

*Auditing & Consulting Company*

**MARKA  AUDIT  
BISHKEK**

**“NATIONAL ROAD NETWORK REHABILITATION  
(OSH – BATKEN – ISFANA)” PROJECT PREPARATION  
GRANT NO.Q6240**

**SPECIAL PURPOSE FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR’S REPORT  
FOR THE PERIOD COVERING 10 NOVEMBER 2008 TO  
31 DECEMBER 2009**

**Bishkek 2011**

## TABLE OF CONTENTS

	<b>Page</b>
<b>Auditor's report (auditor's opinion)</b>	<b>3</b>
<b>Management's responsibility for preparation and approval of annual Special-purpose financial statements</b>	<b>5</b>
<b>Special-purpose Financial Statements for the period covering 10 November 2008 to 31 December 2009:</b>	
Special-purpose Balance Sheet	6
Statement of Sources and Application of Funds	7
Detailed Statement of Expenditure by components	8
Statement of Disbursed Funds	9
Special Account Statement	10
Notes to Special-purpose Financial Statements	12-20

**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**  
**For the period covering 10 November 2008 no 31 December 2009**

**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 Preparation, Grant Q6240, financed by the International Development Association, for the period covering 10 November 2008 to 31 December 2009, including the special-purpose Balance Sheet at 31 December 2008 and 31 December 2009, Statement on Sources and Application of Funds, Detailed Statement of Expenditure by components, Statement of Disbursed Funds, Special Account Statement for the years then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's responsibility for the 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 Preparation, Grant Q6240, for the period covering 10 November 2008 to 31 December 2009, 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 Agreement on advance payment on preparation of the Project Grant No.Q6240 dated 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 Agreement on advance payment on preparation of the Project 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), established by the Advance Payment Agreement on project preparation No.Q6240 dated 10 November 2008.

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

### **MARKA AUDIT BISHKEK LTD.**

*License No.0018 (GC) of September 06, 2004*

*Registration certificate No.4850-3301-000*

*by the Kyrgyz Republic Ministry of Justice*

*of November 08, 2007 Professor Zima Street 38 a,*

*Bishkek, Kyrgyz Republic Telephone/fax: (312) 32 05 75*

**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 PERIOD COVERING 10 NOVEMBER 2008 TO 31 DECEMBER 2009**

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, for the period covering 10 November 2008 to 31 December 2009, in accordance with the International Public Sector Accounting Standards for (IPSAS) and requirements envisaged in the Advance Payment 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 from 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 period covering 10 November 2008 to 31 December 2009 were approved by Project Management on 24 May 2011.

On behalf of the Project Management:



**Ibraimov Sanjar**  
**Director**  
**IPIG MTC KR**

**24 May 2011**

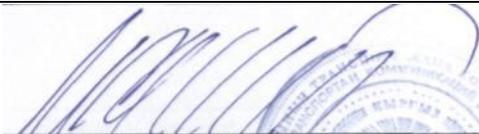
**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

**Special-purpose Balance Sheet**

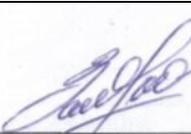
At 31 December 2008, 31 December 2009

(Amounts in tables are shown in USD)

	Note	31 December 2009	31 December 2008
<b>ASSETS</b>			
Project Cash assets	3	16,823	47,268
Project expenses, Grant Q6240	5-7	488,236	126,750
Other expenses (services, taxes)		1,182	6
Exchange rates difference		2,092	
<b>Total assets</b>		<b>508,333</b>	<b>174,024</b>
<b>Liabilities</b>			
IDA financing, Project Grant Q6240	4	412,789	174,000
Co-financing of the Government of the Kyrgyz Republic, Project Grant Q6240	4	91,753	-
Other receipts on Project Grant Q6240 (interests from sales of tender documents)		3,791	24
<b>Total liabilities</b>		<b>508,333</b>	<b>174,024</b>

