

CONSTRUCTION OF VEDI RESERVOIR AND IRRIGATION SYSTEM PROJECT

AFD CREDIT No. CAM 1002 01 Y

IMPLEMENTED BY BRANCH OF THE ARMENIAN TERRITORIAL DEVELOPMENT FUND FOR THE  
IMPLEMENTATION OF WATER MANAGEMENT PROGRAMS

Special Purpose Project Financial Statements  
and  
Independent Auditor's Report

For the year ended 31 December 2019

YEREVAN  
March 2020

# CONSTRUCTION OF VEDI RESERVOIR AND IRRIGATION SYSTEM PROJECT

AFD CREDIT No. CAM 1002 01 Y

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## INDEPENDENT AUDITOR'S REPORT

To the management of Construction of Vedi Reservoir and Irrigation System Project.

### **Opinion**

We have audited the accompanying special purpose financial statements of the "Construction of Vedi Reservoir and Irrigation System Project" ("Project") financed by Credit Facility Agreement AFD Credit No. CAM 1002 01 Y ("Financing Agreement"), and implemented by the "Water Sector Projects Implementation Branch" of the Armenian Territorial Development Fund (ATDF 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 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 14 January 2020.

### **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 management of the Project shall insure that:

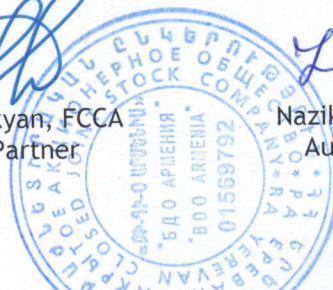
1. funds have been used in accordance with the conditions of the Financing Agreement dated 26 January 2016 between the Agence Française de Développement (AFD) and the Republic of Armenia, and AFD related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
2. supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the Drawdown Requests and reimbursed against are eligible for financing under the Financing Agreement;
3. The Project account used has been maintained in accordance with the provision of the Financing, and AFD related guidelines.
4. Works and Services financed have been procured in accordance with the Loan Agreement and AFD related guidelines.

In our opinion, the Project management has complied with the above requirements during the year ended 31 December 2019.

13 March 2020  
"BDO Armenia" cjsc

Vahagn Sahakyan, FCCA  
Managing Partner

Nazik Chitchyan  
Auditor





Statement of cash receipts and payments

For the year ended 31 December 2019

(Amounts are shown in EUR)

	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	
<b>OPENING CASH BALANCE</b>							
Project Account (AFD Credit)	1,846,871.37						
Project Account (GOA)	-						
	<b>1,846,871.37</b>						
<b>Sources of Funds</b>							
AFD Credit No. CAM 1002 01 Y	3,000,000.00	47,000,000.00					75,000,000.00
Government of RoA	1,271,259.98	8,403,162.22					15,004,358.00
<b>TOTAL FUNDS</b>	<b>4,271,259.98</b>	<b>55,403,162.22</b>					<b>90,004,358.00</b>
<b>Foreign currency gain/(loss)</b>	<b>28,266.31</b>	<b>17,425.56</b>					
<b>Uses of funds</b>							
1. Consulting services, Civil works, PIU operating costs	6,063,839.98	55,338,030.10	8,468,817.30	57,743,007.42	(2,404,977.32)	(2,404,977.32)	90,004,358.00
<b>TOTAL PROJECT EXPENDITURES</b>	<b>6,063,839.98</b>	<b>55,338,030.10</b>	<b>8,468,817.30</b>	<b>57,743,007.42</b>	<b>(2,404,977.32)</b>	<b>(2,404,977.32)</b>	<b>90,004,358.00</b>
<b>CLOSING CASH BALANCE *</b>							
Project Account (AFD Credit)	82,557.68	82,557.68					
Project Account (GOA)	-	-					
<b>TOTAL CLOSING CASH</b>	<b>82,557.68</b>	<b>82,557.68</b>					



*[Signature]*

Narine Keryan  
Chief accountant

Mamikon Gasparyan  
Director

"Water Sector Projects Implementation Branch" of the Armenian Territorial Development Fund  
13 March 2020  
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 ended 31 December 2019

(Amounts are shown in EUR)

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. Construction of the Vedi reservoir and ancillary structures	5,998,773.17	54,610,951.72	8,359,862.13	56,972,040.68	(2,361,088.96)	(2,361,088.96)	77,185,592.00
Component 2. Rehabilitation, modernization, extension of the irrigated perimeter	-	382,452.30	-	382,452.30	-	-	11,939,166.00
Component 3. Project implementation	65,066.81	344,626.08	108,955.17	388,514.44	(43,888.36)	(43,888.36)	879,600.00
Total Project Expenditure	6,063,839.98	55,338,030.10	8,468,817.30	57,743,007.42	(2,404,977.32)	(2,404,977.32)	90,004,358.00

  
Mamikon Gasparyan  
Director

  
Narine Keryan  
Chief accountant

"Water Sector Projects Implementation Branch" of the Armenian Territorial Development Fund  
13 March 2020  
The notes on pages 7-12 form an integral part of these special purpose project financial statements.



