

IRRIGATION SYSTEM ENHANCEMENT PROJECT

IBRD LOAN 8267-AM

IMPLEMENTED BY WATER SECTOR PROJECTS IMPLEMENTATION UNIT
STATE INSTITUTION

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

For the period from 1 January 2018 to 6 December 2018

YEREVAN
December 2018

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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 Enhancement Project" ("Project") financed by IBRD Loan Agreement 8267-AM dated 29 May 2013 ("Loan Agreement"), and implemented by the "Water Sector Projects Implementation Unit" State Institution ("WSPIU"), which comprise the Statement of Financial Position as at 6 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 1 January 2018 to 6 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 6 December 2018, as well as the sources and uses of funds for the period from 1 January 2018 to 6 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 matters

Without qualifying our opinion we draw your attention to Note 9 of these special purpose financial statements which disclosed that the Project was completed as at the reporting date.

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 (IFSS) 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 1 January 2018 to 6 December 2018.

20 December 2018
"BDO Armenia" cjsc

Vahagn Sahakyan, FCCA
Managing Partner

Nazik Chitchyan
Auditor



*Irrigation System Enhancement Project
IBRD Loan 8267-AM
As at 6 December 2018*

The special purpose financial statements were approved by the management of Water Sector Projects Implementation Unit State Institution and signed on its behalf on December 20, 2018. The accompanying notes form is an integral part of these special purpose financial statements.

Cheryl



STATEMENT OF SOURCES AND USES OF FUNDS

Irrigation System Enhancement Project
IBRD Loan 8267-AM
For the period from 1 January 2018 to 6 December 2018
In USD

	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting period	Cumulative as at 6 Dec.2018	Reporting period	Cumulative as at 6 Dec.2018	Reporting period	Cumulative as at 6 Dec.2018	
Opening Working Capital							
Cash	2,626,312.97	-					
Prepayments	448,267.32	-					
Accounts payable	(651,718.23)	-					
Total	2,422,862.06						
Sources of Funds							
IBRD Loan 8267-AM	248,566.60	30,000,000.00					30,000,000.00
Government of Republic of Armenia	653,628.71	7,458,770.75					7,500,000.00
Total	902,195.31	37,458,770.75					37,500,000.00
Foreign exchange gain/(loss)	6,563.44	(112,242.85)					
Uses of Funds							
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project							
(2) Front-end Fee	3,060,637.34	37,000,544.43	3,256,716.94	37,065,056.78	(196,079.60)	(64,512.35)	37,425,000.00
Total	3,060,637.34	75,000.00	-	75,000.00	-	-	75,000.00
Closing Working Capital							
Cash	270,983.47	270,983.47					
Prepayments	-	-					
Accounts payable	-	-					
Total	270,983.47	270,983.47					

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

Irrigation System Enhancement Project

IBRD Loan 8267-AM

For the period from 1 January 2018 to 6 December 2018

In USD

Project Activities	ACTUAL		BUDGET		VARIANCE		PAD
	Reporting period	Cumulative as at 6 Dec. 2018	Reporting period	Cumulative as at 6 Dec. 2018	Reporting period	Cumulative as at 6 Dec. 2018	
Part A- Irrigation system enhancement	2,842,566.69	33,260,583.47	3,041,760.17	33,325,778.23	(199,193.48)	(65,194.76)	33,100,000.00
A.1: Conversion of pump-based irrigation to gravity irrigation	2,842,566.69	26,502,936.57	3,041,760.17	26,564,737.88	(199,193.48)	(61,801.31)	24,700,000.00
A.2: Upgrading of outlet and other canals conveying pumped water	-	6,757,646.90	-	6,761,040.35	-	(3,393.45)	8,400,000.00
Part B- Management information	-	876,230.00	-	876,441.55	-	(211.55)	1,700,000.00
B.1: Technical investigations	-	60,517.84	-	60,729.39	-	(211.55)	900,000.00
B.2: Supervisory control and data acquisition (SCADA) system installation	-	815,712.16	-	815,712.16	-	-	800,000.00
Part C- Project management and WUAs' support	218,070.65	2,863,730.96	214,956.77	2,862,837.00	3,113.88	893.96	2,700,000.00
C.1: Project management	206,578.83	2,522,757.77	203,464.95	2,522,234.65	3,113.88	523.12	1,500,000.00
C.2: WUAs' support	11,491.82	340,973.19	11,491.82	340,602.35	-	370.84	1,200,000.00
C.2.1: The WUAs' support group	11,491.82	99,331.02	11,491.82	99,331.24	-	(0.22)	800,000.00
C.2.2: Capacity building of WUAs' executive bodies	-	197,981.82	-	197,410.67	-	571.15	240,000.00
C.2.3: Awareness raising and communication activities	-	43,660.35	-	43,860.44	-	(200.09)	160,000.00
Project expenditures	3,060,637.34	37,000,544.43	3,256,716.94	37,065,056.78	(196,079.60)	(64,512.35)	37,500,000.00
Front- end Fee	-	75,000.00	-	75,000.00	-	-	-
Total Project Expenditures	3,060,637.34	37,075,544.43	3,256,716.94	37,140,056.78	(196,079.60)	(64,512.35)	37,500,000.00

