handbook (2012)*.

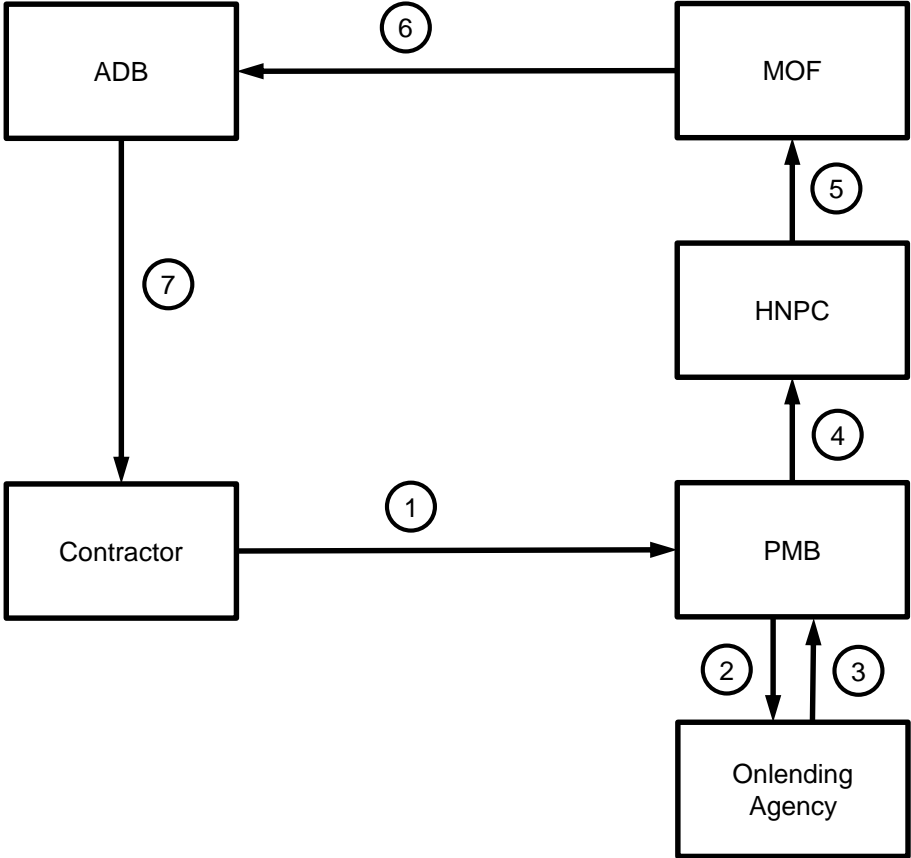
67. **Disbursements.** EVN and its subsidiary companies have employed both the direct payment and commitment procedures for previous and ongoing ADB funded projects. A summary description of each procedure is provided below. Disbursement of the loan will be subject to (i) the loan agreement(s) having been declared effective by ADB; (ii) MOF and EVN HCMC having submitted sufficient evidence of authority of the person(s) who will sign the withdrawal applications; (iii) all conditions precedent having been met; (iv) confirmation that all parties involved in disbursement are from ADB member countries; and (v) EVN HCMC presenting evidence to ADB that goods and services requested by EVN HCMC for ADB financing shall or have been produced in and procured from ADB member countries.

Funds Flow

68. **Direct Payment Method.** Under the direct payment method, at the borrower's request, ADB makes payment directly to the contractor or supplier. The direct payment can be applied to: (i) payment for civil works contracts; (ii) payment for consulting services; and, (iii) payment for contracts not requiring a letter of credit. The disbursement process is illustrated in Figure 5 and summarized as follows:

- (i) The PMB sends documents supporting the contractor's payment request to onlending agency for approval.
- (ii) The PMB submits a payment request, with supporting documentation, to EVN HCMC head office.
- (iii) EVN HCMC head office verifies, sign and submits withdrawal application to MOF for co-signature and sends to ADB for processing the payment directly to the contractor.

Figure 5: Flow of Funds – Loan Disbursements under Direct Payment Procedure



①

- Contractor submits payment request and supporting documentation to PMB.
- PMB sends document to the onlending agency for approval of the amount of work.
- Issuance of approval by onlending agency.
- PMB submits payment dossier to EVN HCMC head office.
- EVN HCMC head office checks payment dossier and then signs and submits withdrawal application to MOF for co-signature.
- MOF sends approved payment request to ADB for processing payment directly to the contractor.
- ADB makes payment directly to contractor.

Risk Assessment

Commitment Method. Under the commitment method, ADB, at the borrower's request, reimburses a commercial bank for payments made to a contractor or supplier against a letter of credit. Under this method, ADB issues a commitment letter to the advising or negotiating bank in the supplier's country. The letter of credit issued by the borrower's bank becomes operative only upon issuance of the commitment letter. The disbursement process is summarized as follows:

- (i) The PMB submits to EVN HCMC head office a request, together with supporting documentation, to open a letter of credit. EVN HCMC head office reviews the documentation, and if it issues approval, it then requests the issuing bank (commercial bank) to open the letter of credit.
- (ii) EVN HCMC head office sends the opened letter of credit to MOF for co-signature and then sends the letter of credit to ADB.
- (iii) ADB reviews, accepts and issues the Commitment Letter to the advising bank nominated by the contractor and will pay the bank the full amount or commitment amount to pay through the letter of credit.
- (iv) The contractor sends the documentation to the advising bank for review. The advising bank then sends the documentation to the issuing bank. The issuing bank also checks the documentation and, given that the documentation complies with all terms and conditions of the letter of credit, accepts to pay the amount. In the case discrepancies in the documentation, the PMB issues a letter to EVN HCMC head office to accept all discrepancies and head office, if it agrees, then notifies the issuing bank to accept the documentation. The issuing bank sends a telex to the advising bank to accept to pay the contractor.

69. **Repayments.** Repayment of principal and interest will be funded from EVN HCMC's operating revenue.

