

Audited Project Financial Statements

Project Number: 46124-001

Grant Number: 0341

Period covered: 1 January 2016 to 31 December 2016

TAJ: CAREC Regional Improvement of Border Services Project

Prepared by Ministry of Economic Development and Trade

For the Asian Development Bank

Date received by ADB: 6 July 2017

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 Ministry of Economic Development and Trade.

Asian Development Bank
Grant 0341 – TAJ (SF)
CAREC Regional Improvement of Border Services Project
Special purpose financial statements
31 December 2016

Project Financial Statements and

Independent Auditors' Report

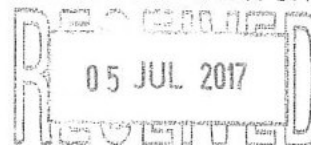
Asian Development Bank

Grant 0341 – TAJ (SF)

CAREC Regional Improvement of Border Services Project

31 December 2016

ASIAN DEVELOPMENT BANK



TAJIKISTAN RESIDENT MISSION

Independent auditors' report

To the State Committee on Investments and State Property Management of the Republic of Tajikistan

We have audited the accompanying special purpose financial statements of CAREC Regional Improvement of Border Services Project (the "Project") financed by the Asian Development Bank (the "ADB") Grant Agreement 0341-TAJ (SF), which comprise the statement of Project sources and uses of funds and statement of uses of funds by Project activity as at and for the period ended 31 December 2016, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management of the Project Implementation Unit (the "PIU") is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the International Public Sector Accounting Standard ("IPSAS") Financial Reporting Under the Cash Basis of Accounting issued by the International Public Sector Accounting Standards Board (the IPSASB) of the International Federation of Accountants (IFAC), the ADB guidelines and the relevant covenants specified in the Agreement of financing of ADB Grant 0341-TAJ(SF) dated 24 April 2013 executed between the Republic of Tajikistan and Asian Development Bank (the "ADB" 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.

Auditors' responsibility

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

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

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

Opinion

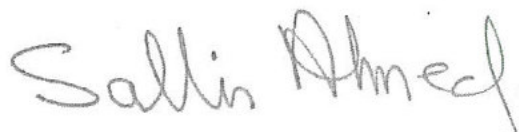
In our opinion, the statement of Project sources and uses of funds present fairly, in all material respects the cash and bank balances of the Project as at 31 December 2016 and the funds received and expenses incurred for the period then ended in accordance with the IPSAS Financial Reporting Under the Cash Basis of Accounting, the ADB Guidelines and the Grant Agreement 0341-TAJ(SF) dated 24 April 2013 executed between the Republic of Tajikistan and Asian Development Bank (the "ADB").

We also report that:

- in our opinion the funds were utilized for the purposes described in the Financing Agreements and agreed Project's annual work plans;
- in our opinion, the imprest account statements give a true and fair view of the imprest accounts as at 31 December 2016 and the cash movements of these accounts for the year then ended, in accordance with the ADB Guidelines;
- in our opinion, project expenditures disbursed (SOE) are in compliance with established proper procedures and according to the provisions of the Financing Agreements, Loan/Grant Disbursement Handbook, and guidelines on Financial Management and Analysis of Projects issued by the ADB;
- the procurement of goods, services and civil works have been made in accordance with the Financing Agreements and ADB's procurement regulations; and
- certain covenants specified in the Grant Agreement 0341-TAJ(SF) are directly related to the other Government entities of the Republic of Tajikistan, the compliance of which we could not able to check as those items are external to the Project.



