

Second phase of the Project for improvement of irrigation and drainage systems funded under the Agreement No. 8277-KZ between the Government of the Republic of Kazakhstan and the International bank for Reconstruction and Development

Financial statements for the year ended 31 December 2015

with Independent Auditors' Report

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Independent Auditors' Report

To the Management of the Project *Second Phase of the Project for Improvement of Irrigation and Drainage Systems* funded under the Agreement No. 8277-KZ between the Government of the Republic of Kazakhstan and the International Bank for Reconstruction and Development:

We have audited the accompanying special purpose financial statements for the Project *Second Phase of the Project for Improvement of Irrigation and Drainage Systems* (hereinafter "the Project"), funded under the Agreement No.8277-KZ between the Government of the Republic of Kazakhstan and the International Bank for Reconstruction and Development which comprise the statement of cash receipts and disbursements for the year ended 31 December 2015; statement of cumulative cash receipts; statement of cumulative cash disbursements; statement of accumulated funds; detailed statement of loan drawdown, special account statement for the year then ended; and a summary of significant accounting policies and other explanatory information (hereinafter "the financial statements").

Management's responsibility for the financial statements

Management of the Project is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting' Standards Board of the International Federation of Accountants, and the financial reporting requirements of the Loan Agreement No. 8277-KZ between the Government of the Republic of Kazakhstan and International Bank for Reconstruction and Development. Management is also responsible for internal controls which are necessary, in the opinion of the Management, to enable preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We performed our audit in accordance with the International Standards on Auditing (ISA). Those standards require us to comply with ethical code and plan and perform the audit so as to obtain reasonable assurance as to whether the financial statements are free from material misstatements.

Товарищество с ограниченной ответственностью "BDO Kazakhstan", зарегистрированное в соответствии с законодательством Республики Казахстан, является участником международного объединения BDO International Limited, британского общества с ответственностью, ограниченной гарантией его участников, и является частью международной сети независимых компаний BDO.

BDO Kazakhstan, a limited liability partnership, registered under the laws of the Republic of Kazakhstan, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In assessing such risks with a view to designing auditing procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal controls, an Auditor reviews the internal controls related to the preparation of the financial statements. An audit also includes assessment of the appropriateness of accounting policies used and the reasonableness of the estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express our audit opinion.

Independent Auditors' Report (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the cash receipts and disbursements under the Project for the year ended 31 December 2015, in accordance with the International financial results of its operations and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS) *Financial Reporting Under the Cash Basis of Accounting* issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and with the financial reporting requirements of the Loan Agreement No. 8277-KZ between the Government of the Republic of Kazakhstan and International Bank for Reconstruction and Development.



A. Mussagul, Auditor
Auditor Qualification Certificate No. 0000393,
issued by the Qualification Commission for
certification of auditors of the Republic
of Kazakhstan on 25.04.1998

BDO Kazakhstan LLP

State License No.15003448 for auditing activities as
issued by the Committee for Financial Control, the
Ministry of Finance of the Republic of Kazakhstan
dated 19 February 2015



T.A. Omarov, Director

15 June 2016

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS

For the year ended 31 December 2015

US dollars	2015		2014			
	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total
RECEIPTS						
Cash receipts to special account	26,000	-	26,000	-	-	-
Direct payments from EBRD	775,674	-	775,674	-	-	-
Direct payments from the Government of the Republic of Kazakhstan	-	1,871,315	1,871,315	-	-	-
Total receipts under the Project	801,674	1,871,315	2,672,989	-	-	-
EXPENSES						
Goods, consulting services, operating expenses, training under the Project	799,425	1,871,315	2,670,740	-	-	-
Total expenses under the Project	799,425	1,871,315	2,670,740	-	-	-
OTHER EXPENSES						
Fee for the replenishment of special account	-	-	-	-	-	-
Net foreign exchange gains	331	-	331	-	-	-
Total other expenses	331	-	331	-	-	-
Total payments under the Project	799,756	1,871,315	2,671,071	-	-	-

Signed on behalf of the Management of the Project:



I. Abishev

Chairman of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

M. Myrzatayev

Head of Department of Economy, Budget planning and Accounting of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

STATEMENT OF CUMULATIVE CASH RECEIPTS

From the Project inception date through 31 December 2015

US dollars	Cumulative from the inception date of the project through 31 December 2014		Receipts for the year ended 31 December 2015		Cumulative receipts from the inception date of the project through 31 December 2015		
	Loan from IBRD	Total	Loan from IBRD	Proceeds from the Government of Kazakhstan	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total
Replenishment of special account	-	-	26,000	-	26,000	-	26,000
Direct payments from EBRD	-	-	775,674	-	775,674	-	775,674
Direct payments from the Government of the Republic of Kazakhstan	-	-	-	1,871,315	-	1,871,315	1,871,315
Total receipts under the Project	-	-	801,674	1,871,315	2,672,989	1,871,315	2,672,989

Signed on behalf of the Management of the Project:



Mr. Abishev
Chairman of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

M. Myrzatayev

Head of Department of Economy, Budget planning and Accounting of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

STATEMENT OF CUMULATIVE CASH DISBURSEMENTS

From the Project inception date through 31 December 2015

US dollars	Cumulative from the inception date of the project through 31 December 2014			Disbursements for the year ended 31 December 2015			Cumulative disbursements from the inception date of the project through 31 December 2015		
	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total
EXPENSES									
Component 1:									
Goods	-	-	-	-	-	-	-	-	-
Consulting services	-	-	-	785,209	1,832,097	2,617,306	785,209	1,832,097	2,617,306
Taxes and charges	-	-	-	-	-	-	-	-	-
Component 2:									
Trainings under the Project	-	-	-	-	-	-	-	-	-
Goods	-	-	-	-	-	-	-	-	-
Consulting services	-	-	-	-	-	-	-	-	-
Taxes and charges	-	-	-	-	-	-	-	-	-
Component 3:									
Trainings under the Project	-	-	-	-	-	-	-	-	-
Consulting services	-	-	-	-	-	-	-	-	-
Component 4:									
Goods	-	-	-	1,538	4,718	6,256	1,538	4,718	6,256
Trainings under the Project	-	-	-	-	-	-	-	-	-
Consulting services	-	-	-	10,701	29,289	39,990	10,701	29,289	39,990
Operating expenses	-	-	-	1,977	5,211	7,188	1,977	5,211	7,188
Taxes and charges	-	-	-	-	-	-	-	-	-
Total expenses under the Project	-	-	-	14,216	39,218	53,434	14,216	39,218	53,434
	-	-	-	799,425	1,871,315	2,670,740	799,425	1,871,315	2,670,740

Notes on pages from 8 to 10 form an integral part of the financial statements.

STATEMENT OF CUMULATIVE CASH DISBURSEMENTS (continued)

From the Project inception date through 31 December 2015

US dollars	Cumulative from the inception date of the project through 31 December 2014		Disbursements for the year ended 31 December 2015		Cumulative disbursements from the inception date of the project through 31 December 2015	
	Loan from IBRD	Proceeds from the Government of Kazakhstan	Loan from IBRD	Proceeds from the Government of Kazakhstan	Loan from IBRD	Proceeds from the Government of Kazakhstan
EXPENSES (continued)						
OTHER EXPENSES						
Fee for the replenishment of special account	-	-	-	-	-	-
Net foreign exchange gains	-	-	331	-	331	-
Total other expenses	-	-	331	-	331	-
Total payments under the Project	-	-	799,756	1,871,315	799,756	1,871,315
						2,671,071

Signed on behalf of the Management of the Project

Abishev



Chairman of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

Myrzatayev

Head of Department of Economy, Budget planning and Accounting of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

STATEMENT OF ACCUMULATED FUNDS

As at 31 December 2015

<i>US dollars</i>	2015	2014
Balances of bank accounts	1,918	-
Including the ones denominated in:		
US dollars	1,918	-
Kazakhstan tenge	-	-

Signed on behalf of the Management of the Project:

I. Abishev

Chairman of the State-Owned Enterprise
Committee for Water Resources of the
Ministry of Agriculture of the Republic of
Kazakhstan



