

Climate Adaptation and Mitigation Program for Aral Sea Basin Financed as part of Financing Agreement, grant No. D094-7C dated 1 July 2016 concluded between the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association

Special Purpose Financial Statements for the years ended 31 December 2016 and 31 December 2017 and Independent Auditors' Report

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## Statement of Management's Responsibility for Preparation and Approval of the Special Purpose Financial Statements for the year ended 31 December 2016 and 31 December 2017

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The following statement, which should be read in conjunction with the Independent Auditor's opinion presented, is made with a view to distinguish the respective responsibilities of the management and the auditor with respect to the special purpose financial statements of Regional Environmental Centre for Central Asia (CAREC).

Management of the Regional Environmental Centre for Central Asia (hereinafter 'CAREC') is responsible for preparation of the special purpose financial statements by Regional components of 'Climate Adaptation and Mitigation Program for Aral Sea Basin' Project (CAMP4ASB) (hereinafter 'Project') financed under the Financing Agreement, grant No. D094-7C between the Executive Committee of International Fund for Saving the Aral Sea and the International Development Association (IDA) dated 1 June 2016 (hereinafter 'Agreement'), and in accordance with Operating Agreement for implementation of Regional components of the Project between the Executive Committee of the International Fund for Saving the Aral Sea and the Regional Environmental Centre for Central Asia 'CAREC' dated 25 July 2016, that fairly presents cash proceeds and payments under the Project, expenses per components for the period from 1 August 2016 to 31 December 2017, financial position of the Project as at 31 December 2016 and 2017 in accordance with International Public Sector Accounting Standards (IPSASs) Financial Reporting under the Cash Basis of Accounting issued by the International Federation of Accountants, as well as the World Bank requirements relating to preparation of the financial statements.

In preparing the financial statements, the Management of CAREC is responsible for:

- selecting and applying appropriate accounting policies;
- provision of relevant, reliable, comparable and understandable information, including accounting policies;
- provision of additional required disclosures for the years ended 31 December 2016 and 31 December 2017;

Management of CAREC is also responsible for:

- developing, introducing and maintaining an effective and reliable internal control system within the course of Project implementation;
- maintaining an accounting system that allows to demonstrate and explain Project transactions at any time, ensure compliance of special purpose financial statements with the requirements of International Public Sector Accounting Standards (IPSASs) Financial Reporting under the Cash Basis of Accounting, as well as compliance with the provisions of the Financing Agreement, grant No. D094-7C between the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association;
- taking measures within its competence to ensure the safety of Project's assets and confirmation that the funds received in accordance with the Financing Agreement, grant No. D094-7C between the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association, which was signed on 1 June 2016, were used only for the purposes of received financing, with due attention to economy and efficiency;

- detecting and preventing fraud and other irregularities.

Attached Special Purpose Financial Statements for the years ended 31 December 2016 and 31 December 2017 have been approved by the Management of CAREC on 5 July 2018:

**Executive Director**

**Iskandar Abdullayev**

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Almaty, Republic of Kazakhstan

## INDEPENDENT AUDITORS' REPORT

To Management of 'Climate Adaptation and Mitigation Program for Aral Sea Basin' Project (CAMP4ASB) financed under the Financing Agreement, grant №D094-7C

### Qualified Opinion

We have audited the special purpose financial statements of 'Climate Adaptation and Mitigation Program for Aral Sea Basin' Project (CAMP4ASB) financed under the Financing Agreement, grant No. D094-7C between the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association (IDA) dated 1 June 2016 (hereinafter 'Project') and implemented by the Regional Environmental Centre for Central Asia 'CAREC' (hereinafter - CAREC) in accordance with Operating Agreement for implementation of Regional components of the Project between the Executive Committee of the International Fund for Saving the Aral Sea and the Regional Environmental Centre for Central Asia 'CAREC' dated 25 July 2016, that includes statement of cash receipts and disbursements for the years ended 31 December 2016 and 31 December 2017, statement of expenditure by components for the years ended 31 December 2016 and 31 December 2017, and also brief description of significant accounting policies and other explanatory notes (hereinafter 'financial statements').

In our opinion, except for the effect of the matters described in the "Basis for Qualified Opinion" section of our report:

1. The special purpose financial statements in all material respects fairly presents proceeds and cash disbursements of the Project for the years ended 31 December 2016 and 31 December 2017 in accordance with the International Public Sector Accounting Standards (IPSASs) *Financial Reporting under the Cash Basis of Accounting* issued by the International Accounting Standards Board for Public Sector of the International Federation of Accountants, and also in accordance with the requirements for preparation of the financial statements given in: the Financing Agreement, grant No. D094-7C between the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association, Operating Agreement on implementation of Regional Components of the Project between the Executive Committee of the International Fund for Saving the Aral Sea and the Regional Environmental Centre for Central Asia 'CAREC' dated 25 July 2016 and Project Operational Manual (for regional components of the Project) dated 2 August 2016.
2. All external funds were used in accordance with the terms of the Financing Agreement, grant no.D094-7C dated 1 June 2016 between the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association, as well as the terms of the Operating agreement for implementation of Regional Components of the Project between the Executive Committee of the International Fund for Saving the Aral Sea and the Regional Environmental Center for Central Asia 'CAREC' dated 25 July 2016, with due attention to the principles of economy and efficiency, and only for the purposes for which financing was provided.
3. All necessary supporting documents, records and a special account are maintained for all activities of the Project, including expenditures that are maintained under the statements of expenditure (SOE). Statements for the period correspond to the ledgers.

