

**Central Asia Hydrometeorology Modernization Project  
(Component “A”, Kazakhstan)  
Grant No. H677-7C**

**Financial statements**

*for 2018 together with independent auditor's report*

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«Эрнст энд Янг» ЖШС  
Әл-Фараби д-лы, 77/7  
«Есентай Тауэр» ғимараты  
Алматы қ., 050060  
Қазақстан Республикасы  
Тел.: +7 727 258 5960  
Факс: +7 727 258 5961  
www.ey.com

ТОО «Эрнст энд Янг»  
пр. Аль-Фараби, 77/7  
здание «Есентай Тауэр»  
г. Алматы, 050060  
Республика Казахстан  
Тел.: +7 727 258 5960  
Факс: +7 727 258 5961

Ernst & Young LLP  
Al-Farabi ave., 77/7  
Esentai Tower  
Almaty, 050060  
Republic of Kazakhstan  
Tel.: +7 727 258 5960  
Fax: +7 727 258 5961

## Independent auditor's report

To the Management of "Central Asia Hydrometeorology Modernization Project"

### **Opinion**

We have audited the accompanying financial statements of "Central Asia Hydrometeorology Modernization Project" (hereafter the "Project"), which comprise the statement of cash receipts and payments, statement of funds by project components, statement of applications, statement of special account for the year ended 31 December 2018, and notes to the financial statements, including short description of significant accounting policies and other descriptive notes ((hereinafter - "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, cash receipts and payments on the Project for the year ended 31 December 2018 in accordance with the International Public Sector Accounting Standard (hereinafter - the "IPSAS") Financial Reporting under the Cash Basis of Accounting and the relevant points of the Grant H677-7C between EC-IFAS and IDA.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 (hereinafter - the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with 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 responsibility and those charged with governance for the financial statements**

Management of the Project is responsible for the preparation and fair presentation of these financial statements in accordance with the IPSAS and for such internal control as management determines is necessary to enable the preparation of 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 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 CAHMP Project or to cease operations, or has no realistic alternative but to do so.

### ***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 the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error 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 the 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.

We communicate with persons responsible for corporate governance 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.

*Ernst & Young LLP*

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Paul Cohn  
Audit Partner



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Kenen Abdykadyr  
Auditor

Auditor Qualification Certificate  
No. МФ-0000632 dated 9 August 2018

050060, Republic of Kazakhstan, Almaty  
Al-Farabi ave., 77/7, Esentai Tower

26 June 2019



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Rustamzhan Sattarov  
Acting General Director  
Ernst & Young LLP

State Audit License for audit activities on  
the territory of the Republic of  
Kazakhstan: series МФЮ-2 No. 0000003  
issued by the Ministry of Finance of the  
Republic of Kazakhstan on 15 July 2005

**STATEMENT OF CASH RECEIPTS AND PAYMENTS**

For the year ended 31 December 2018

In US dollars

		2018		2017	
	Notes	For the period	Cumulative	For the period	Cumulative
Cash balance as at 1 January					
Grant H677-7C	4	115,340	—	108,981	—
Other accumulated income		—	102	—	102
<b>Total balance as at 1 January</b>	4	<b>115,340</b>	<b>102</b>	<b>108,981</b>	<b>102</b>
<b>Fund received</b>					
Grant H677-7C	6	200,000	3,830,000	930,000	3,630,000
Other accumulated income	6	403,762	3,665,151	915,086	3,261,389
<b>Total funds received</b>	6	<b>603,762</b>	<b>7,495,151</b>	<b>1,845,086</b>	<b>6,891,389</b>
<b>Expenses incurred</b>					
Grant H677-7C		(686,885)	(7,462,992)	(1,838,728)	(6,776,107)
Foreign exchange		(6)	(51)	1	(45)
<b>Total expenses incurred</b>	5	<b>(686,891)</b>	<b>(7,463,043)</b>	<b>(1,838,727)</b>	<b>(6,776,152)</b>
<b>Cash balance as at 31 December</b>		<b>32,211</b>	<b>32,211</b>	<b>115,340</b>	<b>115,340</b>
Grant H677-7C		—	—	—	—
Other accumulated income		—	—	—	—
<b>Total balance as at 31 December</b>	4	<b>32,211</b>	<b>32,211</b>	<b>115,340</b>	<b>115,340</b>

Signed and authorized for issue on 26 June 2019:

Executive director of Corporate Fund "Regional Center of Hydrology"

Supervisor of the Management Team for the Hydro-meteorology  
Services Modernization Project in Central Asia



Shvartsev S.B.

