



Mekong River Commission

*Audited Financial Statements
as at and for the year ended 31 December 2011*

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Mekong River Commission

Office of the Secretariat in Phnom Penh (OSP)
576 National Road, #2, Chak Angre Krom,
P.O. Box 623, Phnom Penh, Cambodia
Tel. (855-23) 425 353. Fax (855-23) 425 363

Office of the Secretariat in Vientiane (OSV),
Office of the Chief Executive Officer
184 Fa Ngoum Road,
P.O. Box 6101, Vientiane, Lao PDR
Tel: (856-21) 263 263. Fax: (856-21) 263 264

REPORT OF THE MRCS MANAGEMENT

The Management of the Mekong River Commission Secretariat (“MRCS”) presents its report and the financial statements of the Mekong River Commission for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES DURING 2011

The Mekong River Commission (“MRC” or “the Commission”) continues the implementation of its eleven key Programmes. MRC has attracted funding from new Development Partners, namely the Government of Luxembourg for projects under the Climate Change and Adaptation Initiative Programme, and the Government of Switzerland for projects under the Basin Development Programme and the Environment Programme.

In early 2011, MRC endorsed two key strategies, the Integrated Water and Related Resources Management (IWRM)-based Basin Development Strategy, and the 2011-2015 Strategic Plan, that shape a more comprehensive and new direction for the Commission.

The IWRM-based strategy provides regional and trans-boundary perspectives for basin development planning, representing collaboration between Member Countries on their shared understanding of the river’s opportunities and risks associated with development.

The strategic plan for the 2011-2015 period will support the implementation of this Strategy as well as providing a platform for the MRC’s plan to decentralize core functions of the MRCS to the national level.

THE MRCS MANAGEMENT

The members of the MRCS Management who held office during the year 2011 and on the date of this report are:

Jeremy Bird	Chief Executive Officer until 28 March 2011
Hans Guttman	Chief Executive Officer from 14 November 2011
Pich Dun	Director of the Operations Division, officer-in-charge of the MRCS from 29 March to 30 June 2011
Tran Duc Cuong	Director of the Technical Support Division, officer-in-charge of the MRCS from 1 July to 13 November 2011
Sourasay Phoumavong	Director of the Environment Division
Satit Phiromchai	Director of the Planning Division
Klomjit Chandrapanya	Chief of the International Cooperation and Communication Section
Weena Aksornkaew	Chief of the Human Resources Development Section until 13 September 2011
Vu Thu Hong	Officer-in-charge of the Human Resources Development Section from 14 to 25 September 2011
Nguyen Thu Mai	Chief of the Finance and Administration Section, officer-in-charge of the Human Resources Development Section from 26 September to 31 December 2011

REPORT OF THE MRCS MANAGEMENT (continued)

On behalf of the MRCS Management



Hans Guttman
Chief Executive Officer
24 February 2012

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Reference: KTC-RBI/HAN/12/R021/MRC/E

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Mekong River Commission ("MRC" or "the Commission") which comprise the statement of fund balance as at 31 December 2011 and the statement of income and expenditure for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages 5 to 14. The financial statements have been prepared by the MRCS Management using the accounting policies as described in Note 2 to the financial statements.

The MRCS Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the MRCS Management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements of the Commission as at 31 December 2011 and for the year then ended are prepared, in all material respects, in accordance with the accounting policies as described in Note 2 to the financial statements.

Basis of Accounting and Restriction on Distribution and Use

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

KTC Assurance & Business Advisers

KTC Audit and Business Advisory Co., Ltd.



