

**GRANT PROJECT FOR PREPARATION OF
THE IRRIGATION SYSTEMS MODERNIZATION PROJECT**

ECAPDEV GRANT No. TF017003

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

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

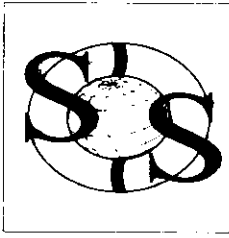
INDEPENDENT AUDITOR'S REPORT

For the period from 1 June 2014 to 19 August 2015

**YEREVAN
August 2015**

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"SOS-AUDIT" LTD

INDEPENDENT AUDITOR'S REPORT N 80

*On the special purpose financial statements of
"Grant Project for Preparation of the Irrigation Systems Modernization Project"
for the period from 1 June 2014 to 19 August 2015*

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

We have audited the accompanying special purpose financial statements of "Grant Project for Preparation of the Irrigation Systems Modernization Project" (the Project) financed by the ECAPDEV Grant No. TF017003, which comprise 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 period from 1 June 2014 to 19 August 2015, the Statement of Financial Position as at 19 August 2015, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The management of the PIU 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

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as issued by International Auditing and Assurance Standards Board (IAASB). Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain reasonable audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risk of material misstatement of the special purpose financial statements, whether due to fraud or error.

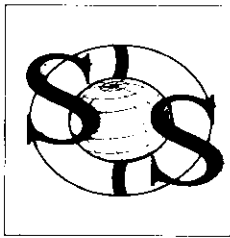
In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special purpose financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes the

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appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the special purpose financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion,

1. the special purpose financial statements present fairly in all material respects the financial position of the Project as at 19 August 2015, as well as the sources and uses of funds for the period from 1 June 2014 to 19 August 2015 in accordance with the 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 ECAPDEV Grant Agreement No. TF017003 dated 13 May 2014 signed 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 and reimbursed against withdrawal applications are eligible for financing under the ECAPDEV Grant Agreement No. TF017003 dated 13 May 2014;
4. the Designated account has been maintained in accordance with the provision of the ECAPDEV Grant Agreement No. TF017003 dated 13 May 2014, and World Bank related guidelines.

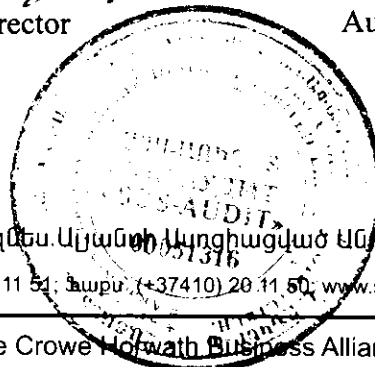
Emphasis of matters

Without qualifying our opinion we draw your attention to Note 6 of these special purpose financial statements which disclosed that the Project was completed as at the reporting date.

“SOS-Audit” LLC
31 August 2015


Manvel Ghazaryan
Director


Nazik Chitchyan
Auditor



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STATEMENT OF SOURCES AND USES OF FUNDS

*Grant Project for Preparation of the Irrigation Systems Modernization Project
ECAPDEV Grant No. TF017003
For the period from 1 June 2014 to 19 August 2015
In USD*

	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting period	Cumulative as at 19 August 2015	Reporting period	Cumulative as at 19 August 2015	Reporting period	Cumulative as at 19 August 2015	
Opening Working Capital							
Cash	-	-	-	-	-	-	
Prepayments	-	-	-	-	-	-	
Accounts payable	-	-	-	-	-	-	
Total	-	-	-	-	-	-	
Sources of Funds							
ECAPDEV Grant No. TF017003	481,057.58	481,057.58	495,000.00	495,000.00	(13,942.42)	(13,942.42)	495,000.00
Government of RoA	113,981.61	113,981.61	234,000.00	234,000.00	(120,018.39)	(120,018.39)	234,000.00
Total	595,039.19	595,039.19	729,000.00	729,000.00	(133,960.81)	(133,960.81)	729,000.00
Foreign exchange gain/(loss)	(14,749.49)	(14,749.49)					
Uses of Funds							
(1) Consultants' services	537,989.21	537,989.21	669,000.00	669,000.00	(131,010.79)	(131,010.79)	669,000.00
(2) Goods	29,046.94	29,046.94	28,000.00	28,000.00	1,046.94	1,046.94	28,000.00
(3) Training	6,471.92	6,471.92	32,000.00	32,000.00	(25,528.08)	(25,528.08)	32,000.00
Total	573,508.07	573,508.07	729,000.00	729,000.00	(155,491.93)	(155,491.93)	729,000.00
Closing Working Capital							
Cash	6,781.63	6,781.63					
Prepayments	-	-					
Accounts payable	-	-					
Total	6,781.63	6,781.63					

Feliks Meliqyan

Director

Aram Zakaryan

Chief Accountant

31 August 2015

The notes on pages 10-15 form an integral part of these special purpose project financial statements.