  
**Ibraimov Sanjar**  
 Director  
 IPIG MTC KR



  
**Ulanbek Zainalov**  
 Financial Manager  
 IPIG



**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

**Statement of Sources and Application of Funds**

For the period covering 10 November 2008 to 31 December 2009

(Amounts in tables are shown in USD)

	Note	Actually paid			Budget			Variances		
		2009	from 10.11.08 to 31.12.08	From the project beginning	2009	from 10.11.08 to 31.12.08	From the project beginning	2009	from 10.11.08 to 31.12.08	From the project beginning
<b>Opening balance</b>	4	47,268	-							
<b>Sources of financing</b>										
IDA	4	238,789	174,000	412,789						
Government of KR	4	91,753	-	91,753						
<b>Total financing</b>		<b>330,542</b>	<b>174,000</b>	<b>504,542</b>						
Other receipts		3,767	24	3,791						
<b>Total receipts</b>		<b>334,309</b>	<b>174,024</b>	<b>508,333</b>						
<b>Project expenses:</b>										
Goods	5	18,725	-	18,725	18,750	-	18,750	25	-	25
IDA		14,980	-	14,980	15,000	-	15,000	20	-	20
Government of KR		3,745	-	3,745	3,750	-	3,750	5	-	5
Consulting services, including training and audit	6	306,368	124,000	430,368	704,772	124,000	828,772	398,404	-	398,404
IDA		220,444	124,000	344,444	616,600	124,000	740,600	396,156	-	396,156
Government of KR		85,924	-	85,924	88,172	-	88,172	2,248	-	2 248
Operating expenses	7	36,393	2,750	39,143	-	44,560	44,560	(36,393)	41,810	5,417
IDA		36,393	2,750	39,143	-	44,560	44,560	(36,393)	41,810	5 417
<b>Total IDA</b>		<b>271,817</b>	<b>126,750</b>	<b>398,567</b>	<b>631,600</b>	<b>168,560</b>	<b>800,160</b>	<b>359,783</b>	<b>41,810</b>	<b>401,593</b>
<b>Total Government of KR</b>		<b>89,669</b>	<b>-</b>	<b>89,669</b>	<b>91,922</b>	<b>-</b>	<b>91,922</b>	<b>2,253</b>	<b>-</b>	<b>2,253</b>
<b>Total expenditure of Project Grant Q6240:</b>		<b>361,486</b>	<b>126,750</b>	<b>488,236</b>	<b>723,522</b>	<b>168,560</b>	<b>892,082</b>	<b>362,036</b>	<b>41,810</b>	<b>403,846</b>
		1,176	6	1,182						
Other expenses (services, taxes)										
Results of exchange rate difference		2,092		2,092						
<b>Closing balance</b>	3	<b>16,823</b>	<b>47,268</b>							

**Ibraimov Sanjar**  
Director  
IPIG MTC KR



**Ulanbek Zainalov**  
Financial Manager  
IPIG



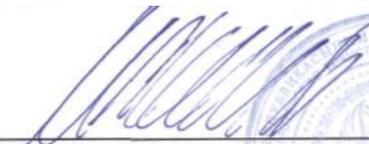
**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

**Detailed statement of Project Expenditure by Components**

For the period covering 10 November 2008 to 31 December 2009

(Amounts in tables are shown in USD)

