

Audited Project Financial Statements

Project Number: 48401-007
Grant Number: L3432/G0496-KGZ
Period covered: 23 May 2017 to 31 December 2018

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

Prepared by Ministry of Transport and Roads of the Kyrgyz Republic

For the Asian Development Bank
Date received by ADB: 28 June 2019

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



**CAREC CORRIDORS 1 AND 3 CONNECTOR ROAD PROJECT
LOAN NO.3432- KGZ (SF)
GRANT No.0496-KGS (SF)**

**FINANCIA STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE PERIOD
FROM 23 MAY 2017 TO 31 DECEMBER 2017 AND FOR THE YEAR
ENDED 31 DECEMBER 2018**

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INDEPENDENT AUDITOR'S REPORT
by HLB Marka Audit Ltd.
on the financial statements
CAREC Corridor 1 and 3 Connector Road Project,
Loan No.3432- KGZ (SF) / Grant No. 0496 – KGZ (SF)
for the period from 23 May to 31 December 2017 and
for the year 1 January 2018 to 31 December 2018

Asian Development Bank

**Ministry of Transport and Roads
of the Kyrgyz Republic**

Qualified opinion

We have audited the accompanying financial statements of the CAREC Corridor 1 and 3 (Connector Road Project, Loan No.3432- KGZ (SF) / Grant No. 0496 – KGZ (SF) (hereinafter the "Project") being implemented by the Ministry of Transport and Roads of the Kyrgyz Republic along with the Investment Projects Implementation Group of the Asian Development Bank (together "Organization") and financed by the ADB according to the Loan Agreement Loan No.3204 - KGZ (SF)/Grant No. 0418 – KGZ (SF) signed on 2 December 2016 (hereinafter the "Agreement") and co-financed by the Government of the Kyrgyz Republic ("GKR"). The financial statements comprise the Statement of Financial Position as for December 31st 2018, Report on the sources and use of funds for the period from May 23rd to December 31st 2017 and for the year ended December 31st 2018, Report on Cash flow for Special Account of Grant 0496 KGZ (SF) on December 31st 2018, and also summary of main accounting policies and other explanatory notes.

In our opinion,

- The accompanying Project financial statements for the period from 23 May to 31 December 2017 and the year ended 31 December 2018 have been prepared, in all material respects, in accordance with the International Public Sector Accounting Standard: Financial Reporting under the Cash Basis of Accounting, requirements of the ADB and the relevant articles of the Agreement;
- the Organization, in all material respects, used all the funds provided to the Project in accordance with the conditions of the Agreement, with due attention to the economy and efficiency, and only for the purposes for which the funds were provided, except for the section "*Basis for qualified opinion*" of our auditor's report;
- the co-financing funds of the GKR were provided and used in accordance with the conditions of the Agreement and only for the purposes of financing;
- the goods and services for the implementation of the Project were purchased and provided in accordance with the requirements of the Agreement, including specific norms of the procurement handbook issued by the Asian Development Bank;
 - with respect to Statements of Expenditures, adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursement of expenditures incurred;
- the cash flow of funds of the special account and its balance and also the relevant documentation and information supports accompanying may truly rely on the applications for the replenishment in accordance with the requirements stipulated by the Agreement.

Basis for the qualified opinion

As stated in Note 1(b) to the financial statements, by the category of «Advance of the design and estimate documentation» the payment of expenses at the expense of the ADB should be 100%, excluding taxes and duties charged in the territory of the Project implementation. Though the Project has paid to the consultant «Japan Overseas Consultants Co. Ltd» to compensate its expenses, which including indirect taxes (VAT and Sales taxes). The abovementioned expenses, including payments for geological, geodesic researchers, acquisition of fuels and lubricants, goods and services were fully repaid at the expense of the ADB Grant No.0496 KGZ (SF), and the amount of the indirect taxes paid at the expense of the Grant No. 0496 KGZ

(SF) for the period from 23 May to 31 December 2017 in the amount of USD 16,540 and for the year 2018 in the amount of USD 415. Thus, as of the reporting at the financing funds and expenses at the expense of the ADB Grant No. 0496 KGZ (SF) were exceeded on the stated amount and shares of expenses of the Government of the Kyrgyz Republic, stipulated by the Agreement, were not observed.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kyrgyz Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matters: accounting basis and restriction on use and material uncertainty regarding the on-going activities

We are paying your attention to the Note 2 to the financial statements, which are describing the accounting method. The Project financial reporting are prepared to assist the management of the Organization to be in compliance with the requirements of the ADB and the GKR, resulting from which the Project financial statements are not to be used for the other purpose.