## INDEPENDENT AUDITORS' REPORT (continued)

4. A special account is maintained in accordance with provisions of the Financing Agreement, the Operating Agreement and applicable instructions of the World Bank.
5. Goods, works services were purchased under the Financing Agreement and special provisions of the Procurement Guidelines of the World Bank.

### Basis for Qualified Opinion

As explained in Note 8 upon concluding the Financing Agreement, grant No. D094-7C and drawing up the budget for CAMP4ASB Project for Component 1 in total amount of expenses USD 12,487,000, the Administrative expenses in the amount of 7%, or USD 874,090 were provided, which were agreed with the World Bank as non-audited expenses. In accordance with the financing agreement, the scope of the audit was limited to the costs incurred by CAREC in the amount of \$ 150,460 and \$ 967,402 ending on 31 December 2016 and 2017, respectively. We did not audit the administrative expenses for which CAREC is liable, in the amount of \$ 74,979 and \$ 193,402 for the years ended 31 December 2016 and 2017 respectively. Consequently, we could not identify whether adjustments to indicated amounts are required.

As explained in Note 2.4, the Project costs presented in the financial statements include VAT amounts. According to the terms of the Financing Agreement grant No. D094-7C, the allocation of funding amounts for each category of eligible costs is provided, not including VAT. We cannot determine the amount of the adjustment for VAT included in the costs.

We conducted the audit in accordance with the International Standards on Auditing. Our responsibilities in accordance with these standards are described further in the section "Auditor's responsibility for the audit of financial statements" of our opinion. We are independent in relation to the Project and the Regional Environmental Center for Central Asia «CAREC» in accordance with the Code of Ethics for Professional Accountants of the Council on International Standards of Ethics for Accountants (the CMSEB Code) and the ethical requirements applicable to our audit of financial statements in Kazakhstan and we have fulfilled other ethical duties in accordance with these requirements and the Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of Matter - Accounting Principles

We draw your attention to Note 2 of the financial statements, which describes the principles of preparation of the financial statements. The financial statements have been prepared to assist CAREC in meeting the requirements of the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association. As a result, these financial statements may not be suitable for another purpose. We do not express a modified opinion on this issue.

### Management's Responsibility for the Financial Statements

The Project management is responsible for preparation and fair presentation of these special purpose financial statements in accordance with International Public Sector Accounting Standards (IPSASs) *Financial Reporting under the Cash Basis of Accounting* issued by the International Accounting Standards Board for Public Sector of the International Federation of Accountants, and in accordance with provisions of the Grant Agreement No. D094-7C dated 1 June 2016 between the International Fund for Saving the Aral Sea and the International Development Association, as well as for an internal control system which the management considers necessary for preparation of financial statements, not containing material misstatements due to fraud or error. Management of the Project is responsible for selecting an applicable framework and determining its suitability for preparation of the financial statements of the Project taking into account the specific circumstances.

## INDEPENDENT AUDITORS' REPORT (continued)

### Auditor's Responsibility for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance that the special purpose financial statements are free from material misstatement due to fraud or errors, and to express 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 error and are considered material if, individually or in the aggregate, they could reasonably be expected to impact on the presentation of these financial statements, as a whole.

As part of an audit in accordance with ISAs, we exercised professional judgment and maintained professional skepticism throughout the audit. In addition, we performed the following:

- identified and assessed the risks of material misstatement in the financial statements, whether due to fraud or errors; designed and performed audit procedures in response to the risks; obtained 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.

- obtained 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.
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluated 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 communicated with those charged with Project financing 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 identified during the audit.

BDO Kazakhstan LLP

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

5 July 2018

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Director T. A. Omarov

Auditor T. Kuandykov

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Certificate of Auditor No. МФ-0000490 issued by the Qualification Commission for Certification of Auditors of the Republic of Kazakhstan 10.10.2017

6 Gabdullin St., Almaty,  
Republic of Kazakhstan

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
for the Year Ended 31 December 2016

USD	Note	Actual		Budget		Variance	
		at 31.12.2016	Cumulative at 31.12.2016	at 31.12.2016	Cumulative at 31.12.2016	at 31.12.2016	Cumulative at 31.12.2016
Cash of the Project at 1 January		-	-				
Proceeds	4						
Grant No. D094-7C		272,277	272,277				
<b>Total proceeds for the Project</b>		<b>272,277</b>	<b>272,277</b>				
Project expenses	7						
Component 1: Regional services in the field of climate knowledge							
Construction works, goods, non-consulting services, consulting services, additional operating costs and training on the Project		24,807	24,807	20,370	20,370	4,437	4,437
		<b>24,807</b>	<b>24,807</b>	<b>20,370</b>	<b>20,370</b>	<b>4,437</b>	<b>4,437</b>
Component 3: Subcomponent 3.1: Regional Coordination							
Goods, non-consulting services, consulting services, additional operating costs and training on the Project		125,653	125,653	130,090	130,090	(4,437)	(4,437)
		<b>125,653</b>	<b>125,653</b>	<b>130,090</b>	<b>130,090</b>	<b>(4,437)</b>	<b>(4,437)</b>
<b>Total expenses and payments on the Project</b>		<b>150,460</b>	<b>150,460</b>	<b>150,460</b>	<b>150,460</b>	<b>-</b>	<b>-</b>
Other payments							
Payments of administrative expenses of CAREC		74,979	74,979	-	-	74,979	74,979
<b>Total expenses and payments</b>		<b>225,439</b>	<b>225,439</b>				
Cash of the Project at 31 December	6	46,838	46,838				