Phạm Duy Hưng
Managing Partner

Hanoi, Vietnam
24 February 2012

Manuel Vincente Encarnacion

Manuel Vincente Encarnacion
Quality Reviewer

Mekong River Commission

STATEMENT OF INCOME AND EXPENDITURE for the year ended 31 December 2011

		<i>Currency: USD</i>	
	Note	2011	2010
INCOME			
Contribution			
Contributions from Development Partners	3	18,469,162	19,764,990
Reimbursement of relocation loan		200,000	60,000
Contributions from Riparian Governments	4	1,185,522	2,061,896
		<u>19,854,684</u>	<u>21,886,886</u>
Revenue			
Interest	5	61,780	64,176
Miscellaneous		2,447	5,833
		<u>64,227</u>	<u>70,009</u>
TOTAL INCOME		<u>19,918,911</u>	<u>21,956,895</u>
EXPENDITURE			
Project Expenditure			
Personnel services		8,405,365	9,823,424
Sub-contracts		2,409,267	4,283,131
Training		3,166,287	3,308,796
Equipment		495,334	1,094,150
Miscellaneous expenses		407,764	578,125
	6	<u>14,884,017</u>	<u>19,087,626</u>
Administrative Expenditure			
Staff salary and fees		1,363,919	1,079,591
Common staff costs		669,029	654,259
Travel		51,121	25,888
Contractual services		81,194	109,276
General operating expenses		282,585	272,795
Supplies		36,526	39,966
Furniture and equipment		60,631	97,653
MRC meeting expenses		377,991	279,224
Support to National Mekong Committees and programmes		60,044	57,751
Repayment of relocation project loan	11	-	60,000
		<u>2,983,040</u>	<u>2,676,403</u>
Administrative Reserve Fund	7, 11	295,671	498,412
Programme Reserve Fund	8	224,860	94,228
TOTAL EXPENDITURE		<u>18,387,588</u>	<u>22,356,669</u>
Foreign exchange gain/ (loss)		93,047	(26,640)
Movement in Fund Balance for the year		<u>1,624,370</u>	<u>(426,414)</u>



Hans Guttman
Chief Executive Officer
24 February 2012



Nguyen Thu Mai
Chief, Finance and Administration Section

Mekong River Commission

STATEMENT OF FUND BALANCE as at 31 December 2011

		<i>Currency: USD</i>	
	Note	2011	2010
Fund Balance as at 1 January		17,085,305	17,511,719
Movement in Fund Balance for the year		1,624,370	(426,414)
Fund Balance as at 31 December	13	<u>18,709,675</u>	<u>17,085,305</u>
Represented by			
Current Assets			
Cash on hand and at banks	9	18,176,530	16,611,639
Advances, accounts receivable and prepayments	10	632,865	767,166
Deposits		5,610	5,610
		<u>18,815,005</u>	<u>17,384,415</u>
Current Liabilities			
Relocation project loan	11	-	200,000
Other liabilities	12	105,330	99,110
		<u>105,330</u>	<u>299,110</u>
Net Current Assets		<u>18,709,675</u>	<u>17,085,305</u>

Hans Guttman
Chief Executive Officer
24 February 2012

Nguyen Thu Mai
Chief, Finance and Administration Section

Mekong River Commission

NOTES TO THE FINANCIAL STATEMENTS as at and for the year ended 31 December 2011

1. GENERAL INFORMATION

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

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

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

The Commission’s technical and administrative functions fall under an operational arm, the MRC Secretariat (“MRCS”), which is led by a Chief Executive Officer. Currently there are about 150 staff members based in two Secretariat offices in Vientiane, Lao PDR and in Phnom Penh, Cambodia.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of accounting

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

• *Income recognition*

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

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

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

Other income and revenue are recognised upon cash receipts.

• *Expenditure recognition*

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

b. Property and equipment

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

c. Foreign currency transactions

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

Mekong River Commission

NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2011

3. CONTRIBUTIONS FROM DEVELOPMENT PARTNERS

	<i>Currency: USD</i>	
	2011	2010
Cash contributions and direct payments (*)	18,169,210	19,733,354
Interest earned on Development Partners' funds (***)	299,952	31,636
	<u>18,469,162</u>	<u>19,764,990</u>

(*) Analysis of cash contributions and direct payments by Development Partner:

	<i>Currency: USD</i>	
	2011	2010
Asian Development Bank	11,782	183,000
Australia	5,424,930	3,560,150
Belgium	2,785,356	3,832,240
Denmark	1,811,602	3,208,060
Deutsche Gesellschaft Für Technische Zusammenarbeit (GTZ) GmbH	47,157	285,662
European Union	110,342	107,739
Finland	2,215,780	2,675,906
France (**)	912,202	1,200,677
Germany	397,860	-
Japan	521,320	305,851
Luxembourg	520,000	-
Netherlands	942,650	1,730,386
New Zealand	-	350,000
Sweden	1,445,900	2,264,480
Switzerland	1,000,000	-
United States of America	-	20,000
Miscellaneous	22,329	9,203
	<u>18,169,210</u>	<u>19,733,354</u>

(**) Of which direct payments amounted to USD 160,755 (2010: USD 134,204)

(***) This is interest earned on contributions from Development Partners. Its use is subject to specific agreements between the Commission and the Development Partners, either for project expenditure or for return to the Development Partners.

