Ms. Lavrova Olga
Minister of Finance
Ministry of Finance
58 Erkindik Boulevard
Bishkek 720040
Kyrgyz Republic

Dear Ms. Lavrova,

Re: IDA Financing (Credit No. 5235-KG and Grant No. H839-KG)
Second Health and Social Protection Project
Additional Instructions: Disbursement

I refer to the Financing Agreement between the International Development Association (the “Association”) and The Kyrgyz Republic (the “Recipient”) for the above-referenced project, dated December 16, 2013. The Financing Agreement provides that the Association may issue additional instructions regarding the withdrawal of the proceeds of IDA Financing (Credit No. 5235-KG and Grant No. H839-KG) (“Financing”). This letter (“Disbursement Letter”), as revised from time to time, constitutes the additional instructions.

The attached World Bank Disbursement Guidelines for Projects, dated May 1, 2006, (“Disbursement Guidelines”) (Attachment 1), are an integral part of the Disbursement Letter. The manner in which the provisions in the Disbursement Guidelines apply to the Financing is specified below. Sections and subsections in parentheses below refer to the relevant sections and subsections in the Disbursement Guidelines and, unless otherwise defined in this letter, the capitalized terms used have the meanings ascribed to them in the Disbursement Guidelines.

I. Disbursement Arrangements

(i) Disbursement Methods (section 2). The following Disbursement Methods may be used under the Financing:

• Reimbursement
• Advance

(ii) Disbursement Deadline Date (subsection 3.7). The Disbursement Deadline Date is four (4) months after the Closing Date, specified in the Financing Agreement. Any changes to this date will be notified by the Association.
II. Withdrawal of Financing Proceeds

(i) Authorized Signatures (subsection 3.1).
A letter in the Form attached (Attachment 2) should be furnished to the Association at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

International Development Association
1818 H Street, N.W.
Washington, DC 20433
United States of America
Attention: Saroj Kumar Jha, Regional Director, Central Asia

(ii) Applications (subsections 3.2 - 3.3). Please provide completed and signed (a) applications for withdrawal, together with supporting documents, and (b) applications for special commitments, together with a copy of the commercial bank letter of credit, to the address indicated below:

The World Bank
Radnicka cesta 80, 9th floor
Zagreb, HR – 10 000,
Croatia
Attention: Disbursement Management Group

(iii) Minimum Value of Applications (subsection 3.5). The Minimum Value of Applications is 20% of the outstanding advance of the Designated Account.

(iv) Advances (sections 5 and 6).

- **Type of Designated Account (subsection 5.3):** Pooled
- **Currency of Designated Account (subsection 5.4):** United States Dollars (US$)
- **Financial Institution at which the Designated Account Will Be Opened (subsection 5.5):** Treasury will open the Designated Account in the National Bank of the Kyrgyz Republic (NBKR).
- **Ceiling (subsection 6.1):** forecast for two quarters as provided in the consolidated quarterly Interim Financial Report.

III. Reporting on Use of Financing Proceeds

(i) Supporting Documentation (section 4). Supporting documentation should be provided with each application for withdrawal as set out below:

- **For requests for reimbursement:**
  - The consolidated Interim Financial Report (Attachment 5)
- List of payments against contracts that are subject to the Association’s prior review, in the form attached (Attachment 4)

- **For reporting eligible expenditures paid from the Designated Account:**
  
  - The consolidated Interim Financial Report (Attachment 5)
  
  - List of payments against contracts that are subject to the Association’s prior review, in the form attached (Attachment 4)

(ii) **Frequency of Reporting Eligible Expenditures Paid from the Designated Account (subsection 6.3):** the period set out in the Financing Agreement for provision of Interim Financial Reports – quarterly.

V. Other Disbursement Instructions

Please note with regard to the condition of disbursement, no withdrawals shall be made against Category 1 unless the terms as identified in paragraph 1(b) and 2, of Section IV B of Schedule 2 of the Financing Agreement are met.

Please be advised that in accordance to Schedule 2, Section IV.A.2 of the Financing Agreement, to the extent practicable, for the Categories, the proceeds of the Grant shall be disbursed before disbursement of the proceeds of the Credit.

