

**Central Asia Hydrometeorology Modernisation
Project (Component A, Kazakhstan)
Grant No. D356-7C**

Management letter

*for the year ended 31 December 2022 and
for the 5 months ended 31 May 2023*



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To the Management of Corporate Fund "Regional Center of Hydrology" (the "Agency")

Central Asia Hydrometeorology Modernisation Project, Grant No. D356-7C

In performing our audit of the financial statements of Central Asia Hydrometeorology Modernisation Project (Component A, Kazakhstan, Grant No. D356-7C) (the "Project") for the year ended 31 December 2022 and for the 5 months ended 31 May 2023 in accordance with International Public Sector Accounting Standards ("IPSAS") *Financial Reporting under the Cash Basis of Accounting*, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control. However, we noted certain matters involving internal control and its operation that we consider to be the deficiencies under International Standards on Auditing.

Deficiency in internal control exists when a control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or a control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing. Significant deficiency in internal control is a deficiency or combination of deficiencies in internal control that, in our professional judgment, is of sufficient importance to merit the attention of management of the Agency.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be deficiencies and, accordingly, would not necessarily disclose all deficiencies that are also considered to be significant deficiencies as defined above. The deficiencies were considered in determining the nature, timing, and extent of the procedures performed in our audit of the project's financial statements.

This letter is intended solely for the information and use of the management of Agency, others within the project, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to take this opportunity to thank you and your staff for their assistance during the audit and we are looking forward working with you in the future. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Sincerely,

Paul Cohn
Audit partner

29 September 2023

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Status on eliminating deficiencies indicated in the management letter based on the audit of financial statements of the Project for the year ended 31 December 2022 and for the 5 months ended 31 May 2023

Based on the results of the audit of the financial statements for the year ended 31 December 2022 and for the 5 months ended 31 May 2023, we submitted the letter to the Management of the Agency dated 29 September 2023, on noted deficiencies together with our comments regarding associated risks and recommendations on their elimination.

Below is the summary table on deficiencies revealed in 2021 audit and our comments with respect to the status of their elimination as at 31 December 2022 and as at 31 May 2023 (we also classified these deficiencies by risk and priority categories):

Risk category	Name	Status and comments on deficiencies elimination
Moderate	Financial statements preparation (IFR) in 1C system	This comment was partially eliminated in or, thus the status on this issue is included in this management letter (point 1)

1. Financial statements preparation (IFR) in 1C system

Observation

The Agency has 1C accounting software. There is a number of software shortcomings, which considering the specifics of the Project operations recording, do not enable to use opportunities of this software in full.

According to the instructions from the IDA, the project's statements are prepared using the cash method and the official currency of the project is US dollar.

At the time of the audit, 1C system generated two automatized reports - Statement of Expenditures and Report on subcontracts. Ideally, 1C is expected to generate Interim Financial Report automatically. However, due to limited software features, this report is formed manually by financial consultant on the basis of reports from 1C.

Risk

Generating reports manually increases the risk of generating reports with errors and which do not meet all the IDA's requirements.

Recommendation

According to our observations, we recommend the Agency the following:

1. Finalize 1C system in such a way that the Agency has an opportunity to generate electronic reports with correct amounts and by the formats required by the IDA as at the reporting date and for the reporting period.

Management comments

As of today, the implementation Agency is cooperating with "Dialogue C" company on accompaniment, modernization and automation of the reporting generating processes in 1C system. "Dialogue C" company periodically updates the software and performed updated the process of report forming and introduced required system settings in order to enable 1C to use the rate of the last currency conversion as at cash receipt date.