

**SPF-FUNDED BUILDING CAPACITY FOR EFFECTIVE LOCAL
GOVERNANCE PROJECT**

SPF GRANT NO. TF018720

IMPLEMENTED BY COMMUNITY DEVELOPMENT AND INVESTMENT AGENCY

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the period from 19 March 2015 to 31 December 2015

**BISHKEK
May 2016**

SPF-FUNDED BUILDING CAPACITY FOR EFFECTIVE LOCAL GOVERNANCE PROJECT

SPF GRANT NO. TF018720

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE PERIOD FROM 19 MARCH 2015 TO 31 DECEMBER 2015

The management of the Community Development and Investment Agency (hereinafter: ARIS) is responsible for the preparation of the special purpose financial statements of "SPF-funded Building Capacity for Effective Local Governance Project" (hereafter: the Project) financed by Letter Agreement SPF Grant No. TF018720 that present fairly the Project's cash receipts and payments, expenditures per components, summary reports and SOEs, and designated accounts movements for the period from 19 March 2015 to 31 December 2015, in compliance with the International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting" (IPSAS-Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC) and the Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines).

In preparing the special purpose financial statements, ARIS's management is responsible for:


- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional required disclosures for the period from 19 March 2015 to 31 December 2015.

ARIS's Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Project;
- Maintaining adequate accounting records that are sufficient to show and explain the Project's transactions, and which enable them to ensure that the special purpose financial statements of the Project comply with *IPSAS – Cash Basis* and the *WB Guidelines*;
- Taking such steps that are reasonably available to them to safeguard the assets of the Project and to affirm that funds received have been used in accordance with the Letter Agreement SPF Grant No. TF018720 dated 29 December 2014, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided; and
- Preventing and detecting fraud and other errors.

The special purpose financial statements for the period from 19 March 2015 to 31 December 2015 were authorized for issue on 20 May 2016 by the ARIS's Management.

On behalf of the ARIS's Management,



Ismailov Kubanychbek
Executive Director





Junushova Rahat
Financial Manager



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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT

*On the special purpose financial statements of the
SPF-funded Building Capacity for Effective Local Governance Project
for the period from 19 March 2015 to 31 December 2015*

To the management of the Community Development and Investment Agency (hereinafter: ARIS)

We have audited the accompanying special purpose financial statements of the "SPF-funded Building Capacity for Effective Local Governance Project" (the Project) financed by Letter Agreement SPF Grant No. TF018720, which comprise the statement of cash receipts and payments, the statement of expenditures per components, the summary of summary reports and SOEs, the statement of designated account for the period from 19 March 2015 to 31 December 2015, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Special Purpose Financial Statements

The management of the ARIS is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and Financial Management Manual for World Bank Financed Investment Operations, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's 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 International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) within the IFAC. 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 reasonable audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the preparation and fair presentation of the special purpose financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

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An audit also includes 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 opinion.


Opinion

In our opinion,

1. the special purpose financial statements present fairly in all material respects the cash receipts and payments for the period from 19 March 2015 to 31 December 2015 in accordance with IPSAS-Cash Basis;
2. funds have been used in accordance with the conditions of the Letter Agreement SPF Grant No. TF018720 dated 29 December 2014 between the International Development Association (IDA) and the Kyrgyz Republic, and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the Letter Agreement SPF Grant No. TF018720;
4. The Designated account used has been maintained in accordance with the provision of the Letter Agreement SPF Grant No. TF018720, and World Bank related guidelines.

"SOS-Audit" LLC
20 May 2016


Manvel Ghazaryan
Director


Gnel Khachatryan, FCCA
Auditor



SPF – funded Building Capacity for Effective Local Governance Project
 SPF Grant No. TF018720

Statement of cash receipts and payments

For the period from 19 March 2015 to 31 December 2015
 (Amounts are shown in US dollars)

	Note	Actual		Budget		Variance	
		Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015
TOTAL OPENING CASH		-	-				
Sources of Funds							
SPF Grant No. TF018720	6	454,510	454,510				
TOTAL FUNDS		454,510	454,510				
Other income (interest accrued)		1,464	1,464				
Project Expenditures							
(1) Goods, Non-Consulting Services, Consultants' Services (including Audit), Training, and Incremental Operating Costs under the Project	5						
(a) Goods		298,365	298,365	298,500	298,500	(135)	(135)
(b) Consultants' Services, including Audit		30,920	30,920	30,900	30,900	20	20
(c) Operating Costs		74,832	74,832	74,800	74,800	32	32
(d) Training		95,244	95,244	95,300	95,300	(56)	(56)
		97,369	97,369	97,500	97,500	(131)	(131)
TOTAL PROJECT EXPENDITURES		298,365	298,365	298,500	298,500	(135)	(135)
TOTAL CLOSING CASH		157,609	157,609				



[Signature]
 Ismailov Kubanychbek
 Executive Director

[Signature]
 Junushova Rahat
 Financial Manager

20 May 2016

The notes on pages 10-15 form an integral part of these special purpose financial statements.

