

# Audited Project Financial Statements

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Project Number: 43439-033

Loan Number: 2967

Period covered: 1 January 2018 to 31 December 2018

## **KAZ: CAREC Corridor 2 (Mangystau Oblast Section) Investment Program, Project 2**

Prepared by Russell Bedford Group of Companies

For the Asian Development Bank

Date received by ADB: 20 June 2019

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB and the Ministry of Finance.

**Project "Investment Program of CAREC  
Corridor 2 (Sites of Mangystau Region) Project-2",  
funded under the agreement No.2967-KAZ,  
concluded between Government of the  
Republic of Kazakhstan and Asian Development  
Bank Financial Statements  
*for the year ended December 31, 2018***

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018.

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Project "Investment Program of CAREC Corridor 2 (Sites of Mangystau Region) Project-2", funded under the agreement No.2967-KAZ concluded between Government of the Republic of Kazakhstan and Asian Development Bank

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPATION AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2018.**

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In order to distinguish the responsibilities of auditors and management regarding the financial statements for the Project "Investment Program of CAREC Corridor 2 (Sites of Mangystau Region) Project-2" funded under agreement No.2967-KAZ, concluded between Government of the Republic of Kazakhstan and Asian Development Bank (hereinafter referred to as the "Project"), the following statement was made, which should be read in conjunction with the description of the duties of the auditors contained in the Independent Auditors' Report

The management of the Project is responsible for the preparation of these financial statements, which in all material aspects reliably reflect the results of its activities, which includes the statement of cash receipts and payments for the year ended December 31, 2018; the statement of comparison of budget and actual amounts for the year ended December 31, 2018, as well as a brief description of significant aspects of the accounting policies and other explanatory notes to the financial statements (hereinafter referred to as the "financial statements") in accordance with International Public Sector Accounting Standards (hereinafter - "IPSAS") "Financial reporting on a cash basis".

In preparing the financial statements, management of the Project is responsible for:

- Properly selecting and applying accounting policies;
- presenting information, including accounting policies in a form that ensures the relevance, reliability, comparability and clarity of such information;
- disclosure of additional information in cases where compliance with IPSAS requirements is not enough for users to understand the impact of certain transactions, as well as other events or conditions on the financial position and financial results of the Project;
- assessment of the Project's ability to continue operations in the foreseeable future.

Management is also responsible for:

- development, implementation and maintenance of an efficient and reliable internal control system in the Project;
- keeping records in a form that allows you to disclose and explain the transactions of the Project, as well as provide information on any date with sufficient accuracy on the financial situation of the Project and ensure that the financial statements comply with the requirements of the IPSAS;
- maintenance of accounting in accordance with the legislation of the Republic of Kazakhstan and IPSAS;
- taking all reasonably possible measures to safeguard the assets of the Project;
- detection and prevention of facts of financial and other abuses.

These financial statements of the Company for the year ended December 31, 2018 were approved for issue on **May 30, 2019**.

Deputy Chairman of the Roads  
Committee under the Ministry of  
Industry and Infrastructural  
Development of the Republic of  
Kazakhstan



Bekov A.A.

Chief Accountant of the Roads  
Committee of the Ministry of Industry  
and Infrastructural Development of  
the Republic of Kazakhstan

Alimzhanova M.S.

Nur-Sultan, Republic of Kazakhstan



## INDEPENDENT AUDITOR'S REPORT



Approved by  
General Director  
"IAC "Russell Bedford A+ Partners" LLC  
Kudaibergenova Sh.Ye.

To the management of the Project "Investment Program of CAREC Corridor 2 (Sites of Mangystau Region) Project-2" funded under agreement No.2967-KAZ, concluded between Government of the Republic of Kazakhstan and Asian Development Bank.

### Audit report:

We conducted an audit of the attached financial statements of the Project "Investment Program of CAREC Corridor 2 (Sites of Mangystau Region) Project-2" funded under agreement No.2967-KAZ, concluded between Government of the Republic of Kazakhstan and Asian Development Bank (hereinafter - the "Project"), which includes the statement of cash receipts and payments for the year ended December 31, 2018; the statement of comparison of budget and actual amounts for the year ended December 31, 2018, as well as a brief description of significant accounting policies and other explanations to the financial statements (hereinafter referred to as "financial statements").