VI. Other Important Information


If you have not already done so, the World Bank recommends that you register as a user of the Client Connection website ([https://clientconnection.worldbank.org](https://clientconnection.worldbank.org)). From this website you will be able to download Applications, monitor the near real-time status of the Grant, and retrieve related policy, financial, and procurement information. All Recipient officials authorized to sign and deliver Applications by electronic means are required to register with Client Connection before electronic delivery can be effected. For more information about the website and registration arrangements, please contact the World Bank by email at <clientconnection@worldbank.org>.
If you have any queries in relation to the above, please contact Mr. Joseph P. Formoso, Senior Finance Officer at loa-eca@worldbank.org using the above reference.

Yours sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

[Signature]

Alexander Kremer
Acting Country Director for Central Asia
Europe and Central Asia Region

Attachments

1. World Bank Disbursement Guidelines for Projects, dated May 1, 2006
2. Form for Authorized Signatures
4. Form for Payments Against Contracts Subject to the Association’s Prior Review
5. Interim Financial Reports - Format

cc: Dinara Sagynbaeva
Minister of Health
Ministry of Health

Kudaibergen Bazarbaev
Minister of Social Development
Ministry of Social Development

Mirlan Baigonchokov
Deputy Minister
Ministry of Finance
Prepared by Joseph P. Formoso, CTRLA

Cleared with and cc:  Adam Shayne, LEGLE
                     Susanna Hayrapetyan, ECSI
[Letterhead]
Ministry of Finance
[Street address]
[City] [Country]

[DATE]

The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Attention: [Country Director]

Dear [Country Director]:

Re: IDA Financing (Credit No. 5235-KG and Grant No. H839-KG)
Second Additional Health and Social Protection Project

I refer to the Financing Agreement ("Agreement") between the International Development Association (the "Association") and the Kyrgyz Republic (the "Recipient"), dated December 16, 2013, providing the above Financing. For the purposes of Section 2.03 of the General Conditions, as defined in the Agreement, any [1] of the persons whose authenticated specimen signatures appear below is authorized on behalf of the Recipient to sign applications for withdrawal [and applications for a special commitment] under this Financing.

For the purpose of delivering Applications to the World Bank, [2] of the persons whose authenticated specimen signatures appear below is authorized on behalf of the Recipient, acting [individually] [jointly], to deliver Applications, and evidence in support thereof on the terms and conditions specified by the World Bank.

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1 Instruction to the recipient when sending this letter to the Association: Stipulate if more than one person needs to sign Applications, and how many or which positions, and if any thresholds apply.

2 Instruction to the Recipient: Stipulate if more than one person needs to jointly sign Applications, if so, please indicate the actual number. Please delete this footnote in final letter that is sent to the Association.

3 Instruction to the Recipient: Use this bracket if any one of the authorized persons may sign; if this is not applicable, please delete. Please delete this footnote in final letter that is sent to the Association.

4 Instruction to the Recipient: Use this bracket only if several individuals must jointly sign each Application; if this is not applicable, please delete. Please delete this footnote in final letter that is sent to the Association.
5 [This confirms that the Recipient is authorizing such persons to accept Tokens and to deliver the Applications and supporting documents to the World Bank by electronic means. In full recognition that the World Bank shall rely upon such representations and warranties, including without limitation, the representations and warranties contained in the Terms and Conditions of Use of Secure Identification Devices in connection with Use of Electronic Means to Process Applications and Supporting Documentation ("Terms and Conditions of Use of Tokens"), the Recipient represents and warrants to the World Bank that it will deliver to each such person a copy of the Terms and Conditions of Use of Tokens and will cause such persons to abide by those terms and conditions.]

This Authorization replaces and supersedes any Authorization currently in the World Bank records with respect to this Agreement.

[Name], [position]Specimen Signature: __________________________

[Name], [position]Specimen Signature: __________________________

[Name], [position]Specimen Signature: __________________________

Yours truly,

/ signed /

[Position]

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5 Instruction to the Recipient: Add this paragraph if the Recipient wishes to authorize the listed persons to accept Tokens and to deliver Applications by electronic means; if this is not applicable, please delete the paragraph. Please delete this footnote in final letter that is sent to the Association.
Attachment 3

Terms and Conditions of Use of Secure Identification Devices
in connection with Use of Electronic Means
to Process Applications
and Supporting Documentation

January 20, 2010

The World Bank (Bank)\(^6\) will provide secure identification devices (Tokens) to permit the Borrower\(^7\) to deliver applications for withdrawal and applications for special commitments under the Agreement(s) and supporting documentation (such applications and supporting documentation together referred to in these Terms and Conditions of Use as Applications) to the Bank electronically, on the terms and conditions of use specified herein.