	Actually paid			Budget			Variances		
	2009	from 10.11.08 to 31.12.08	From the project beginning	2009	from 10.11.08 to 31.12.08	From the project beginning	2009	from 10.11.08 to 31.12.08	From the project beginning
<b>Grant Q6240</b>									
<b>1. Additional feasibility studies</b>									
1. Goods	18,725	-	18,725	18,750	-	18,750	25	-	25
2. Services of consultants, including audit and training	306,368	124,000	430,368	704,772	124,000	828,772	398,404	-	398,404
	<b>325,093</b>	<b>124,000</b>	<b>449,093</b>	<b>723,522</b>	<b>124,000</b>	<b>847,522</b>	<b>398,429</b>	<b>-</b>	<b>398,429</b>
<b>2. Renewal of detailed designing</b>	-	-	-	-	-	-	-	-	-
<b>3. Capacity building in support of Project implementation</b>	36,393	2,750	39,143	0	44,560	44,560	(36,393)	41,810	5,417
<b>Total expenditures</b>	<b>361,486</b>	<b>126,750</b>	<b>488,236</b>	<b>723,522</b>	<b>168,560</b>	<b>892,082</b>	<b>362,036</b>	<b>41,810</b>	<b>403,846</b>

  
Ibraimov Sanjar  
Director  
IPIG MTC KR



  
Ulanbek Zainalov  
Financial Manager  
IPIG



**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

**Statement of Disbursed Funds**

For the period covering 10 November 2008 to 31 December 2009

(Amounts in tables are shown in USD)

Date	W/a number	Payments category			Total	Reimbursed on special account	Credited as advance
		Goods	Services of consultants, including audit and training	Operating expenses			
07.06.2009г.	3	-	-	18,344	18,344	18,344	-
10.11.2009г.	6	14,980	-	11,478	26,458	-	26,458
10.12.2009г.	7			6,636	6,636		6,636
		<b>14,980</b>	<b>0</b>	<b>36,458</b>	<b>51,438</b>	<b>18,344</b>	<b>33,094</b>

  
**Ibraimov Sanjar**  
*Director*  
**IPIG MTC KR**



  
**Ulanbek Zainalov**  
*Financial Manager*  
**IPIG**



**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

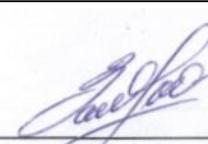
**Special Account Statement**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

<b>Bank account number</b>	<b>1071043350001432</b>	
<b>Bank</b>	<b>“Amanbank” OJSC RC</b>	
<b>Bank location</b>	<b>Bishkek, the Kyrgyz Republic</b>	
<b>Advance Agreement</b>	<b>Grant Q6240</b>	
<b>Currency</b>	<b>USD</b>	
<b>Part 1: Summary</b>		
Opening balance as of 10.11.2008		-
Initial advance	50,000	
Minus: Amount of eligible expenses paid in the current period	2,750	
		<b>47,250</b>
<b>Closing balance as of 31.12.2008</b>		<b>47,250</b>
<b>Variance</b>		-
<b>Part 2: Reconciliation</b>		
1 Opening balance as of 10.11.2008		-
2 Minus: previous variance	-	
3 Plus: Replenishment of account during the period	50,000	
4 Minus: Reimbursement to WB from Special account during the reporting period		
5 Actually unpaid advance amount		<b>50,000</b>
6 Special account Closing balance as of 31.12.08 transferred to the next period		47,250
7 Plus: Amount of acceptable expenses paid during the period	2,750	
8 Minus: Received interests (if special account credited)		
9 <b>Total</b>		<b>50,000</b>
10 Variance (5) - (9)		-

  
**Ibraimov Sanjar**  
Director  
IPIG MTC KR



  
**Ulanbek Zainalov**  
Financial Manager  
IPIG



**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

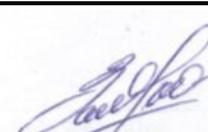
**Special Account Statement**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

