

Audited Project Financial Statements

Project Number: 48424-002

Loan Number: 3416

Period covered: 1 January 2020 to 31 December 2020

Kazakhstan: CAREC Corridors 1 and 6 Connector Road (Aktobe–Makat) Reconstruction Project

Prepared by BDO Kazakhstan LLP

For the Asian Development Bank

Date received by ADB: 23 June 2021

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.

CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank

Financial Statements for the year ended December 31, 2020

and Independent Auditors' Report

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Independent Auditors' Report

To the Management of the CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank

Opinion

We have audited the financial statements of the CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank (hereinafter the "Project"), which comprise the statement of receipts and disbursements of funds for the year ended December 31, 2020, statement of comparison of budget and actual amounts for the year ended December 31, 2020, and a summary of significant accounting policies and other explanatory notes ("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, 2020 and the cash position as at December 31, 2020 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 Asian Development Bank (ADB).
- The funds provided by ADB were used solely for the purposes of the Project, as set forth in Loan Agreement No. 3416-KAZ, and no proceeds of the loan were used for other purposes;
- At the reporting date the management of the Project complied with all the financial terms and conditions of Loan Agreement No. 3416-KAZ.

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.

INDEPENDENT AUDITORS' REPORT (continued)

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 Asian Development Bank, and for such internal control as management determines is necessary to enable preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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



June 02, 2021

Auditor Talgat Omarov

Auditor Qualification Certificate No.
0000237, issued by the Qualification
Commission for certification of auditors of
the Republic of Kazakhstan on April 29, 1996



6 Gabdullin St.

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CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank

Financial Statements

STATEMENT OF RECEIPTS AND DISBURSEMENTS OF FUNDS
for the year ended December 31, 2020

US Dollars	Note	2020			Cumulative amount from the Project start date through December 31, 2020		
		ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
Project cash balance as at January 01		-	-	-	-	-	-
RECEIPTS							
Direct payments		43,887,693	-	43,887,693	152,920,203	-	152,920,203
Proceeds from the Government of the Republic of Kazakhstan		-	6,841,340	6,841,340	-	17,752,488	17,752,488
Total receipts under the Project	5	43,887,693	6,841,340	50,729,033	152,920,203	17,752,488	170,672,691
EXPENDITURES							
Civil Works		35,581,687	5,637,232	41,218,919	140,453,084	15,548,013	156,001,097
Purchase of machines		3,403,265	391,854	3,795,119	3,403,265	391,854	3,795,119
Consulting services		4,902,741	812,254	5,714,995	9,063,854	1,812,621	10,876,475
Total payments under the Project		43,887,693	6,841,340	50,729,033	152,920,203	17,752,488	170,672,691
Project cash balance as at December 31	4	-	-	-	-	-	-

Signed on behalf of the Management of the Project:

A.A. Bekov

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

The notes on pages from 3 to 8 form an integral part of these financial statements.

CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project funded under Loan Agreement No. 3416-KAZ between the Government of the Republic of Kazakhstan and the Asian Development Bank

Financial Statements

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended December 31, 2020

for the year ended December 31, 2020										
US Dollars	Note	2020			Budget			Variance		
		ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total	ADB Loan	Proceeds from the Government of the Republic of Kazakhstan	Total
EXPENDITURES										
Civil works and goods		35,581,687	5,637,232	41,218,919	35,581,687	5,637,232	41,218,919	100%	100%	100%
Purchase of machines		3,403,265	391,854	3,795,119	3,403,265	391,854	3,795,119	100%	100%	100%
Consulting services		4,902,741	812,254	5,714,995	4,902,741	812,254	5,714,995	100%	100%	100%
Total payments under the Project		43,887,693	6,841,340	50,729,033	43,887,693	6,841,340	50,729,033	100%	100%	100%

Signed on behalf of the Management of the Project:

A.A. Bekov

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



The notes on pages from 3 to 8 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2020

1. GENERAL PROVISIONS

Kazakhstan Business Environment

The Project activities are carried out in Kazakhstan. Thus, the Project is exposed to the risks specific to economic and financial markets of Kazakhstan, whose economy shows specific features of a developing market economy. The legal, tax, and regulatory frameworks continue developing 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. 3416-KZ ("Agreement") between the Government of the Republic of Kazakhstan ("Government") and the Asian Development Bank ("ADB") was signed on December 7, 2016 and ratified on June 13, 2017 ("Project Start Date"). Pursuant to the Agreement, ADB lends the amount of 240,300,000 US dollars ("Loan") for the purposes of implementing the CAREC Corridors 1 and 6 Connector Road (Aktobe-Makat) Improvement Project ("Project"). The Loan shall be repayable by the Government upon expiry of the grace period, from May 15, 2022 through November 15, 2039.