A. Identification of Users.

1. The Borrower will be required to identify in a completed Authorized Signatory Letter (ASL) duly delivered to and received by the Bank each person who will be authorized to deliver Applications. The Bank will provide Tokens to each person identified in the ASL (Signatory), as provided below. The Borrower shall also immediately notify the Bank if a Signatory is no longer authorized by the Borrower to act as a Signatory.

2. Each Signatory must register as a user on the Bank’s Client Connection (CC) website (https://clientconnection.worldbank.org) prior to delivery of Tokens. Registration on CC will require that the Signatory establish a CC password (CC Password). The Signatory shall not reveal his/her CC Password to anyone or store or record the CC Password in written or other form. Upon registration as a CC user, the Signatory will be assigned a unique identifying account name.

B. Distribution, Initialization and Return of Tokens.

1. The Bank will physically deliver a Token to each Signatory in a manner to be determined by and satisfactory to the Bank.

2. At the time of delivery of a Token to a Signatory, the Signatory will receive a copy of these Terms and Conditions of Use for purposes of initializing the Token.

3. The Bank will verify that the Token, Temporary Password and Terms and Conditions of Use have been duly delivered to and received by the CC User.

4. Promptly upon receipt of the Token and Terms and Conditions of Use, the Signatory will access CC using his/her account name and CC Password and register his/her Token and set a personal identification number (PIN) to be used in connection with the use of his/her Token, after which the Token will be initialized for use by the Signatory exclusively for purposes of delivering Applications. Upon initialization of the Token, the Signatory will be a “Token User”. The Bank will maintain in its database a user account (Account) for each Token User for purposes of managing the Token of the Token User. Neither the Borrower nor the Token User will have any access to the Account.

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\(^6\) “Bank” includes IBRD and IDA.

\(^7\) “Borrower” includes the borrower of an IBRD loan, IDA credit, or Project Preparation Facility advance and the recipient of a grant.
5. Prior to first use of the Token by the Token User for delivering Applications, the Borrower shall ensure that the Token User has received training materials provided by the Bank in use of the Token.

6. Tokens shall be promptly returned to the Bank upon request of the Bank.

C. Management of Tokens.

1. Tokens will remain the property of the Bank.

2. Use of the Token is strictly limited to use in the delivery of Applications by the Token User in the manner prescribed by the Bank in the Agreement(s) and these Terms and Conditions. Any other use of the Token is prohibited.

3. The Bank assumes no responsibility or liability whatsoever for any misuse of the Token by the Token User, other representatives of the Borrower, or third parties.

4. The Borrower undertakes to ensure, and represents and warrants to the Bank (such representation and warranty being expressly relied upon by the Bank in delivery of a Token to each Token User) that each Token User is provided, understands and will abide by, these Terms and Conditions of Use, including without limitation the following:

Security

4.1. The Token User shall not reveal his/her PIN to anyone or store or record the PIN in written or other form.

4.2. The Token User shall not allow anyone else to utilize a Token to deliver an Application to the Bank.

4.3. The Token User shall always logout from CC when not using the system. Failure to logout properly can create a route into the system that is unprotected.

4.4. If the Token User believes a third party has learned his/her PIN or has lost his/her Token he/she shall immediately notify clientconnection@worldbank.org.

4.5. The Borrower shall immediately notify the Bank at clientconnection@worldbank.org of any lost, stolen or compromised Tokens, and take other reasonable steps to ensure such Tokens are disabled immediately.

Care of Tokens

4.6. Tokens contain delicate and sophisticated instrumentation and therefore should be handled with due care, and should not be immersed in liquids, exposed to extreme temperatures, crushed or bent. Also, Tokens should be kept more than five (5) cm from devices that generate electromagnetic radiation (EMR), such as mobile phones, phone-enabled PDAs, smart phones and other similar devices. Tokens should be carried and stored separate from any EMR device. At close range (less than 5 cm), these devices can output high levels of EMR that can interfere with the proper operation of electronic equipment, including the Token.