M. Munjurul Hassan, FCA
Partner and Team Leader



Sabbir Ahmed, FCA
Partner and Joint Team Leader

Dushanbe, 30 June 2017

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Statement of the Project sources and uses of funds of Grant 0341 – TAJ (SF)

As of and for the year ended 31 December 2016

In USD		Actual		Budget		Difference	
I	Notes	For the year	As of 31 December 2016	For the year	As of 31 December 2016	For the year	As of 31 December 2016
Cash and bank balances as at 01 January 2016	5	7,261					
Add: Financing							
ADB Grant 0341 – TAJ(SF)	6.1	1,660,843	3,120,126				
Total project financing		1,660,843	3,120,126				
Other income/proceeds	6.2	2,396	6,863				
Exchange rate difference		-	-				
Total financing and other receipts		1,663,240	3,126,989				
Less: Use of funds							
ADB Grant 0341 – TAJ(SF)	7.1	1,605,291	3,060,571	2,214,080	7,053,080	(608,789)	(3,992,509)
Total Project expenses		1,605,291	3,060,571	2,214,080	7,053,080	(608,789)	(3,992,509)
Other expenses		257	498				
Exchange rate difference		397	1,365				
Total Project expenses and other expenses		1,605,945	3,062,434				
Cash and bank balances as at 31 December 2016	5	64,555					

The annexed notes 1 to 9 form an integral part of these special purpose financial statements.

D. Rashidbekov
Team Leader



A. Abdulloev
Finance Specialist

Statement of uses of funds by Project activity

As of and for the year ended 31 December 2016

	ADB Grant 0341 – TAJ (SF)	Actual	
		For the year ended 31 December 2016	As of 31 December 2016
1	Improvement of the Guliston border crossing point (BCP), including upgrade and outfitting of terminal facilities and provision of communications, office and customs inspection equipment	1,327,713	2,150,593
2	Establishment of a national single window facility in Tajikistan	144,629	317,555
3	Project management support to the Implementing Agency, including engineering and procurement support, contract supervision and external audit	132,948	592,423
	Total	1,605,291	3,060,571

The annexed notes 1 to 9 form an integral part of these special purpose financial statements.



D. Rashidbekov
Team Leader

A. Abdulloev
Finance Specialist

ADB imprest account statement (USD)

As of and for the year ended 31 December 2016

Account number: 22696840800001

Bank; National Bank of Tajikistan

Balance as of 01 January 2016	3,888
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Add:

Received from ADB	178,086
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Total	181,974
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Less:

Transfer to Somoni account(Conversion)	122,536
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Total	122,536
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Balance as of 31 December 2016	59,438
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The annexed notes 1 to 9 form an integral part of these special purpose financial statements.

D. Rashidbekov
Team Leader, RIL



A. Abdulloev
Finance Specialist

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ADB Imprest account statement (Somon)

As of and for the year ended 31 December 2016

Account number: 2020497271200100002

Bank; Central Treasury of the Ministry of Finance of the Republic of Tajikistan

Balance as of 01 January 2016

Add:

Transfer from USD account	122,536
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Total	122,536
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Less:

Eligible Expenses	122,234
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Transferred to cash box for expenses	300
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Exhchange rate differnce	1
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Total	122,535
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Balance as of 31 December 2016	1
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The annexed notes 1 to 9 form an integral part of these special purpose financial statements.

D. Rasimbekov
Team Leader



A. Abdulloev
Finance Specialist

Tender account statement (TJS)

As of and for the year ended 31 December 2016

Account number: 20202972380800000027

Bank; CJSC Spitamen Bank

Balance as of 01 January 2016 3,373

Add:

Proceeds from Sale of tender documents 896

Exchange rate difference -

Total 896

Less:

Eligible Expenses -

Transferred to cash box 255

Bank charges 1

Exchange rate difference 397

Other expenses -

Total 653

Balance as of 31 December 2016 3,616

The annexed notes 1 to 9 form an integral part of these special purpose financial statements.

D. Rashidbekov
Team Leader



A. Abdulloev
Finance Specialist

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Tender account statement (USD)

As of and for the year ended 31 December 2016

Account number: 20206840280800000019

Bank; CJSC Spitamen Bank

Balance as of 01 January 2016

Add:

Proceeds from Sale of tender documents	1,500
Exchange rate difference	-

Total	<u>1,500</u>
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Less:

Eligible Expenses	-
Exchange rate difference	-
Other expenses	-

Total	<u>-</u>
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Balance as of 31 December 2016	<u><u>1,500</u></u>
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The annexed notes 1 to 9 form an integral part of these special purpose financial statements.

