

Audited Project Financial Statements

Project Number: 48401-006

Grant Number: 6002

Period covered: 25 January 2016 to 31 December 2016

KGZ: Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road Project Design Advance

Prepared by Ministry of Transport and Roads, Kyrgyz Republic

For the Asian Development Bank

Date by ADB: 29 December 2017

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ЗАО «В. ЯКОБС - АУДИТ»



CJSC «W. JACOBS - AUDIT»

**GRANT AGREEMENT
ADB GRANT № PDA 6002-KGZ**

**PROJECT DESIGN ADVANCE FOR PREPARATION OF THE ENSUING CENTRAL ASIA
REGIONAL ECONOMIC COOPERATION (CAREC) CORRIDORS 1 AND 3 CONNECTOR ROAD PROJECT**

**FINANCIAL STATEMENTS, PREPARED IN ACCORDANCE WITH
THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
UNDER THE CASH BASIS OF ACCOUNTING
FOR THE PERIOD FROM JANUARY 25, 2016 TO DECEMBER 31, 2016**

PROJECT DESIGN ADVANCE FOR PREPARATION OF THE ENSUING CENTRAL ASIA
REGIONAL ECONOMIC COOPERATION (CAREC) CORRIDORS 1 AND 3 CONNECTOR ROAD PROJECT
ADB GRANT № PDA 6002-KGZ

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS

The following statement is made with a view to distinguishing the respective responsibilities of the auditors and management on the financial statements of the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project, acting on the basis of the Grant Agreement concluded between the Kyrgyz Republic and the Asian Development Bank on June 15, 2015 (Grant № PDA 6002-KGZ).

The accompanying statements have been prepared by the Investment ADB Projects Implementation Group under the Ministry of Transport and Roads of the Kyrgyz Republic (hereinafter referred to as the IPIG). The management of the IPIG acknowledge their responsibility for the preparation and fair presentation of financial statements, including adequate disclosures, in accordance with International Public Sector Accounting Standards under the cash basis of accounting and the Asian Development Bank's Rules, and asserts that funds received under the Grant Agreement, concluded between the Kyrgyz Republic and the Asian Development Bank on June 15, 2015 (Grant № PDA 6002-KGZ) were used for purposes for which funding was provided.

These financial statements, for the period from January 25, 2016 to December 31, 2016, were approved on December 26, 2017.

Deputy Minister of the Ministry of Transport and Roads
of the Kyrgyz Republic



A.I. Zhusubaliev

Director of IPIG



R.A. Satybaldiev



ЖАБЫК АКЦИОНЕРДИК КООМУ "В. ЯКОБС - АУДИТ"

ИНН 1204199510045

№ A-39 December 26, 2017

INDEPENDENT AUDITORS' REPORT

TO THE MINISTRY OF TRANSPORT AND ROADS
OF THE KYRGYZ REPUBLIC

Report on the financial statements

Opinion

We, the "W.Jacobs-Audit" CJSC, have audited the accompanying financial statements, consisting of the Statement of Cash Receipts and Payments for the period from January 25, 2016 to December 31, 2016 of the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project, acting on the basis of the Grant Agreement concluded between the Kyrgyz Republic and the Asian Development Bank on June 15, 2015 (Grant № PDA 6002-KGZ), as well as notes to the financial statements, including summary of significant accounting policies for the indicated period.

In our opinion, the Statement of Cash Receipts and Payments of the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project present fairly, in all material respects, view of receipts and payments for the period from January 25, 2016 to December 31, 2016 in accordance with the International Public Sector Accounting Standards under the cash basis of accounting (IPSAS).

Report on the fulfillment of the terms of the Grant Agreement

Modified opinion

In our opinion, except for the impact of the issues set out in the "Basis for modified opinion" of our report, all funds of the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project paid by the Asian Development Bank were used only for the Project's purposes, as agreed between the Asian Development Bank and the Government of the Kyrgyz Republic in the Grant Agreement on June 15, 2015, and no funds from the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 And 3 Connector Road Project were used for other purposes, the Recipient acted in accordance with the financial terms of the Grant Agreement for the period covered by the audit.

Basis for modified opinion

The Project made payments to the "Japan Overseas Consultants Co.Ltd" consultant for reimbursement of expenses, which include indirect taxes (VAT and sales tax). These expenses, including the acquisition of computer equipment, furniture, fuel and lubricants, were fully reimbursed from ADB funds; the amount of indirect taxes paid from ADB funds is 987 US dollars.

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities in accordance with these standards are described in the section "Auditor's responsibilities for the audit of the financial statements" of this report.

We are independent of the Project in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (the IESBA Code) and we have fulfilled other ethical duties in accordance with the IESBA Code.

