

# Audited Project Financial Statements

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Project Number: 41193-019

Loan Number: 3129

Period covered: 1 January 2020 to 31 December 2020

## 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: 5 June 2021

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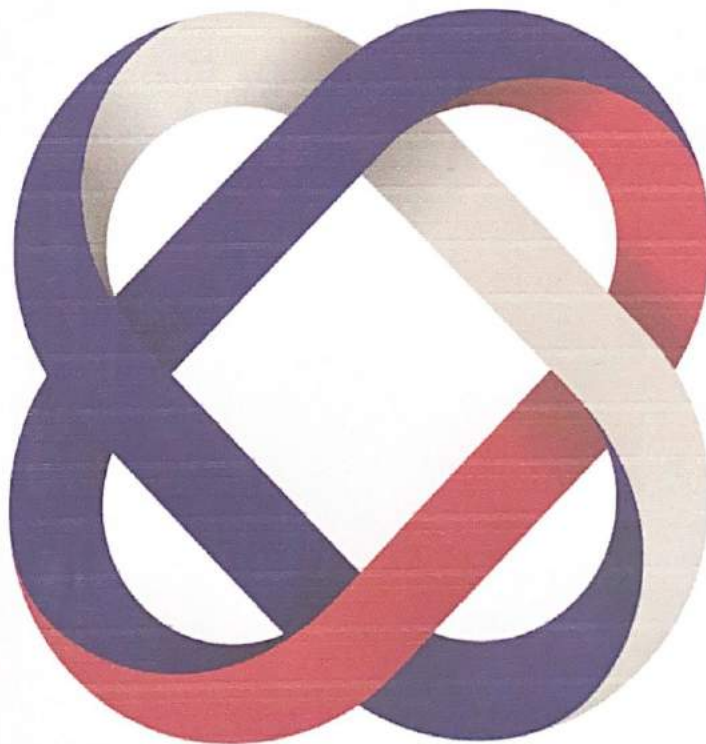
# Financial Statements and Independent Auditor's Report

Project Number: 41193-019

Loan Number: 3129-MON

## Western Regional Road Corridor Investment Program – Tranche 2

31 December 2020



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# 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
SOS-UOF	- Statement of Sources and Uses of Funds
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

# Independent auditor's report

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advisory services

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To the management of L3129-MON: Western Regional Road Corridor Investment Program – Tranche 2

## *Opinion*

We have audited the accompanying financial statements L3129-MON: Western Regional Road Corridor Investment Program – Tranche 2 (the "Project"), which comprise the statement of financial position as of 31 December 2020 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 31 December 2020, 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 Project 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. OSORGARAV  
MANAGING PARTNER  
УЛАНБААТАР ХОТ  
1118276001 - 2577542  
Ulaanbaatar, Mongolia  
Date: 20 May 2021





# Statement of financial position


(accrual basis)

In USD	Note	As of 31 December 2020	As of 31 December 2019
<b>Assets</b>			
<i>Current assets</i>			
Cash and bank balances	4	3,915.95	8,052.72
<b>Total current assets</b>		<b>3,915.95</b>	<b>8,052.72</b>
<i>Non-current assets</i>			
Fixed assets	5	2,267.40	3,488.63
Intangible assets	6	155.20	-
Other non-current assets	7	91,831,395.69	86,667,190.53
<b>Total non-current assets</b>		<b>91,833,818.29</b>	<b>86,670,679.16</b>
<b>Total assets</b>		<b>91,837,734.24</b>	<b>86,678,731.88</b>
<b>Net assets and liabilities</b>			
<i>Current liabilities</i>			
Payables	8	811,524.65	1,258,840.40
<b>Total current liabilities</b>		<b>811,524.65</b>	<b>1,258,840.40</b>
<i>Non-current liabilities</i>			
Loans and borrowings	9	91,027,621.45	85,419,903.31
<b>Total non-current liabilities</b>		<b>91,027,621.45</b>	<b>85,419,903.31</b>
<i>Net assets/equity</i>			
Accumulated results		(1,411.86)	(11.83)
<b>Total net assets and liabilities</b>		<b>91,837,734.24</b>	<b>86,678,731.88</b>

The financial statements were approved on 20 May 2021 by:

  
D. Zagdradnaa  
Project Director

  
B. Bayan-Amgalan  
Project Coordinator

  
D. Tsetsegmaa  
Finance Specialist

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 24.

