

**IRRIGATION SYSTEM ENHANCEMENT PROJECT**

**IBRD LOAN 8267-AM**

**IMPLEMENTED BY WATER SECTOR PROJECTS IMPLEMENTATION UNIT  
STATE INSTITUTION**

**SPECIAL PURPOSE FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**For the year ended 31 December 2016**

**YEREVAN  
March 2017**

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"SOS-AUDIT" LTD

## INDEPENDENT AUDITOR'S REPORT

To the management of "Water Sector Projects Implementation Unit" State Institution

### *Opinion*

We have audited the accompanying special purpose financial statements of the "Irrigation System Enhancement Project" ("Project") financed by IBRD Loan Agreement 8267-AM dated 29 May 2013 ("Loan Agreement"), and implemented by the "Water Sector Projects Implementation Unit" State Institution ("WSPIU"), which comprise the Statement of Financial Position as at 31 December 2016, the Statement of Sources and Uses of Funds, the Statement of Uses of Funds by Project Activity, Summary of summary reports and SOEs, the Statement of Designated Account for the year ended 31 December 2016, and a summary of significant accounting policies and other explanatory notes.

In our opinion,

1. the special purpose financial statements present fairly in all material respects the financial position of the Project as at 31 December 2016, as well as the sources and uses of funds for the year ended 31 December 2016 in accordance with the accrual basis of accounting described in the Note 2 accompanying these special purpose financial statements;
2. funds have been used in accordance with the conditions of the Loan Agreement concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD), and World Bank related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
3. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the Loan Agreement; Interim Unaudited Financial Statements (IFSS) issued by WSPIU during the reporting period are in agreement with the underlying books of account;
4. The Designated account used has been maintained in accordance with the provision of the Loan Agreement, and World Bank related guidelines;
5. Works, Goods and Services financed have been procured in accordance with the Loan Agreement and World Bank related guidelines.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Project and the WSPIU in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled out other ethical requirements in accordance with IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of matter- Delays in the Project implementation termination*

Without qualifying our opinion, we draw your attention to Note 4.1 of these special purpose financial statements disclosing delays of the Project implementation and the measures taken by the management of the WSPIU.



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***Management's Responsibility for the Special Purpose Financial Statements***

The management of the WSPIU is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the accrual basis of accounting described in the Note 2 accompanying these special purpose financial statements, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatements, whether due to fraud or error.

***Auditor's Responsibility for the Audit of the Special Purpose Financial Statements***

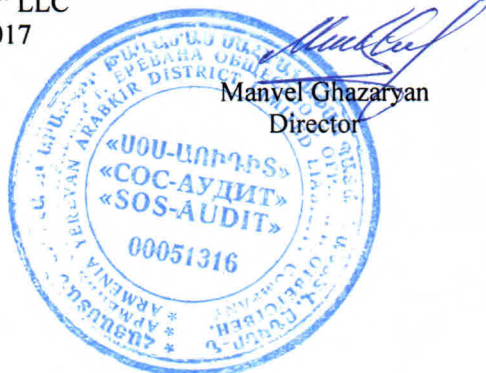
Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is high level of assurance, but is not a guaranty that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose 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 special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 special purpose financial statements, including the disclosures, and whether the special purpose financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

"SOS-Audit" LLC  
31 March 2017



Manvel Ghazaryan  
Director

Nazik Chitchyan  
Auditor

## STATEMENT OF FINANCIAL POSITION

*Irrigation System Enhancement Project  
IBRD Loan 8267-AM  
As at 31 December 2016*

