

Audited Project Financial Statements

Project Number: 41193-019

Loan Number: 3129

Period covered: 1 January 2019 to 31 December 2019

Mongolia: Western Regional Road Corridor Investment Program – Tranche 2

Prepared by Ministry of Roads and Transport

For the Asian Development Bank

Date received by ADB: 20 June 2020

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB and the Ministry of Roads and Transport.

Financial Statements and Independent Auditor's Report

Western Regional Road Corridor Investment Program – Tranche 2

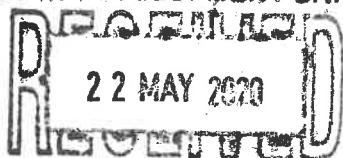
Loan number: 3129-MON

Project number: 41193-019

31 December 2019



ASIAN DEVELOPMENT BANK



MONGOLIA RESIDENT MISSION

Contents

Abbreviation	1
Independent auditor's report	2
Statement of financial position (accrual basis)	4
Statement of financial performance (accrual basis)	5
Statement of changes in net assets (accrual basis)	6
Statement of cash flows (cash basis)	7
Independent auditors' reasonable assurance report	8
Statement of sources and uses of funds (cash basis)	11
Statement of budgeted vs actual expenditures (cash basis)	12
Statement of advance account (cash basis)	13
Statement of operating account State treasury account 100900011817 (cash basis)	15
Statement of operating account State bank 104900091863 (cash basis)	16
Summary of withdrawal applications	17
Notes to the financial statements	18

Abbreviation

ADB	- Asian Development Bank
IPSAS	- International Public Sector Accounting Standards
IFRS	- International Financial Reporting Standards
WA	- Withdrawal application
GOM	- Government of Mongolia
ISAs	- International Standards on Auditing
ISAE	- International Standard on Assurance Engagements
SOBAE	- Statement of Budgeted versus Actual Expenditures
USD	- US Dollar
MNT	- Mongolian Tugrik
NCB	- National competitive bidding
LFIS	- Loan financial information system
MOF	- Ministry of Finance Mongolia
VAT	- Value added tax
PIU	- Project implementation unit
SOE	- State-Owned Enterprise

Independent auditor's report

"Grant Thornton Audit" LLC
A member firm of GTIL global
network for assurance, tax and
advisory services

Dalai Tower, 9th floor,
UNESCO street, Sukhbaatar
District-1, Ulaanbaatar 14230
Mongolia
T + 976 70 110744
T + 976 70 110799

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

Opinion

We have audited the accompanying financial statements of Western Regional Road Corridor Investment Program – Tranche 2 (3129-MON) (the "Project"), which comprise the Statement of financial position as of 31 December 2019, 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.

In our opinion, the accompanying financial statements of the Project present fairly, in all material respects, the financial position of the Project as of December 31, 2019, 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 – Tranche 2 (3129-MON) 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.

Emphasis of the Matter

The Project financial statements are prepared in accordance with a special purpose framework and that, as a result, the Project financial statements may not be suitable for another purpose.

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.



B. SORGARAV
MANAGING PARTNER

Ulaanbaatar, Mongolia
Date: 8 May 2020


Statement of financial position

(accrual basis)

In USD	Note	As of 31 December 2019	As of 31 December 2018
Assets			
<i>Current assets</i>			
Cash and bank balances	4	8,052.72	11,653.34
Prepayments	5	-	120,338.64
		8,052.72	131,991.98
<i>Non-current assets</i>			
Fixed assets	6	3,488.63	-
Other non-current assets	7	86,667,190.53	70,316,409.04
		86,670,679.16	70,316,409.04
Total assets		86,678,731.88	70,448,401.02
Net assets and liabilities			
<i>Current liabilities</i>			
Payables	8	1,258,840.40	120,338.64
		1,258,840.40	120,338.64
<i>Non-current liabilities</i>			
Loans and borrowings	9	85,419,903.31	70,327,582.64
		85,419,903.31	70,327,582.64
<i>Net assets/equity</i>			
Accumulated surplus/(deficit)		(11.83)	479.74
For the reporting period		(491.57)	(745.60)
For the previous period		479.74	1,225.34
Total net assets and liabilities		86,678,731.88	70,448,401.02

The financial statements were approved on 8 May 2020 by:


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 18 to 25.