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NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2011

4. CONTRIBUTION FROM RIPARIAN GOVERNMENT

	<i>Currency: USD</i>	
	2011	2010
Cambodia	359,935	337,057
Lao PDR	359,935	337,057
Thailand (*)	-	960,262
Viet Nam	465,652	427,520
	<u>1,185,522</u>	<u>2,061,896</u>

(*) Contribution from Thailand for the year 2011 of USD 501,739 was received and recognised in 2010.

5. INTEREST

This represents interest on the Commission's funds which is used to cover Operating Expenses Budget ("OEB") expenditure.

6. PROJECT EXPENDITURE (*)

6a. Analysis of Project Expenditure by Development Partner

	<i>Currency: USD</i>	
	2011	2010
Asian Development Bank	47,223	152,417
Australia	2,667,642	2,236,663
Belgium	1,986,839	3,238,929
Denmark	2,652,234	4,523,790
Deutsche Gesellschaft Für Technische Zusammenarbeit (GTZ) GmbH	279,672	289,175
European union	59,987	(2,424)
Finland	2,438,156	3,938,141
France	1,205,614	668,849
Germany	55,925	32,447
Japan	311,602	380,586
Luxembourg	103,644	-
Netherlands	1,068,002	1,792,426
New Zealand	115,963	137,225
Sweden	1,727,313	1,786,355
Switzerland	1,094	-
United States of America	-	57,565
Miscellaneous	163,107	(144,518)
	<u>14,884,017</u>	<u>19,087,626</u>

(*) This excludes Management and Administration Fees. Please also see Note 15.

Mekong River Commission

NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2011

6. PROJECT EXPENDITURE (continued)

6b. Analysis of Project Expenditure by Programme

	<i>Currency: USD</i>	
	2011	2010
Agriculture and Irrigation Programme	311,602	241,029
Basin Development Programme	1,389,556	2,456,790
Climate Change and Adaptation Initiative	743,636	650,122
Environment Programme	1,589,911	1,383,524
Flood Management and Mitigation Programme	1,187,003	1,912,851
Fisheries Programme	1,315,058	1,950,592
Integrated Capacity Building Programme	1,190,764	1,412,390
Information and Knowledge Management Programme	3,027,312	3,412,767
Initiative on Sustainable Hydropower	758,780	1,040,804
Mekong Integrated Water Resources Management Project	1,226,453	426,889
Navigation Programme	1,144,300	2,986,930
Other Programmes	945,838	1,180,491
Watersheds Management Project	53,804	32,447
	<u>14,884,017</u>	<u>19,087,626</u>

7. ADMINISTRATIVE RESERVE FUND

	<i>Currency: USD</i>	
	2011	2010
2.1\61\10\ARF\O Co-hosted location of MRCS (OSP & OSV)	95,671	345,270
2.1\71\10\ARF\O MRC First Summit - April 2010 Hua Hin, Thailand	-	153,142
2.1\87\11\ARF\O Repayment of the remaining loan balance to Lao Government (c.f. note 11)	200,000	-
	<u>295,671</u>	<u>498,412</u>

Administrative Reserve Fund represents the expenditure incurred for relocating some of the operations from Office of Secretariat in Vientiane (“OSV”) to Office of Secretariat in Phnom Penh (“OSP”) following the MRC Council’s decision at its Sixteenth Meeting in November 2009 on the co-hosted location of the MRCS and the repayment of the relocation loan to the Government of Lao PDR in accordance with the Joint Committee’s approval at its Thirty-second Meeting in August 2010.

Mekong River Commission

NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2011

8. PROGRAMME RESERVE FUND

	<i>Currency: USD</i>	
	2011	2010
2.1\43\09\PRF\D Drought Management Project-Initial Activity	180,657	75,319
2.1\45\09\PRF\F Vital Services	44,203	18,909
	<u>224,860</u>	<u>94,228</u>

Programme Reserve Fund represents the expenditure incurred for initial drought management activities and vital services of the MRCS in Phnom Penh, Cambodia and Vientiane, Lao PDR for flood forecasting during floods and other emergency situations.