In our opinion,

The financial statements in all material aspects reliably reflect the cash receipts and payments of the Project for the year ended December 31, 2018 and the cash balance as of December 31, 2018, in accordance with the International Public Sector Accounting Standards (IPSAS) "Financial reporting on the cash accounting method", published by the International Federation of Accountants, and in accordance with the requirements of the Asian Development Bank; The funds received under the Loan from ADB were used for the purposes for which they were provided, set by the Project and in accordance with the loan agreement No. 2967-KAZ;

### Basis for opinion

We conducted our audit in accordance with International Auditing Standards (IAS). Our responsibilities in accordance with these standards are described later in the "Auditor's Responsibility for the Audit of Financial Statements" section of our report. We are independent in relation to the Project in accordance with the Code of Ethics of Professional Accountants of the International Ethics Standards Board for Accountants, and ethical requirements applicable to our audit of financial statements in Kazakhstan, and we have fulfilled other ethical obligations in accordance with these requirements and the Code of Ethics of Professional Accountants. We believe that the audit evidence obtained is sufficient and appropriate to serve as a basis for the expression of our opinion.

### Management responsibility for financial statements

Management the Project is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standard (IPSAS) "Financial reporting on the cash accounting method" published by the International Federation of Accountants, as well as in accordance with the requirements of the Asian Development Bank, and the internal control system that management considers necessary for the preparation of financial statements that do not contain material misstatements due to fraud or errors. In preparing the financial statements, management is responsible for assessing the ability of the Project to continue its activities, for disclosing, if applicable, information relating to the continuity of activities, and for reporting on the basis of the continuity assumption, unless management intends to liquidate the Project, stop its activities or when there is no real alternative other than liquidation or termination of activities. Persons responsible for corporate governance are responsible for overseeing the preparation of the financial statements of the Project.




### Auditor's responsibility for auditing financial statements

Our goal is to obtain reasonable assurance that the financial statements presented are free from material misstatements due to fraud or error, and to issue an audit report containing our opinion. Reasonable assurance is a high degree of certainty, but does not guarantee that an audit conducted in accordance with International Standards on Auditing always reveals significant distortions, if any. Distortions may be the result of fraud or error, and are considered significant if it can reasonably be assumed that individually or in combination they may affect the overall presentation of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing, we apply professional judgment and maintain professional skepticism throughout the audit. In addition, we perform the following:


- Identify and assess the risks of material misstatement of financial statements due to fraud or errors; we develop and conduct audit procedures in response to these risks; we obtain audit evidence that is sufficient and appropriate to serve as a basis for expressing our opinion. The risk of not detecting material misstatement as a result of misconduct is higher than the risk of not detecting material misstatement as a result of an error, since unscrupulous actions may include collusion, forgery, intentional omission, distorted information or actions to bypass the internal control;
- Gain an understanding of the internal control system that is relevant for an audit, in order to develop audit procedures appropriate to the circumstances, but not to express an opinion on the effectiveness of the Project's internal control system;
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and the corresponding disclosure of information prepared by management;
- Assess the presentation of the financial statements as a whole, its structure and content, including the disclosure of information, and whether the financial statements represent the underlying operations and events so as to ensure their fair presentation.

We carry out informational interaction with persons responsible for corporate governance, bringing to their attention, among other things, information about the planned scope and timing of the audit, as well as significant observations on the results of the audit, including significant deficiencies in the internal control system, which we identify during the audit.



Gulshat Nazarymbetova  
Auditor / Partner  
"IAC "Russell Bedford A+ Partners" LLC

Qualification certificate of auditor  
No.0000559 from 02.02.2018



Sholpanay Kudairbergenova  
Auditor  
"IAC "Russell Bedford A+ Partners" LLC

Qualification certificate of auditor  
No.1-ПН 0000541 from 01.02.2018

State license for Auditing activities in the territory of the Republic of Kazakhstan No. 18013076, issued by the Committee for Internal State Control of the Ministry of Finance of the Republic of Kazakhstan  
date July 3, 2018

May 30, 2019

Almaty, Republic of Kazakhstan





Project "Investment Program of CAREC Corridor 2 (Sites of Mangystau Region)  
Project-2" funded under the agreement No.2967-KAZ, concluded between  
Government of the Republic of Kazakhstan and Asian Development Bank

# FINANCIAL STATEMENTS

## STATEMENT OF CASH RECEIPTS AND PAYMENTS for the year ended December 31, 2018

US dollars	Note	2018			Cumulative result from the start date of the Project till December 31, 2018		
		ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total
Cash of the Project as of January 1	4	0	0	0	0	0	0
<b>RECEIPTS</b>							
Direct payments		30 838 096		30 838 096	261 341 630		261 341 630
Receipts from Government of the Republic of Kazakhstan			4 296 175	4 296 175		31 038 942	31 038 942
<b>Total receipts of the Project</b>	<b>5</b>	<b>30 838 096</b>	<b>4 296 175</b>	<b>35 134 271</b>	<b>261 341 630</b>	<b>31 038 942</b>	<b>292 380 572</b>
<b>EXPENDITURES</b>							
Construction works		29 550 999	4 108 629	33 659 628	256 968 096	30 072 389	287 040 485
Consulting services		1 287 097	187 546	1 474 643	4 373 534	966 553	5 340 087
<b>Total payments of the Project</b>		<b>30 838 096</b>	<b>4 296 175</b>	<b>35 134 271</b>	<b>261 341 630</b>	<b>31 038 942</b>	<b>292 380 572</b>
Cash of the Project as of December 31	4	0	0	0	0	0	0