# Statement of financial performance (accrual basis)

In USD	Note	2020	2019
<i>Revenue</i>			
GOM funding		-	806,559.60
Interest income		793.09	918.80
		<b>793.09</b>	<b>807,478.40</b>
<i>Expenses</i>			
Project implementation expenses		-	806,559.60
Other operating expenses	10	2,193.12	1,364.88
Exchange rate difference		-	45.49
		<b>2,193.12</b>	<b>807,969.97</b>
<b>Net results for the year</b>		<b>(1,400.03)</b>	<b>(491.57)</b>

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 24.



## Statement of changes in net assets (accrual basis)

In USD	Contributed capital	Other reserves	Accumulated results	Total
As of 1 January 2019	-	-	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)
Surpluses/(deficit) for the year	-	-	(1,400.03)	(1,400.03)
Changes in accounting policy	-	-	-	-
As of 31 December 2020	-	-	(1,411.86)	(1,411.86)

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 24.

# Statement of cash flows (cash basis)

In USD	2020	2019
<i>Cashflows from Operating Activities</i>		
<b>Receipts</b>	<b>153,822.82</b>	<b>182,945.20</b>
Funds received from ADB	153,029.73	182,026.40
Funds received from GOM	-	-
Interest received	793.09	918.80
<b>Payments</b>	<b>156,832.50</b>	<b>181,646.82</b>
Employee costs	94,544.20	99,674.07
Suppliers	27,235.00	39,183.00
Other payments	35,053.30	42,789.75
<b>Net Cashflows from Operating Activities</b>	<b>(3,009.68)</b>	<b>1,298.38</b>
<i>Cashflows from Investing Activities</i>		
Purchase of intangible assets (refer to Note 6)	(310.40)	(3,924.71)
<b>Net Cashflows from Investing Activities</b>	<b>(310.40)</b>	<b>(3,924.71)</b>
<i>Cashflows from Financing Activities</i>		
Interest income capitalized to MOF	(793.09)	(918.80)
Bank charge	(23.60)	(10.00)
<b>Net Cashflows from Financing Activities</b>	<b>(816.69)</b>	<b>(928.80)</b>
Foreign exchange gain (loss)	-	(45.49)
Net increase/(decrease) in Cash and cash equivalents	(4,136.77)	(3,600.62)
Cash and cash equivalents at beginning of the period	8,052.72	11,653.34
<b>Cash and cash equivalents at end of the period</b>	<b>3,915.95</b>	<b>8,052.72</b>

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 24.

# Independent Auditors' Reasonable Assurance Report

"Grant Thornton Audit" LLC  
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network for assurance, tax and  
advisory services

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**To the management of L3129-MON: Western Regional Road Corridor Investment Program – Tranche 2**

## *Scope*

We have performed a Reasonable Assurance Engagement in relation to statements of the To the management of L3129-MON: Western Regional Road Corridor Investment Program – Tranche 2 ("the Project"), the Statement of Sources and Uses of funds, Statement of Advance Account, Statement of Sub Account and the Statement of Expenditures 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 31 December 2020.

## *Subject matter*

The Subject Matter for our assurance is:

- to express an opinion on the Project financial reports ("Financial Reports"), the statement of expenditures, the statement of financial performance and withdrawal applications as far as the Advance Account and Sub 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. 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. 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.
- 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 4 April 2018 between ADB and Mongolia.