4.7. Without derogating from these Terms and Conditions of Use, other technical instructions on the proper use and care Tokens are available at http://www.rsa.com.
Replacement

5.1. Lost, damaged, compromised (in terms of 4.5, above) or destroyed Tokens will be replaced at the expense of the Borrower.

5.2. The Bank reserves the right, in its sole discretion, not to replace any Token in the case of misuse, or not to reactivate a Token User's Account

Reservation of Right to disable Token

6.1. The Borrower shall reserve the right to revoke the authorization of a Token User to use a Token for any reason.

6.2. The Bank reserves the right, in its sole discretion, to temporarily or permanently disable a Token, de-activate a Token User’s Account or both.
## Payments Made during Reporting Period
Against Contracts Subject to the Bank’s Prior Review

<table>
<thead>
<tr>
<th>Contract Number</th>
<th>Supplier</th>
<th>Contract Date</th>
<th>Contract Amount</th>
<th>Date of WB's Non Objection to Contract</th>
<th>Amount Paid to Supplier during Period</th>
<th>WB's Share of Amt Paid to Supplier during Period</th>
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Attachment 5

TERMS OF REFERENCE (TOR)
FOR THE COMBINED FINANCIAL AND OPERATIONAL AUDIT 
OF 
THE SECOND HEALTH & SOCIAL PROTECTION PROJECT 
FOR THE YEAR ENDING DECEMBER 31.............

I. Background

The Government of Kyrgyz Republic has received assistance from the international donor community, including the World Bank (WB), to support an on-going reform agenda in the health sector. The Health Reform Program “Den Sooluk” covering the period of 2012-2016 has been developed by the Ministry of Health (MoH) as a successor to the National Health Care Program “Manas Taalimi” (2005-2010). The main goal of the “Den Sooluk” is to establish conditions for the protection and improvement of the population’s health as a whole and for each individual, irrespective of social status and gender differences. The Den Sooluk reform strategy was approved by the Government of the Kyrgyz Republic in May 2012, and identifies four priority areas: Cardio-vascular Diseases (CVD); Mother and child care (MCH); Tuberculosis (TB) and HIV. Removal of health systems barriers for the four priority areas are grouped around the main functions of health systems: service delivery (public health and individual services); health financing; resource generation and governance.

The Second Health and Social Protection Project (Health SWAp2), that supports the implementation of the ”Den Sooluk” will be financed by a number of financiers, including IDA, KfW and SDC, otherwise referred to as Joint Financiers (JFs). Except for the KfW funds all the other credit and grant funds will be administered by the World Bank. The project, designed as a SWAp, and using country systems of budgeting, funds flow, accounting and reporting, is implemented by the Ministry of Health (MOH), and supported Mandatory Health Insurance Fund (MHIF), with dedicated FM personnel who are regular employees of the MOH and MHIF, with consultants support. There are currently a total of seven distinct programs under the Den Sooluk Health Reform Program, as follows: (i) Program of State Guarantees; (ii) Outpatient Drug Package; Public Health; (iv) High Tech Fund; (v) Medical Education; (vi) Management and Administration and; (vii) Individual Services. The first two are implemented by the MHIF while the rest are implemented by the MOH. There is also a Social Protection Component that is implemented by the Ministry of Social Development.

Overall responsibility for program management and implementation for the Health Reform Program lies with the Ministry of Health and the MOH’s adjunct organizations at the national and regional levels. MOH has a supervisory role in relation to all health-related organizations regardless of ownership and administrative level in the country. The Mandatory Health Insurance Fund (MHIF) is a separate legal entity that purchases health services under the single payer system, and is responsible for collecting and disbursing funds for health services covered by the State Guaranteed Package and the Outpatient Drug Benefit. Functional responsibilities for the various components of the Health Reform Program have been allocated within appropriate
organizational units in the Ministry of Health. Implementation responsibility for financial management tasks rests with the Economics and Financial Policy Department of the Ministry of Health with support from the MHIF. Component 2 of the project will be implemented in collaboration between MoSD and MOH. The MOH will be responsible for consolidating financial reports from reports received from the health care facilities under the MOH and MHIF, as well as from MoSD, and submission of regular financial reports to the World Bank, as well as annual audit.

