

**HEALTH RESULTS-BASED FINANCING PROJECT**

**IDA GRANT NUMBER TF013310**

**IMPLEMENTED BY  
RESULT-BASED FINANCING SECRETARIAT UNIT  
UNDER THE MINISTRY OF HEALTH  
OF THE KYRGYZ REPUBLIC**

**SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT**

For the year ended 31 December 2016

**BISHKEK  
June 2017**

# HEALTH RESULTS-BASED FINANCING PROJECT

IDA GRANT NUMBER TF013310

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**STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND PRESENTATION OF THE SPECIAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

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The management of the RBF Secretariat under the Ministry of Health of Kyrgyz Republic (hereafter: RBF Secretariat) is responsible for the preparation of the special purpose financial statements of Health Results-Based Financing Project (hereafter: the Project) financed by IDA Grant Number TF013310 that present fairly the Project’s cash receipts and payments, expenditures per components for the year ended 31 December 2016, 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).

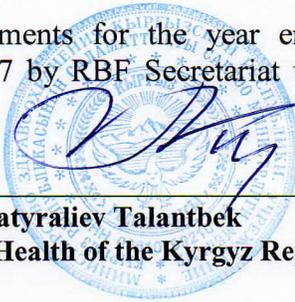
In preparing the special purpose project financial statements, PIU’s management is responsible for:

- 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 December 2016.

PIU’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 IDA Grant Number TF013310 dated 30 December 2013, 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 December 2016 were authorized for issue on 14 June 2017 by RBF Secretariat under the Ministry of Health of Kyrgyz Republic.



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**Batyrallyev Talantbek**  
**Minister of Health of the Kyrgyz Republic**

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**Oskombaeva Klara**  
**Director**  
**RBF Secretariat**

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**Esengulov Kanatbek**  
**Finance Manager**  
**RBF Secretariat**



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"SOS-AUDIT" LTD

## INDEPENDENT AUDITOR'S REPORT

To the Ministry of Health of the Kyrgyz Republic

### **Opinion**

We have audited the special purpose financial statements of "Health Results-Based Financing Project" ("Project") financed by Financing Agreement IDA Grant Number TF013310 dated 30 December 2013 ("Grant Agreement"), and implemented by RBF Secretariat under the Ministry of Health of Kyrgyz Republic ("RBF Secretariat"), which comprise the statement of cash receipts and payments and the statement of expenditures per components for the year ended 31 December 2016, and notes to the special purpose financial statements, including a summary of significant accounting policies.

In our opinion,

1. the accompanying financial statements present fairly, in all material respects, the cash flows for the year ended 31 December 2016 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting, (IPSAS-Cash Basis)*;
2. funds have been used in accordance with the conditions of the Grant Agreement concluded between the International Development Association (IDA) and the Kyrgyz Republic, and WB 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 Grant Agreement; Interim Unaudited Financial Statements (IFSs) issued by RBF Secretariat during the reporting period are in agreement with the underlying books of account;
4. The Designated account used has been maintained in accordance with the provision of the Grant Agreement, and World Bank related guidelines;
5. Goods and Services financed have been procured in accordance with the Grant Agreement and World Bank related guidelines;
6. Financial covenants in the Part B of the Section II of the Schedule 2 of the Grant Agreement were complied.

### **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 RBF Secretariat in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our 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 – low disbursement level**

Without qualifying our opinion, we draw your attention to Note 7 of these special purpose financial statements disclosing that though the Project closing date is set on 30 June 2017, cumulative expenditure accounts to only 41% of the Project total budget, and the measures taken by the management of the RBF Secretariat.



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"SOS-AUDIT" LTD

### ***Responsibilities of the Management for the Financial Statements***

Management of the RBF Secretariat 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.