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

Going concern

We draw attention to Note 2 to the financial statements, which provides information on the completion of the Project implementation by July 31, 2017. Our opinion is not modified in respect of this matter.

Basis for preparation, presentation and restriction on distribution

We draw attention to Note 2 to the financial statements, which describes the basis for its preparation and presentation. The statements are prepared within the framework of the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project, intended for use by the Project management and the Asian Development Bank, and may not be suitable for other purposes. Our report is intended solely for the management of the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project and the Asian Development Bank, and should not be provided to other parties. Nevertheless, after the report is published by the Asian Development Bank, this report is public domain and its distribution is unlimited. The Asian Development Bank is not responsible for the authenticity and accuracy of the information provided in this report. Our opinion is not modified in respect of this matter.

Responsibility of the management for the financial statements

The management of the Project is responsible for the preparation and fair presentation of these financial statements and its compliance with the International Public Sector Accounting Standards under the cash basis of accounting, and such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting for preparation of the financial statements, unless management either intends to liquidate the Project, or to cease operations, or has no realistic alternative, but to do so.

Auditor's responsibilities for the audit of the financial statements

The objectives of our audit 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 International Standards on Auditing 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.


As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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 Project's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Project's management;
- Conclude on the appropriateness of Project's management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Project's management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Project's management with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


Bochkov M. Ya., Auditor,
The head of the audit, which resulted in the issuance of this audit report


Rostokina G. R., Auditor,
Director of "W. Jacobs-Audit CJSC"



Kyrgyz Republic, 720051,
Bishkek city, Saliyeva street, 72

December 26, 2017

STATEMENT OF CASH RECEIPTS AND PAYMENTS
for the period from January 25, 2016 to December 31, 2016

	Note	for the period from January 25, 2016 to December 31, 2016			The cumulative total		
		Counterpart funding	Account of the ADB Grant	Total	Counterpart funding	Account of the ADB Grant	Total
Cash receipts:							
Funding							
Government of the Kyrgyz Republic funds	3	109,692.18	-	109,692.18	109,692.18	-	109,692.18
ADB funds, including:	4	-	999,049.01	999,049.01	-	999,049.01	999,049.01
Direct payments		-	999,049.01	999,049.01	-	999,049.01	999,049.01
Total funding		109,692.18	999,049.01	1,108,741.19	109,692.18	999,049.01	1,108,741.19
Minus payments by items:							
Consulting services	7	109,692.18	999,049.01	1,108,741.19	109,692.18	999,049.01	1,108,741.19
Total payments		109,692.18	999,049.01	1,108,741.19	109,692.18	999,049.01	1,108,741.19
Receipts minus payments		-	-	-	-	-	-
Net change in cash flow		-	-	-	-	-	-
Cash balance at the beginning of the period		-	-	-	-	-	-
Cash balance at the end of the period		-	-	-	-	-	-

Deputy Minister of the Ministry of Transport and Roads of the Kyrgyz Republic



A.I. Zhusubaliev

Director of IPiG

R.A. Satybaldiev

NOTES TO THE FINANCIAL STATEMENTS

Note 1. DESCRIPTION OF THE PROJECT

Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project was implemented on the basis of the Grant Agreement concluded between the Kyrgyz Republic and the Asian Development Bank on June 15, 2015 (Grant № PDA 6002-KGZ). The grant agreement was ratified by the Law of the Kyrgyz Republic № 4 of January 15, 2016, on the basis of the Resolution of the Jogorku Kenesh of the Kyrgyz Republic of December 15, 2015 № 141-VI.

Objectives of the Project Design Advance for Preparation of the Ensuing Central Asia Regional Economic Cooperation (CAREC) Corridors 1 and 3 Connector Road Project are:

- I. Advance procurement actions, including preparation of bidding documents for the Ensuing Project and supporting the bidding process until contract award;
- II. Undertaking detailed engineering design, including specifications, drawings, detailed cost estimates and finalization of environmental and social safeguard planning documents for the Ensuing Project; and
- III. External audits on the use of the PDA Grant proceeds.

According to the Grant Agreement, the amount of the Grant provided by ADB amounts to 3,000,000 US dollars, and is categorized as follows:

Categories of expenses	Asian Development Bank	% in the category of expenses*
Consulting services	3,000,000	100%
Total	3,000,000	

* Except for taxes, duties and charges levied on the territory of the Kyrgyz Republic.

In accordance with the Project Documents, the amount of funding of the Government of the Kyrgyz Republic is set at 350,000 US dollars.

