Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

THE PROJECT ON THE RECONSTRUCTION OF TREATMENT FACILITIES AND SEWERAGE SYSTEMS IN SAMARKAND AND BUKHARA (IDA LOAN № 5698-UZ)

WORLD BANK PROJECT COORDINATION UNIT OF AGENCY "KOMMUNHIZMAT"

INDEPENDENT AUDITOR'S REPORT AND SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

INDEPENDENT AUDITOR'S REPOPRT 3
SUMMARY OF SOURCES AND USE OF FUNDS 6
USES OF FUNDS BY COMPONENTS AND EXPENDITURE TYPE 7
USES OF FUNDS BY CATEGORIES AND EXPENDITURE TYPE 8
1. PROJECT DESCRIPTION 9
2. REPRESENTATION OF FINANCIAL STATEMENTS 11
3. LEGAL STATUS, TAXES AND CHARGES 12
4 RECONCILIATION OF IDA FINANCING 12
5. DESIGNATED ACCOUNT (USD) RECONCILIATION STATEMENT 13
6. DESIGNATED ACCOUNT (UZS) RECONCILIATION STATEMENT 13

Grant Thornton

An instinct for growth™

АО ООО «Grant Thornton»
Республика Узбекистан,
100128, Ташкент,
ул. Абая. 1А
Тел.: +998 (71) 244-47-45/46
Факс: +998 (71) 244-47-43

"Grant Thornton" AO LLC
1A, Abay Str.,
Tashkent, 100128,
Republic of Uzbekistan
Tel.: +998 (71) 244-47-45/46
Fax: +998 (71) 244-47-43
W: www.gti.org

INDEPENDENT AUDITOR'S REPOPRT

To the management of Project Coordination Unit

Opinion

We conducted an audit of the attached special financial statements (hereinafter - financial statements) of the Project "Reconstruction of sewage treatment plants and sewerage systems in Bukhara and Samarkand", for the year ended 31 December 2016, financed by the International Development Association (IDA) (Loan Agreement No. 5698 of November 26, 2009 -UZ) and due to the contributions of the Government of the Republic of Uzbekistan. The financial statements include: "Summary of sources and use of funds", "Uses of funds by components and expenditure type ", "Uses of funds by categories and expenditure type" and Notes to the special financial statements.

The financial statements have been prepared by the management of the Project Implementation Unit (hereinafter - the PIU) on a cash basis, in accordance with International Public Sector Accounting Standards (hereinafter referred to as IPSAS) issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

In our opinion, the attached special financial statements provide a correct and clear picture of the sources and use of the funds of the Project "Reconstruction of sewage treatment plants and sewerage systems in Bukhara and Samarkand cities" as of 31 December 2016 and for the year ending on that date in accordance with the terms of the Financing Agreement and IPSAS.

At the same time, (a) expenses reimbursed by IDA on the basis of statements of expenditures (SOE) are confirmed by properly issued primary documentation; (b) these expenses correspond to the financing purposes specified in the Agreement.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities in accordance with these standards are described further in the section "Auditor's responsibility for the audit of financial statements" of our opinion. We are independent of the Project in accordance with the ethical requirements applicable to our audit of financial statements in the Republic of Uzbekistan, and we have fulfilled other ethical duties in accordance with these requirements.

Key audit matters – basis of accounting

Without changing our opinion, we draw attention to Note 2 to the financial statements, which describes the accounting policy method. The financial statements have been prepared with the purpose of meeting the requirements of the Financing Agreement and IPSAS. As a result, financial statements may not be suitable for another purpose. Our report is intended solely for the purpose of providing information and use by the project

management and the Government of the Republic of Uzbekistan, and can not be used by any third party, with the exception of those mentioned above. Our opinion has not been changed with regard to this issue.

Responsibility of management and persons responsible for financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IPSAS: "Financial statements on the cash basis of accounting" and for the internal control system that management considers necessary for the preparation of financial statements that are free from material misstatement arose due to fraud or errors.

In preparing the financial statements, management is responsible for assessing the project's ability to continue with the project, disclosing, where applicable, issues related to ongoing activities and the use of the basis for accounting, if management does not intend to complete or terminate the project, or there is no realistic alternative for this.

The persons responsible for the management are responsible for overseeing the preparation of the financial statements of the Project.

Auditor's responsibility for financial statements

Our purpose is to obtain reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error, and in the issuance of an audit opinion that contains our opinion. Reasonable confidence is a high degree of certainty, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing always reveals significant distortions if they exist. Distortions can be the result of unfair acts or mistakes and are considered significant if one can reasonably assume that individually or collectively they can affect the economic decisions of users made on the basis of these financial statements.

