

Audited Project Financial Statements

Project Number: 48401-007
Grant Number: L3432/G0496-KGZ
Period covered: 1 January to 31 December 2019

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: 30 June 2020

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)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

**AND
INDEPENDENT AUDITOR'S REPORT**

Bishkek - 2020

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INDEPENDENT AUDITOR'S REPORT
by HLB Marka Audit LLC.
on the financial statements
CAREC Corridor 1 and 3 Connector Road Project,
Loan No.3432- KGZ (SF) / Grant No. 0496 – KGZ (SF)
for the year ended 31 December 2019

Asian Development Bank

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

Opinion

We have audited the accompanying financial statements of the CAREC Corridor 1 and 3 (Connector Road Project, (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.3432 KGZ (SF)/Grant No. 0496 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 of 31 December 2019, Statement of sources and uses of funds, Statement of Cash flow on Special Account of Grant 0496 KGZ (SF), Statement of Cash flow on Additional Special Account of Grant 0496 KGZ (SF), for the year then ended, and also summary of main accounting policies and other explanatory notes.

In our opinion,

- the financial statements and notes to them presents fairly, in all material respects, the receipt and expenditure of funds for the year ended 31 December 2019 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 by the ADB 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;
- 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 applications to the Asian Development Bank for reimbursement of expenditures incurred;
- the cash balance on the special account and additional special account as of 31 December 2019, and their flow for the year ended on that date, as well as supporting documents and information provided with it, may be truly relied on the applications for the replenishment in accordance with the requirements stipulated by the Agreement.

Basis for the opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “*Auditor’s Responsibilities for the Audit of the Financial Statements*” section of our report. We are independent of the 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 corruption and bribery in the period under review, the law enforcement authorities of the Kyrgyz Republic seized the original documents certifying the preparation, conduct and results of the tender for road construction work on the Project. In addition, in 2019, law enforcement agencies opened two additional cases that are in pre-trial proceedings. In this regard, at this stage, the Organization cannot provide information about the impact of the outcome of the trial and pre-trial proceedings on the further financing of the Project. We do not express a modified opinion on this 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 LLC.

*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 October 11, 2019;
38, Professor Zima Street, Bishkek,
The Kyrgyz Republic. Telephone/fax: (312) 32-05-75*


A.M. Asylbekova, Director, Auditor

Qualified Auditor Certificate Series AD No.0012, registration No.0461 dated August 7, 2019


L.G. Zalunina, Auditor, Audit Leader

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

26 June 2020

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 2019, sources and uses of the Project funds and the cash flows on the special accounts of Grant 0496 KGZ (SF) for the year then ended, 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.

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 year ended 31 December 2019 were approved by the Management of the Organization on 26 June 2020.

For and on behalf of the Management of the Organization:



B.C. Berdaliyev
*Deputy Minister of Transport and Roads
of the Kyrgyz Republic*

26 June 2020

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 2019

(Amounts in the tables below are shown in USD)

	Note	31 December 2019	31 December 2018
ASSETS:			
Cash assets	4	313,905	37,033
Project expenses	7	11,003,515	7,282,672
Exchange rate difference	4	5,579	3,813
TOTAL ASSETS		11,322,999	7,323,518
LIABILITIES:			
ADB Loan No.3432 -KGZ(SF)	5	4,612,111	3,545,335
ADB Grant No.0496 -KGZ(SF)	5	5,047,231	2,558,139
Co-financing of the Government of KR	5	1,648,067	1,206,017
Other receipts	6	15,590	14,027
TOTAL LIABILITIES		11,322,999	7,323,518



