

IRRIGATION SYSTEM MODERNIZATION PROJECT

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

**Special Purpose Financial Statements
and
Independent Auditor's Report**

For the period from June 10, 2016 to December 31, 2017

**YEREVAN
June 2018**

IRRIGATION SYSTEM MODERNIZATION PROJECT

EDB CREDIT

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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 Modernization Project" ("Project") financed by Credit Agreement signed in October 16, 2015 between the Republic of Armenia and Eurasian Development Bank ("Financing Agreement"), and implemented by the "Water Sector Projects Implementation Unit" State Institution (WSPIU), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activity for the period from June 10, 2016 to December 31, 2017, 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 cash receipts and payments of the Project for the period from June 10, 2016 to December 31, 2017 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis);
2. funds have been used in accordance with the conditions of the Financing Agreement, 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 Financing Agreement; Interim Unaudited Financial Reports (IFRs) issued by WSPIU during the Reporting year are in agreement with the underlying books of accounts;
4. the Special account used has been maintained in accordance with the provision of the Financing Agreement, and World Bank related guidelines.
5. goods and services financed have been procured in accordance with the Financing 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- Cash Basis of Accounting

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

Management's Responsibility for the Special Purpose Financial Statements

The management of WSPIU is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with IPSAS-Cash Basis issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC), 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 judgement 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 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.

1 June 2018
"BDO Armenia" cjsc


Vahagn Sahakyan, FCCA
Managing Partner


Nazik Chitchyan
Auditor



Irrigation System Modernization Project
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Statement of cash receipts and payments

For the period from June 10, 2016 to December 31, 2017
(Amounts are shown in USD)

	Actual		Planned		Variance		PAD
	Reporting period	Cumulative as at 31 Dec 2017	Reporting period	Cumulative as at 31 Dec 2017	Reporting period	Cumulative as at 31 Dec 2017	
OPENING CASH BALANCE							
Special Account (EDB Credit)	-	-					
Project Account (GOA)	-	-					
Sources of Funds							
EDB Credit							
Government of RoA	10.1 5,237,474.32	5,237,474.32					
	10.2 49,432.52	49,432.52					
TOTAL FUNDS							
Foreign currency gain/(loss)	5,286,906.84	5,286,906.84					
	(1,498.27)	(1,498.27)					
Uses of funds							
9							
1. Goods, works, services, trainings, and PIU operating costs	475,950.26	475,950.26	483,317.30	483,317.30	(7,367.04)	(7,367.04)	40,000,000.00
2. Taxes and other Mandatory Payments	47,934.25	47,934.25	97,697.53	97,697.53	(49,763.28)	(49,763.28)	10,000,000.00
3. Co-financing of the civil works part 3 of the project	-	-	-	-	-	-	-
TOTAL PROJECT EXPENDITURES							
	523,884.51	523,884.51	581,014.83	581,014.83	(57,130.32)	(57,130.32)	50,000,000.00
CLOSING CASH BALANCE							
6							
Special Account (EDB Credit)	4,761,524.06	4,761,524.06					
Project Account (GOA)	-	-					
TOTAL CLOSING CASH							
	4,761,524.06	4,761,524.06					

Feliks Melikyan
Acting Director

1 June 2018

Ashkhen Janjughazyan
Financial manager

The notes on pages 7-12 form an integral part of these special purpose project financial statements.

Irrigation System Modernization Project
EDB CREDIT

Statement of uses of funds by Project activity
For the period from June 10, 2016 to December 31, 2017
(Amounts are shown in USD)

Component	Actual		Planned		Variance		PAD
	Reporting period	Cumulative as at 31 Dec 2017	Reporting period	Cumulative as at 31 Dec 2017	Reporting period	Cumulative as at 31 Dec 2017	
Component 1. Conversion of pump-based irrigation to gravity	51,736.53	51,736.53	52,709.51	52,709.51	(972.98)	(972.98)	11,880,000.00
Component 2. Rehabilitation of main and secondary canals	274,413.25	274,413.25	305,861.65	305,861.65	(31,448.40)	(31,448.40)	12,040,000.00
Component 3. Upgrading of on-farm irrigation networks of WUAs	124,611.98	124,611.98	143,826.52	143,826.52	(19,214.54)	(19,214.54)	20,260,000.00
Component 4. Project management. Development of institution capacities of WUAs and establishment of pilot WUA Federations	73,122.75	73,122.75	78,617.15	78,617.15	(5,494.40)	(5,494.40)	5,820,000.00
Total Project Expenditure	523,884.51	523,884.51	581,014.83	581,014.83	(57,130.32)	(57,130.32)	50,000,000.00

Feliks Melikyan
Acting Director

[Signature]

Ashkhen Janjughazyan
Financial manager

[Signature]



1 June 2018

The notes on pages 7-12 form an integral part of these special purpose project financial statements.