Approved by Management of the Project on 5 July 2018:

Iskandar Abdullayev  
Executive Director  
of Regional Environmental Centre  
for Central Asia CAREC

Zhanara Makhayeva  
Head of the Financial Management  
of the Project

Notes on pages 13 - 22 form an integral part of these financial statements



STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
For the year ended 31 December 2017

USD	Note	Actual		Budget		Variance	
		at 31.12.2017	Cumulative at 31.12.2017	at 31.12.2017	Cumulative at 31.12.2017	at 31.12.2017	Cumulative at 31.12.2017
Cash of the Project at 1 January		46,838	-				
Proceeds	4						
Grant No. D094-7C		1,115,970	1,388,247				
<b>Total proceeds for the Project</b>		<b>1,115,970</b>	<b>1,388,247</b>				
Project expenses	7						
Component 1: Regional services in the field of climate knowledge							
Construction works, goods, non-consulting services, consulting services, additional operating costs and training on the Project		427,028	451,835	390,097	410,467	36,931	41,368
		427,028	451,835	390,097	410,467	36,931	41,368
Component 3: Subcomponent 3.1: Regional Coordination							
Goods, non-consulting services, consulting services, additional operating costs and training on the Project		540,374	666,027	528,020	658,110	12,354	7,917
		540,374	666,027	528,020	658,110	12,354	7,917
<b>Total expenses and payments on the Project</b>		<b>967,402</b>	<b>1,117,862</b>	<b>918,117</b>	<b>1,068,577</b>	<b>49,285</b>	<b>49,285</b>
Other payments							
Payments of administrative expenses of CAREC		193,402	268,381	-	-	193,402	268,381
<b>Total expenses and payments</b>		<b>1,160,804</b>	<b>1,386,243</b>				
Cash of the Project at 31 December	6	2,004	2,004				

Approved by Management of the Project on 5 July 2018:

Iskandar Abdullayev  
Executive Director  
of Regional Environmental Centre  
for Central Asia CAREC

Zhanara Makhayeva  
Head of the Financial Management  
of the Project

Notes on pages 13 - 22 form an integral part of these financial statements

STATEMENT OF EXPENDITURE BY COMPONENTS  
for the Year Ended 31 December 2016

USD	Actual		Budget		Variance		
	at 31.12.2016	Cumulative at 31.12.2016	at 31.12.2016	Cumulative at 31.12.2016	at 31.12.2016	Cumulative at 31.12.2016	
<b>Components</b>							
<b>Component 1: Regional services in the field of climate knowledge</b>							
1.1	establishment of the regional information platform for Central Asia	647	647	647	647	-	-
1.2	upgrading of climate-related monitoring systems for Participating Countries;	8	8	8	8	-	-
1.3	development of methodologies, approaches and tools to support climate- related decision making;	8,702	8,702	8,702	8,702	-	-
1.4	development of knowledge products, such as specialised analytical work, made available via, inter alia, web portals, mobile apps, publications;	10,539	10,539	10,539	10,539	-	-
1.5	capacity building through regional training, e-learning events, internships and study tours	-	-	-	-	-	-
1.6	developing climate investment assessment mechanisms implemented under Subcomponent 2.1	473	473	-	-	473	473

Notes on pages 13 - 22 form an integral part of these financial statements

STATEMENT OF EXPENDITURE BY COMPONENTS (continued)  
for the Year Ended 31 December 2016

USD	Actual		Budget		Variance	
	at 31.12.2016	Cumulative at 31.12.2016	at 31.12.2016	Cumulative at 31.12.2016	at 31.12.2016	Cumulative at 31.12.2016
1.7	4,438	4,438	474	474	3,964	3,964
developing and implementing an outreach and public involvement strategy, through forums and networks for the dissemination of knowledge about climate, to support the dissemination of knowledge, analytical work, public relations and creation of coalitions.						
	24,807	24,807	20,370	20,370	4,437	4,437
<b>Component 3:</b>						
<b>Subcomponent 3.1: Regional Coordination</b>	125,653	125,653	130,090	130,090	(4,437)	(4,437)
	125,653	125,653	130,090	130,090	(4,437)	(4,437)
<b>TOTAL</b>	<b>150,460</b>	<b>150,460</b>	<b>150,460</b>	<b>150,460</b>	<b>-</b>	<b>-</b>

Approved by Management of the Project on 5 July 2018:

Iskandar Abdullayev  
Executive Director  
of Regional Environmental Centre  
for Central Asia CAREC

