

Audited Project Financial Statements

Project Number: 41193-019

Loan Number: 3129

Period covered: 1 January 2017 to 31 December 2017

Mongolia: 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: 29 June 2018

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 Public Communications Policy 2011 and as agreed between ADB and the Hunan Provincial Water Transportation Construction & Investment Group Co., Ltd.



DALAIIVAN AUDIT

AUDITOR'S REPORT

**“Western Regional Road Corridor Investment
Program-Project 2”
Loan number 3129**

Financial statement as of
December 31, 2017



ASIAN DEVELOPMENT BANK
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29 JUN 2018
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MONGOLIA RESIDENT MISSION

 an independent member of
BAKER TILLY
INTERNATIONAL



DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones: 70005401, 70005404, 70005405
Fax: +976-70005403
E-mail: info@dalaivanaudit.mn
Web site: www.dalaivanaudit.mn

INDEPENDENT AUDITOR'S REPORT

**TO: D.DORJKHAND
PROJECT COORDINATOR**

WESTERN REGIONAL CORRIDOR INVESTMENT PROGRAM- PROJECT 2 LOAN NUMBER 3129-MON

We have audited the accompanying financial statements of **Western Regional Corridor Investment Program- Project 2** Loan Number 3129 MON, which comprise the balance sheet as at December 31, 2017, and the statement of project sources and uses of funds, statement of expenditures (Loan withdrawals) and imprest account statement for the year then ended. Management of the project is responsible for the preparation of these financial statements and our responsibility is to express an opinion thereon based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

Management of the project has prepared these financial statements in accordance with International Public Sector Accounting Standards on cash basis wherein revenues are recognized when cash is received and expenses are recognized when paid.

In our opinion, the financial statement and the report of project sources and uses of funds have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB); cash receipt and cash expenditure of **Western Regional Corridor Investment Program- Project 2** for the year ended December 31, 2017 present fairly, in all material respect; and spending incurred for the intended purpose as stated in the Loan Agreement Number 3129 MON.

The audited accounts' balances in the financial statement as of December 31, 2017 have been compared with such balances as of December 31, 2016 which were audited by the preceding audit firm.




The Government of Mongolia
Asian Development Bank
Loan 3129- MON
Western Regional Road Corridor Investment Program-Project 2

AUDITED BALANCE SHEET
as at December 31, 2017

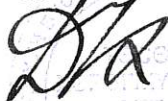
	Notes	2017.12.31 (USD)	2016.12.31 (USD)
ASSETS			
Cash and cash equivalents:	4.1	1,751.66	22,648.54
Imprest account (USD)		1,625.91	22,387.90
Sub account (MNT)		125.75	260.64
Project cumulative expenditures	4.2	40,917,384.49	20,207,448.93
1. Civil Works	4.2(a)	37,191,064.47	17,868,076.95
2. Equipment		-	-
3. Consulting Services	4.2(b)	2,340,042.00	1,657,936.00
4. Project Administration	4.2(c)	352,841.43	223,592.42
5. Interest and Commitment Charges	4.2(d)	1,033,383.59	457,800.56
Bank charges	4.3(c)	53.00	43.00
TOTAL ASSETS		40,919,136.15	20,230,097.47
SOURCES			
	4.3		
ADB fund*	4.3(a)	39,884,527.22	19,721,258.64
Government of Mongolia's contribution	4.3(b)	-	50,141.40
Bank interest income	4.3(c)	1,225.34	896.87
Interest and Commitment Charges*	4.3(a)	1,033,383.59	457,800.56
TOTAL SOURCES		40,919,136.15	20,230,097.47

*The balance of ADB Fund as of Dec 31, 2017 includes the interest and commitment charges of 537,041.36 USD for 2017, the interest and commitment charges of 457,800.56 USD for 2015 and 2016 as well as the interest and commitment charges of 38,541.67 USD which were not reported in the preceding auditor's report at all

Prepared by:


D. Tsetsegmaa
Project finance specialist

Approved by:


D. Dorjkhand
Project coordinator

The accompanying notes on page 1-9 are an integral part of these financial statements.



