

Terms of Reference

FOR THE AUDIT OF THE THIRD PHASE OF THE CENTRAL ASIA REGIONAL LINKS PROGRAM (CARs-3) FOR THE YEARS ENDED DECEMBER 31, 2020, DECEMBER 31, 2021, DECEMBER 31, 2022, DECEMBER 31, 2023 and FOR THE 11 MONTHS ENDED NOVEMBER 30, 2024

General information

The CARs-3 project is the Third Phase of the Central Asia Regional Links (CARs) program, a series of projects with multiple countries (borrowers). The Central Asia Road Links (CARs) SOP is the result of a collaborative effort initiated by client governments in the Central Asia region and is financed by the International Development Association (IDA). The overall objective of the SOP is to increase cross-border connectivity and enhance regional integrated development to revitalize historically active economic exchanges in Central Asia and beyond along the Silk Route. In an effort to bring transformational impact in the region, the SOP builds synergies with other regional initiatives by multilateral or bilateral development partners; such as for example, the Central Asia Regional Economic Cooperation (CAREC) program led by the Asian Development Bank, the EEU, the Belt and Road initiative by the government of China, as well as others.

The CARs-3 Project is aligned with the new FY 2019-2022 World Bank Group Country Partnership Framework (CPF) for the Kyrgyz Republic. The new CPF focuses on three focus areas: (i) build foundations for inclusive growth and job creation through private sector development, (ii) support transformative investments to enhance growth potential and (iii) build a more resilient economy. The proposed CARs-3 project is not only a transformative investment that is expected to enhance growth potential, but will also contribute to building the foundations for inclusive growth and job creation (through private sector development) as well as building a more resilient economy with the aim to reduce extreme poverty and promote shared prosperity through support for improved governance and job creation.

Project Development Activities: The PDO of the CARs-3 Project is to increase regional connectivity and support sustainable tourism development in Issyk-Kul Oblast.

Project Description:

The CARs-3 project will finance activities related to removing physical bottlenecks with neighboring countries, in particular the Republic of Kazakhstan, and addressing sector specific constraints to create market opportunities for the development of regional trade (agriculture) and tourism in Issyk-Kul Oblast.

The project comprises of three components, which are outlined in the following paragraphs:

Component 1. Regional Connections, Associated Facilities and Equipment in Issyk-Kul Oblast (Estimated total cost – US\$46.00 million). This component comprises civil works, rehabilitation of facilities, purchase of equipment and consultants' services to establish a reliable road connection to Kazakhstan via Karkyra BCP, important for regional trade (agriculture) and access to tourism sites.

Component 2: Aviation Safety and Service Provision (Estimated total cost – US\$4.5 million). With the objective of enhancing and developing the air transport sector of the Kyrgyz Republic, addressing aviation safety and service provision comes as the most binding constraints. The accomplishment would help the CAA to reach ICAO's international safety standards and recommended practices as well as to overcome the current blacklist of the EU for Kyrgyz carriers, enhance local carriers' growth opportunities and ultimately increasing the country's level of connectivity, a result that would benefit both local residents and international visitors.

Component 3: Sustainable Tourism Development in Issyk-Kul Oblast (Estimated total cost – US\$3.5 million). The component comprises activities focusing on support towards developing the tourism sector in Issyk-Kul Oblast in a sustainable manner. Tourism sector's competitiveness is closely linked to its sustainability, in particular through improved information for decision-making (including a set of indicators), upgraded facilities as well as involvement of local communities.

Component 4: Project Management and Implementation (Estimated total cost – US\$1.00 million): This component will finance support for project management and implementation, including inter alia: the provision of goods, consultants' services and training, as well as incremental operating costs, including a financial audit.

Total cost of the Project is 55,00 mln. USD:

1. Credit No. D63280-KG: 27,5 mln. USD;
2. Grant No. D 3850-KG: 27,5 mln. USD;

The Ministry of Transport and Roads of the Kyrgyz Republic has established an Investment Project Implementation Group (IPIG) to maintain consulting assistance to the Implementing Agency for successful implementation of investment projects, including the CARs-3.

Objective

The objective of the audit of the project financial statements (PFS) is to enable the auditor to express a professional opinion on the project financial position of the Third Phase of the Central Asia Regional Links Project-CARs-3 as at the year ended December 31, 2020, December 31, 2021, December 31, 2022, December 31, 2023 and 11 months ended November 30, 2024, and of the income and expenditure for the accounting periods ending on that dates.

The Project's accounting system (books and records) provides the basis for the preparation of the PFS, was established to reflect the financial transactions of the Project, and is maintained by the Investment Projects Implementation Group of the Ministry of Transport and Roads KR (MOTR KR).