L. Risk Assessment

70. The control risks that exist within EVN HCMC are not expected to pose a significant risk to the proper management and control of project finances for proposed loan. EVN HCMC and its PMB have considerable experience in managing the implementation of capital investment projects, including those funded by ODA sources.

71. Potential control risks are assessed and summarized below.

72. **Implementing Agency.** As noted above, EVN HCMC and its PMB have considerable prior experience in managing the implementation of large capital investment projects. The PMB has been established and function for the sole purpose of project implementation. However, there is no recent experience of EVN HCMC and PMB in implementing ADB funded. However, the performance of EVN HCMC and its PMB in implementing other ODA funded projects is considered satisfactory. Furthermore, EVN HCMC can draw upon assistance from EVN, which has extensive experience in implementing ADB funded projects.

87. **Funds Flow.** The proposed funds flow and disbursement arrangements have been satisfactorily employed by EVN and its subsidiary projects in previous and ongoing ADB funded projects. While EVN HCMC does not have any recent experience with ADB funded projects, it

Risk Assessment

can draw upon the experience available within EVN and its subsidiaries. Therefore, the control risk associated with the funds flow is assessed as being moderate.

73. **Staffing.** EVN HCMC and PMB staff have considerable experience in the implementation of large capital projects, but no recent experience with ADB funded projects. Furthermore, the staff within the existing PMB are presently responsible for a large number of projects, including those funded by JICA and the World Bank. EVN HCMC accounting and finance staff have demonstrated a satisfactory capacity to execute their wider functions and responsibilities. However, the quality of existing staff varies considerably. As a result, the more capable staff within EVN HCMC may bear a disproportionate share of the total workload. As EVN HCMC's business volumes continue to grow, all staff will need to perform at satisfactory levels and this may prove to be a challenge for some. With increasing pressure on EVN and its subsidiaries, including EVN HCMC, to operate in a more cost effective manner, simply hiring more staff to cope with an increasing workload is less possible. Therefore, EVN HCMC needs to focus on improving the capabilities of existing staff. Where recruitment of new staff is possible, it needs to be more effective in attracting the most qualified individuals available. Lastly, there is no policy for staff rotations within EVN HCMC-FA or within the PMB. It is recommended that EVN HCMC consider rotating staff on a regular basis, particularly those responsible for processing, monitoring and making payments. On this basis, the control risk associated with staff is assessed as being moderate.

74. **Accounting Policies & Procedures.** EVN HCMC's accounting policies and procedures adhere to MOF and EVN requirements and appear to be sufficient to meet its functions and responsibilities as they relate to the proposed loan. Therefore, no deficiencies appear to exist that would pose a risk to the loan. On this basis, the control risk associated with accounting policies and procedures is assessed as being low.

75. **Internal Audit.** Presently, there is no dedicated internal audit function within EVN HCMC, although the existing control unit holds functions and responsibilities somewhat similar to those of an internal audit unit. However, many control units in Vietnamese state companies do not function to their full potential, both to an insufficient staffing as well as lack of priority accorded by the Board of Management. EVN HCMC staff stated that the control unit is effective in meeting its responsibilities, but this could not be verified. In the absence of better information, the control risk associated with internal audit is assessed as being moderate.

76. **External Audit.** EVN HCMC's VAS and IFRS financial statements are audited by a firm of external auditors. The project accounts are also externally audited. The quality of the audits appears to be generally satisfactory. Therefore, the control risk associated with the external audit is assessed as being low to moderate.

77. **Financial Reporting.** The annual financial statements are prepared on the basis of both VAS and IFRS and are audited. Additionally, unaudited financial statements are prepared on a quarterly basis by EVN HCMC and by the PMB. This includes the preparation of financial reports by the PMB for each individual project under implementation. While reporting is generally satisfactory, reporting only a quarterly basis, rather than monthly, is not optimal from a budget control perspective. Therefore, it is recommended that EVN HCMC consider moving toward a monthly reporting system, particularly for larger projects. On this basis, the control risk associated with financial reporting is assessed as being low to moderate.

APPENDICES

APPENDICES

Appendix A Financial Management Assessment Questionnaire

Project: Viet Nam - Ha Noi and Ho Chi Minh City Power Grid Development Sector Project

This Financial Management Assessment Questionnaire (FMAQ) has been completed for EVN HCMC as part of the preparation of the proposed Ha Noi and Ho Chi Minh City Power Grid Development Sector Project in accordance with the Asian Development Bank's *Financial Management and Analysis of Projects (2005)* and *Financial Management Assessment Guidelines (2010)*.

Financial Management Assessment Questionnaire

Topic	Response	Remarks
1. Implementing Agency		
1.1 What is the entity's legal status / registration?	<p>Ho Chi Minh City Power Corporation is an enterprise which Vietnam Electricity holds 100% of charter capital, organized in the form of One Member Limited Company. It operates under the model of a parent company - subsidiaries under the provisions of the 2005 Enterprise Law.</p> <p>EVNHCMC operates under a certificate of enterprise registration- One Member Limited Company.</p>	
1.2 Has the entity implemented an externally-financed project in the past (if so, please provide details)?	Yes, through EVN. Transmission and distribution projects financed by World Bank, JICA.	

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Topic	Response	Remarks
1.3 What are the statutory reporting requirements for the entity?	- Supervisor evaluation report on investment - Unplanned reporting under the require of State/ Government Agency (financial statement, tax report...).	
1.4 Is the governing body for the project independent?	Yes	
1.5 Is the organizational structure appropriate for the needs of the project?	Yes	Organization chart provided in Annex 1a and 1b.
2. Funds Flow Arrangements		
2.1 Describe (proposed) project funds flow arrangements, including a chart and explanation of the flow of funds from ADB, government and other financiers.	Flow of funds from financiers is transferred to the Company account at the Bank which was designated by Ministry of Finance (MoF). After that, base on payment documents provided by Expenditure control Agency (designated by (MoF) to disburse to Consultant, Construction contractor and Supplier.	
2.2 Are the (proposed) arrangements to transfer the proceeds of the loan (from the government / Finance Ministry) to the entity satisfactory?	- Withdrawal procedures: withdrawal procedures are implemented by financier's regulation and adopted ODA loan agreement of Government (MoF). - Project settlement is implemented according to Government's regulation about construction works payment.	

