

**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, 2017**

and Independent Auditors' Report

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Independent Auditors' report

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Independent Auditors' Report

To the 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 financial statements of the Second Irrigation and Drainage Improvement Project funded under Agreement No. 8277-KZ between the Government of the Republic of Kazakhstan and the International Bank for Reconstruction and Development (hereinafter the "Project"), which comprise the statement of receipts and disbursements of funds for the year ended December 31, 2017, statement of comparison of budget and actual amounts for the year ended December 31, 2017, statement of disbursements by component for the year ended December 31, 2017, and a summary of significant accounting policies and other explanatory notes (the "Financial Statements").

In our opinion, the accompanying financial statements fairly present, in all material respects, the Project's receipts and disbursements for the year ended December 31, 2017 and the cash position as at December 31, 2017 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 Audit 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 below. We are independent of the Project in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code) and 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.

Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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)

In preparing the financial statements, management is responsible for assessing the Project'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 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 Responsibility for the Audit of the Financial Statements

Our objective is 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 overall presentation 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 statement, 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;
- evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents 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 Talgat Omarov

May 31, 2018


Auditor Tolegen Kuandykov

Auditor Qualification Certificate No.
МФ-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, 2017

US Dollars	Note	2017			The cumulative amount from the Project start date to December 31, 2017	
		Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan	Total	Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan
Project cash balance as at January 1		1,619	-	1,619	-	-
RECEIPTS						
Replenishment of account		408,905	-	408,905	488,375	488,375
Direct payments		371,797	-	371,797	1,971,625	1,971,625
Direct payments from the Government of Kazakhstan		-	1,812,040	1,812,040	5,733,249	5,733,249
Total receipts under the Project	5	780,702	1,812,040	2,592,742	2,460,000	8,193,249
EXPENDITURES						
Goods, works, services		6,223	14,544	20,767	14,929	36,176
Consultants' services		757,716	1,767,818	2,525,534	2,419,340	8,068,234
Operating costs		12,788	29,678	42,466	20,137	68,316
Total expenditures under the Project		776,727	1,812,040	2,588,767	2,454,406	8,187,655
Total other expenditures (gains)		(2)	-	(2)	(2)	(2)
Total payments under the Project		776,725	1,812,040	2,588,765	2,454,404	8,187,653
Project cash balance as at December 31	4	5,596	-	5,596	5,596	5,596

Project Cash balance as at December 31

 of the Management of the Project:
A.S. Rakhymbekova
Acting Head of Department of Economy, Budget Planning and
Accounting of the Republican State Enterprise, the Committee for
Water Resources of the Ministry of Agriculture of the Republic of
Kazakhstan

The notes on pages from 5 to 8 form an integral part of these financial statements.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
for the year ended December 31, 2017

	Note	2017			Budget			Variance		
		Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan	Total	Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan	Total	Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan	Total
<i>US Dollars</i>										
EXPENDITURES										
Goods, works, services		6,223	14,544	20,767	6,614	15,432	22,046	94%	94%	94%
Consultants' services		757,716	1,767,818	2,525,534	764,635	1,784,150	2,548,785	99%	99%	99%
Operating costs		12,788	29,678	42,466	13,558	31,636	45,194	94%	94%	94%
Total expenditures under the Project		776,727	1,812,040	2,588,767	784,807	1,831,218	2,616,025	99%	99%	99%

Signed on behalf of the Management of the Project:



[Signature]

Chairman of the Republican State Enterprise,
Accounting for Water Resources of the Ministry of
Agriculture of the Republic of Kazakhstan

[Signature]

A.S. Rakhymbekova

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

The notes on pages from 5 to 8 form an integral part of these financial statements.

International Bank for Reconstruction and Development

STATEMENT OF DISBURSEMENTS BY COMPONENT
for the year ended December 31, 2017

	2017				The cumulative amount from the Project start date to December 31, 2017		
	Note	Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan	Total	Loan IBRD	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 Consultants' services		543,699	1,268,676	1,812,375	1,647,094	3,843,466	5,490,560
		543,699	1,268,676	1,812,375	1,647,094	3,843,466	5,490,560
Component 2: Sustainable Management, Operation and Maintenance of Irrigation and Drainage Systems. Consultants' services		73,958	172,568	246,526	321,204	749,476	1,070,680
		73,958	172,568	246,526	321,204	749,476	1,070,680
Component 3: Agricultural Development Consultants' services		85,233	198,878	284,111	342,114	798,267	1,140,381
		85,233	198,878	284,111	342,114	798,267	1,140,381
Component 4: Project Management, Technical Assistance and Training Goods, works, services Consultants' services Operating costs		6,223	14,544	20,767	14,929	36,176	51,105
		54,826	127,696	182,522	108,929	257,685	366,614
		12,788	29,678	42,466	20,137	48,179	68,316
		73,837	171,918	245,755	143,995	342,040	486,035
Total expenditures under the Project		776,727	1,812,040	2,588,767	2,454,406	5,733,249	8,187,655

The notes on pages from 5 to 8 form an integral part of these financial statements.