DALAIVAN AUDIT

Audit assurance, property and business
valuation advisory services

Amarsanaa street-5, Bayangol district
Ulaanbaatar-16066, Mongolia
Phones: 70005401, 70005404, 70005405
Fax: +976-70005403
E-mail: info@dalaivanaudit.mn
Web site: www.dalaivanaudit.mn

INDEPENDENT AUDITOR'S REPORT

**TO: D.DORJKHAND
PROJECT COORDINATOR**

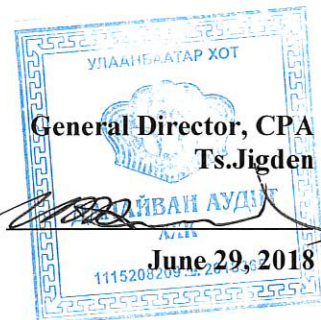
**WESTERN REGIONAL CORRIDOR INVESTMENT PROGRAM- PROJECT 2
LOAN NUMBER 3129-MON**

We have audited the statement of project sources and uses of funds for the year ended December 31, 2017 of **Western Regional Corridor Investment Program- Project 2** Loan Number 3129 MON.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the statement of sources and uses of the fund. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the internal controls and procedures involved in the preparation of the statement of sources and uses of funds can be relied upon, and the applications for loan withdrawals sufficiently support it.

The audited accounts' balances in the financial statement as of December 31, 2017 have been compared with such balances as of December 31, 2016 which were audited by the preceding audit firm.

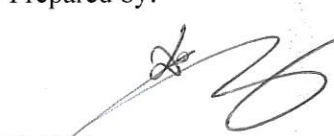


The Government of Mongolia
Asian Development Bank
Loan 3129-MON
Western Regional Road Corridor Investment Program-Project 2

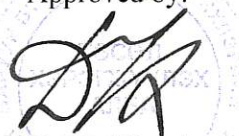
AUDITED STATEMENT OF PROJECT SOURCES AND USES OF FUNDS
as at December 31, 2017

	Cumulative to Dec 31, 2017	For the period 2017	Cumulative to Dec 31, 2016
	(USD)	(USD)	(USD)
SOURCES			
ADB fund	39,884,527.22	20,163,268.58	19,721,258.64
Government of Mongolia's contribution	-	(50,141.40)	50,141.40
Bank interest income	1,225.34	328.47	896.87
Interest and Commitment charges	1,033,383.59	575,583.03	457,800.56
TOTAL SOURCES	40,919,136.15	20,689,038.68	20,230,097.47
USES OF FUNDS			
ADB Loan	(40,917,331.49)	(20,709,925.56)	(20,207,405.93)
1. Civil Works	(37,191,064.47)	(19,322,987.52)	(17,868,076.95)
2. Equipment	-	-	-
3. Consulting Services	(2,340,042.00)	(682,106.00)	(1,657,936.00)
4. Project Administration	(352,841.43)	(129,249.01)	(223,592.42)
5. Interest and Commitment Charges	(1,033,383.59)	(575,583.03)	(457,800.56)
Bank charges	(53.00)	(10.00)	(43.00)
TOTAL USES OF FUNDS	(40,917,384.49)	(20,709,935.56)	(20,207,448.93)
Outstanding balance of funds	1,751.66	(20,896.88)	22,648.54

Prepared by:


D. Tsetsegmaa
Project finance specialist

Approved by:


D. Dorjkhand
Project coordinator

The accompanying notes on page 1-9 are an integral part of these financial statements.



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INDEPENDENT AUDITOR'S REPORT

**TO: D.DORJKHAND
PROJECT COORDINATOR**

**WESTERN REGIONAL CORRIDOR INVESTMENT PROGRAM- PROJECT 2
LOAN NUMBER 3129-MON**

We have audited the statement of expenditures (Loan withdrawals) for the year ended December 31, 2017 of **Western Regional Corridor Investment Program- Project 2** Loan Number 3129 MON.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in the statement of expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the statement of expenditures (Loan withdrawals) is prepared in accordance with the ADB Loan Disbursement Handbook and receipts and expenditures are supported by the primary documents, classified in accordance with expense category as stated in the loan agreement and present fairly.

The audited accounts' balances in the financial statement as of December 31, 2017 have been compared with such balances as of December 31, 2016 which were audited by the preceding audit firm.