Detailed information on funding (based on the project documents) by categories of expenses is presented as follows:

Categories of expenses	Asian Development Bank	% in the category of expenses	Kyrgyz Republic	% in the category of expenses	Total	% in the cost of the Project
A Investment costs						
1 Engineering design	2,600,000	90%	300,000	10%	2,900,000	87%
2 Financial audit	90,000	90%	10,000	10%	100,000	3%
Total	2,690,000	90%	310,000	10%	3,000,000	90%
B Unexpected expenses						
	310,000	90%	40,000	10%	350,000	10%
Total	3,000,000	90%	350,000	10%	3,350,000	100%

Information on the Investment Projects Implementation Group

The Executive Agency for the Project Implementation is the Ministry of Transport and Roads of the Kyrgyz Republic (MOTR KR). In accordance with the order of the MOTR KR № 10 of February 1, 2010, the Investment Projects Implementation Group (IPIG) is directly responsible for the implementation of investment projects. The IPIG does not have the status of a legal entity, it is a structural subdivision of the MOTR KR and is located at the address: Kyrgyz Republic, 720017 Bishkek, Isanov street, 42.

The project is a non-profit Project, whose activities are carried out under the state control.

Note 2. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Methodological basis for the preparation of the financial statements

The methodological basis for the preparation of general-purpose financial statements under the Project is the International Public Sector Accounting Standards under the cash basis of accounting (IPSAS), in terms of special statements - the requirements of the Asian Development Bank.

The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the entity or individual.

The accounting policy was applied consistently throughout the period.

Going Concern

In accordance with the Grant Agreement, it was planned to complete the activities of the Project by December 31, 2016. In connection with the delay in the activities of the Project, the period of its implementation was extended until July 31, 2017.

Composition of the financial statements

In accordance with the requirements of IPSAS under the cash basis of accounting, the general-purpose financial statements is provided. In addition, the IPIG, in accordance with the Handbook for borrowers for financial management and management of investment projects, funded by the Asian Development Bank, compiles special financial statements.

The project on the basis of the foregoing presents the general-purpose financial statements for the period from January 25, 2016 to December 31, 2016 in the following composition:

- Statement of cash receipts and payments;
- Notes to the financial statements that include the accounting policy.

Special financial statements in accordance with ADB requirements, including the Statements on advance accounts and the Statement of funds' withdrawal are not provided, since the Project is not funded through the expenditure statements.

The reporting period is from January 25, 2016 to December 31, 2016. January 25, 2016 is the start date for the implementation of the Project.

Currency of the statements. Transactions in foreign currency

The national currency in the Kyrgyz Republic is Kyrgyz som. These statements are presented in US dollars, as the currency of the project documents is the US dollar. Accordingly, all currencies other than the US dollar used for payments are foreign.

For recalculation of transactions conducted in foreign currencies to the currency of the statements, the ADB exchange rate is used (hereinafter referred to as the exchange rate).

Cash receipts and payments arising from transactions in foreign currencies are reflected in the currency of the statements by applying to the amount in foreign currency the exchange rate between the reporting and foreign currencies at the date of receipts and payments.

Fixed assets

The Project includes into fixed assets the assets with a service life of more than one year, not intended for resale and used to carry out activities stipulated in the Grant Agreement. Fixed assets in the notes to the financial statements are stated at the cost of their acquisition.

Taxation

In accordance with the requirements of the Tax Code of the Kyrgyz Republic, the Project (as a source of income payment) is charged with calculating, retaining and transferring taxes to the budget from income paid to entities or individuals who received income from the Project for works performed or services rendered.

Note 3. COUNTERPART FUNDING

In accordance with the Project Documents, the Government of the Kyrgyz Republic ensures timely provision of counterpart funding required for the implementation of the Project. The Government of the Kyrgyz Republic ensures the provision of budgetary funds to cover the costs associated with the payment of taxes, duties or other mandatory payments to the budget.

The expenses of the Project for the payment of consulting services rendered by non-residents of the Kyrgyz Republic were not exempted by the Government of the Kyrgyz Republic from paying taxes, including tax on non-resident income.

The amounts of funding allocated to the Project by the Government of the Kyrgyz Republic are transferred to the regional bank account of the Treasury, from which, after submission of the authorization to pay expenses to the Project, appropriate payments are made on behalf of the Project.

In the reporting period, the Government of the Kyrgyz Republic provided counterpart funding in cash to the Project in the amount of **109,692.18** US dollars.

Note 4. ADB FUNDING

ADB funding in the reporting period was carried out by direct payments. Direct payments have been made from the Grant's account of ADB.

