

**GRANT FOR THE PREPARATION OF TAX ADMINISTRATION AND
STATISTICAL SYSTEM MODERNIZATION PROJECT**

ECAPDEV GRANT TF0B0175

**IMPLEMENTED BY THE STATE TAX SERVICE
UNDER THE GOVERNMENT OF THE KYRGYZ REPUBLIC**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the period from 22 May 2020 to 18 December 2020

**BISHKEK
December 2020**

GRANT FOR THE PREPARATION OF TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT

ECAPDEV GRANT TF0B0175

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS	3
INDEPENDENT AUDITOR'S REPORT	4-5
SPECIAL PURPOSE FINANCIAL STATEMENTS For the period from 22 May 2020 to 18 December 2020:	
Statement of cash receipts and payments	6
Statement of expenditures per components	7
Notes to the special purpose financial statements	8-12
ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE STS AND DISBURSED BY THE WORLD BANK	13

STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS

The State Tax Service (“STS”) under the Government of the Kyrgyz Republic is responsible for the preparation of the special purpose financial statements of Project Preparation Grant (“PPG”) for “Tax Administration and Statistical System Modernization Project” (“the Project”) financed by Letter Agreement ECAPDEV Grant TFOB0175 that present fairly the Project’s cash receipts and payments, and expenditures per components for the period from 22 May 2020 to 18 December 2020, 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, STS is responsible for:

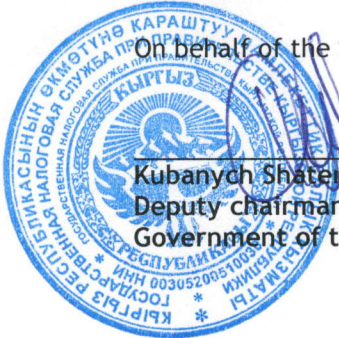
- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional required disclosures for the period from 22 May 2020 to 18 December 2020.

STS 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 ECAPDEV Grant TFOB0175 dated 5 November 2019, 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 22 May 2020 to 18 December 2020 were authorized for issue on 23 December 2020 by the STS.

On behalf of the STS:



Kubanych Shateimirov
Deputy chairman of STS under the
Government of the Kyrgyz Republic



Edil Chingishev
Financial manager of the TASSMP at STS
(under the grant №TFOB0175)

INDEPENDENT AUDITOR'S REPORT

To the State Tax Service under the Government of the Kyrgyz Republic

Opinion

We have audited the special purpose financial statements of Grant for the Preparation of "Tax Administration and Statistical System Modernization Project" ("Project") financed by Letter Agreement ECAPDEV Grant TFOB0175 dated 5 November 2019 ("Letter Agreement), and implemented by The State Tax Service ("STS") under the Government of the Kyrgyz Republic which comprise the statement of cash receipts and payments, and the statement of expenditures per components for the period from 22 May 2020 to 18 December 2020, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respect, the cash flows for the period from 22 May 2020 to 18 December 2020 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Project and of the STS in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled out other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter- Cash Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes that financial statements are prepared in accordance with cash basis framework, as a result, they may not be suitable for another purposes. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Completion of the Project

We draw your attention to Note 9 of these special purpose financial statements which disclose that the Project was completed as at the reporting date. Our opinion is not modified in this respect.

Responsibilities for the preparation of the Financial Statements

The STS is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the IFAC and Financial Management Manual for World Bank Financed Investment Operations ("WB Guidelines"), and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

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

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

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal Requirements

To comply with the terms of the Letter Agreement, the STS shall insure that:

1. funds have been used in accordance with the conditions of the Letter Agreement concluded 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;
2. 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. Interim Unaudited Financial Statements (IFSs) issued by STS during the reporting period are in agreement with the underlying books of account;
3. The Designated account used has been maintained in accordance with the provision of the Letter Agreement, and World Bank related guidelines.
4. Goods and Services financed have been procured in accordance with the Letter Agreement and World Bank related guidelines.

In our opinion, the STS has complied with the above requirements for the period from 22 May 2020 to 18 December 2020.

"BDO Armenia" CJSC
23 December 2020



Gnel Khachatryan, FCCA
Engagement Partner

**PROJECT PREPARATION GRANT FOR "TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT"
ECAPDEV Grant TF0B0175**

Statement of cash receipts and payments

For the period from 22 May 2020 to 18 December 2020

(Amounts are shown in US dollars)

	Note	Actual Period 22.05.2020- 18.12.2020	Budget Period 22.05.2020- 18.12.2020	Variance Period 22.05.2020- 18.12.2020
TOTAL OPENING CASH		-		
Sources of Funds				
ECAPDEV Grant TF0B0175	8	321,084		
TOTAL FUNDS		321,084		
Interest income		257		
Project Expenditures				
(1) Goods	7	37,642	37,000	(642)
(2) Consulting services, including audit		265,030	320,400	55,370
(3) Training		-	25,000	25,000
(4) Operating costs		2,430	2,500	70
TOTAL PROJECT EXPENDITURES		305,102	384,900	79,798
Other expenditures		5		
TOTAL CLOSING CASH	6	16,234		



Kubanych Shateмиrov
Deputy chairman of STS under the
Government of the Kyrgyz Republic

Edil Chingishev
Financial manager of the TASSMP at STS
(under the grant №TF0B0175)

23 December 2020

The notes on pages 8-13 form an integral part of these special purpose financial statements.