Statement of financial performance (accrual basis)

In USD	Note	Year ended 31 December 2019	Year ended 31 December 2018
<i>Revenue</i>			
GOM funding	10	806,559.60	702,133.71
Interest income		918.80	547.59
		<u>807,478.40</u>	<u>702,681.30</u>
<i>Expenses</i>			
Project implementation expenses	11	806,559.60	702,133.71
Operating expenses	12	1,364.88	-
Exchange rate difference	13	45.49	1,293.19
		<u>807,969.97</u>	<u>703,426.90</u>
Surplus/(deficit) for the current operations		<u>(491.57)</u>	<u>(745.60)</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 18 to 25.

Statement of changes in net assets (accrual basis)

In USD

	Contributed capital	Other reserves	Accumulated surpluses/ (deficit)	Total
as of 1 January 2018	-	-	1,225.34	1,225.34
Surpluses/(deficit) for the year	-	-	(745.60)	(745.60)
Changes in accounting policy	-	-	-	-
as of 31 December 2018	-	-	479.74	479.74
Surpluses/(deficit) for the year	-	-	(491.57)	(491.57)
Changes in accounting policy	-	-	-	-
as of 31 December 2019	-	-	(11.83)	(11.83)

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 18 to 25.

Statement of cash flows (cash basis)

In USD	Note	Year ended 31 December 2019	Year ended 31 December 2018
<i>Cashflows from Operating Activities</i>			
Receipts		182,945.20	702,681.30
Funds received from ADB		182,026.40	-
Funds received from GOM		-	702,133.71
Interest received		918.80	547.59
Payments		181,646.82	254,124.06
PIU staff salary		99,674.07	146,073.72
Paid to contractors	12	39,183.00	50,828.00
Other payments	13	42,789.75	57,222.34
Net Cashflows from Operating Activities		1,298.38	448,557.24
<i>Cashflows from Investing Activities</i>			
Purchase of equipment		3,924.71	(702,133.71)
Net Cashflows from Investing Activities		(3,924.71)	(702,133.71)
<i>Cashflows from Financing Activities</i>			
Proceeds from borrowings		-	264,771.34
Interest income capitalized to MOF		(918.80)	-
Bank charge		(10.00)	-
Net Cashflows from Financing Activities		(928.80)	264,771.34
Exchange rate difference		(45.49)	(1,293.19)
Net increase/(decrease) in Cash and cash equivalents		(3,600.62)	9,901.68
Cash and cash equivalents at beginning of the period		11,653.34	1,751.66
Cash and cash equivalents at end of the period		8,052.72	11,653.34

The Statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 18 to 25.

Independent auditors' Reasonable Assurance Report

"Grant Thornton Audit" LLC
A member firm of GTIL global
network for assurance, tax and
advisory services

Dalai Tower, 9th floor,
UNESCO street, Sukhbaatar
District-1, Ulaanbaatar 14230
Mongolia
T + 976 70 110744
T + 976 70 110799

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

Scope

We have performed a Reasonable Assurance Engagement in relation to statements of the Western Regional Road Corridor Investment Program – Tranche 2 (3129-MON) ("the Project"), the Statement of financial performance, the Statement of budgeted versus actual expenditures and the Statement of advance 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, 2019.

Subject matter

The Subject Matter for our assurance is:

- to express an opinion on the Project financial reports ("Financial Reports"), Statement of budgeted versus actual expenditures, the Statement of financial performance and withdrawal applications as far as the advance 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 Separate Agreement. 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 Separate Agreement. 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 Statement of budgeted versus actual 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 Separate Agreement.

- There are no specific deficiencies and areas of weakness in the internal systems and controls of the Project.

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 2 June 2014 between ADB and GOM.

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 agreements, and
 - d. the amount of expenditures paid from the advance account (and any sub-accounts) comply with disbursement percentages stipulated in the loan 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 SOBAE procedure, audit procedures are planned and performed to ensure that
 - a. the SOBAEs have been prepared in accordance with ADB's Loan Disbursement Handbook,
 - b. the individual payments for expenditures stated in the SOBAE are supported by evidence,
 - c. the expenditures stated in the SOBAEs comply with the approved project purpose and cost categories stipulated in loan agreements, and
 - d. the amount of expenditures stated in the SOBAEs comply with disbursement percentages stipulated in the loan agreements;
- Reviewing existence of adequate bid and purchasing procedures for materials and services, conformity of Procurement Procedure under the Agreement;
- Reviewing disposition and 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 2019 were presented fairly in accordance with the advance account procedure.