*Grant Project for Preparation of the Irrigation Systems Modernization Project
Special Purpose Financial Statements
For the period from June 01, 2014 to August 19, 2015*

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

*Grant Project for Preparation of the Irrigation Systems Modernization Project
ECAPDEV Grant No. TF017003
For the period from 1 June 2014 to 19 August 2015
In USD*

Project Activities	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting period	Cumulative as at 19 August 2015	Reporting period	Cumulative as at 19 August 2015	Reporting period	Cumulative as at 19 August 2015	
Component 1 - Feasibility study for the Irrigation Systems Modernization Project	168,481.01	168,481.01	275,500.00	275,500.00	(107,018.99)	(107,018.99)	275,500.00
<i>1.1: Feasibility Study to identify technical state of Armenian irrigation systems and technical and construction solution</i>	112,935.35	112,935.35	217,500.00	217,500.00	(104,564.65)	(104,564.65)	217,500.00
<i>1.2: Social impact assessment for the Irrigation Systems Modernization Project</i>	13,304.38	13,304.38	15,000.00	15,000.00	(1,695.62)	(1,695.62)	15,000.00
<i>1.3: Environmental impact assessment report for the Irrigation Systems Modernization Project</i>	13,194.34	13,194.34	15,000.00	15,000.00	(1,805.66)	(1,805.66)	15,000.00
<i>1.4: Strengthen the capacity of WSPUI to ensure safeguards and technical compliance</i>	29,046.94	29,046.94	28,000.00	28,000.00	1,046.94	1,046.94	28,000.00
Component 2 - WUA's institutional development and technical capability studies	189,631.25	189,631.25	196,000.00	196,000.00	(6,368.75)	(6,368.75)	196,000.00
<i>2.1: Development of strengthening component for Water Users Associations</i>	189,631.25	189,631.25	180,000.00	180,000.00	9,631.25	9,631.25	180,000.00
<i>2.2: Training to institutional specialists to ensure WSPUI capacity</i>	-	-	16,000.00	16,000.00	(16,000.00)	(16,000.00)	16,000.00
Component 3 - Preparation of project documents for the Irrigation Systems Modernization Project	215,395.81	215,395.81	233,500.00	233,500.00	(18,104.19)	(18,104.19)	233,500.00
<i>3.1: Development of Draft Irrigation Systems Modernization Project Paper</i>	208,923.89	208,923.89	217,500.00	217,500.00	(8,576.11)	(8,576.11)	217,500.00
<i>3.2: Development of guidelines and proposals for Procurement Plan and Monitoring and Evaluation Plan</i>	-	-	-	-	-	-	-
<i>3.3: Enhance the operational capacity of WSPUI in procurement, and monitoring and evaluation(training)</i>	6,471.92	6,471.92	16,000.00	16,000.00	(9,528.08)	(9,528.08)	16,000.00
Component 4 - Financial audit of the Grant	-	-	24,000.00	24,000.00	(24,000.00)	(24,000.00)	24,000.00
<i>4.1.: Financial audit of the Grant</i>	-	-	24,000.00	24,000.00	(24,000.00)	(24,000.00)	24,000.00
Total Project Expenditures	573,508.07	573,508.07	729,000.00	729,000.00	(155,491.93)	(155,491.93)	729,000.00

*Grant Project for Preparation of the Irrigation Systems Modernization Project
Special Purpose Financial Statements
For the period from June 01, 2014 to August 19, 2015*