Zhanara Makhayeva  
Head of the Financial Management  
of the Project

STATEMENT OF EXPENDITURE BY COMPONENTS

For the year ended 31 December 2017

USD	Actual		Budget		Variance		
	at 31.12.2017	Cumulative at 31.12.2017	at 31.12.2017	Cumulative at 31.12.2017	at 31.12.2017	Cumulative at 31.12.2017	
<b>Components</b>							
<b>Component 1: Regional services in the field of climate knowledge</b>							
1.1	establishment of the regional information platform for Central Asia	103,844	104,491	103,844	104,491	-	-
1.2	upgrading of climate-related monitoring systems for Participating Countries;	-	8	-	8	-	-
1.3	development of methodologies, approaches and tools to support climate- related decision making;	138,085	146,787	138,085	146,787	-	-
1.4	development of knowledge products, such as specialised analytical work, made available via, inter alia, web portals, mobile apps, publications;	6,464	17,003	4,096	14,635	2,368	2,368
1.5	capacity building through regional training, e-learning events, internships and study tours	17,860	17,860	17,860	17,860	-	-
1.6	development of a mechanism to assess the results and lessons of climate investments implemented under Subcomponent 2.1	21,699	22,172	21,699	21,699	-	473

Notes on pages 13 - 22 form an integral part of these financial statements

STATEMENT OF EXPENDITURE BY COMPONENTS (continued)

For the year ended 31 December 2017

USD	Actual		Budget		Variance	
	at 31.12.2017	Cumulative at 31.12.2017	at 31.12.2017	Cumulative at 31.12.2017	at 31.12.2017	Cumulative at 31.12.2017
1.7 design and implementation of a communications and public engagement strategy, including through climate knowledge fora and networks, to support knowledge dissemination, public outreach and coalition building.	139,076	143,514	104,513	104,987	34,563	38,527
	427,028	451,835	390,097	410,467	36,931	41,368
<b>Component 3:</b>						
<b>Subcomponent 3.1: Regional Coordination</b>	540,374	666,027	528,020	658,110	18,331	13,894
	540,374	666,027	528,020	658,110	12,354	7,917
<b>TOTAL</b>	<b>967,402</b>	<b>1,117,862</b>	<b>918,117</b>	<b>1,068,577</b>	<b>49,285</b>	<b>49,285</b>

Approved by Management of the Project on 5 July 2018:

Iskandar Abdullayev  
 Executive Director  
 of Regional Environmental Centre  
 for Central Asia CAREC

Zhanara Makhayeva  
 Head of the Financial Management  
 of the Project

## NOTES TO THE FINANCIAL STATEMENTS

for the years ended 31 December 2016 and 31 December 2017

### 1. GENERAL INFORMATION

#### 1.1. CAMP4ASB Project

Financing agreement, grant No. D094 - 7C (hereinafter the 'Agreement') between the Executive Committee of the International Fund for Saving the Aral Sea (the 'Recipient') and the International Development Association acting as a donor (hereinafter the 'Association') was signed on 1 July 2016 ('Project start date'). According to the Agreement, the International Development Association provides grant equivalent to 10,700,000 (ten million seven hundred thousand) of Special Drawing Rights (SDR) or equivalent to USD 15,000,000 (fifteen million) (hereinafter the 'Grant') for implementation of 'Climate Adaptation and Mitigation Program for Aral Sea Basin' (CAMP4ASB) (hereinafter the 'Project'). Conditions of the Agreement provide for the financing of expenses without VAT.

The Recipient, through Operating Agreement concluded with the Regional Environmental Centre of Central Asia CAREC commits the Regional Coordination Unit (RCU), established under CAREC to be responsible for day-to-day management and implementation of Component 1 and Subcomponent 3.1 of the Project, in full compliance with the Operating agreement and the Project Operational Manual.

Withdrawal of cash under the Grant is carried out in US dollars, and payments are made in US dollars and Kazakhstani tenge.

Closing date of the Grant Agreement is 31 March 2019. Closing date of the Project is 30 April 2021.

The Institution Regional Environmental Centre for Central Asia (CAREC) is a legal entity operating under the laws of the Republic of Kazakhstan, and is an independent, non-profit and non-political entity of international character that seeks to promote cooperation in solving environmental problems in Central Asia at national and regional levels.

In accordance with the Charter, the Founders of CAREC are:

- Republic of Kazakhstan;
- Republic of Kyrgyzstan;
- Republic of Tajikistan;
- Turkmenistan;
- Republic of Uzbekistan;
- Commission of the European Communities;
- UNDP.

#### 1.2. Objectives of the Project

The objective of the Project is to enhance regionally coordinated access to improved climate change knowledge services for key stakeholders (e.g. policy makers, communities and civil society) in the participating Central Asian countries, as well as to increase investment and capacity-building that, combined, will address the climate issues common to these countries.

The Project consists of the following components:

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## NOTES TO THE FINANCIAL STATEMENTS (continued)

### Component 1: Regional Services in the field of Climate Knowledge

Develop a unified, regional analytical platform for climate resilient and low emissions development in Central Asia through:

- (a) establishment of the regional information platform for Central Asia through provision of technical assistance, goods (including software and equipment), consulting services and training and carrying out of minor civil works;
- (b) upgrading of climate-related monitoring systems for Participating Countries;
- (c) development of methodologies, approaches and tools to support climate-related decision making;
- (d) development of product knowledge bases, such as specialized analysis work, which is provided, among other things, via web portals, mobile applications, publications;
- (e) capacity building through regional training, e-learning events, internships and study tours;
- (f) development of a mechanism to assess the results and lessons of climate investments implemented under Subcomponent 2.1 below, including through establishment of a pool of experts to evaluate the Sub-projects accomplished under Subcomponent 2.1;
- (g) design and implementation of a communications and public engagement strategy, including through climate knowledge forums and networks, to support knowledge dissemination, public outreach and coalition building.