SUMMARY OF SUMMARY REPORTS AND SOEs

Irrigation System Enhancement Project

IBRD Loan 8267-AM

For the period from 1 January 2018 to 6 December 2018

In USD

Application N	Application value date	(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	Total
20	30.01.2018	2,301,511.64	2,301,511.64
21	04.05.2018	837,954.68	837,954.68
22	25.07.2018	1,134,610.35	1,134,610.35
23	23.10.2018	224,288.80	224,288.80
24	05.12.2018	408,239.15	408,239.15
Total		4,906,604.62	4,906,604.62

STATEMENT OF DESIGNATED ACCOUNT

Irrigation System Enhancement Project

IBRD Loan 8267-AM

For the period from 1 January 2018 to 6 December 2018

<u>Designated Account</u>	<u>IBRD Loan 8267-AM</u>
Currency	USD
Account number	900000906132
Bank	Central Treasury
Location	4 Tigran Mets str., 1-st floor, Yerevan, 0010 Republic of Armenia
	<i>For the period from 01.01.2018 to 06.12. 2018</i>
	<i>USD</i>
1. Opening balance	<u>2,626,312.97</u>
Add:	
2. Cumulative opening discrepancy	-
3. IBRD advance/replenishment	248,566.60
Less:	
4. Refund to IBRD from DA	-
5. Present outstanding amount advanced to DA	<u>2,874,879.57</u>
6. DA closing balance as at 06.12.2018	269,786.59
Add:	
7. Amount of eligible expenditures paid	2,605,092.98
8. Service charges (if debited into DA)	-
Less:	
9. Interest earned (if credited into DA)	-
10.Total advance/replenishment accounted for	<u>2,874,879.57</u>
11. Discrepancy (5)-(10)	-

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS

Irrigation System Enhancement Project

IBRD Loan 8267-AM

For the period from 1 January 2018 to 6 December 2018

1. General Information

1.1. Project Financing

According to the Loan Agreement 8267-AM dated 29 May 2013 concluded between the Republic of Armenia and International Bank for Reconstruction and Development (IBRD), IBRD provided financing in the amount of 30,000,000 United States dollars (USD) for the implementation of "Irrigation System Enhancement Project" (the Project).

The Project financing agreement became effective on 15 July 2013.

The Closing date for the expenditures to be financed by the Loan is set on August 31, 2018. The Grace period for submitting withdrawal application for expenditures incurred before the Closing date is four months following the Closing date: December 31, 2018.

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, consultants' services, training and operating costs for the Project.

Category	IBRD 8267-AM	Government of RA	Total
	USD	USD	USD
1. Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	29,925,000	7,500,000	37,425,000
2. Front-end fee	75,000	-	75,000
Total	30,000,000	7,500,000	37,500,000

1.4. Project Implementation

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

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

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 2017 is 1 USD = 484.10 AMD

The average exchange rate at currency market issued by the CBA as at 6 December 2018 is 1 USD = 485.26 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	01.01.2018 - 06.12.2018			Cumulative As at 06.12.2018		
	IBRD Loan 8267-AM	GoA	Total	IBRD Loan 8267-AM	GoA	Total
	USD	USD	USD	USD	USD	USD
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	2,448,519.92	612,117.42	3,060,637.34	29,600,111.21	7,400,433.22	37,000,544.43
(2) Front- end fee	-	-	-	75,000.00	-	75,000.00
Total	2,448,519.92	612,117.42	3,060,637.34	29,675,111.21	7,400,433.22	37,075,544.43

