

Auditing & Consulting Company

**MARKA  AUDIT
BISHKEK**

**“NATIONAL ROAD NETWORK REHABILITATION
(OSH – BATKEN – ISFANA)” PROJECT PREPARATION
GRANT No.Q6240
GRANT No.H5200-KG
LOAN No.4658-KG
ADDITIONAL FINANCING
LOAN No. 4826-KG
GRANT No.H619-KG**

**SPECIAL PURPOSE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR’S REPORT
FOR THE YEAR 2010**

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AUDITOR'S REPORT
By an independent auditor Marka Audit Bishkek LLC
On special-purpose financial statements of the
“National Road Network Rehabilitation
(Osh – Batken – Isfana)” Project Preparation
Grant No.Q6240, Grant No.H5200-KG,
Loan No.4658-KG, Additional financing Loan
No.4826-KG, Grant No.H619-KG
for 2010

Ministry of Transport and Communications of the Kyrgyz Republic

1. A Report on special-purpose financial statements

We have audited the accompanying special-purpose financial statements of the “National Road Network Rehabilitation (Osh - Batken - Isfana) Project, financed by the International Development Association, including the special-purpose Balance Sheet at 31 December 2010, Statement on Sources and Application of Funds, Detailed Statement of Expenditure by components, Statement of Disbursed Funds, Special Account Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the special-purpose financial statements

Management of the Investment Projects Management Unit is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and procedures on financial management regarding investing activities financed by the World Bank. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these special-purpose financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA), applied for special purpose audit, and procedures on financial management regarding investing activities financed by the World Bank. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose financial statements prepared by the Investment Projects Implementation Unit in order to design audit procedures that are appropriate for the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special-purpose financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The policy of the Investment Projects Implementation Unit comprises that the accompanying special-purpose financial statements are prepared based on cash basis accounting. This method comprises that receipts are recognized when cash is received and expenses are recognized when cash is paid, but not when they are incurred.

Opinion

In our opinion, the accompanying special-purpose financial statements give, in all material respects, a true and fair view of the financial position, sources and application of funds of the “National Road Network Rehabilitation _Osh - Batken - Isfana) Project, for the year 2010, in accordance with International Public Sector Accounting Standards (IPSAS) and procedures on financial management regarding investing activities financed by the World Bank..

In addition: (a) the Special Account Cash Flow Statement, as well as the supporting documents and information presented with it, may be truly substantiated by applications for replenishment in accordance with the requirements envisaged in the Financing Agreement Grant No.4658-KG, Grant No.H5200-KG, dated 3 December 2009, and in the Preparation Advance Agreement No.Q6240 date 10 November 2008;

(b) as for the Statement of Expenditures, the withdrawal applications submitted to the World Bank for reimbursement of expenses are supported by respective source document;

(c) the Project activity is in conformity with the Financing Agreement, Grant No.4658-KG, Grant No.H5200-KG dated 3 December 2009 and Preparation Advance Agreement Grant No.Q6240 dated 10 November 2008;

(d) as it is stated in Note 2.2 the internal control system includes the whole policy and procedures adopted by the Project management for assistance in implementation of the Project’s aims, stipulating regulated and efficient implementation of the Project including assurance of assets integrity, prevention and revelation of frauds and errors, accuracy and completeness of accounting records, as well as timely preparation of special-purpose financial reporting.

2. Report on audit of financing expenditures proportions on account of IDA funds and funds of the Government of the Kyrgyz Republic.

We have audited the proportion of financing expenditures on account of IDA funds and funds of the Government of the Kyrgyz Republic (GKR), Financing Agreement, Grant No.4658-KG, and Grant No.H5200-KG dated 3 December 2009 and Preparation Advance Agreement Grant No.Q6240 dated 10 November 2008.

In our opinion during the reporting period the proportions of financing expenditures on account of IDA funds and funds of the GKR, established by the aforesaid Agreement, were observed

MARKA AUDIT BISHKEK LTD.

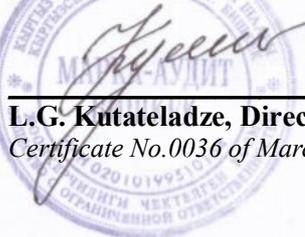
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by the Kyrgyz Republic Ministry of Justice

of November 08, 2007 Professor Zima Street 38a,

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L.G. Kutateladze, Director

Certificate No.0036 of March 11, 2008

N.N. Kobritseva, Auditor

Certificate No.00047 of June 12, 2004

CIP No.0000492 of 15.04.2011,

DipIFR No.1709119 of 10.12.2009

24 May 2011

**MANAGEMENT’S RESPONSIBILITY FOR PREPARATION
AND APPROVAL OF SPECIAL-PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR 2010**

The statement below, which should be considered together with the description of obligations of independent auditors, accompanied the report of independent auditors, is made with the purpose to delimit obligations of auditors and the management in regard to the special-purpose financial statements of the Project. The Project Management is responsible for preparing the special-purpose financial statements that fairly reflect, in all material respects, the financial status, sources and application of funds of the “National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation, Grant No.Q6240, Grant No.H5200-KG, Loan No.4648-KG, at 31 December 2010, in accordance with the International Public Sector Accounting Standards for (IPSAS) and requirements envisaged in the Financing Agreement, Loan No.4658-KG, Grant No.H5200-KG of 3 December 2009 and in the Project Preparation Advance Agreement Grant Q6240 of 10 November 2008.