As part of an audit conducted in accordance with International Standards on Auditing, we apply professional judgment to maintain professional skepticism throughout the audit. In addition, we perform the following:

- We identify and assess the risks of material misstatement of financial statements due to fraud or error; we develop and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting a significant result as a result of unfair acts is higher than the risk of not detecting a significant distortion as a result of an error, since unfair acts may include collusion, fraud, intentional omission, misrepresentation or circumvention of the internal control system;
- We get an understanding of the internal control system that is relevant to the audit, in order to develop audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system;
- We assess the proper nature of the accounting policies applied and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management;
- We make a conclusion about the legitimacy of management's use of the assumption of business continuity, and on the basis of the obtained audit evidence - the conclusion whether there is significant uncertainty in connection with events or conditions that may raise significant doubts about the Company's ability to continue its business. If we conclude that there is significant uncertainty, we must draw attention to our disclosure in the financial statements, or, if such disclosure is inappropriate, modify our opinion. Our conclusions are based on the audit evidence received before the date of our audit report. However, future events or conditions may lead to the Company losing the ability to continue its business continuously.
- We assess the presentation of the financial statements in general, its structure and content, including disclosure of information, as well as whether the financial statements present the underlying operations and events in a manner that ensures their reliable representation;
- We obtain sufficient appropriate audit evidence relating to the financial information of the organization or activities within the Company in order to express an opinion on the financial statements. We are responsible for the management, control and conduct of the Company's audit. We remain fully responsible for our audit opinion.

We carry out informational interaction with persons responsible for corporate governance, including, among other things, information on the planned scope and timing of the audit, as well as significant comments on the audit results, including significant deficiencies in the internal control system that we identify in the course of the audit.

We also provide individuals responsible for corporate governance with a statement that we have complied with all relevant ethical requirements for independence and have informed these individuals of all relationships and other matters that can reasonably be considered influencing the independence of auditors and, where necessary, on appropriate precautions.

Of those issues that we brought to the attention of those responsible for corporate governance, we identify the issues that were most significant for auditing financial statements for the current period and, therefore, are key audit issues.

Other information

In connection with the audit of the financial statements, our responsibility is to acquaint ourselves with other information and to consider whether there are significant inconsistencies between other information and financial statements or our knowledge gained during the audit and whether other information contains other possible material misstatements.

If, based on our work with respect to other information that we received before the date of this audit report, we come to the conclusion that such other information contains a significant distortion, we are obliged to report this fact. We have not identified any facts that need to be reflected in our conclusion.

Head of the task, according to the results of which the present auditor's report of independent auditors was issued:

Nematulla Karimov
AO "Grant Thornton" LLC

30 March 2018
Tashkent, Uzbekistan

SUMMARY OF SOURCES AND USE OF FUNDS
For the period from 01 January 2016 to 31 December 2016

	Note	YTD	Cumulative
Opening cash balances			
Designated Account (PCU) in USD	5	-	-
Designated account (PCU) in UZS	6	-	-
Special purposes (Operational) account SVK		-	-
Others		-	-
Total opening cash balances		-	-
Add: Sources			
Designated Account Replenishment		3 999 942	3 999 942
Direct Payments		-	-
Government Co-Financing		-	-
Others		-	-
Total receipts		**3 999 942**	**3 999 942**
Total Cash Available		**3 999 942**	**3 999 942**
Less: Use of Funds:			
A.1 Reconstruction of sewage systems - Bukhara		-	-
A.2 Reconstruction of sewage systems - Samarkand		-	-
B 1. Institutional strengthening and capacity-building - Bukhara		-	-
B 2. Institutional strengthening and capacity-building - Samarkand		-	-
C. Feasibility study for future investments		-	-
D.1. Project Management		41 295	41 295
D.1. Audit		-	0
Total funds used		**41 295**	**41 295**
Taxes and charges		-	-
Other charges		-	-
Foreign Exchange Difference		-	-
Closing cash balances			
Designated Account (PCU) in USD	5	3 958 577	-
Designated account (PCU) in UZS	6	70	-
Special purposes (Operational) account SVK		-	-
Others		-	-
Total Closing Cash Balances		**3 958 647**	-