Irrigation System Modernization Project
EDB CREDIT

Notes to the special purpose financial statements
For the period from June 10, 2016 to December 31, 2017

1. General information

1.1. The Project

On 16 October 2015 between the Republic of Armenia and the Eurasian Development Bank (EDB) was concluded Credit Agreement, according to which EDB provided a credit to the Republic of Armenia in the amount of 40,000,000 USD.

The Credit is provided for the implementation of "Irrigation System Modernization Project" (the Project).

The Project Effective Date is June 10, 2016. The Completion Date in accordance to General Agreement (annex 2) is June 30, 2021.

1.2. The Project objectives

The objectives of the Project are to:

- (i) increase the efficiency of irrigation systems;
- (ii) enlarge the irrigated area;
- (iii) develop the managerial potential and increase the technical equipment of WUA, establishment of WUA Federations.

The Project consists of the following components:

Component 1. Conversion of pump-based irrigation to gravity;
Component 2. Rehabilitation of main and secondary canals;
Component 3. Upgrading of on-farm irrigation networks of WUAs;
Component 4. Project management. Development of institution capacities of WUAs and establishment of pilot WUA Federations.

1.3. The Project Budget and Financing

The Project is being financed by the following sources:

- EDB Credit - 100% of all expenditures, exclusive of taxes,
- The Government of the Republic of Armenia (Government of RA) - expenditures related taxes,
- Communities - 10% of civil works contracts under part 3 of the project.

Category	EDB Credit	Government of the RA	Community	Total
	USD	USD	USD	USD
1. Goods, works, services, trainings, and PIU operating costs	40,000,000.00	-	-	40,000,000.00
2. Taxes and other Mandatory Payments	-	10,000,000.00	-	10,000,000.00
3. Co-financing of the civil works part 3 of the project	-	-	1,600,000.00	1,600,000.00
Total	40,000,000.00	10,000,000.00	1,600,000.00	51,600,000.00

1.4. Project Implementation

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

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

2. Summary of significant accounting policies

2.1. Preparation and presentation of financial statements

The special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting* (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC).

The principal accounting policies applied in the preparation of these special purpose financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.2. Cash basis of accounting

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of project funds when the payments are made.

2.3. Reporting currency

The reporting currency of these special purpose financial statements is USD. The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into USD based at the exchange rate defined by the Central Bank of the Republic of Armenia (CBA) at the date of the transaction. The effect of exchange rate changes on cash held on local currency is reported as separate line item in the statement of cash receipts and payments.

The average exchange rate at currency market issued by the CBA as at 31 December 2017 is 1 USD = 484.10 AMD

2.4. Taxes

Taxes are paid in accordance with the tax regulations of the Republic of Armenia.

2.5. Budget

Expenditure budget is created based on actual accumulated expenditures for the last period plus the updated annual budget for the reporting period.

Irrigation System Modernization Project
EDB CREDIT

Notes to the special purpose financial statements
For the period from June 10, 2016 to December 31, 2017

3. Summary of Summary Reports and SOEs

For the period from June 10, 2016 to December 31, 2017

Application N	Application value date	(1) Goods, works, services, trainings, and PIU operating costs (USD)	Total
2	04.08.2017	82,390.17	82,390.17
3	23.10.2017	155,084.15	155,084.15
Total		237,474.32	237,474.32

4. Statement of Special Account

Bank account number	900000901794
Bank	Central Treasury
Bank location	4 Tigran Mets str., 1-st floor, Yerevan, 0010 Republic of Armenia
Currency	USD

	EDB Credit
	For the period from June 10, 2016 to December 31, 2017
1. Opening balance	-
2. Add: opening discrepancy	-
3. EDB advance/replenishment	5,237,474.32
4. Less: Refund to EDB from SA	-
5. Present outstanding amount advanced to SA	5,237,474.32
6. SA closing balance as at 31.12.2017	4,761,524.06
7. Add: Amount of eligible expenditures paid	475,950.26
8. Less: interest earned (if credited to SA)	-
9. Total advance accounted for	5,237,474.32
10. Closing discrepancy (5)-(9)	-