Signed on behalf of the management of the Project

**Bekov A. A.**

Deputy Chairman of the Roads Committee of the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan

Explanatory notes form an integral part of these financial statements



## FINANCIAL STATEMENTS

Us dollars	Note	2018			Budget			Deviation		
		ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total	ADB loan	Receipts from the Government of the Republic of Kazakhstan	Total
<b>EXPENDITURES</b>										
Construction works		29 550 999	4 108 629	33 659 628	29 550 999	4 108 629	33 659 628	100%	100%	100%
Consulting services		1 287 097	187 546	1 474 643	1 296 641	187 546	1 484 187	99%	100%	99%
<b>Total payments of the Project</b>		<b>30 838 096</b>	<b>4 296 175</b>	<b>35 134 271</b>	<b>30 847 640</b>	<b>4 296 175</b>	<b>35 143 815</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Bekov A.A.

Deputy Chairman of the Roads Committee of the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan

*Explanatory notes form an integral part of these financial statements*





**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended December 31, 2018**

**1. GENERAL PROVISIONS**

**Terms of economic activity in the Republic of Kazakhstan**

Project activities are carried out in Kazakhstan. Accordingly, the Project is confirmed by the risks inherent in the economic and financial markets of Kazakhstan, which demonstrates the characteristics of a country with a developing market economy. The legal system, tax system and legal framework continue to evolve, but are subject to varying interpretations and frequent changes, which, along with other legal and financial obstacles, exacerbate the problems faced by organizations operating in Kazakhstan.

**Nature of activity**

Loan Agreement No. 2967-KAZ (hereinafter referred to as the "Agreement"), between the Government of the Republic of Kazakhstan (hereinafter referred to as the "Government") and the Asian Development Bank (hereinafter referred to as the "ADB"), was signed on June 18, 2013 and ratified on December 26, 2013 ("Project start date"). Under the Agreement, ADB provides a loan in the amount of 371,300,000 US dollars (hereinafter referred to as the "Loan") to implement the Project "Investment program of CAREC Corridor 2 (Sites of Mangistau Region) Project-2" (hereinafter referred to as the "Project"), and is repayable by the Government, after the grace period expires, from April 15, 2018 to October 15, 2032. According to the Letter of Agreement dated June 20, 2017, ratified on 13.11.2017, amendments were made to the Loan Agreement No. 2967-KAZ.

In accordance with the approved budget for 2018, the receipt and expenditure of funds under the Project from the proceeds from the ADB loan and from the co-financing of an external loan by the Government were planned in the amount of 30,847,640 US dollars and 4,296,175 US dollars, respectively (2017: 62,675,080 US dollars and 10,133,378 US dollars, respectively). Planned budget sums are taken at a conditional rate set by the Government of the Republic of Kazakhstan.

The project aims to increase transportation and its efficiency, as well as institutional effectiveness through the following activities: road development (reconstruction of road sections of the CAREC transport corridor 2 in Mangistau Region), strengthening capacity in planning, project management and asset management, and improving infrastructure of the borders and of facilities.

The project is implemented by the Committee for Roads of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan, which acts as the Implementing Agency, by the Government of the Republic of Kazakhstan.

The project consists of the following parts:

- a) reconstruction
  - i. about 170 km of the road section (from 632.3 km. to 802 km.) between the settlement of Shetpe and the city of Aktau; and
  - ii. about 73 km of the road section (from 0 km. to 73 km.) between Zhetybai and Zhanaozen of the highway "Zhetybai-Zhanaozen-Fetisovo-border of the Republic of Turkmenistan (on Turkmen bashi)";
- b) supervision of construction and project management.

Implementation of work on the part a) i. Project reconstruction of 170 km. of the road section (from 632.3 km. to 802 km.) between the settlement of Shetpe and Aktau was completed on April 30, 2017.

Work under part a) ii. The project started in 2018, the planned duration of work is until September 15, 2020.

The completion date for the withdrawal of the loan has been extended from October 31, 2017 until September 15, 2020 in order to complete the work on Tranche 2.





Project "Investment Program of CAREC Corridor 2 (Sites of Mangystau Region) Project-2", funded under the agreement No.2967-KAZ concluded between Government of the Republic of Kazakhstan and Asian Development Bank<sup>v</sup>

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended December 31, 2018**

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**2. BASIC PRINCIPLES OF PREPARING FINANCIAL STATEMENTS**

These financial statements were prepared in accordance with the International Public Sector Accounting Standards (IPSAS) "Financial Reporting on the Cash Accounting Method", published by the International Federation of Accountants, and in accordance with the requirements of the Asian Development Bank.