**Construction of Vedi Reservoir and Irrigation System Project**  
**AFD CREDIT No. CAM 1002 01 Y**

**Notes to the special purpose financial statements**

*For the year ended 31 December 2019*

**1. General information**

**1.1. The Project**

In accordance with the Credit Facility Agreement AFD No.CAM 1002 01 Y was concluded on 26 January 2016 between the Republic of Armenia and the Agence Française de Développement (AFD), the AFD provided a credit to the Republic of Armenia in the amount not exceed 75,000,000 EUR. The Credit is provided for the purpose of improving sustainability of the national rural irrigation system by financing the construction of several dams such as the Vedi reservoir in the Ararat Valley of Armenia.

In the Schedule 3-Financing Plan of Credit Facility Agreement the amount of estimated expenses to be financed by AFD is 75,003,631 EUR.

The Credit is provided for the implementation of "Construction of Vedi Reservoir and Irrigation System Project" (the Project).

The Project Effective Date is May 12, 2016 and Technical Completion Date is March 31, 2021. The Deadline for Drawdown requests under Credit AFD No. CAM 1002 01 Y is May 31, 2021 and deadline for final payments for works and services provided is November 30, 2021.

**1.2. The Project objectives**

The objective of the Project is to improve the sustainability of water resources and irrigated agriculture in the fertile Ararat plain via:

- (i) The securing of additional renewable water resources from the construction of the Vedi reservoir and
- (ii) The improvement of irrigation efficiency, through to renovation work and the modernization of the network.

By lifting the constraints related to water and the irrigation network, the Project aims to reverse the trend towards the abandonment of agricultural land in the Ararat plain.

The Project consists of the following components:

Component 1. Construction of the Vedi reservoir and ancillary structures,  
Component 2. Rehabilitation, modernisation, extension of the irrigated perimeter,  
Component 3. Project implementation.

**1.3. The Project Budget and Financing**

The Project is being financed by the following sources:

- AFD Credit No. CAM 1002 01 Y - 100% of all expenditures, exclusive of taxes,
- The Government of the Republic of Armenia (Government of RA) - expenditures related taxes.

Category	AFD Credit No. CAM 1002 01 Y	Government of the RA	Total
	EUR	* EUR	EUR
1. Consulting services, Civil works, PIU operating costs	75,000,000.00	15,004,358.00	90,004,358.00
<b>Total</b>	<b>75,000,000.00</b>	<b>15,004,358.00</b>	<b>90,004,358.00</b>

Notes to the special purpose financial statements  
For the year ended 31 December 2019

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**Drawdown requests**

The Credit is provided on the basis of Drawdown Requests as advances. The Request for the first Drawdown includes the amount requested for (i) the refinancing of Eligible Expenses and (ii) the initial Advance.

Subsequent advances are provided on condition that at least eighty per cent (80%) of the Advance immediately preceding the Advance requested in the Drawdown Request and one hundred per cent (100%) of the penultimate Advance have been utilized.

**1.4. Project Implementation**

Until 30 December 2019, the Project were 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 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 created on January 14, 2020.

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 EUR.

The contribution of the Government of RA and expenditures made in local currency, Armenian Dram (AMD), are translated into EUR 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 EUR =553.65 AMD

The average exchange rate at currency market issued by the CBA as at 31 December 2019 is 1 EUR =537.26 AMD

**2.4. Taxes**

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



Construction of Vedi Reservoir and Irrigation System Project  
AFD CREDIT No. CAM 1002 01 Y

Notes to the special purpose financial statements  
For the year ended 31 December 2019

## 2.5. Budget

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

## 2. Summary of Drawdown Requests

For the year ended 31 Dec 2019

Drawdown request No	Drawdown request date	Amount of request	Drawdown confirmation date
		EUR	
6	15/04/2019	3,000,000.00	10/05/2019
		3,000,000.00	

## 3. Statement of Project Account

Bank account number	900000902255
Bank	Central Treasury
Bank location	1 Meliq-Adamyan str., Yerevan, 0010
Currency	Republic of Armenia EUR

	AFD Credit No. CAM 1002 01 Y For the year ended 31 December, 2019
1. Opening balance	1,846,871.37
2. Add: opening discrepancy	-
3. AFD advance/replenishment	3,000,000.00
4. Less: Refund to AFD from PA	-
5. Present outstanding amount advanced to PA	4,846,871.37
6. PA closing balance as at 31.	82,557.68
7. Add: Amount of eligible expenditures paid	4,764,313.69
8. Less: interest earned (if credited to PA)	-
9. Total advance accounted for	4,846,871.37
10. Closing discrepancy (5)-(9)	-

**Construction of Vedi Reservoir and Irrigation System Project**  
**AFD CREDIT No. CAM 1002 01 Y**

Notes to the special purpose financial statements  
For the year ended 31 December 2019