Kurbakov V.K.

**STATEMENT OF FUNDS BY PROJECT COMPONENTS**

**For the year ended 31 December 2018**

*In US dollars*

Project components	2018		2017	
	For the period	Cumulative	For the period	Cumulative
<b>1. Construction</b>				
Improve the technical and organizational capacity of EC-IFAS and the RCH	–	742,481	84,900	742,481
Improve the regional system of training	341,324	1,263,739	693,613	922,415
Improve the provision of hydro meteorological services	158,979	2,230,247	824,189	2,071,268
Integration of Project's systems	54,512	2,099,989	110,474	2,045,477
Project Management	132,076	1,126,588	125,552	994,512
<b>Total expenses</b>	<b>686,891</b>	<b>7,463,044</b>	<b>1,838,728</b>	<b>6,776,153</b>

Signed and authorized for issue on 26 June 2019:

Executive director of Corporate Fund "Regional Center of Hydrology"

Shuvarova S.P.



Supervisor of the Management Team for the Hydro-meteorology Services Modernization Project in Central Asia

S. Kubatkov Y.K.

Notes on pages 5-8 form an integral part of these special purpose financial statements.

**STATEMENT OF APPLICATIONS**

**For the year ended 31 December 2018**

*In US dollars*

<i>Grant</i>	<i>Application No.</i>	<i>2018*</i>	<i>2017*</i>
		<i>Goods, advisory services, including audit, trainings, operating expenses</i>	<i>Goods, advisory services, including audit, trainings, operating expenses</i>
Grant No. H677-7C	19	200,000	15 16 17 18 200,000 200,000 230,000 300,000
<b>Total</b>		<b>200,000</b>	<b>930,000</b>

\* In 2018 IDA made direct payments in the amount of 403,762 USD (in 2017: 915,086 USD).

Signed and authorized for issue on 26 June 2019:

Executive director of Corporate Fund "Regional Center of Hydrology"



Shvayeva S.P.

Supervisor of the Management Team for the Hydro-meteorology Services Modernization Project in Central Asia

  
Kubakov Y.K.



**STATEMENT OF SPECIAL ACCOUNT**

**For the year ended 31 December 2018**

*In US dollars*

**Special account** Grant No. H677-7C  
**Bank account** KZ086017131000054257  
**Bank** Halyk Savings Bank of Kazakhstan JSC  
**Bank address** 109 V, Abay street, Almaty, Kazakhstan

<b>Balance at 31 December 2016</b>	108,981
Plus: Advance/reimbursement during the reporting period (Note 6)	930,000
Less: The amount of acceptable expenses paid during the reporting period	(923,642)
Foreign exchange loss (Note 5)	1
<b>Balance at 31 December 2017 (Note 4)</b>	<b>115,340</b>
Plus: Advance/reimbursement during the reporting period (Note 6)	200,000
Less: The amount of acceptable expenses paid during the reporting period	(283,123)
Foreign exchange gain/loss (Note 5)	(6)
<b>Balance at 31 December 2018 (Note 4)</b>	<b>32,211</b>

Signed and authorized for issue on 26 June 2019:

Executive director of Corporate Fund "Regional Center of Hydrology"



Shivaryeva S.P.

Supervisor of the Management Team for the Hydro-meteorology  
Services Modernization Project in Central Asia

  
Kubakov Y.K.

*In US dollars*

## 1. General information

According to the Agreement between Executive Committee of International Fund for Saving Aral Sea (hereafter – "EC-IFAS") and International Development Association (hereafter – "IDA") dated 12 July 2011 (hereafter – "Agreement"), IDA provided to EC-IFAS a Grant No. H677-7C in the amount of 5,600,000 SDR (Special Drawing Rights) to finance realization of Central Asia Hydrometeorology Modernization Project (hereafter – "Project"). The Grant No. H677-7C was mature on 31 December 2018. In November 2018, at the initiative of IDA, the project was extended until March 31, 2021.

### Project management

The Project management is implemented by Corporate Fund "Regional Center of Hydrology" (hereafter – "Agency") – non-commercial organization on behalf of EC-IFAS. Agency was founded under the decree No. 104018-1910 on 25 May 2010.

Agency carries out activities of financial management, procurement, disbursement of funds and reporting of the Project, as well as implementation of activities envisaged in the Project Implementation Plan for Component A.

Agency carries out the Project in accordance with the requirements, criteria, organizational arrangements and operational procedures set forth in the Project Operations Manual, and do not assign, amend, abrogate or waive any provisions of the Project Operations Manual without prior approval of the IDA.