The funds, in all material respects, have been used properly for the purposes intended in the Separate Agreement under Loan Agreement dated 2 June 2014.

The Statement of advance 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 2019.

All expenditures are supported by relevant and reliable evidence.



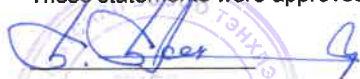
B. OSORGARAV
MANAGING PARTNER

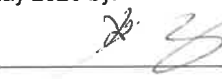
Ulaanbaatar, Mongolia
Date: 8 May 2020

Statement of sources and uses of funds (cash basis)

In USD	Cumulative as of 31 December 2019	Current period	Cumulative as of 31 December 2018
<i>Sources of funds</i>			
ADB funding	85,419,903.31	15,092,320.67	70,327,582.64
GOM funding	1,508,693.31	806,559.60	702,133.71
Interest income	2,691.73	918.80	1,772.93
	86,931,288.35	15,899,799.07	71,031,489.28
<i>Uses of funds - ADB</i>			
Civil works	75,697,809.81	11,518,073.86	64,179,735.95
Equipment	-	-	-
Consulting services	4,562,969.00	1,131,206.00	3,431,763.00
Project administration	641,314.02	146,388.53	494,925.49
Interest and commitment	4,510,182.01	2,300,197.41	2,209,984.60
	85,412,274.84	15,095,865.80	70,316,409.04
<i>Uses of funds - GOM</i>			
Equipment	1,508,693.31	806,559.60	702,133.71
	1,508,693.31	806,559.60	702,133.71
Sources of Funds Less Uses of Funds	10,320.20	(2,626.33)	12,946.53
<i>Other expenditures</i>			
Interest income capitalized to MOF	918.80	918.80	-
Exchange rate difference	1,338.68	45.49	1,293.19
Bank charge	10.00	10.00	-
	2,267.48	974.29	1,293.19
Surplus/(Deficit)	8,052.72	(3,600.62)	11,653.34

These statements were approved on 8 May 2020 by:


B. Bayan-Amgalan
Project coordinator


D. Tsetsegmaa
Accountant

Statement of budgeted vs actual expenditures (cash basis)

Category	Category code	Initial budget	Allocated budget	Disbursement cumulative as of 31 December 2018	Current disbursement	Disbursement cumulative as of 31 December 2019	Deviation	Component financial progress %
		A	B	C	D	E=C+D	F=B-E	G=E/B
Civil works	0301	107,070,000.00	107,070,000.00	64,179,735.95	11,518,073.86	75,697,809.81	31,372,190.19	71%
Equipment (in Khovd)	1501	1,120,000.00	1,120,000.00	-	-	-	1,120,000.00	0%
Equipment (in Bayan-Ulgii)	1502	1,120,000.00	1,120,000.00	-	-	-	1,120,000.00	0%
Consulting services	2101	6,145,000.00	6,145,000.00	3,431,763.00	1,131,206.00	4,562,969.00	1,582,031.00	74%
Project administration	2701	1,400,000.00	1,400,000.00	494,925.49	146,388.53	641,314.02	758,685.98	46%
Interest and commitment	6601	8,145,000.00	8,145,000.00	2,209,984.60	2,300,197.41	4,510,182.01	3,634,817.99	55%
Advance account	9901	-	193,200.00	-	-	-	193,200.00	0%
Total		125,000,000.00	125,193,200.00	70,316,409.04	15,095,865.80	85,412,274.84	39,780,925.16	68%

These statements were approved on 8 May 2020 by:

B.Bayan-Amgalan
Project coordinator

D.Tsetsegmaa
Accountant

Statement of advance account

(cash basis)

In USD	Amount
PART A. TRANSACTIONS	
Balance as of 31 December 2018	
Advance account (State bank 106000036723)	11,635.40
Add: ADB replenishment	182,026.40
Add: Interest income earned on balance of advance account	918.80
Add: Transferred from operating account (State treasury account 100900011817)	3,892.55
Deduct: Total expenditures	39,183.00
- Payment to environment consultant	20,130.00
- Payment to social consultant	19,053.00
Deduct: Transferred to operating account (State treasury account 100900011817)	150,308.63
Deduct: Interest income capitalized to MOF	918.80
Deduct: Bank charge	10.00
Balance as of 31 December 2019	
Advance account (State bank 106000036723)	8,052.72
PART B. RECONCILIATION	
1. Advance from ADB	193,200.00
	193,200.00
2. Balance as of 31 December 2019	
(I) Advance account (State bank 106000036723)	8,052.72
(II) Operating account (State treasury account 100900011817)	-
(III) Operating account (State bank 1049000091863)	-
	8,052.72
3. Add: Disbursed in 2019, but replenished in 2020 (WA00109)	153,029.73
Add: Disbursed in 2019, but not claimed yet	32,541.80