**4. 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 EUR	31.12.2018 EUR
<b>ASSETS</b>			
Cash	6	82,557.68	1,846,871.37
Prepayments	7	6,019,542.09	7,695,845.54
<b>Total assets</b>		<b>6,102,099.77</b>	<b>9,542,716.91</b>
<b>LIABILITIES</b>			
Payables	8	3,401,302.45	2,611,108.10
<b>Total liabilities</b>		<b>3,401,302.45</b>	<b>2,611,108.10</b>
<b>NET ASSETS</b>			
Cumulative income			
AFD Credit No. CAM 1002 01 Y	10.1	47,000,000.00	44,000,000.00
Government of RA	10.2	8,403,162.22	7,131,902.24
		<b>55,403,162.22</b>	<b>51,131,902.24</b>
<b>Cumulative expenses</b>			
Project expenses		(52,377,817.96)	(43,861,961.80)
		<b>(52,377,817.96)</b>	<b>(43,861,961.80)</b>
Foreign exchange gain/(loss)		(324,546.94)	(338,331.63)
<b>Total net assets</b>		<b>2,700,797.32</b>	<b>6,931,608.81</b>

**5. Cash**

	Account held at	Underlying Currency	31.12.2019 EUR	31.12.2018 EUR
Project account (AFD Credit No. CAM 1002 01 Y)	Treasury	EUR	82,557.68	1,846,871.37
<b>Total</b>			<b>82,557.68</b>	<b>1,846,871.37</b>

**6. Prepayments**

Subcategory	31.12.2019	31.12.2018
	EUR	EUR
Civil Works (a)	5,922,701.30	7,480,897.18
Consulting Services	96,840.79	212,608.6
Operating costs	-	2,339.76
	<b>6,019,542.09</b>	<b>7,695,845.54</b>

(a) Prepayments were provided in the amount of 20% of the corresponding construction contract price. Prepayments were secured by Bank Guarantees. The Bank Guarantees shall expire upon completion of 90/100% of Works. The prepayments were repaid by deducting the corresponding percent from submitted Interim Payment Certificate.



**Construction of Vedi Reservoir and Irrigation System Project**  
**AFD CREDIT No. CAM 1002 01 Y**

**Notes to the special purpose financial statements**  
*For the year ended 31 December 2019*

**7. Payables**

	31.12.2019	31.12.2018
	EUR	EUR
Civil Works (warranty amounts) (a)	3,401,302.45	2,611,108.1
Consulting Services	-	-
Operating costs	-	-
	<b>3,401,302.45</b>	<b>2,611,108.1</b>

(a) Post warranty amounts are retained at 5 or 10% (according to the contract conditions).

**8. Project Expenditures**

**9.1 Project expenditures financing per funds**

Expenditure category	Reporting year			Cumulative As at 31 Dec 2019		
	AFD Credit No. CAM 1002 01 Y	Government of RA	Total	AFD Credit No. CAM 1002 01 Y	Government of RA	Total
	EUR	EUR	EUR	EUR	EUR	EUR
1. Consulting services, Civil works, PIU operating costs	4,764,313.69	1,299,526.29	6,063,839.98	46,917,442.32	8,420,587.78	55,338,030.10
<b>Total</b>	<b>4,764,313.69</b>	<b>1,299,526.29</b>	<b>6,063,839.98</b>	<b>46,917,442.32</b>	<b>8,420,587.78</b>	<b>55,338,030.10</b>

**9.2 Project expenditure budget execution**

Expenditure category	Cumulative Expenditures as at 31 Dec 2019	Total budget	Execution
	EUR	EUR	%
1. Consulting services, Civil works, PIU operating costs	55,338,030.10	90,004,358.00	61%
<b>Total</b>	<b>55,338,030.10</b>	<b>90,004,358.00</b>	<b>61%</b>

**10 Financing**

**10.1 AFD Credit No. CAM 1002 01 Y**

	Reporting year EUR	Cumulative as at 31 Dec 2019 EUR
Initial Advances	*	10,000,000.00
Additional Advances	3,000,000.00	37,000,000.00
<b>Total</b>	<b>3,000,000.00</b>	<b>47,000,000.00</b>
 Total financing budget		<b>75,000,000.00</b>
Percentage of finance provided as at 31 Dec 2019		<b>63%</b>

Construction of Vedi Reservoir and Irrigation System Project  
AFD CREDIT No. CAM 1002 01 Y

Notes to the special purpose financial statements  
*For the year ended 31 December 2019*

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10.2 Government of RoA

	Reporting year EUR	Cumulative as at 31 Dec 2019 EUR
Financed	1,271,259.98	8,403,162.22
Total financing budget		15,004,358.00
Percentage of finance provided as at 31 Dec 2019		56%



## Management Representation Letter

13 March 2020

To: BDO Armenia cjsc  
23/6 Davit Anhaght 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 "Construction of Vedi Reservoir and Irrigation System Project" ("Project") financed by Credit Facility Agreement AFD Credit No.CAM 1002 01 Y and implemented by the "Water Sector Projects Implementation Branch" of the Armenian Territorial Development Fund (ATDF 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 there 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 are 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  
Director

  
Narine Qeryan  
Chief accountant

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