STATEMENT OF DISBURSEMENTS BY COMPONENT (continued)
for the year ended December 31, 2017

US Dollars	Note	2017				Total	The cumulative amount from the Project start date to December 31, 2017	
		Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan	Loan IBRD	Proceeds from the Government of the Republic of Kazakhstan		Total	
OTHER EXPENDITURES								
			(2)	-	(2)	(2)	-	(2)
			(2)	-	(2)	(2)	-	(2)
		776,725	1,812,040	2,588,765	2,454,404	5,733,249	8,187,653	
		Total payments under the Project						

Signed on behalf of the Management of the Project:



 A.S. Rakhymbekova
 Acting Head of Department of Economy, Budget Planning and Accounting of the Republican State Enterprise, the Committee for 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 for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan

The notes on pages from 5 to 8 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2017

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 (the "Agreement") between the Government of the Republic of Kazakhstan (the "Government") and the International Bank for Reconstruction and Development ("IBRD") was signed on August 29, 2014 and ratified on December 26, 2014 ("Project Start Date"). Pursuant to the Agreement, the IBRD provides a loan for the amount of 102,902,440 US dollars ("Loan") for the purpose of implementing the Second Irrigation and Drainage Improvement Project (the "Project") that shall be repayable 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 2017, the cash receipts and disbursements under the Project from the funds of the IBRD loan and from co-financing of the external loan by the Government were estimated to amount to 784,807 US dollars and 1,831,218 US dollars, respectively (2016: 849,535 US dollars and 2,024,523 US dollars, respectively). The planned budget amounts are 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 Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan that acts as the Executing Agency on the part of the Republic of Kazakhstan.

The closing date for withdrawal of funds 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;*

NOTES TO THE FINANCIAL STATEMENTS (continued)

- (ii) *supporting Participatory Irrigation Development and Management activities including related water-sector studies and access to credit and leasing resources; and*
- (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 incremental operating costs of the Project Management Unit at the Committee for 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").

NOTES TO THE FINANCIAL STATEMENTS (continued)

Transactions in foreign currency

Transactions in foreign currencies are translated to the presentation currency at the exchange rates prevailing at the reconversion dates. Proceeds 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 payment. 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 as 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: Goods, consultants' services, operating costs, and training under 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 15 October 2031.

Allocation of costs

The distribution of expenditures by components in the statement of cash receipts and disbursements is based on matching of the descriptions of works as indicated in the Agreement and the descriptions in primary documents.

4. CASH

To conduct operations on Loan No.8277-KZ, the following accounts have been opened at the Committee of Treasury of the Ministry of Finance of the Republic of Kazakhstan, the city of Astana, 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, 2017 are detailed below:

<i>US Dollars</i>	2017	2016
Balance as at January 01	1,619	1,918
RECEIPTS		
Cash receipts to account	408,905	53,470
	408,905	53,470
EXPENDITURES		
Expenditures under the Project	404,930	53,769
Net foreign exchange loss (gain)	(2)	-
	404,928	53,769

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

<i>US Dollars</i>	2017	2016
Balance as at December 31	5,596	1,619
<i>Including those denominated:</i>		
<i>US Dollars</i>	5,596	1,113
<i>in tenge</i>	-	506

5. DIRECT PAYMENTS AND REPLENISHMENT OF THE ACCOUNT

Direct payments under the Project are made by IBRD and the Government of the Republic of Kazakhstan to suppliers chosen in accordance with the terms of the Agreement.

Direct payments to Suppliers and funds added by IBRD to the account under the Project for the year ended December 31, 2017 were made based on the following withdrawal applications:

No. of withdrawal application	Date of withdrawal	Direct payments	Replenishment of account	<i>US Dollars</i>
				Total
10	11.04.2017	-	17,300	17,300
11	18.05.2017	-	19,290	19,290
12	03.08.2017	-	25,274	25,274
13	05.12.2017	-	347,041	347,041
14	11.12.2017	371,797	-	371,797
Total		371,797	408,905	780,702

Statement of Expenditures

No. of Applic.	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	
10	11.04.2017	17,300	-	48,358	48,358
11	18.05.2017	19,290	-	-	-
12	03.08.2017	25,274	-	-	-
13	05.12.2017	347,041	-	51,597	51,597
14	11.12.2017	371,797	-	371,797	371,797
Total		780,702	-	471,752	471,752

6. UNUSED PORTION OF THE LOAN

As of December 31, 2017 the unused portion of the IBRD loan totalled 100,442,440 US dollars (2016: 101,223,142).

7. DATE OF ISSUE

These financial statements were approved for release by Vice-Chairman of the republican State Enterprise, the Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan and the Head of the Department for Economy, Budget Planning and Accounting of the Committee for Water Resources of the Ministry of Agriculture of the Republic of Kazakhstan on May 31, 2018.

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

Appendix No. 1

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

Date of withdrawal	Application for withdrawal	As per PMU	As per WB	<i>US Dollars</i> Variance
11.04.2017	10	17,300	17,300	-
18.05.2017	11	19,290	19,290	-
03.08.2017	12	25,274	25,274	-
05.12.2017	13	347,041	347,041	-
11.12.2017	14	371,797	371,797	-
Total		780,702	780,702	-