

Audited Project Financial Statements

Project Number: 52256-006

Grant Number: 0704

Period covered: 17 August 2020 to 21 September 2021

Kyrgyz Republic: Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit Project

Prepared by Department of Drinking Water Supply and Sewerage Development

For the Asian Development Bank

Date received by ADB: 22 October 2021

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**PROJECT "MODERNIZATION OF OSH-PLOTINA WATER TREATMENT
PLANT CHLORINE NEUTRALIZATION UNIT"
SUB-GRANT ACTIVITY NO.0704-KGZ (SEFF)**

**FINANCIAL STATEMENTS FOR THE PERIOD FROM 17 AUGUST 2020 TO 21
SEPTEMBER 2021**

**AND
INDEPENDENT AUDITOR'S REPORT**

Bishkek 2021

TABLE OF CONTENTS

	Page
Independent Auditor's report	3
Statement of management's responsibility for preparation and approval of consolidated financial statements	6
Financial statements for the period from 17 August 2020 to 21 September 2021:	7
Statement of sources and uses of funds	7
Notes to the financial statements	8

INDEPENDENT AUDITOR'S REPORT**"HLB MARKA AUDIT" LLC****on financial statements****Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit"****Sub-Grant activity #0704-KGZ (SEFF)****for the period from 17 August 2020 to 21 September 2021****Asian Development Bank****Department of Drinking Water Supply and Sewerage Development of the State Agency of Architecture, Construction, Housing and Communal Services under the Cabinet of Ministers of the Kyrgyz Republic*****Opinion***

We have audited the accompanying financial statements of the Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit" (hereinafter the "Project") implemented by the Department of Drinking Water Supply and Sewerage Development of the State Agency of Architecture, Construction, Housing and Communal Services under the Cabinet of Ministers of the Kyrgyz Republic (hereinafter the "Department") and funded by the Asian Development Bank under the Sub-Grant Activity Agreement No. 0704-KGZ (SEFF) dated August 17, 2020 (hereinafter referred to as the "Agreement"), which includes the Statement of sources and uses of funds for the period from August 17, 2020 to September 21, 2021, as well as a brief description of the main provisions of the accounting policies and other explanatory notes.

In our opinion

- the financial statements of the Project reliably represent, in all material aspects, the receipt and expenditure of Project funds for the period from August 17, 2020 to September 21, 2021 in accordance with International Public Sector Accounting Standards (cash method), the requirements of the Asian Development Bank and the relevant articles of Agreement;
- the balance of the Special Account of the Project as of September 21, 2021 and the cash flow of the special account for the period from August 17, 2020 to September 21, 2021, as well as supporting documents and information provided with it, can truthfully rely on the reinforcement of applications for replenishment in accordance with the requirements described in the Agreement;
- the Department, in all material aspects, used the funds provided for the Project in accordance with the terms of the Agreement, with due attention to economy and efficiency and only for the purposes for which funding was provided;
- the goods and services for the implementation of the Project were purchased and provided in accordance with the general terms of the Agreement, including the specific rules of the procurement manual of the Asian Development Bank;
- with regard to the Statements of Expenditure, the relevant primary documentation confirms the Project's applications to the Asian Development Bank in order to reimburse the expenses incurred;
- the ratios of financing and expenditures of the Project at the expense of the Asian Development Bank, established in the Agreement, were observed.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “*Auditor’s responsibilities for the audit of the Project financial statements*” section of this 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), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code, applied to our audit of financial reporting in the Kyrgyz Republic. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of accounting and restriction on distribution

Without qualifying our opinion, we draw your attention to Note 2 to the consolidated financial statements, describing the basis of accounting. These Project financial statements have been prepared to assist the management of the Department to comply with the requirements of the Asian Development Bank. Therefore, these Project’s financial statements may not be suitable for another purpose.

Responsibilities of the management and those charged with governance for the Project financial statements

The management of the Department is responsible for the preparation and fair presentation of these financial statements of the Project in accordance with the International Public Sector Accounting Standards (Cash Method) described in Note 2, the requirements of the Asian Development Bank and the relevant articles of the Agreement, as well as for ensuring and maintaining an internal control system appropriate for the preparation and impartial presentation of financial statements that do not contain material misstatements caused by fraud or error.

Those charged with managerial authority are responsible for overseeing the preparation of the financial statements of the Project.

