

**Project “Second Irrigation and Drainage  
Improvement Project” 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 2016**

**And Independent Auditors’ Report**

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## INDEPENDENT AUDITORS' REPORT

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

### Opinion

We have audited the financial statements for the Project "Second Irrigation and Drainage Improvement Project" funded under the Agreement No.8277-KZ between the Government of the Republic of Kazakhstan and the International Bank for Reconstruction and Development (hereinafter "the Project"), which consist of the statement of cash receipts and disbursements for the year then ended 31 December 2016, as well as a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements fairly present, in all material respects, the cash receipts and disbursements for the year then ended 31 December 2016 and cash position as at 31 December 2016 in accordance with the International Public Sector Accounting Standard (IPSAS) "Financial Reporting under the Cash Basis of Accounting" published by the International Federation of Accountants (IFAC) and in accordance with the requirements of the International Bank of Reconstruction and Development.

### Basis for Opinion

We have performed our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section Auditor's Responsibility for the Audit of the Financial Statements herein. We are independent in relation to the Company, as required by the Code of Ethics for Professional Accountants of the International Ethics Standards Boards for Accountants (Code of IESBA) and the ethical requirements applicable to our audit of the financial statements in Kazakhstan, and we performed other ethical responsibilities of ours in compliance with those requirements and the Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibility of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IPSAS "Financial Reporting under the Cash Basis of Accounting" published by the International Federation of Accountants (IFAC) and in accordance with the requirements of the International Bank of Reconstruction and Development, and for such internal control as management determines is necessary to enable preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternatives but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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.

## INDEPENDENT AUDITORS' REPORT (continued)

### Auditor's Responsibility for the Audit of the Financial Statements

Our objective are to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high degree of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or errors 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 financial statements.

As part of the audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; 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 risk of material misstatement resulting from fraud is higher than the detection risk of material misstatement due to errors, since fraud can involve collusion, forgery, intentional omissions, misrepresentations of information or override of internal controls;

- Obtain understanding of the 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates, and appropriateness of disclosures prepared by management;
- Evaluate the overall presentation of the financial statements, its structure and content, including disclosures, we also evaluate whether the financial statements present the underlying transactions and events so as to ensure their fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit finding, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and, therefore, the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Igoshina Natalia.

LLP «BDO Kazakhstan»

State audit license for audit activities on the territory of the republic of Kazakhstan: No.15003448 issued by the Ministry of Finance of the Republic of Kazakhstan on 19 of February 2015

«29» may 2017

Director T. A. Omarov

Auditor N. Igoshina

Auditor Qualification Certificate No. 0000040, issued by the Qualification Commission for certification of auditors of the Republic of Kazakhstan on 08.08.2011

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**STATEMENT OF RECEIPTS AND DISBURSMENTS OF FUNDS**

For the year ended 31December 2016

	Notes	2016			2015		
		Loan from IBRD	Proceeds from the Government of Kazakhstan	Total	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total
<i>US dollars</i>							
The cash balances as of 1 <sup>st</sup> of January		1,918	-	1,918	-	-	-
<b>RECEIPTS</b>							
Cash receipts to special account		53,470	-	53,470	26,000	-	26,000
Direct payments from EBRD		824,154	2,049,894	2,874,048	775,674	1,871,315	2,646,989
<b>Total receipts under the Project</b>	<b>5</b>	<b>877,624</b>	<b>2,049,894</b>	<b>2,927,518</b>	<b>801,674</b>	<b>1,871,315</b>	<b>2,672,989</b>
<b>EXPENSES</b>							
<b>Part 1: Rehabilitation and Modernization of Irrigation and Drainage Systems Infrastructure</b>							
Consulting services		318,186	742,693	1,060,878	785,209	1,832,097	2,617,306
		318,186	742,693	1,060,878	785,209	1,832,097	2,617,306
<b>Part 2: Sustainable Management. Operation and Maintenance of Irrigation and Drainage Systems</b>							
Consulting services		247,246	576,908	824,154	-	-	-
		247,246	576,908	824,154	-	-	-
<b>Part 3: Agricultural Development</b>							
Consulting services		256,881	599,389	856,270	-	-	-
		256,881	599,389	856,270	-	-	-
<b>Part 4: Project management, technical Assistance and Training</b>							
Goods, services		7,129	16,914	24,043	1,538	4,718	6,256
Consulting services		43,158	100,700	143,858	10,701	29,289	39,990
Operating expenses		5,323	13,290	18,613	1,977	5,211	7,188
		55,610	130,904	186,514	14,216	39,218	53,434
<b>Total expenses under the Project</b>		<b>877,923</b>	<b>2,049,894</b>	<b>2,927,817</b>	<b>799,425</b>	<b>1,871,315</b>	<b>2,670,740</b>

Notes on pages from 3 to 7 form an integral part of the financial statements.

