

# Audited Project Financial Statements

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Project Number: 41193-019

Loan/Grant Number: 3129

Period covered: 1 January 2018 to 31 December 2018

## MON: Western Regional Road Corridor Development Program – Tranche 2

Prepared by Ministry of Road and Transportation Development

For the Asian Development Bank

Date received by ADB: 19 June 2019

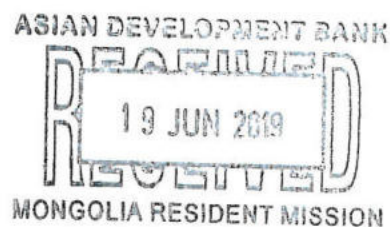
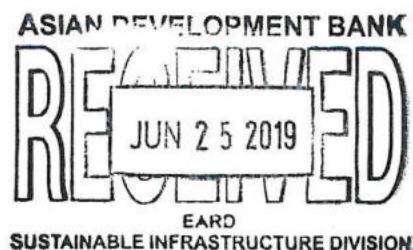
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# Financial Statements and Independent Auditor's Report

## Western Regional Road Corridor Development Program – Tranche 2

Loan Number: 3129MON; Project Number: 41193-019

31 December 2018



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# Independent auditor's report

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To the management of the Western Regional Road Corridor Investment Program – Tranche 2 (MON-3129)

## *Opinion*

We have audited the accompanying financial statements of the Western Regional Road Corridor Investment Program – Tranche 2 (MON-3129) (the "Project"), which comprise the statement of financial position as of 31 December 2018, and the statement of financial performance, changes in net assets/equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (the "financial statements").

In our opinion, the accompanying financial statements of the Western Regional Road Corridor Investment Program – Tranche 2 present fairly, in all material respects, the financial position of the Project as of December 31, 2018, and its financial performance, cash flows, and changes in net assets/equity for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB).

## *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Western Regional Road Corridor Investment Program in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Mongolia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Responsibilities of Management for the Financial Statements*

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

## *Auditor's Responsibilities for the Audit of the Financial Statements*

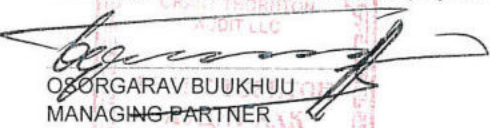
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



*Other matter*

The financial statements of the Western Regional Road Corridor Investment Program – Tranche 2 as 31 December 2017 were recorded on cash basis, and Dalaivan Audit LLC has audited the financial statements and provided an unqualified opinion on 29 June 2018.

According to the Loan agreement, the project will be implemented from 31 August 2014 to 30 June 2019.



O. ORGARAV BUUKHUU  
MANAGING PARTNER

Ulaanbaatar, Mongolia  
June 03, 2019

# Statement of financial position

(accrual basis)

In USD	Note	As of 31 December 2018	As of 31 December 2017
<b>Assets</b>			
<i>Current assets</i>			
Cash and bank balances	4	11,653.34	1,751.66
Prepayments	5	120,338.64	103,856.71
		<u>131,991.98</u>	<u>105,608.37</u>
<i>Non-current assets</i>			
Other non-current assets	6	70,316,409.04	40,813,527.78
		<u>70,316,409.04</u>	<u>40,813,527.78</u>
<b>Total assets</b>		<u><u>70,448,401.02</u></u>	<u><u>40,919,136.15</u></u>
<b>Net assets and liabilities</b>			
<i>Current liabilities</i>			
Payables	7	120,338.64	103,856.71
		<u>120,338.64</u>	<u>103,856.71</u>
<i>Non-current liabilities</i>			
Loans and borrowings	8	70,327,582.64	40,814,054.10
		<u>70,327,582.64</u>	<u>40,814,054.10</u>
<i>Net assets/equity</i>			
Accumulated surplus/deficit		479.75	1,225.34
For the reporting year		(745.60)	328.47
For the previous year		1,225.34	896.87
<b>Total net assets and liabilities</b>		<u><u>70,448,401.02</u></u>	<u><u>40,919,136.15</u></u>

The financial statements were approved on June 03, 2019:



B. Bayan-Amgalan  
Project coordinator



D. Tsetsegmaa  
Accountant

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 22



# Statement of financial performance

(accrual basis)