Auditor’s responsibilities for the audit of the Project 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 on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error, and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

As part of an audit conducted in accordance with the ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures in response to these risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of non-detection of material misstatement as a result of unfair actions is higher than the risk of non-detection of material misstatement as a result of an error, since unfair actions may include collusion, forgery, intentional omission, distorted presentation of information or actions bypassing the internal control system;

- 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 system;
- we conclude on the legality of management's application of the going concern assumption, and on the basis of the audit evidence obtained, we conclude whether there is a material uncertainty due to events or conditions that may result in significant doubts about the ability of the Project to continue its activities continuously. If we conclude that there is a material uncertainty, we should draw attention in our auditor's report to the relevant disclosures in the financial statements or, if such disclosures are inappropriate, modify our opinion. Our conclusions are based on audit evidence obtained prior to the date of our audit opinion. However, future events or conditions may cause the Project to lose the ability to continue its activities continuously (going concern);
- evaluate the appropriateness of accounting policies applied and the reasonableness of accounting estimates and related disclosures prepared by the management.

We communicate with those charged with the responsibility for corporate 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 State Service of Regulation and Supervision of the Financial Market at the Government of the Kyrgyz Republic; Registration certificate No.4850-3301-000 issued by the Kyrgyz Republic Ministry of Justice dated from October 11, 2019; 38, Professora Zima Street, Bishkek, the Kyrgyz Republic, Telephone/fax: (312) 32-05-75



A. M. Asylbekova, auditor, director

Qualified Auditor Certificate Series A1№0012, registration #0461 of 7 August 2019

A. Tilemishov, auditor, engagement team leader

*Qualified Auditor Certificate #0042 of 11 March 2008
CAP Certificate #0012561 of 15.12.2009*

12 October 2021

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR PREPARATION
AND APPROVAL OF FINANCIAL STATEMENTS**

The statement below, which should be considered together with the description of independent auditors' terms of reference, accompanied the report of independent auditors, is made with the purpose to delimit obligations of the auditors and the management of the Department of Drinking Water Supply and Sewerage Development of the State Agency of Architecture, Construction, Housing and Communal Services under the Cabinet of Ministers of the Kyrgyz Republic (hereinafter the "Department"), in respect of the financial statements of the Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit" for the period from 17 August 2020 to 21 September 2021. The management of the Department is responsible for preparing the financial statements of the Project funded by Sub-Grant Activity No.0704-KGZ (SEFF) of the Asian Development Bank, reliably reflecting in all material aspects the sources and uses of Project funds for the period from August 17, 2020 to September 21, 2021, in accordance with International Public Sector Accounting Standards (cash method), The requirements of the Asian Development Bank and the relevant articles of the Financing Agreement on Sub-Grant Activity No.0704-KGZ (SEFF) dated August 17, 2020 (hereinafter the "Agreement").

When preparing the financial statements of the Project, the management of the Department is responsible for:

- selection of appropriate accounting principles and their consistent application;
- application of reasonable estimates and calculations;
- compliance with the requirements of the Asian Development Bank, and disclosure of all material deviations from these standards in the comments to the financial statements.

The management of the Department is also responsible for:

- development, implementation and maintenance of an effective and reliable internal control system in the Project;
- maintaining the accounting system that allows at any time with a sufficient degree of accuracy to prepare information about the financial position of the Project and ensure compliance of financial statements with the requirements of the Asian Development Bank;
- taking measures within its competence to ensure the safety of Project assets;
- detection and prevention of fraud and other abuses.

These financial statements of the Project for the period from August 17, 2020 to September 21, 2021 were approved by the management of the Department on October 12, 2021.

For and on behalf of the Department:

S.E. Momunov

Director General

Department of Drinking Water Supply and
Sewerage Development of the State Agency of
Architecture, Construction, Housing and
Communal Services under the Cabinet of
Ministers of the Kyrgyz Republic

12 October 2021


Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit"
Sub-Grant Activity #0704-KGZ (SEFF)


Statement of sources and uses of funds

For the period from 17 August 2020 to 21 September 2021

(Amounts in tables are presented in US dollars)

	Note	September 21, 2021	Since the Project launch to September 21, 2021	2020	Since the Project launch to December 31, 2020
Source of financing:					
ADB Sub-grant Activity # 0704-KGZ (SEFF)	5	331,650.00	331,650.00	-	-
Total financing:	5	331,650.00	331,650.00	-	-
Project expenditures:					
ADB Sub-grant Activity # 0704-KGZ (SEFF):					
Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit					
	6	293,222.71	293,222.71	-	-
Audit of the Activity financial reporting	6	13,116.61	13,116.61	-	-
Consultants of the Activity	6	8,154.67	8,154.67	-	-
Other expenses	6	1,335.64	1,335.64	-	-
Project total expenditures		315,829.63	315,829.63	-	-
Other income in the form of interest	4	1,862.72	-	-	-
Other expenses	4	357.47	-	-	-
Refund to ADB		15,820.36	15,820.36	-	-