We are also paying your attention to the Note 1(d) to the financial statements, which describes that in connection with the initiation of a criminal case in accordance with the articles of the Criminal Code of the Kyrgyz Republic on the abuse of functions and bribe in the auditing period. During the auditing period in the Project there were expropriated original documents testifying the preparation, carrying out and results of tender on the performance of road and construction works on the Project, by the law-enforcement agencies, in connection with the initiation of a criminal case in accordance with the articles of the Criminal Code of the Kyrgyz Republic (on the abuse of functions and bribe). The management of the Project is not able to predict the outcome of the case and the response of financing parties (donors) on the on-going activities of the Project. Thus, we do not express our modified opinion on the matter.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

Management of the Organization is responsible for the preparation and fair presentation of these financial statements in accordance with the conditions of the Agreement, the guidelines of the Asian Development Bank and the International Public Sector Accounting Standard: Financial Reporting under the Cash Basis of Accounting, described in Note 2, and for maintaining internal control system which the management consider relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process. While preparing the financial statements the management of the Project is responsible for assessment of the Project's capability to continue its activities, or disclosures of information in relevant cases, related to the on-going activities, except for the cases when the management intends to close the Project, to terminate its activities or when the Project does not have any other alternatives but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of 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 the International Standards of Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of financial statements, whether due to fraud or errors, 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 errors, 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 management;
- Conclude on the appropriateness of 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. However, future events or conditions may cause the Project to cease to continue as a going concern;
- 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.
- Obtain findings and other relevant auditor's evidences regarding financial information of the enterprise or business activities inside of the Organization to express our opinion regarding financial statements.

We are responsible for direction, supervision and fulfillment of an audit. We are solely responsible for our auditor's report.

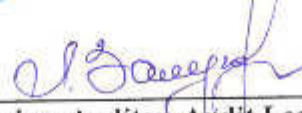
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

HLB MARKA AUDIT LTD.

*License registration No.0146 dated November 13, 2018, issued by the Public Service of Regulation and Supervision over the Financial Market under the Government of the Kyrgyz Republic;
Registration certificate No.4850-3301-000 issued by the Kyrgyz Republic Ministry of Justice dated January 10, 2019;
38, Professor Zima Street, Bishkek,
The Kyrgyz Republic, Telephone/fax: (312) 32-05-75*


G.I. Shuldyakova, Audit Director

*Qualified Auditor Certificate No.0122 of 23 June 2011
CAP Certificate No.0003471 of 15 April 2005
DipIFR (Rus.) - Certificate No.1639875 of 13 March 2008
IAAP Certificate No.207031-1 of 27 July 2017*


L.G. Zalunina, Auditor, Audit Leader

*Qualified Auditor Certificate No.00222 of 31.10.2011
DipIFR (Rus.) - Certificate No.1768245 of 09.12.2010
CAP Certificate No. 0007812 of 15.12.2007*

19 June 2019

MANAGEMENT'S STATEMENT ON RESPONSIBILITY FOR PREPARATION AND APPROVAL OF THE PROJECTS' FINANCIAL STATEMENTS

The statement below, which should be considered together with the description of responsibilities of independent auditors, accompanied the report of independent auditors, is made with the purpose to distinguish the responsibilities of auditors and the management of the Ministry of Transport and Roads of the Kyrgyz Republic along the Investment Projects Implementation Group (hereafter both the "Organization") in respect of the financial statements of the CAREC Corridors 1 and 3 Connector Road Project (hereinafter the "Project"). The management of the Organization is responsible for the preparation of the financial statements of the Project financed by the Asian Development Bank's Loan No.3432-KGZ (SF) and Grant No.0496 – KGZ (SF), dated 2 December 2016, that presents fairly, in all material respects, the financial position as of 31 December 2018, sources and uses of the Project funds for the period from 23 May to 31 December 2017 and for the year ended 1 December 2018, and the cash flows on the special account of Grant 0496 KGZ (SF) as of 31 December 2018 in accordance with the International Public Sector Accounting Standard: Financial Reporting under the Cash Basis of Accounting and requirements of the Asian Development Bank and relevant articles of the Financing Agreement (Special Operations).

When preparing the Project financial statements, the Management of the Organization is responsible for:


- selecting appropriate accounting principles and using those consistently;
- application of reasonable estimations and calculations;
- compliance with the Asian Development Bank's requirements and disclosure of all material discrepancies from the specified standards in comments to the financial statements.

The Management of the Organization is also responsible for:

- development, implementation and provision of effective and safe internal control system in the Project;
- maintenance of accounting system that permits to provide information on financial status of the Project with a specified degree of accuracy at any given time and assure financial statements compliance with requirements of the Asian Development Bank;
- taking measures for ensuring the Project's assets integrity within the terms of its reference;
- detection and prevention of fraud and other misuses.

These financial statements for the period from 1 May 2017 to 31 December 2017 and for the year ended 31 December 2018 were approved by the Management of the Organization on 19 June 2019.