D. Rashidbekov
Team Leader



A. Abdulloev
Finance Specialist

Statement of Cash desk

As of and for the year ended 31 December 2016

Balance as of 01 January 2016	-
Add:	
Transfer from account in Somoni	555
Exchange rate difference	-
Total	<u>555</u>
Less:	
Eligible Expenses	300
Other expenses	255
Exchange rate difference	-
Total	<u>555</u>
Balance as of 31 December 2016	<u>-</u>

The annexed notes 1 to 9 form an integral part of these special purpose financial statements.

D. Rashidbekov
Team Leader ITU



A. Abdulloev
Finance Specialist

SOE Withdrawal Schedule

As of and for the year ended 31 December 2016

Application no	Category	Application amount
00017	Project implementation support of PIU	46,927
	Office equipment, transport and other	20,485
	Subtotal	67,412
00022	Project implementation support of PIU	48,335
	Office equipment, transport and other	12,592
	Subtotal	60,927
00030	Project implementation support of PIU	39,923
	Office equipment, transport and other	9,825
	Subtotal	49,748
	Total	178,086

The above amount includes liquidation of advances.

The annexed notes 1 to 9 form an integral part of these special purpose financial statements.

D. Rashidbekov
Team Leader



A. Abdulloev
Finance Specialist

Notes to the special purpose financial statements

1. General Information

CAREC Regional Improvement of Border Services Project (the "Project") is implemented in compliance with the Asian Development Bank (the "ADB") Grant Agreement 0341-TAJ(SF) executed on 24 April 2013 between the Republic of Tajikistan and the Asian Development Bank (the "ADB").

The primary objective of the Project is to support the development of transport corridors and trade facilitation in the CAREC Region by reducing the physical and institutional bottlenecks in the cross-border transportation of goods. The objective of the Project is to achieve faster, more predictable and cost-efficient cross-border transport and trade activities in the CAREC Countries. The project has three components:

- a. Improvement of the Gulistan border crossing point (BCP), including upgrade and outfitting of terminal facilities and provision of communications, office and customs inspection equipment
- b. Establishment of a national single window facility in Tajikistan, including:
 - (i) development of single window system and trade portal software, certificate of origin and license track and trace system, and enhancement and integration of the unified automated information system of customs service with such single window system,
 - (ii) provision of single window system, regional centre and trade portal hardware;
 - (iii) operational assistance to the single window governance and working groups
 - (iv) business process analysis and re-engineering;
 - (v) legal and regulatory framework review and proposal; and
 - (vi) stakeholder engagement and public awareness activities
- c. Project management support to the Implementing Agency, including engineering and procurement support, contract supervision and external audit

The following categories of expenses can be paid at the expense of the ADB Grant 0341 – TAJ (SF) (Including the reallocation made by the end of 2016) exclusively for the purpose of implementation of activities:

Categories	ADB Grant	ADB Financing in percent
Improvement of Border Crossing Point		
Gulistan BCP (works)	1,712,582	100%
Gulistan BCP (goods)	655,000	100%
	2,367,582	
Establishment of a national single window		
Single window system establishment	2,954,000	100%
Single window institutional and technical support	1,943,516	100%
	4,897,516	
Project management support		
Project management support in the framework of PIU	1,116,000	100%
Audit	100,000	100%
Office equipment, vehicle and miscellaneous expenses	150,000	100%
	1,366,000	
Unallocated expenses	570,902	100%
Total	9,202,000	100%

The Ministry of Economic Development and Trade of the Republic of Tajikistan (the “MEDT”), is the Executing Agency (the “EA”), and the Customs Services of the Government of the Republic of Tajikistan is the Implementing Agency (the “IA”) of the Project. The EA, in close coordination with other government agencies and the ADB directs and assists the IA for timely resolution of any issues and completion of the Project within the established goals, the acceleration of the procurement process and the organization of the meeting of the Project Management Committee

The State Institution of the IA “CAREC Regional Project Implantation Unit on Border Services Improvement”, which has a legal status was established for the effective use of ADB funds and responsible for general implementation and coordination of the Project under this Grant 0341-TAJ(SF).