4. Prepayments

	As at 06.12.2018 USD	As at 31.12.2017 USD
Works of the Project	-	319,907.86
Consultants' services	-	125,777.44
Operating costs of the Project	-	2,582.02
Total	-	448,267.32

5. Payables

	As at 06.12.2018 USD	As at 31.12.2017 USD
Works of the Project	-	651,709.49
Operating costs of the Project	-	8.74
Total	-	651,718.23

6. Financing

6.1. IBRD Loan 8267-AM financing

	Reporting period USD	As at 06.12.2018 Cumulative USD
Advance	(4,658,038.02)	269,786.59
Reimbursement-SOE procedure	4,345,176.37	27,199,485.76
Summary Report	561,428.25	2,455,727.65
Front-end fee	-	75,000.00
	248,566.60	30,000,000.00
Total financing budget		30,000,000.00
Percentage of finance provided as at 6 Dec 2018		100%

6.2. Government financing

	Reporting period USD	As at 06.12.2018 Cumulative USD
Contributions	653,628.71	7,458,770.75
	653,628.71	7,458,770.75
Total financing budget		7,500,000.00
Percentage of finance provided as at 6 Dec 2017		99%

7. Foreign exchange gain/(loss)

	As at 06.12.2018 USD	As at 31.12.2017 USD
Translation of payables	(64,512.37)	(71,883.68)
Translation of cash balances	(47,730.48)	(46,922.61)
	<u>(112,242.85)</u>	<u>(118,806.29)</u>

8. Expenditure budget execution

Category	Cumulative Expenditures as at 6 Dec 2018 USD	Total budget USD	Execution %
1. Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	37,000,544.43	37,425,000.00	99%
2. Front-end fee	75,000.00	75,000.00	100%
Total	37,075,544.43	37,500,000.00	99%

9. Project completion

The Project was completed as of August 31, 2018 ("Closing Date"), and the transactions were completed as of December 6, 2018 ("Reporting Date").

As of the date of signing (December 20, 2018) these special purpose financial statements:

- No expenses, except for final audit, related to the Project were incurred after the Closing Date; the payments made during the Grace period related to expenses incurred before the Closing Date;
- No withdrawals from Loan 8267 were made after Reporting date;
- No expenditures related to the Project were submitted to the WB after the Reporting date;
- There were no uncovered prepayments or payables outstanding to contractors related to the Project;
- The cash balance outstanding as at Reporting date consists:
 - Balance of the Designated Account with the amount of USD 269,786.59 to be refunded to WB after paying final audit service;
 - Balance of the Project account (GOA co-financing) with the amount of USD 1,196.88, to be refunded to GOA after paying final audit co-financing;
- We are not aware about any pending or existing litigations against the Project.
- The Project objective included construction of Gegardalich main pipeline; however, 2km section of the main pipeline was not constructed due to obstacles imposed by the local community. Therefore, the main pipeline was not put into operation. Based on the discussions held among RA Government, World Bank, WSPIU and other stakeholders, it was agreed to implement the above uncompleted works under the scope of "Additional Financing for Irrigation System Enhancement Project" that became effective on 18 May 2018 or under other projects.

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

Irrigation System Enhancement Project

IBRD Loan 8267-AM

For the period from 1 January, 2018 to 6 December, 2018

In USD

Category	Appl. N	PIU	WB	Difference
Advance(recovery)	20	(2,052,945.04)	(2,052,945.04)	-
	21	(837,954.68)	(837,954.68)	
	22	(1,134,610.35)	(1,134,610.35)	
	23	(224,288.80)	(224,288.80)	
	24	(408,239.15)	(408,239.15)	
		(4,658,038.02)	(4,658,038.02)	
(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	20	2,301,511.64	2,301,511.64	-
	21	837,954.68	837,954.68	-
	22	1,134,610.35	1,134,610.35	-
	23	224,288.80	224,288.80	
	24	408,239.15	408,239.15	-
		4,906,604.62	4,906,604.62	
Total		248,566.60	248,566.60	