

IRRIGATION SYSTEM MODERNIZATION

EDB GRANT

## IRRIGATION SYSTEM MODERNIZATION PROJECT

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## IRRIGATION SYSTEM MODERNIZATION PROJECT

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## INDEPENDENT AUDITOR'S REPORT

To the management of "Irrigation System Modernization Project" ("Project")

### *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 Armenian Territorial Development Fund (ATDF) through its "Water Sector Projects Implementation Branch" (WS PIB), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activity for the year ended 31 December 2019, 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 2019 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 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 14 January 2020.

### *Emphasis of Matter -COVID-19*

Without qualifying our opinion, we draw attention to Note 11 to the financial statements, which describes possible effect of the impact of COVID-19 after the reporting date.

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

The management of the Project 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 Project 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 Project management 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 Project management has complied with the above requirements during the year ended 31 December 2019.

3 June 2020  
"BDO Armenia" cjsc

Vahagn Sahakyan, FCCA  
Managing Partner

Gnel Khachatryan, FCCA  
Engagement partner





Irrigation System Modernization Project  
EDB CREDIT  
Statement of cash receipts and payments  
For the year 31 December 2019  
(Amounts are shown in USD)

3 June 2020

	Actual		Planned	Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2019	Reporting year	Cumulative as at 31 Dec 2019	Reporting year	
<b>OPENING CASH BALANCE</b>						
Special Account (EDB Credit)	4,675,036.11	-				
Project Account (GOA)	-	-				
Project Account (Community)	-	-				
	<b>4,675,036.11</b>	<b>-</b>				
<b>Sources of Funds</b>						
EDB Credit	3,211,444.71	9,486,673.11				
Government of RoA	520,028.33	851,031.60				
Community	279,694.59	279,694.59				
<b>TOTAL FUNDS</b>	<b>4,011,167.63</b>	<b>10,617,399.30</b>				
Foreign currency loss	(337.36)	(2922.02)				
<b>Uses of funds</b>						
1. Goods, works, services, trainings, and PIU operating costs	3,301,151.46	4,901,343.75	4,730,575.10	6,330,767.39	(1,429,423.64)	40,000,000.00
2. Taxes and other Mandatory Payments	520,394.21	848,812.82	910,179.00	1,238,597.61	(389,784.79)	10,000,000.00
3. Co-financing of the civil works part 3 of the project	-	-	-	-	-	-
<b>TOTAL PROJECT EXPENDITURES</b>	<b>3,821,545.67</b>	<b>5,750,156.57</b>	<b>5,640,754.10</b>	<b>7,569,365.00</b>	<b>(1,819,208.43)</b>	<b>50,000,000.00</b>
<b>CLOSING CASH BALANCE</b>						
Special Account (EDB Credit)	4,585,329.36	4,585,329.36				
Project Account (GOA)	-	-				
Project Account (Community)	278,991.35	278,991.35				
<b>TOTAL CLOSING CASH</b>	<b>4,864,320.71</b>	<b>4,864,320.71</b>				

25.0



amikon Gasparyan  
Deputy Director of the ATDF - Branch Director

Narine Keryan  
ATDF Branch Chief Accountant

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



Statement of uses of funds by Project activity  
For the year 31 December 2019  
(Amounts are shown in USD)

Component	Actual		Planned		Variance		PAD
	Reporting year	Cumulative as at 31 Dec 2019	Reporting year	Cumulative as at 31 Dec 2019	Reporting year	Cumulative as at 31 Dec 2019	
Component 1. Conversion of pump-based irrigation to gravity	2,611,893.43	2,871,646.43	3,855,259.06	4,115,012.06	(1,243,365.63)	(1,243,365.63)	11,880,000.00
Component 2. Rehabilitation of main and secondary canals	958,788.30	1,882,644.86	1,415,209.84	2,339,066.40	(456,421.54)	(456,421.54)	12,040,000.00
Component 3. Upgrading of on-farm irrigation networks of WUAs	125,526.25	716,895.34	185,281.76	776,650.85	(59,755.51)	(59,755.51)	20,260,000.00
Component 4. Project management. Development of institution capacities of WUAs and establishment of pilot WUA Federations	125,337.69	278,969.94	185,003.44	338,635.69	(59,665.75)	(59,665.75)	5,820,000.00
<b>Total Project Expenditure</b>	<b>3,821,545.67</b>	<b>5,750,156.57</b>	<b>5,640,754.10</b>	<b>7,569,365.00</b>	<b>(1,819,208.43)</b>	<b>(1,819,208.43)</b>	<b>50,000,000.00</b>



*Narine Keryan*  
Narine Keryan  
ATDF Branch Chief Accountant

*Mamikon Gasparyan*  
Mamikon Gasparyan  
Deputy Director of the ATDF - Branch Director

3 June 2020

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
<b>Total</b>	<b>40,000,000.00</b>	<b>10,000,000.00</b>	<b>1,600,000.00</b>	<b>51,600,000.00</b>



#### **1.4. Project Implementation**

Until 30 December 2019, the Project was implemented by "Water Sector Projects Implementation Unit" State Agency (the WSPIU) of the Water Committee of the Ministry of Territorial Administration and Infrastructure of the RA.