In USD	Note	Year ended 31 December 2018	Year ended 31 December 2017
<i>Revenue</i>			
Transfers from other government entities	9	702,133.71	-
Interest income	10	547.59	328.47
		<u>702,681.30</u>	<u>328.47</u>
Grants and other transfer payments	11	702,133.71	-
		<u>702,133.71</u>	<u>-</u>
<i>Current operating expenses</i>			
Exchange difference		1,293.19	-
		<u>1,293.19</u>	<u>-</u>
Surplus/(deficit) for the current operations		<u>(745.60)</u>	<u>328.47</u>

The statement of financial performance is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 22.

# Statement of changes in net assets (accrual basis)

In USD	Accumulated surpluses/ (deficit)	Total
as of 1 January 2017	896.87	896.87
Surpluses/(deficit) for the year as of 31 December 2017	328.47	328.47
	1,225.34	1,225.34
Surpluses/(deficit) for the year as of 31 December 2018	(745.60)	(745.60)
	479.75	479.75

The statement of changes in net assets is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 22.



# Independent Auditors' Reasonable Assurance report

"Grant Thornton Audit" LLC  
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To the management of the Western Regional Road Corridor Investment Program – Tranche 2 (MON-3129)

## Scope

We have performed a Reasonable Assurance Engagement in relation to statements of the Western Regional Road Corridor Investment Program – Tranche 2 (MON-3129) ("the Project"), the Statements of Expenditures, Withdrawal Applications and the Statement of Special Account presented to Asian Development Bank ("the ADB") for the reporting period in order to provide an opinion as to whether the subject matter detailed below ('Subject Matter') meets, in all material respects, the criteria as presented below as of December 31, 2018.

## Subject matter

The Subject Matter for our assurance is:

- to express an opinion on the Project financial reports ("Financial Reports"), statement of expenditures and withdrawal applications as far as the Special account procedure is concerned; and
- to assure that the proceeds of the ADB's loan have been utilized according to the contractual provisions.

## Criteria

In conducting the assurance engagement, we expressed conclusion on the following criteria and other matters:

- Payments out of the Advance account have been made in accordance with the conditions of the Loan Agreement and the corresponding the Facility Administration Manual. Where ineligible expenditures are identified, these should be noted separately.
- The Advance account has been maintained in accordance with the provisions of the Loan Agreement and the Facility Administration Manual. This also comprises interest earned from balances.
- The statements of expenditures can be relied upon to support the related withdrawal applications. Clear linkage should exist between the statements of expenditures, the withdrawal applications presented to ADB and accounting records.
- Expenditures are supported by relevant and reliable evidence.
- Goods and services financed have been procured in accordance with the Loan Agreement and the Facility Administration Manual.
- There are no specific deficiencies and areas of weakness in the internal systems and controls of the Entity.



## *Management's Responsibility*

The management of the Project is responsible for the preparation and fair presentation of its financial statements in accordance with the with financial reporting provisions of Loan Agreement dated 02 June, 2014 between ADB and MoF.

## *Our independence*

We have complied with the Code of Ethics for Professional accountants issued by International Ethics Standard Board for Accountants including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

## *Our Responsibility*

Our responsibility is to express a reasonable assurance conclusion as to whether the Subject Matter is presented in accordance with the criteria, in all material aspects. Our assurance engagement has been planned and performed in accordance with the International Standards on Assurance Engagements as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants, with special reference to ISAE 3000 revised.

## *Level of Assurance*

A reasonable assurance engagement consists of making enquiries and applying analytical, controls testing and other evidence-gathering procedures that are sufficient for us to obtain a meaningful level of assurance as the basis for a positive form of conclusion. The procedures performed depend on the assurance practitioner's judgement including the risk of material misstatement of the specific activity data, whether due to fraud or error. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

## *Summary of the work performed*

The assurance procedures we undertook included, but were not limited to:

- Reviewing policies and procedures established by ADB;
- Reviewing any changes to policies and procedures established by ADB;
- Reviewing authorizations/approvals of expenditures and validity with supporting documents;
- Reviewing allocation of expenditures in conformity with the agreed budget;
- Checking arithmetic exactitude of the accounts, supporting documents and financial statements and reports;
- Confirming effectiveness of Project and financial accounting and reporting processes;
- Verifying the expenditures correspond to the agreed budgets;
- Verifying physical existence and movements of the goods of the Project (fixed assets, inventory items, current assets);
- The maintenance of proper books and records;
- The provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- The use of external funds in accordance with the relevant legal and financing agreements;
- On the advance fund procedure, audit procedures are planned and performed to ensure
  - a. the advance account (and any sub-accounts) has been managed in accordance with ADB's Loan Disbursement Handbook,
  - b. the cash balance of the advance account (and any sub-accounts) is supported by evidence,
  - c. the expenditures paid from the advance account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in the loan and grant agreements, and
  - d. the amount of expenditures paid from the advance account (and any sub-accounts) comply with disbursement percentages stipulated in the loan and grant agreements;



- Adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account (where applicable);
- On the SOE procedure, audit procedures are planned and performed to ensure that
  - a. the SOEs have been prepared in accordance with ADB's Loan Disbursement Handbook,
  - b. the individual payments for expenditures stated in the SOE are supported by evidence,
  - c. the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in loan and grant agreements, and
  - d. the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan and grant agreements;
- Reviewing existence of adequate bid and purchasing procedures for materials and services, conformity of Procurement Procedure under the Agreement;
- Reviewing disposition an implementation of observations, adjustments and recommendations resulting from previous financial review reports;
- Confirming internal systems and process were functioning as indicated and obtaining supporting evidence; and
- Any weaknesses in internal controls over the procurement process.

The procedures were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling records.

### *Limitations in our assurance*

In accordance with the terms of our engagement, this Independent Reasonable Assurance report on financial statements have been prepared solely for ADB and for no other purpose or in any other context.

### *Opinion*

In our opinion, the applications for reimbursement of expenditure made for the year ended 31 December 2018 were presented fairly in accordance with the Special account procedure.

The funds, in all material respects, have been used properly for the purposes intended in the Loan Agreement dated 02 June 2014.

The Statement of special account presents fairly, in all material respects, the ending balances as of 31 December 2018 and the account activity during the year ended 31 December 2018.

All expenditures are supported by relevant and reliable evidence.

  
B. SORGARAV  
MANAGING PARTNER  
Ulaanbaatar, Mongolia  
03 June 2019



# Statement of Sources and uses of funds (cash basis)

In USD	Cumulative as of 31 December 2018	Current period	Cumulative as of 31 December 2017
<i>Sources of funds</i>			
ADB funding	68,117,598.04	28,233,070.82	39,884,527.22
GOM funding	702,133.71	702,133.71	-
Interest and commitment charges	2,209,984.60	1,176,601.01	1,033,383.59
Other revenue	1,772.93	547.59	1,225.34
	<u>71,031,489.28</u>	<u>30,112,353.13</u>	<u>40,919,136.15</u>
<i>Uses of funds</i>			
Civil works	64,179,735.95	26,988,671.48	37,191,064.47
Equipment	702,133.71	702,133.71	-
Consultant services	3,431,763.00	1,030,456.00	2,401,307.00
Project Administration	494,925.49	203,296.06	291,629.43
Interest and commitment	2,209,984.60	1,176,601.01	1,033,383.59
Exchange difference gain/loss	1,293.19	1,293.19	-
	<u>71,019,835.94</u>	<u>30,102,451.45</u>	<u>40,917,384.49</u>
Sources of Funds Less Uses of Funds	<u>11,653.34</u>	<u>9,901.68</u>	<u>1,751.66</u>

These financial statements were approved on 03 June 2019 by:


