

IRRIGATION SYSTEM MODERNIZATION PROJECT

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

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

for the year ended 31 December 2018

**YEREVAN
May 2019**

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 year ended 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 cash receipts and payments of the Project for the year ended 31 December 2018 in accordance with International Public Sector Accounting Standard: *Financial Reporting Under the Cash Basis of Accounting*, (IPSAS-Cash Basis).

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.

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 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 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 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;
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 Financing Agreement; Interim Unaudited Financial Reports (IFRs) issued by WSPIU during the Reporting year are in agreement with the underlying books of accounts;
3. the Special account used has been maintained in accordance with the provision of the Financing Agreement, and World Bank related guidelines.
4. goods and services financed have been procured in accordance with the Financing Agreement and World Bank related guidelines.

In our opinion, the WSPIU management has complied with the above requirements during the year ended 31 December 2018.

30 May 2019
"BDO Armenia" cjsc



Vahagn Sahakyan, FCCA
Managing Partner

Armine Voskanyan
Auditor

Irrigation System Modernization Project
EDB CREDIT

Statement of cash receipts and payments
For the year 31 December 2018
(Amounts are shown in USD)

	Actual		Planned		Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2018	Reporting year	Cumulative as at 31 Dec 2018	Reporting year	Cumulative as at 31 Dec 2018	
OPENING CASH BALANCE							
Special Account (EDB Credit)	4,761,524.06	-					
Project Account (GOA)	-	-					
Sources of Funds	4,761,524.06						
EDB Credit	1,037,754.08	6,275,228.40					
Government of RoA	281,570.75	331,003.27					
TOTAL FUNDS	1,319,324.83	6,606,231.67					
Foreign currency loss	(1,086.39)	(2,584.66)					
Uses of funds	9						
1. Goods, works, services, trainings, and PIU operating costs	1,124,242.03	1,600,192.29	3,819,447.98	4,295,398.24	(2,695,205.95)	(2,695,205.95)	40,000,000.00
2. Taxes and other Mandatory Payments	280,484.36	328,418.61	390,284.12	438,218.37	(109,799.76)	(109,799.76)	10,000,000.00
3. Co-financing of the civil works part 3 of the project	-	-	-	-	-	-	-
TOTAL PROJECT EXPENDITURES	1,404,726.39	1,928,610.90	4,209,732.10	4,733,616.61	(2,805,005.71)	(2,805,005.71)	50,000,000.00
CLOSING CASH BALANCE	6						
Special Account (EDB Credit)	4,675,036.11	4,675,036.11					
Project Account (GOA)	-	-					
TOTAL CLOSING CASH	4,675,036.11	4,675,036.11					

M. G.

Mamikon Gasparyan
Deputy Director

30 May 2019

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



Ashkhen Janjughazyan

Ashkhen Janjughazyan
Financial manager

Irrigation System Modernization Project
EDB CREDIT
Statement of uses of funds by Project activity
For the year 31 December 2018
(Amounts are shown in USD)

Component	Actual		Planned		Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2018	Reporting year	Cumulative as at 31 Dec 2018	Reporting year	Cumulative as at 31 Dec 2018	
Component 1. Conversion of pump-based irrigation to gravity	208,016.47	259,753.00	623,390.87	675,127.40	(415,374.40)	(415,374.40)	11,880,000.00
Component 2. Rehabilitation of main and secondary canals	649,443.31	923,856.56	1,946,273.93	2,220,687.18	(1,296,830.62)	(1,296,830.62)	12,040,000.00
Component 3. Upgrading of on-farm irrigation networks of WUAs	466,757.11	591,369.09	1,398,793.67	1,523,405.65	(932,036.56)	(932,036.56)	20,260,000.00
Component 4. Project management. Development of institution capacities of WUAs and establishment of pilot WUA Federations	80,509.50	153,632.25	241,273.62	314,396.37	(160,764.12)	(160,764.12)	5,820,000.00
Total Project Expenditure	1,404,726.39	1,928,610.90	4,209,732.10	4,733,616.61	(2,805,005.71)	(2,805,005.71)	50,000,000.00



(Signature)
Mamikon Gasparyan
Deputy Director

(Signature)
Ashkhen Janjughazyan
Financial manager

30 May 2019

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

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.

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. The functions of the institution will be continued by the Ministry of Energy Infrastructure and Natural Resources RA through the main professional structural subdivision - Project Implementation Department.

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

The average exchange rate at currency market issued by the CBA as at 31 December 2018 is 1 USD =483.75 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.