УЛААНБААТАР ХОТ
General Director, CPA
Ts. Jigden

DALAIVAN AUDIT
1115208209
June 29, 2018

The Government of Mongolia
Asian Development Bank
Loan 3129-MON
Western Regional Road Corridor Investment Program-Project 2

AUDITED STATEMENT OF WITHDRAWALS
as at December 31, 2017

WA's number	Applicant type	Claimed date	Credited date	Amount claimed (in USD)	Amount credited (in USD)		Difference
A00029	Direct payment	2016.11.25	2017.02.03	949,849.36		949,849.36	-
A00030	Direct payment	2016.11.26	2017.02.03	917,195.94		917,195.94	-
*A00031	Liquidation and Replenishment	2017.04.11	2017.07.07	108,033.66		108,033.66	-
A00032	Direct payment	2017.05.12	2017.06.16	27,437.00		27,437.00	-
A00033	Direct payment	2017.05.15	2017.06.16	12,626.00		12,626.00	-
A00034	Direct payment	2017.06.08	2017.07.13	75,754.00		75,754.00	-
A00035	Direct payment	2017.06.05	2017.08.31	535,544.20		535,544.20	-
A00036	Direct payment	2017.07.05	2017.08.31	770,632.78		770,632.78	-
A00037	Direct payment	2017.07.06	2017.08.15	70,909.00		70,909.00	-
A00038	Direct payment	2017.07.25	2017.09.05	1,007,499.31		1,007,499.31	-
A00039	Direct payment	2017.08.02	2017.09.13	351,595.45		351,595.45	-
A00040	Direct payment	2017.08.14	2017.09.11	86,580.00		86,580.00	-
A00041	Direct payment	2017.08.24	2017.09.29	444,773.22		444,773.22	-
A00042	Direct payment	2017.08.24	2017.09.29	1,361,130.58		1,361,130.58	-
A00043	Direct payment	2017.08.28	2017.09.29	440,285.34		440,285.34	-
A00044	Direct payment	2017.09.08	2017.10.25	82,485.00		82,485.00	-
A00045	Direct payment	2017.09.14	2017.10.26	1,178,043.01		1,178,043.01	-
A00046	Direct payment	2017.09.15	2017.11.10	1,365,653.73		1,365,653.73	-
A00047	Direct payment	2017.09.25	2017.10.26	1,559,356.22		1,559,356.22	-
A00048	Liquidation and Replenishment	2017.10.13		165,193.07			(165,193.07)

A00049	Direct payment	2017.10.09	2017.11.10	202,823.00	202,823.00	-
A00050	Direct payment	2017.10.13	2017.11.10	2,829,865.65	2,829,865.65	-
A00051	Direct payment	2017.10.16	2017.12.12	1,740,876.44	1,740,876.44	-
A00052	Direct payment	2017.10.24	2017.12.12	716,738.33	716,738.33	-
A00053	Direct payment	2017.10.25	2017.12.13	1,306,995.73	1,306,995.73	-
A00054	Direct payment	2017.10.25	2017.12.12	1,047,328.82	1,047,328.82	-
A00055	Direct payment	2017.11.07	2017.12.12	849,764.81	849,764.81	-
A00056	Direct payment	2017.11.06	2017.12.12	123,492.00	123,492.00	-
CAP*	Interest and Commitment payment		2017.10.15	290,750.09	290,750.09	-
CAP*	Interest and Commitment payment		2017.04.15	246,291.27	246,291.27	-
Total withdrawal amount				20,865,503.01	20,700,309.94	(165,193.07)
Total amount				20,865,503.01	20,700,309.94	(165,193.07)

* Interest and Commitment charge for 2017

* A00048 claimed but not financed and replenished in 2018


* The A00031 application is prepared to reimburse expenditure incurred from May 1, 2016 to September 30, 2016 and it is claimed on 2017

* The A00048 application is prepared to reimburse expenditure incurred from October 1, 2016 to July 31, 2017 and it is claimed on 2018

Prepared by:


D. Tsetsegmaa
Project finance specialist

Approved by:


D. Dorjkhanda
Project coordinator

The Government of Mongolia
Asian Development Bank
Loan 3129-MON
Western Regional Road Corridor Investment Program-Project 2