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Questionnaire*

Topic	Response	Remarks
2.3 What have been the major problems in the past in receipt of funds by the entity?	Loan agreements have own disbursement mechanism issued by MoF and observe regulations in Circular : “Guidance on financial management mechanism to ODA ‘s projects”, issued by MoF.	
2.4 In which bank will the Imprest Account be opened?	EVNHCMC opens account at Joint-Stock Commercial Banks and Banks in the State Bank of Viet Nam’s system, if required	
2.5 Does the (proposed) project implementing unit (PIU) have experience in the management of disbursements from ADB?	Currently, EVNHCMC has no project using ADB’s financing. However, EVNHCMC has implemented many projects using fund from WB, JICA	
2.7 Does the entity have/need a capacity to manage foreign exchange risks?	Yes, Accounting staff of EVNHCMC are guaranteed to have capacity to manage projects financially.	
2.8 How are the counterpart funds accessed?	Annual equity of EVNHCMC is approximately 500 billion VND from counterpart funds source. The rest are risen from Commercial Credit Bank or from the ODA source of the Government. The funds above are used to implement construction investment projects for EVNHCMC.	
2.9 How are payments made from the counterpart funds?	The counterpart funds are balanced and arranged for planned projects in construction investment funds which approved annually.	

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Topic	Response	Remarks
2.10 If part of the project is implemented by communities or NGOs, does the PIU have the necessary reporting and monitoring features built into its systems to track the use of project proceeds by such agencies?	Yes	
2.11 Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?	EVNHCMC perform all project costs , the beneficiaries are not required to contribute to the project costs.	
3. Staffing		
3.1 What is the (proposed) organizational structure of the accounting department? Attach an organization chart.	<ul style="list-style-type: none"> - Chief Accountant - Deputy Directors of Accounting and Finance department - 5 professional groups: <ul style="list-style-type: none"> +Synthesis group +Financial group +Electric billing group +Basic construction group +Supervisory group 	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
<p>3.2 Identify the (proposed) accounts staff, including job title, responsibilities, educational background and professional experience. Attach job descriptions and CVs of key accounting staff.</p>	<p>Financial management of the project is conducted at two levels: - With regards to Corporation level: through controlling of payment for value of the completed and accepted work; making payment to contractors providing materials and equipment or construction contractors; providing capital / project management costs for Project management board. - With regards to Project management board (PMU) level: managing implementation of construction as well as purchasing materials and equipment procurement contract; making settlement for value of completed work to contractor.</p>	
<p>3.3 Is the project finance and accounting function staffed adequately?</p>	<p>Yes</p>	
<p>3.4 Is the finance and accounts staff adequately qualified and experienced?</p>	<p>Yes</p>	<p>Finance and accounting staff are also trained on financial management of ODA financing projects.</p>

Appendix A Financial Management Assessment
Questionnaire

Topic	Response	Remarks
3.5 Is the project accounts and finance staff trained in ADB procedures?	Yes	Finance and accounting staff attended training course on managing and implementing ADB project run by the State bank from 21 to 29 September 2009 at Ha Long city and 15 to 16 December 2009 at Ha Noi (Participants: Huynh To Trinh, Nguyen Phan Hoang Phuc, Nguyen Tuan Dung).
3.6 What is the duration of the contract with the finance and accounts staff?	Indefinite contract	
3.7 Indicate key positions not contracted yet, and the estimated date of appointment.	No	
3.10 Does the project have written position descriptions that clearly define duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff?	Yes	Accordance with investment management regulation issued by EVNHCMC.
3.11 At what frequency are personnel transferred?	Accordance with staff regulation: 3, 4 or 5 years, depending on each object.	
3.12 What is training policy for the finance and accounting staff?	-Training to master and update knowledge, new regulations related to assigned professional. - Practicing professional ethics: honest, careful, objective and accurate.	

Topic	Response	Remarks
4. Accounting Policies and Procedures		
<p>4.1 Does the entity have an accounting system that allows for the proper recording of project financial transactions, including the allocation of expenditures in accordance with the respective components, disbursement categories, and sources of funds? Will the project use the entity accounting system?</p>	<ul style="list-style-type: none"> - EVNHCMC applies accounting models under Decision No. 15/2006/QĐ-BTC and Circular No. 244/2009/TT-BTC of the Ministry of Finance. - Accounting form which is applied in EVNHCMC is general journal - Financial reports are prepared and presented under accounting standards VAS 21 and IFRS <p>EVNHCMC uses software of financial managing information system (FMIS) of EVN.</p>	
<p>4.2 Are controls in place concerning the preparation and approval of transactions, ensuring that all transactions are correctly made and adequately explained?</p>	Yes	
<p>4.3 Is the chart of accounts adequate to properly account for and report on project activities and disbursement categories?</p>	Yes	
<p>4.4 Are cost allocations to the various funding sources made accurately and in accordance with established agreements?</p>	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.5 Are the General Ledger and subsidiary ledgers reconciled and in balance?	Yes	General ledger and Subsidiary ledger are compared monthly.
4.6 Are all accounting and supporting documents retained on a permanent basis in a defined system that allows authorized users easy access?	.- All accounting and other documents are stored from 10 to 20 years. -EVNHCMC is using FMIS accounting software, which is using by EVN, to record all the relevant activities such as: cash flow, liabilities, payroll, revenues, materials, fixed assets, price-cost, taxes, accounting for capital construction and general accounting.	