Signed on behalf of Project Manager on 30 March 2018

Acting Manager of PCU

I. Mamatkhanov

Chief accountant of PCU

G. Rakhimova

USES OF FUNDS BY COMPONENTS AND EXPENDITURE TYPE
for the period from 01 January 2016 to 31 December 2016

Components	Actual		Budget		Variance	
	YTD	Cumulative	YTD	Cumulative	YTD	Cumulative
Component A - Physical investments						
A.1 Reconstruction of sewage systems - Bukhara	-	-	-	-	-	-
A.2 Reconstruction of sewage systems - Samarkand	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Component B - Institutional strengthening and capacity-building						
B 1. Institutional strengthening and capacity-building - Bukhara	-	-	-	-	-	-
B 2. Institutional strengthening and capacity-building - Samarkand	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Component C - Feasibility study for future investments						
C. Feasibility study for future investments	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Component D - Project Management						
D.1. Project Management	41 295	41 295	-	-	-	-
D.1. Audit	-	-	-	-	-	-
Subtotal	**41 295**	**41 295**	-	-	-	-
Total costs	**41 295**	**41 295**	-	-	-	-

Signed on behalf of Project Manager on 30 March 2018

Acting Manager of PCU

I. Mamatkhanov _____

Chief accountant of PCU

G. Rakhimova _____

USES OF FUNDS BY CATEGORIES AND EXPENDITURE TYPE
for the period from 01 January 2016 to 31 December 2016

Category	YTD	Cumulative
(1) Goods, works, non-consultanting services, consultants' services (including auditing services), Training and Operating costs :		
(a) for parts A,1 and B.1 of the Project	-	-
(б) for parts A.2 and B.2 of the Project	-	-
Sub Total	**-**	**-**
(2) Goods, consultants' services (including auditing services), Training and Operating costs under Parts A3, A4 and C of the Project	-	-
Sub Total	**-**	**-**
Ungrouped amount	**4 000 000**	**4 000 000**
Total	**4 000 000**	**4 000 000**

Signed on behalf of Project Manager on 30 March 2018

Acting Manager of PCU — I. Mamatkhanov

Chief accountant of PCU — G. Rakhimova

1. PROJECT DESCRIPTION

FOREWORD

This report contains the information concerning the implementation of Samarkand Bukhara Sewerage Project during period from 1 January 2016 till 31 December 2016.

Background

In accordance with the Loan Agreement No. 5698-UZ and 5699-UZ dated July 12, 2016 between the International Development Association (hereinafter referred to as IDA) and the Republic of Uzbekistan, a Project on reconstruction of sewage treatment plants and sewerage systems in the cities of Bukhara and Samarkand (hereinafter - the Project). The objectives of this Project are: (a) to reduce the harmful impact of wastewater collection on the environment; (b) improving the efficiency and sustainability of sewage systems in the Bukhara OPGP "Suvokova" (hereinafter referred to as "BVK") and Samarkand "OPGP" Suvokova "(hereinafter referred to as" SOVK ").

The Project Coordination Unit of the World Bank of the Agency "KOMMUNKHIZMAT" (hereinafter - the PCU) was established under the Agency "KOMMUNKHIZMAT" (hereinafter - the Agency) of the Republic of Uzbekistan, thus the Agency is the responsible organization for the implementation of the Project. The PCU provides support to the Agency in the management and coordination of the Project's financial resources provided by the IDA loan and the contribution of the Government of the Republic of Uzbekistan.

The total amount of the Project financing is estimated as 105 million US dollars. The project is financed by IDA with a loan of 74,700,000 Special Drawing Rights (equivalent to 105.0 million US dollars), with an interest rate of 1.25% of the principal amount under the standard conditions (IDA 5698-UZ) and 1.83% for the solid conditions (IDA 5699-UZ). The commission fee for the withdrawn and unpaid portion of the sub-loan is 0.75% per annum. The interest rate on liabilities in the amount of 0.5% per annum should be paid on unused loan amounts. The principal amount of the loan must be repaid every six months for 25 years, including 5 years grace period, starting from the date of approval by the Board of Directors of the World Bank. It is planned that the Project will last until 2019.

