Supplemental Letter

STATE SERVICE FOR REGULATION AND SUPERVISION OF FINANCIAL MARKETS

International Bank for Reconstruction and Development
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Re: Grant No.TFOA3153
Kyrgyz Audit and Reporting Enhancement Project
Performance and Monitoring Indicators

Dear Sirs and Mesdames:

This refers to Section 2.05(a) of the Annex to the Grant Agreement between the Kyrgyz Republic (the Recipient) and International Bank for Reconstruction and Development/International Development Association (the World Bank), acting as administrator of grant funds provided by the Swiss State Secretariat for Economic Affairs under the Kyrgyz Audit and Reporting Enhancement Single-Donor Trust Fund, No.TF072583, for the above-captioned Project. The Recipient hereby confirms to the World Bank that the indicators set out in the attachment to this letter shall serve as a basis for the Recipient to monitor and evaluate the progress of the Project and the achievement of the objectives thereof.

Very truly yours,

STATE SERVICE FOR REGULATION AND SUPERVISION OF FINANCIAL MARKETS

By
Authorized Representative

Attachment
The **Project Development Objective** is to enhance an investment climate in the Kyrgyz Republic through increasing the availability of transparent and reliable financial information. This Objective will be achieved by building sound institutional framework for corporate financial reporting and auditing, compliant with the relevant international standards and good international practices, and building capacity for teaching, applying, monitoring and using sound financial information.

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<th>Outcomes</th>
<th>Outcome Indicators</th>
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| Improved legal framework for CFR and audit | - Audit and CFR regulatory framework is aligned with international standards in accounting and auditing  
  **Baseline:** Areas for improvement exist, as noted in the Country Strategy and Action Plan. International Standards in Accounting & Auditing are not available for application.  
  **Target:** Legal framework on financial reporting and audit modernized, inconsistencies with other legislation assessed and amended. Translation of international standards available, regularly updated and incorporated into Kyrgyz legislation.  
  - Regulators’ functions in monitoring and enforcing CFR requirements clarified and their capacity enhanced  
  **Baseline:** Present institutional arrangements for CFR are not clearly defined, insufficiently financed and lack skills to enable the Regulator to perform its functions.  
  **Target:** Institutional responsibilities of regulators clarified, their capacity improved, sustainable funding mechanisms are in place.  |

| Evaluation reports, incl A&A ROSC  
Web-page with the international standards in the local language  
Project’s progress reports  
Funding options evaluation report | Commitment by the Parliament of Kyrgyz Republic, Ministry of Finance to align regulatory framework  
Stakeholder support for revised legislation |
<table>
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<th>Strategy of Intervention</th>
<th>Key Performance Indicators</th>
<th>Means of Verification</th>
<th>External Factors (assumptions / risks)</th>
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<tr>
<td>Capacity of regulators, supervisory bodies and professional organizations enhanced, their knowledge of IFRS (for SMEs) and ISA improved</td>
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- **Kyrgyz regulators and supervisory bodies use and respond to information from financial statements of public interest entities**  
  **Baseline:** Financial reports submitted by businesses are not used by regulators on a systematic basis for forecast, analysis and reconciliation with other agencies.  
  **Target:** Regulators use, analyze and reconcile IFRS (for SMEs) financial statements with other regulatory reports, including capital adequacy and tax computations to ensure financial stability and crisis prevention.  
- **SSRSFM introduces methodology for audit quality assurance system**  
  **Baseline:** SSRSFM has no methodology, guidance or tools to address audit quality of professional auditors.  
  **Target:** SSRSFM introduces the concept of audit quality assurance and adopts respective methodology and procedures for ensuring the due quality of professional audit service offered in the market. |  
- Evaluation reports, incl A&A ROSC  
- Counterparts' surveys  
- Audit quality assurance methodology                                                                 |  
- Stakeholders full cooperation  
- SSRSFM and other stakeholders, including National Bank, treat quality of audits as priority and make use of capacity-enhancing tools, training, and advice provided |
| Financial reporting capacity of 4 pilot SOEs strengthened, their public accountability improved |  
- **Pilot SOEs are selected and individually assisted on strengthening their financial reporting capacity. Key accounting and financial personnel trained on IFRS.**  
  **Baseline:** 2 SOEs producing IFRS financial statements, with the help of audit firms. |  
- Project's progress reports  
- SOEs IFRS based financial statements                                                                                                           |  
- Full stakeholder cooperation and commitment                                                                                          |

1 Progress and achievement in meeting the target will be assessed through interviews and review of documentation reflecting financial monitoring of PIE's by respective regulators (National Bank, SSRSFM, State Property Agency, Statistics Office and State Tax Service).
### Strategy of Intervention