PROJECT PREPARATION GRANT FOR "TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT"
ECAPDEV Grant TF0B0175

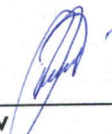
Statement of expenditures per components

For the period from 22 May 2020 to 18 December 2020
 (Amounts are shown in US dollars)

Components	Actual Period 22.05.2020- 18.12.2020	Budget Period 22.05.2020- 18.12.2020	Variance Period 22.05.2020- 18.12.2020
Part A. IT infrastructure analysis, design, and functional gap assessment	254,970	260,000	5,030
Part B. Support capacity building activities	50,132	114,900	64,768
Part C. Support for Project audits.	-	10,000	10,000
TOTAL	305,102	384,900	79,798



Kubanych Shatemirov
 Deputy chairman of STS under the
 Government of the Kyrgyz Republic


 Edil Chingishev
 Financial manager of the TASSMP at STS
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23 December 2020

The notes on pages 8-13 form an integral part of these special purpose financial statements.

**PROJECT PREPARATION GRANT FOR “TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT”
ECAPDEV Grant TF0B0175**

Notes to special purpose financial statements

For the period from 22 May 2020 to 18 December 2020

(Amounts are shown in US dollars)

1. General information

1.1. The Project

The Letter Agreement was concluded on 5 November 2019 between the Kyrgyz Republic and the International Bank for Reconstruction and Development (“IBRD”)/International Development Association (“IDA”) (together: “WB”), according to which WB, acting as administrator of grant funds provided by various donors under the Multi-Donor Programmatic Trust Fund for Europe and Central Asia Region Capacity Development (ECAPDEV), provided financing to the Kyrgyz Republic: ECAPDEV Grant TF0B0175 in the amount of 384,900 USD.

The financing was provided for the implementation of Grant for the Preparation of “Tax Administration and Statistical System Modernization Project” (the Project).

The Project became effective on 22 May 2020.

The payment currency of ECAPDEV Grant TF0B0175 is United States dollars (USD).

The Closing date of financing under ECAPDEV Grant TF0B0175 was set on 9 October 2020.

The Grace Period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing dates: 9 February 2021.

1.2. The Project objectives

The objective of the Project is to establish a basis for the implementation of the integrated tax management IT solution and project management capacity of the STS.

The Project consists of the following parts:

- (a) Carrying out IT infrastructure analysis, design, and functional gap assessment.
- (b) Support capacity building activities for selected STS staff in the areas of procurement and financial management for the implementation of the TASSM Project, including establishment of a project implementation unit.
- (c) Support for Project audits.

1.3. The Project Budget and Financing

The Project is financed by ECAPDEV Grant TF0B0175.

Category	ECAPDEV Grant TF0B0175	Total	ECAPDEV Grant Expenditure Financing (inclusive of taxes)
	USD	USD	
(1) Goods	37,000	37,000	100%
(2) Consulting services, including audit	320,400	320,400	100%
(3) Training	25,000	25,000	100%
(4) Operating costs	2,500	2,500	100%
Total	384,900	384,900	

1.4. Project Implementation

The Project is implemented by The State Tax Service under the Government the Kyrgyz Republic (“STS”).

The STS address is: 219 Chuy avenue, Bishkek city, 720001, Kyrgyz Republic.

**PROJECT PREPARATION GRANT FOR “TAX ADMINISTRATION AND STATISTICAL SYSTEM
MODERNIZATION PROJECT”
ECAPDEV Grant TF0B0175**

Notes to special purpose financial statements

For the period from 22 May 2020 to 18 December 2020

(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 expenditures made in local currency, Kyrgyz Som (KGS), are translated into USD based at the exchange rate prevailing at the date of the transaction.

The exchange rate as at reporting date is: USD 1 = 83.15 KGS.

2.4. Taxes

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

PROJECT PREPARATION GRANT FOR "TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT"
ECAPDEV Grant TF0B0175

Notes to special purpose financial statements

For the period from 22 May 2020 to 18 December 2020

(Amounts are shown in US dollars)

3. Summary of Summary Reports and SOEs

ECAPDEV Grant TF0B0175

Withdrawal application No	Withdrawal application value date	Payment categories			Total
		(1) Goods	(2) Consulting services, including audit	(4) Operating costs	
B0175-5	17-Dec-2020	7,778.12	23,809.73	2,429.91	34,017.76
Total		7,778.12	23,809.73	2,429.91	34,017.76

4. Statement of Designated Accounts

Letter Agreement	ECAPDEV Grant TF0B0175
Bank account number	1350108036315745
Bank	OJSC "Aiy Bank"
Bank location	Logvinenko 14, Bishkek, Kyrgyz Republic
Account currency	USD