While preparing financial statements Management is responsible for:

- applying appropriate accounting principles and their consistent use;
- use of valid evaluation and estimations;
- compliance with the International Public Sector Accounting Standards (IPSAS) and disclosure of all materials variances against the aforesaid standards in the comments to the special-purpose financial statements;

Management is also responsible for:

- development, implementation and maintenance of effective and reliable system of internal control of 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 IDA requirements;
- keeping accounting in accordance with the current legislation and accounting standards of the Kyrgyz Republic and IPSAS;
- taking measures within its terms of reference to assure the integrity of Project assets;
- revelation and prevention of any fraud or other abuse.

These special-purpose financial statements for the year 2010 were approved by Project Management on 24 May 2011.

On behalf of the Project Management:



Ibraimov Sanjar
Director
IPIG MTC KR

24 May 2011

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant
No.H619-KG**

Special-purpose Balance Sheet

At 31 December 2010

(Amounts in tables are shown in USD)

	Note	31 December 2010	31 December 2009
Assets			
Project Cash assets	3	128,120	16,823
Project expenditures, Grant Q6240	5,6	705,269	488,236
Repayment of interest and tender accounts balances to the Government of the Kyrgyz Republic		2,392	1,182
Other expenditure of the Project, Grant Q6240 (services, taxes)		1,419	
Expenses, Grant H5200-KG	7,8,9	4,306,843	
Other expenditure, Grant H5200-KG (services, taxes)		1,792	
Re-financing of advance		(707,449)	
Exchange rates difference		2,708	2,092
Total assets		4,441,094	508,333
Liabilities			
IDA financing of the Project, Grant Q6240	4	574,079	412,789
IDA financing, Grant H5200-KG	4	3,048,483	
Co-financing of Government of the Kyrgyz Republic, Grant Q6240	4	133,491	91,753
Co-financing of Government of the Kyrgyz Republic, Grant H5200-KG	4	676,703	
Other Project receipts, Grant Q6240 (interests, from sale of tender documents)		3,817	3,791
Other receipts, Grant H5200-KG (interests, from sale of tender documents)		4,521	
Total liabilities		4,441,094	508,333


Ibraimov Sanjar
Director
IPIG MTC KR




Ulanbek Zainalov
Financial Manager
IPIG



**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG**

Statement of Sources and Application of Funds

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

	Note	Actually paid		Budget		Variances	
		2010	From the Project beginning	2010	From the Project beginning	2010	From the Project beginning
Opening balance	3	16,823					
Sources of financing							
Project Grant Q6240							
IDA	4	161,290	574,079				
Government of KR	4	41,738	133,491				
Total financing of the Project, Grant Q6240		203,028	707,570				
Other receipts		26	3,817				
Repayment of interest and tender accounts balances to the Government of the Kyrgyz Republic		(2,392)	(2,392)				
Total receipts of the Project, Grant Q6240		200,662	708,995				
Grant H5200-KG							
IDA	4	3,048,483	3,048,483				
Government of KR	4	676,703	676,703				
Total financing, Grant H5200-KG		3,725,186	3,725,186				
Other receipts		4,521	4,521				
Total receipts, Grant H5200-KG		3,729,707	3,729,707				
Total receipts		3,930,369	4,438,702				
Project expenses:							
Project Grant Q6240							
Goods		-	18,725	-	18,750	-	25
IDA		-	14,980	-	15,000	-	20
Government of KR		-	3,745	-	3,750	-	5
Consulting services, including training and audit	5	206,855	637,223	41,600	1,118,172	(165,255)	480,949
IDA		165,333	509,778	-	1,030,000	(165,333)	520,222
Government of KR		41,522	127,445	41,600	88,172	78	(39,273)
Operating expenses	6	10,178	49,321	10,180	50,000	2	679
IDA		10,178	49,321	10,180	50,000	2	679

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG**

Statement of Sources and Application of Funds

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

	Note	Actually paid		Budget		Variances	
		2010	From the Project beginning	2010	From the Project beginning	2010	From the Project beginning
Total IDA		175,511	574,079	10,180	1,095,000	(165,331)	520,921
Total Government of KR		41,522	131,190	41,600	91,922	78	(39,268)
Total Project expenses, Grant Q6240		217,033	705,269	51,780	1,186,922	(165,253)	481,653
Other expenses		237	1,419				
Result of exchange rates difference		215	2,307				
Re-financing of principal amount of IDA expenditures, Grant Q6240		(574,079)	(574,079)				
Re-financing of commission payments, Grant Q6241		(2,180)	(2,180)				
Re-financing of expenditure amount of the Government the Kyrgyz Republic, Grant Q6242		(131,190)	(131,190)				
Grant H5200-KG							
Works for Part A of the Project	7	3,211,331	3,211,331	8,461,370	8,461,370	5,250,039	5,250,039
<i>IDA</i>		2,574,240	2,574,240	6,659,440	6,659,440	4,085,200	4,085,200
<i>Government of KR</i>		637,091	637,091	1,801,930	1,801,930	1,164,839	1,164,839
Goods, operating expenses and training for Parts B and C of the Project	8	35,446	35,446	373,260	373,260	337,814	337,814
<i>IDA</i>		31,974	31,974	334,920	334,920	302,946	302,946
<i>Government of KR</i>		3,472	3,472	38,340	38,340	34,868	34,868
Consulting services, including training and audit for Parts A,B, and C of the Project	9	352,617	352,617	579,230	579,230	226,613	268,213
<i>IDA</i>		317,355	317,355	558,750	558,750	241,395	241,395
<i>Government of KR</i>		35,262	35,262	20,480	20,480	(14,782)	(14,782)
Repayment of the Project Preparation advance		707,449	707,449	1,353,250	1,353,250	645,801	645,801
<i>IDA</i>		576,259	576,259	1,092,000	1,092,000	515,741	515,741
<i>Government of KR</i>		131,190	131,190	261,250	261,250	130,060	130,060
Total IDA		3,499,828	3,499,828	8,645,110	8,645,110	5,145,282	5,145,282
Total government of KR		807,015	807,015	2,122,000	2,122,000	1,314,985	1,314,985

