

ADDITIONAL FINANCING FOR THE IRRIGATION SYSTEM ENHANCEMENT PROJECT

IBRD LOAN 8786-AM

IMPLEMENTED BY WATER SECTOR PROJECTS IMPLEMENTATION UNIT  
STATE INSTITUTION

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the period from 18 May 2018 to 31 December 2018

YEREVAN  
April 2019

## TABLE OF CONTENT

	Page
INDEPENDENT AUDITOR'S REPORT.....	3
STATEMENT OF FINANCIAL POSITION.....	5
STATEMENT OF SOURCES AND USES OF FUNDS.....	6
STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY .....	7
SUMMARY OF SUMMARY REPORTS AND SOES.....	8
STATEMENT OF DESIGNATED ACCOUNT .....	9
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS.....	10
ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PIU AND DISBURSED BY THE WORLD BANK .....	15

## 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 "Additional Financing for the Irrigation System Enhancement Project" ("Project") financed by IBRD Loan Agreement 8786-AM dated 20 November 2017 ("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 2018, 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 18 May 2018 to 31 December 2018, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the special purpose financial statements present fairly in all material respects the financial position of the Project as at 31 December 2018, as well as the sources and uses of funds for the period from 18 May 2018 to 31 December 2018 in accordance with the accrual basis of accounting described in the Note 2 accompanying these special purpose financial statements.

### *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- Special purpose framework*

We draw attention to Note 2 to the financial statements, which describes that financial statements are prepared in accordance with special purpose framework, as a result, they may not be suitable for another purposes. Our opinion is not modified in respect of this matter.

### *Emphasis of Matter- Change in Project Implementing Agency*

Without qualifying our opinion, we draw your attention to Note 1.4 of these special purpose financial statements disclosing that change in project implementing agency from 1 July 2019.

### *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.

### ***Report on Other Legal Requirements***

To comply with the terms of the Loan Agreement, the WSPIU management shall insure that:

1. 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;
2. 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 (IFs) issued by WSPIU during the reporting period are in agreement with the underlying books of account;
3. The Designated account used has been maintained in accordance with the provision of the Loan Agreement, and World Bank related guidelines;
4. Works, Goods and Services financed have been procured in accordance with the Loan Agreement and World Bank related guidelines.

In our opinion, the Project management has complied with the above requirements during the period from 18 May 2018 to 31 December 2018.

15 April 2019  
"BDO Armenia" cjsc

  
Vahagn Sahakyan, FCCA  
Managing Partner

  
Gnel Khachatryan, FCCA  
Auditor

STATEMENT OF FINANCIAL POSITION

Additional Financing for the Irrigation System Enhancement Project  
IBRD Loan 8786-AM  
As at 31 December 2018

	Note	31.12.2018 USD
<b>ASSETS</b>		
<b>Cash</b>		
Designated account -IBRD Loan 8786-AM (in USD)		588,609.13
Current account - Government of RA (in AMD)		-
<b>Total Cash</b>		<u>588,609.13</u>
Prepayments	4	195,551.12
Cumulative project expenditures	3	781,551.38
Foreign exchange loss	7	<u>1,351.17</u>
<b>TOTAL ASSETS</b>		<u><u>1,567,062.80</u></u>
<b>FUNDS AND LIABILITIES</b>		
Accounts payable	5	29,493.38
<b>Funds</b>		
IBRD Loan 8786-AM	6.1	1,348,294.47
Government of the RA	6.2	<u>189,274.95</u>
<b>Total Funds</b>		<u>1,537,569.42</u>
<b>TOTAL FUNDS AND LIABILITIES</b>		<u><u>1,567,062.80</u></u>

The special purpose financial statements were approved by the management of Water Sector Projects Implementation Unit State Institution and signed on its behalf on April 15, 2019. The accompanying notes form is an integral part of these special purpose financial statements.