The activities of the WSPIU were terminated from December 30, 2019 in accordance with the RA Government Decree No. 170-N of February 28, 2019. Further implementation of the ongoing Projects will be continued by the Armenian Territorial Development Fund (ATDF WSPB) through its structural subdivision. For that purpose, upon the decision of the ATDF Board of Trustees, Water Sector Projects Implementation Branch of the Armenian Territorial Development Fund was established on January 14, 2020.

The ATDF WSPB'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 2018 is 1 USD =483.75 AMD

The average exchange rate at currency market issued by the CBA as at 31 December 2019 is 1 USD =479.70 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, 2019

Application N	Application value date	(1) Goods, works, services, trainings, and PIU operating costs	Total
		(USD)	(USD)
8	29.01.2019	324,963.89	324,963.89
9	24.05.2019	1,450,565.11	1,450,565.11
10	02.08.2019	1,178,216.33	1,178,216.33
11	20.12.2019	257,699.38	257,699.38
<b>Total</b>		<b>3,211,444.71</b>	<b>3,211,444.71</b>

### 4. Statement of Special Account

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

	EDB Credit
	2019
1. Opening balance	4,675,036.11
2. Add: opening discrepancy	-
3. EDB advance/replenishment	3,211,444.71
4. Less: Refund to EDB from SA	-
<b>5. Present outstanding amount advanced to SA</b>	<b>7,886,480.82</b>
6. SA closing balance as at 31.12.2019	4,585,329.36
7. Add: Amount of eligible expenditures paid	3,301,151.46
8. Less: interest earned (if credited to SA)	-
<b>9. Total advance accounted for</b>	<b>7,886,480.82</b>
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	31.12.2019 USD	31.12.2018 USD
<b>ASSETS</b>			
Cash	6	4,864,320.71	4,675,036.11
Prepayments	7	753,165.26	33,015.75
<b>Total assets</b>		<b>5,617,485.97</b>	<b>4,708,051.86</b>
<b>LIABILITIES</b>			
Payables	8	363,399.95	42,287.07
<b>Total liabilities</b>		<b>363,399.95</b>	<b>42,287.07</b>
<b>NET ASSETS</b>			
<b>Cumulative income</b>			
EDB Credit	10.1	9,486,673.11	6,275,228.40
Government of RA	10.2	851,031.60	331,003.27
Community	10.3	279,694.59	-
		<b>10,617,399.30</b>	<b>6,606,231.67</b>
<b>Cumulative expenses</b>			
Project expenses		(5,366,868.37)	(1,936,384.97)
		<b>(5,366,868.37)</b>	<b>(1,936,384.97)</b>
Foreign exchange gain/(loss)		3,555.09	(4,081.91)
<b>Total net assets</b>		<b>5,254,086.02</b>	<b>4,665,764.79</b>

## 6. Cash

	Account held at	Underlying Currency	31.12.2019 USD	31.12.2018 USD
Special account (EDB Credit )	Treasury	USD	4,585,329.36	4,675,036.11
Project account (community)	Treasury	AMD	278,991.35	-
<b>Total</b>			<b>4,864,320.71</b>	<b>4,675,036.11</b>

## 7. Prepayments

	31.12.2019 USD	31.12.2018 USD
Civil Works	753,165.26	-
Consulting services	-	32,740.56
Operating costs	-	275.19
<b>Total</b>	<b>753,165.26</b>	<b>33,015.75</b>



Irrigation System Modernization Project  
EDB CREDIT  
Notes to the special purpose financial statements  
For the year 31 December 2019

## 8. Payables

	31.12.2019 USD	31.12.2018 USD
Civil Works	332,198.87	41,612.35
Consulting services	31,201.08	674.72
<b>Total</b>	<b>363,399.95</b>	<b>42,287.07</b>