	Note	31.12.2016 USD	31.12.2015 USD
<b>ASSETS</b>			
<b>Cash</b>			
Designated account –IBRD Loan 8267-AM (in USD)		2,957,732.57	2,244,686.49
Current account – Government of RA (in AMD)		-	46,998.62
<b>Total Cash</b>		<b>2,957,732.57</b>	<b>2,891,685.11</b>
Prepayments	4	1,667,660.94	1,832,404.32
Cumulative project expenditures	3	26,981,940.47	15,423,070.27
Foreign exchange loss	7	121,419.37	122,652.08
<b>TOTAL ASSETS</b>		<b>31,728,753.35</b>	<b>20,269,811.78</b>
<b>FUNDS AND LIABILITIES</b>			
Accounts payable	5	340,546.45	360,951.05
<b>Funds</b>			
IBRD Loan 8267-AM	6.1	25,683,632.05	15,839,698.34
Government of the Republic of Armenia	6.2	5,704,574.85	4,069,162.39
<b>Total Funds</b>		<b>31,388,206.90</b>	<b>19,908,860.73</b>
<b>TOTAL FUNDS AND LIABILITIES</b>		<b>31,728,753.35</b>	<b>20,269,811.78</b>

*The special purpose financial statements were approved by the management of Water Sector Projects Implementation Unit State Institution and signed on its behalf on March 31, 2017. The accompanying notes form is an integral part of these special purpose financial statements.*

**Feliks Meliqyan**  
Deputy Director



**Ashkhen Janjughazyan**  
Financial Manager



## STATEMENT OF SOURCES AND USES OF FUNDS

*Irrigation System Enhancement Project  
IBRD Loan 8267-AM  
For the year ended 31 December 2016  
In USD*

	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting year 2016	Cumulative as at 31.Dec.2016	Reporting year 2016	Cumulative as at 31.Dec.2016	Reporting year 2016	Cumulative as at 31.Dec.2016	
<b>Opening Working Capital</b>							
Cash	2,891,685.11	-					
Prepayments	1,832,404.32	-					
Accounts payable	(360,951.05)	-					
<b>Total</b>	<b>4,363,138.38</b>	-					
<b>Sources of Funds</b>							
IBRD Loan 8267-AM	9,843,933.71	25,683,632.05	5,583,650.00	22,227,560.00	4,260,283.71	3,456,072.05	30,000,000.00
Government of Republic of Armenia	1,635,412.46	5,704,574.85	2,547,120.00	8,458,310.00	(911,707.54)	(2,753,735.15)	7,500,000.00
<b>Total</b>	<b>11,479,346.17</b>	<b>31,388,206.90</b>	<b>8,130,770.00</b>	<b>30,685,870.00</b>	<b>3,348,576.17</b>	<b>702,336.90</b>	<b>37,500,000.00</b>
<b>Foreign exchange gain/(loss)</b>	<b>1,232.71</b>	<b>(121,419.37)</b>					
<b>Uses of Funds</b>							
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	11,558,870.20	26,906,940.47	8,130,770.00	30,610,870.00	3,428,100.20	(3,703,929.53)	37,425,000.00
(2) Front-end Fee	-	75,000.00	-	75,000.00	-	-	75,000.00
<b>Total</b>	<b>11,558,870.20</b>	<b>26,981,940.47</b>	<b>8,130,770.00</b>	<b>30,685,870.00</b>	<b>3,428,100.20</b>	<b>(3,703,929.53)</b>	<b>37,500,000.00</b>
<b>Closing Working Capital</b>							
Cash	2,957,732.57	2,957,732.57					
Prepayments	1,667,660.94	1,667,660.94					
Accounts payable	(340,546.45)	(340,546.45)					
<b>Total</b>	<b>4,284,847.06</b>	<b>4,284,847.06</b>					

*Irrigation System Enhancement Project  
Special Purpose Financial Statements  
for the year ended 31 December 2016*

## STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

*Irrigation System Enhancement Project  
IBRD Loan 8267-AM  
For the year ended 31 December 2016  
In USD*

