

Project Financial Statements and Independent Auditor's Report

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

**Third Public Sector Modernization Project
IBRD Loan Agreement 8539-AM**

As of and for the year ended 31 December 2019



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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 Third Public Sector Modernization Project (the "Project"), financed within the framework of the Loan Agreement 8539-AM by the International Bank for Reconstruction and Development (the "IBRD"), which comprise the statement of cash receipts and payments, the statement of uses of funds by Project activities as of and for the year ended 31 December 2019, 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 Third Public Sector Modernization Project as of 31 December 2019, and the cash received and cash paid for the year then ended, 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 Loan Agreement 8539-AM.

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 management of the Office to meet the requirements of the World Bank guidelines and the relevant points of the Loan Agreement 8539-AM. As a result, the project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

- We draw attention to note 10 to the project financial statements which describes the effect of a new disease COVID-19. Our opinion is not modified in respect of this matter.

Other matter

As described in note 11, the project financial statements as of 31 December 2018 were restated by the Office. Accordingly, the balance of the funds has been decreased by amount to US dollars 2,900,000.

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 IBRD Loan Agreement 8539-AM, 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

Director

1 June 2020



Emil Vassilyan, FCCA

Engagement Partner

Statement of cash receipts and payments

US dollars	Actual		Planned		Variance		
	Year ended 31 December 2019	As of 31 December 2019 (restated)	Year ended 31 December 2019	As of 31 December 2019	Year ended 31 December 2019	As of 31 December 2019	Life of Project
Opening cash balance	255,801						
<i>Add: cash receipts</i>							
IBRD Fund (note 4)	3,611,951	6,368,910					
Government co-financing (note 5)	376,030	719,115					
Total cash receipts	3,987,981	7,088,025					
Exchange rate difference	282	126					
<i>Less: cash payments</i>							
(1) Goods, non-consulting services, and consultant's services. Training and Incremental Operating Costs for Part 1.1 (a), 1.2, 2,3 and 4 of the Project	2,744,227	5,535,814	5,253,504	8,045,091	(2,509,277)	(2,509,277)	28,522,860
(3) Front-end Fee	-	52,500	-	52,500	-	-	52,500
Total cash payments	2,744,227	5,588,314	5,253,504	8,097,591	(2,509,277)	(2,509,277)	28,575,360
Closing cash balance	1,499,837	1,499,837					

The project financial statements were approved on 1 June 2020 by:

Serge Varak Sisserian
Head of Deputy Prime Minister's Office



Susanna Sahadyan
Acting Head of Financial and Accounting
Department

Ashkhen Janjughazyan
Project Financial Manager

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 2019	As of 31 December 2019	Year ended 31 December 2019	As of 31 December 2019	Year ended 31 December 2019	As of 31 December 2019	Project life
Part 1: Public Financial Management Information Systems	-	-	707,882	707,882	(707,882)	(707,882)	10,822,860
Part 2: e-Governance Solutions for Improved Service Delivery	2,291,505	4,682,936	3,925,595	6,317,026	(1,634,090)	(1,634,090)	14,000,000
Part 3: Capacity Building and Small Capacity Building Interventions	276,672	276,672	348,000	348,000	(71,328)	(71,328)	1,850,000
Part 4: Project Management and implementation	176,050	576,206	272,027	672,183	(95,977)	(95,977)	1,850,000
Front-end Fee	-	52,500	-	52,500	-	-	52,500
Total	2,744,227	5,588,314	5,253,504	8,097,591	(2,509,277)	(2,509,277)	28,575,360

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 Loan Agreement 8539-AM of the Third Public Sector Modernization Project (the "Project") was signed on 18 November 2015 between the Republic of Armenia and the International Bank for Reconstruction and Development (the "IBRD"). The total amount of the Loan was agreed to be US dollars 21,000,000.

The Project consists of the following parts:

- a) Public Financial Management Information Systems,
- b) e-Governance Solutions for Improved Service Delivery,
- c) Capacity Building and Small Capacity Building Interventions,
- d) Project Management and implementation.

In accordance with the Loan 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 Loan Allocated (In US dollars)
(1) Goods, non-consulting services, and consultant's services. Training and Incremental Operating Costs for Part 1.1 (a), 1.2, 2,3 and 4 of the Project	100 %	20,947,500
(3) Front-end Fee		52,500
		<u>21,000,000</u>

Front-end fee is equal to one quarter of one percent (0.25%) of the Loan amount. The front-end fee in amount of US dollars 52,500 was withheld by the IBRD on 6 May 2016.

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 N1262-Ն dated 19 September, 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 Loan Agreement 8539-AM.

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 9).

2.2 Project financial statements

The project financial statements include:

- a) The statement of cash receipts and payments of the Project for the year ended 31 December 2019, 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 479.7 drams for 1 US dollar as of 31 December 2019 (31 December 2018: drams 483.75 for 1 US dollar). 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 Loan Agreement 8539-AM 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 9).

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 schedule 2 of the Loan Agreement 8539-AM the closing date of the Project is 30 November 2022.