The expected closing date for the Project is defined as 30 June 2018.

In 2016 the average number of the PIU staff involved in the Project was 8 (2015: 8).

The special purpose financial statements of the Project have been approved on 30 June 2017 by the PIU Team Leader and the Finance Specialist.

2. Significant Accounting policies

Basis of preparation

The special purpose financial statements of the Project have been prepared in accordance with IPSAS *Financial Reporting Under the Cash Basis of Accounting* and comply with the Asian Development Bank Guidelines (“Project Financial Management and Analysis”) and the covenants of the Grant Agreement 0341 – TAJ(SF). These special purpose financial statements reflect the data for the period ended 31 December 2015, as well as cumulative data from the beginning of the Project until 31 December 2016.

Under this basis of accounting, financing is recognized when received rather than when earned and expenses are recognized when paid rather than when incurred. Expenses are resources directed for the payment of works, goods and services, recognized in the financial statements in the period when they are paid.

Financing

Disbursement procedures consist of four major types, described briefly as the

- direct payment procedure where the ADB, at the borrower’s request, pays a designated beneficiary;
- commitment procedure where the ADB, at the borrower’s request, provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against the letter of credit financed from the loan/grant account;
- reimbursement procedure where the ADB pays from the account to the borrower’s account or, in some cases, to the project account for eligible expenditures which have been incurred and paid for by the Project out of its budget allocation on its own resources, and
- imprest fund procedure where the ADB makes an advance disbursement from the loan account for deposit to an imprest account to be used exclusively of ADB’s share of eligible expenditures.

Financing through the direct payments and commitment procedure is recognized when approved by the ADB. The financing through reimbursement and imprest fund procedures is recognized when the funds are actually received.

The amounts of Government financing are recognized as such and included in the special purpose financial statements when the funds are transmitted to the Project Current account (the “Government financing account”).

Expenses

Consistent with the cash basis of accounting, the Project expenses are recognized and included in the special purpose financial statements when the payment is actually made to suppliers of goods, works and/or services as opposed to when goods are received/ services are rendered.

Functional and presentation currency

Somoni is the national currency of the Republic of Tajikistan. The special purpose financial statements of the Project are presented in USD (presentation currency) and rounded to the nearest integer of USD. Income and expenses denominated in Somoni are converted into USD applying the exchange rate set out by the National Bank of Tajikistan on the date of the transaction.

Account balances denominated in Somoni are converted into USD applying the exchange rate set out by the National Bank of Tajikistan at the reporting date. As of 31 December 2016 the exchange rate is 7.8762 Somoni for 1 USD (as of 31 December 2015: 6.9902 Somoni).

3. Taxation

According to the Loan/Grant Agreement, the loan and grant amounts should not be used to pay any taxes and duties. In accordance with the Republic of Tajikistan Government decree No. 497 dated November 1, 2006 the Project is exempted from the value added tax payment.

The PIU pays the social tax to the Social Fund of Tajikistan at the rate of 25% from wages out of the funds provided by the Government for its employees. The PIU also deduct from the payment of salaries for the locally hired employees individual income taxes and social contributions in accordance with the requirements and rates stated by the Tax Code of the Republic of Tajikistan.

4. Fixed Assets

Fixed assets of the project include office equipment, vehicles and furniture procured for project implementation. Cost of fixed assets includes the cost of procurement and other related expenditures.

Due to the cash basis of accounting, the fixed assets procured under the Project are measured on the basis of cost of procurement and reflected in the special purpose financial statement as expenditures of Category 2 “Equipment and materials” instead of capitalization in balance sheet. The record of fixed assets is maintained in inventory sheets.