For and on behalf of the Management of the Organization:



*J.S. Beishenov,
Minister of Transport and Roads
of the Kyrgyz Republic*

19 June 2019

CAREC Corridors 1 and 3 Connector Road Project
Loan No. 3432-KGZ(SF)/ Grant № 0496-KGZ(SF)

Statement of Financial Position


As of 31 December 2018

(Amounts in the tables below are shown in USD)

	Note	31 December 2018	31 December 2017
ASSETS:			
Cash assets	4	37,033	36,207
Project expenses	7	7,282,672	490,302
Exchange rate difference	4	3,813	(3)
TOTAL ASSETS		7,323,518	526,506
LIABILITIES:			
ADB Loan No.3432 -KGZ(SF)	5	3,545,335	-
ADB Grant No.0496 -KGZ(SF)	5	2,558,139	498,316
Co-financing of the Government of KR	5	1,206,017	19,960
Other receipts	6	14,027	8,230
TOTAL LIABILITIES		7,323,518	526,506




J.S. Beishenov,
*Minister of Transport and Roads
of the Kyrgyz Republic*


R.A. Satybaldiev,
Director of ADB IPIG




CAREC Corridors 1 and 3 Connector Road Project
Loan No. 3432-KGZ(SF)/ Grant № 0496-KGZ(SF)

Statement of Sources and Uses of Funds

For the period from 23 May to 31 December 2017 and for the year ended 31 December 2018
(Amounts in the tables below are shown in USD)

	Note	2018	From the beginning of the Project to 31 December 2018	From 23 May to 31 December 2017	From the beginning of the Project to 31 December 2017
Opening balance, including:	4	36,207	-	-	-
<i>ADB Grant No. 0496 -KGZ</i>		28,041	-	-	-
<i>Other funds</i>		8,166	-	-	-
Financing sources:					
<i>ADB Loan No. 3432 -KGZ</i>		3,545,335	3,545,335	-	-
<i>ADB Grant No. 0496 -KGZ</i>		2,059,823	2,558,139	498,316	498,316
<i>KR Government</i>		1,186,057	1,206,017	19,960	19,960
Total financing:	5	6,791,215	7,309,491	518,276	518,276
Net other receipts:	6	5,797	14,027	8,230	8,230
Total other receipts		6,833,219	7,323,518	526,506	526,506
Project expenses:	7				
1 Works					
<i>ADB Loan No. 3432 -KGZ</i>		3,545,335	3,545,335	-	-
<i>ADB Grant No. 0496 -KGZ</i>		1,467,035	1,467,035	-	-
<i>KR Government</i>		1,099,973	1,099,973	-	-
		6,112,343	6,112,343	-	-
2 Consulting services					
<i>Grant No. 0496 -KGZ</i>		269,363	283,224	13,861	13,861
<i>KR Government</i>		22,077	23,617	1,540	1,540
		291,440	306,841	15,401	15,401
3 Advance for the preparation of the design and estimate documentation					
<i>ADB Grant No. 0496 -KGZ</i>		255,085	673,932	418,847	418,847
<i>KR Government</i>		60,191	78,614	18,423	18,423
		315,276	752,546	437,270	437,270
4 Project management					
<i>ADB Grant No. 0496 -KGZ</i>		73,311	110,942	37,631	37,631
		73,311	110,942	37,631	37,631
Total Project expenses:		6,792,370	7,282,672	490,302	490,302
<i>ADB Loan No. 3432 -KGZ</i>		3,545,335	3,545,335	-	-
<i>ADB Grant No. 0496 -KGZ</i>		2,064,794	2,535,133	470,339	470,339
<i>KR Government</i>		1,182,241	1,202,204	19,963	19,963
(Loss)/income from the exchange rate difference	4	(3,816)	(3,813)	3	3
Closing cash balance, including:	4	37,033	37,033	36,207	36,207
<i>ADB Grant No. 0496 -KGZ</i>		23,071	23,071	28,041	28,041
<i>Other funds</i>		13,962	13,962	8,166	8,166


J.S. Beishenov,
Minister of Transport and Roads
of the Kyrgyz Republic


R.A. Satybaldiev,
Director of ADB IPIG




CAREC Corridors 1 and 3 Connector Road Project
Loan No. 3432-KGZ(SF)/ Grant № 0496-KGZ(SF)


Statement of Cash Flows on the special account of Grant No.0496 KGZ (SF)


As of 31 December 2018

(Amounts in the tables below are shown in USD)

Bank account	1180000092422310
Bank	«Demir Kyrgyz International Bank»
Location	Bishkek
Financing Agreement	ADB Grant No. 0496-KGZ
Currency	US dollars
<hr/>	
Opening balance as of 23 May 2017	-
Initial advance	60,000
Plus: Replenishment of the account during the period:	201,028
from 23 May to 31 December 2017:	19,469
from 1 January to 31 December 2018	181,559
Minus: Amount of the eligible expenses paid out during the period:	(237,957)
from 23 May to 31 December 2017:	(51,428)
from 1 January to 31 December 2018	(186,529)
Closing balance as of 31 December 2018	23,071
Balance on the special account	23,071




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CAREC Corridors 1 and 3 Connector Road Project
Loan No. 3432-KGZ(SF)/ Grant № 0496-KGZ(SF)

Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
 Amounts in the tables below are shown in USD)

1. Project Background

(a) Objective and Financing of the Project

The CAREC Corridor 1 and 3 Connector Road Project, Loan No.3432- KGZ (SF) / Grant No. 0496 – KGZ (SF) is carried out in accordance with Financing Agreement (special operations) No.3432-KGZ (SF) /Grant No.0496, dated 2 December 2016, signed between the Government of the Kyrgyz Republic (GKR) and the Asian Development Bank (ADB). This Agreement was ratified by Law of the Kyrgyz Republic No.71 dated 29 April 2017.

