

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 16 December 2022 and for the period from 1 January
2022 to 16 December 2022



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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 16 December 2022 and for the period from 1 January 2022 to 16 December 2022, 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 16 December 2022, and the cash received and cash paid for the period from 1 January 2022 to 16 December 2022, 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 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.
- In addition, we draw attention to note 3 to the project financial statements, which describes that the closing date of the Project is 30 November 2022. Our opinion is not modified in respect of this matter.

Statement of cash receipts and payments

US dollars	Actual		Planned		Variance		Life of Project
	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022	
Opening cash balance (note 4)	1,572,367						
<i>Add: cash receipts</i>							
IBRD Fund (note 5)	4,225,405	20,300,000					
Government co-financing (note 6)	575,618	2,358,905					
Total cash receipts	4,801,023	22,658,905					
Exchange rate difference	13,729	16,350					
<i>Less: cash payments</i>							
(1) Goods, non-consulting services, and consultant's services. Training and Incremental Operating Costs for Part 1.2, 2,3 and 4 of the Project	6,357,769	22,593,405	6,346,874	22,582,510	10,895	10,895	24,429,691
Front-end Fee	-	52,500	-	52,500	-	-	52,500
Total cash payments	6,357,769	22,645,905	6,346,874	22,635,010	10,895	10,895	24,482,191
Closing cash balance (note 4)	29,350						

The project financial statements were approved on 26 December 2022 by:

Vahe Davtyan

Head of Deputy Prime Minister's Office Tigran Khachatryan

Susanna Sahadyan

Head of Financial and Accounting Department

Anahit Karapetyan

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 7 to 12.

Statement of uses of funds by Project activities

US dollars	Actual		Planned		Variance		Life of Project
	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022	
Part 1: Public Financial Management Information Systems	-	-	-	-	-	-	360,000
Part 2: e-Governance Solutions for Improved Service Delivery	6,154,106	21,200,990	6,095,482	21,142,366	58,624	58,624	22,121,990
Part 3: Capacity Building and Small Capacity Building Interventions	-	276,672	-	276,672	-	-	277,271
Part 4: Project Management and Implementation	203,663	1,115,743	251,392	1,163,472	(47,729)	(47,729)	1,630,400
Front-end Fee	-	52,500	-	52,500	-	-	52,500
Unallocated funds	-	-	-	-	-	-	40,030
Total	6,357,769	22,645,905	6,346,874	22,635,010	10,895	10,895	24,482,191

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 7 to 12.

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. According to the amendment of the Loan Agreement, the loan amount, which amounted to US dollars 21,000,000, was cancelled (decreased) by US dollars 700,000 in 2020.

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 1.2, 2,3 and 4 of the Project	100 %	20,247,500
Front-end Fee		52,500
		<u>20,300,000</u>

The front-end fee in amount of US dollars 52,500 was withheld by the IBRD on 6 May 2016.

The Project was initially 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 of the Government of the Republic of Armenia dated 16 December 2018, the activities of the FFPMC were suspended starting from 31 March 2019. It was determined that the operations of the FFPMC will be implemented by the Project Implementation Department of the Ministry of Finance of the Republic of Armenia through an auxiliary professional structural subdivision. Later, according to the decree N1262-Ն of the Government of the Republic of Armenia dated 19 September 2019, it was determined that the operations of the Project will be implemented by the Office of the Prime Minister of the Republic of Armenia (the “Office”).

The legal address of the Office is the 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 also 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 11).

2.2 Project financial statements

The project financial statements include:

- a) The statement of cash receipts and payments activities as of 16 December 2022 and for the period from 1 January 2022 to 16 December 2022, 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;
 - Statement of designated account in the notes;
 - Statement of financial position showing the 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 the Republic 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 of Government of Armenia in Armenian drams are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the previous date of the transaction. Direct payments from the World Bank funds to the Project’s counterparties, which are denominated in currencies other than US dollar, 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 394.45 drams for 1 US dollar as of 16 December 2022 (31 December 2021: drams 480.14 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. 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 10).

2.6 IBRD financing

To finance eligible expenditures under the Loan 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. Cash balances

In US dollars	As of 16 December 2022	As of 31 December 2021
Designated account (note 9)	26,797	1,500,000
Government co-financing account	2,553	72,367
	<u>29,350*</u>	<u>1,572,367</u>

* The balance will be used to pay the audit fee of AMD 6,041 thousand (US dollars 15,316). The difference will be refunded to the World Bank.