In USD	Amount
Add: Interest income capitalized to MOF	918.80
Add: Exchange rate difference	1,338.68
Add: Bank charge	10.00
4. Deduct: Interest income	2,691.73
Total Reconciled Balance	193,200.00

These statements were approved on 8 May 2020 by:

B. Bayan-Amgalan
Project coordinator

D. Tsetsegmaa
Accountant



Statement of operating account

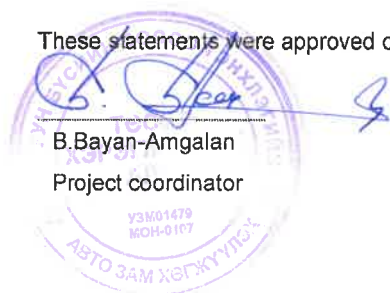
State treasury account 100900011817 (cash basis)

In USD	Amount
Balance as of 31 December 2018	
Operating account (State treasury account 100900011817)	17.94
Add: Transferred from advance account (State bank 106000036723)	150,308.63
Deduct: Total expenditures	145,652.15
- Computer	3,924.71
- Salary	99,674.07
- Rent	25,276.50
- Audit service	12,327.40
- Stationery	987.88
- Posting and communication	363.30
- Field trip	1,963.52
- Other expenses	1,134.77
Deduct: Transferred into advance account (State bank 106000036723)	3,892.55
Deduct: Transferred into operating account (State bank 104900091863)	736.38
Deduct: Exchange rate difference	45.49
Balance as of 31 December 2019	
Operating account (State treasury account 100900011817)	-

These statements were approved on 8 May 2020 by:

B. Bayan-Amgalan
Project coordinator

D. Tsetsemaa
Accountant



Statement of operating account


State bank 104900091863 (cash basis)

In USD	Amount
Balance as of 31 December 2018	
Operating account (State bank 104900091863)	-
Add: Transferred from operating account (State treasury account 100900011817)	736.38
Deduct: Total expenditures	736.38
- Stationery	424.51
- Posting and communication	109.13
- Field trip	137.69
- Other expenses	65.05
Balance as of 31 December 2019	
Operating account (State bank 104900091863)	-

These statements were approved on 8 May 2020 by:



B. Bayan-Amgalan
Project coordinator


D. Tsetsegmaa
Accountant

Summary of withdrawal applications

WA No.	Claimed date	Claimed amount	Credited/ liquidated date	Credited/ liquidated amount	Type of WA
WAs disbursed in 2018 and 2019, but liquidated in 2019					
WA00084	2018.12.05	81,638.00	2019.01.29	81,638.00	Direct payment
WA00087	2019.05.02	104,728.00	2019.05.28	104,728.00	Direct payment
WA00089	2019.06.05	693,723.19	2019.07.05	693,723.19	Direct payment
WAs disbursed in 2018, but replenished in 2019					
WA00085	2019.02.28	182,026.40	2019.05.03	182,026.40	Replenishment
WAs disbursed and liquidated in 2019					
WA00086	2019.04.02	685,539.15	2019.05.03	685,539.15	Direct payment
WA00088	2019.05.02	21,404.00	2019.06.11	21,404.00	Direct payment
WA00090	2019.06.05	74,450.00	2019.07.05	74,450.00	Direct payment
WA00091	2019.06.05	31,261.00	2019.07.05	31,261.00	Direct payment
WA00092	2019.06.28	789,971.50	2019.08.05	789,971.50	Direct payment
WA00093	2019.07.08	93,038.00	2019.07.30	93,038.00	Direct payment
WA00094	2019.07.08	31,184.00	2019.07.30	31,184.00	Direct payment
WA00095	2019.07.23	2,023,473.86	2019.08.21	2,023,473.86	Direct payment
WA00096	2019.08.07	105,351.00	2019.08.27	105,351.00	Direct payment
WA00097	2019.08.07	31,542.00	2019.08.29	31,542.00	Direct payment
WA00098	2019.08.23	2,894,919.29	2019.09.18	2,894,919.29	Direct payment
WA00099	2019.09.05	149,777.00	2019.10.01	149,777.00	Direct payment
WA00100	2019.09.05	28,606.00	2019.10.01	28,606.00	Direct payment
WA00101	2019.09.18	128,743.16	2019.10.25	128,743.16	Direct payment
WA00102	2019.10.09	154,601.00	2019.10.29	154,601.00	Direct payment
WA00103	2019.10.09	25,784.00	2019.12.03	25,784.00	Direct payment
WA00104	2019.10.23	2,546,563.87	2019.11.18	2,546,563.87	Direct payment
WA00105	2019.11.05	141,666.00	2019.12.03	141,666.00	Direct payment
WA00106	2019.11.05	16,993.00	2019.12.03	16,993.00	Direct payment
WA00108	2019.11.15	1,755,139.84	2019.12.11	1,755,139.84	Direct payment
WAs disbursed in 2019, but liquidated in 2020					
WA00107	2019.11.15	232,889.02	2020.01.07	232,889.02	Direct payment
WA00110	2019.12.03	65,071.00	2020.01.03	65,071.00	Direct payment
WA00111	2019.12.23	933,645.38	2020.02.14	933,645.38	Direct payment
WAs disbursed in 2019, but replenished in 2020					
WA00109	2019.12.02	153,029.73	2020.01.22	153,029.73	Replenishment