B.C. Berdaliev,
Deputy Minister of Transport and Roads
of the Kyrgyz Republic


S.K. Ibraimov,
Director of ADB IPIG



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

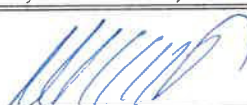
Statement of Sources and Uses of Funds

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

	Note	2019	From the beginning of the Project to 31 December 2019	2018	From the beginning of the Project to 31 December 2018
Opening balance, including:	4	37,033	-	36,207	-
<i>ADB Grant No. 0496 -KGZ</i>		23,071	-	28,041	-
<i>Other funds</i>		13,962	-	8,166	-
Financing sources:					
<i>ADB Loan No. 3432 -KGZ</i>		1,066,776	4,612,111	3,545,335	3,545,335
<i>ADB Grant No. 0496 -KGZ</i>		2,489,092	5,047,231	2,059,823	2,558,139
<i>KR Government</i>		442,050	1,648,067	1,186,057	1,206,017
Total financing:	5	3,997,918	11,307,409	6,791,215	7,309,491
Net other receipts:	6	1,563	15,590	5,797	14,027
Total receipts		3,999,481	11,322,999	6,833,219	7,323,518
Project expenses:	7				
1 Works					
<i>ADB Loan No. 3432 -KGZ</i>		1,041,311	4,586,646	3,545,335	3,545,335
<i>ADB Grant No. 0496 -KGZ</i>		430,887	1,897,922	1,467,035	1,467,035
<i>KR Government</i>		223,435	1,323,408	1,099,973	1,099,973
		1,695,633	7,807,976	6,112,343	6,112,343
2 Consulting services					
<i>ADB Grant No. 0496 -KGZ</i>		1,429,238	1,712,462	269,363	283,224
<i>KR Government</i>		166,618	190,235	22,077	23,617
		1,595,856	1,902,697	291,440	306,841
3 Advance for the preparation of the design and estimate documentation					
<i>ADB Grant No. 0496 -KGZ</i>		267,786	941,718	255,085	673,932
<i>KR Government</i>		50,231	128,845	60,191	78,614
		318,017	1,070,563	315,276	752,546
4 Project management					
<i>ADB Grant No. 0496 -KGZ</i>		85,872	196,814	73,311	110,942
		85,872	196,814	73,311	110,942
5 Interest charge					
<i>ADB Loan No. 3432 -KGZ</i>		25,465	25,465	-	-
		25,465	25,465	-	-
Total Project expenses:		3,720,843	11,003,515	6,792,370	7,282,672
<i>ADB Loan No. 3432 -KGZ</i>		1,066,776	4,612,111	3,545,335	3,545,335
<i>ADB Grant No. 0496 -KGZ</i>		2,213,783	4,748,916	2,064,794	2,535,133
<i>KR Government</i>		440,284	1,642,488	1,182,241	1,202,204
Loss from the exchange rate difference	4	(1,766)	(5,579)	(3,816)	(3,813)
Closing cash balance, including:	4	313,905	313,905	37,033	37,033
<i>ADB Grant No. 0496 -KGZ</i>		298,380	298,380	23,071	23,071
<i>Other funds</i>		15,525	15,525	13,962	13,962


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S.K. Ibraimov,
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)

For the year ended 31 December 2019

(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
Opening balance as of 1 January 2019	23,071
Initial advance	90,000
Plus: Replenishment of the account during the period:	224,372
from 1 January to 31 December 2019	224,372
Minus: Amount of the eligible expenses paid out during the period:	(209,937)
from 1 January to 31 December 2019	(209,937)
Closing balance as of 31 December 2019	127,506
Balance on the special account	127,506


B.T. Berdaliev
Deputy Minister of Transport and Roads
of the Kyrgyz Republic


S.K. Ibraimov,
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 additional special account of Grant No.0496 KGZ (SF)

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

Bank account	1180000113799192
Bank	«Demir Kyrgyz International Bank»
Location	Bishkek
Financing Agreement	ADB Grant No. 0496-KGZ
Currency	US dollars
<hr/>	
Opening balance as of 1 January 2019	-
Initial advance	170,874
Plus: Replenishment of the account during the period:	-
from 1 January to 31 December 2019	-
Minus: Amount of the eligible expenses paid out during the period:	-
from 1 January to 31 December 2019	-
Closing balance as of 31 December 2019	170,874
Balance on the special account	170,874