"SOS-Audit" LLC  
14 June 2017



Manvel Ghazaryan  
Director

  
Gnel Khachatryan, FCCA  
Auditor

**Health Results-Based Financing Project**  
**IDA Grant Number TF013310**

**Statement of cash receipts and payments**  
 For the year ended 31 December 2016  
 (Amounts are shown in US dollars)

	Note	Actual		Budget		Variance	
		Reporting period	Cumulative as at 31.Dec.2016	Reporting period	Cumulative as at 31.Dec.2016	Reporting period	Cumulative as at 31.Dec.2016
<b>TOTAL OPENING CASH</b>		49,218	-				
<b>Sources of Funds</b>	8						
IDA Grant Number TF013310		2,797,018	5,018,813				
<b>TOTAL FUNDS</b>		<b>2,797,018</b>	<b>5,018,813</b>				
<b>Project Expenditures</b>	7						
(1) Incentive Payments to Participating Providers under Part 1 of the Project		1,969,718	3,835,283	1,969,718	3,835,283	-	-
(2) Goods, Consultant Services, Incremental Operating Costs, and Training		362,469	669,481	420,964	727,976	(58,495)	(58,495)
<b>TOTAL PROJECT EXPENDITURES</b>		<b>2,332,187</b>	<b>4,504,764</b>	<b>2,390,682</b>	<b>4,563,259</b>	<b>(58,495)</b>	<b>(58,495)</b>
<b>TOTAL CLOSING CASH</b>		<b>514,049</b>	<b>514,049</b>				



**Oskombaeva Klara**  
**Director**  
**RBF Secretariat**



**Esengulov Kanatbek**  
**Finance Manager**  
**RBF Secretariat**

14 June 2017

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

**Health Results-Based Financing Project**  
**IDA Grant Number TF013310**

**Statement of expenditures per components**  
 For the year ended 31 December 2016  
 (Amounts are shown in US dollars)

Components	Actual		Planned		Variance	
	Reporting period	Cumulative as at 31.Dec.2016	Reporting period	Cumulative as at 31.Dec.2016	Reporting period	Cumulative as at 31.Dec.2016
<b>Part 1: Pilot Performance-Based Payments and Enhanced Supervision for Quality of Health Care</b>	<b>1,982,676</b>	<b>3,855,074</b>	<b>1,982,720</b>	<b>3,855,118</b>	<b>(44)</b>	<b>(44)</b>
1.a. Conducting a randomized controlled trial at the rayon hospital level	1,969,718	3,835,283	1,969,718	3,835,283	-	-
1.b. Supporting Incremental Operating Costs of MHIF to manage performance-based contracts with health facilities	12,958	19,791	13,002	19,835	(44)	(44)
<b>Part 2: Strengthen the Government's and Health Care Providers' Capacity in Performance-Based Payment Reform and Monitoring and Evaluation for Results</b>	<b>349,511</b>	<b>649,690</b>	<b>407,962</b>	<b>708,141</b>	<b>(58,451)</b>	<b>(58,451)</b>
2.a. Improving the capacity of MOH through provision of technical assistance	2,805	2,805	10,000	10,000	(7,195)	(7,195)
2.b. Improving the capacity of Participating Providers through provision of technical assistance and training	38,041	77,322	45,000	84,281	(6,959)	(6,959)
2.c. Supporting Project coordination, implementation, management and monitoring	308,665	569,563	352,962	613,860	(44,297)	(44,297)
<b>TOTAL</b>	<b>2,332,187</b>	<b>4,504,764</b>	<b>2,390,682</b>	<b>4,563,259</b>	<b>(58,495)</b>	<b>(58,495)</b>



**Oskombaeva Klara**  
**Director**  
**RBF Secretariat**



**Esengulov Kanatbek**  
**Finance Manager**  
**RBF Secretariat**

14 June 2017

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

**Health Results-Based Financing Project**  
**IDA Grant Number TF013310**

**Notes to the special purpose financial statements**  
For the year ended 31 December 2016

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**1. General information**

**1.1. The Project**

The Grant Agreement IDA Grant TF013310 was concluded on 30 December 2013 between the Kyrgyz Republic and the International Development Association (IDA), according to which IDA, acting as administrator of grant funds provided by the Multi-Donor Trust Fund for Health Results Innovation, provided financing in the amount of 11,000,000 United States dollars (USD) for the implementation of "Health Results-Based Financing Project" (the Project). The Project became effective on 29 July 2014.

The Closing date of the IDA Grant Number TF013310 is set 30 June 2017. The Grace Period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing dates: 31 October 2017.

**1.2. The Project objectives**

The objectives of the Project are:

1. to pilot performance-based payments and enhanced supervision for quality of maternal and neonatal care in randomly selected rayon hospitals; and
2. to strengthen the Recipient's and healthcare providers' capacity in performance-based contracting and monitoring and evaluating for results.

The Project consists of the following parts:

**Part 1: Pilot Performance-Based Payments and Enhanced Supervision for Quality of Health Care**

- (a) Conducting a randomized controlled trial at the rayon hospital level
- (b) Supporting Incremental Operating Costs of MHIF to manage performance-based contracts with health facilities.