The Ministry of Finance of the Republic of Uzbekistan is responsible for repaying the loan on behalf of the Republic of Uzbekistan in accordance with the Credit Agreement of July 12, 2016 No. IDA 5698-UZ and IDA 5699-UZ between the MAP and the Republic of Uzbekistan. However, there are sub-loan agreements between the Ministry of Finance of the Republic of Uzbekistan and BVK and SVK on accepting obligations specified in the Loan Agreement

Project description

The project includes the following parts (components):

Part A. Physical investments

a) Rehabilitation of the sewage system in Bukhara, including:

- ✓ reconstruction and replacement of existing sections of sewage networks;
- ✓ reconstruction of existing sewage pumping stations and construction of additional sewage pumping stations; | construction of new sewerage networks;
- ✓ reconstruction of Bukhara sewage treatment facilities;
- ✓ provision of operational equipment;
- ✓ provision of technical assistance, which may be needed in the future

1. PROJECT DESCRIPTION (Continued)

b) Rehabilitation of the sewerage system in Samarkand, including:

- ✓ reconstruction and replacement of existing sections of sewage networks;
- ✓ reconstruction of existing sewage pumping stations and construction of additional sewage pumping stations;
- ✓ construction of new sewerage networks;
- ✓ reconstruction of Samarkand sewage treatment facilities;
- ✓ provision of operational equipment;
- ✓ provision of technical assistance, which may be needed in the future;
- ✓ construction of a new treatment plant located in Farhad

Part B. Institutional strengthening and capacity-building

(i) Institutional strengthening and capacity building of BVK through:

- ✓ training of personnel in the management of utilities, paying more attention to the needs and needs of consumers;
- ✓ development of information strategies and public awareness campaigns;
- ✓ improvement of internal control and accounting systems
- ✓ improvement of BVK accounting;
- ✓ establishment of a Pilot Monitoring and Data Collection System to improve the speed of troubleshooting and routine maintenance

(ii) Institutional strengthening and capacity building of SVK through:

- ✓ training of personnel in the management of utilities, paying more attention to the needs and needs of consumers;
- ✓ development of information strategies and public awareness campaigns;
- ✓ improvement of internal control and accounting systems
- ✓ improvement of the accounting of the SVK;
- ✓ Establishment of a Pilot Monitoring and Data Collection System to improve the speed of troubleshooting and routine maintenance

Part C – Project Management

Improvement of the PCU project management, monitoring and coordination capacity through the provision of goods, and consulting services, including project audit and training, and financing of operating costs.

Taxes and Duties

Taxes and duties on goods, works and services purchased under the IDA loan and contributions from the Government of the Republic of Uzbekistan, from which the specialization is granted, as well as costs for customs clearance, certification, expertise and architectural and construction supervision, which are financed from the Government of the Republic of Uzbekistan.

Finance costs

Expenses related to borrowing during the investment period.

1. PROJECT DESCRIPTION (Continued)

Other

Other costs represent funds that were mistakenly used to finance the costs of other projects of the PCU.

Continuing activities

According to the Financing Agreement, the Project is expected to be completed on 30 June 2019

2. REPRESENTATION OF FINANCIAL STATEMENTS

Basis for presentation of financial statements

This specialized financial statement on a cash basis, was prepared in accordance with the International Public Sector Accounting Standard ("IPSAS") "Financial statements prepared in accordance with the cash basis of accounting", issued by the International Federation of Accountants (IFAC) according to the requirements of International Bank for Reconstruction and Development (hereinafter referred to as IBRD) on accounting and reporting set out in the Financial Monitoring Reports for IBRD funded projects issued by the World Bank in 2002.

Basic principles of Accounting Policy

Reporting currency and methodology of conversion.

The currency of the specialized financial statements of the Project, prepared on the basis of the cash method, is the US dollar. A significant portion of the project's financing and costs was made in US dollars. Nevertheless, the Project has accounts in Uzbek Sumy (hereinafter referred to as "UZS") and euro, which are used to receive funds and pay expenses, including for payment to foreign contractors and suppliers.

Assets purchased and costs incurred in UZS were converted to US dollars using the following conversion principles:

- ✓ Monetary assets denominated in a currency other than the US dollar were converted into US dollars using the official exchange rate of the Central Bank of the Republic of Uzbekistan (hereinafter referred to as CBRU) as of 31 December 2016, which was 3 231.48 UZS per 1 dollar United States (2015: 2,809.98 UZS per 1 US dollar);
- ✓ US dollars, taking into account the exchange rate of the CBRU at the date of the transaction; and
- ✓ The profit / loss resulting from the transfer of movements in the accounts in a currency other than the US dollar is recognized as profit / loss from revaluation. The income / expenses received / incurred in a currency other than the US dollar are converted to foreign currency in the relevant extracts from the special and current accounts, as well as in the specialized report on the receipt and use of funds (hereinafter referred to as the "SRRUF").