Project Activities	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting year 2016	Cumulative as at 31.Dec.2016	Reporting year 2016	Cumulative as at 31.Dec.2016	Reporting year 2016	Cumulative as at 31.Dec.2016	
<b>Part A- Irrigation system enhancement</b>	<b>11,021,306.90</b>	<b>23,797,483.09</b>	<b>7,602,090.00</b>	<b>25,616,400.00</b>	<b>3,419,216.90</b>	<b>(1,818,916.91)</b>	<b>33,100,000.00</b>
A.1: Conversion of pump-based irrigation to gravity irrigation	9,461,554.81	17,039,836.19	6,434,670.00	21,852,350.00	3,026,884.81	(4,812,513.81)	24,700,000.00
A.2: Upgrading of outlet and other canals conveying pumped water	1,559,752.09	6,757,646.90	1,167,420.00	3,764,050.00	392,332.09	2,993,596.90	8,400,000.00
<b>Part B- Management information</b>	<b>60,517.84</b>	<b>876,230.00</b>	<b>16,330.00</b>	<b>2,120,960.00</b>	<b>44,187.84</b>	<b>(1,244,730.00)</b>	<b>1,700,000.00</b>
B.1: Technical investigations	60,517.84	60,517.84	16,330.00	954,910.00	44,187.84	(894,392.16)	900,000.00
B.2: Supervisory control and data acquisition (SCADA) system installation	-	815,712.16	-	1,166,050.00	-	(350,337.84)	800,000.00
<b>Part C- Project management and WUAs' support</b>	<b>477,045.46</b>	<b>2,233,227.38</b>	<b>512,350.00</b>	<b>2,873,510.00</b>	<b>(35,304.54)</b>	<b>(640,282.62)</b>	<b>2,700,000.00</b>
C.1: Project management	440,468.30	1,923,272.91	499,870.00	2,394,550.00	(59,401.70)	(471,277.09)	1,500,000.00
C.2: WUAs' support	<b>36,577.16</b>	<b>309,954.47</b>	<b>12,480.00</b>	<b>478,960.00</b>	<b>24,097.16</b>	<b>(169,005.53)</b>	<b>1,200,000.00</b>
C.2.1: The WUAs' support group	36,577.16	68,312.30	-	-	36,577.16	68,312.30	800,000.00
C.2.2: Capacity building of WUAs' executive bodies	-	197,981.82	3,980.00	265,530.00	(3,980.00)	(67,548.18)	240,000.00
C.2.3: Awareness raising and communication activities	-	43,660.35	8,500.00	213,430.00	(8,500.00)	(169,769.65)	160,000.00
<b>Project expenditures</b>	<b>11,558,870.20</b>	<b>26,906,940.47</b>	<b>8,130,770.00</b>	<b>30,610,870.00</b>	<b>3,428,100.20</b>	<b>(3,703,929.53)</b>	<b>37,500,000.00</b>
Front-end Fee	-	75,000.00	-	75,000.00	-	-	-
<b>Total Project Expenditures</b>	<b>11,558,870.20</b>	<b>26,981,940.47</b>	<b>8,130,770.00</b>	<b>30,685,870.00</b>	<b>3,428,100.20</b>	<b>(3,703,929.53)</b>	<b>37,500,000.00</b>

*Irrigation System Enhancement Project  
Special Purpose Financial Statements  
for the year ended 31 December 2016*

## SUMMARY OF SUMMARY REPORTS AND SOEs

*Irrigation System Enhancement Project*  
*IBRD Loan 8267-AM*  
*For the year ended 31 December 2016*  
*In USD*

Application N	Application value date	(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	Total
12	26-Jan-2016	2,755,313.51	2,755,313.51
13	19-Apr-2016	2,903,340.00	2,903,340.00
14	14-Jul-2016	1,368,583.30	1,368,583.30
15	04-Oct-2016	2,816,696.90	2,816,696.90
<b>Total</b>		<b>9,843,933.71</b>	<b>9,843,933.71</b>



## STATEMENT OF DESIGNATED ACCOUNT

*Irrigation System Enhancement Project  
IBRD Loan 8267-AM  
For the year ended 31 December 2016*

<u>Designated Account</u>	<u>IBRD Loan 8267-AM</u>
Currency	USD
Account number	900000906132
Bank	Central Treasury 1 Meliq Adamyan Street, Yerevan Republic of Armenia, 0010
Location	
	<b>For the year ended 31.12.2016</b>
	<b>USD</b>
<b>1. Opening balance</b>	<u>2,244,686.49</u>
Add:	
2. Cumulative opening discrepancy	-
3. IBRD advance/replenishment	9,843,933.71
Less:	
4. Refund to IBRD from DA	-
<b>5. Present outstanding amount advanced to DA</b>	<u><b>12,088,620.20</b></u>
6. DA closing balance as at 31.12.2016	2,957,732.57
Add:	
7. Amount of eligible expenditures paid	9,130,887.63
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
<b>10. Total advance/replenishment accounted for</b>	<u><b>12,088,620.20</b></u>
11. Discrepancy (5)-(10)	-

## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Irrigation System Enhancement Project  
IBRD Loan 8267-AM  
For the year ended 31 December 2016*

### 1. General Information

#### 1.1. Project Financing

According to the Loan Agreement 8267-AM dated 29 May 2013 concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD), IBRD provided financing in the amount of 30,000,000 United States dollars (USD) for the implementation of "Irrigation System Enhancement Project" (the Project).

The Project financing agreement became effective on 15 July 2013.

The Closing date for the expenditures to be financed by the Loan is set on 30 June 2017. The Grace period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing date: 30 October 2017.

#### 1.2. Project objectives

The objectives of the Project are to:

- a) reduce the amount of energy used and improve irrigation conveyance efficiency in targeted irrigation schemes,
- b) improve the availability and reliability of important sector data and information for decision-makers and other stakeholders.

The Project consists of the following parts:

- A – Irrigation system enhancement project,
- B – Management information,
- C – Project management and WUAs' support.

#### 1.3. Project Budget

The Project is being financed by the following sources:

- International Bank for Reconstruction and Development (IBRD),
- The Government of the Republic of Armenia (Government of RA).

Co-financing rate of 20% is applied for goods, works, non-consulting services, consultants' services, training and operating costs for the Project.

Category	IBRD 8267-AM	Government of RA	Total
	USD	USD	USD
1. Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	29,925,000	7,500,000	37,425,000
2. Front-end fee	75,000	-	75,000
<b>Total</b>	<b>30,000,000</b>	<b>7,500,000</b>	<b>37,500,000</b>

#### 1.4. Project Implementation

The Project is implemented by "Water Sector Projects Implementation Unit" State Institution (the PIU).

The PIU legal address is: Baghramyan Street 75/44, Yerevan 0033, Republic of Armenia.

## 2. Accounting policy

### 2.1 Preparation and presentation of financial statements

The special purpose financial statements have been prepared based on the accrual basis of accounting and presented in accordance with Financial Management Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing.

In accordance with the accrual bases of accounting the expenditure is recognized when the transaction occur (expense incurred), and not only when cash or its equivalent is received or paid. The transactions are recorded in the accounting records and recognized in the special purpose financial statements of the periods to which they relate.

The special purpose financial statements consist of:

- Statement of financial position,
- Statement of sources and uses of funds,
- Statement of uses of funds by project activity,
- Summary of summary reports and SOEs,
- Statement of designated account,
- Notes to the special purpose financial statements.

Reporting currency of special purpose financial statements is US dollar (USD).

### 2.2 Foreign currency transactions

Project accounts are maintained and transactions are made in USD and Armenian Drams (AMD). Transactions denominated in local currency are translated into USD as follows:

- Contributions of the RA Government expressed in AMD are translated into USD at the average exchange rate at currency market issued by the Central Bank of Armenia (CBA) at the date of transfer.
- Payments to contractors and suppliers expressed in AMD are translated into USD at the average exchange rate at currency market issued by the CBA at the date of payment.
- Monetary assets and liabilities are translated into USD at the average exchange rate at currency market issued by the CBA at the reporting date.
- Transaction and translation exchange differences (gains/losses) are recognized and presented in financial statements in net as an Exchange difference.

The average exchange rate at currency market issued by the CBA as at 31 December 2015 is 1 USD =483.75 AMD

The average exchange rate at currency market issued by the CBA as at 31 December 2016 is 1 USD =483.94 AMD

### 2.3 Taxes

The Project related taxes and mandatory payments are calculated and paid in accordance with tax regulations of the Republic of Armenia.