**Part 2: Strengthen the Government's and Health Care Providers' Capacity in Performance-Based Payment Reform and Monitoring and Evaluation for Results**

- (a) Improving the capacity of MOH and MHIF through provision of technical assistance,
- (b) Improving the capacity of Participating Providers through provision of technical assistance and training,
- (c) Supporting Project coordination, implementation, management and monitoring through the provision of training, goods, and financing of MOH Incremental Operating Costs.

**1.3. The Project Budget and Financing**

The Project is 100% financed (inclusive of taxes) by IDA Grant Number TF013310.

Category	IDA Grant Number TF013310	Total
	USD	USD
(1) Incentive Payments to Participating Providers under Part 1 of the Project	8,832,230	8,832,230
(2) Goods, Consultant Services, Incremental Operating Costs, and Training	2,167,770	2,167,770
<b>Total</b>	<b>11,000,000</b>	<b>11,000,000</b>

**Notes to the special purpose financial statements**  
For the year ended 31 December 2016

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***1.4. Project Implementation***

The Ministry of Health of the Republic of Kyrgyzstan (MOH) established the RBF Secretariat to ensure the project implementation with the following functions:

- (i) providing day-to-day implementation and management of the Project, including financial management, procurement, and fiduciary audits for service providers;
- (ii) participating as observers during peer verification;
- (iii) assessing the validity of reported data to ensure accuracy and reduce the likelihood of misreporting; and
- (iv) conducting counter-verification on a semi-annual basis.

For the project purposes MOH has randomly selected 42 health facilities for 2 groups:

- Group I (21 facilities + pilot Chui hospital): use of an enhanced supervision scheme that utilizes a Balanced Scorecard (BSC) to assess quality of care together with a performance-based payment made against the level of facility performance achieved on a quarterly basis;
- Group II (21 facilities): use of only the enhanced supervision scheme that utilizes the BSC without performance-based payments.

RBF Secretariat address is: room 6, Togolok Moldo Street 1, Bishkek, Kyrgyz Republic.

## **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 effect of exchange rate changes on cash held on foreign currency is reported as separate line item in the statement of cash receipts and payments.

The exchange rate defined by the National Bank of the Kyrgyz Republic is as follows:

31 December 2015: USD 1 = 75.8993 KGS.

31 December 2016: USD 1 = 69.2301 KGS.

### ***2.4. Taxes***

Taxes are paid in accordance with the tax regulations of the Kyrgyz Republic.

**Health Results-Based Financing Project**  
**IDA Grant Number TF013310**

**Notes to the special purpose financial statements**  
For the year ended 31 December 2016

**3. Summary of Summary Reports and SOEs**

Withdrawal application No	Withdrawal application value date	Payment categories		Total
		(1) Incentive Payments to Participating Providers under Part 1 of the Project	(2) Goods, Consultant Services, Incremental Operating Costs, and Training	
8	3.Feb.2016	454,819.72	60,706.39	515,526.11
10	10.May.2016	335,256.03	44,687.94	379,943.97
13	18.Aug.2016	482,446.33	87,916.50	570,362.83
15	30.Nov.2016	923,057.18	99,827.56	1,022,884.74
<b>Total</b>		<b>2,195,579.26</b>	<b>293,138.39</b>	<b>2,488,717.65</b>

**4. Statement of Designated Account**

Bank account number	1013350200002170
Bank	National Bank of The Kyrgyz Republic
Bank location	101 T. Umutaliv Street, Bishkek, Kyrgyz Republic
Currency	USD

	<b>IDA Grant No. TF013310</b>
	<b>Year ended 31.Dec.2016</b>
1. Opening balance as at 1.Jan.2016	49,218
2. Add: opening discrepancy	-
3. WB advance/replenishment	2,748,718
4. Less: Refund to WB from DA	-
<b>5. Present outstanding amount advanced to DA</b>	<b>2,797,936</b>
6. DA closing balance as at 31.Dec.2016	514,049
7. Add: Amount of eligible expenditures paid	2,283,887
8. Less: interest earned (if credited to DA)	-
<b>9. Total advance accounted for</b>	<b>2,797,936</b>
10. Closing discrepancy (5)-(9)	-

