

**ENGAGING COMMUNITIES FOR BETTER SCHOOLS IN KYRGYZ REPUBLIC
PROJECT**

JSDF GRANT NO. TFOA5035

**IMPLEMENTED BY
THE BRANCH OF AGA KHAN FOUNDATION
IN THE KYRGYZ REPUBLIC**

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2019

**BISHKEK
June 2020**

ENGAGING COMMUNITIES FOR BETTER SCHOOLS IN KYRGYZ REPUBLIC PROJECT

JSDF GRANT NO. TFOA5035

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

The management of the Branch of Aga Khan Foundation in the Kyrgyz Republic ("AKF-KG") is responsible for the preparation of the special purpose financial statements of "Engaging Communities for Better Schools Project" ("the Project") financed by Letter Agreement JSDF Grant No. TFOA5035 that present fairly the Project's cash receipts and payments, and expenditures per components for the year ended 31 December 2019, 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, AKF-KG'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 year ended 31 Dec 2019.

AKF-KG'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 JSDF Grant No. TFOA5035 dated 21 June 2017, 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 year ended 31 Dec 2019 were authorized for issue on 26 June 2020 by the AKF-KG's Management.

On behalf of the AKF-KG's Management:



Jamil Uddin
Chief Executive Officer of AKF-KG



Sergei Kabanov
Financial Manager of AKF-KG

INDEPENDENT AUDITOR'S REPORT

To the management of the Branch of Aga Khan Foundation in the Kyrgyz Republic

Opinion

We have audited the special purpose financial statements of "Engaging Communities for Better Schools in Kyrgyz Republic Project" ("Project") financed by Letter Agreement JSDF Grant No. TFOA5035 dated 21 June 2017 ("Letter Agreement"), and implemented by the Branch of Aga Khan Foundation in the Kyrgyz Republic ("AKF KG") which comprise the statement of cash receipts and payments, and the statement of expenditures per components for the year ended 31 December 2019, 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 year ended 31 December 2019 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 AKF KG in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled 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-Project implementation

We draw your attention to Note 7 of these special purpose financial statements disclosing delays of the project implementation.

Emphasis of Matter - Subsequent events

Without qualifying our opinion, we draw attention to Note 9.1 to the financial statements, which describes possible effect of the impact of COVID-19 after the reporting date.

Responsibilities of the Management for the Financial Statements

Management of the AKF KG 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.

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 AKF KG management 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 AKF KG 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 AKF KG management has complied with the above requirements for the year ended 31 December 2019.

"BDO Armenia" CJSC
26 June 2020



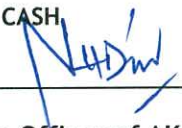

Gne Khachatryan, FCCA
Engagement Partner

Engaging Communities for Better Schools Project
JSDF Grant Number TF0A5035

Statement of cash receipts and payments

For the year ended 31 December 2019

(Amounts are shown in US dollars)

	Note	Actual		Budget		Variance	
		Year ended 31 Dec 2019	Cumulative as at 31 Dec 2019	Year ended 31 Dec 2019	Cumulative as at 31 Dec 2019	Year ended 31 Dec 2019	Cumulative as at 31 Dec 2019
TOTAL OPENING CASH		264,154					
Sources of Funds	8						
JSDF Grant No. TF0A5035		212,418	1,143,033				
TOTAL FUNDS		212,418	1,143,033				
Project Expenditures	7						
(1) Goods		3,989	37,089	4,016	37,116	(27)	(27)
(2) Consultants' services		135,772	356,796	139,781	360,805	(4,009)	(4,009)
(3) Micro-grants under Part B of the Project		-	-	-	-	-	-
(4) Training and Workshops		131,608	434,909	128,431	431,732	3,177	3,177
(5) Operating Costs		86,160	195,145	88,470	197,455	(2,310)	(2,310)
TOTAL PROJECT EXPENDITURES		357,529	1,023,939	360,698	1,027,108	(3,169)	(3,169)
Foregin currency gain/(loss)		375	324				
TOTAL CLOSING CASH	6	119,418	119,418				
 Jamil Uddin Chief Executive Officer of AKF-KG		 Sergei Kabanov Financial Manager of AKF-KG					

18 June 2020

The notes on pages 8-14 form an integral part of these special purpose financial statements.