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG**

Statement of Sources and Application of Funds

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

	Note	Actually paid		Budget		Variances	
		2010	From the Project beginning	2010	From the Project beginning	2010	From the Project beginning
Total expenses, Grant H5200-KG		4,306,843	4,306,843	10,767,110	10,767,110	6,460,267	6,460,267
Other expenses		1,792	1,792				
Result of exchange rates difference		401	401				
Total Project expenses		3,819,071	4,310,581				
Closing balance:	3	128,120	128,120				


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**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG**

Detailed Statement of Expenditures by Components

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

	Actually paid		Budget		Variances	
	2010	From the Project beginning	2010	From the Project beginning	2010	From the Project beginning
Project Grant Q6240						
1.Additional Feasibility Studies						
1. Goods	-	18,725	-	18,750	-	25
2.Services of consultants, including audit and training	206,855	637,223	41,600	1,118,172	(165,255)	480,949
	206,855	655,948	41,600	1,136,922	(165,255)	480,974
2.Renewal of detailed design	-	-	-	-	-	-
3. Capacity building in support of the Project implementation	10,178	49,321	10,180	50,000	2	679
Total expenses	217,033	705,269	51,780	1,186,922	(165,253)	481,653
Grant H5200-KG						
A. Realization of transport corridor part Osh – Batken - Isfana						
A/1. Realization of transport corridor part Osh – Batken - Isfana						
1. Works for Part A of the Project	3,211,331	3,211,331	8,461,370	8,461,370	5,250,039	5,250,039
3. Consulting services for Part A (supervision)	352,617	352,617	500,000	500,000	147,383	147,383
Total Component A	3,563,948	3,563,948	8,961,370	8,961,370	5,397,422	5,397,422
B. Planning of road traffic safety						
2.Goods	-	-	236,110	236,110	236,110	236,110
3/2.Consulting expenses	-	-	69,510	69,510	69,510	69,510
	-	-	305,620	305,620	305,620	305,620
C. Management and implementation of the Project						
C/1C. Management and implementation of the Project						

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG**

Detailed Statement of Expenditures by Components

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

	Actually paid		Budget		Variances	
	2010	From the Project beginning	2010	From the Project beginning	2010	From the Project beginning
2. Goods, operating expenses and training for Parts B and C of the Project						
2/1. Goods			7,780	7,780	7,780	7,780
2/3. Training	-	-	11,120	11,120	11,120	11,120
2/4. Operating expenses	35,446	35,446	118,250	118,250	82,804	82,804
3. Consulting services, including training and audit for Parts A, B and C of the Project						
3/3. Audit	-	-	9,720	9,720	9,720	9,720
Total component C	35,446	35,446	146,870	146,870	111,424	111,424
Total expenditure, Grant H5200-KG	3,599,394	3,599,394	9,413,860	9,413,860	5,814,466	5,814,466


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**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG**

Detailed Statement of Project Expenditure by Components

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

Grant No.Q6240

Date	W/a number	Payment category			Total	Reimbursed on special account	Credited as advance
		Goods	Services of consultants, including audit and training	Operating expenses			
17.02.2010	11	-	-	5,400	5,400	-	5,400
25.02.2010	12	-	-	7,463	7,463	-	7,463
				12,863	12,863	-	12,863

Grant No.H5200-KG

Date	W/a number	Payment category		Reimbursed on special account
		Works for Part A of the Project	Goods, operating expenses and training for Parts B and C of the Project	
28.10.2010	7		17,804	174,440
				192,244


Ibraimov Sanjar
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Ulambek Zainalov
Financial Manager
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**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240**

Special Account Statement

For the year, ended on December 31, 2010
(Amounts in tables are shown in USD)

Bank account number	1071043350001432
Bank	“Amanbank” OJSC RC
Bank location	Bishkek, the Kyrgyz Republic
Advance Agreement	Grant Q6240
Currency	USD

Part 1: Summary

Opening balance as of 01.01.10		14,221
Plus: Replenishment of account during the period	-	
Minus: Amount of eligible expenses paid in the current period	10,178	
Minus: Reimbursement of advance to WB	4,043	
Closing balance as of 31.12.2010		-
Variance		-

Part 2: Reconciliation

1	Opening balance as of 01.01.2010		14,221
2	Minus: previous variance	-	
3	Plus: Replenishment of account during the period	-	
4	Minus: Reimbursement to WB from Special account during the reporting period	4,043	
5	Actually unpaid advance amount		10,178
6	Special account Closing balance as of 31.12.10 transferred to the next period		-
7	Plus: Amount of eligible expenses paid during the period	10,178	
8	Minus: Received interests (if special account credited)		
9	Total		10,178
10	Variance (5) - (9)		-