  
 B. Bayan-Amgalan  
 Project coordinator

  
 D. Tsetsegmaa  
 Finance specialist

## Statement of expenditures (cash basis)

Item In USD	Initial budget	Allocated budget	Disbursement cumulative as of Dec 31 2017	Current disbursement	Disbursement cumulative as of Dec 31 2018	Deviation	Component financial progress %
	a	b	c	d	e=c+d	f=b-e	g=b/e
Civil works	107,070,000.00	107,070,000.00	37,191,064.47	26,988,671.48	64,179,735.95	42,890,264.05	60%
Equipment (Khovd)	1,120,000.00	1,120,000.00	-	-	-	1,120,000.00	0%
Equipment (Baya-Ulgii)	1,120,000.00	1,120,000.00	-	-	-	1,120,000.00	0%
Consulting services	6,145,000.00	6,145,000.00	2,401,307.00	1,030,456.00	3,431,763.00	2,713,237.00	56%
Project administration	1,400,000.00	1,400,000.00	291,629.43	203,296.06	494,925.49	905,074.51	35%
Interest and commitment	8,145,000.00	8,145,000.00	1,033,383.59	1,176,601.01	2,209,984.60	5,935,015.40	27%
	<b>125,000,000.00</b>	<b>125,000,000.00</b>	<b>40,917,384.49</b>	<b>29,399,024.55</b>	<b>70,316,429.04</b>	<b>54,683,570.96</b>	<b>56%</b>

These financial statements were approved on 03 June 2019 by:

  
B. Bayan-Amgalan

Project coordinator

  
D. Tsetsegmaa

Finance specialist

# Statement of Advance account

(cash basis)

In USD	Amount
<b>PART A. TRANSACTIONS</b>	
Balance as at 31.12.2017	1,625.91
Advance Account №.106000036723	
Add: ADB replenishments	264,771.34
Add: Interest Income Earned on Balance of Advance Account	461.80
Add: Transferred from account in MNT to Advance account	222.22
Deduct: Total Expenditures	(66,737.53)
Deduct: Transferred to operating account	(188,688.34)
Deduct: Transferred interest income to the account of Government	
Deduct: Exchange rate loss	
Deduct: Bank charge refunds	(20.00)
Balance as at 31.12.2018	11,635.40
Advance account №.106000036723	
<b>PART B. RECONCILIATION</b>	
Advance from ADB	193,200.00
Balance as at 31.12.2018	11,635.40
Add:	
Claimed, but not replenished (WA No.00085)	182,026.40
Disbursed from Advance account, but not claimed yet	-
Bank interest income	(461.80)
Total advance transferred to Advance account	193,200.00



These financial statements were approved on 03 June 2019 by:

B.Bayan-Amgalan  
Project coordinator


D.Tsetsegmaa  
Finance specialist

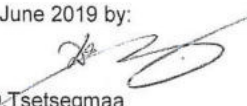


# Statement of sub account (cash basis)

In USD	Amount
Transactions	
Balance as of December 31, 2017	125.75
Sub account's № 100900028066	
Add: Transferred from advance account	188,688.34
Add: Interest income on sub account	85.79
Deduct: Total expenditures	(168,294.64)
- Civil works	-
- Equipment	-
- Consultant service	-
- Project management	(168,294.64)
Less: Transferred into cash on hand in MNT	(20,365.08)
Less: Transferred into cash on hand in USD	-
Less: Salary expense sourced from interest income	-
Less: Transferred into advance account in USD	(222.22)
Ending Balance as of December 31, 2018	17.94
Sub account № 100900028066	

These financial statements were approved on 03 June 2019 by:

  
B. Bayan-Amgalan  
Project coordinator

  
D. Tsetsegmaa  
Finance specialist

# Summary of withdrawal applications

WA No.	Claimed date	Claimed amount	Credited date	Credited amount	Type of WA
<b>WAs liquidated in previous years, but replenished in 2018</b>					
00048	2018.10.13	165,193.07	2018.01.31	165,193.07	Replenishment
<b>Liquidation only disbursement in 2018</b>					
00057	2018.06.12	99,578.27	2018.08.21	99,578.27	Replenishment
<b>2018</b>					
<b>WAs documented and replenished direct payments in 2018</b>					
00058	2018.05.17	114,922.00	2018.06.27	114,922.00	Direct payment
00059	2018.05.25	576,593.62	2018.07.11	576,593.62	Direct payment
00060	2018.06.12	127,602.00	2018.08.06	127,602.00	Direct payment
00061	2018.06.12	1,140,497.76	2018.08.06	1,140,497.76	Direct payment
00062	2018.06.12	657,744.91	2018.08.06	657,744.91	Direct payment
00063	2018.06.20	842,542.73	2018.08.16	842,542.73	Direct payment
00064	2018.07.04	138,799.00	2018.08.13	138,799.00	Direct payment
00065	2018.07.06	716,553.00	2018.08.13	716,553.00	Direct payment
00066	2018.07.06	750,883.92	2018.08.22	750,883.92	Direct payment
00067	2018.07.09	2,431,087.64	2018.08.13	2,431,087.64	Direct payment
00068	2018.07.09	135,340.00	2018.09.04	135,340.00	Direct payment
00069	2018.08.15	2,644,110.39	2018.09.14	2,644,110.39	Direct payment
00070	2018.08.15	1,257,296.26	2018.09.17	1,257,296.26	Direct payment
00071	2018.08.15	3,736,420.91	2018.09.27	3,736,420.91	Direct payment
00072	2018.09.03	142,448.00	2018.10.01	142,448.00	Direct payment
00073	2018.10.18	1,915,339.04	2018.11.13	1,915,339.04	Direct payment
00074	2018.10.18	2,483,075.91	2018.11.13	2,483,075.91	Direct payment
00075	2018.10.18	1,838,482.75	2018.11.13	1,838,482.75	Direct payment
00076	2018.10.18	170,651.00	2018.11.13	170,651.00	Direct payment
00077	2018.10.22	835,022.06	2018.11.23	835,022.06	Direct payment
00078	2018.10.22	608,219.52	2018.11.23	608,219.52	Direct payment
00079	2018.10.29	1,825,103.86	2018.11.23	1,825,103.86	Direct payment
00080	2018.10.29	717,403.95	2018.11.23	717,403.95	Direct payment
00081	2018.11.13	1,251,787.81	2018.12.12	1,251,787.81	Direct payment
00082	2018.11.13	760,505.44	2018.12.12	760,505.44	Direct payment
00083	2018.11.13	149,866.00	2018.12.12	149,866.00	Direct payment
<b>WAs liquidated in 2018 but not replenished yet</b>					
00084	2018.12.05	81,638.00	2019.01.29	81,638.00	Direct payment
<b>WAs disbursed in 2018, but not claimed</b>					
00085	2019.02.28	182,026.40	2019.05.03	182,026.40	Replenishment

# Notes to the financial statements

## 1 Project background and information

On June 02, 2014, the Asian Development Bank (ADB) and the Government of Mongolia (GOM) signed Loan Agreement MON-3129 (Ordinary Operations) to provide an amount of 125,000,000 USD for financing Western Regional Road Corridor Investment Program Project-2. The project date is June 30, 2019.

### Project purpose:

Construction of a 743.1 km road through the Western Regional of Mongolia, Asian Highway 4 (AH4) and a component of the larger UNESCAP-designed Asian Highway network, also CAREC corridor 4 "a", which includes Yarant-Khovd-Olgyn-Ulaanbaishint to provide an efficient and safe regional transport route developed in the Western Region of Mongolia to link Xinjiang Autonomous Region in the PRC and Siberia Province of the Russian Federation through Khovd and Bayan-Olgyn aimags of Western Mongolia, to facilitate the flow of goods and passengers between the three countries, to promote regional transport of freight and passengers via the Western Road Corridor and increase economic development and regional trade, to build a road that will meet Asian auto road standards on technical safety..

Outputs to be financed under project 2 are expected to be (i) 189.7 km of paved road constructed between Khovd provincial center and Ulaanbaishint; (ii) two maintenance unit established and equipped, (iii) three bridges and 14.9 km of local roads rehabilitated in Khovd provincial center and Ulgii; and (iv) additional and ongoing support for capacity development and reform in the road subsector.

	Item	Total amount allocated for ADB financing, USD	Percentage of ADB financing from the Loan account
1	Civil works	107,070	
1A	CW1-1: 50 km road from Khashaatiin davaa to Tolbo soum	22,550	100% of ADB financing
1B	CW1-2: 53.9km road from Shurag bridge to Khovd	28,230	100% of ADB financing
1C	CW1-3: 60 km road Khashaatiin davaa to Tolbo soum	46,100	100% of ADB financing
1D	CW1-4: 25.8km road from Tsagaannuur to Ulaanbaishint	10,190	100% of ADB financing
2	Road maintenance center and equipment in Khovd and Bayan-Olgyn	2,240	54.9% and 55.2%
	Project management and consulting services	7,545	100% of ADB financing

Project effectivity date: 31 August 2014

Project closing date: 30 June 2019

The average number of PIU staffs of the Project during 2018 was 5 (2017: 5 staffs).

