

**“Central Asia Regional Links Project - CARs-3”
IDA Grant No. D385-KG, IDA Credit No. 6328-KG**

**The project financial statements
for the period from January 30, 2020 to
December 31, 2020**

and independent auditor’s report

**"CENTRAL ASIA ROAD LINKS PROJECT – CARS-3"
IDA GRANT NO. D385-KG, IDA CREDIT NO. 6328-KG**

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**“CENTRAL ASIA ROAD LINKS PROJECT – CARs-3”
IDA GRANT NO. D385-KG, IDA CREDIT NO. 6328-KG**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF
THE PROJECT FINANCIAL STATEMENTS FOR THE PERIOD FROM JANUARY 3, 2020 TO DECEMBER
31, 2020**

The following statement, which should be read in conjunction with the independent auditor's responsibilities is made with a view to distinguish the respective responsibilities of management and those of the independent auditor in relation to the project financial statements of the Project “Central Asia Road Links Project – CARs-3” IDA Grant No. D385-KG, IDA Credit No. 6328-KG (the “Project”).

Management is responsible for the preparation of the project financial statements that present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project components of the Project for the period from January 30, 2020 to December 31, 2020 in accordance with International Public Sector Accounting Standard “Financial Reporting Under the Cash Basis of Accounting” (the “IPSAS”) issued by the International Public Accounting Standards Board of the International Federation of Accountants and the World Bank’s Financial Management Sector Board’s “Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities” (the “WB Guidelines”).

In preparing the project financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IPSAS and WB Guidelines have been followed, subject to any material departures disclosed and explained in the project financial statements; and
- preparing the project financial statements on the assumption that the Project will be implemented in accordance with the established period.

Management is also responsible for:


- designing, implementing and maintaining effective and sound system of internal control and for revealing risks in system of internal control;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Project, and which enable them to ensure that the project financial statements of the Project comply with IPSAS and WB Guidelines;
- compliance with laws and regulations of the Kyrgyz Republic, and the requirements of the operational manual of the Project and the requirements of the World Bank;
- taking such steps as are reasonably available to them to safeguard the assets of the Project; and
- detecting and preventing fraud and other irregularities.

The project financial statements for the period from January 30, 2020 to December 31, 2020 were approved and authorized for issue on June 11, 2021 by the management of the Project.

On behalf of the Management:


Chimchikov K.
Director of the World Bank Investment Projects
Implementation Group within the Ministry of
transport and communications of the Kyrgyz
Republic

June 11, 2021
Bishkek, the Kyrgyz Republic


Chechelbaeva A.
Financial manager of the World Bank
Investment Projects Implementation Group
within the Ministry of transport and
communications of the Kyrgyz Republic

June 11, 2021
Bishkek, the Kyrgyz Republic

INDEPENDENT AUDITOR'S REPORT

To the Management of the Project "Central Asia Road Links Project – CARs-3" under the Ministry of transport and communications of the Kyrgyz Republic

Report on the project financial statements

Opinion

We have audited the accompanying project financial statements of the Project "Central Asia Road Links Project – CARs-3" (the "Project") which comprise the summary of funds received and expenditures paid and the summary of expenditures paid by project components for the period from January 30, 2020 to December 31, 2020, and a summary of significant accounting policies and other explanatory information (the "project financial statements").

In our opinion, the accompanying project financial statements present fairly, in all material respects, the summary of funds received and expenditures paid and the summary of expenditures paid by project components of the Project for the period from January 30, 2020 to December 31, 2020 in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (the "ISAs"). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the project financial statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements, 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 matter

Without qualifying our opinion, we draw attention to Note 2 to the project financial statements, which describe the basis of accounting. These project financial statements were prepared for complying with the appropriate World Bank Guidelines, as well as the requirements of the Financing agreement.

Other matter

We draw attention to the fact that the World Bank rated overall implementation progress of the Project as moderately unsatisfactory in implementation status and results report as at November 25, 2020.

The project financial statements are prepared to assist the Project to comply with the requirements of the World Bank. As a result, the project financial statements may not be suitable for another purpose.

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

Management is responsible for the preparation and fair presentation of these project financial statements in accordance with International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" (the "IPSAS") issued by the International Public Accounting Standards Board of the International Federation of Accountants, and the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines"), and for such internal control as management determines is necessary to enable the preparation of the project financial statements that are free from material misstatement, whether due to fraud or error.


Auditor's responsibilities for the audit of the project financial statements

Our objectives are to obtain reasonable assurance about whether these project 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 ISAs 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 project financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 project 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 project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.