AUDITED STATEMENT OF EXPENDITURES
as at December 31, 2017

Expenditure type/WA	Civil works	Equipment	Consulting services	Project Administration	Interest and Commitment Charges	Total
	SOE record USD	SOE record USD	SOE record USD	SOE record USD	SOE record USD	SOE record USD
A00029	949,849.36					949,849.36
A00030	917,195.94					917,195.94
A00031				108,033.66		108,033.66
A00032			27,437.00			27,437.00
A00033			12,626.00			12,626.00
A00034			75,754.00			75,754.00
A00035	535,544.20					535,544.20
A00036	770,632.78					770,632.78
A00037			70,909.00			70,909.00
A00038	1,007,499.31					1,007,499.31
A00039	351,595.45					351,595.45
A00040			86,580.00			86,580.00
A00041	444,773.22					444,773.22
A00042	1,361,130.58					1,361,130.58
A00043	440,285.34					440,285.34
A00044			82,485.00			82,485.00
A00045	1,178,043.01					1,178,043.01
A00046	1,365,653.73					1,365,653.73

A00047	1,559,356.22						1,559,356.22
A00048					165,193.07		165,193.07
A00049				202,823.00			202,823.00
A00050	2,829,865.65						2,829,865.65
A00051	1,740,876.44						1,740,876.44
A00052	716,738.33						716,738.33
A00053	1,306,995.73						1,306,995.73
A00054	1,047,328.82						1,047,328.82
A00055	849,764.81						849,764.81
A00056				123,492.00			123,492.00
CAP						290,750.09	290,750.09
CAP						246,291.27	246,291.27
Total	19,373,128.92	-		682,106.00	273,226.73	537,041.36	20,865,503.01
Disbursement	19,373,128.92	-		682,106.00	273,226.73	537,041.36	20,865,503.01
Difference	-	-		-	-	-	-

Prepared by:



D. Tsetsegmaa
Project finance specialist

Approved by:



D. Dorjkhand
Project coordinator

INDEPENDENT AUDITOR'S REPORT

**TO: D.DORJKHAND
PROJECT COORDINATOR**


**WESTERN REGIONAL CORRIDOR INVESTMENT PROGRAM- PROJECT 2
LOAN NUMBER 3129-MON**


We have audited the Imprest Account Statement for the year ended December 31, 2016, **Western Regional Corridor Investment Program- Project 2** which was prepared within the loan agreement Loan Number 3129 MON framework to support withdrawals.

We conducted our audit in accordance with generally accepted auditing standards, on a test basis examined evidence documents that support the amounts and disclosures in Imprest Account Statement. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the imprest account statement was prepared in accordance with the ADB Loan Disbursement Handbook, cash replenishment and liquidation of the imprest account present fairly.

The audited accounts' balances in the financial statement as of December 31, 2017 have been compared with such balances as of December 31, 2016 which were audited by the preceding audit firm.




**General Director, CPA1
Ts.Jigden**

June 29, 2018
1115202793 2018365

The Government of Mongolia
Asian Development Bank
Loan 3129-MON
Western Regional Road Corridor Investment Program-Project 2


AUDITED IMPREST ACCOUNT STATEMENT (State Bank 106000036723)
As at December 31, 2017

	2017.12.31 (USD)	2016.12.31 (USD)
Part A - Account transactions		
Beginning balance	22,387.90	-
Add:		
Total amount deposited in the current year	108,033.66	245,387.09
Total amount from sub account	-	-
Bank interest income	232.74	760.83
Deduct:		
Total amount withdrawn	(41,787.00)	(43,184.71)
Transferred to petty cash	(87,231.39)	(798.14)
Transferred to sub account (MNT)	-	(179,734.17)
Bank charges	(10.00)	(43.00)
Ending balance	1,625.91	22,387.90
Part B - Account reconciliation		
Amount advanced by the ADB	193,200.00	193,200.00
Balance imprest account at the end of the year	1,625.91	22,387.90
Add:		
Amount withdrawn and not yet claimed*	26,666.78	170,644.50
Amount claimed and not yet credited	165,193.07	
Balance of sub-account	125.75	260.64
Bank charge:		
Previous year	43.00	-
Current year	10.00	43.00
Deduct:		
Bank interest income:		
Previous year	(136.04)	(136.04)
Current year	(328.47)	-
Total advance transferred to Imprest account	193,200.00	193,200.00

Prepared by:


D. Tsetsegmaa
Project finance specialist

Approved by:


D. Dorjkhand
Project coordinator

The accompanying notes on page 1-9 are an integral part of these financial statements.