Appendix A Financial Management Assessment
Questionnaire

Topic	Response	Remarks
<i>Segregation of Duties</i>		
<p>4.7 Are the following functional responsibilities performed by different units or persons: (i) authorization to execute a transaction; (ii) recording of the transaction; and (iii) custody of assets involved in the transaction?</p>	<p>The functional departments are assigned as follows:</p> <ul style="list-style-type: none"> - Materials and Import-Export Department is in charge of contract management, disbursement documents of Suppliers and contractors. - Investment Management and Project Management Board are directly responsible for supervising and monitoring of works and acknowledgment of actual works' volume in accordance with the contracts' terms before submission for final account of the projects. - Project Management Board is responsible for recording approved and paid transactions, project cost calculation and submitting for project final account documents. - Accounting Department is responsible for reviewing contract's price unit upon submission from Materials and Import-Export Department as well as Investment Management Department, submitting relevant documents to Expense Control Unit; proceed the disbursement for Contractors and Report the disbursement process to Financiers. 	
<p>4.8 Are the functions of ordering, receiving, accounting for, and paying for goods and services appropriately segregated?</p>	<p>Yes</p>	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.9 Are bank reconciliations prepared by someone other than those who make or approve payments?	Bank reconciliations are conducted by staffs responsible for payment transactions. The Board Director will directly approve for those payment transactions.	
<i>Budgeting System</i>		
4.10 Do budgets include physical and financial targets?	Yes	
4.11 Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?	Cost estimate is created for each projects as well as works load. Therefore, cost estimate is the basis for project monitoring.	
4.12 Are actual expenditures compared to the budget with reasonable frequency, and explanations required for significant variations from the budget?	Actual expenses of projects are regularly compared with approved cost estimate.	
4.13 Are approvals for variations from the budget required in advance or after the fact?	Cost estimate is approved before actual implementation of the project and the contingency portion is about 10% to 15%. During the implementation process, if there is any capital arising, contingency portion will be the source for solutions.	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.14 Who is responsible for preparation and approval of budgets?	General Director will be responsible	
4.15 Are procedures in place to plan project activities, collect information from the units in charge of the different components, and prepare the budgets?	Yes	
4.16 Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?	Each member of Project management Board is knowledgeable and they have experiences in managing similar projects.	
<i>Payments</i>		
4.17 Do invoice-processing procedures provide for: (i) Copies of purchase orders and receiving reports to be obtained directly from issuing departments? (ii) Comparison of invoice quantities, prices and terms, with those indicated on the purchase order and with records of goods actually received? (iii) Comparison of invoice quantities with those indicated on the receiving reports? (iv) Checking the accuracy of calculations?	Yes, invoice-processing procedures are provided for all mentioned activities.	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.18 Are all invoices stamped PAID, dated, reviewed and approved, and clearly marked for account code assignment?	- All invoices have not been required to be stamped PAID yet. - This controlling method will be applied soon.	
4.19 Do controls exist for the preparation of the payroll and are changes to the payroll properly authorized?	Yes	
<i>Policies And Procedures</i>		
4.20 What is the basis of accounting (e.g., cash, accrual)?	The basis for accounting is compiled with decision No 15/2006/QĐ-BTC dated 20 th March, 2006 and Circular No 244/2009/TT-BTC dated 31 st December 2009 of the Ministry of Finance.	
4.21 What accounting standards are followed?	- VAS 01 to VAS 08 - VAS 10, VAS 11, VAS 14 to VAS 19 - VAS 21 to VAS 29	
4.22 Does the project have an adequate policies and procedures manual to guide activities and ensure staff accountability?	Yes	Financiers' Guidelines and Guidelines for Financial Management and Construction Works Accounting Manual
4.23 Is the accounting policy and procedure manual updated for the project activities?	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.24 Do procedures exist to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the entity?	Only the Chief Accountant or General Accountant appointed by the Chief Accountant has the authority to access FMIS to alter or establish a new accounting principle, policy or procedure in accordance with current regulation of the Government and the Corporation.	
4.25 Are there written policies and procedures covering all routine financial management and related administrative activities?	Yes	
4.26 Do policies and procedures clearly define conflict of interest and related party transactions (real and apparent) and provide safeguards to protect the organization from them?	Yes	
4.27 Are manuals distributed to appropriate personnel?	Yes	
<i>Cash and Bank</i>		
4.28 Indicate names and positions of authorized signatories in the bank accounts.	General Directors Board and Directors Board of Accounting & Finance Dept.	
4.29 Does the organization maintain an adequate, up-to-date cashbook, recording receipts and payments?	Yes	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
4.30 Do controls exist for the collection, timely deposit and recording of receipts at each collection location?	Yes	
4.31 Are bank and cash reconciled on a monthly basis?	Yes	Bank and cash are reconciled on a monthly basis and checked through Reconciliation Report
4.32 Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?	Yes	
4.33 Are all receipts deposited on a timely basis?	Yes	
<i>Safeguard over Assets</i>		
4.34 Is there a system of adequate safeguards to protect assets from fraud, waste and abuse?	Yes	
4.35 Are subsidiary records of fixed assets and stocks kept up to date and reconciled with control accounts?	Yes	
4.36 Are there periodic physical inventories of fixed assets and stocks?	Yes	We carry out at least a periodic physical Inventories / year or unscheduled inventories if having requirement of upper authorities or change of assets manager.
4.37 Are assets sufficiently covered by insurance policies?	Yes	We purchase fire and explosion insurances for assets that are easy to be burnt and exploded during storage.