Considering non-commercial status of the Project and cash basis of accounting, depreciation for the fixed assets is not accrued. By the end of 2016 year following assets was purchased from ADB resources:

Office furniture	10,854
Office equipment	13,836
Vehicle	28,300
Total	52,990

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5. Cash and Bank balances

Imprest accounts account balances of the project are presented in the following table:

	As of 31 December 2016	
	In USD	In Somoni
ADB Imprest account in USD	59,438	468,150
ADB Imprest Account in Somoni	1	4
Tender account in USD	1,500	11,814
Tender account in Somoni	3,616	28,480
Cash box	-	-
Total	64,555	508,448

	As of 31 December 2015	
	In USD	In Somoni
ADB Imprest account in USD	3,888	27,178
ADB Imprest Account in Somoni	-	3
Tender account in Somoni	3,373	23,580
Total	7,261	50,761

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6. Financing

ADB Grant 0341 – TAJ

In USD	For the year ended 31 December 2016	As of December 31, 2016
Direct payments	1,482,756	2,674,846
Imprest Account Replenishment	178,087	445,280
Total	1,660,843	3,120,126

The Summary of ADB Grant financed through withdrawn applications is presented in the following table

Withdrawal Application No	In USD
Direct payments	
00018	106,766
00019	307,611
00020	49,827
00021	398,616
00023	218,056
00024	5,000
00025	5,414
00026	72,315
00027	20,118
00028	55,080
00028	72,315
00029	171,639
Subtotal	1,482,756
Imprest Account Replenishment	
00017	67,412
00022	60,927
00030	49,748
Subtotal	178,087
TOTAL	1,660,843

6.2 Other proceeds and expenses

Other receipts constitute payments made by participants of tenders administered by the PIU for purchase of tender documents. Other expenses constitute expenses incurred for preparation of tender documents as well as other operating expenses of the PIU.

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7. Expenses

7.1 ADB Grant 0341 – TAJ (SF)

In USD	Actual		Budget		Difference	
	For the year	As of 31 December 2016	For the year	As of 31 December 2016	For the year	As of 31 December 2016
Improvement of Border Crossing Point (BCP)	1,327,713	2,150,593	1,344,700	1,894,700	(16,987)	255,893
Establishment of a national single window	144,629	317,555	545,980	3,134,980	(401,351)	(2,817,425)
Project Implementation Support under PIU	122,535	498,855	323,400	1,873,400	(200,865)	(1,374,545)
Office Equipment, vehicle and miscellaneous expenses	5,000	82,517	-	150,000	5,000	(67,483)
Audit	5,414	11,051	-	-	5,414	11,051
Total	1,605,291	3,060,571	2,214,080	7,053,080	(608,789)	(3,992,509)

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8. Reconciliation between the amount received by the PIU and disbursed by the ADB for the year ended 31 December 2016

ADB Grant 0341 – TAJ (SF)

Category	Application No	ADB	PIU	Difference
		In USD	In USD	
Gulistan BCP (works)				
	00018	106,766	106,766	-
	00019	307,611	307,611	-
	00023	218,056	218,056	-
	00031	171,639	171,639	-
Gulistan BCP (Goods)				
	00020	49,827	49,827	-
	00021	398,616	398,616	-
	00028	55,080	55,080	-
Single window institutional and Technical Support				
	00026	72,315	52,523	-
	00029	72,315	47,290	-
Project management support in the framework of PIU (Consulting services)				
	00024	5,000	5,000	-
Office equipment, vehicle and miscellaneous expenses				
	00017	67,412	28,300	-
	00022	60,927	22,041	-
	00027	20,118	12,246	-
	00030	49,748	49,807	(59)
Audit	00025	5,414	5,414	
				-
Total		1,660,843	1,660,902	(59)

The above amount includes USD 178,086 of liquidation of advance against application numbers 22, 27 and 30.