Kubat Alymkulov
Certified accountant, FCCA
Certificate of auditor of the Kyrgyz Republic
No. A 0069 dated October 19, 2009
Audit Partner, Baker Tilly Bishkek LLC



Baker Tilly Bishkek LLC,
License Series A No. 0049 dated July 1, 2011, issued by
the State committee on review and
regulation of the financial market of the Kyrgyz Republic

June 11, 2021
Bishkek, the Kyrgyz Republic

"CENTRAL ASIA ROAD LINKS PROJECT – CARs-3"
IDA GRANT NO. D385-KG, IDA CREDIT NO. 6328-KG

SUMMARY OF FUNDS RECEIVED AND EXPENDITURES PAID
FOR THE PERIOD FROM JANUARY 30, 2020 TO DECEMBER 31, 2020
(in US dollars)

	Notes	For the period from January 30, 2020 to December 31, 2020	Cumulative
Opening balance	4	-	-
Funding sources			
IDA Grant No. D385-KG	5	328,346	328,346
IDA Credit No. 6328-KG	5	-	-
Total financing		328,346	328,346
Other income		1,848	1,848
Total receipts		330,194	330,194
Expenses			
Works for Parts B and C of the Project and goods, non-consulting services, consultants' services, training and incremental operating costs for the Project	6	142,710	142,710
Total expenses		142,710	142,710
Other expenses		124	124
Closing balance	4	187,360	187,360

On behalf of the Management:


Chinchikov K.
Director of the World Bank Investment Projects
Implementation Group within the Ministry of
transport and communications of the Kyrgyz
Republic

June 11, 2021
 Bishkek, the Kyrgyz Republic


Checheibaeva A.
Financial manager of the World Bank Investment
Projects Implementation Group within the Ministry
of transport and communications of the Kyrgyz
Republic

June 11, 2021
 Bishkek, the Kyrgyz Republic

The notes on pages 7-13 form an integral part of the project financial statements. The independent auditor's report is on pages 3-4.

"CENTRAL ASIA ROAD LINKS PROJECT – CARs-3"
IDA GRANT NO. D385-KG, IDA CREDIT NO. 6328-KG

SUMMARY OF EXPENDITURES PAID BY PROJECT COMPONENTS
FOR THE PERIOD FROM JANUARY 30, 2020 TO DECEMBER 31, 2020
(in US dollars)

	For the period from January 30, 2020 to December 31, 2020	Cumulative
Part A. Regional connections, associated facilities and equipment in Issyk-Kul oblast	-	-
Part B. Aviation safety and service provision	-	-
Part C. Sustainable tourism development in Issyk-Kul oblast	-	-
Part D. Project management and implementation	142,710	142,710
	142,710	142,710
	142,710	142,710

On behalf of the Management:



Chimchikov K.
Director of the World Bank Investment Projects
Implementation Group within the Ministry of
transport and communications of the Kyrgyz
Republic

June 11, 2021
 Bishkek, the Kyrgyz Republic



Checheibaeva A.
Financial manager of the World Bank Investment
Projects Implementation Group within the Ministry
of transport and communications of the Kyrgyz
Republic

June 11, 2021
 Bishkek, the Kyrgyz Republic

The notes on pages 7-13 form an integral part of the project financial statements. The independent auditor's report is on pages 3-4.

**“CENTRAL ASIA ROAD LINKS PROJECT – CARs-3”
IDA GRANT NO. D385-KG, IDA CREDIT NO. 6328-KG**

**NOTES TO THE PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD FROM JANUARY 30, 2020 TO DECEMBER 31, 2020**
(in US dollars)

1. GENERAL INFORMATION

According to the Financing Agreement between the Kyrgyz Republic and International Development Association (the “IDA”) dated July 3, 2019, IDA provided a Grant No. D385-KG in the amount of 19,700,000 Special Drawing Rights (the “SDR”) and Credit No.6328-KG in the amount of 19,700,000 SDR to the Kyrgyz Republic.

The Credit and the Grant were provided for implementation of the Project “Central Asia Road Links Project – CARs-3” (the “Project”).

The Financing Agreement became effective on January 30, 2020. The closing date of the Project is November 30, 2024.

Project purpose

The objectives of the Project are to increase regional connectivity and support sustainable tourism development in Issyk-Kul oblast.

The Project comprises the following parts:

- Part A: Regional connections, associated facilities and equipment in Issyk-Kul oblast;
- Part B: Aviation safety and service provision;
- Part C: Sustainable tourism development in Issyk-Kul oblast;
- Part D: Project management and implementation.

Part A: Regional connections, associated facilities and equipment in Issyk-Kul oblast

Support to establish a reliable road connection to Kazakhstan via the Karkyra border crossing point through inter alia:

1. Rehabilitation of about 52 km of a road section in Issyk-Kul Oblast, including and within scope proximity of the road linking Tyup with the Karkyra border crossing, as well as construction of road site facilities and links to access the San-Tash Tamerlane historical monument.
2. Provision of road maintenance equipment, in particular snow removal equipment to ensure year-round operation of the road linking Tyup to the Karkyra border crossing point.
3. Provision of consultants' services for works supervision.