Withdrawal of funds from the ADB's Grant Account is carried out as follows: according to the invoice submitted by the consultant, the IPIG prepares the Application (direct payment) for withdrawing funds at ADB. The application is signed by authorized persons from the Ministry of Transport and Roads of the Kyrgyz Republic and the Ministry of Finance of the Kyrgyz Republic. Then it goes to ADB.

ADB funding from the proceeds of the Grant for the period from January 25, 2016 to December 31, 2016:

Request №	Payment Date	Category (consulting services)	Total
00001	20-May-16	171,843.14	171,843.14
00002	6-Jul-16	77,435.94	77,435.94
00003	6-Jul-16	73,848.02	73,848.02
00004	11-Jul-16	101,214.66	101,214.66
00005	16-Aug-16	76,250.09	76,250.09
00006	31-Aug-16	88,059.66	88,059.66
00007	29-Sep-16	112,147.60	112,147.60
00008	9-Nov-16	96,680.03	96,680.03
00009	7-Dec-16	63,947.18	63,947.18
00010	20-Dec-16	74,311.55	74,311.55
00011	14-Dec-16	63,311.14	63,311.14
		999,049.01	999,049.01

Note 5. FIXED ASSETS

Information on the fixed assets purchased for the implementation of activities of foreign and local consultants in the territory of the Kyrgyz Republic at the expense of the Project's resources is provided in the table:

	Furniture	Computer equipment	Vehicles	Total
Initial value on January 25, 2016	-	-	-	-
Acquired in the reporting period	4,981.00	9,272.40	166,315.37	180,568.77
Initial value on December 31, 2016	4,981.00	9,272.40	166,315.37	180,568.77

Note 6. BUDGET OF THE PROJECT

At the reporting period, on January 29, 2016, the Ministry of Transport and Roads of the Kyrgyz Republic, in agreement with the Ministry of Finance of the Kyrgyz Republic, approved the initial budget of the Project. At the end of the reporting period, the Project budget was revised and approved by the Ministry of Finance at a level close to the actual costs.

Project Categories	Initial budget			Revised budget		
	ADB grant	GKR	Total	ADB grant	GKR	Total
Consulting services, including audit	3,000,000.00	317,100.00	3,317,100.00	1,000,000.00	107,600.00	1,107,600.00
Total for the Project	3,000,000.00	317,100.00	3,317,100.00	1,000,000.00	107,600.00	1,107,600.00

The execution of the budget for the period from January 25, 2016 to December 31, 2016 is provided in the table:

Project Categories	Actual costs	Initial budget	Revised budget	Deviation*	Deviation**
Consulting services, including audit	1,108,741.19	3,317,100.00	1,107,600.00	(2,208,358.81)	1,141.19
Total for the Project	1,108,741.19	3,317,100.00	1,107,600.00	(2,208,358.81)	1,141.19

* deviation of actual costs from the initial budget

** deviation of actual costs from the revised budget

Note 7. SUMMARY INFORMATION ON SOURCES AND USE OF FUNDS

A summary information on sources and use of funds during the reporting period and on cumulative total shown in the table:

	Fact		Budget		Deviations*	
	For the period from January 25 to December 31, 2016	The cumulative total	For the period from January 25 to December 31, 2016	The cumulative total	For the period from January 25 to December 31, 2016	The cumulative total
Cash balance on January 25, 2016	-					
Cash receipts:						
Government of the KR:	109,692.18	109,692.18	107,600.00	107,600.00	2,092.18	2,092.18
Consulting services	109,692.18	109,692.18	107,600.00	107,600.00	2,092.18	2,092.18
Asian Development Bank:	999,049.01	999,049.01	1,000,000.00	1,000,000.00	(950.99)	(950.99)
Direct payments for consulting services	999,049.01	999,049.01	1,000,000.00	1,000,000.00	(950.99)	(950.99)
Total cash receipts for the reporting period	1,108,741.19	1,108,741.19	1,107,600.00	1,107,600.00	1,141.19	1,141.19
Minus						
Payments by categories of expenses:						
Consulting services	1,108,741.19	1,108,741.19	1,107,600.00	1,107,600.00	1,141.19	1,141.19
At the expense of the Government of the Kyrgyz Republic	109,692.18	109,692.18	107,600.00	107,600.00	2,092.18	2,092.18
At the expense of the Grant	999,049.01	999,049.01	1,000,000.00	1,000,000.00	(950.99)	(950.99)
TOTAL PROJECT PAYMENTS:	1,108,741.19	1,108,741.19	1,107,600.00	1,107,600.00	1,141.19	1,141.19
Outgoing balance of cash on December 31, 2016	-					

- savings; + overspending

Deputy Minister of the Ministry of Transport and Roads of the Kyrgyz Republic

Director of IPIG




A.I. Zhysubaliev

R.A. Satybaldiev