### Component 2: Regional Climate Investment Facility

#### *Subcomponent 2.1: Investment Financing*

Increase productivity and address climate change by promoting the adoption of climate-resilient and mitigation measures in rural production, land management and other areas through establishing and operating credit line facilities for the provision of financing, through Subsidiary Loans, to PFIs, through Sub-loans to Sub-borrowers to carry out the Sub-Projects, for scaling up suitable practices and technologies to improve climate resilience, risk reduction and mitigation and economic and social benefits.

#### *Subcomponent 2.2: Capacity Building and Community Support*

- (a) Support awareness raising, participatory planning and implementation support of climate investment plans at the community-level through community level participatory appraisals and community action plans, identification and design of appropriate investment plans, and building of the technical and organizational capacities of communities to implement their investments.
- (b) Support Facilitating Organizations to provide technical advisory services to potential beneficiaries under Subcomponent 2.1.
- (c) Provide capacity building of the PFIs through technical assistance in the area of assessment of climate investment proposals.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**Component 3: Regional and National Coordination**

*Subcomponent 3.1: Regional Coordination*

Provide project management support to the Regional Coordination Unit (RCU) for implementation of Component 1, including procurement, disbursements, financial management, monitoring and evaluation of Project performance, as well as Incremental Operating Costs.

*Subcomponent 3.2: National Coordination*

Provide project management support to the National Coordination Units for implementation of Component 2, including procurement, disbursements, financial management, monitoring and evaluation of Project performance, safeguards oversight as well as Incremental Operating Costs.

CAREC is responsible for the implementation of Component 1 and Subcomponent 3.1, which serves as coordination and support of the Project at regional level.

Component 2 and Subcomponent 3.2. implemented by the Participating Countries of the Project (in particular, Tajikistan and Uzbekistan), which carry out activities on climate investments and capacity building in their countries.

**1.3. Project Implementation**

The Executive Committee of International Fund for Saving the Aral Sea ('Recipient') is responsible for carrying out Component 1 and Subcomponent 3.1 of the Project in accordance with the requirements, criteria, organisational arrangements and operational procedures set forth in the Project Operational Manual and the Environmental Management Framework (EMF).

The Recipient insures implementation the Project through an operating agreement with CAREC ('Operating Agreement') on terms and conditions satisfactory to the International Development Association, which shall include, inter alia, the pertinent obligations set forth in the Agreement as applicable to CAREC, including:

- (i) CAREC is accountable to the Recipient in implementation of the operational management and implementation of Component 1 of the Project.
- (ii) CAREC creates a Regional Coordination Group ('RCU') for the entire Project period, which is responsible for daily management and implementation of Component 1 of the Project, including coordination with each National Coordination Unit, at the level of broader project activities and in full compliance with Operational Management of the Project, Operating Agreement and Anti-corruption Guidance.
- (iii) CAREC ensures that its Chief Accountant is generally responsible for financial management and disbursement functions, with the support of a financial management consultant.
- (iv) CAREC shall: (a) sign the contract for installation and adaptation of the accounting software acceptable to the Association for project accounting, budgeting and reporting of the Project; and (b) make provisions for adequate training on the new accounting system for the effective use by its accounting staff.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

- (v) CAREC undertakes that RCU shall be located and maintained in Almaty city, the Republic of Kazakhstan, for the life of the Project, all in accordance with the Project Operational Manual and the Operating Agreement.

### 1.4. Categories of Expenditures

The Financing Agreement, grant No. D094-7C provides the following categories of expenditures: construction works, goods, non-consulting services, consulting services, additional operating costs and training on the Project.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1. Preparation and Presentation of the Financial Statements

The special purpose financial statements have been prepared in accordance with International Financial Reporting Standards for public sector (IPSAS) *Financial Reporting under the Cash Basis of Accounting* issued by the International Accounting Standards Board, and also in accordance with the requirements for preparation of the financial statements given in: the Financing Agreement, grant No. D094-7C between the Executive Committee of the International Fund for Saving the Aral Sea and the International Development Association, Operating Agreement on implementation of Regional Components of the Project between the Executive Committee of the International Fund for Saving the Aral Sea and the Regional Environmental Centre for Central Asia 'CAREC' dated 25 July 2016 and Project Operational Manual (for regional components of the Project) dated 2 August 2016.

Accounting policies set out further have been applied consistently for reporting periods presented in these financial statements.

### 2.2. Cash Flow of the Grant

Financial statements of the project: Statement of cash receipts and disbursements for the years ended 31 December 2016 and 31 December 2017 and statements of expenditure by components for the years ended 31 December 2016 and 31 December 2017 (statement of cash flows) were prepared using the direct method, which discloses information on the main types of gross cash proceeds and payments.

### 2.3. Currency of Presentation of Statements

These financial statements are presented in US dollars (hereinafter 'USD').

Foreign currency transactions are translated to the presentation currency at exchange rates at the transaction dates.