M. Myrzatayev

Head of Department of Economy, Budget
planning and Accounting of the
State-Owned Enterprise Committee for
Water Resources of the Ministry of
Agriculture of the Republic of Kazakhstan

DETAILED STATEMENT OF LOAN DRAWDOWN

For the year ended 31 December 2015

US dollars

No. of withdrawal application	Date of withdrawal	Direct Payments	Replenishment of account	Total
1	25 December 2015	775,674		775,674
2	25 December 2015	-	26,000	26,000
		775,674	26,000	801,674

Signed on behalf of the Management of the Project:

I. Abishev

Chairman of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan



M. Myrzatayev

Head of Department of Economy, Budget planning and Accounting of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

SPECIAL ACCOUNT STATEMENT

For the year ended 31 December 2015


Numbers of accounts: KZ080702012120360001 Kazakhstan tenge;
01.6201.000000000.Z08277.001.2120360.2, US dollars
01.6201.000000000.Z08277.002.2120360.2, Euro

Custodian bank: Treasury Department, Astana
Loan: No. 8277-KZ

<i>US dollars</i>	2015	2014
Balance at 1 January	-	-
Receipts:		
Account replenishment by IBRD	26,000	-
	26,000	-
Expenses:		
Payments under the Project	23,751	-
Net foreign exchange losses	331	-
	24,082	-
Balance at 31 December	1,918	-

Signed on behalf of the Management of the Project:


I. Abishev
Chairman of the State-Owned Enterprise
Committee for Water Resources of the
Ministry of Agriculture of the Republic of
Kazakhstan


M. Myrzatayev
Head of Department of Economy, Budget
planning and Accounting of the State-Owned
Enterprise Committee for Water Resources of
the Ministry of Agriculture of the Republic of
Kazakhstan

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL PROVISIONS

a) Business environment in Kazakhstan

The project activities are carried out in Kazakhstan. Accordingly, the Project is exposed to risks specific for economic and financial markets of Kazakhstan, which demonstrates the characteristics of emerging economies. The legal system, tax system and legal framework continue to evolve, but are subject to varying interpretations and frequent changes, which, along with other legal and financial obstacles increase the challenges faced by entities that operate in Kazakhstan

b) Nature of business

Loan agreement No. 8277-KZ (hereinafter referred to as "the Agreement") between the Government of the Republic of Kazakhstan (hereinafter referred to as "the Government") and International Bank for Reconstruction and Development (hereinafter referred to as "IBRD") was signed on 29 April 2014 and ratified on 26 December 2014 (hereinafter "project inception date"). According to the agreement, the IBRD grants a loan in the amount of 102,902,440 US dollars (hereinafter referred to as "the Loan") for the implementation of the Second phase of the project for improvement of irrigation and drainage systems (hereinafter referred to as "the Project") and is repayable by the Government on 15 June and 15 December of each year starting from 15 December 2021 to 15 June 2031.

The objective of the Project is to improve the quality of irrigation and drainage systems to support farmers in the areas of the Project.

The project is implemented by the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan, which acts as the Executive Agency of the Republic of Kazakhstan.

The date of completion of the Loan drawdown period is 31 December 2021. The Project consists of the following parts:

Part 1: Rehabilitation and Modernisation of Irrigation and Drainage Systems Infrastructure.

- (a) Rehabilitation and modernisation of existing irrigation and drainage infrastructure on the area of about 113,000 ha;
- (b) Support in the design and control activities during the reconstruction and modernisation of irrigation and drainage infrastructure, including the preparation site-specific dam safety plans.

Part 2: Sustainable Management, Operation and Maintenance of Irrigation and Drainage Systems.