### *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 SOS-UOF for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account





## Grant Thornton

- On the SOS-UOF procedure, audit procedures are planned and performed to ensure that
  - a. the SOS-UOFs have been prepared in accordance with ADB's Loan Disbursement Handbook,
  - b. the individual payments for expenditures stated in the SOS-UOF are supported by evidence,
  - c. the expenditures stated in the SOS-UOFs comply with the approved project purpose and cost categories stipulated in loan agreements, and
  - d. the amount of expenditures stated in the SOS-UOFs 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 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*

The Statement of Sources and Uses of funds and the Statement of Advance Account present fairly, in all material respects, the ending balances as of 31 December 2020 and the account activity during the year ended 31 December 2020.

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. OSORGAROV  
MANAGING PARTNER  
Ulaanbaatar, Mongolia  
Date: 20 May 2021


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

In USD	Cumulative as of 31 December 2020	Current period	Cumulative as of 31 December 2019
<i>Sources of funds</i>			
1. ADB funding (including direct payments)	91,027,621.45	5,607,718.14	85,419,903.31
2. GOM funding	1,508,693.31	-	1,508,693.31
3. Interest income	3,484.82	793.09	2,691.73
	<b>92,539,799.58</b>	<b>5,608,511.23</b>	<b>86,931,288.35</b>
<i>Uses of funds-ADB Loan</i>			
1. Civil works	78,978,580.93	3,280,771.12	75,697,809.81
2. Equipment	-	-	-
3. Consulting services	4,973,968.00	410,999.00	4,562,969.00
4. Project administration	771,221.92	129,907.90	641,314.02
5. Interest and Commitment	6,300,335.30	1,790,153.29	4,510,182.01
	<b>91,024,106.15</b>	<b>5,611,831.31</b>	<b>85,412,274.84</b>
<i>Uses of funds-GOM</i>			
1. Equipment	1,508,693.31	-	1,508,693.31
	<b>1,508,693.31</b>	<b>-</b>	<b>1,508,693.31</b>
<i>Use of funds-Other expenses</i>			
1. Interest income capitalized to MOF	1,711.89	793.09	918.80
2. Exchange rate difference	1,338.68	-	1,338.68
3. Bank charge	33.60	23.60	10.00
	<b>3,084.17</b>	<b>816.69</b>	<b>2,267.48</b>
<b>Sources of Funds Less Uses of Funds</b>	<b>3,915.95</b>	<b>(4,136.77)</b>	<b>8,052.72</b>

These statements were approved on 20 May 2021 by

  
D. Zagdradnaa  
Project Director

  
B. Bayan-Amgalan  
Project Coordinator

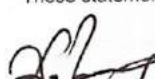
  
D. Tsetsegrmaa  
Finance Specialist





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

In USD	Cumulative as of 31 December 2020	Current period	Cumulative as of 31 December 2019
<i>Sources of funds</i>			
1. ADB funding (including direct payments)	91,027,621.45	5,607,718.14	85,419,903.31
2. GOM funding	1,508,693.31	-	1,508,693.31
3. Interest income	3,484.82	793.09	2,691.73
	<b>92,539,799.58</b>	<b>5,608,511.23</b>	<b>86,931,288.35</b>
<i>Uses of funds-ADB Loan</i>			
1. Civil works	78,978,580.93	3,280,771.12	75,697,809.81
2. Equipment	-	-	-
3. Consulting services	4,973,968.00	410,999.00	4,562,969.00
4. Project administration	771,221.92	129,907.90	641,314.02
5. Interest and Commitment	6,300,335.30	1,790,153.29	4,510,182.01
	<b>91,024,106.15</b>	<b>5,611,831.31</b>	<b>85,412,274.84</b>
<i>Uses of funds-GOM</i>			
1. Equipment	1,508,693.31	-	1,508,693.31
	<b>1,508,693.31</b>	<b>-</b>	<b>1,508,693.31</b>
<i>Use of funds-Other expenses</i>			
1. Interest income capitalized to MOF	1,711.89	793.09	918.80
2. Exchange rate difference	1,338.68	-	1,338.68
3. Bank charge	33.60	23.60	10.00
	<b>3,084.17</b>	<b>816.69</b>	<b>2,267.48</b>
<b>Sources of Funds Less Uses of Funds</b>	<b>3,915.95</b>	<b>(4,136.77)</b>	<b>8,052.72</b>