Engaging Communities for Better Schools Project
JSDF Grant Number TF0A5035

Statement of expenditures per components

For the year ended 31 December 2019

(Amounts are shown in US dollars)

Components	Actual		Planned		Variance	
	Year ended 31 Dec 2019	Cumulative as at 31 Dec 2019	Year ended 31 Dec 2019	Cumulative as at 31 Dec 2019	Year ended 31 Dec 2019	Cumulative as at 31 Dec 2019
Part A. Community engagement processes and capacity-building	239,954	714,889	230,223	705,158	9,731	9,731
A.1. Development and strengthening of boards of trustees	163,121	499,818	159,186	495,883	3,935	3,934
A.2. Access to information and awareness building on performance and budgets	34,960	43,196	37,926	46,162	(2,966)	(2,966)
A.3. Citizen feedback and joint action	41,873	171,875	33,111	163,113	8,762	8,763
Part B. Micro-grants for priority investments in underprivileged schools	704	704	7,250	7,250	(6,546)	(6,546)
C. Project management and administration, monitoring and evaluation, and knowledge dissemination	116,871	308,346	123,225	314,700	(6,354)	(6,354)
TOTAL	357,529	1,023,939	360,698	1,027,108	(3,169)	(3,169)


 Jamil Uddin
 Chief Executive Officer of AKF-KG


 Sergei Kabanov
 Financial Manager of AKF-KG

26 June 2020

The notes on pages 8-14 form an integral part of these special purpose financial statements.

Engaging Communities for Better Schools in Kyrgyz Republic Project
JSDF Grant Number TF0A5035

Statement of expenditures per components

For the year ended 31 December 2019

(Amounts are shown in US dollars)

1. General information

1.1. The Project

The Letter Agreement was concluded on 21 June 2017 between the Kyrgyz Republic and the International Development Association ("IDA" or "WB"), according to which IDA acting as administrator of grant funds provided by the Japan Social Development Fund ("JSDF"), provided grant to the Kyrgyz Republic: JSDF Grant No. TF0A5035 in the amount of 2,730,000 United States Dollars (USD).

The financing was provided for the implementation of «Engaging Communities for Better Schools Project» (the Project).

The Project became effective on 6 July 2017.

The Closing date of financing under JSDF Grant TF0A5035 was set at 30 September 2020, then extended to 31 March 2021.

The Grace Period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing dates: 31 July 2021.

1.2. The Project objectives

The objective of the Project is to develop inclusive approaches to citizen engagement that support improvements in the accountability and responsiveness of teachers and school management in the poorest districts and contribute to enhancing student performance.

The Project consists of the following parts:

Part A: Community Engagement Processes and Capacity-Building

1. Develop and strengthen the school-level Board of Trustees (BoTs).
2. Improve access to information and build awareness on budget and performance in education.
3. Citizen feedback and joint action.

Part B. Micro-grants for Priority Investments in Underprivileged Schools

Part C. Project Management and Administration, Monitoring and Evaluation, and Knowledge Dissemination

1.3. The Project Budget and Financing

The Project is wholly financed by JSDF Grant No. TF0A5035.

Category	JSDF Grant No. TF0A5035	Total	IDA Credit/Grant Expenditure Financing (inclusive of taxes)
	USD	USD	
(1) Goods	103,826	103,826	100%
(2) Consultants' services	545,241	545,241	100%
(3) Micro-grants under Part B of the Project	712,500	712,500	100%
(4) Training and Workshops	1,042,424	1,042,424	100%
(5) Operating Costs	326,009	326,009	100%
Total	2,730,000	2,730,000	

1.4. Project Implementation

The Project is implemented by the Branch of Aga Khan Foundation in the Kyrgyz Republic ("AKF KG").