*B.C. Berdaliyev,
Deputy Minister of Transport and Roads
of the Kyrgyz Republic*

*S.K. Ibraimov,
Director of ADB IPIG*



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

Notes to the Financial Statement

For the year ended 31 December 2019

(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, is carried out in accordance with Financing Agreement (special operations) Loan 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 Project shall comprise the following components:

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 consulting services 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 112.24 million, including:

	Total financing			Actual allocations from the beginning of the Project, mln USD	Outstanding funds, mln USD
	SDR	mln USD	in %	mln USD	mln USD
Asian Development Bank:					
Grant No.0496-KGZ(SF)*		35.40	32%	5.05	30.35
Loan No. 3432-KGZ(SF)**	41,905,000	57.69	51%	4.61	53.08
Government of the Kyrgyz Republic		19.15	17%	1.65	17.50
Total	41,905,000	112.24	100%	11.31	100.93

* 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 – PDA") 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: 1.37658 USD for 1 SDR from the statement as of 31 December 2019.

(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:

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

Notes to the Financial Statement

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

Category	ADB				GKR			
	Loan 3432 - KGZ(SF)			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 2018**	Allocation of the amount in US dollars	Percentage costs at the expense of grant funds	
A. Base cost								
1. Works	36,752,000	50,592,068	58%	20,680,000	-	20,680,000	24%	
2. Consulting services	-	-	-	5,600,000	-	5,600,000	90%	
3. Project Design Advance*	-	-	-	1,677,460	-	1,677,460	100%*	
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	-	-	-	-	-	-	-	
Total A	36,752,000	50,592,068	-	30,217,460	70,874	30,288,334	-	
B. Unallocated funds	3,689,000	5,078,204	-	5,180,000	(70,874)	5,109,126	-	
C. Expenses on payment of interest	1,464,000	2,015,313	100%	-	-	-	-	
Total cost of the Project (A+B+C)	41,905,000	57,685,585	-	35,397,460	-	35,397,460	-	
					</			

* 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 year ended 31 December 2019

(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 the Project, as a whole, is the Ministry of Transport and Roads of the Kyrgyz Republic (MT&R KR).

The operational management and project implementation is being done by the Group of Investment Projects Implementation (IPIG), established by Order No. 10-κ/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) the Continuity of Project activities and closing the Project

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

In connection with the initiation of criminal proceedings in accordance with the articles of the Criminal Code of the Kyrgyz Republic on corruption and bribery in the period under review, the law enforcement authorities of the Kyrgyz Republic seized the original documents confirming the preparation, conduct and results of the tender for road construction work on the Project. The legal process is currently underway and the Organization cannot provide information about the impact of the outcome of the trial on the further financing of the project.

As of the date of approval of the financial statements on the Project the 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 as "Agreement").

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 statements 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 statements 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 year ended 31 December 2019

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

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

- The expenses incurred 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).

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.

Notes to the Financial Statement

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

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 "1C: "Accounting", which forms the necessary accounting books: 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.
- All changes in the status of salary and pay rates are approved by the Minister of Transport and Roads of the Kyrgyz Republic, the head of the ADB IPIG and agreed with the Ministry of Finance of the Kyrgyz Republic.

Notes to the Financial Statement

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

Obligations

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

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.

3. Cash

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";
- ADB additional special account (Grant No. 0496-KGZ(SF)) in US dollars No.1180000113799091, opened at the Branch of "DKIB-Glavny" CJSC "Demir Kyrgyz International Bank"*.
- ADB additional transit account (Grant № 0496-KGZ(SF)) in KGS No.1180000113799192, 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.

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

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

* Opened additional (special and transit) accounts of the ADB (Grant No. 0496-KGZ (SF)) approved by the Ministry of Finance of the Kyrgyz Republic and ADB for the implementation of works under the category "Relocation Costs".