Tigran Kalantaryan  
Deputy Director



Ashkhen Janjughazyan  
Financial Manager



STATEMENT OF SOURCES AND USES OF FUNDS

Additional Financing for the Irrigation System Enhancement Project

IBRD Loan 8786-AM

For the period from 18 May 2018 to 31 December 2018

In USD

	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting period	Cumulative as at 31 Dec.2018	Reporting period	Cumulative as at 31 Dec.2018	Reporting period	Cumulative as at 31 Dec.2018	
<b>Opening Working Capital</b>							
Cash	-	-					
Prepayments	-	-					
Accounts payable	-	-					
<b>Total</b>	-	-					
<b>Sources of Funds</b>							
IBRD Loan 8786-AM	1,348,294.47	1,348,294.47					2,000,000.00
Government of Republic of Armenia	189,274.95	189,274.95					500,000.00
<b>Total</b>	<b>1,537,569.42</b>	<b>1,537,569.42</b>					<b>2,500,000.00</b>
Foreign exchange gain/(loss)	(1,351.17)	(1,351.17)					
<b>Uses of Funds</b>							
(1) Goods, works, non-consulting services, and consulting services, training and operating costs for the Project	776,551.38	776,551.38	2,208,797.15	2,208,797.15	(1,432,245.77)	(1,432,245.77)	2,495,000.00
(2) Front-end Fee	5,000.00	5,000.00	5,000.00	5,000.00	-	-	5,000.00
<b>Total</b>	<b>781,551.38</b>	<b>781,551.38</b>	<b>2,213,797.15</b>	<b>2,213,797.15</b>	<b>(1,432,245.77)</b>	<b>(1,432,245.77)</b>	<b>2,500,000.00</b>
<b>Closing Working Capital</b>							
Cash	588,609.13	588,609.13					
Prepayments	195,551.12	195,551.12					
Accounts payable	(29,493.38)	(29,493.38)					
<b>Total</b>	<b>754,666.87</b>	<b>754,666.87</b>					

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Additional Financing for the Irrigation System Enhancement Project  
 IBRD Loan 8786-AM  
 For the period from 18 May 2018 to 31 December 2018  
 In USD

Project Activities	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting period	Cumulative as at 31 Dec.2018	Reporting period	Cumulative as at 31 Dec.2018	Reporting period	Cumulative as at 31 Dec.2018	
<b>Part A- Irrigation system enhancement</b>	<b>622,543.67</b>	<b>622,543.67</b>	<b>1,966,328.76</b>	<b>1,966,328.76</b>	<b>(1,343,785.09)</b>	<b>(1,343,785.09)</b>	<b>2,000,000.00</b>
A.1: Conversion of pump-based irrigation to gravity irrigation	622,543.67	622,543.67	1,966,328.76	1,966,328.76	(1,343,785.09)	(1,343,785.09)	2,000,000.00
A.2: Upgrading of outlet and other canals conveying pumped water	-	-	-	-	-	-	-
<b>Part B- Management information</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1: Technical investigations	-	-	-	-	-	-	-
B.2: Supervisory control and data acquisition (SCADA) system installation	-	-	-	-	-	-	-
<b>Part C- Project management and WUAs' support</b>	<b>154,007.71</b>	<b>154,007.71</b>	<b>242,468.39</b>	<b>242,468.39</b>	<b>(88,460.68)</b>	<b>(88,460.68)</b>	<b>500,000.00</b>
C.1: Project management	143,875.74	143,875.74	232,336.39	232,336.39	(88,460.65)	(88,460.65)	480,000.00
C.2: WUAs' support	10,131.97	10,131.97	10,132.00	10,132.00	(0.03)	(0.03)	20,000.00
C.2.1: The WUAs' support group	10,131.97	10,131.97	10,132.00	10,132.00	(0.03)	(0.03)	20,000.00
C.2.2: Capacity building of WUAs' executive bodies	-	-	-	-	-	-	-
C.2.3: Awareness raising and communication activities	-	-	-	-	-	-	-
<b>Project expenditures</b>	<b>776,551.38</b>	<b>776,551.38</b>	<b>2,208,797.15</b>	<b>2,208,797.15</b>	<b>(1,432,245.77)</b>	<b>(1,432,245.77)</b>	<b>2,500,000.00</b>
Front- end Fee	5,000.00	5,000.00	5,000.00	5,000.00	-	-	-
<b>Total Project Expenditures</b>	<b>781,551.38</b>	<b>781,551.38</b>	<b>2,213,797.15</b>	<b>2,213,797.15</b>	<b>(1,432,245.77)</b>	<b>(1,432,245.77)</b>	<b>2,500,000.00</b>

SUMMARY OF SUMMARY REPORTS AND SOES

*Additional Financing for the Irrigation System Enhancement Project  
IBRD Loan 8786-AM  
For the period from 18 May 2018 to 31 December 2018  
In USD*

Application N	Application value date	(1) Goods, works, non-consulting services, and consulting services, training and operating costs for the Project	Total
2	22 Oct 2018	343,294.47	343,294.47
<b>Total</b>		<b>343,294.47</b>	<b>343,294.47</b>



## STATEMENT OF DESIGNATED ACCOUNT

*Additional Financing for the Irrigation System Enhancement Project  
IBRD Loan 8786-AM  
For the period from 18 May 2018 to 31 December 2018*

<u>Designated Account</u>	<u>IBRD Loan 8786-AM</u>
Currency	USD
Account number	900000906132
Bank	Central Treasury 1 Meliq-Adamyanyan str., Yerevan, 0010
Location	Republic of Armenia
	<i>For the period from 18.05.2018 to 31.12.2018 USD</i>
<b>1. Opening balance</b>	-
Add:	
2. Cumulative opening discrepancy	-
3. IBRD advance/replenishment	1,343,294.47
Less:	
4. Refund to IBRD from DA	-
<b>5. Present outstanding amount advanced to DA</b>	<u>1,343,294.47</u>
6. DA closing balance as at 31.12.2018	588,609.13
Add:	
7. Amount of eligible expenditures paid	754,685.34
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
<b>10.Total advance/replenishment accounted for</b>	<u>1,343,294.47</u>
11. Discrepancy (5)-(10)	-

## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

*Additional Financing for the Irrigation System Enhancement Project  
IBRD Loan 8786-AM  
For the period from 18 May 2018 to 31 December 2018*

### 1. General Information

#### 1.1. Project Financing

According to the Loan Agreement 8786-AM dated 20 November 2017 concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD), IBRD provided financing in the amount of 2,000,000 United States dollars (USD) for the implementation of "Additional Financing for the Irrigation System Enhancement Project" (the Project).