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9. Project implementation

As of 31 December 2016, overall 43.40% of Grant have been implemented in the framework of the Grant Agreement 0341-TAJ (SF). The project expenses by categories are presented in the tables below:

	Expenses as of 31 December 2016 in USD	Budget as of 31 December 2016 in USD	Budgeted expenses as of 31 December 2016 (in percentage)	Total Project Budget in USD	Project implementation as of 31 December 2016
					(in percentage)
Improvement of Border Crossing Point (BCP)	2,150,593	1,894,700	80.03%	2,367,582	90.84%
Establishment of a national single window	317,555	3,134,980	10.13%	4,897,516	6.48%
Project Management support and supervision	592,423	1,873,400	31.62%	1,366,000	43.37%
Unallocated/Contingencies	-	150,000	0.00%	570,902	0.00%
Total	3,060,571	7,053,080	43.40%	9,202,000	33.26%

Hoda Vasi Chowdhury & Co

Hoda Vasi Chowdhury & Co
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30 June 2017

Mr. F. Kahhorzoda
Chairman
State Committee on Investments and Property Management
The Republic of Tajikistan
27 Shotemur str.
Dushanbe, Tajikistan

Dear Sir

Subject: Submission of the Management Letter and Audited Special Purpose Financial Statements of the CAREC Regional Improvement of Border Services Project [Grant 0341-TAJ (SF)] (the "Project") for the year ended 31 December 2016

In accordance with the Contract # ADB/SCISPM/2016/QCBS/1 for Financial Audit of Project Financial Statements, Statement of Expenditures and Project Imprest Accounts for FY 2016 executed on 6 June 2016 between the State Committee on Investments and State Property Management of the Republic of Tajikistan and Hoda Vasi Chowdhury & Co (HVC) Bangladesh, we have completed the audit of the special purpose financial statements of the Project as at and for the year ended 31 December 2016.

During the course of our audit we identified certain matters which may be of interest to you and the Project management. As you would appreciate, our audit was carried out primarily to enable us to form an opinion on the special purpose financial statements as a whole on the basis of materiality and, therefore, may not necessarily bring to light all the matters relevant to the system of internal control, which a special review/investigation might have done.

Use of our report

This report shall be read in conjunction with the attached audited special purpose financial statements of the CAREC Regional Improvement of Border Services Project (the "Project") for the year ended 31 December 2016.

This report is prepared by us only for the use by the Project to fulfill its reporting obligation set out in the Grant Agreement 0341 TAJ (SF) executed between the Republic of Tajikistan and Asian Development Bank (the "ADB") on 24 April 2013, and should not be used for any other purposes. As per our contract, the use of this report is restricted only to the Project, the State Committee on Investments and State Property Management of the Republic of Tajikistan and the ADB. This report is prepared only on the basis of the special purpose financial statements for the ADB Grant 0341-TAJ (SF) and therefore does not apply to any other financial reports of the Project or its PMU/PIU.

Hoda Vasi Chowdhury & Co

1. Scope

In accordance with the Terms of Reference mentioned in the aforesaid contract, our responsibility was to conduct an audit in accordance with the International Standards on Auditing (ISAs) and the guidelines for the Financial Governance and Management of Investment Projects Financed by ADB and express an opinion whether the special purpose financial statements of the Project presents fairly in all material respects the cash and bank balances of the Project as at 31 December 2016 and the funds received and expenses incurred for the year then ended, and objectively determine the following:

- The Project's programs and activities are being conducted in accordance with the Project's Financing Agreements, ADB's Report and Recommendation of the President to the Board of Directors (RRP) and Aide Memoires to accomplish the intended objectives.
- The Project's activities are efficiently, effectively and economically implemented and managed.
- Project expenditure disbursed are in compliance with established and proper procedures and according to the provisions of the Financing Agreements and the Guidelines for the Financial Management and Analysis of Projects.
- All revenues are being properly collected, deposited and recorded in the Project's books of account.
- Financial and other reports are being provided on a monthly and quarterly basis, and the disclosures provide fairly and fully the information necessary to determine the scope and nature of the Project's activities, and provide a proper basis for evaluating activities.
- There are adequate operating and administrative procedures and practices, internal control system and internal management controls in operation.
- There are no indications of fraud or abuse, which may require further investigation.
- Verify the mathematical accuracy of the accounts by ensuring that the expenditures described in the supporting documentation are reconciled to the budget categories mentioned in the Financing Agreements and reflected in the Projects' books of account

Please note that our audit is conducted only on the basis of documents and records available at the Project Management Unit (PMU) and did not include the field visits or verification at sites/regional offices.