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

	31 December 2019	31 December 2018
ADB funds:		
Special account of Grant No. 0496-KGZ	127,506	23,071
Additional transit account for Grant No. 0496-KGZ	170,874	-
Total ADB funds	298,380	23,071
Other Project accounts:		
Interest account	660	162
Tender account	14,865	13,800
Total other funds of the Project	15,525	13,962
Total balance of cash assets	313,905	37,033

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Notes to the Financial Statement

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

Cash flows for 2019 on the Project's accounts (ADB accounts and GKR accounts) are presented below:

	Special account of Grant No. 0496-KGZ in USD		GKR account		Total funds of the Projects	
	Base	Additional	KGS	US dollars	KGS	US dollars
Balance at the beginning	23,071	-	-	-	-	23,071
Initial advance	-	170,874	-	-	-	170,874
Increase of advance	90,000	-	-	-	-	90,000
Replenishment of the account	224,372	-	31,060,990	442,050	-	666,422
Retirement from the settlement account	(209,937)	-	(31,060,990)	(440,284)	-	(650,220)
Income from currency exchange difference	-	-	-	(1,766)	-	(1,767)
Balance at the end	127,506	170,874	-	-	-	298,380
Including:						
On the special account	127,506	170,874	-	-	-	298,380

* In January 2019, the amount of the advance transferred to "TODINI Costruzioni Generali. S. p.A" (hereinafter referred to as the "Contractor") in the amount of 551,376.78 US dollars under the payment order of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic No. 1204 dated 26.10.2018, was returned by the intermediary Bank to the Treasury account with the retention of the banking service in the amount of 26 us dollars. On 24 January 2019, the funds were returned to the budget of the GKR in the amount of 38,272,110 KGS. In August 2019, the Treasury of the GKR the again allocated funds (advance payment for construction work), transferred to the Contractor to perform construction work. The cash flow on the current account of the GKR, on a detailed basis, is presented in the table:

	KGS		US dollars	
	Receipts on the Project accounts		Retirement from the Project accounts	
	Period		Receipts	Retirement
Return of the advance by the company / (transfer) to the GKR budget	January 2019	38,272,110	(38,272,110)	551,377
Receipt of advance from GKR / (transfer) Company	August 2019	38,272,110	(38,272,110)	551,377
Receipt/(expenditure) of funds to pay for expenses in 2019	During the year	31,060,990	(31,060,990)	442,050
Exchange rate difference	During the year	-	-	(1,766)
TOTAL Replenishment/(retirement) of funds		107,605,210	(107,605,210)	1,544,804
				(1,544,804)

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

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

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

	Special account of Grant No. 0496-KGZ		GKR account		Total funds of the Projects	
	US dollars	KGS	US dollars	KGS	US dollars	KGS
Balance at the beginning	-	-	-	-	-	-
Initial advance	60,000	-	-	-	60,000	-
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 the settlement account	23,071	-	-	-	23,071	-

Cash flows from the Project beginning on the Project accounts as of 31 December 2019 (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			US dollars		US dollars	
	Base	Additional		KGS			
Balance at the beginning	-	-	-	-	-	-	-
Initial advance	60,000	170,874	-	-	-	230,874	-
Increase of advance	90,000	-	-	-	-	90,000	-
Replenishment of the account	425,400	-	-	114,688,290	1,648,067	2,073,467	-
Retirement from the settlement account	(447,894)	-	-	(114,688,290)	(1,642,488)	(2,090,382)	-
Loss from the exchange rate difference	-	-	-	-	(5,579)	(5,579)	-
Balance at the end	127,506	170,874	-	-	-	298,380	-
Including:							
On the settlement account	127,506	170,874	-	-	-	298,380	-

CAREC Corridors 1 and 3 Connector Road Project
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For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

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

	Payment date	Amount
Initial advance:		
	08.08.2017	30,000
	12.12.2017	30,000
Total for the period from 23 May to 31 December 2017		60,000
	22.11.2019	90,000
Total for 2019		90,000
Total advance from the Project beginning to 31 December 2019		150,000
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
	05.03.2019	48,394
	22.05.2019	39,192
	07.08.2019	37,524
	17.10.2019	47,322
	23.12.2019	51,940
Total for 2019		224,372
Total reimbursement of current expenses from the beginning of the Project to 31 December 2019		425,400
Total replenishment of the account from the Project beginning to 31 December 2019		575,400