Address of agency: 32 Abay ave., Almaty, Republic of Kazakhstan, 050022.

### Purpose of Project

The purpose of the Project is to improve the accuracy and timeliness of rendering hydrometeorological services in Central Asia.

The Project comprises the following components:

#### *Component A*

Strengthening regional coordination and information sharing: this component will ensure that each of the National Hydrometeorological Services (hereafter – "NHMSs") in the region can share, use, exchange and archive common hydromet data and information, and that each agency has a comparable level of expertise in the production of information and delivery of hydromet services. This component will be implemented by EC-IFAS through a Project Management Unit (hereafter – "PMU") that will be set up by EC-IFAS in Almaty, Kazakhstan.

#### *Component B*

Strengthening of Hydromet Services in Kyrgyz Republic: the component will help strengthen Kyrgyzhydromet to ensure that it has the infrastructure and capability to sustainably observe, forecast and deliver weather, water and climate services that meet the country's identified economic and societal needs. This component will be implemented by Kyrgyzhydromet through a Project Coordination Unit (hereafter – "PCU") that will be set up within Kyrgyzhydromet in Bishkek, Kyrgyzstan.

#### *Component C*

Strengthening of Hydromet Services in Republic of Tajikistan: the component will help strengthen Tajikhydromet to ensure that it has the infrastructure and capability to sustainably observe, forecast and deliver weather, water and climate services that meet the country's identified economic and societal needs. This component will be implemented by Tajikhydromet through a PCU that will be set up within Tajikhydromet in Dushanbe, Tajikistan.

### Total costs of the Grant (distribution)

<i>Component A</i>		<i>Total Project budget</i>
A.1	Improve the technical and organizational capacity of EC-IFAS and the Agency	1,680,000
A.2	Improve the regional system of training	1,530,000
A.3	Improve the provision of hydro meteorological services	1,640,000
A.4	Integration of Project's systems	3,000,000
A.5	Project Management	850,000
<b>Total</b>		<b>8,700,000*</b>

In US dollars

## 1. General information (continued)

### Total costs of the Grant (distribution) (continued)

<i>Category of Component A</i>	<i>Total Project budget</i>	<i>IDA financing, %</i>
Goods and works	3,830,000	100%
Consulting Services (Least Cost Selection)	3,630,000	100%
Consulting Services (Selection based on Qualification of Consultants and Individual Consultants)	430,000	100%
Operational Costs	605,000	100%
Training	205,000	100%
<b>Total</b>	<b>8,700,000*</b>	<b>100%</b>

\* Total budget is recalculated by applying SDR rate to the total Project budget established in the agreement (SDR 5,600,000). The total amount of budget at 31 December 2018 is 7,788,424 US dollars (as at 31 December 2017 is 7,975,152 US dollars).

The above budget represents US dollars denominated initial budget accepted in the agreement.

The rate of SDR to US dollars at 31 December 2018: 1 SDR = 1.390790 US dollars (at 31 December 2017: 1 SDR = 1.424130 US dollars).

### Budget

Categories of authorized expenses, distribution of the amounts of grant and rate of expenses financed were presented as follows:

<i>Category</i>	<i>Amount of allocated grant, SDR</i>	<i>Rate of financed expenses, %</i>
Goods, non-advisory services (including relevant services on installation), advisors services, additional operating costs and training for Component A of the Project	5,600,000	100%
<b>Total</b>	<b>5,600,000</b>	<b>100%</b>

Budget of the Project for 2018 by categories was presented as follows:

<i>Category</i>	<i>Grant No. H677-7C</i>
1. Goods	472,843
2. Advisory services, training and audit	100,503
3. Operating expenses (including Project Coordination Division personnel)	113,545
<b>Total</b>	<b>686,891</b>

<i>Sources of financing</i>	<i>Budget in SDR</i>	<i>Undrawn amounts as at 31 December 2018, SDR</i>	<i>Available amounts as at 31 December 2018, USD*</i>
Grant No. H677-7C	5,600,000	210,874	293,281
<b>Total</b>	<b>5,600,000</b>	<b>210,874</b>	<b>293,281</b>

\* Available funds on Grant No. H677-7C as at 31 December 2018 were calculated as the amount of unpaid balance, according to IDA of 293,281 US dollars (2017: 1,083,762 US dollars) including actual cash balance at the accounts of the Agency as at 31 December 2018 relating to the Grant No. H677-7C equal to 32,211 US dollars (2017: 115,340 US dollars)

## 2. Basis of preparation

Financial statements were prepared in accordance with International Public Sector Accounting Standard (IPSAS) *Financial Statements Prepared under Cash Method of Accounting*, published by International Accounting Standards Board for Public Sector of International Federation of Accountants and Financial Management Manual within the framework of investment activities financed by the IDA.