The AKF KG address is: 124/1 Turusbekova street, Bishkek, the Kyrgyz Republic, 720033.

Statement of expenditures per components

For the year ended 31 December 2019

(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 defined by the operating bank is as follows:

31 December 2018: USD 1 = 69.75 KGS.

31 December 2019: USD 1 = 69.25 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.

Engaging Communities for Better Schools in Kyrgyz Republic Project
JSDG Grant Number TF0A5035

Statement of expenditures per components

For the year ended 31 December 2019

(Amounts are shown in US dollars)

3. Summary of Summary Reports and SOEs

Withdrawal application No	Withdrawal application value date	Payment categories				Total
		Goods	Consultants' services	Trainings and Workshops	Operating Costs	
		(1)	(2)	(4)	(5)	
6	05-Apr-2019	-	42,612.74	26,800.88	23,914.99	93,328.61
7	12-Aug-2019	715.68	52,500.61	34,225.84	31,647.68	119,089.81
Total		715.68	95,113.35	61,026.72	55,562.67	212,418.42

4. Statement of Designated Accounts

Letter Agreement	JSDG Grant No. TF0A5035
Bank account number	1280016040525401
Bank	CJSC "Kyrgyz Investment and Credit Bank"
Bank location	21 Erkindik avenue, Bishkek, Kyrgyz Republic
Account currency	USD

	JSDG Grant No. TF0A5035
1. Opening balance as at 1 January 2019	262,414
2. Add: opening discrepancy *	1,791
3. IDA advance/replenishment	212,418
4. Less: Refund to IDA from DA	-
5. Present outstanding amount advanced to DA	<u>476,623</u>
6. DA closing balance as at 31 December 2019	116,516
7. Add: Amount of eligible expenditures paid	357,529
8. Less: interest earned (if credited to DA)	-
9. Total advance accounted for	<u>474,045</u>
10. Closing discrepancy (5)-(9)*	2,578

(*) The discrepancy is due to:

	31 Dec 2019 USD	31 Dec 2018 USD
Balance at Transit account (Note 6)	2,902	1,606
Balance at Impressed account (Note 6)	-	134
Foreign currency (gain)/loss	(324)	51
Total	<u>2,578</u>	<u>1,791</u>

Engaging Communities for Better Schools in Kyrgyz Republic Project
JSDF Grant Number TF0A5035

Statement of expenditures per components

For the year ended 31 December 2019

(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	31 Dec 2019 USD	31 Dec 2018 USD
ASSETS			
Cash	6	119,418	264,154
Prepayments		-	-
Total assets		119,418	264,154
LIABILITIES			
Payables (a)		4,819	3,322
Total liabilities		4,819	3,322
NET ASSETS			
Cumulative income	8		
JSDF Grant No. TF0A5035		1,143,033	930,615
		1,143,033	930,615
Cumulative expenses			
Project expenses	7	1,028,758	669,731
		1,028,758	669,731
Foreign exchange gain/(loss)		324	(52)
Total net assets		114,599	260,832

(a) Mostly relate to operational costs.

6. Cash

	Underlying Currency	31 Dec 2019 USD	31 Dec 2018 USD
JSDF Grant No. TF0A5035			
Designated Account	USD	116,516	262,414
Transit account	KGS	2,902	1,606
Advances paid to employees	KGS	-	134
		119,418	264,154

(a) Bank accounts are held at CJSC "Kyrgyz Investment and Credit Bank".

Statement of expenditures per components

For the year ended 31 December 2019

(Amounts are shown in US dollars)

7. Project Expenditures Budget Execution

Category	Cumulative Expenditures as at 31 Dec 2019	Total budget	Execution (a)
	USD	USD	%
(1) Goods	37,089	103,826	36%
(2) Consultants' services	356,796	545,241	65%
(3) Micro-grants under Part B of the Project	-	712,500	-
(4) Training and Workshops	434,909	1,042,424	42%
(5) Operating Costs	195,145	326,009	60%
Total	1,023,939	2,730,000	38%

(a) The Project became effective on 6 July 2017 and Closing date was set on 30 Sept 2020 (Note 1.1.).