STATEMENT OF RECEIPTS AND DISBURSMENTS OF FUNDS (continued)

For the year ended 31 December 2016

US dollars	Notes	2016			2015		
		Loan from IBRD	Proceeds from the Government of Kazakhstan	Total	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total
<b>OTHER EXPENSES</b>							
Fee for the replenishment of special account		-	-	-	-	-	-
Net foreign exchange gains		-	-	-	331	-	331
Total other expenses		-	-	-	331	-	331
Total payments under the Project		877,923	2,049,894	2,927,817	799,756	1,871,315	2,671,071
Balance as of 31 of December	4	1,619	-	1,619	1,918	-	1,918

Signed on behalf of the Management of the Project



Aldamzharov N. A.  
Deputy Chairman of the Committee on 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 on pages from 3 to 7 form an integral part of the financial statements.

Project of *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 International bank for Reconstruction and Development

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. GENERAL PROVISIONS

#### Kazakhstan business environment

Operating environment in the Republic of Kazakhstan Project activities are carried out in Kazakhstan. Accordingly, the project is exposed to risks incidental to economic and financial markets of Kazakhstan, which demonstrate characteristics of a country with developing market economy. The legal system, tax system and legislative base continue developing but are subject to various interpretations and frequent changes, which together with other legal and financial impediments intensify the problems encountered by the entities operating in Kazakhstan.

#### Nature of operations

Loan agreement No. 8277-KZ (hereinafter, "the Agreement") between the Government of the Republic of Kazakhstan (hereinafter, "the Government") and International Bank for Reconstruction and Development (hereinafter, "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, "the Loan") for the implementation of the Second Irrigation and Drainage Improvement Project (hereinafter, "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.

In accordance with the approved budget for 2016, the revenues and expenditures of the Project funds from the proceeds of the IBRD loan and from the co-financing of the external loan by the Government were planned in the amount of 849,535 US dollars and 2,024,523 US dollars, respectively. The planned budget amounts are taken at the conditional exchange rate established by the Government of the Republic of Kazakhstan.

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 carried out by State-Owned Enterprise Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan that acts as an Executive Agent on behalf 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) Carry out rehabilitation and modernisation of existing irrigation and drainage infrastructure on approximately 113,000 hectares;
- (b) Support the design and supervision associated with the rehabilitation and modernisation of irrigation and drainage infrastructure, including the preparing 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;*



Project of *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 International bank for Reconstruction and Development

#### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

- (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.*
- (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.

#### **2. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with the International Public Sector Accounting Standard (IPSAS) "Financial Reporting under the Cash Basis of Accounting" published by the International Federation of Accountants (IFAC), and in accordance with requirements of International Bank of Reconstruction and Development.

The approved Project budget broken down by categories of expenses under the loan agreement does not represent public information and accordingly comparison of the budget with the actual amounts is not presented.

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies described below have been consistently applied in the reporting periods presented in these financial statements.

##### **Cash method of accounting**

Cash method of accounting recognizes transactions and events when cash under the Project is received or paid.

##### **Presentation currency of the financial statements**

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

##### **Foreign currency transactions**

Transactions in foreign currency are translated into the reporting currency at the rate of

Project of *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 International bank for Reconstruction and Development

## NOTES TO THE FINANCIAL STATEMENTS (continued)

exchange ruling at the date of such transactions. Direct payments from IBRD are translated into USD at the rate of exchange established by IBRD at the date of reconversion. Receipts from the Government of the Republic of Kazakhstan are translated to US dollars at the foreign exchange rates established by the National Bank of the Republic of Kazakhstan at the date of reconversion. The foreign exchange differences arising upon translation of transactions denominated in other currencies in US dollars are presented as a net value from a change in foreign exchange rates.

### Categories of expenses

The agreement determines the main categories of expenditures financed by the Loan, quantity for each category as well as a share of financing for each category.

In accordance with the Agreement, there are the following categories of expenses:

- Goods, services of consultants, operating expenses and training under the Project

### Cash receipt

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.

### Allocation of expenses

The distribution of expenses by components in the report on receipt and expenditure of funds is made on the basis of a comparison of the description of work in the Agreement and the description of work in the primary documents.