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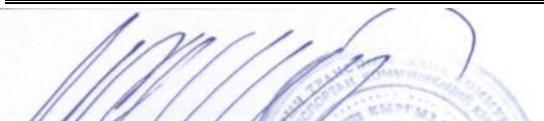
**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.H5200-KG**

Special Account Statement

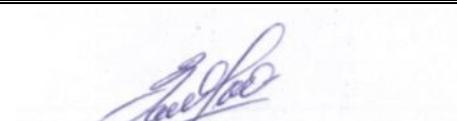
For the year, ended on December 31, 2010
(Amounts in tables are shown in USD)

Bank account number	1280091146299127
Bank	Kyrgyz Investment Credit Bank CJSC
Bank location	Bishkek, Kyrgyz Republic
Advance Agreement	Grant H5200-KG
Currency	USD

Part 1: Summary		
Initial advance		220,000
Plus: Replenishment of account during the period	192,244	
Minus: Amount of eligible expenses paid in current period	287,329	
		124,915
Closing balance as of 31.12.2010		124,915
Variance		-
Part 2: Reconciliation		
1	Opening balance as of 01.01.2010	-
2	Minus: previous variance	-
3	Plus: Replenishment of account during the period	412,244
4	Minus: Reimbursement to WB from Special account during the reporting period	-
5	Actually unpaid advance amount	412,244
6	Special account Closing balance as of 31.12.10 transferred to the next period	124,915
7	Plus: Amount of eligible expenses paid during the period	287,329
8	Minus: Received interests (if special account credited)	
9	Total	412,244
10	Variance (5) - (9)	-


Ibraimov Sanjar
 Director
 IPIG MTC KR




Ulanbek Zainalov
 Financial Manager
 IPIG



Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

1: Project Background

The Project is implemented in accordance with the Agreement on Financing “National Road Network Rehabilitation (Osh – Batken – Isfana)”, Loan No.4658-KG, Grant No.H5200-KG, signed between the Kyrgyz Republic and the International Development Association (hereinafter IDA) of 3 December 2010 and became effective on 26 February 2010.

The purpose of the Project comprises the following:

- (i) assistance in reduction of transport expenses and time period for going through Osh – Batken – Isfana corridor;
- (ii) traffic safety planning enhancement.

As the “National Road Network Rehabilitation (Osh – Batken – Isfana)” Project has come in force, on 26 February 2010 it was made advance re-financing, which expenditure was incurred in accordance with the “National Road Network Rehabilitation (Osh – Batken – Isfana)” Project Preparation Advance Agreement, Grant No.Q6240, signed on 10 November 2008 between the Kyrgyz Republic and the International Development Association (hereinafter IDA). In accordance with the Section 2.07 IDA General Conditions for loans and grants of 1 July 2005 (with the further changes, introduced before 15 October 2006, inclusive) the IDA on behalf of a Loan Party has withdrawn from the Loan Account the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account, and has cancelled the remaining unwithdrawn amount of the advance.

The “National Road Network Rehabilitation (Osh – Batken – Isfana)” Project comprises the following components:

Part A: Rehabilitation of Osh – Batken – Isfana transport corridor part

Performance of works and provision of consulting services for rehabilitation of Osh – Batken – Isfana transport corridor part, stretch of road is about 30 km.

Part B: Road Traffic safety planning

Provision of goods and consulting services for:

- (i) development and implementation beginning of the national road traffic safety planning program;
- (ii) preparation of pilot demonstration project on road traffic safety;
- (iii) enhancement of road traffic safety planning.

Part C: Management and Realization of the Project

Provision of goods and consulting services and training, coverage of Operating expenditure, including audit, for the purpose of coordination provision, implementation and management of the Project.

On 1 October 2010 the Kyrgyz Republic and the IDA signed an Agreement on additional financing, Loan No.4826-KG and Grant No.H619-KG, effective from 19 October 2010.

The purpose of the Additional financing of the Project comprises:

- (i) Repair and rehabilitation of road infrastructure in Osh and Jalal-Abad and in their vicinities;
- (ii) Creation of temporary working positions for performance of routine works;
- (iii) Efficiency increase of planned actions for road traffic safety assurance.

For the purpose of speedy implementation of Part A of the Project and enhancement of administration, the MT&C and Osh City Administration (Mayor’s Office) concluded a Cooperation Agreement of 29 October 2010, in accordance with the Agreement the Osh City Administration shall be presented through its representatives in the tender procedure concerning road parts, which are under the charge of the Osh City

“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation, Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

Administration, and copies of Supervision Consultant’s reports shall be submitted to the Osh City Administration. The Osh City Administration shall provide the office premises for the IPIU MT&C KR officers, as well as furniture and equipment, purchased for the office, will be transferred to the Osh City Administration after the Project completion in the future. Payments for contracts on works, services and goods will be effected with the approval made by the Osh City Administration. The IPIU shall prepare quarterly its reports of the works performed and submit them to the Osh City Administration.

The ministry of Transport and Communications of the Kyrgyz Republic is responsible for implementation of the Project.