Address: Arj center, 2nd khoroo, Sukhbaatar district, Ulaanbaatar

## 2 Basis of preparation

### 2.1 Statement of compliance

The financial statements, comprise of statement of financial position, statement of financial performance, statement of changes in net assets and statement of cash flows, explanatory notes to the financial statements



have been prepared in accordance with International Public Sector Accounting Standards ("IPSAS") as issued by the International Accounting Standards Board ("IASB") on accrual basis.

In addition, in accordance with terms of reference provided by ADB, the audit opinion shall be provided over the below statements which have been prepared in accordance with ADB requirement on cash basis of accounting.

1. Statement of advance account,
2. Statement of sources and uses of funds, and
3. A summary statement of expenditures.

## 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

## 2.3 Functional and presentation currency

The national currency of Mongolia is the Mongolian Tugriks ("MNT").

Thus, the project's daily transactions incur in MNT, however in order to avoid substantial amount of foreign currency exchange rate difference, these transactions are converted into USD on daily basis using the exchange rate at grant received date. Therefore, the functional currency of the project is USD. These financial statements are presented in US dollars (unless otherwise stated), since this currency is more useful for the users of these financial statements.

## 2.4 Transitional provision from cash to accrual basis

For audit of FY 2018 financial statements differ from the previous audits in terms of the financial reporting requirements. In the past, ADB requested the projects to submit the audited project financial statements only on a cash basis. To align the project financial reporting with the government laws and regulations, ADB decided to discontinue the cash based financial reporting and shifted to the accrual based financial reporting.

## 2.5 Restatement of financial statements

The Project applies changes in accounting policies and correction of prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: restating the comparative amounts for the prior periods presented in which the error occurred; or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

# 3 Significant accounting policies

## 3.1 Foreign currencies

### *Foreign currency transactions*

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the respective commercial bank prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Mongolia prevailing on the reporting date, which is MNT 2,642.92 for 1 US dollar as of 31 December 2018 (31 December 2017: 2,427.13 MNT for 1 US dollar). Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date).

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period.

## 3.2 Fixed assets

Fixed assets are held for use for administrative purposes are stated in the statement of financial position at their cost, less any subsequent accumulated depreciation  
Cost comprises purchase price including import duties and non-refundable purchase taxes and other directly attributable costs.

Depreciation is charged to statement of financial performance on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

Buildings and constructions	- 40 years
Vehicles	- 10 years
Fittings	- 10 years
Other	- 10 years

### 3.3 Intangible assets

Intangible assets, which are acquired by the the Western Regional Road Corridor Investment Program – Tranche 2 and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to statement of financial performance or is added to the cost of other asset on a straight line basis over the estimated useful lives of the intangible assets, which is estimated at [number] years.

### 3.4 Inventories

The project inventories include supply materials used in the ordinary course of project to be consumed in the project operation.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

### 3.5 Cash and cash equivalents

Cash and bank balances comprise cash on hand and bank accounts. The bank accounts are divided into Advance Account and Operating Account.

### 3.6 Taxes

#### *Indirect taxes, and duties*

The Project is exempted from Value added tax on its purchased goods and services according to the Decree #59 of Minister of Finance, Mongolia dated on 16 February 2017.

#### *Personal Income Tax, and Social and Health Insurance premium*

In respect with salary and salary equivalent income earned by employees and any income earned by other people, the Organization is responsible to withdraw 10 percent of individual income tax and pay such tax to the budget in accordance with the Personal Income Tax Law of Mongolia.

In addition, the Organization is responsible for withdrawing, paying and reporting health and social insurance fee from salary and salary equivalent income earned by employees in accordance with the Law on Social Insurance and the Law on Health Insurance of Mongolia.