4. IBRD financing

US dollars

	Year ended 31 December 2019	As of 31 December 2019
Other procedures	2,606,928	4,352,982
SOE procedures (note 6)	205,023	463,428
Front-end fee	-	52,500
Designated account advance	800,000	1,500,000
	<u>3,611,951</u>	<u>6,368,910</u>

Under the method of "SOE procedures" of financing, the Office requests advance to and documentation of designated account accompanied by the statement of expenditure (SOE).

Under the method of "Other procedures" of financing, the Office requests advance to and documentation of designated account accompanied by the records evidencing eligible expenditures for payments against contracts valued at more than the amounts in accordance with the Disbursement Letter and contracts that are subject to the World Bank's prior review.

5. Government co-financing

US dollars

	Year ended 31 December 2019	As of 31 December 2019
Co-financing received	404,889	822,325
Returned amount	(28,859)	(103,210)
	<u>376,030</u>	<u>719,115</u>

6. SOE withdrawal schedule

For the year ended 31 December 2019

In US dollars

Application No.	Category
	Goods, works, consultants' services, Training and Incremental Operating Costs
8 DA	26,896
9 DA	68,191
11 DA	97,493
12 DA	10,992
13 DA	1,451
Total	<u>205,023</u>

7. Designated account statement

As of and for the year ended 31 December 2019

In US dollars

Opening balance as of 1 January 2019		255,801
Add:		
Cumulative unexplained discrepancy	-	
Credit replenishment during the year	3,611,951	
	<u>3,611,951</u>	<u>3,611,951</u>
Less: Refund to the IBRD from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		<u>3,867,752</u>
Closing balance as of 31 December 2019		1,499,837
Add:		
Amount of eligible expenditures paid during the year	2,367,915	
Service charges (if applicable)	-	
	<u>2,367,915</u>	<u>2,367,915</u>
Less: Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		<u>3,867,752</u>
Discrepancy (1) – (2) to be explained		-

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

For the year ended 31 December 2019

In US dollars

Category	Appl.	Office	The World Bank	Difference
Goods, non-consulting services, and consultant's services. Training and Incremental Operating Costs for Part 1.1 (a), 1.2, 2,3 and 4 of the Project				
	8-DA	444,199	444,199	-
	9-DA	74,329	74,329	-
	11-DA	1,043,331	1,043,331	-
	12-DA	106,214	106,214	-
	13-DA	1,143,878	1,143,878	-
		<u>2,811,951</u>	<u>2,811,951</u>	-
Designated account advance	10-DA	800,000	800,000	-
		<u>800,000</u>	<u>800,000</u>	-
Total		<u>3,611,951</u>	<u>3,611,951</u>	-

9. 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 31 December 2019	As of 31 December 2018 (restated)
<i>Assets</i>		
Project expenditures	5,769,704	2,842,762
Designated account	1,499,837	255,801
Advance	48,345	-
Total assets	7,317,886	3,098,563
<i>Net assets and liabilities</i>		
IBRD Fund	6,368,910	2,756,959
Government co-financing	719,115	343,085
Exchange rate difference	(1,456)	(1,512)
Other	95	31
Accounts payable	231,222	-
Total net assets and liabilities	7,317,886	3,098,563

10. Subsequent events

In March 2020 the World Health Organization has classified the coronavirus (COVID-19), which has exploded in China in December 2019, as pandemic. The impact of the coronavirus outbreak is unknown at this time. The developing situation with COVID-19 may have some impact on the continuity or the volume of the operations of the Office. On 16 March 2020 the Government of the Republic of Armenia announced a state of emergency in the country to last until 13 June 2020. These project financial statements do not reflect the potential effect of the above.

11. Restatement

In order to provide free financial assistance to the Republic of Armenia within the framework of the Project, the Russian Federation will provide financial aid at the amount of 8.2 million US dollars during 2017-2021 by the bilateral agreement signed in June 2017. Since the Ministry of Finance of the Republic of Armenia was assigned to implement the Project within the scope of the above mentioned agreement, only funds of the Project supported by the World Bank are included in the project financial statements. Therefore, the project financial statements have been restated as of 31 December, 2018 to exclude the received financing amount and the cash balance of US dollars 2,900,000 related to the financing received from the sources of the Ministry of Finance of the Russian Federation.

The project financial statements have been restated as follows:

In US dollars	As of 31 December 2018 (before restatement)	Restatement	As of 31 December 2018 (after restatement)
<i>Assets</i>			
Project expenditures	2,842,762	-	2,842,762
Designated account	255,801	-	255,801
RF Fund Financing treasury account	2,900,000	(2,900,000)	-
Total assets	<u>5,998,563</u>	<u>(2,900,000)</u>	<u>3,098,563</u>
<i>Net assets and liabilities</i>			
IBRD Fund	2,756,959	-	2,756,959
Government co-financing	343,085	-	343,085
RF Fund Financing	2,900,000	(2,900,000)	-
Exchange rate difference	(1,512)	-	(1,512)
Other	31	-	31
Total net assets and liabilities	<u>5,998,563</u>	<u>(2,900,000)</u>	<u>3,098,563</u>