S.E. Momunov
Director General
Department of Drinking Water Supply and
Sewerage Development of the State Agency of
Architecture, Construction, Housing and
Communal Services under the Cabinet of
Ministers of the Kyrgyz Republic


E. Chingishev
Project Management Specialist



Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit"
Sub-Grant Activity #0704-KGZ (SEFF)

Notes to the financial statements

For the period from 17 August 2020 to 21 September 2021
(Amounts in tables are presented in US dollars)

1. PROJECT PROFILE

1.1 Project mission and finance

The Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit" (hereinafter referred to as the "Project") is carried out in accordance with the Financing Agreement on Sub-Grant Activity No.0704-KGZ (SEFF) concluded between the Government of the Kyrgyz Republic (hereinafter referred to as "GKR") and the Asian Development Bank (hereinafter referred to as ADB) on August 17, 2020 in accordance with the Loan (Financial) Agreement dated December 25, 2019.

The purpose of this Project is to support the physical modernization of the chlorine neutralization unit at the Osh-Dam Water Treatment Plant.

The Project budget within the framework of financing totals USD 500,000 US.

Expenditure item	Amount
Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit	360,000
Audit of the Activity financial reporting	30,000
Consultants of the Activity	10,000
Contingency fund	100,000
Total	500,000

1.2 Project Executing Agency

The Project Executing Agency responsible for the timely and efficient execution of work on the Project as a whole is Department of Drinking Water Supply and Sewerage Development of the State Agency of Architecture, Construction, Housing and Communal Services under the Cabinet of Ministers of the Kyrgyz Republic (hereinafter referred to as the "Department").

Operational management and implementation of the Project was handled by the Project Management Specialist E. Chingishev.

1.3 Closing the Project

The completion date of the Project, in accordance with the Agreement on the Sub-Grant Activity No.0704-KGS (STAFF) dated August 17, 2020, is May 31, 2022.

2. ACCOUNTING POLICIES

2.1. Basis of financial statements preparation

These financial statements have been prepared in accordance with the International Public Sector Accounting Standards "Cash Accounting", the requirements of the Asian Development Bank "Financial Management and Project Analysis" and the relevant articles of the Sub-Grant Activity Agreement No.0704-KGZ (SEFF) dated August 17, 2020.

According to the cash accounting method, all funds received to the settlement account and reflected in the reports at the time of their receipt are considered receipts, regardless of their source. Expenses are considered to be funds allocated for the payment of works, goods and services reflected in the reports at the time of their payment.

Notes to the financial statements

For the period from 17 August 2020 to 21 September 2021
(Amounts in tables are presented in US dollars)

Financing

Financing from the funds of the Asian Development Bank (hereinafter ADB) is presented in the form of the Current Expenditure Fund procedure – the ADB makes an advance payment from the loan account to the deposit, forming a current expenditure account, which is used exclusively to finance the share of the eligible ADB expenses.

Financing by way of reimbursement and the Current Expenditure Fund procedure is recognized upon actual receipt of money.

Non-operating income and expenses

Income received from interest accrued on cash balances in local commercial banks and the sale of tender documents are recognized as other proceeds of the Project. Accordingly, the costs of replicating tender documents, advertising expenses related to tender procedures, and tax withheld by a commercial bank for interest are recognized as other expenses.

Expenditures

The Project expenditures are recognized as such and included in the financial statements if payments are made to suppliers of goods, works and/or services.

Currencies of operation and reporting

The national currency of the Kyrgyz Republic is som. The reporting currency is US dollars.

For the purposes of preparing financial statements in US dollars, expenses incurred in soms were denominated in US dollars at the commercial exchange rate of JSC "Aiyl Bank" on the day of the transaction.

The balances on the settlement account denominated in the national currency are converted into US dollars at the commercial exchange rate of JSC "Aiyl Bank" on the date of the financial statements.

Any gains or losses on cash balances denominated in foreign currencies resulting from changes in the commercial exchange rate are recognized as foreign exchange gain or loss and are reflected in the Statement of sources and uses of funds on a net basis.

2.2. Internal control system

Project Forecast

- The factual implementation of the Project Forecast is monitored by submitting semi-annual and annual reports to the ADB;
- For the effective functioning of the process, the information of operational results is analyzed in a timely manner.