These statements were approved on 20 May 2021 by:

  
D. Zagdradnaa  
Project Director

  
B. Bayan-Amgalan  
Project Coordinator


  
D. Tsetsegrinaa  
Finance Specialist


# Statement of Budgeted versus Actual Expenditures (cash basis)

Category	Code	Approved budget	Disbursement cumulative as of Dec 31 2019	Current disbursement	Disbursement cumulative as of Dec 31 2020	Deviation	Component financial progress %
1. Civil works	0301	107,070,000.00	75,697,809.81	3,280,771.12	78,978,580.93	28,091,419.07	74%
2. Equipment (in Khovd)	1501	1,120,000.00	-	-	-	1,120,000.00	0%
2. Equipment (in Bayan-Ulgii)	1502	1,120,000.00	-	-	-	1,120,000.00	0%
3. Consulting services	2101	6,145,000.00	4,562,969.00	410,999.00	4,973,968.00	1,171,032.00	81%
4. Project administration	2701	1,400,000.00	641,314.02	129,907.90	771,221.92	628,778.08	55%
5. Interest and Commitment	6601	8,145,000.00	4,510,182.01	1,790,153.29	6,300,335.30	1,844,664.70	77%
6. Advance	9901	193,200.00	-	-	-	193,200.00	0%
<b>Grand total</b>		<b>125,193,200.00</b>	<b>85,412,274.84</b>	<b>5,611,831.31</b>	<b>91,024,106.15</b>	<b>34,169,093.85</b>	<b>73%</b>

These statements were approved on 20 May 2021 by:

  
D. Zagdarchaa  
Project Director

  
B. Bayan-Amgalan  
Project Coordinator

  
D. Tsetsegmaa  
Finance Specialist

# Statement of Advance account

State bank 106000036723 (cash basis)

In USD	Amount
<b>PART A. TRANSACTIONS</b>	
Balance as at 31 December 2019	
Advance account No. 106000036723	8,052.72
<b>Add:</b> ADB replenishment (WA000109)	153,029.73
<b>Add:</b> Interest income earned on balance of advance account	793.09
<b>Deduct:</b> Transferred to Sub account No.100900011817	108,477.93
<b>Deduct:</b> Transferred to Sub account No.201900011817	25,345.92
<b>Deduct:</b> Total expenditures	27,235.00
- Payment to environment consultant	19,320.00
- Payment to social consultant	7,915.00
<b>Deduct:</b> Interest income capitalized to MOF	793.09
<b>Deduct:</b> Bank charge	23.60
Balance as at 31 December 2020	-
Advance account No. 106000036723	-
<b>PART B. RECONCILIATION</b>	
PRESENT OUTSTANDING AMOUNT ADVANCED TO THE ADVANCE ACCOUNT NOT YET RECOVERED	193,200.00
1. Balance of advance account as of 31 December 2020 per bank statement.	
1.1. Advance account No.106000036723	-
1.2. Sub account No. 100900011817	3,868.08
1.3. Sub account No.201900011817	47.87
1.4. Sub account No.104900091863	-
	3,915.95
2. <b>Add:</b> Disbursed 2019, 2020 and 2021, but replenished in 2021 (refer to WA00141.)	156,377.44
<b>Add:</b> Disbursed in 2020, but not claimed yet	33,307.26
<b>Add:</b> Interest income capitalized to MOF	1,711.89
<b>Add:</b> Bank charge	33.60
<b>Add:</b> Exchange difference	1,338.68
3. <b>Deduct:</b> Interest Income	3,484.82
<b>Total Reconciled Balance</b>	<b>193,200.00</b>

These statements were approved on 20 May 2021 by:

D. Zagdragmaa  
Project Director

B Bayan-Amgalan  
Project Coordinator

D.Tsetsegmaa  
Finance Specialist

# Statement of Sub account

State fund 100900011817 (cash basis)

In USD	Amount
Balance as at 31 December 2019	
Sub account No.100900011817	-
<b>Add:</b> Transferred from Advance account No.106000036723	108,477.93
<b>Add:</b> Transferred from Sub account No.201900011817	25,298.05
<b>Deduct:</b> Transferred to Sub account No.104900091863	362.10
<b>Deduct:</b> Total expenditures	129,545.80
- IT program	310.40
- Salary	94,544.20
- Rent	19,561.90
- Audit service	12,265.00
- Stationery	326.40
- Posting and communication	842.50
- Field trip	680.40
- Other expenses	1,015.00
Balance as at 31 December 2020	
Sub account No.100900011817	<b>3,868.08</b>



# Statement of Sub account

State fund 201900011817 (cash basis)

In USD	Amount
Balance as at 31 December 2019	
Sub account No.201900011817	-
<b>Add:</b> Transferred from Advance account No.106000036723	25,345.92
<b>Deduct:</b> Transferred to Sub account No.100900011817	25,298.05
Balance as at 31 December 2020	
Sub account No.201900011817	47.87

# Statement of Sub account

State bank 104900091863 (cash basis)

In USD	Amount
Balance as at 31 December 2019	
Sub account No.104900091863	-
<b>Add:</b> Transferred from Sub account No.100900011817	362.10
<b>Deduct:</b> Total expenditures	362.10
- Stationery	256.05
- Posting and communication	80.48
- Other expenses	25.57
Balance as at 31 December 2020	
Sub account No.104900091863	-



# Summary of withdrawal applications

WA No.	Claimed date	Claimed amount	Credited date	Credited amount	Type of WA
<b>WAs disbursed in 2019, but liquidated in 2020</b>					
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
<b>WAs disbursed in 2019, but replenished in 2020</b>					
WA00109	2019.12.02	153,029.73	2020.01.22	153,029.73	Replenishment
<b>WAs claimed and liquidated in 2020</b>					
WA00112	2020.06.11	199,452.54	2020.06.23	199,452.54	Direct payment
WA00113	2020.07.02	12,516.00	2020.07.08	12,516.00	Direct payment
WA00114	2020.07.02	34,433.00	2020.07.08	34,433.00	Direct payment
WA00115	2020.07.02	20,571.00	2020.07.08	20,571.00	Direct payment
WA00116	2020.07.02	714,227.07	2020.07.22	714,227.07	Direct payment
WA00117	2020.07.28	12,494.00	2020.08.03	12,494.00	Direct payment
WA00118	2020.07.31	26,794.00	2020.08.06	26,794.00	Direct payment
WA00119	2020.07.28	21,478.00	2020.08.03	21,478.00	Direct payment
WA00120	2020.08.20	62,234.36	2020.08.24	62,234.36	Direct payment
WA00121	2020.08.20	17,278.00	2020.08.24	17,278.00	Direct payment
WA00122	2020.08.20	6,868.00	2020.08.24	6,868.00	Direct payment
WA00123	2020.08.20	20,945.00	2020.08.24	20,945.00	Direct payment
WA00124	2020.09.25	200,370.21	2020.09.29	200,370.21	Direct payment
WA00125	2020.09.25	119,343.19	2020.09.29	119,343.19	Direct payment
WA00126	2020.09.25	14,261.00	2020.09.29	14,261.00	Direct payment
WA00127	2020.09.25	23,210.00	2020.09.29	23,210.00	Direct payment
WA00128	2020.10.02	388,000.46	2020.10.07	388,000.46	Direct payment
WA00129	2020.10.13	295,484.83	2020.10.16	295,484.83	Direct payment
WA00130	2020.11.02	15,848.00	2020.11.04	15,848.00	Direct payment
WA00131	2020.11.02	23,293.00	2020.11.04	23,293.00	Direct payment
WA00132	2020.12.03	19,610.00	2020.12.08	19,610.00	Direct payment
WA00133	2020.12.03	20,571.00	2020.12.08	20,571.00	Direct payment
WA00134	2020.12.10	21,819.00	2020.12.16	21,819.00	Direct payment
WA00135	2020.12.10	6,704.00	2020.12.16	6,704.00	Direct payment
WA00136	2020.12.10	135,124.06	2020.12.16	135,124.06	Direct payment
<b>WAs disbursed in 2019 and 2020, but claimed and replenished in 2021</b>					
WA00141	2021.03.31	156,377.44	2021.04.26	156,377.44	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 USD 125,000,000.00 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	USD 125,000,000.00
Project duration period	From 31 August 2014 to 30 June 2021
Financing agency	Asian Development Bank
Executing agency	Ministry of Road and Transport Development of Mongolia
Project management	The average number of staffs during 2020 was 5 (2019: 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 Sub account,
3. Statement of Sources and Uses of funds,
4. Statement of Budgeted versus Actual expenditures,
5. 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"), which is the functional currency of the Project.