II. Objective of the Financial Audit

The objective of the financial audit is to enable the auditor to express an opinion on the financial statements of the Second Health and Social Protection Project (the Project) as of December 31………………and for the fiscal year then ending.

The accounting systems (books and records) maintained by the Treasury Department of the Ministry of Finance (for the Designated Accounts), Ministry of Health (MOH) and its subordinated health institutions not under the Single Payer System receiving budgetary resources directly through the MOH, as well as the Mandatory Health Insurance Fund (MHIF), its Territorial Departments and the health facilities receiving budgetary resources under the Single Payer System, provide the basis for the preparation of the consolidated financial statements of the program. The Ministry of Social Development (MoSD) maintains accounts and records for the Social Protection Component of the Project.

III. Scope of the Financial Audit

The audit will be conducted in accordance with the International Standards on Auditing (ISA) as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC), with special reference to ISA 800 (Auditor’s Report on Special Purpose Audit Engagements). In complying with ISA, auditor is expected to pay particular attention to the following matters:

(i) In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements;

(ii) When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;

(iii) The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity as required by ISA 260: Communication of Audit Matters with those Charged with Governance;

(iv) The auditor should communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements as required by ISA 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management;
(v) In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level as required by ISA 330: The Auditor’s Procedures in Response to Assessed Risks.

(vi) As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance as required by ISA 580: Written Representations.

In evidencing compliance with agreed financing arrangements under the Health & Social Protection Project (including Additional Financing) the auditor is expected to carry out tests to confirm that:

a) Program funds (including Budget funds, funds provided by donors and pooled with the Budget funds, and off-Budget funds – MHI funds from the Social Fund as well as Special Means and Co-payments from patients) have been used in accordance with relevant Kyrgyz regulations and the conditions of the General Conditions and relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;

b) Goods and services financed have been procured in accordance with the General Conditions and relevant procurement guidelines and financing agreements;

c) Necessary supporting documents, records, and accounts have been kept in respect of all Program ventures including expenditures reported under Interim Financial Reports (IFRs). Clear linkages should exist between the accounting records and the Program’s financial reports presented to the Government, the World Bank and other donors.

d) Where Designated Accounts have been used, they have been maintained in accordance with the provisions of the relevant General Conditions, financing agreements and Disbursement Letters.

e) The Program Financial Statements (PFS) have been prepared in accordance with the public sector accounting standards in force in the Kyrgyz Republic, such standards to be clearly described in the notes to the PFS, and accordingly present the resources and expenditures for the fiscal year ending December 31............

f) Review the compliance with any of the financial covenants in the financing agreements.

(i) Program Financial Statements

The Program Financial Statements should include:

a) A Summary of Funds received from Donors in both currency of receipt and Kyrgyz Som equivalent;

b) A Summary of Sources of Program Funds in Kyrgyz Som, showing separately: Budget Funds (which will include funds provided by donors and pooled with the Budget funds), MHI funds from the Social Fund, Special Means and Patient Co-payments.

c) Summaries of Program Expenditures in Kyrgyz Som by main program headings (e.g., State Guaranteed Package, Outpatient Drug Benefit, High Technology Fund, Public Health Services, Medical Education, Administration and Management, Individual Services, Social Protection) and by main categories of expenditures according to Kyrgyz
public sector economic classification for the current fiscal year, with comparative figures from the previous year.

Statement of Assets and Liabilities (Balance Sheet).

d) Statements of Designated Accounts (DAs) in the currency of the DAs.

e) Notes to the Financial Statements, comprising a summary of significant accounting policies and the basis of accounting adopted in the preparation of the financial statements. NB: Explanatory notes should include reconciliation between the amounts shown as "received by the project from the World Bank" and that disbursed by the Bank and a summary of movements on the project's Designated Account.