**Health Results-Based Financing Project**  
**IDA Grant Number TF013310**

**Notes to the special purpose financial statements**  
For the year ended 31 December 2016

**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).

	<u>Note</u>	<u>31 Dec 2016</u> USD	<u>31 Dec 2015</u> USD
<b>ASSETS</b>			
Cash	6	514,049	49,218
Prepayments (operating costs)		6,037	649
<b>Total assets</b>		<b>520,086</b>	<b>49,867</b>
<b>LIABILITIES</b>			
Payables		-	-
<b>Total liabilities</b>		-	-
<b>NET ASSETS</b>			
<b>Cumulative income</b>			
IDA Grant No. TF013310	8	5,018,813	2,221,796
		<b>5,018,813</b>	<b>2,221,796</b>
<b>Cumulative expenses</b>			
Project expenses	7	4,498,728	2,171,929
		<b>4,498,728</b>	<b>2,171,929</b>
<b>Total net assets</b>		<b>520,086</b>	<b>49,867</b>

**6. Cash**

	<u>Underlying</u> <u>Currency</u>	<u>31 Dec 2016</u> USD	<u>31 Dec 2015</u> USD
Designated Account (IDA Grant TF013310)	USD	514,049	49,218
		<b>514,049</b>	<b>49,218</b>

**Health Results-Based Financing Project  
IDA Grant Number TF013310**

**Notes to the special purpose financial statements**  
For the year ended 31 December 2016

**7. Project Expenditures budget execution**

Category	Cumulative Expenditures as at 31 Dec 2016	Total Project Budget	Progress (a)
	USD	USD	%
(1) Incentive Payments to Participating Providers under Part I of the Project	3,835,283	8,832,230	43%
(2) Goods, Consultant Services, Incremental Operating Costs, and Training	669,481	2,167,770	31%
<b>Total</b>	<b>4,504,764</b>	<b>11,000,000</b>	<b>41%</b>

(a) The Grant Agreement IDA Grant TF013310 was concluded on 30 Dec 2013 and became effective on 29 July 2014. The incentive payments to selected medical centers commenced from Dec 2014.

As of 31 Dec 2016 only 41% of budget is implemented, though the Project closing date is set on 30 June 2017. Low rate of implementation of the Project is mainly due to significant appreciation (about 60%) of the USD against KGS between financing period and budgeted rate.

The RBF Secretariat discussed the issue with relevant ministries and WB, and suggested to extend the Project implementation till 30 Dec 2018; as well as suggests to reformulate PDO indicators, and revise the results framework, and revise cap on civil works and reoccurring withdrawal conditions.

**8. Financing IDA Grant No TF013310**

	Reporting period USD	Cumulative as at 31 Dec 2016 USD
Advances/ (advance recovery)	260,000	1,160,000
Direct Payments	48,300	90,150
SOE and Summary Report	2,488,718	3,768,663
<b>Total</b>	<b>2,797,018</b>	<b>5,018,813</b>
Total financing budget		<b>11,000,000</b>
Percentage of finance provided as at 31 Dec 2016		<b>46%</b>

**9. Events after the reporting date**

The application N 16, that consists expenditures relating to the reporting period in the amount of 645,951.36 USD was submitted to WB on 24 February 2017 and approved on 19 April 2017.

**Health Results-Based Financing Project**  
**IDA Grant Number TF013310**

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

For the year ended 31 December 2016

(Amounts are shown in US dollars)

**IDA Grant TF013310**

<b>Expenditure Category</b>	<b>Appl.</b>	<b>RBF Secretariat</b>	<b>WB</b>	<b>Difference</b>
Advance	8	(237,321.72)	(237,321.72)	-
	9	237,321.72	237,321.72	-
	14	260,000.00	260,000.00	-
		<b>260,000.00</b>	<b>260,000.00</b>	
(1) Incentive Payments to Participating Providers under Part 1 of the Project	8	454,819.72	454,819.72	-
	10	335,256.03	335,256.03	-
	13	482,446.33	482,446.33	-
	15	923,057.18	923,057.18	-
		<b>2,195,579.26</b>	<b>2,195,579.26</b>	
(2) Goods, Consultant Services, Incremental Operating Costs, and Training	8	60,706.39	60,706.39	-
	10	44,687.94	44,687.94	-
	11DP	14,820.00	14,820.00	-
	12DP	33,480.00	33,480.00	-
	13	87,916.50	87,916.50	-
	15	99,827.56	99,827.56	-
		<b>341,438.39</b>	<b>341,438.39</b>	
<b>Total</b>		<b>2,797,017.65</b>	<b>2,797,017.65</b>	