Cash

- Reconciliation of the bank accounts. The cash account balances according to accounting data are checked against the bank statements on a monthly basis.
- The cash transactions were carried out by non-cash means.

Notes to the financial statements

For the period from 17 August 2020 to 21 September 2021
(Amounts in tables are presented in US dollars)

Procurements and cash expenditure

The funds expenditure is accounted for in the relevant accounts, and only for authorized purposes, and according to the budget lines of the Project.

All expenses of the Project are approved by the Director General of the Department in accordance with contracts, invoices and receipts.

In order to reasonably reflect the expenses on the accounting records, the following documents may be the basis:

- Invoices with bills for payment to the payment order;
- Receipt for the receipt of the payment order;
- A sales receipt stamped "paid to the cashier".

During an employee's stay on a business trip, the guaranteed payment from the Project was the reimbursement of the employee's expenses for travel to and from the place of business trip, accommodation expenses (hotel expenses) and daily expenses, according to the norms established by the legislation of the Kyrgyz Republic.

Salary

- The Project Management Specialist keeps a record of working hours, and the timesheets are approved by the Director General of the Department.
- The accounting data is stored in separate files with an established access right.

Project liabilities

A separate register of the Project obligations is maintained, control over the formation of obligations is carried out by the Project Management Specialist.

3. TAXATION

The Agreement does not contain an exception for the payment of taxes. The Project is a VAT payer. VAT paid to the suppliers for services and goods is included in the purchase price and, accordingly, in the Project costs.

The Project pays for the remuneration of its employees (which are recognized as the income of local hired employees), income tax and contributions to the Social Fund of the Kyrgyz Republic. Employee benefits are paid minus tax and contributions.

The Project pays insurance premiums to the Social Fund of the Kyrgyz Republic from the employer in the amount of 17.25%.

4. CASH

According to the Financing Agreement, in order to make payments of sub-grant funds for operational financing of expenses necessary for the implementation of the Project, accounts opened in the branch of "Aiyl Bank – Center" were used:

- Escrow Account in KGS #135013208300071. This account is used to transfer funds after fulfilling obligations to the Project.
- Transit Account (Sub-Grant Activity No.0704-KGS (SEFF)) in KGS No.1350138031368895. This account is used to cover the costs of the Project, at the expense of the Sub-Grant.

Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit"
Sub-Grant Activity #0704-KGZ (SEFF)

Notes to the financial statements

For the period from 17 August 2020 to 21 September 2021

(Amounts in tables are presented in US dollars)

- Special Account (Sub-Grant Activity No. 0704-KGZ (SEFF)) in US dollars No. 1350138034385696. This account is used to cover the costs of the Project, at the expense of the sub-grant.
- Interest account for grant funds (Sub-Grant Activity No.0704-KGS (SEFF)) in KGS No. 1350138039211549.
- Interest Account for the Grant funds (Sub-Grant Activity No.0704-KGS (STAFF)) in US dollars No. 1350138038459797.

At 21 September 2021, the cash balance was as follows:

	KGS	USD equivalent	USD
ADB funds:			
Escrow Account - Sub-Grant No.0704-KGS	579,690.00	6,856.18	-
Transit Account - Sub-Grant No.0704-KGS	0.81	-	-
Special Account - Sub-Grant No.0704-KGS	-	-	-
Subtotal ADB funds	579,690.81	6,856.18	-
Other Project funds:			
Interest Account - Sub-Grant (USD)	-	-	1,500.76
Interest Account - Sub-Grant (KGS)	379.24	4.49	-
Subtotal ADB funds	379.24	4.49	1,500.76
Total funds	580,070.05	6,860.67	1,500.76

The exchange rate of JSC "Aiyl Bank" on September 21, 2021 amounted to 84.55 soms per US dollar.

The cash flows for the period from August 17, 2020 to September 21, 2021 on the Project accounts are presented below:

	USD
Opening balance	-
Receipts, account replenishment	331,620.00
Disposals	(315,799.64)
Refund to ADB	(15,820.36)
Ending balance	-

The refund to the ADB was carried out on September 20, 2021 for the amount of the remaining USD 15,820.36.

	KGS	USD equivalent	USD
Opening balance	-	-	-
Other income in the form of interest	379.24	4.49	1,858.23
Other expenses	-	-	(357.47)
Ending balance	379.24	4.49	1,500.76

The balances on the interest-bearing accounts of the USD 1,500.76 on the USD account and 379.24 soms on the KGS account will be returned to the Ministry of Finance of the Kyrgyz Republic after the last payment of obligations.

Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit"
Sub-Grant Activity #0704-KGZ (SEFF)

Notes to the financial statements

For the period from 17 August 2020 to 21 September 2021
(Amounts in tables are presented in US dollars)

Funds utilization (Statement of Expenditure (SOE)):

#	Expenditure period	Amount of expenditures
1	08.06.2021	235,682.01
2	21.07.2021	57,540.70
3	20.09.2021	15,820.36
SOE subtotal by Special Account		309,043.07
1	31.05.2021	296.05
2	18.06.2021	6,171.41
3	07.07.2021	901.30
4	16.08.2021	15,208.16
SOE subtotal by Transit Account		22,576.93
Total SOE		331,620.00

5. FINANCING

	Reporting period	Since the Project launch
ADB: Sub-Grant Activity #0704-KGZ (SEFF)		
Advance	331,620.00	-
Financing costs	30.00	-
Total Project finance	331,650.00	-

6. USES OF FUNDS

Item category	Factual expenditure in the reporting period
Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit	293,222.71
Project Management Specialist	5,245.92
Supervising Engineer	2,908.75
Audit of the Activity financial statements	13,116.61
Other expenses	1,335.64
Total Project uses of funds	315,829.63

To implement the item Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit", a contract was concluded between the Department and the "Community International Consulting" LLC (hereinafter the "CIC" LLC) on December 17, 2020 in the amount of 293,222.71 US dollars. The delivery time of the equipment, installation and commissioning is 150 calendar days from the date of signing the contract. The "CIS" LLC was provided with a bank guarantee in the amount of 29,322.00 US dollars for a period up to June 17, 2021. The contract received an exemption from indirect taxes from the Ministry of Economy of the Kyrgyz Republic. March 1, 2021. In June 2021, the supply and installation of the equipment was completed in full, the last payment was made on July 21, 2021.

To perform the services under the article "Project Management Specialist" between the Department and E. Chingishev, a contract was signed on November 19, 2020 in the amount of 380,390.00 soms. The

Project "Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit"
Sub-Grant Activity #0704-KGZ (SEFF)

Notes to the financial statements

For the period from 17 August 2020 to 21 September 2021
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involvement of the Specialist was approved by the ADB. According to Amendment No. 1 to the contract, the term was extended until August 31, 2021, with an increase of 140,000.00 soms.

To perform the services under the article "Supervising Engineer" between the Department and Madanbekov M.Zh., a contract was signed on November 19, 2020 in the amount of 332,800.00 soms. The involvement of the staff member was approved by the ADB. According to Amendment No. 1 to the contract, the deadline was extended until July 7, 2021.

To perform the services under the article "Audit of the Activity financial statements" between the Department and "HLB Marka Audit" LLC, a contract was signed on April 27, 2021 in the amount of 1,695,434.00 soms. An Additional Agreement No. 1 to the contract was signed with a reduction in the scope of audit work and the cost of the audit to the amount of 1,107,042.00 soms.

The article "Other expenses" consists of insurance premiums of 17.25% in the amount of 110,400.00 soms and the commission of banks for the transfer in the amount of USD 30s.

7. PROJECT BUDGET PERFORMANCE

Execution of the Project budget at the expense of the Sub-Grant Activity No.0704-KGS (SEFF) ADB since the beginning of implementation, made up by category:

Expenditure item	Estimated budget	Award of the contract	Balance
Modernization of Osh-Plotina Water Treatment Plant Chlorine Neutralization Unit	360,000.00	293,222.71	66,777.29
Audit of the Activity financial statements	30,000.00	13,116.61	16,883.39
Consultants of the Activity	10,000.00	8,154.67	1,845.33
Contingency fund	100,000.00	1,335.64	98,664.36
Total	500,000.00	315,829.63	184,170.37


8. LIABILITIES

The liabilities under the category "Audit of the Activity financial statements " are listed below:


Counterparties	Debt as of September 21, 2021	
	KGS	USD equivalent
"HLB Marka Audit" LLC	579,690.00	6,868.36

9. EVENTS AFTER REPORTING DATE

After the date of approval of the financial statements, no events occurred that would affect the amounts in the submitted financial statements.



S.E. Momunov
Director General
Department of Drinking Water Supply and
Sewerage Development of the State Agency of
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Ministers of the Kyrgyz Republic



E. Chingishev
Project Management Specialist