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Topic	Response	Remarks
<i>Other Offices and Implementing Entities</i>		
4.38 Are there any other regional offices or executing entities participating in implementation?	Yes	
4.39 Has the project established controls and procedures for flow of funds, financial information, accountability, and audits in relation to the other offices or entities?	Yes	
4.40 Does information among the different offices/implementing agencies flow in an accurate and timely fashion?	Yes	
4.41 Are periodic reconciliations performed among the different offices/implementing agencies?	Yes	
<i>Other</i>		
4.42 Has the project advised employees, beneficiaries and other recipients to whom to report if they suspect fraud, waste or misuse of project resources or property?	Yes	
5. Internal Audit		
5.1 Is there an internal audit department in the entity?	Yes	EVN HANOI has control unit which has functions somewhat similar to Internal Audit

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
5.2 What are the qualifications and experience of audit department staff?	Provided in Annex 1c.	
5.3 To whom does the internal auditor report?	<p>- The Internal Audit Department is an independent unit directly controlled by General Director.</p> <p>- Number of auditors is decided and assigned by General Director. There are at least 5 members:</p> <p>+ Manager is responsible for all tasks of Internal Audit Department assigned by General Director;</p> <p>+ Internal auditors are responsible for all tasks assigned by the Manager.</p> <p>The Manager and internal auditors are independent of other Departments and subsidiaries and do not concurrently work on other management tasks in EVN HCMC.</p>	
5.4 Will the internal audit department include the project in its work program?	Up to now, this issue hasn't been implemented yet. But from 2013 Internal Audit department will bring projects into its work program.	
5.5 Are actions taken on the internal audit findings?	Yes	

Appendix A Financial Management Assessment
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Topic	Response	Remarks
6. External Audit		
6.1 Is the entity financial statement audited regularly by an independent auditor? Who is the auditor?	<ul style="list-style-type: none"> - Financial reports of EVNHCMC and other subsidiaries are audited according to regulations of the State by independent auditor. - EVNHMC selects auditor to audit annual financial reports according to list of auditors provided by EVN. For project audit, it is implemented under bidding method or appointment of Procurement Law of Vietnam.. 	
6.2 Are there any delays in audit of the entity? When are the audit reports issued?	No	
6.3 Is the audit of the entity conducted according to the International Standards on Auditing?	Yes	
6.4 Were there any major accountability issues brought out in the audit report of the past three years?	No	
6.5 Will the entity auditor audit the project accounts or will another auditor be appointed to audit the project financial statements?	Annually, EVN employed auditor to audit projects borrowing capitals from WB of each Loan Agreement.	

Appendix A Financial Management Assessment
Questionnaire

Topic	Response	Remarks
6.6 Are there any recommendations made by the auditors in prior audit reports or management letters that have not yet been implemented?	No	
6.7 Is the project subject to any kind of audit from an independent governmental entity (e.g., the supreme audit institution) in addition to the external audit?	No	
6.8 Has the project prepared acceptable terms of reference for an annual project audit?	Yes	
7. Reporting and Monitoring		
7.1 Are financial statements prepared for the entity? In accordance with which accounting standards?	<p>EVNHCMC applies accounting models under Decision No. 15/2006/QĐ-BTC and Circular No. 244/2009/TT-BTC of Ministry of Finance.</p> <p>Accounting form which is applied in EVNHCMC is general journal</p> <p>Financial reports are prepared and presented under accounting standards VAS 21 and IFRS</p> <p>EVNHCMC uses software of financial managing information system (FMIS) of EVN.</p>	
7.2 Are financial statements prepared for the implementing unit?	For projects borrowing capitals from WB, EVN audits consolidated financial reports for each Loan Agreement.	

*Appendix A Financial Management Assessment
Questionnaire*

Topic	Response	Remarks
7.3 What is the frequency of preparation of financial statements? Are the reports prepared in a timely fashion so as to useful to management for decision making?	Financial reports are prepared quarterly, and administration reports are prepared monthly. They are timely prepared to be useful for decision making.	
7.4 Does the reporting system need to be adapted to report on the project components?	Projects of EVNHCMC must comply with the general accounting system.	
7.5 Does the reporting system have the capacity to link the financial information with the project's physical progress? If separate systems are used to gather and compile physical data, what controls are in place to reduce the risk that the physical data may not synchronize with the financial data?	Presently reporting system is unable to link financial information with project's physical progress. EVN are building FMIS/MMIS program according to Enterprise Resource Planning (ERP) to solve this issue and apply this program to all its subsidiaries.	
7.6 Does the project have established financial management reporting responsibilities that specify what reports are to be prepared, what they are to contain, and how they are to be used?	Yes	
7.7 Are financial management reports used by management?	Yes	

Topic	Response	Remarks
7.8 Do the financial reports compare actual expenditures with budgeted and programmed allocations?	No	
7.9 Are financial reports prepared directly by the automated accounting system or are they prepared by spreadsheets or some other means?	Financial reports are directly prepared by the automated accounting system.	
8. Information Systems		
8.1 Is the financial management system computerized?	Yes	
8.2 Can the system produce the necessary project financial reports?	EVNHCMC itself has completely built managing software of construction investment projects and put into use.	
8.3 Is the staff adequately trained to maintain the system?	Yes	
8.4 Does the management organization and processing system safeguard the confidentiality, integrity and availability of the data?	Yes	

Appendix B Summary Job Descriptions and Qualifications of EVN HCMC Accounting Staff

4. EVN HCMC Finance and Accounting Department

Name: LE VAN THU

Position: Chief Accountant

Main duties:

- General management of usage of capital sources, funds and situation of business cost of EVN HCMC; negotiation of credit contracts; management, monitor of borrowing, using loaned, payment of principal and interest between EVN HCMC with Banks and inbound or outbound credit organizations.
- Guidance, monitor, inspection of disbursing basic construction capitals, payment and distribution of capitals for ECNHCMC, subsidiaries;
- Inspection of payment of contract value of EVNHCMC signed with providers equipments, services; inspection of payment of EVNHCMC's business cost.
- Inspection of payment document of invested basic constructions under authorization; guidance, inspection of payment document of invested basic constructions under approval of subsidiaries;
- Publication of annual financial criteria of EVN HCMC under regulations of the State. Assessment of annual corporate classification under regulations of the Ministry of Finance;
- Permanent member of asset inventory committee, asset liquidation committee, initiative approval committee of EVNHCMC;
- Appraisal of bidding results of construction project;
- Negotiation of contracts of equipment purchasing, investment for construction under Decision of approving bidding results of EVNHCMC;
- Proposing and organizing accountancy department suitable to scale, organization, and business activities of EVNHCMC.

