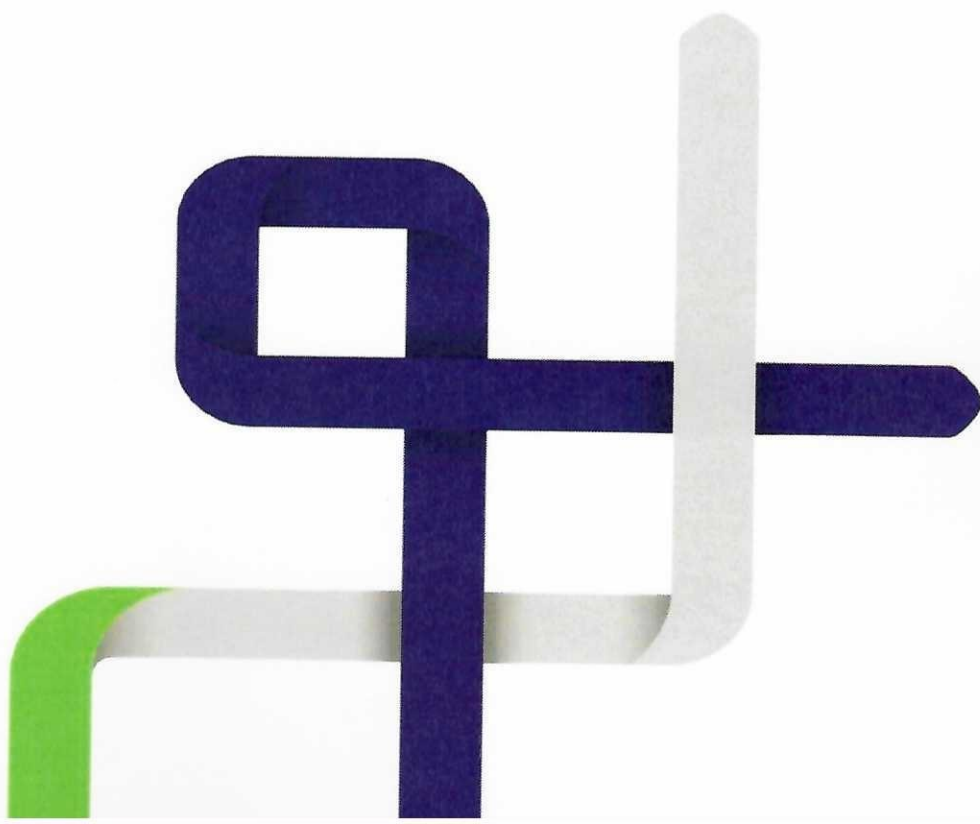


Project Financial Statements and Independent Auditor's Report

**Office of the Prime Minister of the Republic of
Armenia**

**Mineral Sector Policy Project
Grant Agreement TF0A5519**

As of 11 May 2020 and for the period from 6 November 2017
to 11 May 2020





Independent auditor's report

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To the Office of the Prime Minister of the Republic of Armenia,

Opinion

We have audited the accompanying project financial statements of the Mineral Sector Policy Project (the "Project"), financed within the framework of the Grant Agreement TF0A5519 by the International Bank for Reconstruction and Development (the "IBRD") and International Development Association ((the "IDA"), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activities as of 11 May 2020 and for the period from 6 November 2017 to 11 May 2020, as well as a summary of significant accounting policies and other explanatory information.

In our opinion, the project financial statements present fairly the cash balance of the Mineral Sector Policy Project as of 11 May 2020, and the cash received and cash paid for the period from 6 November 2017 to 11 May 2020, in accordance with the International Public Sector Accounting Standards ("IPSAS") "*Financial Reporting Under the Cash Basis of Accounting*" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, the World Bank guidelines, as well as the relevant points of the Grant Agreement TF0A5519.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Project Financial Statements* section of our report. We are independent of the "Office of the Prime Minister of the Republic of Armenia" (the "Office") in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

- We draw attention to note 2 to the project financial statements, which describes the basis of accounting. The project financial statements are prepared to assist the Office to meet the requirements of the World Bank guidelines and the relevant points of the Grant Agreement TFOA5519. As a result, the project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.
- In addition, we draw attention to note 3 to the project financial statements, which describes that the closing date of the Project is 30 April 2020. Our opinion is not modified in respect of this matter.
- We draw attention to note 11 to the project financial statements which describes the implementation of a consulting contract, which has been terminated, since the final version of the report submitted by the consultants has not been accepted. These project financial statements include only a part of the contract amount. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

The Office is responsible for the preparation and fair presentation of the project financial statements in accordance with IPSAS *Financial Reporting Under the Cash Basis of Accounting*, the World Bank guidelines and the relevant points of the Grant Agreement TFOA5519, and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Project Financial Statements

Our objectives are to obtain reasonable assurance about whether the project 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 a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or 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 project 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 project 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 Office's 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 project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the management, 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.