*In US dollars*

## 2. Basis of preparation (continued)

Financial Statements comprises:

- Statement of cash receipts and payments;
- Statement of funds by Project components;
- Statement of applications;
- Statement of special account;
- Notes to the financial statements including the summary of significant accounting policies and other explanatory notes.

The summary of significant accounting policies used in preparation of the financial statements is stated below. These policies were consistently used during the whole reporting period.

## 3. Summary of significant accounting policies

### Cash basis of accounting

The financial statements were prepared and presented based on cash basis of accounting.

Cash basis of accounting is the accounting principle, according to which changes in the financial position of the entity are recognized only at the time when cash is paid or received.

Financial statements were prepared based on cash method presents information on the source of cash, cash use purposes and cash balances as at the reporting date.

### Currency

The Project's financial statements are presented in US dollars, unless otherwise is stated.

### Foreign exchange transactions

Cash receipts and payments in foreign currency are translated into US dollars using exchange rate as at the date of cash receipts and payments. Cash balances held in a foreign currency reported using the exchange rate at reporting date.

31 December 2018	380.89
31 December 2017	330.57

### Taxation

Personal income tax of non-resident is calculated and paid out in accordance with requirements and rates as determined in Tax Code of Republic of Kazakhstan.

### Budgeting

Annual budgets on financing and expenses are presented based on approved budget of the agreement (*Note 1*). Budget is reconsidered based on the amount of actual expenses accumulated for the prior period.

## 4. Cash and cash equivalents

Cash and cash equivalents as at 31 December comprise:

	<i>2018</i>	<i>2017</i>
	<i>Grant No. H677-7C</i>	<i>Grant No. H677-7C</i>
Special account	32,156	115,327
Special transit account	55	13
<b>Total</b>	<b>32,211</b>	<b>115,340</b>

In US dollars

## 5. Cumulative Project expenses

Project expenses on major components are presented in the Statement of funds by the Project components. Project expenses based on sources of financing are presented as follows:

<i>Source of finance</i>	<i>Cumulative Project expenses 2018</i>	<i>Cumulative Project expenses 2017</i>
Grant No. H677-7C	686,885	1,838,728
Foreign exchange	6	(1)
<b>Total</b>	<b>686,891</b>	<b>1,838,727</b>

## 6. Funds

The financing comprise:

<i>Reimbursement method</i>	<i>2018 Grant No. H677-7C</i>	<i>2017 Grant No. H677-7C</i>
Advance/reimbursement	200,000	930,000
Direct payments	403,762	915,086
<b>Total</b>	<b>603,762</b>	<b>1,845,086</b>

## 7. Project budget

The Project budget comprise:

<i>Category</i>	<i>Project budget for 2018</i>	<i>Project expenses for 2018</i>	<i>Deviation, %</i>	<i>Execution, %</i>	<i>Project budget for 2017</i>	<i>Project expenses for 2017</i>	<i>Deviation, %</i>	<i>Execution, %</i>
Goods	472,000	472,843	-0.2%	100%	1,503,900	1,502,021	0.1%	100%
Consulting services, trainings and audit	81,200	81,287	-0.1%	100%	237,000	230,621	2.7%	97%
Operating expenses	132,000	132,761	-0.6%	101%	106,000	106,085	-0.1%	100%
	<b>685,200</b>	<b>686,891</b>	<b>-0.2%</b>	<b>100%</b>	<b>1,846,900</b>	<b>1,838,727</b>	<b>0.4%</b>	<b>100%</b>

\* There were direct payments in amount of 403,762 USD (in 2017: 915,086 USD).

## 8. Taxation

According to the Chapter 33, article 683 of Civil Code of Republic of Kazakhstan, agreement for consultation services cannot be treated as labor agreement. Therefore, in accordance with Article 341 of Tax Code of Republic of Kazakhstan disbursement financed from grant are not subject to personal income tax, as well as social tax, social contributions and obligatory pension contributions cannot be withheld from the consultants' remuneration.

## 9. Legal proceedings

In the opinion of the management, there are no current legal proceedings or other claims outstanding, which could have a material negative effect on the results of operations or financial position of the Project and which have not been recognized or disclosed in these financial statements.

## 10. Insurance

The Project's property was not insured.