Education: Bachelor of Economics

Name: NGUYEN DUY QUOC VIET

Position: Permanent Deputy Director

Main duties:

- Setting up statutes, regulations of EVN HCMC for tasks of finance and accountancy under regulations of the State and EVN's guidance; setting up training plan, guidance to implement statutes, regulations of management of finance and accountancy;
- Monitoring schedule of big repair of subsidiaries under EVNHCMC's plan; inspecting payment of big repair;
- Monitoring situation of cost of other materials, services;
- Leading to monitor and enter into account contributing capitals of EVN HCMC at other companies; setting plan of buying & selling, transferring financial investment of EVN HCMC with its partners;
- Leading application of information technology into management of finance and accountancy of EVN HCMC;

*Appendix B Summary Job Descriptions and Qualifications of
EVN HCMC Accounting Staff*

- Implementing and monitoring liquidation of unqualified equipment, assets; irrecoverable debt of EVN HCMC to withdraw capitals;
- Leading periodical or sudden inspection of management of asset, equipment, liability; inventory of assets, equipments, capitals, liabilities; etc. under regulations and guidance of the State, of EVN and of EVN HCMC;
- Appraising bidding result of purchasing equipments, services;
- Leading monitor of situation of money collection; management of contracts of mutual money collection with Banks and other organizations.
- Leading implementation of tax declaration and other amount for the State's budget in accordance with regulations.
- Leading guidance of getting into account, setting up financial report of EVN HCMC. Appraising, auditing annual financial report of subsidiaries of EVN HCMC to submit to President of EVN HCMC for approval;
- Leading to build norms of power business, other business and calculate to assign annual plan of power business cost to subsidiaries of EVN HCMC.
- Representatives assigned by EVN HCMC in Administration Council or Control Board to monitor, assess operation efficiency of companies having stocks, contributing capital from EVN HCMC;

Education: Master of Economics, Bachelor of Information Technology

Name: **VUONG XUAN THI LIEN**

Position: Deputy Director of Finance and Accountancy Department

Main duties:

- Setting up medium-term, long term and annual financial plan of EVN HCMC to report to EVN;
- Coordinating with Chief Accountant and Permanent Deputy Director to appraise financial plan, cost price, profit and plan stating annual BST for subsidiaries of EVN HCMC;
- Setting up allocation of turnover between EVN HCMC and its subsidiaries;
- Planning, studying, proposing projects of issuing bonds;
- Studying to set up price for other products (outside of product prices in constructing investment, big repair and power connection) in accordance with decisions under competence of EVN HCMC;
- Monitoring and proposing solutions, assessment of result of saving & anti-waste program of subsidiaries and EVN HCMC;
- Analysing, assessing situation of financial tasks, cost and annual business result of EVN HCMC; proposing solution to improve efficiency of business activity of EVN HCMC;
- Monitoring turnover and cost from leasing poles to hanging communication lines, leasing offices of Building Management Department and activities of Contact Center;
- Representative assigned by EVNHCMC in Administration Council or Control Board to monitor, assess operation efficiency of companies having stocks, contributing capital from EVN HCMC;
- Assessment of efficiency, appraisal of investing projects of the Corporation; appraisal of bidding results;
- Compiling statutes, regulations, guidance of management of finance and accountance.

Education: Bachelor of Economics

5. EVN HCMC Internal Audit Department (Control Unit)

Name: NGUYEN THI THANH HUONG
Position: Manager of Internal Audit Department

Main duties

- Responsible for all tasks in scope of functions, mission, responsibilities of Internal Audit Department.
- Setting up, adjusting annual plan of internal audit to submit the General Director for approval; implementing approved plan of internal audit and sudden audits requested by the General Director.
- Setting up, adjusting, supplementing and complete methods, policies, processes of internal audit to submit the General Director.
- Managing, arranging, assigning tasks to auditors and ensure auditors being regularly trained, competence to implement internal audit.
- Participating meetings of Leader Board under internal regulations of EVN HCMC and regulations of this Statute.
- Reporting General Director about the detected outstanding issues, weakness, derogations of system of inspection, control and of Head of audited organizations.
- Proposing methods to adjust, supplement issued policies, statutes, processes, regulations, decisions to improve efficiency in management of EVN HCMC and audited organizations.
- Having methods to monitor, assessment, management to ensure internal auditors comply with professional morality.

Education: Master of Business Administration, Bachelor of Economics

Appendix C EVN HCMC Chart of Accounts

The EVN HCMC chart of accounts provided in this appendix is a summarized version of the full chart of accounts. All accounts having three and four digit account codes are listed. However, sub-accounts within these accounts, which have codes exceeding four digits are not included.

111	Cash on hand
1111	Cash on hand-Viet Nam Dong
1112	Cash on hand-foreign currency
1113	Cash on hand- gold, precious stone, silver
112	Cash in bank
1121	Cash in bank-Viet Nam Dong
1122	Cash in bank-foreign currency
1123	Cash in bank-gold, precious stones, silver
113	Cash in transit
1131	Cash in transit-Viet Nam Dong
1132	Cash in transit-foreign currency
121	Short-term security investments
1211	Short-term security investments-stocks
1212	Short-term security investments-bonds, treasury bills
128	Other short-term investments
1281	Other short-term investments-term deposits
1282	Other short-term investments-stocks
1283	Other short-term investments-bonds
1288	Other short-term investments-other short-term investments
129	Provision for devaluation of short-term investment
131	Receivable from customers
1311	Receivable from customers-electricity
1312	Receivable from customers-telecommunications and information technology
1313	Receivable from customers-other production
1314	Receivable from customers-services
1315	Receivable from customers-sale goods
1316	Receivable from customers-financial activities
1318	Receivable from customers-other production
133	Value added tax deductible
1331	Value added tax deductible-goods, services
1332	Value added tax deductible-fixed assets
1333	Value added tax deductible-value added tax is refunded
136	Internal receivable
1361	Capital in dependent units
1362	Receivable between EVN and dependent units