SUMMARY OF SUMMARY REPORTS AND SOEs

Grant Project for Preparation of the Irrigation Systems Modernization Project

ECAPDEV Grant No. TF017003

For the period from 1 June 2014 to 19 August 2015

In USD

Application N	Value date	(1) Consultants' services	(2) Goods	(3) Training	Total
2	29.12.2014	10,291.99	24,039.52	-	34,331.51
3	29.01.2015	98,242.06	-	-	98,242.06
4	02.03.2015	69,633.25	-	-	69,633.25
5	21.05.2015	30,765.72	-	-	30,765.72
6	21.05.2015	61,113.12	-	6,471.92	67,585.04
7	01.07.2015	94,442.25	-	-	94,442.25
8	05.08.2015	80,227.71	-	-	80,227.71
Total		444,716.10	24,039.52	6,471.92	475,227.54

STATEMENT OF DESIGNATED ACCOUNT

Grant Project for Preparation of the Irrigation Systems Modernization Project
ECAPDEV Grant No. TF017003
For the period from 1 June 2014 to 19 August 2015

<u>Designated Account</u>	<u>ECAPDEV Grant No. TF017003</u>
Currency	USD
Account number	900000900176
Bank	Central Treasury 4 Tigran Mets str., 1-st floor, Yerevan, 0010 Republic of Armenia
Location	
	<u>USD</u>
1. Opening balance as at 01.06.2014	-
Add:	
2. Cumulative opening discrepancy	-
3. IBRD advance/replenishment	481,057.58
Less:	
4. Refund to IBRD from DA	-
5. Present outstanding amount advanced to DA	<u>481,057.58</u>
6. DA closing balance as at 19.08.2015	5,830.04
Add:	
7. Amount of eligible expenditures paid	475,227.54
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
10. Total advance/replenishment accounted for	<u>481,057.58</u>
11. Discrepancy (5)-(10)	-

STATEMENT OF FINANCIAL POSITION

*Grant Project for Preparation of the Irrigation Systems Modernization Project
ECAPDEV Grant No TF017003
As at 19 August 2015*

	<u>Note</u>	<u>19.08.2015 USD</u>
ASSETS		
Cash		
Designated account – ECAPDEV Grant No. TF017003 (in USD)		5,830.04
Local currency account – Government of RA (in AMD)		<u>951.59</u>
Total Cash		<u>6,781.63</u>
Cumulative project expenditures	3	573,508.07
Foreign exchange loss		14,749.49
TOTAL ASSETS		<u>595,039.19</u>
FUNDS AND LIABILITIES		
Funds		
ECAPDEV Grant No. TF017003	4.1	481,057.58
Government of the Republic of Armenia	4.2	<u>113,981.61</u>
Total Funds		<u>595,039.19</u>
TOTAL FUNDS AND LIABILITIES		<u>595,039.19</u>

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Grant Project for Preparation of the Irrigation Systems Modernization Project
ECAPDEV Grant No. TF017003
For the period from 1 June 2014 to 19 August 2015*

1. General Information

1.1. Project Financing

The Grant Agreement ECAPDEV Grant No. TF017003 was concluded on 13 May 2014 between the Republic of Armenia and the International Bank for Reconstruction and Development (IBRD), according to which IBRD, acting as an administrator of grant funds under the Multi-donor Europe and Central Asia Capacity Development Trust Fund (ECAPDEV TF) with initial pledge of resources from the Government of Russia, provided a grant in the amount of 495,000 United States Dollars (USD).

The grant is provided for the purpose of “Grant Project Preparation of the Irrigation Systems Modernization Project” in Armenia (the Project).

The Closing Date of the Project was set on 22 June 2015. The Grace Period for submitting withdrawal applications for the expenditures incurred before the Closing date is four months following the Closing date.

1.2. Project objectives

The objective of the Project is to improve project implementation readiness for the Irrigation Systems Modernization Project to be financed by the Anti-Crisis Fund CF of the Eurasian Development Bank and enhance capacity of the Water Projects Implementation Unit (WPIU) under the Ministry of Territorial Administration of Armenia to prepare and implement projects in terms of procurement, monitoring and evaluation.

The Project consists of the following parts:

1. Preparation of a Feasibility study and an Environmental and Social Management Framework for the Irrigation Systems Modernization Project,
2. Development of institutional and technical capability studies of the Water User Associations (WUAs),
3. Preparation of additional project documents for the Irrigation Systems Modernization Project,
4. Financial audit of the Grant.