- (a) Develop and strengthen rural consumer cooperatives and other water supply organisations through:
 - (i) *Assisting in creating and organising the work of groups of support and training;*
 - (ii) *Promoting joint activities for the development and management of the irrigation system, including the study of the relevant issues in the water supply industry and access to credit and leasing resources;*
 - (iii) *Improving the system of management, operation and maintenance, including tools for monitoring water conditions.*
- (b) *Contribute to the modernisation and strengthening of the system of in-house water management at the level of rural consumer cooperatives.*

NOTES TO THE FINANCIAL STATEMENTS (continued)

- (c) *Support for modernisation and improvement of management, operation and maintenance of the main irrigation and drainage system.*

Part 3: Agricultural Development

- (a) Strengthening the capacity of farmers through:
- (i) *Improvement of the methods of farm management and land use;*
 - (ii) *Transfer of knowledge in the field of agricultural innovation;*
 - (iii) *Support to rural cooperatives, including the establishment and strengthening of centres for servicing farmers.*
- (b) Supporting mechanisation of irrigation systems and agricultural production in general through:
- (i) *Development of water-saving technologies;*
 - (ii) *Facilitating access to equipment for servicing internal irrigation systems;*
 - (iii) *Further development of relevant consultative organisations.*

Part 4: Project Management, Technical Assistance and Trainings

Support the Project Management Unit in project management, administration, coordination, procurement and financial management, including the monitoring and evaluation of Project impacts, preparation and implementation of the Environmental Assessment, and audits.

Provision of goods, consulting services, training programs and operating expenses of the Project Management Unit of the Committee for Water Resources for management, implementation, monitoring and evaluation of the Project.

Costs are allocated to the parts in the statement of cash disbursements based on matching the descriptions of work from the Agreement and the description of the work in primary documents.

2. PRINCIPLES OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) *Financial Reporting Under the Cash Basis of Accounting*, published by International Accounting Standards Board for Public Sector of International Federation of Accountants, and the financial reporting requirements of the Loan Agreement No. 8277-KZ between the Government of the Republic of Kazakhstan and International Bank for Reconstruction and Development. The approved Project budget detailed in terms of expenditure categories in accordance with the Loan Agreement is not public information and, consequently, comparison of budget amounts and the actual amounts is not available.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies described below have been applied consistently to all periods presented in these financial statements.

Cash basis of accounting

Cash basis of accounting recognizes transactions and events only when Project related cash is received or paid.

Presentation currency

These financial statements are presented in US dollars (hereinafter "US dollars").

NOTES TO THE FINANCIAL STATEMENTS (continued)

Foreign currency transactions

Foreign currency transactions are translated into the presentation currency at exchange rates at the dates of the transactions. Withdrawals from a designated tenge account are translated into US dollars at rates established by the National Bank of the Republic of Kazakhstan at the date of withdrawal from the designated dollar account. Direct payments from the IBRD are translated into US dollars at rates established by the IBRD at the date of payment. Proceeds from the Government of the Republic of Kazakhstan are translated into US dollars at rates established by the National Bank of the Republic of Kazakhstan at payments dates. Exchange differences arising on translation of transactions denominated in other currencies into US dollars are presented as net value of changes in exchange rates.

Cost categories

The agreement defines the main cost categories funded by the Loan, the amount of each category, as well as the share of funding for each category.

In accordance with the Agreement, there are the following cost categories: Products, consultant services, operating expenses, taxes and fees and Project-related training.

Receipt of funds

Under the terms of the Agreement, the Government of the Republic of Kazakhstan shall be liable to pay interest and principal amount of the Loan. Those payments are recorded on Government accounts and are not recorded in these financial statements. The final payment on the Loan is due on 15 June 2031.

4. CASH

In 2015, the Management of the Project management used a special account for cash payments to suppliers. Balances and transactions of the special account are reported in the statement of the accumulated funds and special account statement, respectively.

5. DIRECT PAYMENTS

Direct payments under the Project are made by the IBRD and the Government of the Republic of Kazakhstan directly to suppliers as defined by the terms of the Agreement.

6. THE UNUSED PORTION OF THE LOAN

As at 31 December 2015, the unused portion of the Loan from IBRD amounted to 102,100,766 US dollars (2014: 102,902,440).

7. DATE OF ISSUE

These financial statements were approved for release by the Chairman of the State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan and Head of Department of Economy, Budget planning and Accounting of the State-owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan on 15 June 2016.