As at 31 Dec 2019 only 38% of the Project expenditures are completed, particularly micro-grants are not distributed, yet.

Since July 2017, it was legally challenging to open accounts at a commercial bank for BoT which required considerable time. There were technical issues regarding to community score card, which delayed the micro-grant. Delays and solutions have been discussed and agreed with the World Bank and updated action plans have speeded up the implementations.

Currently 38 Associations of the BoTs have been established in order the BoTs be able to use bank accounts of the associations to receive and manage the micro-grants. The successful execution of the accountability activities in January and February 2020 has given positive perspectives for launching the micro-grants component in March 2020. All arrangements were done for micro-grant disbursements but it was postponed due to the COVID-19.

In December 2019, AKF KG applied to WB and JSDF with request for the Project deadline extension. The official approval was received on 17 June 2020 from the World Bank and extended the Project Closing date till 31 March 2021.

The completion of micro-grant processes depends on epidemiological situations in the Kyrgyz Republic. Assuming that COVID-19 situations would improve sooner, it is expected that micro-grants disbursements should be over by the end of September 2020.

8. Financing

	Reporting year USD	Cumulative as at 31 Dec 2019 USD
Advance	-	300,000
SOE and Summary Report	212,418	843,033
Total	212,418	1,143,033
 Total financing budget		 2,730,000
Percentage of finance provided as at 31 Dec 2019		42%

Statement of expenditures per components

For the year ended 31 December 2019

(Amounts are shown in US dollars)

9. Events after reporting date

9.1. Outbreak of COVID-19

Breakout of new coronavirus (COVID-19) in the world also affected the Kyrgyz Republic. The Government of Kyrgyz Republic declared state of the Emergency from March 25 to May 21, 2020 throughout country to reduce infections and strengthen management of the disease.

On the basis of feedbacks from field staff, BoTs and the community members, the AKF KG and ECBS Project management believes that COVID has negatively affected the Project (schooling, community engagements and social accountability). Due to severely restricted mobilities, community interactions and face-face meetings, many of the project activities have been aligned to on-line modes (so, significant reductions in logistic costs). These in turn will directly affect the utilization rate and the Project will have unexpected budget underspending.

As economic situations of communities have worsened due to pandemic, it would now be very difficult for communities to contribute stipulated 50% matching amount for micro-grant. So, based on the discussion with WB, the afore-mentioned savings will be used to supplement for expected reductions community contributions for the micro-grants.

At this stage the Project does not have any negative outcome due to limitations on accesses to the project offices and sites. However, given the unpredictability of events, Project management does not consider it possible to estimate the financial impact of the above event on the reports.

9.2. SOE applications

The application N 8 including expenditures relating to the reporting period in the amount of 180,995 USD was submitted to WB on 20 January 2020 and approved on 23 January 2020.

10. Litigations

There are no pending litigations related to the Project as at reporting date and as at approval date of these special purpose financial statements.

Engaging Communities for Better Schools in Kyrgyz Republic Project
JSDf Grant Number TF0A5035

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

For the year ended 31 December 2019

(Amounts are shown in US dollars)

Expenditure Category	Appl.	AKF KG	WB	Difference
(1) Goods	7	715.68	715.68	-
		715.68	715.68	
(2) Consultants' services	6	42,612.74	42,612.74	-
	7	52,500.61	52,500.61	-
		95,113.35	95,113.35	
(4) Training and Workshops	6	26,800.88	26,800.88	-
	7	34,225.84	34,225.84	-
		61,026.72	61,026.72	
(5) Operating Costs	6	23,914.99	23,914.99	-
	7	31,647.68	31,647.68	-
		55,562.67	55,562.67	
Total		212,418.42	212,418.42	