As per the approved budget for 2020, the cash receipts and disbursements under the Project from the funds of the ADB loan and from co-financing of the external loan by the Government were estimated to amount to 43,887,693 US dollars and 6,841,340 US dollars, respectively (2019 47,711,155 US dollars and 7,052,147 US dollars, respectively). The planned budget amounts are taken at a conditional exchange rate established by the Government of the Republic of Kazakhstan.

The objectives of the Project are to improve road network operational performance, increased transit potential, and improved social and economic development of the western region of Kazakhstan in particular.

The Project is implemented by the Committee for Roads under the Ministry of Investment and Development of the Republic of Kazakhstan which acts as the Executing Agency on the part of the Government of Kazakhstan.

The Project consists of the following components:

- a) reconstruction of approximately 299 km (Km 156 - Km 500) of two-lane highway between Aktobe and Makat, with provision of machinery and equipment for road maintenance, and measures to ensure road traffic safety.
- b) project management services, supervision of construction and improvements to transport system operations.

The Project works are expected to be completed June 30, 2021.

The Loan withdrawal deadline is December 31, 2021 or another date which may be agreed upon periodically by the Government and ADB.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 Asian Development Bank.

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 currency

Transactions in foreign currencies are translated to the presentation currency at the exchange rates prevailing at the reconversion dates. Direct payments from the ADB are translated into US dollars at the exchange rates established by the ADB as at the date of transactions. 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 such transactions. 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.

The terms and conditions of the Loan Agreement envisage construction works and goods (machinery and equipment), as well as consulting services.

Funds received

Subject to the terms and conditions of the Agreement, the Government of the Republic of Kazakhstan shall pay the interest and the principal amount of the Loan. Those payments are recorded in the accounts of the Government and are not recognised in these financial statements. The last installment on the Loan shall be payable by the Government on November 15, 2039.

4. CASH

The project has no special accounts.

5. DIRECT PAYMENTS

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

Direct payments to Suppliers under the Project for the year ended December 31, 2020 were made based on the following withdrawal applications:

No. of withdrawal application	Date of withdrawal	Direct payments	Total
00191	24.01.2020	746,493	746,493
00201	24.01.2020	76,098	76,098
00192	27.01.2020	664,745	664,745
00197	27.01.2020	163,285	163,285
00202	27.01.2020	383,946	383,946
00195	27.01.2020	472,251	472,251
00193	27.01.2020	471,528	471,528
00190	27.01.2020	1,680,790	1,680,790
00200	28.01.2020	500,502	500,502
00199	28.01.2020	609,181	609,181
00196	28.01.2020	436,003	436,003
00194	28.01.2020	148,657	148,657
00204	21.02.2020	116,925	116,925
00206	20.03.2020	136,088	136,088
00208	25.03.2020	348,143	348,143
00210	25.03.2020	396,717	396,717
00205	26.03.2020	474,958	474,958
00207	26.03.2020	963,913	963,913
00209	26.03.2020	1,098,400	1,098,400
00214	24.04.2020	173,375	173,375
00216	24.04.2020	197,854	197,854
00211	27.04.2020	306,021	306,021
00213	27.04.2020	512,947	512,947
00215	27.04.2020	585,370	585,370
00212	29.04.2020	234,850	234,850
00217	26.05.2020	231,817	231,817
00218	26.05.2020	245,445	245,445
00221	26.05.2020	140,280	140,280
00219	27.05.2020	914,498	914,498
00222	27.05.2020	597,631	597,631
00224	27.05.2020	577,428	577,428
00220	27.05.2020	434,324	434,324
00223	28.05.2020	203,020	203,020
00225	28.05.2020	196,157	196,157
00229	25.06.2020	170,147	170,147
00236	26.06.2020	84,025	84,025
00227	26.06.2020	630,612	630,612
00226	26.06.2020	194,245	194,245
00228	26.06.2020	538,560	538,560
00231	26.06.2020	151,587	151,587

NOTES TO THE FINANCIAL STATEMENTS (continued)