### 3.7 Advance account

The Project opened Advance Account No. 106000036723 in USD in complies of the Grant/Loan Agreement. Activities of the Advance account such as its opening, closing, using and replenishment are made in

accordance of Grant Disbursement Handbook of ADB. And the Advance account is used to receive grant mentioned in Grant/Loan Agreement; and its replenishment is made from the grant account based on Summary of Sources and Used of Funds submitted from the Project to ADB.

### 3.8 Revenue recognition

Revenue is measured at the fair value in consideration of actual or expected receipts of the funds from financing organizations and other income from non-operating activities. The revenue is recognized on an accrual basis, in consideration of cost and revenue matching concept.

### 3.9 Expenses

Expenses are recognized when the decreases of economic benefits during the accounting period in form of outflows or depletion of assets or incurrence of liabilities and it can be measured reliably. Cost is recognized as accrual basis.

### 3.10 Procurement

All procurement of goods and works with ADB Grant will be undertaken in accordance with ADB's Procurement Guidelines.

Procurement policy is reflected on the loan agreement made between the GOM and ADB. And the procurements are made according to contracts conducted under selection result due to the following procurement methods in comply of the Project's Procurement Plan.

#### Goods and Services

Procurement methods	Thresholds
International Competitive Bidding /work/	USD 3,000,000 ≤
International Competitive Bidding /goods/	USD 500,000 ≤
National Competitive Bidding /work/	USD 200,000 ≤ USD 3,000,000
National Competitive Bidding /goods/	USD 100,000 ≤ USD 500,000
Shopping /work/	≥ USD 200,000
Comparison methods /goods/	≥ USD 100,000

Taking into account the changes agreed with ADB; the national competitive bidding (NCB) is undertaken in accordance with the Law of Mongolia "On procurement of goods, works and services with state and local funds".

## 4 Cash and bank balances

In USD	As of 31 December 2018	As of 31 December 2017
Bank accounts	11,653.34	1,751.66
	<u>11,653.34</u>	<u>1,751.66</u>

Refer to note 3.1 for the currencies in which the cash and bank balances are denominated.

## 5 Prepaid expenses

In USD	As of 31 December 2018	As of 31 December 2017
Civil works*	10,936.12	5,094.86
Consultant service**	109,402.52	36,800.00
Project management	-	61,961.85
	<u>120,338.64</u>	<u>103,856.71</u>



\* Expenses for November and December 2018, which are claimed by China Huashi Enterprises LLC, Lot 3 contractor in 2019, are recorded as prepaid expenses on accrual basis.

\*\* Expenses for November and December 2018, which are claimed by ICT consulting firm in 2019, are recorded as prepaid expenses on accrual basis.

## 6 Other non-current assets

In USD	As of 31 December 2018	As of 31 December 2017
Civil works	64,179,735.95	37,185,969.61
Consultant service	3,431,763.00	2,364,507.00
Project management	494,925.49	229,667.58
Interest and Commitment	2,209,984.60	1,033,383.59
	<u>70,316,409.04</u>	<u>40,813,527.78</u>

### 1. Civil works

No.	Contract Name	Contractor	Contract date	Contract expiry date	Contract amount	Amount paid as of Dec 31, 2018	Unpaid balance as of Dec 31, 2018	Remark
1	CW1-1: 50 km road from Khashaatiin davaa to Tolbo soum	China Huashi Enterprises	2015.08.04	2018.10.31	22,617,581.18	19,122,903.65	3,494,677.53	Completed
2	CW1-2: 53.9km road from Shurag bridge to Khovd	HKB International Holding	2015.08.04	2018.10.31	27,421,566.00	24,704,691.17	2,716,874.83	Completed
3	CW1-3: 60 km road Khashaatiin davaa to Tolbo soum	China Huashi Enterprises	2015.08.04	2019.09.30	36,519,718.18	20,352,141.13	16,167,577.05	On going
Total					<b>86,558,865.36</b>	<b>64,179,735.95</b>	<b>22,379,129.41</b>	

### 2. Consulting service

No	Contract Name	Contractor	Contract date	Contract expiry date	Contract amount	Amount paid as of Dec 31, 2018	Unpaid balance as of Dec 31, 2018	Remark
1	Construction Supervision	ICT firm	2015.08.04	2019.08.03	4,996,290.00	3,313,562.00	1,682,728.00	On going
2	Environmental monitoring consultant	E.Khasar	2016.05.20	2018.10.30	110,340.00	90,180.00	20,160.00	On going