## 9. Project Expenditures

### 9.1 Project expenditures financing per funds

Expenditure category	Reporting year			Cumulative As at 31 Dec 2019		
	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	3,301,151.46	-	3,301,151.46	4,901,343.75	-	4,901,343.75
2. Taxes and other Mandatory Payments	-	520,394.21	520,394.21	-	848,812.82	848,812.82
3. Co-financing of the civil works part 3 of the project	-	-	-	-	-	-
<b>Total</b>	<b>3,301,151.46</b>	<b>520,394.21</b>	<b>3,821,545.67</b>	<b>4,901,343.75</b>	<b>848,812.82</b>	<b>5,750,156.57</b>

### 9.2 Project expenditure budget execution

Expenditure category	Cumulative Expenditures as at 31 Dec 2019	Total budget	Execution
	USD	USD	%
1. Goods, works, services, trainings, and PIU operating costs	4,901,343.75	40,000,000.00	12%
2. Taxes and other Mandatory Payments	848,812.82	10,000,000.00	8%
3. Co-financing of the civil works part 3 of the project	-	1,600,000.00	-
<b>Total</b>	<b>5,750,156.57</b>	<b>51,600,000.00</b>	<b>11%</b>



## 10. Financing

### 10.1 EDB Credit

	Reporting period USD	Cumulative as at 31 Dec 2019 USD
Advances/ (advance recovery)	-	5,000,000.00
SOE and Summary Report	3,211,444.71	4,486,673.11
Total	3,211,444.71	9,486,673.11
Total financing budget		40,000,000.00
Percentage of finance provided as at 31 Dec 2019		24%

### 10.2 Government of RoA

	Reporting period USD	Cumulative as at 31 Dec 2019 USD
Financed	520,028.33	851,031.60
Total financing budget		10,000,000.00
Percentage of finance provided as at 31 Dec 2019		9%

### 10.3 Community

	Reporting period USD	Cumulative as at 31 Dec 2019 USD
Financed	279,694.59	279,694.59
Total financing budget		1,600,000.00
Percentage of finance provided as at 31 Dec 2019		17%

## 11. Events after the reporting date/ Subsequent events

Considering breakout of new coronavirus (COVID-19) in the world, as well as Republic of Armenia Government Decree on declaring State of Emergency from March 16 to June 13, 2020 throughout Armenia, the Project management believes that the situation may have a negative impact on the Project, in particular it may lead to:

- Delays in the works,
- Difficulties to coordinate project activities, and
- Other negative outcomes due to limitations.

Given the unpredictability of events, Project management does not consider it possible to estimate the financial impact of the above event on the reports.



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 2019

(Amounts are shown in USD)

Expenditure Category	Appl.	Project	EDB	Difference
1. Goods, works, services, trainings, and PIU operating costs	8	324,963.89	324,963.89	-
	9	1,450,565.11	1,450,565.11	-
	10	1,178,216.33	1,178,216.33	-
	11	257,699.38	257,699.38	-
Total		3,211,444.71	3,211,444.71	-



## Management Representation Letter

3 June 2020

To: BDO Armenia cjsc  
23/6 Davit Anghat Street, floor 5,  
Yerevan, Armenia

This representation letter is provided in connection with your audit of the Financial Statements for the year ended 31 Dec 2019 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 Armenian Territorial Development Fund (ATDF) from the "Water Sector Projects Implementation Branch" (WS PIB).

We acknowledge our responsibility for:

- fair presentation of the financial statements in accordance with IPSAS-cash basis;
- keeping accounts and financial documents that are correct, complete, fair, representing the true facts, in conformity with the objectives of the Project, and national legislation.
- design and implementation of internal control to prevent and detect fraud.
- completeness of information concerning financing received or due and own financing concerning their period examined, for the project being examined.
- availability of any information and explanations, either orally or by written confirmation, which might be required by the Auditor in the execution of their audit.

We confirm, to the best of our knowledge, that:

- We have made available to you all books of account and supporting documentation.
- There were no material transactions that had not been properly recorded in the accounting records underlying the financial statements.
- The internal control system is reliable: approval and control of financial and other documents, segregation of duties is adequately done;
- The project funds have been used in accordance with the established budget;
- The financial activities are performed in conformity with the project objectives and adherence to the grant agreement terms.
- The financial resources are used in an economical and efficient manner.
- There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.
- The financial statements are free of material misstatements, including omissions.
- There has been no noncompliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of noncompliance.
- There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements, in additions to those that we disclosed or adjusted.
- No claims in connection with litigation have been or are expected to be received.
- We not aware of any fraud or suspected fraud affecting the Project involving:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.

Mamikon Gasparyan  
Deputy Director of the ATDF - Branch Director

Narine Keryan  
ATDF Branch Chief Account

"Water Sector Projects Implementation Branch" of the Armenian Territorial Development Fund