

**Second Irrigation and Drainage Improvement Project
Funded under Loan 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 December
31, 2018**

And Independent Auditors' Report

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Independent Auditors' Report

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Independent Auditors' Report

To Management of the Second Irrigation and Drainage Improvement Project funded under Loan 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 accompanying financial statements of the Second Irrigation and Drainage Improvement Project (hereinafter the "Project") funded under Loan 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 receipts and disbursements of funds for the year ended December 31, 2018, statement of comparison of budget and actual amounts for the year ended December 31, 2018, statement of disbursements by component for the year ended December 31, 2018, and a summary of significant accounting policies and other explanatory notes (hereinafter the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the Project's receipts and disbursements for the year ended December 31, 2018 and the cash position as at December 31, 2018 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), as well as in accordance with the requirements of the International Bank for Reconstruction and Development.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for the Financial Statements

Management of the Project is responsible for the preparation and fair presentation of these financial statements in accordance with 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 for 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.

Independent Auditors' Report (continued)

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternatives but to do so. Those charged with governance are responsible for overseeing the Project financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control;
- Evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates, and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' Report (continued)

We communicate with those responsible for managing the Project regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Kazakhstan LLP

State License for Auditing Activities
No.15003448 issued by the Committee for
Financial Control under the Ministry of
Finance of the Republic of Kazakhstan on
February 19, 2015



Director **Talga Omarov**

June 03, 2019

Auditor **Tolegen Kuandykov**



Auditor Qualification Certificate No.
MF-0000490, issued by the Qualification
Commission for Certification of Auditors of
the Republic of Kazakhstan on October 10,
2017

6 Gabdullin St.,
Almaty, Kazakhstan

STATEMENT OF RECEIPTS AND DISBURSEMENTS OF FUNDS
For the Year Ended December 31, 2018

	2018			Cumulative amount from the Project start date through December 31, 2018			
	Notes	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
<i>US dollars</i>							
Project cash balance as at January 1		5,596	-	5,596	-	-	-
RECEIPTS							
Replenishment of account		4,469,525	-	4,469,525	4,957,900	-	4,957,900
Direct payments		-	-	-	1,971,625	-	1,971,625
Direct payments from the Government of Kazakhstan		-	10,300,003	10,300,003	-	16,033,252	16,033,252
Total receipts under the Project	5	4,469,525	10,300,003	14,769,528	6,929,525	16,033,252	22,962,777
EXPENDITURES							
Goods		2,249	5,239	7,488	17,178	41,415	58,593
Works		3,545,084	8,226,501	11,771,585	3,545,084	8,226,501	11,771,585
Consultants' services		871,331	2,036,644	2,907,975	3,290,671	7,685,538	10,976,209
Operating costs		13,560	31,619	45,179	33,697	79,798	113,495
Total expenditures under the Project		4,432,224	10,300,003	14,732,227	6,886,630	16,033,252	22,919,882
Net foreign exchange loss (gains)		2	-	2	-	-	-
Total other expenditures (receipts)		2	-	2	-	-	-
Total payments under the Project		4,432,226	10,300,003	14,732,229	6,886,630	16,033,252	22,919,882
Project cash balance as at December 31		42,895	-	42,895	42,895	-	42,895



Signed on behalf of Management of the Project

M. U. Beissenov

Acting Chairman of the Republican State Enterprise the "Committee on Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan"

A. S. Rakhymbekova

Acting Head of Department of Economy, Budget Planning and Accounting of the Republican State Enterprise the "Committee on Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan"

The notes on pages from 6 to 9 form an integral part of these financial statements

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the Year Ended December 31, 2018