								On going
3	Social Safeguard and HIV/AIDS monitoring consultant	Ch.Uranchimeg	2016.08.22	2018.10.30	47,100.00	28,021.00	19,079.00	
Total					5,153,730.00	3,431,763.00	1,721,967.00	

### 3. Project management expense

In USD	Cumulative as of December 31, 2018	Current period	Cumulative as of December 31, 2017
PIU staff salary	341,883.13	192,126.04	149,757.09
Office rent	72,361.43	43,734.92	28,626.51
Audit expense	47,188.39	23,481.68	23,706.71
Postage and communication	6,843.17	806.00	6,037.17
Field trip	7,680.68	1,979.11	5,701.57
Stationary	7,384.35	1,231.09	6,153.26
Transportation expense	2,107.65	-	2,107.65
Computer	1,631.47	-	1,631.47
Other	7,845.22	1,899.07	5,946.15
	<b>494,925.49</b>	<b>265,257.91</b>	<b>229,667.58</b>

### 4. Interest and commitment charges

In USD	Cumulative as of December 31, 2018	Current period	Cumulative as of December 31, 2017
Interest and commitment charges	2,209,984.60	1,176,601.01	1,033,383.59
	<b>2,209,984.60</b>	<b>1,176,601.01</b>	<b>1,033,383.59</b>

ADB computes the Interest and commitment charges every 15 April and 15 October according to the Loan Agreements and a total of 1,176,601.01 USD was computed for the reporting period.

## 7 Payables

In USD	As of 31 December 2018	As of 31 December 2017
Civil works*	10,936.12	5,094.86
Consultant service**	109,402.52	36,800.00
Project management	-	61,961.85
	<b>120,338.64</b>	<b>103,856.71</b>

\* Expenses for November and December 2018, which are claimed by China Huashi Enterprises LLC, Lot 3 contractor in 2019, are recorded as a payable on accrual basis.

\*\* Expenses for November and December 2018, which are claimed by ICT consulting firm in 2019, are recorded as a payable on accrual basis.

## 8 Loans and borrowings

In USD	Current		Non-current	
	As of 31 December 2018	As of 31 December 2017	As of 31 December 2018	As of 31 December 2017
ADB loan	-	-	70,327,602.64	40,814,054.10
	-	-	70,327,602.64	40,814,054.10

According to the Loan Agreement made on June 02, 2014, ADB agrees to lend to GoM an amount in various currencies equivalent to 125,000,000 USD and the loan will be paid from 15 October 2019. During the reporting period, ADB paid a total of 29,409,671.83 USD.

## 9 Transfers from other government entities

In USD	Year ended 31 December 2018	Year ended 31 December 2017
Transfers from other government entities	702,133.71	-
	702,133.71	-

## 10 Interest income

In USD	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	547.59	328.47
	547.59	328.47

## 11 Project implementation expense

In USD	Year ended 31 December 2018	Year ended 31 December 2017
Payment of equipment	702,133.71	-
	702,133.71	-

Road maintenance equipment amounting to USD 702,133.71 were procured and supplied to the local road maintenance companies by funding of GoM on March 21, 2018.

## 12 Exchange difference

In USD	Year ended 31 December 2018	Year ended 31 December 2017
Foreign currency translation difference	1,293.19	-
	1,293.19	-

The foreign currency translation difference was created because PIU did not record payments transferred from subaccount maintained in local currency in accordance with the Section 2, Appendix 7B, Loan Disbursement Handbook, ADB.

### 13 Translation

The audit report has been prepared in both Mongolian and English languages. The report in Mongolian language will prevail in case of discrepancies between the versions in Mongolian and English languages.

### 14 Subsequent event

Overall progress of The construction works of 50 km road from Khashaatiin davaa to Shurag Bridge was 100% as of end 2018. State Commission of MRTD worked at the construction site in December 2018 and took over the completed works on March 5, 2019. Overall progress of construction works of 56.6km road from Shurag bridge to Khovd was 100% by the end of 2018. State Commission of MRTD worked at the construction site in December 2018 and took over the completed works on January 9, 2019.