<b>Bank account number</b>	<b>1071043350001432</b>	
<b>Bank</b>	<b>“Amanbank” OJSC RC</b>	
<b>Bank location</b>	<b>Bishkek, the Kyrgyz Republic</b>	
<b>Advance Agreement</b>	<b>Grant Q6240</b>	
<b>Currency</b>	<b>USD</b>	
<b>Part 1: Summary</b>		
Opening balance as of 01.01.2009		47,250
Plus: Replenishment of account during the period	18,344	
Minus: Amount of eligible expenses paid in current period	51,373	
		<b>14,221</b>
<b>Closing balance as of 31.12.2009</b>		<b>14,221</b>
<b>Variance</b>		<b>-</b>
<b>Part 2: Reconciliation</b>		
1 Opening balance as of 01.01.2009		47,250
2 Minus: previous variance	-	
3 Plus: Replenishment of account during the period	18,344	
4 Minus: Reimbursement to WB from Special account during the reporting period		
5 Actually unpaid advance amount		<b>65,594</b>
6 Special account Closing balance as of 31.12.09 transferred to the next period		14,221
7 Plus: Amount of acceptable expenses paid during the period	51,373	
8 Minus: Received interests (if special account credited)		
9 <b>Total</b>		<b>65,594</b>
10 Variance (5) - (9)		<b>-</b>

  
**Ibraimov Sanjar**  
*Director*  
**IPIG MTC KR**



  
**Ulanbek Zainalov**  
*Financial Manager*  
**IPIG**



**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

---

**1: Project Background**

The Project is implemented in accordance with the Advance Agreement on the Project preparation “National Road Network Rehabilitation (Osh – Batken – Isfana)”, Grant No.6240, signed by the Kyrgyz Republic and the International Development Association (hereinafter IDA) on 10 November 2008.

The World Bank provides the advance in the amount not exceeding USD 1,095,000, in accordance with the “Standard conditions for advances provided by the World Bank out of the funds of its Project Preparation Program” dated 15 January 2008 and “Guidelines on prevention and fighting with fraudulent activities and corruption in projects financed through EBRD loans and credits and grants provided by the IDA”, dated 15 October 2006.

The purpose of the Advance is to realize measures, aimed at assistance in the project preparation, intended for improvement of reliable a roundabout way in Batken Oblast, which will not go through Uzbek and Tajik enclaves, and to provide alternative transport route for potential transit traffic back and forth Tajikistan.

**Grant No.Q6240 comprises the following components:**

**Part I: Additional Feasibility studies**

- (i) study of available data, analysis and information related to the Project;
- (ii) researches and assessments of road traffic;
- (iii) study of existing road networks for assessment of their conditions and road traffic capacity taking into consideration predictable road traffic;
- (iv) assessment of different needs in developing of road access in Batken Oblast and determination of alternative routes for motor traffic;
- (v) assessment of environmental impact;
- (vi) economic analysis of updated data about expenditures;
- (vii) preliminary analysis and collection of respective engineering and technical data;
- (viii) planning of land allotment together with obtaining a permit on construction of the road.

**Part II: Updating the detailed designing**

- (i) carrying out respective separate studies and researches of additional information and data for development of the road;
- (ii) carrying out a detailed engineering design on the road development;
- (iii) examination of technical conditions of the road with the purpose to assess its needs in repair and improvement;
- (iv) examination of design estimates concerning traffic safety with regard to the road development;
- (v) road protracting;
- (vi) drawing up operative plans of operation and technical maintenance of the road;
- (vii) drawing up the expenditure estimate on the road development;
- (viii) drawing up the project implementation schedule.

**Part III: Capacity building in support of Project implementation**

The capacity building through providing training, goods and technical assistance to the Ministry of Transport and Communications of the Kyrgyz Republic to support its affords on implementation of the Project, as well as on carrying out audits, monitoring and assessment of the activities.

The Ministry of Transport and Communications of the Kyrgyz Republic (hereinafter MT&C) is responsible for implementation of the Project.

**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

The Investment Projects Implementation Unit (IPIU), established by the Order No.10k/1 dated 1 February 2010 of the MTC KR, through amalgamation of PIU 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 2009 the staff involved into the implementation of the Project preparation “National Road Network Rehabilitation (Osh – Batken – Isfana)” made up 3 people, including IPIU Director, financial manager and procurement specialist.