The CAREC Corridor 1 and 3 Connector Road Project's task is to enhance the efficiency and safety of movement of goods and people along the Project road.

The objective of the Project shall comprise:

Component (a):

Rehabilitating approximately 70 km road section from Epkin village to Bashkurandy village, incorporating specific features for road safety and climate change adaptation; and

Component (b):

Strengthening institutional capacity by providing support for detailed design, construction supervision, project management, audit of the project financial statements, safeguards, preparation and implementation of road asset management system and review of pilot performance-based management contracts.

The Project total budget is USD 112.69 million, including:

	SDR	Total financing		actual allocations from the beginning of the Project, mln USD		Outstanding funds, mln USD
		mln USD	in %	mln USD	mln USD	mln USD
Asian Development Bank:						
Grant No.0496-KGZ(SF)*			35.40 31%	2.56		32.84
Loan No. 3432-KGZ(SF)**	41,905,000	58.14	52%	3.54		54.60
Government of the Kyrgyz Republic			19.15 17%	1.21		17.94
Total	41,905,000	112.69	100%	7.31		105.38

* As of a moment of conclusion the Financing Agreement, the amount of funds allocated for financing by the ADB was in the amount of 36.72 mln US dollars, including the category "Advance for the preparation of the design and estimate documentation for the following road project connecting " (hereinafter "Project Design Advance – DPA") CAREC Corridor 1 and 3 Connector Road", Grant No.6002 (hereinafter PDA 6002-KGZ) in the amount of 3 mln US dollars, including expenses on the PDA project. In connection with the notice of the ADB of 26 July 2017 on the close of the Grant No.6002 on 18 July 2017 with the expenses incurred in the amount of USD 1,322,539.57, the amount by the category PDA Grant No.0496-KGZ (SF) has been changed. Thus, the unused amount of the Grant No.6002 by the category PDA at the beginning of the Project implementation was in the amount of USD 1,667,460.43, that has led to the reduced financing amount on the part of the ADB on the Financing Agreement (special operations) of Loan No.3432-KGZ (SF)/ Grant No.0496-KGZ (SF) signed between the Government of the Kyrgyz Republic (GKR) and the Asian Development Bank (ADB) of 2 December 2016 to the amount of USD 35,397,460.43.

** The loan budget amount in SDR are recalculated in the US dollars at the fixed exchange rate of the ADB: 1.387370 USD for 1 SDR from the statement as of 31 December 2018.

CAREC Corridors 1 and 3 Connector Road Project
Loan No. 3432-KGZ(SF)/ Grant № 0496-KGZ(SF)

Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
Amounts in the tables below are shown in USD)

(b) Categories and shares of financing provided by ADB and GKR

As stated in the Agreement the following categories of eligible expenses may be covered from the funds of:

Financing of ADB and GKR:

Category	Loan 3432 - KGZ(SF)			ADB			GKR		
	Grant 0496 - KGZ(SF)								
	Amount in SDR	Amount in US dollars	Percentage of costs at the expense of loan funds	Amount in US dollars	Changes of the year**	Allocation of the amount in US dollars	Percentage of costs at the expense of grant funds	Amount in US dollars	Percentage of costs at the expense of GKR
A. Base cost									
1. Works	36,752,000	50,988,622	58%	20,680,000	-	20,680,000	24%	15,780,000	18%
2. Consulting services	-	-	-	5,600,000	-	5,600,000	90%	680,000	10%
3. Project Design Advance*	-	-	-	1,677,460	-	1,677,460	100%*	186,384	10%*
4. Project management	-	-	-	2,160,000	-	2,160,000	100%	-	-
5. Expenses on relocation**	-	-	-	100,000	70,874	170,874	100%	-	-
6. Expertize and approval of the project	-	-	-	-	-	-	-	440,000	100%
Total A	36,752,000	50,988,622	-	30,217,460	70,874	30,288,334	-	17,086,384	-
B. Unallocated funds	3,689,000	5,118,008	-	5,180,000	(70,874)	5,109,126	-	2,060,000	-
C. Expenses on payment of interest	1,464,000	2,031,110	100%	-	-	-	-	-	-
Total cost of the Project (A+B+C)	41,905,000	58,137,740	-	35,397,460	-	35,397,460	-	19,146,384	-

*Excluding taxes and duties collected in the territory of the Project implementation.

**In September 2018, there were made changes in the Financing Agreement in a part of the Grant 0496-KGZ(SF) by categories within the frameworks of the Project budget, in accordance with the approval and agreement of ADB

Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
Amounts in the tables below are shown in USD)

(c) Executive of the Project

The executive agency of the Project responsible for timely and efficient performance of works on Projects, as a whole, is the Ministry of Transport and Roads of the Kyrgyz Republic (MT&R KR).