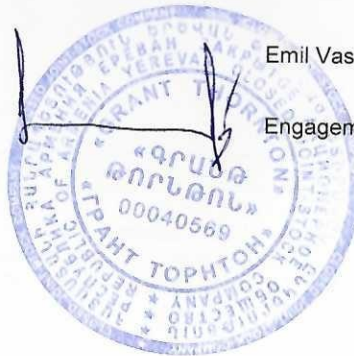
Armen Hovhannisyan

Chief Executive Officer

29 June 2020

Emil Vassilyan, FCCA

Engagement Partner



A handwritten signature in black ink, consisting of a series of loops and a long vertical stroke.

Statement of cash receipts and payments

US dollars	Actual			Planned	Variance	
	Year ended 31 December 2018	Year ended 31 December 2019	For the period from 1 January 2020 to 11 May 2020	As of 11 May 2020	As of 11 May 2020	As of 11 May 2020
						Life of Project
Opening cash balance (note 4)	-	57,901	57,999			
<i>Add: cash receipts</i>						
IBRD Fund (note 5)	60,000	19,582	157,946	237,528		
Government co-financing (note 6)	-	3,803	17,824	21,627		
Total cash receipts	60,000	23,385	175,770	259,155		
Exchange rate difference	-	31	(39)	(8)		
<i>Less: cash payments</i>						
(1) Consulting services and Training under the Project	2,099	23,318	216,734	242,151	278,491	(36,340)
Total cash payments	2,099	23,318	216,734	242,151	278,491	(36,340)
Closing cash balance (note 4)	57,901	57,999	16,996	16,996		540,000

The project financial statements were approved on 29 June 2020 by:

Serge Varak Sisseljan
Head of Deputy Prime Ministers Office



Anahit Karapetyan
Financial Management Specialist

This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 8 to 14.

Statement of uses of funds by Project activities

US dollars	Actual			Planned		Variance	
	Year ended 31 December 2018	Year ended 31 December 2019	For the period from 1 January 2020 to 11 May 2020	As of 11 May 2020	As of 11 May 2020	As of 11 May 2020	Project life
Part 1: Analytical underpinnings	-	21,317	163,834	185,151	208,391	(23,240)	264,000
Part 2: Outreach and Consultation to Support Policy Development	-	-	4,275	4,275	6,000	(1,725)	240,000
Part 3: Capacity building	2,099	2,001	48,625	52,725	64,100	(11,375)	36,000
Total	2,099	23,318	216,734	242,151	278,491	(36,340)	540,000

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 14.

Notes to the Project financial statements

1 Activity

The Grant Agreement TF0A5519 of the Mineral Sector Policy Project (the "Project") was signed on 25 October 2017 between the Republic of Armenia and the International Bank for Reconstruction and Development (the "IBRD") and International Development Association (the "IDA"). The total amount of the Grant was agreed to be US dollars 450,000.

The Project consists of the following parts:

- a) Analytical Underpinnings,
- b) Outreach and Consultation to Support Policy Development,
- c) Capacity Building.

In accordance with the Grant Agreement the financing of the Project is implemented through the following categories:

Category	Percentage of Expenditures to be financed (exclusive of Taxes)	Amount of the Grant Allocated (In US dollars)
(1) Consulting services and Training under the Project	100 %	450,000
		<u>450,000</u>

There have not been any transactions incurred or payments made within the framework of the Project for the period from 6 November 2017 to 31 December 2017. Accordingly, the project financial statements have not been presented for this period. Instead, the first reporting period presented in the project financial statements is the year ended 31 December 2018.

The Project was implemented by the State Institution "Foreign Financing Projects Management Center" of the Ministry of Finance of the Republic of Armenia (the "FFPMC"). According to the decree N1427-Ն dated 13 December 2018 of the Government of the Republic of Armenia, the activities of the FFPMC were suspended starting from 31 March 2019. It was defined that the activities of the FFPMC will continue to be implemented by the Project Implementation Department of the Ministry of Finance of the Republic of Armenia through auxiliary professional structural subdivision. According to the decree N1919-Ն dated 26 December 2019 of the RA Government, it was defined that the activities of the Project will continue to be implemented by the Office of the Prime Minister of the Republic of Armenia (the "Office").

The legal address of the Office is Government House 1, Republic Square, Yerevan, Republic of Armenia.