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 Mongolbank 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 2,849.51 for 1 US dollar as of 31 December 2020 (31 December 2019: 2,733.52 MNT for 1 US dollar).

### 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 Sub account.

### 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 used 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

### 3.7 Intangible assets

Intangible assets, which are acquired by the Project 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. The estimated useful lives are as follows:

Software	- 2 years
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### 3.8 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.

### 3.9 Loans and borrowings

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

### 3.10 Net assets/equity

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

### 3.11 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.

### 3.12 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.

### 3.13 Taxes

#### *Indirect taxes, and duties*

The Project is exempted from Value added tax on its purchased special purpose tools and equipment for the use of persons with disabilities according to the Article 13.1.4 of the Value Added Tax Law of Mongolia.

#### *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 Project 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 Project 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.

### 3.14 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 of 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 account based on Summary of Sources and Used of Funds submitted from the Project to ADB.

### 3.15 Procurement

All procurement of goods, works and consulting service 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 2020	As of 31 December 2019
Advance account (State bank 106000036723)	-	8,052.72
Sub account (State fund 100900011817)	3,868.08	-
Sub account (State fund 201900011817)	47.87	-
Sub account (State bank 104900091863)	-	-
	<b>3,915.95</b>	<b>8,052.72</b>

#### 5 Fixed assets

In USD	Computer	Total
<i>Cost</i>		
as of 1 January 2019	-	-
Additions	3,924.71	3,924.71
as of 31 December 2019	3,924.71	3,924.71
Additions	-	-
<b>as of 31 December 2020</b>	<b>3,924.71</b>	<b>3,924.71</b>
<i>Accumulated depreciation</i>		
as of 1 January 2019	-	-
Charge for the year	436.08	436.08
as of 31 December 2019	436.08	436.08
Charge for the year	1,221.23	1,221.23
<b>as of 31 December 2020</b>	<b>1,657.31</b>	<b>1,657.31</b>
<i>Carrying amount</i>		
as of 31 December 2019	3,488.63	3,488.63
<b>as of 31 December 2020</b>	<b>2,267.40</b>	<b>2,267.40</b>

#### 6 Intangible assets

In USD	Computer software	Total
<i>Cost</i>		
as of 1 January 2019	-	-
Additions	-	-
as of 31 December 2019	-	-
Additions	310.40	310.40
<b>as of 31 December 2020</b>	<b>310.40</b>	<b>310.40</b>
<i>Accumulated amortization</i>		
as of 1 January 2019	-	-
Charge for the year	-	-
as of 31 December 2019	-	-
Charge for the year	155.20	155.20
<b>as of 31 December 2020</b>	<b>155.20</b>	<b>155.20</b>
<i>Carrying amount</i>		
as of 31 December 2019	-	-
<b>as of 31 December 2020</b>	<b>155.20</b>	<b>155.20</b>

For the reporting period PIU purchased the Alcolous financial software.