SPF – funded Building Capacity for Effective Local Governance Project
 SPF Grant No. TF018720

Statement of expenditures per components

For the period from 19 March 2015 to 31 December 2015
 (Amounts are shown in US dollars)

Components	Actual		Planned		Variance	
	Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015	Reporting period	Cumulative as at 31 Dec 2015
A. Strengthening citizens' knowledge and awareness for participatory governance						
Trainings	102,876	102,876	103,000	103,000	(124)	(124)
Consultants' services	97,369	97,369	97,500	97,500	(131)	(131)
Goods	5,507	5,507	5,500	5,500	7	7
B. Strengthening functional capacities and skills of local government bodies						
Trainings	-	-	-	-	-	-
Consultants' services	-	-	-	-	-	-
Goods	-	-	-	-	-	-
C. Implementing Participatory Local Development						
Consultants' services	-	-	-	-	-	-
Trainings	-	-	-	-	-	-
Goods	-	-	-	-	-	-
D. Project Management & Monitoring and Evaluation						
Consulting services including Audit	195,489	195,489	195,500	195,500	(11)	(11)
Trainings	74,832	74,832	74,800	74,800	32	32
Goods	25,413	25,413	25,400	25,400	13	13
Operating Costs	95,244	95,244	95,300	95,300	(56)	(56)
TOTAL	298,365	298,365	298,500	298,500	(135)	(135)



Ismailov Kubanychbek
 Executive Director

[Signature]
 Junushova Rahat
 Financial Manager

20 May 2016


The notes on pages 10-15 form an integral part of these special purpose financial statements.

Summary of Summary Reports and SOEs

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

Withdrawal application No	Withdrawal application value date	Payment categories	Total
		(1) Goods, Non-Consulting Services, Consultants' Services (including Audit), Training and Incremental Operating Costs under the	
2	05.Aug.2015	134,788.54	134,788.54
3	22.Dec.2015	139,721.31	139,721.31
Total		274,509.85	274,509.85


Ismailov Kubanychbek
Executive Director




Junushova Rahat
Financial Manager

20 May 2016

The notes on pages 10-15 form an integral part of these special purpose financial statements.

Statement of Designated Account

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

Financing Agreement	SPF Grant No. TF018720
Bank account number	1280016016872252
Bank	Kyrgyz Investment and Credit Bank
Bank location	Erkindik 21, Bishkek
Account currency	USD

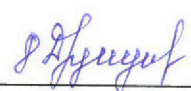
	<u>Reporting year</u>
1. Opening balance as at 19.03.2015	-
2. Add: opening discrepancy	-
3. IDA advance/replenishment	454,510
4. Less: Refund to IDA from DA	-
5. Present outstanding amount advanced to DA	<u>454,510</u>
6. DA closing balance as at 31.12.2015	156,145
7. Add: Amount of eligible expenditures paid	298,365
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	<u>454,510</u>
10. Closing discrepancy (5)-(9)	-



Ismailov Kubanychbek
 Executive Director

20 May 2016





Junushova Rahat
 Financial Manager

The notes on pages 10-15 form an integral part of these special purpose financial statements.

Notes to the special purpose financial statements

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

1. General information

1.1. The Project

In accordance with Letter Agreement dated 29 December 2014, the International Development Association (“IDA”, or “WB”), acting as administrator of grant funds provided by the State and Peace Building Fund (SPF), provided Kyrgyz Republic a grant in the amount of 1,400,000 United States dollars (USD).

The Project became effective on 19 March 2015.

The SPF Grant No. TF018720 was provided for implementation of «SPF-funded Building Capacity for Effective Local Governance Project» (the Project).

The Closing date of the Grant expenditures is set 31 Dec 2016 (as updated).

The Grace Period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing dates: 30 Apr 2017.

1.2. The Project objectives

The objective of this project is to enhance participatory decision-making and accountability in selected villages in the member Country with respect to local government planning and budgeting, service delivery, and investments.

The Project consists of the following parts:

Part I: Strengthening Citizens’ Knowledge of Participatory Local Governance

Provision of Training and consultants’ services for conducting outreach activities, capacity building, and peer-to-peer learning activities aimed at improving awareness and knowledge of citizens and community based organizations on their roles and responsibilities in local governance.

Part II: Strengthening Functional and Horizontal Interface between Local Government Bodies

Provision of Training and consultant’ services for carrying out capacity building and peer-to-peer learning activities for representatives of the legislative and executive branches of local governments.

Part III: Implementing Participatory Local Development

Provision of Training and consultant’ services for designing and preparing Local Development Plans by Local governments.

Part IV: Project Management and Monitoring and Evaluation

Provision of Incremental Operating Costs and consultants’ services for carrying out Project audit, management, and implementation.