2 Significant accounting policies

2.1 Statement of compliance

The project financial statements are prepared in accordance with the International Public Sector Accounting Standards IPSAS *"Financial Reporting Under the Cash Basis of Accounting"*, the World Bank guidelines and the relevant points of the Grant Agreement TF0A5519.

Alternatively, the Office presents a statement of financial position of the Project as of the reporting date as an encouraged additional disclosure, as prescribed in the part 2 of the International Public Sector Accounting Standards IPSAS *"Financial Reporting Under the Cash Basis of Accounting"* (refer to note 10).

2.2 Project financial statements

The project financial statements include:

- a) The statement of cash receipts and payments of the Project for the period from 6 November 2017 to 11 May 2020, showing the World Bank and counterpart funds separately, and the statement of uses of funds by Project activities.
- b) Accounting policies and explanatory notes (including additional accounting policies and disclosures), covering
 - Summary of summary reports or SOEs used as the basis for the submission of withdrawal applications in the notes, as appropriate;
 - Statement of designated account in the notes, as appropriate;
 - Statement of financial position showing accumulated funds of the Project, bank balances, other assets of the Project, and liabilities, if any, as described in the note 2.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Project's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Project.

These project financial statements are presented in US dollars (presentation currency).

In preparing the project financial statements, transactions in currencies other than US dollar are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. Direct payments denominated in currencies other than US dollar from the World Bank funds to the Project's counterparties are recorded at the exchange rate of the client connection (<https://clientconnection.worldbank.org>) system. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 483.75 for 1 US dollar as of 31 December 2018, 479.7 drams for 1 US dollar as of 31 December 2019, 486.02 drams for 1 US dollar as of 11 May 2020. Any exchange rate differences are recognized in the statement of cash receipts and payments and the accumulated figure of exchange rate difference is disclosed in the Statement of financial position under "Exchange rate difference".

2.4 Project expenses

Expenses incurred in the framework of the Project are recognized on the cash basis of accounting, i.e. when the relevant cash is paid. The expenses are recognized in the statement of cash receipts and payments under the caption "cash payments". Additionally, the Project expenses are disclosed in the statement of uses of funds by Project activities.

2.5 Project financing

Financing received in the framework of the Grant Agreement TF0A5519 is recorded in the statement of cash receipts and payments as "cash receipts" and is recognized at each replenishment. In addition, the Project funds received are disclosed in the Statement of financial position (refer to note 10).

2.6 IBRD financing

To finance eligible expenditures under the letter agreement, the World Bank disburses proceeds from the Credit account using one or more of the disbursement methods, which are stated below:

a. Reimbursement

The Bank may reimburse the borrower to finance eligible expenditures that the borrower has refinanced from its own resources.

b. Advance

The Bank may advance loan proceeds into a Designated account of the borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.

c. Direct payments

The Bank may make payments, at the borrower's request, directly to a third party for eligible expenditures.

d. Special commitment

The Bank may pay amounts to a third party for eligible expenditures under Special commitments entered into, in writing, at the borrower's request and on terms and conditions agreed between the Bank and the borrower.

3. Closing date of the project

According to the Grant Agreement TF0A5519 the closing date of the Project is 30 April 2020.

4. Cash balances

US dollars

	As of 31 December 2018	As of 31 December 2019	As of 11 May 2020
Designated account	57,901	57,999	16,216
Government co-financing account	-	-	780
	<u>57,901</u>	<u>57,999</u>	<u>16,996</u>

After the reporting date drams 1,896 thousand and drams 379 thousand should be paid from the designated account and government co-financing account respectively for the audit service, the remaining amount should be returned to WB.

5. IBRD financing

US dollars

	Year ended 31 December 2018	Year ended 31 December 2019	For the period from 1 January 2020 to 11 May 2020	As of 11 May 2020
SOE procedures (note 7)	-	21,583	199,729	221,312
Designated account advance/(redemption)	60,000	(2,001)	(41,783)	16,216
	<u>60,000</u>	<u>19,582</u>	<u>157,946</u>	<u>237,528</u>

6. Government co-financing

US dollars

	Year ended 31 December 2019	For the period from 1 January 2020 to 11 May 2020	As of 11 May 2020
Co-financing received	9,116	18,784	27,900
Returned amount	(5,313)	(960)	(6,273)
	<u>3,803</u>	<u>17,824</u>	<u>21,627</u>

7. SOE withdrawal schedule

For the period from 6 November 2017 to 11 May 2020

In US dollars

Application No.	Category
	Consulting services and Training under the Project
2 DA	2,099
3 DA	17,483
4 DA	2,001
6 DA	35,805
7 DA	59,899
8 DA	12,176
9 DA	48,065
10 DA	43,784
Total	<u>221,312</u>