## 7 Other non-current assets

In USD	As of 31 December 2020	As of 31 December 2019
Civil works-HKB	26,778,943.83	25,623,119.34
Civil works-China Huashi	51,181,483.91	51,112,481.71
Civil works-Khotgor zam	1,113,924.79	128,743.16
Civil works-Longjian road and bridge	714,227.07	-
Consulting-ICT	4,789,349.00	4,470,656.00
Consulting-Environment consultant	129,630.00	129,630.00
Consulting-Social consultant	54,989.00	54,989.00
Project administration	768,512.79	637,389.31
Interest and commitment	6,300,335.30	4,510,182.01
	<b>91,831,395.69</b>	<b>86,667,190.53</b>

## 8 Payables

In USD	As of 31 December 2020	As of 31 December 2019
Payables to HBK	740,996.46	232,889.02
Payables to China Huashi	69,002.20	933,645.38
Payables to ICT	-	65,071.00
Payables to social consultant	-	7,915.00
Payables to environment consultant	-	19,320.00
Office rent payables	1,347.60	-
Payables to PIT	7.98	-
Payables to Social insurance	170.41	-
	<b>811,524.65</b>	<b>1,258,840.40</b>

## 9 Loans and borrowings

In USD	As of 31 December 2020	As of 31 December 2019
Civil works-HKB	26,037,947.36	25,390,230.32
Civil works-China Huashi	51,112,481.71	50,178,836.33
Civil works-Khotgor zam	1,113,924.79	128,743.16
Civil works-Longjian road and bridge	714,227.07	-
Consulting-ICT	4,789,349.00	4,405,585.00
Consulting-Environment consultant	119,360.00	100,040.00
Consulting-Social consultant	32,201.00	24,286.00
Project administration	807,795.22	682,000.49
Interest and commitment	6,300,335.30	4,510,182.01
	<b>91,027,621.45</b>	<b>85,419,903.31</b>

## 10 Operating expenses

In USD	2020	2019
Interest income capitalized to MOF	793.09	918.80
Depreciation and amortisation expenses	1,376.43	436.08
Bank charge	23.60	10.00
	<b>2,193.12</b>	<b>1,364.88</b>

## 11 Reconciliation with ADB LFIS

The following tables illustrates the reconciliation between Project's Statement of Sources and Uses of funds report and ADB's Loan and Grant Financial Information Services (LFIS).

In USD		ADB LFIS	Statement of Sources and Uses of Funds		
Code	Category	Cumulative as of 31 December 2020	Cumulative as of 31 December 2020	Difference	Note
0301	Works	78,978,580.93	78,978,580.93	-	
1501	Equipment (In Khovd)	-	-	-	
1502	Equipment (In Bayan-Ulgii)	-	-	-	
2101	Consulting services	4,946,733.00	4,973,968.00	(27,235.00)	*1
2701	Project administration	608,772.22	771,221.92	(162,449.70)	*2
6601	Interest and commitment	6,300,335.30	6,300,335.30	-	
9901	Advance	193,200.00	-	193,200.00	*3
<b>Total</b>		<b>91,027,621.45</b>	<b>91,024,106.15</b>	<b>3,515.30</b>	<b>*4</b>

*Difference note:*

1\* Amount disbursed in 2020, but claimed and replenished in 2021 (refer to WA00141).

2\* Amount disbursed in 2020, but USD 129,142.44 of replenished in 2021 (refer to WA00141) and USD 33,307.26 of not claimed yet.

3\* Advance amount transferred to PIU for the project implementation.

4\* The difference of USD 3,515.30 between the total expenditure reported in the ADB LFIS system and in the Statement of Sources and Uses of Funds corresponds to the sum of the balance of ADB's advance and sub-accounts as at 31 December 2020, add USD 1,711.89 of interest income transferred to MOF, USD 33,60 of bank charge and USD 1,338.68 exchange rate difference, less USD 3,484.82 of interest income. Refer to "Part B. Reconciliation" of the Statement of Advance account.

## 12 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.