The paid advance amount is allocated on the following categories:

<b>Category</b>	<b>Amount in USD</b>	<b>% expenses to be financed</b>
(1) Goods	15,000	80%
(2) Consulting services, including training and audit	1,030,000	100% expenses in national currency.валюте, 80% expenses in foreign currency
(3) Operating expenses	50,000	100%
	<b>1,095,000</b>	

The initial date of re-financing of the Advance is established on 30 June 2009. Later, by a letter dated 3 March 2010 and signed by Poger Robinson, Head of World Bank in the Kyrgyz Republic, the term for re-financing was transferred on 26 February 2010 in connection with the fact that the “National Road Network Rehabilitation (Osh – Batken – Isfana)” Project came into force.

Under conditions envisaged by the Advance Agreement, the Kyrgyz Republic effects payments for services at the rate of ¾ or 1% per year on a balance of received funds. The payment for services starts from the moment when the Advance funds are received.

## **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 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.

**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

---

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

**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 “Standard conditions for advances provided by the World Bank out of the funds of its Project Preparation Program” dated 15 January 2008 and include categories, envisaged in the Advance Agreement on the Project Preparation, 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 Grant Agreement. 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 to the IDA 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 Advance Agreement in order to speed up the process of payment of loan funds to assure efficient financing of the Project’s expenses, required for its implementation, the IPIU uses special accounts in the commercial bank “Amanbank” OJSC.

The Special account includes:

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

**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

---

***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 Advance Agreement on the Project preparation of 10 November 2008.

Formats of tender documents of the IDA are used for procurement of goods. The procurement procedures were 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 Advance Agreement on the Project preparation of 10 November 2008.

For procurement of international consultant the Project concluded direct contracts with consultants, who were approved by the World Bank.

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 advance payment on the Project preparation there were envisaged payments by categories, including taxes in accordance with the current 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 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.

Before 01 July 2009 the IPIU transferred insurance contributions from the employer at the rate of 19%, and starting from 1 July 2009 – 17.25% from co-financing funds of the Republican budget to the Social Fund of the Kyrgyz Republic.

**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

---

**Fixed assets**

Fixed assets, purchased at the expense of the Project’s funds for the IPIU office, are evaluated at purchase cost and reflected as expenses by a Category 1 “Goods” (equipment for the consultant) and Category 3 “Operating expenses” (equipment for PIU).

**Repayment of the Advance**

In accordance with the Section 2.07 IDA General Conditions for loans and grants of 1 July 2005 (with the following changes, introduced before 15 October 2006, inclusive): “If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the IDA or the Bank (“Preparation Advance”), the IDA shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date 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 to pay all accrued and unpaid charges, if any, on the advance as at such date. The IDA shall pay the amount so withdrawn to itself or the Borrower, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance”.

**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.

**Use of Computerized Program**

The IPIU uses the computerized accounting software: ‘Accounting’, 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 data.

**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, storage of cash is not made.
6. Cash is used only on current expenses, it is not allowed using the cash for settlements with suppliers and contractors.

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

---

**Procurement and expending funds**

Expenditures are entered into the cash flow registers 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;
- Payment slips;
- 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 submitted documents of established forms and norms established by the legislation 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 are maintained by the IPIU for the purpose of their integrity and control. In the registers on tangible assets there were registered assets with useful life more than one year, and which are used in for the purpose of the Project implementation. Fixed assets have identification numbers. Annual inventory of fixed assets is conducted in the IPIU.