Confirmation on the Compliance of the ISAs

As mentioned above, our audit was conducted in accordance with the International Standards on Auditing (ISAs) complying with all relevant requirements of the ISAs. As required by the TOR, we reconfirm the compliance of the following specific requirements of certain ISAs:

Hoda Vasi Chowdhury & Co

- During the conduct of this audit we have complied with all relevant ethical requirements, including those pertaining to independence, specified by the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") framed by the IESBA of the International Federation of Accountants (IFAC).
- In accordance with the ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, we have exercised professional judgment and maintained professional skepticism throughout the planning and performance of the audit.
- We have applied the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements, if any, on the financial statements. As per the guidance provided in the ISA, judgments about materiality have been made in the light of surrounding circumstances, and by the size or nature of a misstatement, or a combination of both.
- As per the ISA 230 *Documentation* we have prepared audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed by us to comply with the ISAs and applicable legal and regulatory requirements.
- As per the ISA 240 *the Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, we maintained professional skepticism throughout the audit. Furthermore, where relevant we have also considered during our audit the fraud risk factors identified in the Appendix of ISA 240 applicable to both fraudulent financial reporting and misappropriation of assets.
- In accordance with ISA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* we have identified and assessed the risks of material misstatement at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures.
- As per ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*, wherever applicable, we have taken into account the relevant legal and regulatory framework directly associated with the risk of material misstatements in the financial statements.
- As required by ISA 260 *Communication With Those Charged With Governance* we have determined that the State Committee on Investments and Property Management, the Republic of Tajikistan is the appropriate authority within the Project's governance structure with whom we have to communicate relevant matters.
- As per the ISA 330 *the Auditor's Responses to Assessed Risks* we designed and implemented overall responses to address the assessed risks of material misstatement at the financial statement level during our planning stage. Thereafter, we designed and performed further audit procedures in response to the assessed risks through evaluating the operating effectiveness of internal controls in preventing, or detecting and correcting, material misstatements at the assertion level. Finally, we conducted substantive procedures comprising both tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures.

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2. Assessment of Internal Control

In accordance with the International Standards on Auditing, as part of our audit risk assessments, we considered internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

In addition, we have also performed the following specific procedures to comply with the TOR attached to the Contract:

- Reviewed expenditures made by the Projects to check whether those are in accordance with the project documents, work plans and budgets, and are in compliance with the Financing Agreements.
- Reviewed the process for procurement and contracting activities to ascertain whether those are transparent and competitive, and in accordance with the provisions of the Financing Agreements and the ADB's procurement guidelines.
- Reviewed the use, control, record keeping and disposal of non-expendable equipment (i.e. fixed assets) and assessed whether it is in compliance with the ADB's rules and regulations. In addition, we also test checked whether the equipment procured met the identified needs and whether its use was in line with intended purposes.
- Reviewed the process for recruiting project personnel and consultants and assessed whether it was transparent and competitive and in accordance with the Financing Agreements and the ADB's guidelines.
- Reviewed the Projects' finance and accounting records and assess their adequacy for maintaining accurate and complete records of receipts and disbursement of funds, and for supporting the preparation of the monthly and quarterly financial statements.
- Reviewed the records of requests for payments and ensure that they are approved and authorised by empowered Projects' officers.

As per the requirements of ISA 265 *Communicating Deficiencies in Internal Control to those Charged With Governance and Management* in this report we have highlighted our assessments the design and implementation of internal control system relevant to the preparation of the financial statements and any weaknesses identified thereon.

Hoda Vasi Chowdhury & Co

3. Project Summary

CAREC Regional Improvement of Border Services Project (the "Project") is implemented in compliance with the Asian Development Bank (the "ADB") Grant Agreement 0341-TAJ (SF) executed on 24 April 2013 between the Republic of Tajikistan and the Asian Development Bank (the "ADB").