The operative management and project implementation is being done by the Group of Investment Projects Implementation (IPIG), established by Order No. 10-к/1 of 1 February 2010 by MT&R KR. For the purposes of efficient management of the investment projects, on the base of existing joint GIPI, by ORDER of MT&R KR No.182 of 23 May 2017 and approval of the KR Ministry of finance, from 1 June 2017 there were formed ADB GIPI and IPIG of the World Bank (WB). The ADB IPIG's obligations are to prepare and implement nine projects, including the CAREC Corridor 1 and 3 Connector Road Project, Loan No.3432 – KGZ (SF)/ Grant No.0496 – KGZ (SF).

(d) Project closing date

In accordance with the Financing Agreement the Project closing date was fixed on 31 July 2021.

During the auditing period in the Project there were expropriated original documents testifying the preparation, carrying out and results of tender on the performance of road and construction works on the Project, by the law-enforcement agencies, in connection with the initiation of a criminal case in accordance with the articles of the Criminal Code of the Kyrgyz Republic (on the abuse of functions and bribe). Currently, a trial is underway, and at this stage, the Organization cannot provide information on the impact of the outcome of trial process on the further funding of the project.

As of the date of approval of the financial statements on the Project donors continue paying for Project current expenses.

2. Significant accounting policies

2.1. Basis for preparation of financial statements

These financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) "Cash Accounting Basis", the Asian Development Bank's Guideline on "Financial Management and Project Analysis" and relevant articles of the Financing Agreement (special operations) Loan No.3432-KGZ (SF) / Grant 0496-KGZ (SF) of 2 December 2016 (hereinafter referred to collectively as "Agreements").

In accordance with this cash basis of accounting, all funds, regardless of their source, which are on the settlement account and are reflected in the statement as received, are considered to be income. Expenditures are the funds for payment for the works, goods and services and which are reflected in the statement as paid.

The accounting policies have been applied consistently within the whole period.

Financing

Financing from the Asian Development Bank's funds is presented

- by the direct payment procedure – where the ADB, by the Organization's request, pays directly to the specified Supplier.
- Procedures of current expenses fund – ADB pays in advance funds from its Grant account on a deposit, forming the account of current expenses, which is exclusively used for financing of the ADB share of eligible expenses.

Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
Amounts in the tables below are shown in USD)

Financing through direct payments is recognized in case of approval of the transaction and the payment to a supplier specified by ADB.

Financing through direct payments is recognized in case of approval of the transaction and the payment to a supplier specified by ADB.

Financing through the reimbursement (recovering) and a procedure of current expenses fund is recognized at actual receipt of cash.

The amount of financing by the Government of the Kyrgyz Republic is recognized as such and is included in the financial statements if funds were transferred to the Project current account ("Government Financing Account").

Other income and expenses

Income received as interests, accrued on the balance of cash assets in the local commercial banks, and sales of tender documents are recognized as other receipts of the Project. Correspondingly, the expenses on printing the tender documents, advertising expenses, related to the tender procedures and a tax, deducted by the commercial bank for the interest benefit in accordance with the tax legislation of the Kyrgyz Republic are recognized as other expenses.

Other income and other expenses on similar types of activities (tender documents and bank services) are reflected on the net basis.

Expenses

The Project expenses are recognized as such and are included into the financial statements, if payments for goods, works and/or services are made to suppliers.

Functional and presentation currency

The national currency of the Kyrgyz Republic is Kyrgyz Som (KGS). The presentation currency is the US Dollar (USD).

For the purpose of preparation of the financial reporting in USD,

- The expenses denominated in KGS are translated in US dollars using the following principles for reflection of exchange currency operations:
 - At the receipt of financing from the Government of the KR in soms, the NBKR foreign currency exchange rate is used as of the date of transaction;
 - When paying taxes on foreign organization's income, received from the KR source, not connected with the permanent institution (10%), the insurance fees for a foreign consultant and its solid part at the rate of 3%, as well as incomes of local consultants and their relevant insurance fees it is applied an exchange rate fixed by the NBKR as of the date of payment;
 - For all other expenses, the rate corresponding to the latest exchange rate is reflected in the accounting software "1-C Accounting" (the rate of a commercial bank or the rate of the National Bank of the Kyrgyz Republic).
- The balance of current accounts in national currency is recalculated at the latest exchange rate reflected in the accounting software "1-C Accounting" (the rate of a commercial bank or the rate of the National Bank of the Kyrgyz Republic).

Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
Amounts in the tables below are shown in USD)

Any gains or losses from monetary assets or liabilities, expressed in foreign currencies, arising due to change of official exchange rate are recognized as gain or loss from the exchange rate difference and presented on a net basis in the Statement of Sources and Uses of Funds.

2.2. Internal Control System

Project plan

- Actual implementation of the Project plan is controlled monthly and quarterly by submitting reports to the Government of KR, ADB is provided by reports at the beginning of every reporting year and after every mission of the ADB;
- For efficient functioning of the process, the information on operating outcomes is timely analyzed.

Use of accounting software

The Investment Projects Implementation Group (IPIG) uses the automated accounting software "IC: Accounting", which forms the necessary accounting books: a cashbook, a Special bank account in USD and a transit account in KGS, as well as interest accounts, bank accounts for the KR Government share of proceeds.