The Project financing agreement became effective on 18 May 2018.

The Closing date for the expenditures to be financed by the Loan is set on June 30, 2019. The Grace period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing date: October 30, 2019.

#### 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, and consulting services, training and operating costs for the Project.

Category	IBRD 8786-AM	Government of RA	Total
	USD	USD	USD
1. Goods, works, non-consulting services, and consulting services, training and operating costs for the Project	1,995,000	500,000	2,495,000
2. Front-end fee	5,000	-	5,000
<b>Total</b>	<b>2,000,000</b>	<b>500,000</b>	<b>2,500,000</b>

#### 1.4. Project Implementation

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

The WSPIU legal address is: Vardanants blind alley 8, Yerevan 0010, Republic of Armenia.

The activities of WSPIU is suspended from 1 July 2019 in accordance with the Government of Republic of Armenia (RoA) Decree No. 170-N of February 28, 2019. Instead of WSPIU the Project will be implemented by the Ministry of Energy Infrastructure and Natural Resources of the RoA through the structural subdivision.



## 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 occurs (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 2018 is 1 USD =483.75 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	18.05.2018 - 31.12.2018			Cumulative As at 31.12.2018		
	IBRD Loan 8786-AM USD	GoA USD	Total USD	IBRD Loan 8786-AM USD	GoA USD	Total USD
(1) Goods, works, non-consulting services, and consulting services, training and operating costs for the Project	621,231.19	155,320.19	776,551.38	621,231.19	155,320.19	776,551.38
(2) Front- end fee	5,000.00	-	5,000.00	5,000.00	-	5,000.00
<b>Total</b>	<b>626,231.19</b>	<b>155,320.19</b>	<b>781,551.38</b>	<b>626,231.19</b>	<b>155,320.19</b>	<b>781,551.38</b>



#### 4. Prepayments

	As at 31.12.2018 USD
Works of the Project	194,959.75
Operating costs of the Project	591.37
<b>Total</b>	<b>195,551.12</b>

#### 5. Payables

	As at 31.12.2018 USD
Works of the Project	29,493.38
<b>Total</b>	<b>29,493.38</b>

#### 6. Financing

##### 6.1. IBRD Loan 8786-AM financing

	Reporting period USD	As at 31.12.2018 Cumulative USD
Advance	1,000,000.00	1,000,000.00
Reimbursement-SOE procedure	343,294.47	343,294.47
Front-end fee	5,000.00	5,000.00
	<b>1,348,294.47</b>	<b>1,348,294.47</b>
Total financing budget		2,000,000.00
Percentage of finance provided as at 31 Dec 2018		67%

##### 6.2. Government financing

	Reporting period USD	As at 31.12.2018 Cumulative USD
Contributions	189,274.95	189,274.95
	<b>189,274.95</b>	<b>189,274.95</b>
Total financing budget		500,000.00
Percentage of finance provided as at 31 Dec 2018		38%

#### 7. Foreign exchange gain/(loss)

	As at 31.12.2018 USD
Translation of payables	(759.76)
Translation of cash balances	(591.41)
	<b>(1,351.17)</b>

8. Expenditure budget execution

Category	Cumulative Expenditures as at 31 Dec 2018	Total budget	Execution
	USD	USD	%
1. Goods, works, non-consulting services, and consulting services, training and operating costs for the Project	776,551.38	2,495,000.00	31%
2. Front-end fee	5,000.00	5,000.00	100%
<b>Total</b>	<b>781,551.38</b>	<b>2,500,000.00</b>	<b>31%</b>



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

Additional Financing for the Irrigation System Enhancement Project  
 IBRD Loan 8786-AM  
 For the period from 18 May 2018 to 31 December 2018  
 In USD

Category	Appl. N	PIU	WB	Difference
Advance(recovery)	1A	1,000,000.00	1,000,000.00	-
		1,000,000.00	1,000,000.00	
(1) Goods, works, non-consulting services, and consulting services, training and operating costs for the Project	2	343,294.47	343,294.47	-
		343,294.47	343,294.47	
(2) Front end fee		5,000.00	5,000.00	
<b>Total</b>		<b>1,348,294.47</b>	<b>1,348,294.47</b>	