Funds of the Government of the Republic of Uzbekistan

The funds of the Government of the Republic of Uzbekistan consist of contributions in kind and in cash. Deposits in kind are provided in the form of exemption from taxes and duties on goods, works and services that the PCU purchased under the IDA loan and contributions from the Government of the Republic of Uzbekistan.

2. REPRESENTATION OF FINANCIAL STATEMENTS (Continued)

Special and current bank accounts in the Republic of Uzbekistan.

PCU and SVK conduct special bank accounts. A special bank account in US dollars represents the funds provided by the IDA to improve the cash flow of the borrower and to facilitate the timely disbursement of funds. Accounts are opened in JSCB "Hamkorbank". Accounting and reporting on special accounts is carried out by the financial staff of the Project and is controlled by the Agency.

Special accounts in US dollars are used to cover the proportion of eligible costs of IDA in both local and foreign currencies. Eligible costs are reported to the IDA in the statement of cumulative costs. Special accounts in US dollars are replenished by IDA on the basis of the reconciliation report for the special account prepared by the PCU for the evaluation of the special account in US dollars and the statement of total costs.

Current and special accounts in UZS were opened for crediting of funds received from the sale of tender documents, conversion of funds received to special accounts in US dollars under the IDA loan, for payment of contracts concluded under the Project, payment of salaries to employees of the PCU, Project management and withdrawal of funds.
The special account in euro was opened for crediting of the funds received from the sale of tender documents and for payment of contracts concluded within the framework of the Project

3. LEGAL STATUS, TAXES AND CHARGES

Согласно Постановлению Президента Республики Узбекистан от 29 октября 2009 года № ПП-2526 «О дополнительных мерах по реализации проекта «Реконструкция очистных сооружений и канализационных систем в городах Бухара и Самарканд» с участием МАР» и совместного Постановления Министерства финансов Республики Узбекистан от 16 апреля 2004 года № 64, Государственного налогового комитета Республики Узбекистан от 16 апреля 2004 года № 2004-15 и Государственного таможенного комитета Республики Узбекистан от 16 апреля 2004 года № 01-02/19-22 «Об утверждении Положения о налогообложении товаров (работ, услуг), завозимых и приобретаемых на территории Республики Узбекистан за счет привлекаемых и гарантируемых Республикой Узбекистан заемных средств в рамках инвестиционных проектов с участием международных финансовых институтов и зарубежных правительственных финансовых организаций», товары, работы и услуги, предоставленные и оплаченные на территории Республики Узбекистан и финансируемые кредитами МАР, освобождаются от налогов и пошлин.

4 RECONCILIATION OF IDA FINANCING

The reconciliation of financing between IDA's data on the website at www.worldbank.org in the Client Connection section and the Project data as of 31 December 2016 is shown in the table below:

	Client Connection data (www.worldbank.org)	Project data	Variance
IDA funds	3 999 942	4 000 000	57,59

Variance of 57.59 $ is bank service of Raiffeisen bank.

5. DESIGNATED ACCOUNT (USD) RECONCILIATION STATEMENT

Account №	**22626840904262646002**
Depository bank	**JSCB "HAMKORBANK"**
Address	**Tashkent, Uzbekistan**
Source of financing	**Related loan/grant: IDA 56980-UZ**
Currency	**in US dollars**
Balance as of 01.01.2016	-
Add: Sources	
Tranfer from WB IDA deduct	3 999 942
Total Cash Available	**3 999 942**
Less:Use of funds	
Sale of free foreign exchange funds (SPOT)	19 000
Transfer to a special account in US dollars - SVK	22 365
Transfer to current account of PCU (in US dollars)	-
Total funds used	**41 365**
Balance as of 31.12.2016	**3 958 577**

6. DESIGNATED ACCOUNT (UZS) RECONCILIATION STATEMENT

Account №	**22626000304262646002**	
Depository bank	**JSCB "IPOTEKA BANK"**	
Address	**Tashkent, Uzbekistan**	
Source of financing	**Related loan/grant: IDA 56980-UZ**	
Currency	**in thousands of UZS**	**in US dollars**
Balance as of 01.01.2016	-	-
Add: Sources		
Sale of free foreign exchange funds (SPOT)	62 190	20 417
Total Cash available	**62 190**	**20 417**
Less: Use of funds		
Cost financing for project management	59 042	19 395
Payment of income tax from a non-resident	2 922	931
Foreign Exchange Difference	-	21
Total funds used	**61 964**	**20 347**
Balance as of 31.12.2016	**226**	**70**