Appendix C EVN HCMC Chart of Accounts

1363	Receivable between corporation and dependent units
1364	Receivable between company and dependent units
1365	Internal receivable in dependent units
1368	Other
138	Other receivables
1381	Other receivable-shortage assets awaiting resolution
1382	Other receivable-paid awaiting for resolution
1383	Other receivable-receivable for compensation for material
1384	Other receivable- temporary lending
1385	Other receivable-receivable for equitization
1388	Other receivable-other receivable
1389	Other receivable-receivable for telecommunications and information technology
139	Provision for bad debts
1391	Provision for bad debts-electricity
1392	Provision for bad debts-telecommunications and information technology
1398	Provision for bad debts-other
141	Advances
142	Short-term prepayments
144	Short-term collateral & deposits
1441	Short-term collateral & deposits-Viet Nam Dong
1442	Short-term collateral & deposits-foreign currency
151	Purchased goods in transit
152	Raw materials
1521	Raw materials-fuel
1522	Raw materials-raw materials
1523	Raw materials-accessories
1524	Raw materials-raw materials for construction
1525	Raw materials-residue
1526	Raw materials-semi-production
1528	Raw materials-other raw material
153	Instruments and tools
1531	Instruments and tools-instruments and tools
1532	Instruments and tools-packing
1533	Instruments and tools-instruments and tools for lease
154	Goods in process
1541	Goods in process-electricity
1542	Goods in process-telecommunications and information technology
1543	Goods in process-other production
1544	Goods in process-services
155	Finished goods
156	Purchases

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1561	Purchases-price of purchases
1562	Purchases-cost of purchases
1567	Purchases-real estate
157	Goods in transit for sale
158	Goods in bonded warehouse
159	Provision for devaluation of inventory
161	Non-business expenditures
1611	Non-business expenditures-current period
1612	Non-business expenditures-prior periods
171	Government bonds transaction
211	Tangible fixed assets
2111	Tangible fixed assets- buildings&architectural models
2112	Tangible fixed assets-equipment & machines
2113	Tangible fixed assets-transportation & transmit instrument
2114	Tangible fixed assets-Instruments & tools for management
2115	Tangible fixed assets-long term trees, working &dead animals
2118	Tangible fixed assets-other fixed assets
212	Fixed assets of finance leasing
2121	Fixed assets of finance leasing-Building &architecturalmodels
2122	Fixed assets of finance leasing-equipment & machines
2123	Fixed assets of finance leasing-transportation & transmit instrument
2124	Fixed assets of finance leasing-Instruments & tools for management
2128	Fixed assets of finance leasing-other fixed assets
213	Intangible fixed assets
2131	Intangible fixed assets-land use rights
2132	Intangible fixed assets-establishment & productive rights
2133	Intangible fixed assets-patents & creations
2134	Intangible fixed assets-trademarks
2135	Intangible fixed assets-software
2136	Intangible fixed assets-licenses& concession licenses
2138	Intangible fixed assets-other intangible fixed assets
214	Depreciation of fixed assets
2141	Depreciation of fixed assets-tangible fixed assets
2142	Depreciation of fixed assets-financial leasing fixed assets
2143	Depreciation of fixed assets-intangible fixed assets
2147	Depreciation of fixed assets-investment real estate
217	Investment real estate
221	Investment in equity of subsidiaries
222	Joint venture capital contribution
223	Investment in joint-ventures
228	Other long term investments

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2281	Other long term investments-stocks
2282	Other long term investments-bonds
2288	Other long term investments-other long-term investments
229	Provision for devaluation of long-term investments
241	Construction in process
2411	Construction in process-fixed assets purchases
2412	Construction in process- capital construction
2413	Construction in process-overhauls of fixed assets
242	Long-term prepayments
2421	Long-term prepayments-rentals
2422	Long-term prepayments - insurance and charge
2423	Long-term prepayments - instruments and tools
2424	Long-term prepayments - lending and issued bonds
2425	Long-term prepayments - receiving rural distribution network
2428	Long-term prepayments -other expenses
243	Deferred income tax assets
244	Long- term collateral & deposits
2441	Long term collateral & deposits-Viet Nam Dong
2442	Long term collateral & deposits-foreign currency
311	Short-term loans
3111	Short-term loan-Viet Nam Dong
3112	Short-term loan-foreign currency
315	Long term loans due to date
3151	Long term loans due to date-loans
3152	Long term loans due to date-finance leasing
3153	Long term loans due to date-bonds
3158	Long term loans due to date-other
331	Payable to sellers
3311	Payable to sellers-paying to seller of materials
3312	Payable to sellers-construction contractors
3313	Payable to sellers- overhaul contractors
3318	Payable to sellers-other
333	Taxes and payable to state budget
3331	Value added tax
3332	Special consumption tax
3333	Import & export duties
3334	Profit tax
3335	Personal income tax
3336	Natural resources tax
3337	Land & housing tax, land rental charges
3338	Other taxes

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3339	Fees, charges& other payables
334	Payable to employees
3341	Payable to employees-payable to employees
3348	Payable to employees- payable to other employees
335	Accruals
3351	Accruals-overhauls
3352	Accruals-interest on loans
3358	Accruals-other
336	Internal payables
3362	Payables between EVN and dependent units
3363	Payables between corporation and dependent units
3364	Payables between company and dependent units
3365	Internal receivables in dependent units
3368	Other
3369	Temporary increase fixed assets
337	Construction contract progress payment due to customers
338	Other payables
3381	Surplus assets awaiting resolution
3382	Trade union fees
3383	Social insurance
3384	Health insurance
3385	Equitization payable
3386	Short-term deposits received
3387	Unrealized turnover
3388	Other payables
3389	Unemployment insurance
341	Long-term borrowing
3411	Long-term borrowing- bank
3412	Long-term borrowing- other
342	Long-term liabilities
3421	Long-term liabilities-finance leasing
3422	Long-term liabilities-other
343	Issued bonds
3431	Bond face value
3432	Bond discount
3433	Additional bonds
344	Long-term deposits received
347	Deferred income taxes
351	Provision fund for severance allowances
352	Provisions for payables
353	Bonus fund- welfare fund