The Government of Mongolia
Asian Development Bank
Loan 3129-MON


Western Regional Road Corridor Investment Program-Project 2

AUDITED SUB ACCOUNT STATEMENT (State Bank 106000036738)


As at December 31, 2017

	2017.12.31	2016.12.31
	(USD)	(USD)
Part A - Account transactions		
Beginning balance	260.64	-
Add:		
Total amount deposited from imprest account	87,231.39	179,734.17
Bank interest income	95.73	136.04
Deduct:		
Spent on project	(76,125.89)	(139,040.43)
Transferred to petty cash	(11,336.12)	(40,569.14)
Ending balance	125.75	260.64

Prepared by:


D. Tsetsegmaa
Project finance specialist

Approved by:


D. Dorjkhand
Project coordinator

NOTES TO THE FINANCIAL STATEMENTS

1. PROJECT BACKGROUND

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 closing date is June 30, 2019.

The objective of the Project:

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.

The Project outputs comprise:

Output1. Construction of road

Construction of road of approximately 189.7 kilometers (km) road between Khovd and Ulaanbaishint with carriageway widths of 7 meters (m) and shoulder widths of 1.5m-2.0m. Construction of 3 bridges in Khovd and Olgyn towns, and improving 14.9 km road.

Output 2.Equipment

Establish 2 road maintenance units, providing with maintenance and technical equipment.

Output3 Consulting services

Consulting service for construction of road

Output4. Project administration

Active to project implementing unit.

Ministry of Road and Transport Development (MRTD) is the Executing Agency of the Project and is responsible for overall investment program implementation. The contractor China Huashi Enterprises executes "LOT CW1-1 The construction work of 50 km road from Khashaatiin davaa to Shurag Bridge", "LOT CW1-3 The construction work of 60 km road from Khashaatiin davaa to Tolbo soum" according to the Contract Agreement signed on August 04, 2015 with MRT. The contractor HKB International Holding executes "LOT CW1-2 The construction work of 53.9 km road from Shurag Bridge to Khovd" according to the Contract Agreement signed on August 04, 2015 with MRT.

The Road construction and supervision work are being implemented by a Joint venture of Sweden National Road Consulting AB, Sweden, and Intercontinental Consultants & Technocrats PVT Ltd, India in association with ICT-SAIN Consulting LLC, Mongolia according to Consultancy Contract Agreement signed with MRT.

The overall financing plan of the project is compared to the cumulative project expenditures as of December 31, 2017.

Source	Amount (USD)	Project expenditure as of Dec 31, 2017 (USD)	Disbursement %
ADB Loan fund	125,000,000	40,917,910.81	32.7
Total	125,000,000	40,917,910.81	32.7

*On August 7, 2015 the ADB financing percentage for the Civil works category was increased to 100%.

The table shows the comparison between ADB Loan financing and cumulative expenditures as of December 31, 2017 by cost category.

Items	Total amount allocated for ADB financing (USD)	Project expenditure as of Dec31, 2017 (USD)	Disbursement %
1. Civil works	107,070,000	37,191,064.47	34.7
2. Equipment	2,240,000	0.00	0.0
3. Consulting services	6,145,000	2,340,042.00	38.0
4. Project administration	1,400,000	352,841.43	25.2
5. Interest and commitment charges	8,145,000	1,033,383.59	12.6
Total	125,000,000	40,917,331.49	32.7