Notes to the financial statements

1 Project background and information

Background

On June 02, 2014, the Asian Development Bank (ADB) and the Government of Mongolia (GOM) signed Loan Agreement 3129 -MON (Ordinary Operations) to provide an amount of 125,000,000.00 USD for financing Western Regional Road Corridor Investment Program – Tranche 2.

Project purpose and activities

Construction of a 743.1 km road through the Western Region 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-Olgii-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-Olgii 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 the Project 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 Khovd to Shuraga Bridge	22,550	100%
1B	CW1-2: 53.9 km road from Shuraga Bridge to Khashaatiin Davaa	28,230	100%
1C	CW1-3: 60 km road from Khashaatiin Davaa to Tolbo Soum	46,100	100%
1D	CW1-4: 25.8km road from Tsagaannuur to Ulaanbaishint	10,190	100%
2	Equipment in Khovd	1,120	54.9%
	Equipment in Bayan-Ulgii	1,120	55.2%
3	Consulting services	6,145	100%
4	Project management	1,400	100%

Financing amount	125,000,000.00 USD
Project duration period	From 31 August 2014 to 31 December 2020
Financing agency	Asian Development Bank
Executing agency	Ministry of Road and Transport Development of Mongolia
Project management	The average number of staffs during 2019 was 5 (2018: 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 sources and uses of funds,
2. Statement of advance account,
3. Statement of operating account,
4. Statement of budgeted vs actual expenditures and
5. A summary of withdrawal applications.

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 US Dollar ("USD") on daily basis using the exchange rate at loan 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.

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 funding in USD from advance account transferred to MNT operating accounts using first in first out basis for the period.

Government of Mongolia funding, including in-kind in MNT are translated into USD using the official rate issued by Central Bank of Mongolia at the transaction dates.

The assets and liabilities of the Project are translated from MNT into USD at the exchange rate at the end of the reporting period. The resulting exchange difference is recorded in net assets/equity in the foreign currency translation reserve.

Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date).

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 2,733.52 for 1 USD as of 31 December 2019 (31 December 2018: 2,642.92 MNT for 1 USD).

3.2 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 accounts.

3.3 Receivables

Receivable is recognized when revenue is incurred, but not received yet on cash. Receivables are measured at fair value.

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 Prepayment/prepaid expenses

Prepayments are measured and recorded at paid amount.

Prepayment includes:

- prepayment to suppliers
- prepaid expenses for rent, insurance and taxes e.g.

3.6 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
Computer and office equipment	- 3 years

The Project dispose-off assets and recognized as gain or loss in financial statements when hand over the fixed assets to Project executing agency due to project closure.

3.7 Liabilities

Liabilities are measured initially at fair value. Liability is categorized into either short and long term liability depending on due date and its contractual obligation nature. At subsequent date, liability is measured at an amortised cost and derecognized when relevant obligation is expired or terminated.

3.8 Loans and borrowings

The project recognizes and records the loan received from the financing organization as per loan agreement at statement of financial positions.