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3531	Bonus fund
3532	Welfare fund
3533	Welfare fund used to acquire fixed assets
3534	Bonus for management
3535	Death benefits
356	Science and technology development fund
3561	Science and technology development fund
3562	Science and technology development fund used to acquire fixed assets
411	Working capital
4111	Working capital- charter equity
4112	Working capital- surplus equity
4118	Working capital- other capital
412	Differences upon asset revaluation
413	Foreign exchange differences
4131	Foreign exchange differences revaluation at the end final year
4132	Foreign exchange differences incurred during capital construction period
414	Investment & development funds
415	Financial reserve funds
417	Supporting equitization of state-owned companies
4171	Corporation
4172	Company
418	Other funds
419	Stock funds
421	Undistributed earnings
4211	Undistributed earnings - previous year undistributed earnings
4212	Undistributed earnings - current year undistributed earnings
4213	Payable and receivable difference of project management board and non-profit units
441	Construction investment fund
4411	Construction investment fund- state budget
4412	Construction investment fund- additional charter equity
461	Budget resources
4611	Previous year budget resources
4612	Current year budget resources
466	Budget resources used to acquire fixed assets
511	Sales
5111	Sales - electricity
5112	Sales - telecommunications and information technology
5113	Sales - products sold
5114	Sales - services rendered
5115	Sales - allowances
5116	Sales - materials sold

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5117	Sales - investments in real estate
5118	Sales - other
512	Internal gross sales
5121	Internal gross sales- electricity
5122	Internal gross sales- telecommunications and information technology
5123	Internal gross sales - products sold
5124	Internal gross sales - services rendered
5125	Internal gross sales - materials sold
5128	Internal gross sales - other
515	Financial activities income
5151	Financial activities income - interest
5152	Financial activities income - sale discount
5153	Financial activities income - distributed dividend, profit
5154	Financial activities income - short-term and long-term securities investment income
5155	Financial activities income - other investment income
5156	Financial activities income - foreign exchange difference
5157	Financial activities income - transfer capital income
5158	Financial activities income - other financial activities income
521	Sale discounts
531	Sale returns
532	Devaluation of sale price
611	Purchases
6111	Raw material purchases
6112	Goods purchases
621	Direct raw materials cost
622	Direct labor cost
623	Executing machine using cost
6231	Executing machine using cost - labor cost
6232	Executing machine using cost - material cost
6233	Executing machine using cost- production tool cost
6234	Executing machine using cost- executing machine depreciation
6237	Executing machine using cost- outside purchasing services cost
6238	Executing machine using cost - other cost
627	General operation cost
6271	General operation cost - labor cost
6272	General operation cost - material cost
6273	General operation cost- production tool cost
6274	General operation cost - fixed asset depreciation
6275	General operation cost- natural resources tax
6276	General operation cost - repair of fixed asset expense
6277	General operation cost - outside purchasing services cost

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6278	General operation cost - other cash expense
6279	General operation cost - other cost
631	Production cost
632	Cost of goods sold
6322	Cost of goods sold - telecommunications and information technology
6323	Cost of goods sold - other products
6324	Cost of goods sold - services
6325	Cost of goods sold - other businesses
6327	Cost of goods sold - investments in real estate
635	Financial activities expenses
6351	Financial activities expenses - lending expense
6352	Financial activities expenses - sale discount expense
6353	Financial activities expenses - investment expense
6354	Financial activities expenses - short-term and long-term securities investment expense
6355	Financial activities expenses - other investment income
6356	Financial activities expenses - foreign exchange difference expense
6357	Financial activities expenses - transfer capital expense
6358	Financial activities expenses - other financial activities expense
641	Selling expenses
6411	Selling expenses - labor cost
6412	Selling expenses - materials, packing cost
6413	Selling expenses - tools cost
6414	Selling expenses - fixed asset depreciation
6415	Selling expenses - warranty cost
6416	Selling expenses - repair fixed asset expense
6417	Selling expenses - outside purchasing services cost
6418	Selling expenses - other cash expense
6419	Selling expenses - other cost
642	General & administration expenses
6421	General & administration expenses - labor cost
6422	General & administration expenses - management tools
6423	General & administration expenses - stationery cost
6424	General & administration expenses - fixed asset depreciation
6425	General & administration expenses - taxes, fees and charges
6426	General & administration expenses - provisions
6427	General & administration expenses - outside purchasing services cost
6428	General & administration expenses - other cash expenses
6429	General & administration expenses - other costs
711	Other income
7111	Other income - income from assets
7112	Other income - income from customer fines and penalties

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7113	Other income - received from bad debts written off
7114	Other income - deferred tax and state budget
7115	Other income - received from unidentified debtors
7116	Other income - gifts, bonus income
7117	Other income – income paid for part-time representative
7118	Other income – income from prior year not reported in prior year
7119	Other income - other income
811	Other expenses
8111	Other expenses - income from assets
8112	Other expenses - expenses from customer fines and penalties
8113	Other expenses - return bad debts written off expense
8114	Other expenses - deferred tax and state budget
8115	Other expenses - expenses from unidentified creditors
8117	Other expenses – expenses related to part-time representative
8119	Other expenses – other expenses
821	Business Income tax charge
8211	Current business income tax charge
8212	Deferred business income tax charge
911	Evaluation of business results
9111	Electricity
9112	Telecommunications and information technology
9113	Other products
9114	Services rendered
9115	Financial activities result
9116	Other businesses
9117	Investment in real estate
9118	Other activities
9119	Business results after tax