The primary objective of the Project is to support the development of transport corridors and trade facilitation in the CAREC Region by reducing the physical and institutional bottlenecks in the cross-border transportation of goods. The objective of the Project is to achieve faster, more predictable and cost-efficient cross-border transport and trade activities in the CAREC Countries.

The project has three components:

- a. Improvement of the Guliston border crossing point (BCP), including upgrade and outfitting of terminal facilities and provision of communications, office and customs inspection equipment
- b. Establishment of a national single window facility in Tajikistan, including:
 - (i) development of single window system and trade portal software, certificate of origin and license track and trace system, and enhancement and integration of the unified automated information system of customs service with such single window system,
 - (ii) provision of single window system, regional centre and trade portal hardware;
 - (iii) operational assistance to the single window governance and working groups
 - (iv) business process analysis and re-engineering;
 - (v) legal and regulatory framework review and proposal; and
 - (vi) stakeholder engagement and public awareness activities
- c. Project management support to the Implementing Agency, including engineering and procurement support, contract supervision and external audit

4. Results of our audit procedures

4.1 Accounting Policy

During the course of our audit we observed that the Project special purpose financial statements are prepared on the cash basis of accounting as opposed to the accrual basis. As the cash basis of accounting is also acceptable accounting policy in accordance with the International Public Sector Accounting Standard ("IPSAS") *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board (the "IPSASB") of the International Federation of Accountants (IFAC) and endorsed by the ADB we have accepted the use of this accounting policy by the Project.

4.2 Maintenance of Fixed assets

During the course of our audit we have also reviewed the procedures of maintaining fixed assets purchased for the Project including record keeping. We found the maintenance of fixed assets including record keeping in order and sighted evidence of periodic checking/verification of fixed assets.

4.3 Procurement Policy

As part of the audit procedures we have checked all major supplier payments with reference to the vouchers as well as related supporting documents. In addition, we have also checked all new contracts executed during the year ended 31 December 2016 for the work to be undertaken from the ADB fund. No major discrepancies have been noted as part of our checking.

4.4 Recruitment and human resources

Based on our discussion with the concerned personnel as well as test checking of the documents we have observed that required formalities have been followed in terms of recruiting the staff for the project including observance of the local labour laws, signing of individual contract and obtaining approval.

We have also test checked the leave taken by the project staff and found them to be properly recorded in the leave register and in agreement with the leave entitlement specified in the relevant employment contract.

4.5 Revenue

We note that the Project is a non-revenue generating entity and therefore does not have any source of recurring revenue. We however observed that at times, the Project has earned nominal revenue from the sale of tender/bid documents to the prospective bidder.

4.6 Compliance with the Covenants

As per the Schedule 4 of the Grant Agreement 0341-TAJ executed on 24 April 2013 between the Republic of Tajikistan and ADB, Tajikistan shall ensure certain implementation arrangement and covenants which are external to the Project and directly related to other Government Ministries and Agencies for which we do not have full access. Therefore, we could not able to independently check the compliance of these covenants.

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5. Follow-up of Prior Year Management Letter

5.1 Project financial statements

We note that the Project currently does not prepare a full set of annual financial statements for the audit purposes, rather various forms are used to report disbursements and expenses to comply with reporting requirements set out by various Government as well funding agencies. As a result, during the course of our audit we have to assist the Project finance team to prepare special purpose financial statements in compliance with the IPSAS Standard *Financial Reporting Under the Cash Basis of Accounting*.

Current status

In the process of being implemented.

6. Conclusion

Please feel free to let us know if you require any clarification and/or further information about the matters referred above or about the attached draft special purpose financial statements.

We would like to place on record our sincerest appreciation of the courtesy and co-operation extended to our audit team by management and all grades of staff of the Project during the course of our audit.

Yours faithfully



M. Munjurul Hassan, FCA
Partner and Team Leader

Sabbir Ahmed, FCA
Partner and Joint Team Leader

Encl.
Audited Special Purpose Financial Statements

Copy to:

The Project Director
CAREC Regional Improvement of Border Services Project (the "Project") Grant 0341-TAJ(SF)
Dushanbe, Tajikistan

The Project Officer
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