3.9 Net assets/equity

Net assets are defined as the residual interest in the assets of project after deducting all its liabilities.

3.10 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.

3.11 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.

Expenses which meets asset criteria such as civil works, construction, infrastructure e.g. and consultancy, project implementation cost directly related to these assets under financing of concessional loan are capitalized in statement of financial statement and presented as assets. These assets are disposed-off when the assets are handover to executing agency and recorded as expenses in statement of financial performance.

3.12 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.

3.13 Advance account

The Project opened Advance account No. 106000036723 in USD in complies of the Loan Agreement. Activities of the Advance account such as its opening, closing, using and replenishment are made in accordance with Loan Disbursement Handbook of ADB. And the Advance account is used to receive loan mentioned in Loan Agreement; and its replenishment is made from the loan account based on Summary of sources and uses of funds submitted from the Project to ADB.

3.14 Procurement

All procurement of goods and works with ADB Loan 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 Works

Procurement methods	Thresholds
International Competitive Bidding /Works/	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 /Works/	< USD 200,000
Shopping /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 2019	As of 31 December 2018
Advance account (State bank 106000036723)	8,052.72	11,635.40
Operating account (State treasury account 100900011817)	-	17.94
	8,052.72	11,653.34

5 Prepayments

For the reporting period, works for previous year's prepayment of 109,402.52 USD to ICT-SAIN consulting and 10,936.12 USD to China Huashi Enterprises were performed and capitalized in other non-current assets accounts.

6 Fixed assets

In USD	Computer	Total
<i>Cost</i>		
as of 1 January 2018	-	-
Additions	-	-
as of 31 December 2018	-	-
Additions	3,924.71	3,924.71
as of 31 December 2019	3,924.71	3,924.71
<i>Accumulated depreciation</i>		
as of 1 January 2018	-	-
Charge for the year	-	-
as of 31 December 2018	-	-
Charge for the year	436.08	436.08
as of 31 December 2019	436.08	436.08
<i>Carrying amount</i>		
as of 31 December 2018	-	-
as of 31 December 2019	3,488.63	3,488.63

On August 23, 2019, the Project purchased five new computers for 3,924.71 USD for the needs of the project management unit.

7 Other non-current assets

In USD	As of 31 December 2019	As of 31 December 2018
Civil works – HKB International Holding	25,623,119.34	24,704,691.17
Civil works - China Huashi Enterprises	51,112,481.71	39,475,044.78
Civil works - Khotgor zam LLC	128,743.16	-
Consulting - ICT-SAIN consulting	4,470,656.00	3,313,562.00
Consulting - Environment consultant	129,630.00	90,180.00

In USD	As of 31 December 2019	As of 31 December 2018
Consulting - Social consultant	54,989.00	28,021.00
Project administration	637,389.31	494,925.49
Interest and commitment	4,510,182.01	2,209,984.60
	86,667,190.53	70,316,409.04

8 Payables

In USD	As of 31 December 2019	As of 31 December 2018
Payables to HBK International Holding	232,889.02	-
Payables to China Huashi Enterprises	933,645.38	10,936.12
Payables to ICT-SAIN consulting	65,071.00	109,402.52
Payables to environment consultant*	19,320.00	-
Payables to social consultant*	7,915.00	-
	1,258,840.40	120,338.64

The balance of the previous year's payables to China Huashi Enterprises was settled by WA00089 on 5 July 2019 and payables to ICT-SAIN consulting was settled by WA00084 on 29 January 2019.

* - Payables to the individual consultants have been acknowledged by the MOF, but have not yet been claimed by ADB.

9 Loans and borrowings

Direct payment to suppliers and financing for project management unit from Asian Development Bank (ADB) for Project activities were as follows:

In USD	As of 31 December 2019	As of 31 December 2018
Civil works - HKB International Holding	25,390,230.32	24,704,691.17
Civil works - China Huashi Enterprises	50,178,836.33	39,475,044.78
Civil works - Khotgor zam	128,743.16	-
Consulting - ICT-SAIN consulting firm	4,405,585.00	3,313,562.00
Consulting - Environment consultant	100,040.00	80,720.00
Consulting - Social consultant	24,286.00	16,371.00
Project administration	682,000.49	527,209.09
Interest and commitment	4,510,182.01	2,209,984.6
	85,419,903.31	70,327,582.64

10 GOM funding

In USD	Year ended 31 December 2019	Year ended 31 December 2018
GOM funding	806,559.60	702,133.71
	806,559.60	702,133.71

Within the scope of the project, the GOM purchased road maintenance equipment under the obligation of "Purchase of mechanism and equipment required for road repair and maintenance" with funding from Mongolian side.