## 4. CASH

To conduct operations on Loan No.8277-KZ, special accounts have been opened in the Department of the Treasury, Astana, for making cash payments to suppliers:

- 01.6201.000000000.Z08277.001.2120360.2.0000. US dollars
- KZ080702012120360001 KZT

The cash balances as at 31 December and the special account transactions for the year ended 31 December 2016 are as follows:

<i>US dollars</i>	2016	2015
Balance at 31 December	1,619	1,918
Including balances denominated in:		
US dollars	1,113	1,918
Tenge	506	-

## 5. DIRECT PAYMENTS AND REPLENISHMENT OF ACCOUNT

Direct payments under the Project are made by IBRD and the Government of the Republic of Kazakhstan directly to suppliers, which are determined in accordance with the terms and conditions of the Agreement.

Direct payments for Suppliers and cash replenishment of Project for the year ended 31 December 2016, according to following withdrawal application:

Project of *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 International bank for Reconstruction and Development  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

No. of withdrawal application	Date of withdrawal	Direct Payments	Replenishment of account	US dollars
				Total
3	13 May 2016	-	3,600	3,600
4	8 July 2016	-	3,920	3,920
5	3 August 2016	-	3,780	3,780
6	4 November 2016	-	35,057	35,057
7	22 December 2016	824,154	-	824,154
9	27 December 2016	-	7,113	7,113
<b>Total</b>		<b>824,154</b>	<b>53,470</b>	<b>877,624</b>

## 6. UNUSED PORTION OF LOAN

As at 31 December 2016 the unused portion of loan from IBRD amounts to USD 101,223,142 (2015: USD 102,100,766).

## 7. PROJECT RECEIPTS AND EXPENSES FOR CUMULATIVE TOTALS

Statement of cash distribution of Project receipts and expenses for cumulative totals are as follows:

US Dollars	Cumulative from the inception date of the project through 31 December 2015			Cumulative disbursements from the inception date of the project through 31 December 2016		
	IBRD loan	Proceeds from the Government of the RK	Total	IBRD loan	Proceeds from the Government of the RK	Total
<b>RECEIPTS</b>						
Replenishment to special account	26,000	-	26,000	79,470	-	79,470
Direct payments from EBRD	775,674	-	775,674	1,599,828	-	1,599,828
Direct payments from the Government of the Republic of Kazakhstan	-	1,871,315	1,871,315	-	3,921,209	3,921,209
<b>Total receipts under the Project</b>	<b>801,674</b>	<b>1,871,315</b>	<b>2,672,989</b>	<b>1,679,298</b>	<b>3,921,209</b>	<b>5,600,507</b>
<b>EXPENSES</b>						
<b>Part 1: Rehabilitation and Modernisation of Irrigation and Drainage Systems Infrastructure.</b>						
Consulting services	785,209	1,832,097	2,617,306	1,103,395	2,574,790	3,678,185
	785,209	1,832,097	2,617,306	1,103,395	2,574,790	3,678,185
<b>Part 2: Sustainable Management, Operation and Maintenance of Irrigation and Drainage Systems.</b>						
Consulting services	-	-	-	247,246	576,908	824,154
	-	-	-	247,246	576,908	824,154
<b>Part 3: Agricultural Development</b>						
Consulting services	-	-	-	256,881	599,389	856,270
	-	-	-	256,881	599,389	856,270
<b>Part 4: Project Management, Technical Assistance and Trainings</b>						
Goods, services	1,538	4,718	6,256	8,667	21,632	30,299
Consulting services	10,701	29,289	39,990	53,859	129,989	183,848
Operating expenses	1,977	5,211	7,188	7,300	18,501	25,801
Trainings under the Project	-	-	-	-	-	-
	14,216	39,218	53,434	69,826	170,122	239,948
<b>Total expenses under the Project</b>	<b>799,425</b>	<b>1,871,315</b>	<b>2,670,740</b>	<b>1,677,348</b>	<b>3,921,209</b>	<b>5,598,557</b>

Project of *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 International bank for Reconstruction and Development

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

	Cumulative from the inception date of the project through 31 December 2015			Cumulative disbursements from the inception date of the project through 31 December 2016		
	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total	Loan from IBRD	Proceeds from the Government of Kazakhstan	Total
<i>US dollars</i>						
<b>OTHER EXPENSES</b>						
Net foreign exchange gains	331	-	331	331	-	331
<b>Total other expenses</b>	331	-	331	331	-	331
<b>Total payments under the Project</b>	799,756	1,871,315	2,671,071	1,677,679	3,921,209	5,598,888

**8. DATE OF ISSUE**

These financial statements have been approved for issue by the Deputy Chairman of the Committee on 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 29 May 2017.



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