Notes	2018				Variance				
	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
<i>US dollars</i>									
EXPENDITURES									
Component 1: Rehabilitation and Modernization of Irrigation and Drainage Systems Infrastructure Works									
	3,545,084	8,226,501	11,771,585	3,556,524	8,298,557	11,855,081	100%	99%	99%
Consultants' services	483,248	1,127,634	1,610,882	578,643	1,350,165	1,928,808	84%	84%	84%
	4,028,332	9,354,135	13,382,467	4,135,167	9,648,722	13,783,889	97%	97%	97%
Component 2: Sustainable Management, Operation and Maintenance of Irrigation and Drainage Systems									
Consultants' services	159,578	372,349	531,927	159,578	372,349	531,927	100%	100%	100%
	159,578	372,349	531,927	159,578	372,349	531,927	100%	100%	100%
Component 3: Agricultural Development									
Consultants' services	172,814	403,232	576,046	172,814	403,232	576,046	100%	100%	100%
	172,814	403,232	576,046	172,814	403,232	576,046	100%	100%	100%
Component 4: Project Management, Technical Assistance and Training									
Goods, works and services	2,249	5,239	7,488	2,370	5,531	7,901	95%	95%	95%
Consultants' services	55,691	133,429	189,120	65,660	153,208	218,868	85%	87%	86%
Operating costs	13,560	31,619	45,179	14,282	33,326	47,608	95%	95%	95%
	71,500	170,287	241,787	82,312	192,065	274,377	87%	89%	88%

The notes on pages from 6 to 9 form an integral part of these financial statements

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (continued)
For the Year Ended December 31, 2018

US dollars	Notes	2018			Budget			Variance		
		IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
		4,432,224	10,300,003	14,732,227	4,549,871	10,616,368	15,166,239	97%	97%	97%
Total expenditures under the Project										

Signed on behalf of Management of the Project:



M. U. Beissenov

Acting Chairman of the Republican State Enterprise the «Committee on Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan»

A. S. Rakhymbekova

Acting Head of Department of Economy, Budget Planning and Accounting of the Republican State Enterprise the «Committee on Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan»

The notes on pages from 6 to 9 form an integral part of these financial statements

**STATEMENT OF DISBURSEMENTS BY COMPONENT
For the Year Ended December 31, 2018**

	2018			Cumulative amount from the Project start date through December 31, 2018			
	Notes	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	IBRD Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
<i>US dollars</i>							
EXPENDITURES							
Component 1: Rehabilitation and Modernization of Irrigation and Drainage Systems Infrastructure Works		3,545,084	8,226,501	11,771,585	3,545,084	8,226,501	11,771,585
Consultants' services		483,248	1,127,634	1,610,882	2,130,342	4,971,100	7,101,442
		4,028,332	9,354,135	13,382,467	5,675,426	13,197,601	18,873,027
Component 2: Sustainable Management, Operation and Maintenance of Irrigation and Drainage Systems		159,578	372,349	531,927	480,782	1,121,825	1,602,607
Consultants' services		159,578	372,349	531,927	480,782	1,121,825	1,602,607
Component 3: Agricultural Development		172,814	403,232	576,046	514,928	1,201,499	1,716,427
Consultants' services		172,814	403,232	576,046	514,928	1,201,499	1,716,427
Component 4: Project Management, Technical Assistance and Training		2,249	5,239	7,488	17,178	41,415	58,593
Goods, works and services		55,691	133,429	189,120	164,619	391,114	555,733
Consultants' services		13,560	31,619	45,179	33,697	79,798	113,495
Operating costs		71,500	170,287	241,787	215,494	512,327	727,821

The notes on pages from 6 to 9 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

1. GENERAL PROVISIONS

Kazakhstan Business Environment

The Project activities are carried out in Kazakhstan. Accordingly, the Project is exposed to risks specific to economic and financial markets of Kazakhstan, whose economy shows specific features of an emerging economy. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes which together with other legal and financial impediments contribute to the challenges faced by entities operating in Kazakhstan.

Nature of Operations

Loan agreement No. 8277-KZ (hereinafter the "Agreement") between the Government of the Republic of Kazakhstan (the "Government") and the International Bank for Reconstruction and Development ("IBRD") was signed on April 29, 2014 and ratified on December 26, 2014 (the "Project start date"). Pursuant to the Agreement, the IBRD provides a loan amounting to 102,902,440 US dollars (the "Loan") for the purpose of implementation of the Second Irrigation and Drainage Improvement Project (the "Project") that shall be repaid by the Government on June 15 and December 15 of each year starting from December 15, 2021 through June 15, 2031.