DATE OF REVIEW: 12/31/2017
 CURRENCY: US DOLLARS
 UNIT: US DOLLAR

2. PROJECT IMPLEMENTATION PROGRESS DURING THE REPORTING PERIOD

1. Road Construction Works

Contract Package CW1-1: Contractor China Huashi Interprises: 2017's construction works have been ended by 30 October and 2018's construction works have been already started in April. In the meantime, the Contractor China Huash Interprises has completed the site clearance works in 100 percentage, embankment filling and earthworks in 98.85 percentage, sub base is in 100 percentage, 1st layer of base course is in 56.84 percentage, prime coat is in 37.34 percentage, asphalt concrete pavement is in 30.99 percentage, shoulder work is in 81.75 percentage, pipe culverts works are in 87.88 percentage, box culvert works are in 77.77 percentage, respectively. Except these, 14.68km (50km) asphalt concrete pavement has been fully completed. In 2017, the Government approval for foreign workers has been issued late in May, however the catching up plan to speed up the progress was approved in this year so the actual work progress is 37.8 percentage since commencement.

Contract Package CW1-2: Contractor HKB International Holding LLC: As of end 2017, the Contractor has been completed the works such as site clearance works in 100 percentage, embankment filling and earthworks are in 90.10 percentage, sub base is in 100 percentage, 1st layer is in 86.22 percentage, prime coat is in 93.84 percentage, asphalt concrete pavement works are in 92.64 percentage, shoulder works are in 80.32 percentage, pipe culverts works are in 54.88 percentage, box culverts are in 57.55 percentage, bridge construction works are in 54.32 percentage, respectively. Also, total 44.41 km asphalt concrete pavement works have been already completed.

Contract Package CW1-3: Contractor China Huashi Interprises: As of end 2017, the Contractor has been completed the works such as site clearance works are in 64 percentage, embankment filling and earthworks are in 68.13 percentage, sub base is in 32.71 percentage, 1st layer is in 17.18 percentage, prime coat is in 5.35 percentage, asphalt concrete pavement works are in 1.62 percentage, shoulder works are in 14.38 percentage, pipe culverts works are in 42.89 percentage, box culverts are in 18.18 percentage, bridge construction works are in 6.29 percentage, respectively.

2. Consulting services

Works of Road Construction Supervision Consultants performed in 2017:

- Vetting of Bench Marks and Survey Stations and except it, they obtained MRTD's approvals on Buraat pass re-design of detailed engineering designs.
- It was regularly organized the meetings with Contractors and was giving the instructions and advise
- It was performed the works for approving, inspecting and testing the quarry materials to be transported to the sites.
- Provide by the instructions to follow traffic safety, protection of environment and other regulations to be followed during the construction.
- Provide guidance to the Contractors for preparation of the Job Mix Designs for WMM for Base Course and Asphalt Concrete.
- Provide by instructions how to use stone and soil quarry to the Contractors and, also instruction how to prepare the work methodology, design and construction program.
- It was regularly inspected day-to-day work and reviewed and certified actual and measured quantities and certified all Interim Payment Certificated (IPC) of all Contractors, and submitted all IPCs to Employers.
- It was checked and certified the density of all layers for embankment, sub base, base courses of roads in accordance with appropriate standards in the specification.

Project Implementation Unit

The Project Implementation Unit (PIU) was established under order No.197 of the State Secretary of MRTCD dated on September 01, 2008. The PIU coordinates and monitors daily work of the project implementation and manages the civil works on behalf of the employer, and to cooperate within ADB, Contractors, Consultants, Local administrators, and other organizations due to implement the contract works.

The PIU comprises the following staff in the reporting period:

№	Position	Contract type	Selection method	Term of contract		Financing sources
				Date of the contract	Contract Expired date	
1	Project coordinator	Contracted worker	ICS	2017.01.18	2017.12.31	ADB
2	Project accountant	Contracted worker	ICS	2017.01.18	2017.12.31	ADB
3	Project highway engineer	Contracted worker	ICS	2017.01.18	2017.12.31	ADB
4	Project highway engineer	Contracted worker	ICS	2017.01.18	2017.12.31	ADB
5	Project secretary/ translator	Contracted worker	ICS	2017.01.18	2017.12.31	ADB

Project Steering Committee

The Project Steering committee works with roles and functions such as i) settle on the project problems arose during the implementation, ii) monitor the progress of the project works and other activities, iii) advise how to speed the civil works and catch up delayed actions. The PSC has been working with members from relevant ministries such as Ministry of Finance, Ministry of Labour and Social Protection, Ministry of Environment and Green Development and other organizations in charging of nature and environment, social welfare and labor, customs general administration of Mongolia.