1.3. Project Budget and Financing

The Project is being financed by the following sources:

- ECAPDEV Grant No. TF017003 -100% of all expenditures, exclusive of taxes,
- The Government of the Republic of Armenia (Government of RoA) – expenditures’ related taxes.

Category	ECAPDEV Grant No. TF017003	Government of RoA	Total
	USD	USD equivalent	USD
1. Consultants' services	450,000.00	219,000.00	669,000.00
2. Goods	23,500.00	4,500.00	28,000.00
3. Training	21,500.00	10,500.00	32,000.00
Total	495,000.00	234,000.00	729,000.00

1.4. Project Implementation

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

The PIU 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 sources and uses of funds,
- Statement of uses of funds by project activity,
- Summary of summary reports and SOEs,
- Statement of designated account,
- Statement of financial position,
- 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 June 01, 2014 is 1 USD = 413.28 AMD

The average exchange rate at currency market issued by the CBA as at August 19, 2015 is 1 USD = 477.62 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 period			Cumulative As at 19.08.2015		
	ECAPDEV Grant No. TF017003	GoA	Total	ECAPDEV Grant No. TF017003	GoA	Total
	USD	USD	USD	USD	USD	USD
(1) Consultants' services	444,927.66	93,061.55	537,989.21	444,927.66	93,061.55	537,989.21
(2) Goods	24,205.78	4,841.16	29,046.94	24,205.78	4,841.16	29,046.94
(3) Training	6,471.92	-	6,471.92	6,471.92	-	6,471.92
Total	475,605.36	97,902.71	573,508.07	475,605.36	97,902.71	573,508.07

4. Financing

4.1. ECAPDEV Grant No. TF017003

	Reporting period USD	As at 19.08.2015 Cumulative USD
Advance	5,830.04	5,830.04
SOE	48,825.97	48,825.97
Summary Report	426,401.57	426,401.57
	481,057.58	481,057.58
Total financing budget		495,000.00
Percentage of finance provided as at August 19, 2015		97%

4.2. Government financing

	Reporting period USD	As at 19.08.2015 Cumulative USD
Contributions	113,981.61	113,981.61
	113,981.61	113,981.61
Total financing budget		234,000.00
Percentage of finance provided as at August 19, 2015		49%

5. Expenditure budget execution

Category	Cumulative Expenditures as at 19.08.2015	Total budget	Execution
	USD	USD	%
(1) Consultants' services	537,989.21	669,000.00	80%
(2) Goods	29,046.94	28,000.00	104%
(3) Training	6,471.92	32,000.00	20%
Total	573,508.07	729,000.00	79%

6. Project completion

The Project was completed as at June 22, 2015 (Closing Date), and the transactions were completed as at August 19, 2015 (the Reporting Date).

A) As at the date of signing these special purpose financial statements:

- No expenditures related to the Project were incurred after the Closing Date; the payments made during the Grace period related to expenditures incurred before the Closing Date;
- No withdrawals from ECAPDEV Grant No. TF017003 were made after Closing date;
- No expenditures related to the Project were submitted to the WB after the Reporting date;
- There were no uncovered prepayments or payables outstanding to contractors related to the Project as at the Reporting Date;
- The cash balance outstanding as at Reporting date consists:

- Balance at Designated account at the amount of USD 5,830,04 to be refunded to WB after paying for final audit service, and
 - Balance at Local currency account at the amount of USD 951.59 for paying taxes for final audit service;
- f. We are not aware about any pending or existing litigations against the Project.

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

*Grant Project for Preparation of the Irrigation Systems Modernization Project
ECAPDEV Grant No. TF017003
For the period from June 01, 2014 to August 19, 2015*

In USD

Category	Appl. N	PIU	WB	Difference
Advance (recovery)	1	100,000.00	100,000.00	
	7	-	(13,942.25)	
	8	-	(80,227.71)	
		100,000.00	5,830.04	
1. Consultants' services	2	10,291.99	10,291.99	-
	3	98,242.06	98,242.06	-
	4	69,633.25	69,633.25	-
	5	30,765.72	30,765.72	-
	6	61,113.12	61,113.12	-
	7	94,442.25	94,442.25	-
	8	80,227.71	80,227.71	-
		444,716.10	444,716.10	
2. Goods	2	24,039.52	24,039.52	-
		24,039.52	24,039.52	
3. Training	6	6,471.92	6,471.92	-
		6,471.92	6,471.92	
Total		575,227.54	481,057.58	