Pursuant to the approved budget for 2018, the Project receipts and disbursements financed out of the proceeds of the IBRD Loan and co-financing of the external loan by the Government of Kazakhstan were estimated to amount to 4,549,871 US dollars and 10,616,368 US dollars, respectively (2017: 784,807 US dollars and 1,831,218 US dollars, respectively). The planned budget amounts were taken at a conditional exchange rate established by the Government of the Republic of Kazakhstan.

The objective of the Project is to improve irrigation and drainage service delivery to support farmers in the project areas.

The Project is implemented by the Republican State Enterprise, the Committee on Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan that acts as an Implementing Agency on behalf of the Government of the Republic of Kazakhstan.

The closing date for withdrawal of funds under the Agreement is December 31, 2021. The Project consists of the following components:

Component 1: Rehabilitation and Modernization of Irrigation and Drainage Systems Infrastructure

- (a) Rehabilitation and modernization of existing irrigation and drainage infrastructure on approximately 113,000 ha;
- (b) Support for the design and supervision associated with the rehabilitation and modernization of irrigation and drainage infrastructure, including preparing Site-specific Dam Safety Plans.

Component 2: Sustainable management, Operation and Maintenance of Irrigation and Drainage Systems

- (a) Developing and strengthening rural consumer cooperatives and water-management organizations through:
 - (i) *supporting the establishment of the enabling training and support units;*
 - (ii) *supporting Participatory Irrigation Development and Management activities including related water-sector studies and access to credit and leasing resources;*and

NOTES TO THE FINANCIAL STATEMENTS (continued)

- (iii) enhancing management, operation and maintenance activities including water-monitoring tools.*
- (b) To contribute to the modernization and strengthening of the system of on-farm water management at the level of rural consumer cooperatives.
- (c) Support for modernizing and strengthening management, operation and maintenance of the main irrigation and drainage system.

Component 3: Agricultural Development

- (a) Strengthen the capacity of farmers through:
 - (i) improving farm management and land use;*
 - (ii) supporting knowledge transfer on innovative agro-techniques;*
 - (iii) supporting agrocooperatives, including establishing and strengthening the enabling farmers services centers.*
- (b) Support farming and irrigation mechanization through:
 - (i) development of water-saving technologies;*
 - (ii) facilitating access to maintenance equipment for the on-farm irrigation systems, and;*
 - (iii) further strengthening the related advisory facilities.*

Component 4: Project Management, Technical Assistance and Training

Support for the Project Management Unit in project management, administration, coordination, procurement and financial management, including monitoring and evaluation of the Project impact, preparation and implementation of environmental impact assessment, and audits. This component will finance goods, consultants' services and training and operating costs of the Project Management Unit at the Committee on Water Resources for management, implementation, monitoring and evaluation of the Project.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

3. 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 only when funds under the Project are received or paid.

Presentation Currency

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

Transactions in Foreign Currencies

Transactions in foreign currencies are translated to the presentation currency at the exchange rates prevailing at the reconversion dates. Direct payments from the IBRD are translated into US dollars at the exchange rates established by the National Bank of the Republic of Kazakhstan at the date of transaction.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Proceeds from the Government of the Republic of Kazakhstan are translated into US dollars at the exchange rates established by the National Bank of the Republic of Kazakhstan at the date of payment. Exchange differences arising from translation of transactions denominated in other currencies into US dollars are reported as a net value from changes in exchange rates.

Expenditure Categories

The Agreement specifies the main categories of expenditures financed by the Loan, the amount for each category, as well as the percentage of expenditures to be financed in each category.