11 Project implementation expenses

In USD	Year ended 31 December 2019	Year ended 31 December 2018
Received by Uvurkhangaigai road maintenance SOE	72,277.42	-
Received by Bulgan road maintenance SOE	55,437.76	-
Received by Khargui zam road maintenance SOE	72,277.42	-
Received by Baganuur road maintenance SOE	40,043.52	-
Received by Khuvsigul road maintenance SOE	55,437.76	92,457.78
Received by Taliin zam road maintenance SOE	55,437.76	141,138.85
Received by Gobi-Altai road maintenance SOE	40,043.52	-
Received by Arkhangai road maintenance SOE	72,277.42	68,789.16
Received by Darkhan road maintenance SOE	40,043.52	-
Received by Erdenesant road maintenance SOE	40,043.52	-
Received by Tuv road maintenance SOE	40,043.52	-
Received by Bayanchandmani road maintenance SOE	40,043.52	92,457.78
Received by Nalaikh road maintenance SOE	55,437.76	-
Received by Zavkhan road maintenance SOE	72,277.42	48,681.07
Received by Kharkhorin road maintenance SOE	55,437.76	-
Received by Khovd road maintenance SOE	-	117,470.22
Received by Uvs road maintenance SOE	-	141,138.85
	806,559.60	702,133.71

Under funding by GOM, local maintenance companies received road maintenance equipment with total cost of USD 806,559.60 on 13 April 2019.

12 Operating expenses

In USD	Year ended 31 December 2019	Year ended 31 December 2018
Interest income capitalized to MOF	918.80	-
Depreciation and amortization expenses	436.08	-
Bank charge	10.00	-
	1,364.88	-

13 Exchange rate difference

In USD	Year ended 31 December 2019	Year ended 31 December 2018
Exchange rate difference	45.49	1,293.19
	45.49	1,293.19

Outstanding balance of operating account (State treasury account 100900011817) of the Project was transferred to Advance account (State bank 106000036723) on 28 December 2019 which resulted a difference of USD 45.49 from exchange rates as of replenished and transferred dates.

14 Reconciliation with ADB LFIS

The following table illustrates the adjustment between the Statement of sources and uses of funds and ADB's Loan and Financial Information System (LFIS).

Category	Category code	Amount in USD			Note
		ADB LFIS	Statement of sources and uses of funds	Difference	
Civil works	0301	75,697,809.81	75,697,809.81	-	
Equipment (in Khovd)	1501	-	-	-	
Equipment (in Bayan-Ulgii)	1502	-	-	-	
Consulting services	2101	4,523,786.00	4,562,969.00	(39,183.00)	1
Project administration	2701	494,925.49	641,314.02	(146,388.53)	2
Interest and commitment	6601	4,510,182.01	4,510,182.01	-	
Advance account	9901	193,200.00	-	193,200.00	3
		85,419,903.31	85,412,274.84	7,628.47	4

Difference note:

1. The difference is an amount paid to individual consultants in 2019 which was included in WA00109 replenished in 2020.
2. The difference comprises of USD 113,846.73 of WA00109 disbursed in 2019 but replenished in 2020 and USD 32,541.80 disbursed in 2019 but not claimed yet, both are related to PIU cost.
3. It is an advance payment from ADB and disbursed in accordance with notes 1 and 2.
4. The difference is reconciled by cash balance of USD 8,052.72, interest income of USD 1,772.93, exchange difference of USD 1,338.68 and bank charge of USD 10.00. Refer to "Part B. Reconciliation" of the Statement of advance account.

15 Subsequent events

Due to the outbreak of the coronavirus in China, the Government of Mongolia decided to temporarily restrict the movement of citizens through the Mongolian and Chinese border crossings, which is pursuant to Article 7 of "The Agreement between the Government of Mongolia and the Government of the People's Republic of China on Mongolian-Chinese Border Crossings and Their Regimes". As a result, making it impossible for the 240 skilled employees of three Chinese companies and 8 engineers of Indian company to cross the border of Mongolia.

Due to the delay, the planned work in 2020 has been postponed, and it is not clear when the border ban will be lifted, therefore making it improbable to finish the project on time.

16 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.