8. Designated account statement

As of and for the year ended 31 December 2018

In US dollars

Opening balance as of 1 January 2018		-
Add:		
Cumulative unexplained discrepancy	-	
Credit replenishment during the year	60,000	
	<u>60,000</u>	<u>60,000</u>
Less: Refund to the IBRD from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		<u>60,000</u>
Closing balance as of 31 December 2018		57,901
Add:		
Amount of eligible expenditures paid during the year	2,099	
Service charges (if applicable)	-	
	<u>2,099</u>	<u>2,099</u>
Less: Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		<u>60,000</u>
Discrepancy (1) – (2) to be explained		-

As of and for the year ended 31 December 2019

In US dollars

Opening balance as of 1 January 2019		57,901
Add:		
Cumulative unexplained discrepancy	-	
Credit replenishment during the year	19,582	
	<u>19,582</u>	<u>19,582</u>
Less: Refund to the IBRD from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		<u>77,483</u>
Closing balance as of 31 December 2019		57,999
Add:		
Amount of eligible expenditures paid during the year	19,484	
Service charges (if applicable)	-	
	<u>19,484</u>	<u>19,484</u>
Less: Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		<u>77,483</u>
Discrepancy (1) – (2) to be explained		-

As of 11 May 2020 and for the period from 1 January 2020 to 11 May 2020

In US dollars

Opening balance as of 1 January 2020		57,999
Add:		
Cumulative unexplained discrepancy	-	
Credit replenishment during the period	157,946	
	<u>157,946</u>	<u>157,946</u>
Less: Refund to the IBRD from the designated account during the period		-
Present outstanding amount advanced to the designated account (1)		<u>215,945</u>
Closing balance as of 11 May 2020		16,216
Add:		
Amount of eligible expenditures paid during the period	199,729	
Service charges (if applicable)	-	
	<u>199,729</u>	<u>199,729</u>
Less: Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		<u>215,945</u>
Discrepancy (1) – (2) to be explained		-

9. Reconciliation between the amounts received by the Office and disbursed by the World Bank

For the period from 6 November 2017 to 11 May 2020

In US dollars

Category	Appl.	Office	The World Bank	Difference
Consulting services and Training under the Project				
	2-DA	2,099	2,099	-
	3-DA	17,483	17,483	-
	4-DA	2,001	2,001	-
	6-DA	35,805	35,805	-
	7-DA	59,899	59,899	-
	8-DA	12,176	12,176	-
	9-DA	48,065	48,065	-
	10-DA	43,784	43,784	-
		<u>221,312</u>	<u>221,312</u>	<u>-</u>
Designated account advance/(redemption)				
	1A-DA	60,000	60,000	-
	4-DA	(2,001)	(2,001)	-
	6-DA	2,001	2,001	-
	10-DA	(43,784)	(43,784)	-
		<u>16,216</u>	<u>16,216</u>	<u>-</u>
Total		<u>237,528</u>	<u>237,528</u>	<u>-</u>

10. Statement of financial position

As described in the note 2.1, the policy of the Office is to prepare the project financial statements in accordance with IPSAS "Financial Reporting Under the Cash Basis of Accounting". However, the Office also has presented a separate statement of financial position as a disclosure encouraged under IPSAS "Financial Reporting Under the Cash Basis of Accounting".

In US dollars	As of 11 May 2020	As of 31 December 2019	As of 31 December 2018
<i>Assets</i>			
Project expenditures	242,935	23,581	2,098
Designated account	16,216	57,999	57,901
Government co-financing account	780	-	-
Total assets	259,931	81,580	59,999
<i>Net assets and liabilities</i>			
IBRD Fund	237,528	79,582	60,000
Government co-financing	21,627	3,803	-
Exchange rate difference	776	(1,805)	(1)
Total net assets and liabilities	259,931	81,580	59,999

11. Project implementation

The line item "Consulting services and Training under the Project" of the statement of cash receipts and payments includes amounts of 59,681 US dollars paid in the framework of the contract signed between the Staff of the Prime Minister of the Republic of Armenia (the "Client") and Joint Venture EV Consulting CJSC and Saint Barbara LLP (the "Consultants"). This amount makes the 60% of the total contract amount. The Client has not paid to the Consultants the rest of the contract amount as well as has not accepted the final report submitted by the Consultant (Report 3) due to significant inconsistencies of the final version of the report with the requirements of the terms of reference of the Contract MSP-CS-1-1 as well as with the methodological requirements imposed by the Client to the Consultants. However, based on the estimates of the Office, part of the services received from the Consultants meets certain points of the terms of reference as well as the requirements of the Client, and the services received will serve as a significant research basis for the development of the mining strategy. Accordingly, the project financial statements do not include only 40% of the contract amount.