According to the Agreement, there are the following categories of expenditures

- 1) Works under Part 1 of the Project
- 2) Goods, consultants' services, non-consulting services, Training and Operating Costs under Parts 1, 2, 3 and 4 of the Project

Cash Receipts

As per the terms of the Agreement, the Government of the Republic of Kazakhstan shall pay interest and the principal amount of the Loan. Those payments are recorded on the accounts of the Government and are not reported in these financial statements. The last installment on the Loan shall be paid by the Government on June 15, 2031.

Allocation of Expenditures

Expenditures are allocated between the components in the statement of receipts and disbursements of funds based on the comparison of work description in the Agreement with the work description in source documents.

4. CASH

To conduct transactions on Loan No. 8277-KZ, the following designated accounts have been opened with the Committee of Treasury of the Ministry of Finance of the Republic of Kazakhstan, the city of Nur-Sultan, for making cash payments to suppliers:

- 01.6201.000000000.Z08277.001.2120360.2.0000.0000 in US dollars;
- KZ080702012120360001 in KZT.

Cash balances as at December 31, as well as the transactions of the account for the year ended December 31, 2018 are detailed below:

<i>US dollars</i>	2018	2017
Balance at January 1	5,596	1,619
RECEIPTS		
Replenishment of account	4,469,525	408,905
	4,469,525	408,905
EXPENDITURES		
Project expenditures	4,432,224	404,930
Net foreign exchange loss (gains)	2	(2)
	4,432,226	404,928
Balance at December 31	42,895	5,596
<i>Including those denominated:</i>		
<i>In US dollars</i>	42,895	5,596
<i>In KZT</i>	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 chosen in accordance with the terms and conditions of the Agreement.

Direct payments to Suppliers and replenishment of the designated account by IBRD under the Project for the year ended December 31, 2018 were made based on the following withdrawal applications:

No. of application	Date of withdrawal	Direct payments	Replenishment of account	US dollars
				Total
15	26.02.2018	-	15,494	15,494
16	14.05.2018	-	16,252	16,252
17	17.08.2018	-	19,400	19,400
18	04.09.2018	-	172,882	172,882
19	10.10.2018	-	335,000	335,000
20	29.11.2018	-	845,000	845,000
22	13.12.2018	-	3,065,497	3,065,497
Total		-	4,469,525	4,469,525

Statement of Expenditures (SOE)

No. of application	Value date	Total amount of the application	Actual expenditures by categories		Total
			(1) Works under Part 1 of the Project	(2) Goods, consultants' services, non-consulting services, Training and Operating Costs under Parts 1, 2, 3 and 4 of the Project	
15	26.02.2018	15,494	-	-	-
16	14.05.2018	16,252	-	-	-
17	17.08.2018	19,400	-	384,227	384,227
18	04.09.2018	172,882	-	-	-
19	10.10.2018	335,000	-	-	-
20	29.11.2018	845,000	-	-	-
22	13.12.2018	3,065,497	-	-	-
Total		4,469,525	-	-	384,227

*) Statement of expenditures No. 17 dated August 17, 2018 includes Project expenditures for 2017.

6. UNUSED PORTION OF THE LOAN

As at December 31, 2018, the unused portion of the IBRD loan totaled 95,972,915 US dollars (2017: 100,442,440).

7. DATE OF ISSUE

These financial statements were approved for issue by the Acting Chairman of the Republican State Enterprise the «Committee on Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan» and Acting Head of Department of Economy, Budget Planning and Accounting of the Republican State Enterprise the «Committee on Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan» on June 03, 2019.

Reconciliation between the data provided by Project Management Unit and World Bank payments data

US dollars

Date of application	Application for withdrawal	As per PMU	As per WB	Variance
26.02.2018	15	15,494	15,494 ✓	-
14.05.2018	16	16,252	16,252 ✓	-
17.08.2018	17	19,400	19,400 ✓	-
04.09.2018	18	172,882	172,882	-
10.10.2018	19	335,000	335,000	-
29.11.2018	20	845,000	845,000 ✓	-
13.12.2018	22	3,065,497	3,065,497 ✓	-
Total		4,469,525	4,469,525	-