9. CASH ON HAND AND AT BANKS

	<i>Currency: USD</i>	
	2011	2010
Cash on hand	1,478	1,137
Cash at banks	18,175,052	16,610,502
	<u>18,176,530</u>	<u>16,611,639</u>

10. ADVANCES, ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>Currency: USD</i>	
	2011	2010
Advances for general purpose expenditure	160,000	396,852
Other advances	453,051	348,518
Accounts receivable	19,814	21,796
	<u>632,865</u>	<u>767,166</u>

Advances for general project expenditure represent imprest funds given to some satellite projects for petty cash expenses and other disbursements within their limits of authority. The related project expenditure is charged to the statement of income and expenditure upon submission of clearance forms. Other advances are education allowances of staff dependants, advances issued to conduct training and workshops and advances to employees against salary. Accounts receivable are prepaid insurance and medical claims.

11. RELOCATION PROJECT LOAN

This represents the drawdown of a loan facility amounting to USD 600,000 from the Government of the Lao PDR in 2003 which was used to finance the MRC Secretariat relocation to Vientiane, Lao PDR in 2004. The loan is unsecured and interest free. MRC shall repay the loan gradually, upon availability of surplus funds from MRC Operating Expenses Budget ("OEB") and/ or funds made available from other sources, within five years. This duration can be extended to a maximum of ten years. The use of surplus from the OEB funds for repayment shall be subject to the approval of the MRC Joint Committee.

During the year, the remaining outstanding balance of USD 200,000 as at 31 December 2010 has been fully repaid to the Government of Lao PDR in accordance with the Joint Committee's approval at its Thirty-second Meeting in August 2010.

Mekong River Commission

NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2011

12. OTHER LIABILITIES

	<i>Currency: USD</i>	
	2011	2010
Accounts payable	271	271
Accrued repatriation fee	102,926	95,405
Others	2,133	3,434
	<u>105,330</u>	<u>99,110</u>

Accrued repatriation fee represents the MRC expatriate staff separation fees payable on leaving the MRC to return to their home country.

13. CLOSING FUND BALANCES

Closing fund balances can be analysed by source of funds as follows:

	<i>Currency: USD</i>	
	2011	2010
Asian Development Bank	62,367	21,006
Australia	7,767,466	5,148,972
Belgium	1,601,937	992,172
Denmark	1,511,291	2,593,556
Deutsche Gesellschaft Für Technische Zusammenarbeit (GTZ) GmbH (*)	(433)	237,433
European union	46,143	(8,100)
Finland	631,246	1,094,248
France	372,225	788,876
Germany	299,315	(36,692)
Japan	462,049	278,159
Luxembourg	412,948	-
Netherlands	144,589	349,030
New Zealand	103,736	232,455
Sweden	1,919,419	2,323,572
Switzerland	999,662	-
United States of America	-	-
Miscellaneous	56,554	197,334
	<u>16,390,514</u>	<u>14,212,021</u>
Operating Expenses Budget	2,319,161	3,073,284
Relocation Project Fund	-	(200,000)
	<u>18,709,675</u>	<u>17,085,305</u>

(*) Negative fund balance represents expenditure incurred in excess of contributions.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2011

14. PROVIDENT FUND

The Commission manages a provident fund, which had a balance at 31 December 2011 of USD 1,761,713 (31 December 2010: USD 1,635,084), to provide a savings scheme in lieu of a pension fund on behalf of 147 (2010: 153) members of staff who are eligible for the scheme. Staff and the Commission contributions are banked in a separate bank account. The Commission's contributions to the fund are included in the statement of income and expenditure as personnel services in respect of project expenditure, and as staff salary and fees in respect of administrative expenditure. Payments from the provident fund and its balance are not reflected in the Commission's financial statements.

15. MANAGEMENT AND ADMINISTRATION FEES

Management and administration fees are calculated at a percentage (11% for most projects) of the project expenditure and are recognised as revenue under the OEB fund and as expense under the Development Partners' funds. These are used to cover the expenses of the MRCS in rendering technical and administrative services to the projects. Management and administration fees of USD 1,499,699 (2010: USD 1,953,751) are netted off on the preparation of the Commission's financial statements.

Hans Guttman
Chief Executive Officer
24 February 2012

Nguyen Thu Mai
Chief, Finance and Administration Section