Payment for goods and services rendered to Suppliers and Contractors shall be made in KZT and translated into the reporting currency of USD at exchange rate of Citibank Kazakhstan JSC at the date of conversion.

Payroll expenses of the Project staff and remuneration of national experts and consultants are charged in USD and paid in KZT at rate of the National Bank of Kazakhstan on the day of payment.

### 2.4. Taxes

CAREC - as indicated in Section 1.1 of the Statements - is an independent, non-commercial and non-political entity of international character (legal form - Institution). According to the Charter, CAREC is intended to promote cooperation in solving environmental problems in Central Asia at the national and regional levels between non-governmental agencies, local government authorities, and any other interested parties in order to develop free exchange of information, provide assistance to non-governmental environmental entities and other interested parties, increase public participation in the decision-making process.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Based on the Agreement "On operating conditions of the Regional Environmental Centre for Central Asia", ratified by the Law of the Republic of Kazakhstan No. 69-11 dated 5 July 2000, paragraph 4, article 7: *The Centre for activities carried out within the framework of this Agreement and the Charter shall be exempt from all taxes, fees and other mandatory payments to the budget established by the legislation of the Republic of Kazakhstan; customs duties and restrictions on import and export in respect of items imported and exported by the Centre for official use and in respect of its publications.*

CAREC is not a VAT payer, the allocation of VAT on a separate account is not provided by the accounting system (there is no dedicated account for VAT).

In connection with the above, the terms of the Financing Agreement on grant No. D094-7C on financing of Project expenses without VAT cannot be met, all Project expenses presented in the financial statements of the Project include VAT amounts.

### 2.5. Budget

Initial expense budget of the CAMP4ASB Project was drawn up and approved by the World Bank on 07.09.2016 in total amount of expenses of USD 15 million, including for Component 1 - in the amount of USD 12,487 thousand and for Component 3, subcomponent 3.1 - in the amount of USD 2,513 thousand, which were distributed for the entire period of the Agreement (five years).

Under Component 1, Administrative Expenses were set at 7%, or USD 874,090, agreed with the World Bank as non-audited expenses (Attachment 2 to the Statements).

Subsequently, the World Bank informed that administrative expenses for the Project in the form of 7% cannot be covered by the bank, work was carried out to revise budget for the entire period of the Project implementation.

New updated expense budget for the Project expenses was agreed and approved by the World Bank in May 2018 (Attachment 3 to the Statements).

### 3. CONSOLIDATED STATEMENTS OF EXPENDITURE (SOE)

No. of application	Date of cash receipt	Amount of proceed	Date of authorisation of expenditure	Data according to SOE	Comments
1	31.10.2016	272,277		-	Category advance payments
2	06.03.2017	427,723			
3	17.07.2017	308,169	14.07.2017	308,169	SOE 01, SOE 02
4	25.09.2017	380,078	22.09.2017	380,078	SOE 03
			28.12.2017	267,796	SOE 04, SOE 05, SOE 06
<b>Total</b>		<b>1,388,247</b>		<b>956,043</b>	

The variance between applications in amount of USD 1,388,247 and actual expenditure reported in statement of expenditure (SOE) submitted to the World Bank in amount of USD 956,043 was the result of the fact that statement of expenditure for the 4<sup>th</sup> quarter of 2017 was submitted to the world Bank in February 2018.

### 4. SPECIAL ACCOUNT

According to the terms of the Operating Agreement, CAREC opened a Special Account for financing the Project implementation in Citibank Kazakhstan JSC:

- KZ7083201D0500032151, in USD.

The Project's cash flow on special account was presented as follows:

(USD)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Indicators	2017	2016
Opening balance at 1 January	46,838	-
Replenishment Grant No. D094-7C	1,115,970	272,277
Current outstanding balance	1,115,970	272,277
Project expenses		
Amount of paid expenses	973,380	150,460
Payments of administrative expenses of CAREC	187,424	74,979
<b>Total</b>	<b>1,160,804</b>	<b>225,439</b>
Closing balance at 31 December	2,004	46,838

5. STATEMENT OF FINANCIAL POSITION

Statement of financial position discloses assets, liabilities and net assets of the Project as at 31 December 2016 and as at 31 December 2017.

Indicators	Note	31.12.2017	31.12.2016
<b>ASSETS</b>			
Cash	6	2,004	46,838
Advances paid*		27,884	-
<b>Total assets</b>		<b>29,888</b>	<b>46,838</b>
<b>LIABILITIES</b>			
Accounts payable		-	-
<b>Total liabilities</b>		<b>-</b>	<b>-</b>
<b>NET ASSETS</b>			
Income (on an accrual basis)	4		
Grant No. D094-7C		1,388,247	272,277
<b>Total income</b>		<b>1,388,247</b>	<b>272,277</b>
Expenses (on an accrual basis)	7		
Component 1. Regional services in the field of climate knowledge		425,559	24,807
Subcomponent 3.1: Regional Coordination		664,419	125,653
<b>Total Project expenses</b>		<b>1,089,978</b>	<b>150,460</b>
Administrative expenses of CAREC		268,381	74,979
<b>Total net assets</b>		<b>29,888</b>	<b>46,838</b>

(\*) Advances paid are represented by advances paid to the Suppliers for supply of inventory, works and services under Component 1 of the Project in the amount of USD 26,276, as well as for legal services under Component 3.1 of the Project in the amount of USD 1,608.