**3. KEY ACCOUNTING POLICIES**

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

**Cash accounting method**

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

**Presentation currency**

These financial statements are presented in United States dollars ("US dollars"). The reason for using a currency other than national is the financing of the Project at the expense of ADB Loan funds provided in US dollars and these financial statements are prepared in accordance with the requirements of Section 4.05. Loan Agreement No. 2967-KAZ of June 18, 2013.

**Foreign currency transactions**

Transactions in foreign currencies are translated to the reporting currency at exchange rates of the dates of these transactions. ADB direct payments are translated into US dollars at exchange rates set by ADB at the date of these transactions. Receipts from the Government of the Republic of Kazakhstan are translated into US dollars at exchange rates set by the National Bank of the Republic of Kazakhstan at the date of these transactions. Exchange rate differences arising from the translation of transactions denominated in other currencies into US dollars are provided as a net value from changes in exchange rates.

**Categories of expenditures**

Under the terms of the Agreement, the Government of the Republic of Kazakhstan is obliged to pay interest and the principal amount of the Loan. These payments are recognized in the accounts of the Government and are not reflected in these financial statements. The date of the last repayment of the Loan by the Government is October 15, 2032.

**4. CASH**

The project has no special accounts.





**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2018

**5. DIRECT PAYMENTS**

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

Direct payments to Suppliers for the ADB Project for the year ended December 31, 2018 were made according to the following applications:

Application Number	Date of withdrawal of funds	Direct payments	Total
00120	22.02.2018	216 084,88	216 084,88
00121	24.04.2018	422 466,14	422 466,14
00121	25.04.2018	-422 466,14	-422 466,14
00122	25.04.2018	359 131,90	359 131,90
00125	21.05.2018	1 079 982,92	1 079 982,92
00124	21.05.2018	1 766 061,70	1 766 061,70
00123	22.05.2018	1 470 508,57	1 470 508,57
00126	22.05.2018	554 044,89	554 044,89
00129	22.06.2018	92 261,51	92 261,51
00128	26.06.2018	174 796,04	174 796,04
00131	26.06.2018	1 783 779,30	1 783 779,30
00130	27.06.2018	1 440 876,50	1 440 876,50
00132	27.06.2018	586 699,92	586 699,92
00133	28.06.2018	717 718,19	717 718,19
00137	24.07.2018	961 639,62	961 639,62
00134	24.07.2018	239 806,48	239 806,48
00135	24.07.2018	1 394 500,85	1 394 500,85
00138	25.07.2018	772 520,89	772 520,89
00136	25.07.2018	1 106 981,16	1 106 981,16
00139	26.07.2018	383 380,94	383 380,94
00144	16.08.2018	83 580,00	83 580,00
00141	17.08.2018	1 401 491,07	1 401 491,07
00142	17.08.2018	1 509 253,11	1 509 253,11
00140	20.08.2018	1 080 258,31	1 080 258,31
00143	20.08.2018	1 149 536,93	1 149 536,93
00147	17.09.2018	1 522 226,02	1 522 226,02
00146	17.09.2018	870 118,77	870 118,77
00145	18.09.2018	649 766,61	649 766,61
00148	18.09.2018	1 123 263,27	1 123 263,27
00151	18.10.2018	784 717,23	784 717,23
00152	19.10.2018	589 076,29	589 076,29
00154	19.10.2018	1 186 407,39	1 186 407,39
00155	19.10.2018	2 045 100,32	2 045 100,32
00156	22.10.2018	68 700,19	68 700,19
00153	22.10.2018	902 536,84	902 536,84





Project "Investment Program of CAREC Corridor 2 (Sites of Mangystau Region) Project-2", funded under the agreement No.2967-KAZ concluded between Government of the Republic of Kazakhstan and Asian Development Bank

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended December 31, 2018

Application Number	Date of withdrawal of funds	Direct payments	Total
00157	24.10.2018	64 277,76	64 277,76
00150	26.10.2018	123 669,96	123 669,96
00149	26.10.2018	84 560,00	84 560,00
00159	14.11.2018	12 481,93	12 481,93
00158	15.11.2018	6 868,49	6 868,49
00160	16.11.2018	458 015,26	458 015,26
00161	19.12.2018	21 414,33	21 414,33
<b>Total</b>		<b>30 838 096,34</b>	<b>30 838 096,34</b>

**6. UNUSED PORTION OF THE LOAN**

As of December 31, 2018, the unused portion of the ADB Loan amounts to 109,958,370 US dollars (2017: 140,796,466 US dollars; 2016: 203,470,779 US dollars).

**7. DATE OF ISSUE**

These financial statements were approved for release by the Deputy Chairman of the Committee for Roads of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan on May 31, 2019.