The Investment Projects Implementation Unit (IPIU), created by the MT&C KR Order No.10-k/1 of 1 February 2010, through amalgamation of Project Implementation Units CAPEC Projects “Improvement of regional road corridor” with the PIU YTK CAPEC “Rehabilitation of Road Corridors Bishkek-Torugart and Southern Transport Corridor”. The IPIU duties comprise preparation and implementation of 14 projects, including the “National Road Network Rehabilitation (Osh – Batken – Isfana)” Project.

At the end of 2010 the staff involved into the implementation of the Project preparation “National Road Network Rehabilitation (Osh – Batken – Isfana)” made up 6 people, including IPIU Director, financial manager and procurement specialist, monitoring specialist, public relations specialist, and regional coordinator.

The IDA financing of the “National Road Network Rehabilitation (Osh – Batken – Isfana)” Project includes a loan in the amount of 8,800,000 SDR (equivalent of 13,750,000 USD at the rate of 1.5625 USD as at the date of Agreement conclusion) and Grant in the amount of 7,200,000 SDR (equivalent of 11,250,000 USD at the rate of 1.5625 USD as at the date of Agreement conclusion).

Eligible expenditure:

Category	Allocated loan amount in SDR	Allocated grant amount in SDR	% of expenses subject to financing
(1) Works for Part A of the Project	8,800,000	4,340,000	80%
(2) Goods, operating expenses and training for Parts B and C of the Project		855,513	90%
(3) Consulting services, including audit for Parts A, B and C of the Project		1,304,487	90%
(4) Repayment of Project Preparation Advance		700,000	The amount to be repaid in accordance with the Section 2.07 General Conditions
Total	8,800,000	7,200,000	

The IDA additional financing includes the Loan in the amount of 3,700,000 SDR (equivalent of 5,500,000 USD at the rate of 1.4865 USD as at the date of Agreement conclusion) and Grant in the amount of 3,000,000 SDR (equivalent of 4,500,000 USD at the rate of 1.4865 USD as at the date of Agreement conclusion), allocated on a category 1 “Works, Goods, Operating expenses, training and consulting expenses, including audit”. The IDA is financing 100% of expenses of Additional financing.

The date of completion of the “National Road Network Rehabilitation (Osh – Batken – Isfana)” Project is 30 June 2013, Additional financing – 31 December 2013.

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

A repayment schedule of Loan No.4658-KG envisages dates for repayment: 15 January and 15 July of each year, beginning from 15 January 2020 to 15 July 2029 at the rate of 1%, and beginning from 15 January 2030 to 15 July 2049 – at the rate of 2%.

A repayment schedule of Loan No.4826-KG envisages dates for repayment: 15 January and 15 July of each year, beginning from 15 January 2021 to 15 July 2030 at the rate of 1%, and from 15 January 2031 to 15 July 2050 – at the rate of 2%.

According to conditions envisaged by the Agreement on Financing, Loan No.4658-KG, Grant №H5200-KG, and Additional financing Loan No.4826-KG and Grant No.H619-KG, the Kyrgyz Republic shall pay commissions for reservation of unwithdrawn amount of financing at the rate of 0,5% per year, and for services on withdrawn balances at the rate of $\frac{3}{4}$ of 1% per year. Deadlines for payments are 15 January and 15 July of each year.

In accordance with the Minutes of Negotiations of the government of the Kyrgyz Republic with the World Bank of 9 September 2010, the payment of Grant funds will be effected before the payment of the Loan funds.

2. Accounting policy

Principles of financial statements presentation

These special-purpose financial statements were prepared on the basis of historical cost and combine the following basic accounting policies, which were consequently followed in all material respects in accordance with the International Public Sector Accounting Standards (IPSAS) and procedures on financial management regarding investing activities financed by the World Bank.

2.1. Accounting method

The accounting is maintained in accordance with the Operative Guidelines on the Project Financial Management, developed by MTC KR, and approved by the World Bank.

These special-purpose financial statements were prepared based on accounting cash method is as follows:

- Incomes are all funds, regardless of its source (IDA, Government of the Kyrgyz Republic, or other donors); deposited on special account in dollar equivalent, settlement account in the national currency and which are reflected as of receipt moment.
- Expenses are all funds, targeted at payment for works, goods and services and which are reflected in statement as of payment moment.

Reporting currency and currency of operations

These special-purpose financial statements are denominated in USD, which allows reconciliation between Project accounts and IDA records. IDA funds payments made in the national currency, as well as receipts of financing and payment for expenses of governmental share are translated into US dollars at the exchange rate of acquiring bank as at the date of transaction, including settlements with contractors. When making direct payments to the contractor in USD under the contract, which was concluded in KGS, it is used a fixed exchange rate – 46.0895 KGS for 1 US dollar. When direct payments are effected in KGS from the IDA share, it is used the official rate of the National Bank of the Kyrgyz Republic.

Results of exchange rate difference are included into the special-purpose financial statement in a separate item.

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

Other receipts

Cash assets, received from the sales of tender documents and interest income, received from interests accrued on balances of cash assets in commercial banks, are recognized as other receipts of the Project.

Project expenses

Expenditure on project implementation are made in accordance with the “IDA General for Loans and Grants” of 1 July 2005, (together with the further changes, introduced before 15 October 2006, inclusive) and include categories, envisaged in the Agreement of financing of the Project, are supported by source accounting documents (invoices, certificates, bills of work volume, cheques and others) and are kept in the IPIU office.