Part B: Aviation safety and service provision

Support to strengthen the safety and service provision of the aviation sector through inter alia:

1. A review of the State Safety Program to, inter alia, identify Civil Aviation Agency's (the “CAA”) institutional and capacity challenges for compliance with International Civil Aviation Organization (the “ICAO”) standards and recommended practices.
2. Provision of technical assistance for drafting aviation bylaws for the Air Code as well as strengthening CAA's oversight and monitoring capacity for compliance with ICAO standards and recommended practices, including training safety inspectors and other staff of CAA, and provision of software and equipment to upgrade CAA's record keeping capabilities.
3. A review of the educational program of the Kyrgyz Aviation Institute, capacity building, acquisition of testing software for aviation personnel and a flight training device, and repair of the Aviation Institute's facilities.

Part C: Sustainable tourism development in Issyk-Kul oblast

Support for the development of sustainable tourism in Issyk-Kul oblast through inter alia:

1. Development of a sustainable tourism strategy and master plan for the Recipient, including application on a pilot basis of Tourism Satellite Accounts for Issyk-Kul oblast.
2. Rehabilitation and/or construction of about five publicly-owned tourist service centers.
3. Providing support for the establishment and development of community-based geoparks in Tyup and Aksuu, the two eastern districts of Issyk-Kul oblast.

Part D: Project management and implementation

Support for Project management and implementation including inter alia: the provision of goods, consultants' services and training, incremental operating costs (including a financial audit).

Project management

The Project is implemented by the World Bank Investment Projects Implementation Group (the "IPIG") within the Ministry of transport and communications of the Kyrgyz Republic.

2. PRESENTATION OF THE PROJECT FINANCIAL STATEMENTS

Basis of preparation

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard (the "IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the World Bank's Financial Management Sector Board's "Guidelines: Annual Financial Reporting and Auditing for World Bank Financed Activities" (the "WB Guidelines").

Under the cash basis system income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received or provided.

The Project's approved budget disclosed by categories of expenses is not publicly available and as such comparison of budget and actual amounts is not presented in these project financial statements.

These project financial statements consist of:

- Summary of funds received and expenditures paid;
- Summary of expenditures paid by project components;
- Notes to the project financial statements, including short description of main statements of accounting policy and other descriptive notes.

The reporting currency of these project financial statements is US dollars (the "USD").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash basis of accounting

Project financial statements are prepared on a cash basis of accounting. The cash basis of accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the Project. The Project financial statements prepared under the cash basis provide readers with information about the sources of cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the project financial statements is balances of cash and changes therein.

Foreign currency operations

Funds received are translated into US dollars at official exchange rate of Special Drawing Rights (the "SDR") at the date of funds receipt.

Operations in foreign currency initially are counted in functional currency by the currency exchange rate settled by commercial bank on a date of operation.

All payments made in local currency are translated into US dollars at the official exchange rate defined by serving commercial bank at the date of transaction.

Monetary assets and liabilities expressed in foreign currency are converted to functional currency at official exchange rate on a date settled by the serving commercial bank.

All foreign exchange differences resulted from maturity or recalculation are included in the summary of funds received and expenditures paid.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and due from banks, which can be converted to the corresponding amount of cash in the short-term.

Taxes

Calculation and payment of personal income tax and social security contributions from income of staff and consultants is made in accordance with the requirements and rates of the Tax Code of the Kyrgyz Republic and relevant legislation of the Kyrgyz Republic.

Expenses

The expenses are recorded in the period when they were actually paid.

Sources of funds

The funds were provided by the IDA to the Project by advance payments/initial deposit, replenishment of designated account or through direct payment to the end supplier of goods and/or services.

Other income

Other income represents interest income accrued by the serving bank on the outstanding balances of cash on designated accounts.

Other expenses

Other expenses comprise payments for bank services.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2020 comprise:

	Source of financing	Currency	December 31, 2020
Designated account	IDA Grant No. D385-KG	US dollar	185,636
Interest account	Other	US dollar	1,721
Interest account	Other	Kyrgyz som	3
			<u>187,360</u>

5. FUNDS RECEIVED

The funds received are presented by the following methods and sources of financing:

	For the period from January 30, 2020 to December 31, 2020	Cumulative
IDA Grant No. D385-KG		
Initial deposit	200,000	200,000
Replenishment of designated account	128,346	128,346
	<u>328,346</u>	<u>328,346</u>
IDA Credit No. 6328-KG		
	-	-
	<u>-</u>	<u>-</u>