**Accounting and auditing education enhanced, financial literacy of other groups of users improved**

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<th>Key Performance Indicators</th>
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| **Target:** Universities provides more internationally recognized accounting education  
Baseline: IFRS and ISA are not integrated into universities curricula.  
Target: Curriculum model integrating IFRS and ISA developed for 3 leading local universities. |  
- Project's progress reports  
- Set of university manuals, training materials prepared  
- Trainings reports on the number of accountants/preparers of financial statements trained in IFRS/IFRS for SMEs  
- Full cooperation and commitment of all stakeholders, incl Ministry of Education, and leading universities in Kyrgyz Republic |  |
| Preparation and training of preparers of financial statements  
Baseline: Preparers of general purpose financial statements in large entities and SMEs lack skills to produce required general purpose financial statements in line with IFRS (for SMEs).  
Target: Accountants/preparers of financial statements trained on IFRS and IFRS for SMEs. Brochures and relevant education material published. |  
-  |  |
| Investor and creditor understanding of financial reporting enhanced  
Baseline: Corporate financial reporting is not widely used by investors or creditors in decision-making.  
Target: Awareness and understanding of CFR increased among stakeholders and users. At least four workshops or conferences are held for stakeholders regarding uses of corporate financial reporting, and at least 75% of responding attendees report that the events enhanced their awareness of the importance and uses of CFR. |  
-  |  |
### 1. Statutory framework, standards and rules on CFR are aligned with IFRS (for SMEs) and ISA

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<tr>
<th>Statutory framework for corporate financial reporting aligned with international standards, and amended to allow for differentiated requirements for various types of entities</th>
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<td><strong>Baseline:</strong> IFRS (for SMEs) and ISA only indicated in the Accounting and Audit Laws by reference, inconsistencies with other legislation identified, as evidenced in the CSAP.</td>
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<tr>
<td><strong>Target:</strong> Accounting and Audit Laws are analyzed, changes introduced into secondary legislation to remove inconsistencies. International standards texts are incorporated into Kyrgyz legislation. Sustainable translation process is established.</td>
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| Semi-annual Project's progress reports by CFRR |
| Translated and published IFRS (for SMEs) |
| Translated and published ISAs |

| Commitment by the Parliament of Kyrgyz Republic, Ministry of Finance to align regulatory framework |
| SSRSFM leads on legislation analysis and drafting |
| Translation agreement with the IASB approved and signed |
| Agreement for the translation of ISAs signed with IFAC |

### 2. Preparers, auditors, regulators and other users of financial information, for both private and state owned companies, improve their understanding of IFRS and ISA

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<tr>
<th>Regulators for both SOEs and private sector, are trained in use and application of IFRS, ISAs, and other</th>
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<td><strong>Baseline:</strong> Regulators' institutional responsibilities are not clearly defined by the legislation, funding and staffing are not stable.</td>
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<td><strong>Target:</strong> Legislation establishes institutional responsibilities of SSRSFM and professional bodies, including appropriate and sustainable funding mechanisms.</td>
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| Project's progress report |
| Funding options evaluation report |

| Commitment by the Parliament of Kyrgyz Republic, Ministry of Finance to align regulatory framework |
| Stakeholder support for revised legislation ensured |

| Percentage of responding training participants report knowledge of IFRS increased significantly after attending the course |

| Surveys conducted with participants by the CFRR |

**Target:** min. 75%
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<tr>
<th>Financial Reporting Issues, Including Specialized Topics</th>
<th>Percentage of responding training participants report that their ability to apply ISAs as part of their work has increased substantially after attending the course. <strong>Target:</strong> min. 75%</th>
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<td>Increased Technical Capacity of SSRSFM to Lead and Oversee the Performance of the Quality Assurance System for the Audit Profession</td>
<td>Percentage of responding training attendees report that knowledge gained through training would improve job skills/performance. <strong>Target:</strong> min. 75%</td>
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| Improved Capacity and Systems in Place at Pilot SOEs to Produce General Purpose IFRS-Based Financial Statements | Development of individual assistance package to improve financial reporting function and enhance personnel capacity for pilot SOEs. **Target:** 4 SOEs
At least 4 workshops/trainings on monitoring for State Property Fund staff. Percentage of responding workshop attendees report that knowledge gained through training improved significantly their skills to monitor performance of SOEs. **Target:** min. 75%
At least 4 trainings on financial statement preparation and analysis. Percentage of responding training attendees report that knowledge gained through training would improve substantially their job skills/performance. **Target:** min. 75%
Qualitative assessment by CFRR staff |

3. **Improved Accounting and Auditing Curricula for University and Professional Education Programs Enhanced**

The accounting and auditing curricula for leading universities and professional education programs assessed and enhanced, didactic

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<th>Percentage of responding training participants report that their ability to apply ISAs as part of their work has increased substantially after attending the course. <strong>Target:</strong> min. 75%</th>
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<td>Benchmarking study of accounting and audit models taught at local universities with international standards and best practices (provided by CFRR). <strong>Target:</strong> Completion of benchmarking by end of December 2017</td>
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Semi-annual reporting by the CFRR
Surveys conducted with participants by the CFRR

Semi-annual reporting by the CFRR
Surveys conducted with participants by the CFRR

Benchmarking analysis provided by CFRR
| Materials for university sector developed and implemented | At least 3 trainings for professors and examiners delivered on development of competency based examinations and integrative case studies: Percentage of responding training attendees report a significant increase in knowledge gained through training  
**Target:** min. 75%  
- At least 4 training of trainer programs delivered to accredit trainers of CPD programs: Percentage of responding training attendees report that knowledge gained through training improved substantially their skills to develop  
**Target:** min. 75%  
- Qualitative assessment by CFRR staff |  
> Semi-annual reporting by the CFRR  
> Surveys conducted with participants by the CFRR |