For expenditure of the Project funds an account replenishment procedure is used by means of submission of Statement of expenditures with indication of expenses by categories, envisaged in the Agreement of financing. Statements of expenditure are prepared based on source documentation supporting the expenditure of funds.

In accordance with the IPIU Statement of Expenditure procedure, the IPIU submits withdrawal applications according to the established form.

Withdrawal applications are used for the following purposes:

- Advance payments on special account;
- Reimbursement of payments, already incurred from advance amount;
- Direct payments.

Cash

Cash is presented by monetary funds in cash on hand and on settlement accounts in banks.

In accordance with the Agreement of financing for the purpose of payment process of loan funds to finance operating expenses, required for the Project implementation, the IPIU uses special accounts in the Kyrgyz Investment and Credit Bank CJSC and commercial bank “Amanbank” OJSC.

The Special account includes:

- Advance receipts
- Replenishments from the IDA;
- Payments substantiated by withdrawal applications.

Procurement of goods, works and services

Procurement of goods, works and services shall be carried out in accordance with Guidelines: Procurement under IBRD Loans and IDA Credits published in May 2004 and amendments introduced from time to time, and requirements, stipulated in the Agreement of financing of the Project.

The procurement of goods and works was implemented on the basis of the National quotation method and there were used formats of tender documents of the World Bank.

Procurement of consulting services

Procurement of consulting services was carried out in accordance with *Guidelines: Selection and Recruitment of Consultants by World Bank Borrowers* published by the World Bank in May 2004 and amendments introduced from time to time, and also rules stipulated in the Agreement of financing of the Project.

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

For procurement of international consultants’ services for implementation of Phase I of the Project (Preparation) concluded direct contracts with the consultant of Finnroad OY, who was approved by the World Bank.

For procurement of international consultants’ services for implementation of Phase II of the Project (Supervision) was carried out through the National bidding procedure and tender documents of the World Bank’s format.

For procurement of local consultant the Project concluded contracts awarded as a result of selection procedure based on consultant’s qualification degree.

Examination of taken decision on procurements by the World Bank

The World Bank preliminary considers those contracts which were indicated in a procurement plan. All the other contracts were subject to subsequent consideration by the World Bank.

Taxes

According to the Project Financing Agreement there were envisaged payments by categories, including taxes in accordance with the current legislation of the Kyrgyz Republic. Supplies of goods, works, and services are performed based on general bases in accordance with the requirements of tax and customs legislation of the Kyrgyz Republic. Suppliers and contractors are responsible for the VAT payments.

Deductions and income tax payments from remunerations paid to the international consultant were effected at the rate of 20% in 2008 and at the rate of 10% - in 2009. Remuneration to the international consultant was paid less taxes.

Deductions and income tax payments from remunerations paid to the foreign consultants are effected at the rate of 10%. Remunerations paid to the foreign consultant are paid less the tax.

Deductions and income tax payments and insurance contributions to the Social Fund from remunerations paid to the local hired employees, such remunerations are recognized as incomes of local hired employees and which are not funds of the Project, were made by the IPIU in accordance with the requirements and rates established by the current legislation of the Kyrgyz Republic. Remunerations to the local employees were paid less taxes and deductions to the Social Fund.

The IPIU transferred insurance contributions from the employer at the rate of 17.25% from co-financing funds of the Republican budget to the Social Fund of the Kyrgyz Republic.

Fixed assets

Fixed assets, purchased by the Project at the expense of Grant No.5200-KG and used for the IPIU office, are evaluated at purchase cost and reflected as expenses by a Category 2 “Goods, operating expenses and training for Part B and C”.

2.2. Internal Control System

Project Budget

- The Project budget is detailed enough to be compared with actual data of the Project.
- To ensure efficiency, the information about operational results is timely analyzed.

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

Use of Computerized Program

The IPIU uses the computerized accounting software: ‘Accounting- 1C’, which forms required accounting books: Cash books, special bank account in USD, and transit account in KGS, interest accounts, bank accounts for accounting of Government’s share, and tender accounts.

The access to the accounting software program is restricted by a special list: which comprises Financial Manager and Financial Manager Assistant. Each user has its individual password to the system. The Financial Manager has got a complete set of rights to access the software, i.e. data entry, review, adjustment, confirmation of processed transactions and control over the deleted data. The Assistant has a right to enter information.

Cash assets

1. Reconciliation of bank accounts. Balances on accounts of cash assets on accounting data are periodically reconciled by comparing the bank statements on a monthly basis.
2. Any receipt (payment) in cash is recorded by consecutively numbered cash and receipt vouchers. The cash account is daily calculated.
3. For accounting of cash on hand it is used the computerized cash book, it is not allowed introducing changes into the book without a permit of the Financial Manager.
4. Reconciliation of grant account is periodically made based on the World Bank’s bank statements.
5. Daily cash turnover does not exceed 2,000 USD, and monthly turnover is 10,000 USD. Cash assets withdrawn from the account in the bank are spent during that day. Therefore, the cash is not stored.
6. Cash is used only on current expenses, it is not allowed using the cash for settlements with suppliers and contractors.

Procurement and expending funds

Expenditures are accounted on respective accounts and only on approved purposes according to the Project budget lines.

Expenses are approved by the IPIU directors in accordance with contracts, bills and receipts.