On December 14, 2016 a new PSC was established under Order#118 of Minister for Road and Transport Development. For the reporting period, the PSC held a meeting and issued a resolution on project activities.

APPROVED AND FORWARDED:
 PROJECT COORDINATOR, ACCOUNTING
 DIVISION

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared on a cash basis. On this basis, cash receipts are recognized when received and cash expenditures are recognized when paid rather than incurred.

b) Basis of measurement

The financial statements have been presented in U.S.Dollar (USD). Cash balances denominated in currencies other than USD are translated into USD at year-end rates of exchange stated by the Bank of Mongolia. Transactions denominated in currencies other than USD are translated at rates at the dates of the transactions stated by the Bank of Mongolia.

c) Basis of the presentation

The audited accounts' balances in the financial statement as of December 31, 2017 have been compared with such balances as of December 31, 2016 which were audited by the preceding audit firm.

d) Imprest Account and Statement of Expenditures

In accordance with the Loan Agreement, the borrower will establish project imprest accounts. The currency of all the imprest accounts is in the U.S.Dollar.

After eligible expenditures are incurred and paid from the imprest accounts, the borrower requests liquidation and replenishment of the imprest accounts by submitting a withdrawal application and summary sheet if full documentation is required, or statement of expenditures (SOE) if SOE procedure is approved. The corresponding bank statement and the imprest account reconciliation statement are also required to be submitted with the withdrawal application. The withdrawal application must be prepared in the currency of the imprest accounts.

The borrower manages and conducts the liquidation and replenishment of the imprest accounts accordance with ADB's Loan Disbursement Handbook. The SOE procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the imprest accounts. The ceiling of the SOE procedure is the equivalent of 100,000 USD per individual payment. The minimum value per withdrawal application is 100,000 USD equivalent.

e) Procurement of Goods, Works and Consulting Services

All procurement financed from ADB Loan are carried out in accordance with ADB's Procurement Guidelines. Contracts for civil works valued at 3,000,000 USD or more than, contracts for goods and related services valued at 500,000 USD or more than will be procured through international competitive bidding procedures (ICB). Contracts for civil works valued at 3,000,000 USD or less than, contracts for goods and related services valued at 500,000 USD or less than will be procured through national competitive bidding procedures (NCB).

The NCB will be undertaken in accordance with standard government procedures subject to modifications agreed with ADB. Contract packages for civil works valued at less than 200,000 USD, contracts for goods valued at less than 100,000 USD will be awarded through shopping procedure. The selection and engagement of contractors for works, goods, and/or consulting services to be financed by ADB loan will be subject to ADB approval.

RECEIVED
GENERAL INVESTMENT
GENERAL

4. ITEMS OF THE BALANCE SHEET

4.1 Cash and cash equivalents

	2017.12.31 (USD)	2016.12.31 (USD)
Cash in Bank:		
Imprest account (USD)	1,625.91	22,387.90
Sub account (MNT)	125.75	260.64
Total	1,751.66	22,648.54

On December 11, 2017 the Minister of Finance issued the Resolution #357, on "Transferring the MNT bank accounts of all projects financed by foreign loan and grant to Treasury ". As of December 31, 2017 the ending balance of sub-account was not transferred to Treasury.

The transactions from the imprest account were approved by the first signatures of MOF's State Secretary or MOF's Director of Development Financing Department and the second signature of project coordinator. The transactions from the sub-account were approved by the signatures of project coordinator and finance specialist.

Cash and cash equivalents balance as at December 31, 2017 were reconciled with the bank confirmation.

Accounts	Balance as at Dec 31,2017	Balance as at Dec 31,2017 per bank confirmation
Imprest account (USD)	1,625.91	1,625.91
Sub account (MNT)	125.75	125.75
Total	1,751.66	1,751.66

4.2 Project cumulative expenditures

a) Civil works

Expenses	2017.12.31 (USD)	For the reporting period 2017 (USD)	2016.12.31 (USD)
Lot -1 China Huashi Enterprises	10,917,548.62	6,402,967.80	4,514,580.82
Lot-2 HKB International Holding	16,487,328.02	7,483,180.42	9,004,147.60
Lot-3 China Huashi Enterprises	9,786,187.83	5,436,839.30	4,349,348.53
Total	37,191,064.47	19,322,987.52	17,868,076.95

b) Consulting services

Expenses	2017.12.31 (USD)	For the reporting period 2017 (USD)	2016.12.31 (USD)
ICT consulting firm	2,333,934	682,106	1,651,828
Khasar. E	6,108		6,108
Total	2,340,042		1,657,936

The detail of consulting services incurred during the reporting period is shown on page 9.