(ii) Designated Accounts

As part of the audit of the Program Financial Statements, the auditor is required to audit the activities of the Designated Accounts associated with the Program. The audit of each Designated Account should confirm:

a) the exact sum or sums disbursed by the Bank and other donors (including KfW) with respect to the Program is/are paid into a designated Special Deposit Account of the recipient (separate DAs being maintained for the World Bank and each donor) kept in the National Bank of the Kyrgyz Republic exclusively for this purpose.

b) the sums disbursed by the World Bank and other donors are equivalent in value to the sums paid into the Deposit Accounts at the National Bank of the Kyrgyz Republic.

c) no sums are kept in or paid into the Deposit Accounts other than those disbursed by the Bank and other donors for this particular Program.

d) all withdrawals from the Deposit Accounts are converted into Kyrgyz Som, all such conversions are by way of sale to the National Bank of the Kyrgyz Republic, the Kyrgyz Som equivalent of the withdrawal is correct, and the Kyrgyz Som are paid into Government Accounts used to fund government expenditures.

The auditor should pay particular attention as to the compliance with the World Bank's Disbursement procedures, timeliness of the sale of foreign currency to the National Bank, using appropriate rate of exchange and the balances of the Deposit Accounts at the end of the fiscal year. The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the financing agreements, and the adequacy of internal controls for this type of disbursement mechanism.

g) For this Program, the Deposit Accounts are referred to in Section IV of the relevant financing agreements and the Disbursement Letters.
(iii) Audit Reports

The auditor will issue an audit opinion on the Program Financial Statements (refer to the "Program Financial Statements" paragraph above for a definition of the statements included therein).

In addition to the audit opinion, the auditor will prepare a "management letter," in which the auditor will:

a) give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
c) report on the lack of compliance, if any, of each financial covenant in the relevant financing agreement;
d) communicate matters that have come to their attention during the audit which might have a significant impact on the implementation of the program;
e) bring to the recipient's attention any other matters that the auditor considers pertinent; and
f) include management's comments in the final management letter.

The financial statements, including the audit opinion, and management letter should be received by the Program’s lead implementing agency, the Ministry of Health, no later than six months after the end of the audited fiscal year. The Ministry of Health should then promptly forward two copies of the audited program financial statements (including audit opinion) and management letter to the World Bank, and further copies to the Ministry of Finance and other Joint Financiers as may be separately specified.

(iv) General

The responsibility for the preparation of the Program Financial Statements including adequate disclosure is that of the management of the Treasury Department of the Ministry of Finance, Ministry of Health and the Mandatory Health Insurance Fund, and Ministry of Social Development. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the program. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.

The Treasury Department of the Ministry of Finance, Ministry of Health and the subordinated health care facilities, the Mandatory Health Insurance Fund and subordinated health care facilities, and the Ministry of Social Development will co-operate fully with the auditor and will make available to the auditor whatever records, documentation and other information is requested by the auditor in connection with the audit. The auditor should be given access to all legal documents, correspondences, and any other information associated with the program and deemed necessary by the auditor. Confirmation should also be obtained: (i) from the World Bank and other Joint Financiers of the amounts disbursed by them into the Designated Accounts; and (ii) from the National Bank of Kyrgyz Republic (NBKR) of the transactions relating to the Designated Accounts including deposits and withdrawals. It is highly desirable that the auditor
becomes familiar with the relevant World Bank guidelines, which explain the Bank's financial reporting and auditing requirements. These guidelines include:

- Disbursement Handbook for World Bank Clients, dated May 2006 (available on Client Connection web site);
- Disbursement Guidelines for Projects, dated May 2006 (available on Client Connection web site);

The auditor should also be familiar with the Financing Agreements (Credit and Grant Agreements, including Additional Financing, and Letter Agreements for co-financing Trust Funds), the Project Appraisal Document, Laws, Regulations, Procedures, etc., related to the Kyrgyz Republic Public Finance Management (PFM), and the Program Operational Manual (POM).

This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded. The auditor should understand that working papers under World Bank-financed operations can be subject to the review by authorized Bank staff.

(v) Audit Coverage

It's expected that the audit will be conducted following risk-based approach. However, the auditor will ensure that the audit universe includes the central offices of the Treasury, MOH, MHIF, including at least three of the Territorial Departments of the MHIF, and MoSD, and a sample of health facilities representing not less than 25% by number and 60% by value of spend. The audit health facilities should be selected from all the Oblasts of the Kyrgyz Republic.