In order to properly reflect expenses in the accounting records, the following documents are collected:

- Invoices with receipts to credit orders;
- Receipts to credit orders;
- Sales receipts bearing a seal “Paid to petty cash fund”;
- Cash vouchers (if Director approved the amount).

When an employee is on a business trip the Project guarantees the reimbursement of travel expenses to and from, expenses on accommodation (hotel expenses) and Per Diem in accordance with norms established by the Government of the Kyrgyz Republic.

Salary

- The Assistant maintains records of working hours of Project staff. Records of working hours are approved by the IPIU director.
- Accounting records are stored in separate files with definite right of access.
- All changes in salaries and pay rates are approved by the Project Manager and properly documented.

Fixed assets

The registers of fixed assets, purchased at the expenses of Grant funds, are maintained by the IPIU for the purpose of their integrity and control. In the registers there were registered assets with useful life more than one

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

year, and which are used for the purpose of the Project implementation. All fixed assets have identification numbers. Annual inventory of fixed assets is conducted in the IPIU.

2. Cash Assets

	31.12.10		31.12.09	
	KGS	USD (Equivalent)	KGS	USD (Equivalent)
Special account, Grant Q6240	-	-		14,221
Interest account	-	-		295
Tender account	-	-		2,307
Special account, Grant H5200-KG	-	124,915		
Co-financing account of GKR	-	501		
Tender account	32,000	682		
Interest account	-	2,022		
Total Grant cash		128,120		16,823

3. Financing

	2010	Cumulative total
Grant Q6240		
Initial advance		50,000
Replenishment	-	18,344
Direct payment	165,333	509,778
Repayment of advance	(4,043)	(4,043)
Total IDA	161,290	574,079
Government KR	41,738	133,491
Total Project financing, Grant Q6240:	203,028	707,570
Grant H5200-KG		
Initial advance	220,000	220,000
Replenishment	192,244	192,244
Direct payment	2,636,240	2,636,240
Total IDA	3,048,483	3,048,483
Government KR	676,703	676,703
Total Project financing, Grant H5200-KG:	3,725,186	3,725,186

5. Consulting services, including training and audit (Grant Q6240)

In accordance with the Advance Agreement on the Project Preparation the payment for consulting services were made at the rate of 80% at the expense of the IDA funds, and 20% - at the expense of the funds of the KR Government.

“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation, Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG, Grant No.H619-KG

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

Consulting services comprise updating of Feasibility study, detailed technical design, assistance provided for drawing up the tender documents and procurements.

A Contract on consulting services to the amount of 1,275,000 USD was concluded between MTC and Finnroad OY, Helsinki, Finland on 14.11.2008 and approved by the IDA.

Invoice No.	Amount	Taxes	Paid amount	Including:	
				80% IDA	20% GKR
3		188	188		188
4	62,000	6,889	68,889	55,111	13,778
5	62,000	6,889	68,889	55,111	13,778
6	62,000	6,889	68,889	55,111	13,778
Total for 2010	186,000	20,667	206,855	165,333	41,522
Cumulative total	558,000	79,222	637,223	509,778	127,445

6. Operating expenses (Grant Q6240)

In accordance with the Advance Agreement on the Project Preparation, the operating expenses were paid at the rate of 100% at the expense of the IDA funds.

	2010	Cumulative total
Goods for IPIU	3,932	5,327
Labor payments	3,097	22,315
Communal expenses	888	3,385
Stationeries	829	1,747
Social insurance deductions	534	3,808
Transport expenses	400	4,998
Communication services	394	1,814
Repair and technical maintenance of equipment	2	887
Travel expenses		260
Equipment for PIU		1,395
Other expenses	102	3,385
Total	10,178	49,321

7. Works for Part A of the Project (Grant No.H5200-KG)

According to the Agreement of Project financing 80% of expenditure under the category is paid at the expense of the IDA funds, and 20% - at the expense of the Government of the Kyrgyz Republic.

The contract on construction roads and bridges was concluded between the MT&C KRT and the Company Xinjiang Beixin Road & Bridge Construction Co. Ltd on 18 August 2010, it was approved by the IDA in the amount of 990,416,274.98 KGS. Under conditions of the contract volumes of the works performed were paid in USD at the rate of 70%, and in KGS – 30%.

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG,
Grant No.H619-KG**

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

Certificate No.	Date	Execution period	Amount of execution, KGS	Amount of execution, USD	Paid					Total paid
					IDA 80%		GKR 20%			
					In KGS	Equivalent in USD	In USD	In KGS	Equivalent in USD	
1	14.09.10г.	аванс	148,562,441	3,211,331	14,856,244	317,897	2,256,343	29,712,488	637,092	3,211,331

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

**8. Goods, operating expenses and training for Part B and C of the Project
(Grant No.H5200-KG)**

According to the Agreement of Project financing 90% of expenditure under the category is paid at the expense of the IDA funds, and 10% - at the expense of the Government of the Kyrgyz Republic.

	IDA	GKR	Total
Labor payments	13,970	1,476	15,446
Paid to suppliers for services	3,000	333	3,333
Travel expenses	2,554	282	2,836
Social insurance deductions	2,409	265	2,674
Ads, insertions	2,417	268	2,685
Communal expenses	1,796	233	2,029
Transport expenses	1,298	144	1,442
Communication services	1,244	138	1,382
Security service	1,067	119	1,186
Other expenses	892	66	958
Stationeries	745	83	828
Repair and technical maintenance of equipment	582	65	647
Total	31,974	3,472	35,446

**9. Consulting services, including audit for Parts A, B and C of the Project
(Grant No.H5200-KG)**

According to the Agreement of Project financing 90% of expenditure under the category is paid at the expense of the IDA funds, and 10% - at the expense of the Government of the Kyrgyz Republic.