5. IBRD financing

US dollars	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022
Other procedures	4,921,097	17,739,935
SOE procedures (note 8)	777,511	2,480,768
Front-end fee	-	52,500
Designated account advance/(redemption)	(1,473,203)	26,797
	<u>4,225,405</u>	<u>20,300,000</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.

6. Government co-financing

US dollars	For the period from 1 January 2022 to 16 December 2022	As of 16 December 2022
Co-financing received	647,677	2,598,380
Returned amount	(72,059)	(239,475)
	<u>575,618</u>	<u>2,358,905</u>

7. Project finalization

Within the scope of the contract No PSMP3-GO-2-2-16 signed with JV VXSoft Limited, VXSoft LLC and e-Governance Academy Foundation, all the works submitted during the Project period have been accepted and paid for. According to the agreement dated 30 November 2022, the final services (Operational Acceptance) will be accepted and payment of 10% of the contract value, which amounts to Euros 130,023 (about US dollars 138,099), will be executed within the framework of the Fourth Public Sector Modernization Project (Project 9338 AM).

Within the scope of contract No. PSMP3-CS-2-2-23 signed with "Masys Information Systems" LLC, the services of the first two phases were implemented and paid for. The contract has not been fully completed. Due to the finalization of the Project, an agreement on the termination of the contract was drawn up. According to a letter addressed to the Chief of the Prime Minister's Staff of the Republic of Armenia dated 29 November 2022 by the Ministry of Justice of the Republic of Armenia, a preliminary agreement was reached between the Ministry of Justice and "Masys Information Systems" LLC on further cooperation aimed at ensuring the final development and configuration of the system.

8. SOE withdrawal schedule

For the period from 1 January 2022 to 16 December 2022

In US dollars

Application No.	Category
	Goods, non-consulting services, and consultant's services. Training and Incremental Operating Costs for Part 1.2, 2,3 and 4 of the Project
25 DA	118,132
26 DA	97,852
27 DA	382,749
28 DA	177,697
29 DA	1,081
Total	777,511

9. Designated account statement

As of 16 December 2022 and for the period from 1 January 2022 to 16 December 2022

In US dollars

Opening balance as of 1 January 2022		1,500,000
Add:		
Cumulative unexplained discrepancy	-	
Credit replenishment during the year	4,225,405	
	4,225,405	4,225,405
Less: Refund to the IBRD from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		5,725,405
Closing balance as of 16 December 2022		26,797
Add:		
Amount of eligible expenditures paid during the year	5,698,608	
Service charges (if applicable)	-	
	5,698,608	5,698,608
Less: Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		5,725,405
Discrepancy (1) – (2) to be explained		-

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

For the period from 1 January 2022 to 16 December 2022

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 1.2, 2,3 and 4 of the Project				
	25 DA	1,178,209	1,178,209	-
	26 DA	1,208,568	1,208,568	-
	27 DA	1,119,200	1,119,200	-
	28 DA	1,499,993	1,499,993	-
	29 DA	692,638	692,638	-
		<u>5,698,608</u>	<u>5,698,608</u>	-
Designated account advance/(redemption)				
	28 DA	(780,565)	(780,565)	-
	29 DA	(692,638)	(692,638)	-
		<u>(1,473,203)</u>	<u>(1,473,203)</u>	-
Total		<u>4,225,405</u>	<u>4,225,405</u>	-

11. Statement of financial position

As described in the note 2.1, the Office's policy is to prepare the project financial statements in accordance with IPSAS *Financial Reporting Under the Cash Basis of Accounting*. However, the Office also 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 16 December 2022	As of 31 December 2021
Assets		
Project expenditures	22,524,884	16,758,568
Balances in bank accounts	29,350	1,572,367
Total assets	<u>22,554,234</u>	<u>18,330,935</u>
Net assets and liabilities		
IBRD Fund	20,300,000	16,074,594
Government co-financing	2,358,905	1,783,287
Exchange rate difference	(188,154)	(30,794)
Other	83,483	33,127
Accounts payable	-	470,721
Total net assets and liabilities	<u>22,554,234</u>	<u>18,330,935</u>