An access to the accounting software is provided to the Disbursement Specialist (Officer) who has an individual password to obtain the access to the system. The Disbursement Specialist (Officer) has full access rights, including data input, review, adjustment and confirmation of processed transactions and control over deleting data.

Cash

- Bank accounts reconciliations. The balances on accounts in accordance with the accounting records are reconciled with the bank statements on a monthly basis.
- The loan account is regularly reconciled on disbursement based on statements from ADB.

Procurement and uses of funds

Used funds are recorded on appropriate accounts and only for the permitted purposes and according to the Project budget lines.

All expenses are approved by the IPIG Director in accordance with contracts, invoices and receipts.

The expenses in the accounting records are based on the following supporting documents:

- Invoice with the payment orders;
- Receipt to a credit slip about payment;
- Check for goods bearing a stamp "paid in cash";
- Cash check (when the amount is approved by the IPIG Director).

When employees are on business trips, the Project reimburses their expenses, such as travel, accommodation expenses (hotel expenses) and per diems in accordance with the standards established by the Legislation of the Kyrgyz Republic.

Salary

- The Payment specialist maintains records of working hours, while the IPIG Director approves the timesheets.
- Accounting records are stored in separate files with an established right of access.

Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
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- All changes in salaries and pay rates are approved by the Ministry of Transport and Roads of the Kyrgyz Republic, leader of the ADB IPIG and they are also agreed with the Ministry of Finance of the Kyrgyz Republic.

Obligations

The payment specialist maintains the list of issued invoices payable with the payment date on every contract.

3. Taxation

The Financing Agreement does not contain exceptions on the tax payments and duties, except for the expense item "Project Design Advance". The Project is a VAT payer. The VAT, paid to the supplier for goods and services, is included in the cost of purchase and correspondingly in Project expenditures.

Payments of a tax for non-residents from the amount of provided services by international consultants are made from ADB funds (90%) and co-financing share provided by GKR (10%).

The Project withholds and pays from the emoluments of national experts from the ADB funds (90%) and co-financing of GR share (10%), which are recognized as income of local hired employees, a payroll tax and contributions to the Social Fund of the Kyrgyz Republic in accordance with the legislation of the Kyrgyz Republic. Salaries are paid to the staff net of income tax and social security contributions.

The Project makes social security contributions from the Employer at the rate of 17.25% and pays them to the Social Fund of the Kyrgyz Republic, by the following categories:

- "Consulting services" From the ADB funds (90%) and co-financing from the share of the GKR (10%);
- "Project management" from the ADB funds (100%).

Social security fees are deducted from the international individual consultants and paid to the Pension Fund at the rate of 3% from the ADB funds (90%) and co-financing from the share of the GKR (10%) from all types of payments for all the benefits accrued for the employees – foreign citizens or persons without citizenship, temporarily residing in the Kyrgyz Republic, who have labor relations with a legal entity.

4. Cash

According to the Additional Financing Agreement, in order to make payments of loan funds for efficient financing of costs, necessary for the Project implementation, IPIG used the following special account:

- ADB special account (Grant No.0496-KGZ (SF) in US dollars No.1180000092422315, opened at the Branch of "DKIB-Glavny" CJSC "Demir Kyrgyz International Bank";
- ADB transit account (Grant No.0496-KGZ (SF) in US dollars No.1180000092422214, opened at the Branch of "DKIB-Glavny" CJSC "Demir Kyrgyz International Bank";
- GKR special-purpose financing account in KGS No. 4402051101018792, opened with Leninsky Regional Territory Management of the Ministry of Finance of the Kyrgyz Republic;
- GKR's interest account opened at the Branch of "DKIB-Glavny" CJSC "Demir Kyrgyz International Bank":
 - In the Kyrgyz soms No.1180000092423123;
 - In the US dollars No.1180000092423224.
- Tender account of the GKR opened at the Branch of "DKIB-Glavny" CJSC "Demir Kyrgyz International Bank":
 - In the Kyrgyz soms No.1180000092422416;
 - In the US dollars No.1180000092422517.

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Amounts in the tables below are shown in USD)

Balances of cash assets on accounts at the end of the year are presented below:

	31 December 2018	31 December 2017
ADB funds:		
Special account of Grant No. 0496-KGZ	23,071	28,041
Total ADB funds	23,071	28,041
Other Project accounts:		
Interest account	162	34
Tender account	13,800	8,132
Total other funds of the Project	13,962	8,166
Total balance of cash assets	37,033	36,207

Cash flows for the period from 23 May to 31 December 2017 on the Project's accounts (ADB accounts and GKR accounts) are presented below:

	Special account of Grant No. 0496-KGZ		GKR account	Total funds of the Projects
	US dollars	Soms	US dollars	US dollars
Balance as of the beginning	-	-	-	-
Initial advance	60,000			60,000
Replenishment of the account	19,469	1,392,000	19,960	39,429
Retirement from the settlement account	(51,428)	(1,392,000)	(19,963)	(71,391)
Income from currency exchange difference	-		3	3
Balance as of the end	28,041	-	-	28,041
Including:				
On special account	27,772	-	-	27,772
On transit account	269	-	-	269