In 2010 there were performed settlements with the company Finnroad OY, Helsinki, Finland, for contractual consulting services; the contract was concluded within the framework of Project Preparation Grant Q6240.

The consulting services comprise services of Construction supervision in the site Pul'gon-Burgondu (32 km) and development of detailed designs.

The contract on consulting services was concluded between the MT&C and Consult GmbH, Germany, jointly with the enterprise BCL Associates Ltd, Bangladesh, and *Kyrgyzdortransproekt* on 17.08.2010, it was approved by the IDA in the amount of 1,413,555.55 USD.

Invoice No.	Period	Execution amount	Taxes	Paid amount	90% IDA	10% GKR
Finnroad OY, Helsinki, Finland						
7		31,000	3,444	34,444	31,000	3 444
8		31,000	3,445	34,445	31,000	3 445
Total Finnroad OY, Helsinki, Finland		62 000	6,889	68,889	62,000	6,889
Kocks Consult GmbH, Germany						
	advance	174,440	19,382	193,822	174,440	19 382
	September-October					
1	2010	80,915	8,991	89,906	80,915	8 991
Total Kocks Consult GmbH, Germany		255 355	28,373	283,728	255,355	28,373
Total consulting services		317 355	35,262	352,617	317,355	35,262

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

**10. Project efficiency,
Grant Q6240**

Application of IDA Funds

Category	Total budget	Application of Grant funds		Balance of financing
		For the reporting period	Cumulative from the project beginning	
Goods	15,000	-	14,980	20
Consulting services, including training and audit	1,030,000	165,333	509,778	520,222
Operating expenses	50,000	10,178	49,321	679
Total	1,095,000	175,511	574,079	520,921

Application of the Kyrgyz Republic Government's Funds

Category	Total budget	Application of Grant funds		Balance of financing
		For the reporting period	Cumulative from the project beginning	
Goods	3,750	-	3,745	5
Consulting services, including training and audit	88,172	41,522	127,445	(39,273)
Total	91,922	41,522	131,190	(39,268)

Funds of Grant Q6240 were not used in full by the following reasons:

(i) The feasibility study and engineering design must have been updated, based on existing documents, in particular, on documents and feasibility study on the road Osh – Isfana in the Kyrgyz Republic (July, 2001), performed by Kyrgyzdortransproekt Design Institute (KDTP) in cooperation with the Finnroad and Rofton International, financed by TACIS. Though, taking into consideration the missed deadline after initial study performance, and also on demand of the donor the format of Feasibility study was changed, and the need has arisen to perform the whole work on design estimates and Feasibility study all over again.

(ii) The works on feasibility study started later the earlier set date and winter period limited time for performance of exploration works.

(iii) The contract concluded with the consultant of Finnroad OY was terminated, Phase II was left unfulfilled.

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG,
Grant No.H619-KG**

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

11. Project Efficiency, Grant No.H5200-KG

Application of IDA funds

	Total budget of Grant No.H5200-KG		Application of Grant funds				Остаток финансирования	
	In SDR	In USD	In SDR		In USD		In SDR	In USD
			For the reporting period	Cumulative total from the project beginning	For the reporting period	Cumulative total from the project beginning		
Works for Part A of the Project	4,340,000	6,781,250	1,637,497	1,637,497	2,574,240	2,574,240	2,702,503	4,207,010
Goods, operating expenses and training for Parts B and C of the Project	855,513	1,336,739	20,596	20,596	31,974	31,974	834,917	1,304,765
Consulting services, including audit for Parts A, B and C of the Project	1,304,487	2,038,261	204,616	204,616	317,355	317,355	1,099,871	1,720,906
Repayment of Project Preparation Advance	700,000	1,093,750	376,450	376,450	576,259	576,259	323,550	517,491
Total	7,200,000	11,250,000	2,239,160	2,239,160	3,499,828	3,499,828	4,637,291	7,232,681

Application of the Kyrgyz Republic Government's Funds

	Application of the Kyrgyz Republic Government's Funds in USD			Balance of financing
	Budget in USD	For the reporting period	Cumulative total from the project beginning	
Works for Part A of the Project	1,695,313	637,091	637,091	1,058,222
Goods, operating expenses and training for Parts B and C of the Project	148,527	3,472	3,472	145,055
Consulting services, including audit for Parts A, B and C of the Project	226,473	35,262	35,262	191,211
Repayment of Project Preparation Advance	261,250	131,190	131,190	130,060
Total	2,331,563	807,015	807,015	1,524,548

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,
Grant No.Q6240, Grant No.H5200-KG, Loan No.4658-KG, Additional financing Loan No.4826-KG,
Grant No.H619-KG**

Notes to Special-purpose Financial Statements

For the year, ended on December 31, 2010

(Amounts in tables are shown in USD)

12. Events after the reporting date

From the date of presentation and to the date of approval of these special-purpose financial statements, no events occurred which would affect amounts in the provided special-purpose financial statements.



Ibraimov Sanjar
Director
IPIG MTC KR





Ulanbek Zainalov
Financial Manager
IPIG