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

	Payment date	Amount
Initial advance:		
	29.10.2019	170,874
Total advance		170,874
Total replenishment of the account from the Project beginning to 31 December 2019		170,874

Uses of funds from special accounts (Statements of Expenditures (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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Notes to the Financial Statement

For the year ended 31 December 2019

(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
23	SOE 7	01.01.19-05.02.19	11,465
31	SOE 8	06.02.19-24.04.19	39,192
41	SOE 9	25.04.19-28.06.19	37,524
49	SOE 10	01.07.19-02.09.19	47,322
66	SOE 11	03.09.19-29.11.19	51,940
73	SOE 12	30.11.19-31.12.19	22,494
Total for 2019			209,937
Total SOE from the Project beginning to 31 December 2019			447,894

5. Financing

	For 2019	For 2018	From the project beginning to 31 December 2019
ADB Loan No.3432 KGZ(SF)			
Direct payments	1,041,311	3,545,335	4,586,646
Expenses of paid interests	25,465	-	25,465
	1,066,776	3,545,335	4,612,111
ADB Grant No.0496 KGZ(SF)			
Initial advance	170,874	-	200,874
Replenishment of advance	90,000	-	120,000
Total advance	260,874	-	320,874
Replenishment of special account	224,372	181,559	425,400
Direct payments	2,003,846	1,878,264	4,300,957
	2,489,092	2,059,823	5,047,231
KR Government			
Replenishment of current account	442,050	1,186,057	1,648,067
	442,050	1,186,057	1,648,067
Total financing of the Project	3,997,918	6,791,215	11,307,409

6. Other (Expenses)/Receipts

	For 2019	For 2018	From the project beginning to 31 December 2018
Interest account			
Accrued interests	566	308	908
Banking services and return of return of the guarantees for tenders	(68)	(180)	(248)
Total	498	128	660
Tender account			
Receipts for tender documentation	1,255	6,785	16,603
Expenses related to the tender procedures	(190)	(1,116)	(1,673)
Total	1,065	5,669	14,928
Total other receipts	1,563	5,797	15,590

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

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

7. Expenses

For 2019:

Category	Actual expenses for 2019			Total expenses
	ADB		GKR	
	Grant 0496 KGZ(SF)	Loan 3432 KGZ(SF)		
1. Works	430,887	1,041,311	223,435	1,695,633
2. Consulting services	1,429,238	-	166,618	1,595,856
<i>Supervision over construction</i>	401,212	-	44,579	445,791
<i>Consultants on assistance in the reforming the road management system</i>	129,631	-	15,425	145,056
<i>Collection of data and installation of road management system assets further (RAMs implementation)</i>	887,209	-	105,371	992,580
<i>Audit services</i>	11,186	-	1,243	12,429
3. Advance for project design documentation	267,786	-	50,231	318,017
4. Project management	85,872	-	-	85,872
<i>Labor payment</i>	62,363	-	-	62,363
<i>Goods and current expenses</i>	23,509	-	-	23,509
5. Interest charge	-	25,465	-	25,465
Total Project expenses	2,213,783	1,066,776	440,284	3,720,843

For 2018:

Category	Actual expenses 2018			Total expenses
	ADB		GKR	
	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 (RAMs implementation)</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

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Notes to the Financial Statement

For the year ended 31 December 2019

(Amounts in the tables below are shown in USD)

From the Project beginning to 31 December 2019:

Category	Actual expenses for the Project implementation period			Total expenses
	ADB		GKR	
	Grant 0496 KGZ(SF)	Loan 3432 KGZ(SF)		
1. Works	1,897,922	4,586,646	1,323,408	7,807,976
2. Consulting services	1,712,462	-	190,235	1,902,697
<i>Supervision over construction</i>	477,058	-	53,006	530,064
<i>Consultants on assistance in the reforming the road management system</i>	252,824	-	28,079	280,903
<i>RAMs Implementation</i>	960,474	-	106,694	1,067,168
<i>Audit services</i>	22,106	-	2,456	24,562
3. Advance for project design documentation	941,718	-	128,845	1,070,563
4. Project management	196,814	-	-	196,814
<i>Labor payment</i>	144,809	-	-	144,809
<i>Goods and current expenses</i>	52,005	-	-	52,005
5. Interest charge	-	25,465	-	25,465
Total Project expenses	4,748,916	4,612,111	1,642,488	11,003,515

8. Execution of budget

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

Item	Funds used from the beginning of the Project		Total Project budget	Available Project funds (budget- actual)	
	US dollars	%	US dollars	US dollars	%
Works	4,586,646	9.07%	50,592,068	46,005,422	90.93%
Interest charge	25,465	1.26%	2,015,313	1,989,848	98.74%
Unallocated expenses	-	-	5,078,204	5,078,204	100.00%
Total	4,612,111	8.00%	57,685,585	53,073,474	92.00%

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

Item	Funds used from the beginning of the Project		Total Project budget	Available Project funds (budget- actual)	
	US dollars	%	US dollars	US dollars	%
Works	1,897,922	9.18%	20,680,000	18,782,078	90.82%
Consulting services	1,712,462	30.58%	5,600,000	3,887,538	69.42%
Advance for preparation of design and estimate documentation	941,718	56.14%	1,677,460	735,742	43.86%
Project management	196,814	9.11%	2,160,000	1,963,186	90.89%
Relocation costs	-	-	170,874	170,874	100.00%
Unallocated expenses	-	-	5,109,126	5,109,126	100.00%
Total	4,748,916	13.42%	35,397,460	30,648,544	86.58%

Co-financing share of Government of the KR:

CAREC Corridors 1 and 3 Connector Road Project
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(Amounts in the tables below are shown in USD)

Item	Funds used from the beginning of the Project		Total Project budget	Available Project funds (budget- actual)	
	US dollars	%	US dollars	US dollars	%
Works	1,323,408	8.39%	15,780,000	14,456,592	91.61%
Consulting services	190,235	27.98%	680,000	489,765	72.02%
Advance for preparation of design and estimate documentation	128,845	69.13%	186,384	57,539	30.87%
Project Expertise and Approval	-	-	440,000	440,000	100.00%
Unallocated expenses	-	-	2,060,000	2,060,000	100.00%
Total	1,642,488	8.58%	19,146,384	17,503,896	91.42%

9. Liabilities

As of 31 December 2019, the Project had the following obligations under issued invoices:

By the share of co-financing of the GKR:

Contractor	Category	Period of the works performed	Interim payment certificates (IPC)		Unpaid liabilities under IPC
			number	date	US dollars
TODINI Costruzioni Generali S.p.A	Works	October 2019	3	10.10.2019	100,034
Total on category «Works»:					100,034

10. Events after the reporting date

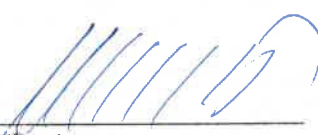
Events related to the COVID-19 pandemic affected the timely implementation of program activities and the disbursement of planned credit and grant funds. So:

In March, April and until mid of May of 2020, work on the construction site was almost not carried out:

- Due to restrictions imposed by the Government of the Kyrgyz Republic and local authorities on the movement of people and transport vehicles, the Contractor could not begin full-scale construction works on the project site;
- Construction work was hindered by local residents.
- Due to the closed state borders, specialized specialists of the contractor for the installation of an asphalt-concrete plant could not arrive in the Kyrgyz Republic.

Besides, due to Government restrictions, “Finnroad” Ltd, a Consultant in Association with “RAM Engineering Associates” LLC and “Destia International Ltd”, was forced to suspend the collection of traffic intensity data for the period from March to June 2020.


B.C. Berdaliev,
Deputy Minister of Transport and Roads
of the Kyrgyz Republic


S.K. Ibraimov,
Director of ADB IPIG