### 3. Project expenditures allocation on funds

Expenditure category	Reporting year 2016			Cumulative As at 31.12.2016		
	IBRD Loan 8267-AM	GoA	Total	IBRD Loan 8267-AM	GoA	Total
	USD	USD	USD	USD	USD	USD
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	9,247,096.17	2,311,774.03	11,558,870.20	21,525,552.51	5,381,387.96	26,906,940.47
(2) Front- end fee	-	-	-	75,000.00	-	75,000.00
<b>Total</b>	<b>9,247,096.17</b>	<b>2,311,774.03</b>	<b>11,558,870.20</b>	<b>21,600,552.51</b>	<b>5,381,387.96</b>	<b>26,981,940.47</b>

#### 4. Prepayments

	As at 31.12.2016 USD	As at 31.12.2015 USD
Works of the Project	1,666,472.14	1,830,428.21
Operating costs of the Project	1,188.80	1,976.11
<b>Total</b>	<b>1,667,660.94</b>	<b>1,832,404.32</b>

##### 4.1. Prepayments on Works

- a) The prepayments on construction works were provided up to 25% of the contract price, in accordance with contract based on the bank guaranty provided.
- b) In accordance with ISEP/ICB/CW-14/001-1 (Lot 1) (contractor: "Four Directions" LLC and "Kapavor" LLC JV) contract an advance of USD 977,898.1 was provided to the contractor on 23 March 2016. The contract objective is constructing Qaghtsrashen irrigation system. However, the construction works were suspended due to disagreements with the community. The design and the price of the contract was amended, which was agreed with the WB; and amendment N 2 of the contract envisaged commencement of the construction works on 3 April 2017.

#### 5. Payables

	As at 31.12.2016 USD	As at 31.12.2015 USD
Works of the Project	340,367.81	360,121.03
Operating costs of the Project	178.64	830.02
<b>Total</b>	<b>340,546.45</b>	<b>360,951.05</b>

#### 6. Financing

##### 6.1. IBRD Loan 8267-AM financing

	Reporting year 2016 USD	As at 31.12.2016 Cumulative USD
Advance	-	5,000,000.00
Reimbursement-SOE procedure	9,602,088.90	18,956,630.68
Summary Report	241,844.81	1,652,001.37
Front-end fee	-	75,000.00
	<b>9,843,933.71</b>	<b>25,683,632.05</b>
Total financing budget		<b>30,000,000.00</b>
Percentage of finance provided as at 31 Dec 2016		<b>86%</b>

## 6.2. Government financing

	Reporting year 2016 USD	As at 31.12.2016 Cumulative USD
Contributions	1,635,412.46	5,704,574.85
	<u>1,635,412.46</u>	<u>5,704,574.85</u>
Total financing budget		<u>7,500,000.00</u>
Percentage of finance provided as at 31 Dec 2016		<u>76%</u>

## 7. Foreign exchange gain/(loss)

	As at 31.12.2016 USD	As at 31.12.2015 USD
Translation of payables	(74,835.87)	(80,476.18)
Translation of cash balances	(46,583.50)	(42,175.90)
	<u>(121,419.37)</u>	<u>(122,652.08)</u>

## 8. Expenditure budget execution

Category	Cumulative Expenditures as at 31 Dec 2016	Total budget	Execution*
	USD	USD	%
1. Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	26,906,940.47	37,425,000.00	72%
2. Front- end fee	75,000.00	75,000.00	100%
<b>Total</b>	<b>26,981,940.47</b>	<b>37,500,000.00</b>	<b>72%</b>

(\*) Currently the negotiations are held with the WB to extent the Project implementation till 30 June 2018.

## 9. Events after the reporting date

The Project expenditures for the reporting period at the total amount of USD 2,042,267.43 registered at the application # 16 were submitted to WB on 16 January 2017 and approved on 27 January 2017.

**ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PIU AND DISBURSED BY THE WORLD BANK**

*Irrigation System Enhancement Project  
IBRD Loan 8267-AM  
For the year ended 31 December 2016  
In USD*

<b>Category</b>	<b>Appl. N</b>	<b>PIU</b>	<b>WB</b>	<b>Difference</b>
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	12	2,755,313.51	2,755,313.51	-
	13	2,903,340.00	2,903,340.00	-
	14	1,368,583.30	1,368,583.30	-
	15	2,816,696.90	2,816,696.90	-
<b>Total</b>		<b>9,843,933.71</b>	<b>9,843,933.71</b>	