4.3 Sources

a) ADB Loan fund

For the reporting period, ADB financed a total of 20,700,309.94 USD for the project activities including 537,041.36 USD interest and commitment charges which were charged according to the loan agreement.

	2017.12.31 (USD)	For the reporting period 2017	2016.12.31 (USD)
Beginning balance	19,721,258.64		19,721,258.64
Liquidation and replenishment	108,033.66	108,033.66	
Direct payment	20,055,234.92	20,055,234.92	
<i>subtotal</i>	<i>39,884,527.22</i>	<i>20,163,268.58</i>	<i>19,721,258.64</i>
Interest and commitment charges -2017	537,041.36	537,041.36	
Interest and commitment charges -2015, 2016	457,800.56		457,800.56
Interest and commitment charges – previous years	38,541.67	38,541.67	
<i>subtotal</i>	<i>1,033,383.59</i>	<i>575,583.03</i>	<i>457,800.56</i>
Total	40,917,910.81	20,738,851.61	20,179,059.20

b) The Government of Mongolia's contribution

	2017.12.31 (USD)	For the reporting period 2017	2016.12.31 (USD)
The Government of Mongolia's contribution	0.0	(50,141.41)	50,141.41
Total	0.0	(50,141.41)	50,141.41

On April 07, 2015 ADB approved to increase ADB financing percentage for the Civil Works Category to 100 percentage of total expenditure claimed. In relation to this change, the PIU refunded the 17 percentage of advance payment of LOT CW1-2 equals to 50,141.40 USD which had been paid to HKB International Holding by the government source to the Government of Mongolia.

c) Bank interest income/ Bank charge

For the reporting period, the bank interest income of 328.47 USD earned in the imprest and sub-accounts for ADB fund.

	2017.12.31 (USD)	For the period 2017 (USD)	2016.12.31 (USD)
Bank interest income	1,225.34	328.47	896.87
Total	1,225.34	328.47	896.87

For the reporting period, the transfer charge of 10 USD estimated in the imprest account.

4.3. Procurement and contracting

Consulting services

No	Contract No	Contractor	Contract date	Contract expiry date	Contract amount (USD)	Amount paid during the period 2017 (USD)	Unpaid balance as of Dec31,2017 (USD)	Explanation
1	ZTYA-ZT-2014/10/161	ICT consulting firm	2015.08.04	2019.08.03	4,996,290	2,333,934	2,662,356	On going
2	101/140	Khasar. E	2016.05.20	2018.10.30	110,340	6,108	104,232	On going
		Total			5,106,630	2,340,042	2,766,588	

Works

No	Contract No	Contract name	Contractor	Contract date	Contract expiry date	Contract amount (USD)	Amount paid during the period 2017 (USD)	Unpaid balance as of Dec31,2017 (USD)	Explanation
1	ICB(MON)-2014/01/169	Lot1 Construction of 50 km road between Khovd and Shurga bridge	China Huashi Enterprises	2015.08.04	2018.08.31	22,617,581.18	10,917,548.62	11,700,032.56	On going
2	ICB(MON)-2014/01/162	Lot2 Construction of 53.9 km road between Shurga bridge and Khashaantiin davaa	HKB International Holding	2015.08.04	2018.08.31	27,421,556	16,487,328.02	10,934,227.98	On going
3	ICB(MON)-2014/01/170	Lot3 Construction of 60 km road between Khashaantiin davaa and Tolbo soum	China Huashi Enterprises	2015.08.04	2018.08.31	36,519,718.18	9,786,187.83	26,733,530.35	On going
		Total				86,558,855.36	37,191,064.47	49,407,790.89	

FINANCIAL STATEMENTS
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