IV. Objective of the Operational Audit

The objective of the operational review is to express a professional opinion on the efficiency and effectiveness of implementation of the Health Reform Program, and the extent to which the implementation-related, operational and fiduciary aspects of the program are being carried out according to the POM and to agreements reached with Joint Financiers. Specifically, the review should include verification and assessment of the adequacy of the operational procedures and systems (internal control, administrative procedures and procurement practices) adopted in carrying out the programs supported by the project. The verification should cover transactions on a sample basis to ascertain that the MOF, MOH, MHIF and health care facilities participating in the program follow transparent procedures and that are in compliance with the Program Operations Manual, the financing agreements and relevant Government regulations and procedures, and that program funds are used with due attention to economy, efficiency and effectiveness, including timely release of program funds and execution of contracts.
V. Scope of the Operational Audit

The operational audit will involve a thorough and in-depth review of various business systems being used for implementing the program including bookkeeping, accounting, internal controls, cash management, payroll management, payments to suppliers, contractors and consultants, procurement of works, goods and services, contract management, inventories and fixed assets management, and financial reporting systems and procedures, with a view to identifying strengths and weaknesses, and the risks posed by the identified weaknesses. In conducting this review, the auditor will review the systems and procedures against; inter alia, timeliness, effectiveness, efficiency, capacity, and reliability criteria.

The auditor, while highlighting major weaknesses, should provide specific examples or instances indicating the presence of a weakness. In particular, the auditor will:

(a) review the release of budgeted resources through the Treasury and banking systems, in terms of adequacy and timeliness, noting any delays, bottlenecks, and the impact of such on program implementation;
(b) review the reliability and integrity of quarterly financial reports submitted to development partners and the means used to identify, measure, classify and report such information, paying particular attention to linkage of financial information to actual project implementation;
(c) review the controls and means of safeguarding assets of the institutions, in general, and assets procured under the program, in particular;
(d) review adherence to procurement procedures, and subsequent payments, with particular emphasis on internal controls as designed in the POM and as practiced;
(e) review contracts management, paying particular attention to compliance with terms and conditions of the contracts, receipt of goods and services under the contracts, involvement of technical experts in the verification of accomplished tasks, etc.;
(f) evaluate the economy and efficiency with which resources are employed, identifying opportunities to improve performance and recommend solutions to problems;
(g) evaluate the effectiveness of the internal audit function, and the extent to which recommendations of the internal audit are being considered and implemented; and
(h) review operations and activities to ascertain whether results are consistent with objectives of the project and whether they are being carried out efficiently and effectively, paying particular attention to the “dashboard indicators” used in monitoring overall sector performance against the set objectives of the health reform program.

In conducting the review, special attention should be paid to the capacity of various organisations involved in the implementation of the program, and such capacity should be assessed, based on the following factors:

(a) Effectiveness of the institutions’ structures. Whether the structures are adequate, enabling the institutions to implement and monitor the program activities;
(b) Whether the institutions have adequate and documented policies and procedures to implement and monitor activities;
(c) Whether management of the institutions have sufficient reliable and relevant information, produced on a timely basis, to effectively manage the activities; and the extent to which the information available, including financial reports, informs decision making;
(d) Effectiveness of management of various health care facilities in terms of how they manage resources and their attention to fiduciary issues.

VI. Reporting Requirement

The review report should include observations, opinions and recommendations for improvements to increase the efficiency and effectiveness of program results.

In particular the report should contain:

(a) a brief description of each element of the program’s systems (including record-keeping, procurement, contract management, payments, internal controls, cash management, and financial reporting), strengths and weaknesses in the systems reviewed, and practical recommendations to address the weaknesses identified, including indicative cost of implementing the proposed recommendations;
(b) the results of the review of operational activities, ascertaining whether results are consistent with objectives of the program and whether they are being carried out efficiently and effectively;
(c) communication on matters that have come to the attention of the auditor during the review which might have significant impact on the implementation of the program;
(d) Management's comments/response to each of the deficiencies identified and the recommendations made by the auditor.

VII. Coverage of the Operational Audit

To ensure adequate coverage of the health system in the country the operational audit will cover the MOH and at least 10 of its subordinated facilities selected on a risk-basis, MHIF and at least three of its Territorial Departments, and at least three health care facilities in each oblast, selected on a risk basis and separate from those covered under III (v) above.

NB: The report of the operational audit will be a separate report from the auditor’s opinion and management letter referred to in section III (iii) above.