(USD)

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. CASH

Cash balances of the Project as of 31 December are as follows:

USD	2017	2016
Bank account balances	2,004	46,838
<i>Including denominated:</i>		
USD	2,004	46,838
KZT	-	-

7. PROJECT EXPENSES

a. Project expenses financed by the Grant for 2016 and 2017.

- 2016

Categories of expenditures	2016	Cumulative at 31 December 2016
Construction works, goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Component 1.	24,807	24,807
Goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Subcomponent 3.1.	125,653	125,653
<b>TOTAL</b>	<b>150,460</b>	<b>150,460</b>

- 2017

Categories of expenditures	2017	Cumulative at 31 December 2017
Construction works, goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Component 1.	427,028	451,835
Goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Subcomponent 3.1.	540,374	666,027
<b>TOTAL</b>	<b>967,402</b>	<b>1,117,862</b>

b. Implementation of expense budget of the Project for 2016 and 2017

- 2016

(USD)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Categories of expenditures	Cumulative at 31 December 2016	Expense budget	Budget implementation
Construction works, goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Component 1.	24,807	20,370	121.8%
Goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Subcomponent 3.1.	125,653	130,090	96.6%
<b>TOTAL</b>	<b>150,460</b>	<b>150,460</b>	<b>100.0%</b>

• 2017

Categories of expenditures	Cumulative at 31 December 2017	Expense Budget	Budget implementation
Construction works, goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Component 1 of the Project.	451,835	410,467	110.1%
Goods, non-consulting services, consulting services, additional operating costs and training on the Project under implementation of Subcomponent 3.1 of the Project.	666,027	658,110	101.2%
<b>TOTAL</b>	<b>1,117,862</b>	<b>1,068,577</b>	<b>104.6%</b>

The reason for variance between budget and actual Project expenses was due to the revised budget in respect of circumstances set out in section 2.5 of the Statements.

**8. ADMINISTRATIVE EXPENSES OF CAREC**

Administrative expenses at 7%, or USD 874,090 were provided initially upon concluding the Financing Agreement, grant No. D094-7C and budgeting for the Project CAMP4ASB in total amount of expenses for Component 1 USD 12,487,000. The mentioned administrative expenses were agreed with the World Bank as non-audited expenses (section 2.5 of the Statements).

The World Bank approved and paid requested grant amounts for the Project from the beginning of the Project to December 2017.

Due to the fact that the World Bank subsequently informed that administrative expenses of the Project in the form of 7% cannot be covered by the World Bank, in the 1<sup>st</sup> quarter of 2018, adjustments were made to the statements for the 4<sup>th</sup> quarter of 2017, administrative expenses were transferred to Component 3 as a separate item.

Part of adjustments are recorded as a separate line as Administrative expenses of CAREC in the Statement of cash receipts and disbursements of the Project for 2016 and 2017.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In the Statements submitted to the World Bank these adjustments for 2017 are recorded on 15 March 2018.

USD	Project expenses			Project expenses		
	2016 before adjustments	2016 after adjustments	Variance	2017 before adjustments	2017 after adjustments	Variance
<b>Project expenses</b>						
<b>Component 1 Regional services in the field of climate knowledge</b>						
Subcomponent 1.1						
Establishment of information platform for CA	15,025	648	(14,377)	118,844	103,844	(15,000)
Subcomponent 1.2 Target upgrade of climate-related monitoring systems						
	26,875	8	(26,867)	26,875	-	(26,875)
Subcomponent 1.3 Development of methodologies, approaches and tools to support decision making						
	6,250	8,702	2,452	146,765	138,085	(8,680)
Subcomponent 1.4 Development of information products						
	8,125	10,539	2,414	10,952	6,464	(4,488)
Subcomponent 1.5 Capacity building						
	9,375	-	(9,375)	32,776	17,860	(14,916)
Subcomponent 1.6 Implementation of a mechanism to assess climate investments						
	2,419	473	(1,946)	24,427	21,699	(2,728)
Subcomponent 1.7 Educational outreach activity						
	10,473	4,437	(6,036)	130,802	139,076	8,274
<b>Total on component 1</b>	<b>78,542</b>	<b>24,807</b>	<b>(53,735)</b>	<b>491,441</b>	<b>427,028</b>	<b>(64,413)</b>
<b>Component 3:</b>						
Subcomponent 3.1: Regional Coordination						
	126,303	125,653	(650)	434,434	540,374	105,940
<b>Total</b>	<b>126,303</b>	<b>125,653</b>	<b>(650)</b>	<b>434,434</b>	<b>540,374</b>	<b>105,940</b>
<b>Total Project expenses</b>	<b>204,845</b>	<b>150,460</b>	<b>(54,385)</b>	<b>925,875</b>	<b>967,402</b>	<b>41,527</b>
Administrative expenses of CAREC	20,594	74,979	54,385	234,929	193,402	(41,527)

9. PROPERTY, PLANT AND EQUIPMENT

PPE of the Project are as follows:

Name	Balance at	Proceeds		Disposal		Balance at
	01.08.2016	2016	2017	2016	2017	31.12.2017
Office equipment	-	1,401	19,609	-	-	21,010
Office furniture	-	-	376	-	-	376
<b>Total</b>	<b>-</b>	<b>1,401</b>	<b>19,985</b>	<b>-</b>	<b>-</b>	<b>21,386</b>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

**10. SUBSEQUENT EVENTS**

Application No.5 for total amount of USD 267,796 includes expenses incurred and paid in 4 quarter of 2017. This application was submitted to the World Bank on 20.12.2018, approved on 28.12.2017 and cash for the Project was received on 08.01.2018.