Responsibility for preparation of financial statements:

The project's management is responsible for the preparation of financial statements, including proper maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the project, and adequate disclosure. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

Audit Scope

The audit will be conducted in accordance with International Standards on Auditing (ISA)... Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In complying with ISA, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:

- a) In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud as required by International Standard on Auditing 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- b) When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements as required by International Standards on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements.
- c) The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity as required by International Standard on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- d) The auditor should communicate appropriately to those charged with governance and managements deficiencies in internal control that the auditor has identified in an audit of financial statements as required by International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.
- e) In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level as required by International Standard on Auditing 330: the Auditor's Procedures in Responses to Assessed Risks.

- f) In instances where certain aspects of an entity's operation are performed by a third party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process as required by International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization.
- g) As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance as required by International Standard on Auditing 580: Written Representations.
- (h) When the external auditor decides to use the work of an entity's internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, the determination shall be in accordance with International Standard on Auditing 610.
- (i) In determining whether to use the work of an auditor's expert or the extent to which the work of an auditor's expert is adequate for audit purposes, the determination shall be made in accordance with International Standard on Auditing 620.

In evidencing compliance with agreed project financing arrangements the auditor is expected to carry out to confirm that:

- a) All external funds have been used in accordance with the conditions of the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant financing agreements include the Financing Agreement for the Central Asia Regional Links Project-CARs-3 dated July 3, 2019 and Disbursement and Financial Information Letter.
- b) Counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided.
 - a) Goods, works and services financed have been procured in accordance with the relevant financing agreements, including specific provisions of the World Bank Procurement Guidelines;
 - b) All necessary supporting documents, records, and accounts have been kept in respect of all Project activities, including expenditures reported via Summary Report or Statements of Expenditures (SOEs) or Designated Accounts (DAs) or Special Accounts (SAs). The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;

Project Financial Statements have been prepared in accordance with the International Public Sector Accounting Standards.

Project Financial Statements

The auditor should verify that the Financial Statements have been prepared in accordance with the International Public Sector Accounting Standards.

The Project Financial Statements should include:

- a) a Summary of funds received from the World Bank, other financiers and counterpart contributions from the borrower, all presented separately;
- b) a Summary of Expenditures paid, presented under project account headings and main categories of expenditures; and
- c)
- d) Additional disclosures in explanatory notes, including details of statements of expenditures (SOE) supporting Withdrawal Applications submitted during the period, a reconciliation of movements on the Designated Account, and a statement of fund balances. When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments.
- e) Notes, comprising a summary of significant accounting policies and other explanatory notes.

Summary Reports or Statement of Expenditures

The auditor is required to audit all Summary Reports used as the basis for the submission of withdrawal applications.

The Summary reports should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, auditor should report such facts in separate notes and management letter based on the audit results. The Project Financial Statements should include a schedule listing of individual Summary Reports or withdrawal applications by specific reference number and amount.

The auditor should pay particular attention as to whether:

- a) the Summary Reports have been prepared in accordance with the provisions of the relevant financing agreement.
- b) expenditures have been made wholly and necessarily for the realization of project objectives.
- c) information and explanation necessary for the purpose of the audit have been obtained;
- d) supporting records and documents necessary for the purpose of the audit have been retained, and
- e) the Summary Reports can be relied upon to support the related withdrawal applications.

Designated Accounts

In conjunction with the audit of the Project Financial Statements, the auditor is also required to audit the activities of the Project's Designated Accounts. The Designated usually comprise:

- a) deposits and replenishments received from the Bank;
- b) payments substantiated by withdrawal applications;
- c) interest that may be earned from the balances and which belong to the recipient; and
- d) the remaining balances at the end of each fiscal year.

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant Financing Agreement and Disbursement and Financial Information Letter, and the adequacy of internal controls for this type of disbursement mechanism.

For this Project, the Designated Accounts are referred to in the Article II of the General Conditions and the Disbursement and Financial Information Letter.

Audit Reports

The auditors will issue an audit opinion on the Third Phase of the Central Asia Regional Links Project-CARs-3 Financial Statements. The auditor's opinion shall be based on an evaluation of the conclusions drawn from the audit evidence obtained and shall be expressed clearly through a written report that also describes the basis for that opinion. The audit report shall be prepared in accordance with [International Standard on Auditing 700: Forming an Opinion and Reporting on Financial Statements](#).

A modified audit opinion shall be rendered in the financial statements when the auditor concludes, on the basis of the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Modified audit opinions shall be in accordance with [International Standard on Auditing 705: Modifications to the Opinion in the Independent Auditor's Report](#).