	ECAPDEV Grant TF0B0175
1. Opening balance	-
2. Add: opening discrepancy	-
3. IDA advance/replenishment	50,000
4. Less: Refund to IDA from DA	-
	<hr/>
5. Present outstanding amount advanced to DA	50,000
6. DA closing balance	15,982
7. Add: Amount of eligible expenditures paid	34,018
8. Less: interest earned (if credited to DA)	-
	<hr/>
9. Total advance accounted for	50,000
10. Closing discrepancy (5)-(9)	-

PROJECT PREPARATION GRANT FOR "TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT"
ECAPDEV Grant TF0B0175

Notes to special purpose financial statements

For the period from 22 May 2020 to 18 December 2020

(Amounts are shown in US dollars)

5. Statement of Financial Position

The Statement of Financial Position 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	18 Dec 2020 USD
ASSETS		
Cash	6	16,234
Prepayments		-
Total assets		16,234
LIABILITIES		
Payables		-
Total liabilities		-
NET ASSETS		
Cumulative income	8	
ECAPDEV Grant TF0B0175		321,084
Interest income		257
		321,341
Cumulative expenses		
Project expenses		305,102
Other expenses		5
		305,107
Total net assets/(liabilities)		16,234

6. Cash

	Underlying Currency	18 December 2020 USD
ECAPDEV Grant TF0B0175		
Designated account	USD	15,982
Interest account	USD	248
Interest account	KGS	4
		16,234

(a) The account is held at OJSC "Aiyl Bank".

7. Project Expenditure budget execution

Category	Cumulative Expenditures as at 18 December 2020	Total budget	Implementation
	USD	USD	%
(1) Goods	37,642	37,000	102%
(2) Consulting services, including audit	265,030	320,400	83%
(3) Training	-	25,000	-
(4) Operating costs	2,430	2,500	97%
Total	305,102	384,900	79%

PROJECT PREPARATION GRANT FOR "TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT"
ECAPDEV Grant TF0B0175

Notes to special purpose financial statements

For the period from 22 May 2020 to 18 December 2020

(Amounts are shown in US dollars)

8. Financing

ECAPDEV Grant TF0B0175

	Note	Reporting period 22.05.2020- 18.12.2020 USD
Advance/(advance recovery), net	15,982.24	15,982.24
Direct payments	271,084.05	271,084.05
SOE	34,017.76	34,017.76
Total	321,084.05	321,084.25
Total financing budget		384,900.00
Percentage of finance provided as at 18 December 2020		83%

9. Project completion

The Project was completed as at 9 October 2020 (the Closing Date), and the Grace period for submitting withdrawal application for expenditures incurred before the Closing date set 9 February 2021. However, as at 18 December 2020 (Reporting date) all transactions, except paying final audit service, were completed.

The "Tax Administration and Statistical System Modernization Project" financed by Financing Agreement IDA Credit No. 6546-KG and IDA Grant No. D566-KG, for preparation of which this ECAPDEV Grant TF0B0175 was provided and implemented, was approved on 29 April 2020 and became effective on 9 December 2020.

As at the date of signing these special purpose financial statements:

- a. No expenditures related to the Project were incurred after the Closing Date; the payments made during the Grace period related to expenditures incurred before the Closing Date;
- b. The advance balance of USD 15,982.24 will be refunded to WB, after paying audit fee, USD 5,422. (Note 8)
- c. The undisbursed balance as of reporting date will be cancelled after paying the final audit fee. (Note 8)
- d. Expenditures related to the Project to be submitted to the WB after the Reporting date relates only to payment for final audit service.
- e. There were no uncovered prepayments or payables outstanding to contractors related to the Project as at the Reporting Date.
- f. The balance at interest account of USD 252 (Note 6) will be transferred to the state budget.
- g. We are not aware about any pending or existing litigations against the Project.

PROJECT PREPARATION GRANT FOR "TAX ADMINISTRATION AND STATISTICAL SYSTEM MODERNIZATION PROJECT"
ECAPDEV Grant TF0B0175

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

For the period from 22 May 2020 to 18 December 2020

(Amounts are shown in US dollars)

Expenditure Category	Appl.	STS	WB	Difference
Advance/(Advance recovery)	B0175-1	50,000.00	50,000.00	-
	B0175-5	(34,017.76)	(34,017.76)	-
		15,982.24	15,982.24	
(1) Goods	B0175-2-1 DP	29,864.05	29,864.05	-
	B0175-5	7,778.12	7,778.12	-
		37,642.17	37,642.17	
(2) Consulting services, including audit	B0175-3 DP	41,250.00	41,250.00	-
	B0175-4 DP	199,970.00	199,970.00	-
	B0175-5	23,809.73	23,809.73	-
		265,029.73	265,029.73	
(4) Operating costs	B0175-5	2,429.91	2,429.91	-
		2,429.91	2,429.91	
		321,084.05	321,084.05	