Notes to the special purpose financial statements

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

1.3. The Project Budget and Financing

The Project is 100% financed by SPF Grant No. TF018720, inclusive of taxes.

Category	SPF Grant No. TF018720	Total
	USD	USD
(1) Goods, Non-Consulting Services, Consultants' Services (including Audit), Training, and Incremental Operating Costs under the Project	1,400,000	1,400,000
Total	1,400,000	1,400,000

1.4. Project Implementation

The Project is implemented by Community Development and Investment Agency (ARIS).

The ARIS was established on 15 October 2003 according to the Kyrgyz President's Decree for operating control over the Projects financed by the World Bank. ARIS is an independent legal entity, and it is registered in the legal organizational form envisaged by the legislation of the Kyrgyz Republic for non-for-profit organizations.

Co-founders of ARIS are Administration of the President of the Kyrgyz Republic, association of legal entities "Association of local self-government bodies of villages and communities of the Kyrgyz Republic" and "Counterpart-Sheriktesh" public association. The work of ARIS is supervised by the Supervisory Board, which is the superior steering body of ARIS.

The ARIS address is: 102 Bokonbayeva Street, Bishkek, the Kyrgyz Republic, 720040.

Notes to the special purpose financial statements

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

2. Summary of significant accounting policies

2.1. Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2 Cash basis of accounting

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of project funds when the payments are made.

2.3 Reporting currency

The reporting currency of these special purpose financial statements is United States dollars (USD).

The cofinancing received and expenditures made in local currency, Kyrgyz Som (KGS), are translated into USD based at the exchange rate prevailing at the date of the transaction as issued by the commercial bank, Kyrgyz Investment and Credit Bank (KICB).

The exchange rate defined by the Kyrgyz Investment and Credit Bank is as follows:
31 December 2015: USD 1 = 75.60 KGS.

2.4. Taxes

The taxes are paid in accordance with the tax regulation of the Kyrgyz Republic.

2.5. Budget

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated procurement plans for the Reporting year.

Notes to the special purpose financial statements

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

3. Balance Sheet

The Balance Sheet discloses assets, liabilities and net assets of the Projects as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	Note	As at 31 Dec 2015 USD
ASSETS		
Cash	4	157,609
Prepayments		-
Total assets		157,609
LIABILITIES		
Payables		-
Total liabilities		-
NET ASSETS		
Cumulative income		
SPF Grant No. TF018720	6	454,510
Other income (accrued interest)		1,464
		455,974
Cumulative expenses		
Project expenses	5	298,365
		298,365
Total net assets		157,609

4. Cash

	Underlying Currency	As at 31 Dec 2015 USD
SPF Grant No. TF018720		
Designated Account	USD	156,145
		156,145
Other		
Interest account	USD	1,464
		1,464
		157,609

(*) All accounts are held at Kyrgyz Investment and Credit Bank (Bishkek, Kyrgyz Republic).

Notes to the special purpose financial statements

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

5. Project Expenditures Budget Execution

Category	Cumulative Expenditures as at 31 Dec 2015	Total budget	Execution
	USD	USD	%
(1) Goods, Non-Consulting Services, Consultants' Services (including Audit), Training, and Incremental Operating Costs under the Project	298,365	1,400,000	21%
Total	298,365	1,400,000	21%

6. Financing SPF Grant No. TF018720

	Reporting period USD	Cumulative as at 31 Dec 2015 USD
Advances/ (advance recovery)	180,000	180,000
Direct Payments	-	-
SOE and Summary Report	274,510	274,510
Total	454,510	454,510
Total financing budget		1,400,000
Percentage of finance provided as at 31 Dec 2015		32%

7. Schedule of Fixed Assets

The schedule of fixed assets procured and received by ARIS for the Project implementation is follows:

	19 Mar 2015	Additions	Deductions	USD 31 Dec 2015
Office fittings and equipment	-	20,325	-	20,325
	-			

8. Event after reporting date

The application N4 with total amount of 149,450.48 USD that includes expenditures relating to the reporting period (from December 21-31, 2015) in the amount of 23,855.25 USD was submitted to WB on 10 March 2016 and approved on 14 March 2016.

SPF – funded Building Capacity for Effective Local Governance Project
SPF Grant No. TF018720

**ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE ARIS AND
DISBURSED BY THE WORLD BANK**

For the period from 19 March 2015 to 31 December 2015

(Amounts are shown in US dollars)

Expenditure Category	Appl.	ARIS	WB	Difference
Advances	1		180,000.00	
			180,000.00	
(1) Goods, Non-Consulting Services, Consultants' Services (including Audit), Training, and Incremental Operating Costs under the Project	2	134,788.54	134,788.54	-
	3	139,721.31	139,721.31	-
		274,509.85	274,509.85	-
Total		274,509.85	454,509.85	