The auditor will include emphasis of matter paragraphs or other matter paragraphs in the audit opinion where the auditor, having formed an opinion on the financial statements, seeks to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report. The paragraphs will refer to either a matter that, although appropriately presented or disclosed in the financial statements, is of such importance that it is fundamental to users' understanding of the financial statements; or as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's

responsibilities, or the auditor's report. This form of opinion will be presented in accordance with [International Standard on Auditing 706: Emphasis of Matter Paragraphs or Other Matter Paragraphs in the Independent Auditor's Report](#)

Other audit reports

In addition to the audit opinion, the auditor will prepare a "management letter," in which the auditor will:

- a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
- b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- c) report on the lack of compliance of each financial covenant in the relevant financing agreement;
- d) quantify and report expenditures that are considered to be ineligible and either paid out of the designated account(s) or which have been claimed from the World Bank;
- e) communicate matters that have come to their attention during the audit which might have a significant impact on the implementation of the project;
- f) bring to the recipient's attention any other matters that the auditor considers pertinent; and
- g) include management's comments in the final management letter.

The financial statements, including the audit opinion, and management letter should be received by the Investment Projects Implementation Group of the Ministry of Transport and Roads of the Kyrgyz Republic, no later than six months after the end of the audited fiscal year. The IPIG should then promptly forward two copies of the audited project financial statements (including audit opinion) and management letter to the Bank.

Public Disclosure

In accordance with "The World Bank (the Bank) Policy on Access to Information" dated July 1, 2010 for Bank-financed operations for which the invitation to negotiate is issued on or after July 1, 2010, the Bank requires that the borrower makes the audited financial statements publically available in a timely fashion and manner acceptable to the Bank. **In addition**, following the Bank's formal receipt of these financial statements from the borrower, the Bank makes them available to the public in accordance with this policy.

Management Letters, special audits (i.e. whose nature is not financial), and unaudited financial statements (e.g. Interim Financial Reports) are not considered to be the part of the definition of the audited financial statements for the purposes of disclosure.

Only in exceptional cases the Bank may agree—i.e., when the audited financial statements contain proprietary or commercially sensitive information—that the borrower or designated project entity may be exempted from disclosing the full set of audited financial statements, but is still required to disclose an abridged version of them in a form acceptable to the Bank. Exceptions are approved by World Bank management.

General

The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the MOTR KR. The staff of the MOTR KR will co-operate fully with the auditor and will make available to the auditor whatever records, documentation and other information is requested by the auditor in connection with the audit.

The auditor should be given unlimited access to all legal documents, correspondence, and any other information associated with the project and deemed necessary by the auditor (reports of review and investigations, credit account information). Confirmation should also be obtained of amounts disbursed and outstanding in the Bank records and of amounts disbursed by the Government of the Kyrgyz Republic.

It is highly desirable that the auditor reviews the Bank's financial reporting and auditing requirements contained in [OP 10.00 Investment Project Financing](#), [Bank Policy: Program for Results Financing](#), and [OP 8.60 Development Policy Lending](#). The auditor should also be familiar with the [Disbursement Guidelines for Investment Project Financing](#) (February 2017), the [Loan Handbook for World Bank Borrowers](#) (February 2017), and the [World Bank's Procurement Framework](#) (July 2016).

This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded.

The auditor should understand that working papers under World Bank project can be subject to the review by Client's and/or World Bank designated staff.

LIST OF KEY EXPERT POSITIONS WHOSE CV AND EXPERIENCE WOULD BE EVALUATED

№	Position	Required knowledge	Required qualifications and professional experience	Expected input of personnel in person-months to conduct audit per 2020 FY	Expected input of personnel in person-months to conduct audit per 2021 FY	Expected input of personnel in person-months to conduct audit per 2022 FY	Expected input of personnel in person-months to conduct audit per 2023 FY	Expected input of personnel in person-months to conduct audit of FY till November 30, 2024	Total
K1	Team Leader	Finance and Audit	more than 15 years total experience, including at least 7 years relevant project experience	0.5 person-month	0.5 person-month	0.5 person-month	0.5 person-month	0.5 person-month	2,5 person-month
K2	Auditor in Charge	Finance and Audit	more than 10 years total experience, including at least 3 years relevant project experience	1.0 person-month	1.0 person-month	1.0 person-month	1.0 person-month	1.0 person-month	5 person-month

K3	Auditor	Finance and Audit	more than 5 years total experience, including at least 1 years relevant project experience	1.5 person-month	1.5 person-month	1.5 person-month	1.5 person-month	1.5 person-month	7,5 person-month
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