3. Summary of Summary Reports and SOEs

For the year ended December 31, 2018

Application N	Application value date	(1) Goods, works, services, trainings, and PIU operating costs (USD)	Total
4	29.01.2018	238,475.94	238,475.94
5	27.04.2018	311,345.98	311,345.98
6	25.07.2018	187,139.32	187,139.32
7	30.10.2018	300,792.84	300,792.84
Total		1,037,754.08	1,037,754.08

4. Statement of Special Account

Bank account number 900000901794
 Bank Central Treasury
 Bank location 1 Meliq-Adamyany, Yerevan, 0010
 Republic of Armenia
 Currency USD

	EDB Credit
	2018
1. Opening balance	4,761,524.06
2. Add: opening discrepancy	-
3. EDB advance/replenishment	1,037,754.08
4. Less: Refund to EDB from SA	-
5. Present outstanding amount advanced to SA	5,799,278.14
6. SA closing balance as at 31.12.2018	4,675,036.11
7. Add: Amount of eligible expenditures paid	1,124,242.03
8. Less: interest earned (if credited to SA)	-
9. Total advance accounted for	5,799,278.14
10. Closing discrepancy (5)-(9)	-

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	31.12.2018 USD	31.12.2017 USD
ASSETS			
Cash	6	4,675,036.11	4,761,524.06
Prepayments	7	33,015.75	264,662.92
Total assets		4,708,051.86	5,026,186.98
LIABILITIES			
Payables	8	42,287.07	10,531.96
Total liabilities		42,287.07	10,531.96
NET ASSETS			
Cumulative income			
EDB Credit	10.1	6,275,228.40	5,237,474.32
Government of RA	10.2	331,003.27	49,432.52
		6,606,231.67	5,286,906.84
Cumulative expenses			
Project expenses		(1,936,384.97)	(269,533.17)
		(1,936,384.97)	(269,533.17)
Foreign exchange gain/(loss)		(4,081.91)	(1,718.65)
Total net assets		4,665,764.79	5,015,655.02

6. Cash

	Account held at	Underlying Currency	31.12.2018 USD	31.12.2017 USD
Special account (EDB Credit)	Treasury	USD	4,675,036.11	4,761,524.06
Total			4,675,036.11	4,761,524.06

7. Prepayments

	31.12.2018 USD	31.12.2017 USD
Civil Works (a)	-	152,595.51
Consulting services	32,740.56	112,067.41
Operating costs	275.19	-
Total	33,015.75	264,662.92

8. Payables

	31.12.2018 USD	31.12.2017 USD
Civil Works	41,612.35	9,271.90
Consulting services	674.72	1,260.06
Total	42,287.07	10,531.96

9. Project Expenditures

9.1 Project expenditures financing per funds

Expenditure category	Reporting year			Cumulative As at 31 Dec 2018		
	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	1,124,242.03	-	1,124,242.03	1,600,192.29	-	1,600,192.29
2. Taxes and other Mandatory Payments	-	280,484.36	280,484.36	-	328,418.61	328,418.61
3. Co-financing of the civil works part 3 of the project	-	-	-	-	-	-
Total	1,124,242.03	280,484.36	1,404,726.39	1,600,192.29	328,418.61	1,928,610.90

9.2 Project expenditure budget execution

Expenditure category	Cumulative Expenditures as at 31 Dec 2018	Total budget	Execution
	USD	USD	%
1. Goods, works, services, trainings, and PIU operating costs	1,600,192.29	40,000,000.00	4%
2. Taxes and other Mandatory Payments	328,418.61	10,000,000.00	3%
3. Co-financing of the civil works part 3 of the project	-	1,600,000.00	-
Total	1,928,610.90	51,600,000.00	4%

10. Financing

10.1 EDB Credit

	Reporting period USD	Cumulative as at 31 Dec 2018 USD
Advances/ (advance recovery)	-	5,000,000.00
SOE and Summary Report	1,037,754.08	1,275,228.40
Total	1,037,754.08	6,275,228.40
Total financing budget		40,000,000.00
Percentage of finance provided as at 31 Dec 2018		16%

10.2 Government of RoA

	Reporting period USD	Cumulative as at 31 Dec 2018 USD
Financed	281,570.75	331,003.27
Total financing budget		10,000,000.00
Percentage of finance provided as at 31 Dec 2018		3%

11. Events after the reporting date

The Project expenditures for the reporting period at the total amount of USD 324,963.89 registered at the application # 8 were submitted to EDB on 23 January 2019 and approved on 29 January 2019.

Irrigation System Modernization Project
EDB CREDIT

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

For the year 31 December 2018

(Amounts are shown in USD)

Expenditure Category	Appl.	Project	EDB	Difference
1. Goods, works, services, trainings, and PIU operating costs	4	238,475.94	238,475.94	-
	5	311,345.98	311,345.98	-
	6	187,139.32	187,139.32	-
	7	300,792.84	300,792.84	-
Total		1,037,754.08	1,037,754.08	-