Notes to the special purpose financial statements
For the period from June 10, 2016 to December 31, 2017

5. Statement of Financial Position

The Statement of Financial Position discloses assets, liabilities and net assets of the Project as at reporting date. It is prepared in accrual basis that is transactions are recognized when they occur (and not only when cash is received or paid).

	note	31.12.2017 USD
ASSETS		
Cash	6	4,761,524.06
Prepayments	7	264,662.92
Total assets		5,026,186.98
LIABILITIES		
Payables	8	10,531.96
Total liabilities		10,531.96
NET ASSETS		
Cumulative income		
EDB Credit	10.1	5,237,474.32
Government of RA	10.2	49,432.52
		5,286,906.84
Cumulative expenses		
Project expenses		(269,533.17)
		(269,533.17)
Foreign exchange gain/(loss)		(1,718.65)
Total net assets		5,015,655.02

6. Cash

	Account held at	Underlying Currency	31.12.2017 USD
Special account (EDB Credit)	Treasury	USD	4,761,524.06
Total			4,761,524.06

7. Prepayments

	31.12.2017
	USD
Civil Works (a)	152,595.51
Consulting services	112,067.41
Total	264,662.92

(a) Prepayments were provided in the amount of 20% of the corresponding construction contract price. Prepayments were secured by Bank Guarantees.

8. Payables

	31.12.2017
	USD
Civil Works (warranty amounts) (a)	9,271.90
Consulting Services	1,260.06
	10,531.96

(a) Post warranty amounts are retained at 5% (according to the contract conditions).

9. Project Expenditures

9.1 Project expenditures financing per funds

Expenditure category	Reporting period			Cumulative As at 31 Dec 2017		
	EDB Credit	Government of RA	Total	EDB Credit	Government of RA	Total
	USD	USD	USD	USD	USD	USD
1. Goods, works, services, trainings, and PIU operating costs	475,950.26	-	475,950.26	475,950.26		475,950.26
2. Taxes and other Mandatory Payments	-	47,934.25	47,934.25		47,934.25	47,934.25
3. Co-financing of the civil works part 3 of the project	-	-	-	-	-	-
Total	475,950.26	47,934.25	523,884.51	475,950.26	47,934.25	523,884.51

9.2 Project expenditure budget execution

Expenditure category	Cumulative Expenditures as at 31 Dec 2017	Total budget	Execution
	USD	USD	%
1. Goods, works, services, trainings, and PIU operating costs	475,950.26	40,000,000.00	1%
2. Taxes and other Mandatory Payments	47,934.25	10,000,000.00	0.5%
3. Co-financing of the civil works part 3 of the project	-	1,600,000.00	-
Total	523,884.51	51,600,000.00	1%

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Notes to the special purpose financial statements
For the period from June 10, 2016 to December 31, 2017

10. Financing

10.1 EDB Credit

	Reporting period USD	Cumulative as at 31 Dec 2017 USD
Advances/ (advance recovery)	5,000,000.00	5,000,000.00
SOE and Summary Report	237,474.32	237,474.32
Total	5,237,474.32	5,237,474.32
Total financing budget		40,000,000.00
Percentage of finance provided as at 31 Dec 2017		13%

10.2 Government of RoA

	Reporting period USD	Cumulative as at 31 Dec 2017 USD
Financed	49,432.52	49,432.52
Total financing budget		10,000,000.00
Percentage of finance provided as at 31 Dec 2017		0.5%

11. Events after the reporting date

The Project expenditures for the reporting period at the total amount of USD 238,475.94 registered at the application # 4 were submitted to EDB on 22 January 2018 and approved on 29 January 2018.

Irrigation System Modernization Project
EDB CREDIT

ANNEX 1. RECONCILIATION BETWEEN THE AMOUNTS SUBMITTED BY THE PROJECT AND
DISBURSED BY THE EDB

For the period from June 10, 2016 to December 31, 2017

(Amounts are shown in USD)

Expenditure Category	Appl.	Project	EDB	Difference
Advance	1	5,000,000.00	5,000,000.00	-
		5,000,000.00	5,000,000.00	
1. Goods, works, services, trainings, and PIU operating costs	2	82,390.17	82,390.17	-
	3	155,084.15	155,084.15	-
		237,474.32	237,474.32	
Total		5,237,474.32	5,237,474.32	