New updated expense budget for the Project expenses was agreed and approved by the World Bank in May 2018 (Attachment 3 to the Statements).

**11. LITIGATIONS**

During the Project implementation period and at the date of approval of the financial statements, CAREC had no legal claims against third parties or organizations, or against third parties or organizations.

**12. DATE OF ISSUE**

These financial statements were approved for issue by the Executive Director of the Regional Environmental Centre for Central Asia CAREC on 5 July 2018.

Iskandar Abdullayev

Executive Director

Of Regional Environmental Centre  
For Central Asia 'CAREC'

05 July 2018

(USD)

**Attachment 1**

**Reconciliation between the Amounts Confirmed by CAREC and Paid by the World Bank for 2016-2017**

Categories of expenditures	Application for withdrawal	Data of CAREC	Data of the World Bank	Variances
Construction works, goods, non-	01	272,277	272,277	-
consulting services, consulting	02	427,723	427,723	-
services, additional operating costs	03	308,169	308,169	-
and training on the Project	04	380,078	380,078	-
<b>TOTAL</b>		<b>1,388,247</b>	<b>1,388,247</b>	<b>-</b>



(USD)

Attachment 2

Initial Budget for CAMP4ASB Project approved by the World Bank in September 2016

Components, subcomponents		1 year	2 years	3 years	4 years	5 years	Total
Component 1. 'Regional services in the field of climate knowledge'	Subcomponent 1.1 Establishment of information platform for CA	172,200	736,400	728,000	561,000	202,400	2,400,000
	Subcomponent 1.2 Target upgrade of climate-related monitoring systems	158,230	2,604,520	1,333,000	129,000	75,250	4,300,000
	Subcomponent 1.3 Development of methodologies, approaches and tools to support decision making	129,500	270,000	270,000	200,000	130,500	1,000,000
	Subcomponent 1.4 Development of information products	100,250	390,000	390,000	257,500	162,250	1,300,000
	Subcomponent 1.5 Capacity building	104,150	450,000	450,000	330,100	165,750	1,500,000
	Subcomponent 1.6 Implementation of a mechanism to assess climate investments	60,172	140,100	116,100	38,700	31,928	387,000
	Subcomponent 1.7 Educational outreach activity	316,000	320,000	320,000	320,000	324,000	1,600,000
<b>Total on Component 1</b>		<b>1,040,502</b>	<b>4,911,020</b>	<b>3,607,100</b>	<b>1,836,300</b>	<b>1,092,078</b>	<b>12,487,000</b>
including: Administrative expenses		156,088	187,305	187,305	187,305	156,087	874,090
Component 3: 'Regional and National Coordination'	Subcomponent 3.1 Regional Coordination	450,199	528,653	542,095	541,084	450,969	2,513,000
<b>Total for Project</b>		<b>150,460</b>	<b>1,490,701</b>	<b>5,439,673</b>	<b>4,149,195</b>	<b>2,377,384</b>	<b>1,543,047</b>

(USD)

Attachment 3.

Budget for CAMP4ASB Project approved by the World Bank in May 2018

Components, subcomponents		2016	2017	2018	2019	2020	2021	Total
Component 1: 'Regional services in the field of climate knowledge'	Subcomponent 1.1 Establishment of information platform for CA	647	103,844	70,000	898,447	898,445	428,617	2,400,000
	Subcomponent 1.2 Target upgrade of climate-related monitoring systems	8	-	2,616,800	1,683,192	-	-	4,300,000
	Subcomponent 1.3 Development of methodologies, approaches and tools to support decision making	8,702	138,085	172,200	459,200	187,570	34,243	1,000,000
	Subcomponent 1.4 Development of information products	10,539	4,096	252,600	497,746	352,146	182,873	1,300,000
	Subcomponent 1.5 Capacity building	-	17,860	214,200	431,200	597,056	239,684	1,500,000
	Subcomponent 1.6 Implementation of a mechanism to assess climate investments	-	21,699	76,000	123,720	123,720	41,861	387,000
	Subcomponent 1.7 Educational outreach activity	474	104,513	687,500	422,308	385,205	-	1,600,000
<b>Total on Component 1</b>		<b>20,370</b>	<b>390,097</b>	<b>4,089,300</b>	<b>4,515,813</b>	<b>2,544,142</b>	<b>927,278</b>	<b>12,487,000</b>
including: Administrative expenses		19,267	-	-	-	-	-	-
Component 3: 'Regional and National Coordination'	Subcomponent 3.1 Regional Coordination	130,090	528,020	539,415	573,394	559,910	182,171	2,513,000
<b>Total for Project</b>		<b>150,460</b>	<b>918,117</b>	<b>4,628,715</b>	<b>5,089,208</b>	<b>3,104,052</b>	<b>1,109,448</b>	<b>15,000,000</b>