No. of withdrawal application	Date of withdrawal	Direct payments	Total
00232	29.06.2020	819,476	819,476
00234	29.06.2020	660,863	660,863
00230	29.06.2020	480,706	480,706
00233	30.06.2020	279,267	279,267
00235	30.06.2020	225,213	225,213
00245	23.07.2020	224,301	224,301
00243	23.07.2020	59,353	59,353
00241	24.07.2020	415,315	415,315
00246	24.07.2020	179,507	179,507
00247	24.07.2020	107,380	107,380
00237	24.07.2020	513,377	513,377
00239	24.07.2020	622,194	622,194
00244	24.07.2020	694,209	694,209
00242	24.07.2020	183,697	183,697
00238	27.07.2020	185,185	185,185
00240	27.07.2020	224,438	224,438
00253	21.08.2020	276,687	276,687
00254	21.08.2020	102,708	102,708
00248	24.08.2020	200,945	200,945
00250	24.08.2020	243,265	243,265
00252	24.08.2020	289,846	289,846
00249	25.08.2020	738,830	738,830
00251	25.08.2020	880,304	880,304
00259	24.09.2020	166,891	166,891
00265	25.09.2020	311,017	311,017
00260	25.09.2020	111,500	111,500
00261	25.09.2020	162,034	162,034
00258	25.09.2020	499,733	499,733
00264	25.09.2020	135,796	135,796
00257	25.09.2020	65,963	65,963
00255	28.09.2020	192,021	192,021
00263	28.09.2020	407,676	407,676
00256	28.09.2020	198,027	198,027
00266	30.09.2020	1,287,621	1,287,621
00274	23.10.2020	155,386	155,386
00269	26.10.2020	304,663	304,663
00272	26.10.2020	183,273	183,273
00273	26.10.2020	464,411	464,411
00271	27.10.2020	545,394	545,394
00267	28.10.2020	1,306,489	1,306,489
00275	17.11.2020	154,794	154,794
00279	17.11.2020	119,760	119,760

NOTES TO THE FINANCIAL STATEMENTS (continued)

No. of withdrawal application	No. of withdrawal application	No. of withdrawal application	No. of withdrawal application
00268	17.11.2020	112,831	112,831
00280	18.11.2020	168,050	168,050
00270	18.11.2020	193,321	193,321
00276	19.11.2020	654,552	654,552
00277	20.11.2020	700,321	700,321
00278	23.11.2020	267,661	267,661
00284	25.11.2020	263,613	263,613
00282	25.11.2020	190,064	190,064
00286	27.11.2020	156,559	156,559
00283	27.11.2020	797,213	797,213
00281	27.11.2020	574,788	574,788
00285	30.11.2020	1,125,601	1,125,601
00294	14.12.2020	505,743	505,743
00295	14.12.2020	404,222	404,222
00302	15.12.2020	171,488	171,488
00293	15.12.2020	520,748	520,748
00301	15.12.2020	521,843	521,843
00296	15.12.2020	268,880	268,880
00300	16.12.2020	168,768	168,768
00291	16.12.2020	227,245	227,245
00304	16.12.2020	154,604	154,604
00289	16.12.2020	258,865	258,865
00298	16.12.2020	168,152	168,152
00303	17.12.2020	65,915	65,915
00299	22.12.2020	513,305	513,305
00297	22.12.2020	511,434	511,434
00290	22.12.2020	691,163	691,163
00288	22.12.2020	787,335	787,335
00292	22.12.2020	155,078	155,078
Total		43,887,693	43,887,693

6. UNUSED PORTION OF THE LOAN

As of December 31, 2020 the unused portion of the ADB loan totaled 87,379,797 US dollars (2019: 131,267,490).

7. SUBSEQUENT EVENTS

In 2020, a state of emergency was introduced in the Republic of Kazakhstan in connection with the outbreak of the coronavirus COVID-19, which continues after the reporting period. The introduction of quarantine in all areas of Kazakhstan has a negative effect on the economy and the Government has developed a package of urgent measures to maintain business to reduce these consequences.

The degree of impact of COVID-19 on the utilization of the Project's funds will depend on certain events, including the duration and spread of the virus, the impact on the customers, employees and suppliers of the Project.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The management believes that the onset of adverse effects is unlikely and the situation with COVID-2019 will not lead to a violation of the terms of the Agreement and other adverse consequences for the Project, with the exception of temporary delays in the use of loan funds during the quarantine regime.

8. DATE OF ISSUE

These financial statements were approved for issue by the Deputy Chairman of the Committee for Roads Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan on June 02, 2021