6. EXPENSES

Breakdown of expenses by nature and sources of financing is presented as follows:

	For the period from January 30, 2020 to December 31, 2020			
	IDA Grant No. D385-KG	IDA Credit No. 6328-KG	Total	Total
<i>Incremental operating costs:</i>				
Salary of IPIG Staff	72,520	-	72,520	72,520
Social Fund contributions	31,889	-	31,889	31,889
"IC: Accounting" accounting software	18,500	-	18,500	18,500
Office rental	6,848	-	6,848	6,848
Transportation and vehicle maintenance costs	3,194	-	3,194	3,194
Information systems support	1,488	-	1,488	1,488
Communication costs	1,475	-	1,475	1,475
Office materials and supplies	1,110	-	1,110	1,110
Other expenses	5,686	-	5,686	5,686
	<u>142,710</u>	<u>-</u>	<u>142,710</u>	<u>142,710</u>
				<u>5,686</u>
				<u>1,110</u>
				<u>1,475</u>
				<u>1,488</u>
				<u>3,194</u>
				<u>6,848</u>
				<u>18,500</u>
				<u>31,889</u>
				<u>72,520</u>
				<u>142,710</u>

7. FINANCIAL POSITION

Financial position as at December 31, 2020 is as follows:

	December 31, 2020
ASSETS AND EXPENSES	
Cash and cash equivalents	187,360
Cumulative expenses	142,710
Other expenses	124
TOTAL ASSETS AND EXPENSES	<u>330,194</u>
FINANCING	
Funds received	328,346
Other income	1,848
TOTAL FINANCING	<u>330,194</u>

8. WITHDRAWAL APPLICATIONS

Withdrawal applications for the period from January 30, 2020 to December 31, 2020 are presented as follows:

Sources of financing	Application	Date	Initial deposit	Replenishment	Total
IDA Grant No. D385-KG					
	1	March 18, 2020	200,000	-	200,000
	4	December 14, 2020	-	37,574	37,574
	3	December 16, 2020	-	90,772	90,772
			<u>200,000</u>	<u>128,346</u>	<u>328,346</u>

Withdrawal application No.2 in the amount of 90,772 US dollars was deleted.

9. STATEMENT OF DESIGNATED ACCOUNTS

Statement of designated accounts for the period from January 30, 2020 to December 31, 2020 is presented as follows:

Source of financing	IDA Grant No. D385-KG	Total
<i>Currency</i>	US dollar	
<i>Bank account</i>	1299004220004015	
<i>Bank</i>	OJSC RSK Bank	
<i>Bank's location</i>	80/1 Moskovskaya str., Bishkek, Kyrgyz Republic	
Balance as at January 30, 2020	-	-
Initial deposit	200,000	200,000
Replenishment	128,346	128,346
Total funds received	<u>328,346</u>	<u>328,346</u>
Expenses paid	17	17
Amount of eligible expenditures paid during the current period	142,693	142,693
Balance as at December 31, 2020	<u>185,636</u>	<u>185,636</u>

10. UNDRAWN FUNDS

Undrawn funds as at December 31, 2020 are presented as follows:

	IDA Grant No. D385-KG in SDR	IDA Credit No. 6328-KG in SDR
Approved amount		
Disbursed during the period from January 30, 2020 to December 31, 2020	19,700,000	19,700,000
Undrawn amount	235,618	-
Funds received as at January 30, 2020	19,464,382	19,700,000
Disbursed during the period from January 30, 2020 to December 31, 2020	-	-
Funds received as at December 31, 2020	235,618	-
	235,618	-

11. COMMITMENTS

In the normal course of activities, the Project concludes agreements with suppliers of goods and services in accordance with the established budget and procurement plan.

As at December 31, 2020 the Project had following commitments:

Counterparty	Contract No.	Contract currency	Cost per contract	Paid up to December 31, 2020 (in CCY)	Remaining amount to be paid (in CCY)
Proyapi Engineering and Consultancy Inc. (Proyapi Muhendislik Musavirlik A.S.)	CARS3/CS/CQS/03	US dollar	499,574	-	499,574

12. LEGAL CASES

There were no any legal claims related to the Project.

13. EVENTS AFTER THE REPORTING DATE

During 2021 until the date of issue of these project financial statements, the IDA provided financing to the Project as follows:

Sources of financing	Application	Date	Replenishment of designated account	Direct payment	Total
IDA Grant No. D385-KG	5	March 31, 2021	46,337	-	46,337
	6	April 13, 2021	-	89,923	89,923
	7	June 3, 2021	38,819	-	-
			85,156	89,923	175,079

As at the date of issue of the project financial statements no other significant events or transactions occurred which should be disclosed in the project financial statements, except for the events or transactions described above.