Cash flows for the year 2018 on the Project's accounts (ADB accounts and GKR accounts) are presented below:

	Special account of Grant No. 0496-KGZ		GKR account	Total funds of the Projects
	US dollars	Soms	US dollars	US dollars
Balance as of the beginning	-	-	-	28,041
Replenishment of the account	181,559	82,235,300	1,186,057	1,367,616
Retirement from the settlement account	(186,529)	(82,235,300)	(1,182,241)	(1,368,770)
Loss from the exchange rate difference	-	-	(3,816)	(3,816)
Balance at the end	23,071	-	-	23,071
Including:				
On the special account	23,071	-	-	23,071

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Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
 Amounts in the tables below are shown in USD)

Cash flows from the project beginning for the Project Accounts as of 31 December 2018 (ADB and Government of the Kyrgyz Republic accounts) is presented below:

	Special account of Grant No. 0496-KGZ	GKR account		Total funds of the Projects
	US dollars	Soms	US dollars	US dollars
Balance as of the beginning	-	-	-	-
Initial advance	60,000	-	-	60,000
Receipts, replenishment of the account	201,028	83,627,300	1,206,017	1,407,045
Retirement from the settlement account	(237,957)	(83,627,300)	(1,202,204)	(1,440,161)
Loss from the exchange rate difference	-	-	(3,813)	(3,813)
Balance at the end	23,071	-	-	23,071
Including:				
On settlement account	23,071	-	-	23,071

Replenishment of special account of Grant No. 0496-KGZ:

	Payment date	Amount
Initial advance		
	08.08.2017	30,000
	12.12.2017	30,000
Total advance		60,000
Compensation for current expenses		
	23.11.2017	19,469
Total for the period from 23 May to 31 December 2017		19,469
	29.03.2018	32,679
	01.06.2018	49,713
	28.08.2018	29,307
	29.10.2018	39,321
	05.12.2018	30,539
Total for 2018		181,559
Total replenishment of the account from the Project beginning to 31 December 2018		261,028

Use of funds (SOE):

Application number	SOE number	Expense period	Amount of expenses
00004	SOE 1	08.08.17-19.10.17	19,469
00008	SOE 2	20.10.17-31.12.17	31,959
Total for the period from 23 May to 31 December 2017			51,428
00008	SOE 2	01.01.18-17.01.18	720
00010	SOE 3	18.01.18-30.04.18	49,713
00014	SOE 4	01.05.18-16.07.18	29,307
00015	SOE 5	17.07.18-01.10.18	39,321

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For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
 Amounts in the tables below are shown in USD)

Application number	SOE number	Expense period	Amount of expenses
00019	SOE 6	02.10.18-15.11.18	30,539
00023	SOE 7	16.11.18-31.12.18	36,929
Total for 2018			186,529
Total SOE from the project beginning to 31 December 2018			237,957

5. Financing

	For 2018	From 23 May to 31 December 2017	From the project beginning to 31 December 2018
ADB Loan No.3432 KGZ(SF)			
Direct payments	3,545,335	-	3,545,335
	3,545,335 ✓	-	3,545,335
ADB Grant No.0496 KGZ(SF)			
Initial advance	-	30,000	30,000
Replenishment of advance	-	30,000	30,000
Total advance	-	60,000	60,000
Replenishment of special account	181,559	19,469	201,028
Direct payments	1,878,264	418,847	2,297,111
	2,059,823 ✓	498,316 ✓	2,558,139
KR Government			
Replenishment of current account	1,186,057	19,960	1,206,017
	1,186,057	19,960	1,206,017
Total financing of the Project	6,791,215	518,276	7,309,491

6. Other (Expenses)/Receipts

	For 2018	From 23 May to 31 December 2017	From the project beginning to 31 December 2018
Interest account			
Accrued interests	308	34	342
Return of collateral on tenders	(180)	-	(180)
Total	128	34	162
Tender account			
Receipts for tender documentation	6,785	8,562	15,347
Expenses related to the tender procedures	(1,116)	(366)	(1,482)
Total	5,669	8,196	13,865
Total other receipts	5,797	8,230	14,027

7. Expenses

For 2018:

Category	Actual expenses for 2018		Total expenses
	ADB	GKR	
	Grant 0496 KGZ(SF)	Loan 3432 KGZ(SF)	

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Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
 Amounts in the tables below are shown in USD)

Category	Actual expenses for 2018		GKR	Total expenses
	ADB Grant 0496 KGZ(SF)	Loan 3432 KGZ(SF)		
1. Works	1,467,035	3,545,335	1,099,973	6,112,343
2. Consulting services	269,363	-	22,077	291,440
<i>Supervision over construction</i>	75,846	-	8,427	84,273
<i>Consultants on assistance in the reforming the road management system</i>	109,332	-	11,114	120,446
<i>Collection of data and installation of road management system assets further (implementation of SUDA)</i>	73,265	-	1,323	74,588
<i>Audit services</i>	10,920	-	1,213	12,133
3. Advance for project design documentation	255,085	-	60,191	315,276
4. Project management	73,311	-	-	73,311
<i>Labor payment</i>	56,180	-	-	56,180
<i>Goods and current expenses</i>	17,131	-	-	17,131
Total Project expenses	2,064,794	3,545,335	1,182,241	6,792,370