**3. Cash Assets**

	<b>31.12.09</b>	<b>31.12.08</b>
Special account, Grant Q6240	14,221	47,250
Interest account	295	18
Tender account	2,307	
<b>Total Grant funds</b>	<b>16,823</b>	<b>47,268</b>

**4. Financing**

	<b>2009</b>	<b>from 10.11.2008 to 31.12.2008</b>	<b>Cumulative total</b>
<b>Grant Q6240</b>			
<b>IDA</b>			
Initial advance		50,000	50,000
Replenishment	18,344		18,344

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

	2009	from 10.11.2008 to 31.12.2008	Cumulative total
Direct payment	220,445	124,000	344,445
<b>Total IDA</b>	<b>238,789</b>	<b>174,000</b>	<b>412,789</b>
Government of KR	91,753		91,753
<b>Total financing</b>	<b>330,542</b>	<b>174,000</b>	<b>504,542</b>

**5. Goods**

In accordance with the Advance Agreement on the Project preparation in the reporting period the payment for goods was made at the rate of 80% at the expenses of IDA funds, and 20% - at the expense of the government of the Kyrgyz Republic.

Suppliers	2009	Cumulativ e total	Including:	
			80% IDA	20% GKR
Computer equipment (Contract “Emerek Group” NRRP OE-C1) LLC	18,725	18,725	14,980	3,745

Purchased equipment is used by the IPIU for the Project’s purposes.

**6. Consulting services, including training and audit**

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

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
1 (advance)	124,000		124,000	124,000	
<b>Total for the period from 10.11.2008 to 31.12.2008</b>	<b>124,000</b>		<b>124,000</b>	<b>124,000</b>	
1 (advance)		31,000	31,000		31,000
2	124,000	13,778	137,778	110,222	27,556
3	124,000	13,590	137,590	110,222	27,368
<b>Total for 2009</b>	<b>248,000</b>	<b>58,368</b>	<b>306,368</b>	<b>220,444</b>	<b>85,924</b>
<b>Cumulative Total</b>	<b>372,000</b>	<b>58,368</b>	<b>430,368</b>	<b>344,444</b>	<b>85,924</b>

**“National Road Network Rehabilitation (Osh - Batken - Isfana) Project Preparation,  
Grant No.Q6240**

**Notes to Special-purpose Financial Statements**

For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

**7. Operating expenses**

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.

	2009	from 10.11.2008 to 31.12.2008	Cumulative total
Labor payments expenses	16,906	1,980	18,886
Transport expenses	3,878	720	4,598
Social insurance deductions	3,606		3,606
Communal expenses	2,497		2,497
Communications	1,420		1,420
Goods for IPIU	1,395		1,395
Stationeries	917		917
Repair and technical maintenance of equipment	885		885
Travel expenses	260		260
Equipment for PIU	1,395		1,395
Other expenses	3,234	50	3,284
<b>Total</b>	<b>36,393</b>	<b>2,750</b>	<b>39,143</b>

**8. Project efficiency**

**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	14,980	20
Consulting services, including training and audit	1,030,000	344,444	344,444	685,556
Operating expenses	50,000	39,143	39,143	10,857
<b>Total</b>	<b>1,095,000</b>	<b>398,567</b>	<b>398,567</b>	<b>696,433</b>

**Application of the Kyrgyz Republic Government's Funds**

Category	Cumulative total	Application of the Kyrgyz Republic Government's Funds		Balance of financing
		For the reporting period	Cumulative from the project beginning	
Goods	3,750	3,745	3,745	5
Consulting services, including training and audit	88,172	85,924	85,924	2,248
<b>Total</b>	<b>91,922</b>	<b>89,669</b>	<b>89,669</b>	<b>2,253</b>

**Notes to Special-purpose Financial Statements**

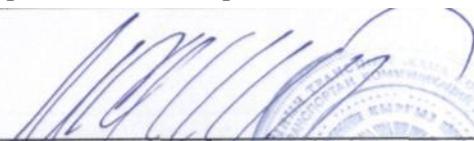
For the period covering 10 November 2008 to 31 December 2009  
(Amounts in tables are shown in USD)

---

Initial terms for Project Preparation period established by the Advance Agreement dated 10 November 2008 was extended on 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.

  
**Ibraimov Sanjar**  
*Director*  
**IPIG MTC KR**



  
**Ulanbek Zainalov**  
*Financial Manager*  
**IPIG**