For the period from 23 May to 31 December 2017:

Category	Actual expenses for the period of the Project implementation		GKR	Total expenses
	ADB Грант 0496 KGZ(SF)	Кредит 3432 KGZ(SF)		
2. Consulting services	13,861	-	1,540	15,401
<i>Consultants on assistance in the reforming the road management system</i>	13,861	-	1,540	15,401
3. Advance for project design documentation	418,847	-	18,423	437,270
4. Project management	37,631	-	-	37,631
<i>Labor payment</i>	26,266	-	-	26,266
<i>Goods and current expenses</i>	11,365	-	-	11,365
Total Project expenses	470,339	-	19,963	490,302

From the beginning of the Project to 31 December 2018:

Category	Actual expenses for the period of the Project implementation		GKR	Total expenses
	ADB Grant 0496 KGZ(SF)	Loan 3432 KGZ(SF)		
1. Works	1,467,035	3,545,335	1,099,973	6,112,343
2. Consulting services	283,224	-	23,617	306,841
<i>Supervision over construction</i>	75,846	-	8,427	84,273

CAREC Corridors 1 and 3 Connector Road Project
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Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
 Amounts in the tables below are shown in USD)

Category	Actual expenses for the period of the Project implementation			Total expenses
	ADB		GKR	
	Grant 0496 KGZ(SF)	Loan 3432 KGZ(SF)		
<i>Consultants on assistance in the reforming the road management system</i>	123,193	-	12,654	135,847
<i>Implementation of SUDA</i>	73,265	-	1,323	74,588
<i>Audit services</i>	10,920	-	1,213	12,133
3. Advance for project design documentation	673,932	-	78,614	752,546
4. Project management	110,942	-	-	110,942
<i>Labor payment</i>	82,446	-	-	82,446
<i>Goods and current expenses</i>	28,496	-	-	28,496
Total Project expenses	2,535,133	3,545,335	1,202,204	7,282,672

8. Execution of budget

Use of Loan No.3432- KGZ(SF) ADB:

Item	Funds used from the beginning of the Project		Total Project budget	Available Project funds (budget- actual)	
	US dollars	%	US dollars	US dollars	%
Works	3,545,335	6.95%	50,988,622	47,443,287	93.05%
Expenses on interest payment	-	-	2,031,110	2,031,110	100.00%
Unallocated expenses	-	-	5,118,008	5,118,008	100.00%
Total	3,545,335	6.10%	58,137,740	54,592,405	93.90%

Use of Grant No.0496- KGZ(SF) ADB:

Item	Funds used from the beginning of the Project		Total Project budget	Available Project funds (budget-actual)	
	US dollars	%	US dollars	US dollars	%
Works	1,467,035	7.09%	20,680,000	19,212,965	92.91%
Consulting services	283,223	5.06%	5,600,000	5,316,777	94.94%
Advance for preparation of project design documentation	673,932	40.18%	1,677,460	1,003,528	59.82%
Project management	110,942	5.14%	2,160,000	2,049,058	94.86%
Expenses of relocation	-	-	170,874	170,874	100.00%
Unallocated expenses	-	-	5,109,126	5,109,126	100.00%
Total	2,535,132	7.16%	35,397,460	32,862,328	92.84%

Notes to the Financial Statement

For the period from 23 May to 31 December 2017 and for year ended 31 December 2018
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Co-financing share of Government of the KR:


Item	Funds used from the beginning of the Project		Total Project budget	Available Project funds (budget- actual)	
	US dollars	%	US dollars	US dollars	%
Works	1,099,973	6.97%	15,780,000	14,680,027	93.03%
Consulting services	23,617	3.47%	680,000	656,383	96.53%
Advance for preparation of project design documentation	78,614	42.18%	186,384	107,770	57.82%
Expertize and approval of the project	-	-	440,000	440,000	100.00%
Unallocated expenses	-	-	2,060,000	2,060,000	100.00%
Total	1,202,204	6.28%	19,146,384	17,944,180	93.72%

9. Events after the reporting date

In January 2019 the advance amount, transferred to «TODINI Costruzioni Generali. S.p.A» Company to perform construction works in the amount of USD 551,376.78 on the payment order of Central Treasury of the Ministry of Finance No.1204 of 26.10.2018, was returned by the intermediary bank on the account of the Treasury less USD 26 deducted from the amount for the bank services.

After the reporting date and till the date of approval of these financial statements no events happened, which could affect the disclosures presented in the financial statements, except for the abovementioned paragraph.


J.S. Beishenov,
Minister of Transport and Roads
of the Kyrgyz Republic


R.A. Satybaldiev,
Director of ADB IPIG