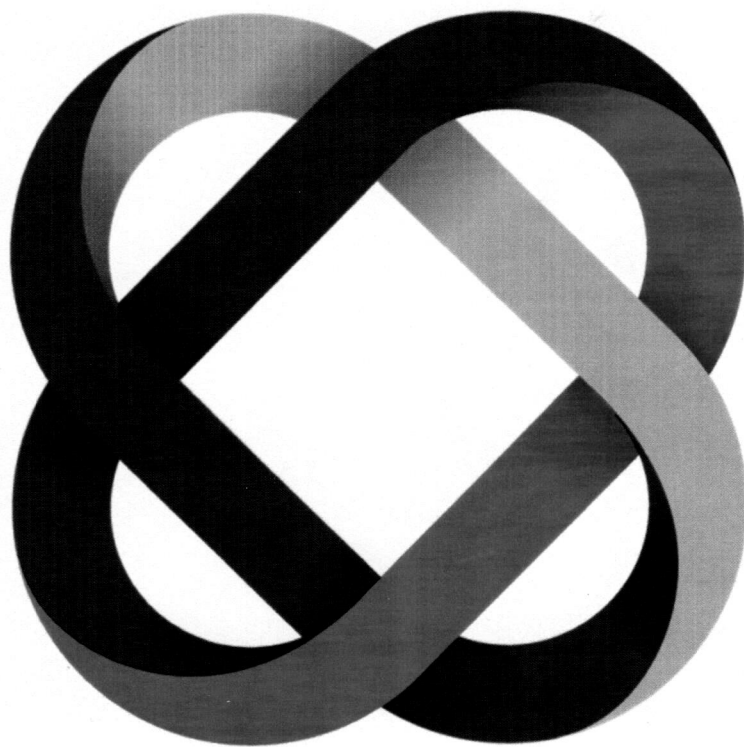


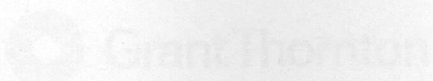
Project Financial Statements and Independent Auditor's Report

Foreign Financing Project Management Center

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

As of and for the year ended 31 December 2018





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To the Board of Directors of the Project Management Office of the Ministry of Finance of the Republic of Armenia

Opinion

We have audited the Project financial statements of the Third Public Sector Modernization Project (the "Project") reported under the framework of the Loan Agreement 8539-AM to the International Bank for Reconstruction and Development (the "IBRD") and the associated financial statements prepared between the Ministry of Finance of the Republic of Armenia and the Ministry of Finance of the Republic of Armenia. We have audited the statements of cash receipts and payments, the statement of uses of funds by Project activities as of and for the year ended 31 December 2018, as well as a summary of significant accounting policies and other explanatory information.

In our opinion, the Project financial statements present fairly the cash receipts and payments of the Third Public Sector Modernization Project as of 31 December 2018 and the uses of funds and cash receipts for the year ended 2018, 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 International Federation of Accountants, the World Bank guidelines, as well as the provisions of the Loan Agreement 8539-AM.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) for independent member firms. These standards are part of the Auditing Framework for the Third Public Sector Modernization Project. We are independent of the Project Management Office of the Ministry of Finance of the Republic of Armenia (the "PMO") 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 of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. The basis for our opinion is the audit evidence we have obtained, which is sufficient to provide a basis for our opinion.

Independent auditor's report

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To the State Institution "Foreign Financing Project Management Center" of the Ministry of Finance 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") and the agreement on free financial assistance signed between the Ministry of Finance of the Russian Federation and the Ministry of Finance of the Republic of Armenia, 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 2018, 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 2018, 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 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 "Foreign Financing Projects Management Center" of the Ministry of Finance of the Republic of Armenia (the "FFPMC") 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 State Institution "Foreign Financing Projects Management Center" of the Ministry of Finance of the Republic of Armenia to meet the requirements of the World Bank guidelines and the relevant points of 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 1 to the project financial statements, which describes that the according to decree N1427-Ն dated 13 December, 2018 the activities of the FPPMC will continue to be implemented by the Project Implementation Unit of the Ministry of Finance of the Republic of Armenia through auxiliary professional structural subdivision. Our opinion is not modified in respect of this matter.

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

Management 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 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 FPPMC'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.

Gagik Gyulbudaghyan

Emil Vassilyan, FCCA

Managing Partner

Engagement Partner

4 February 2019



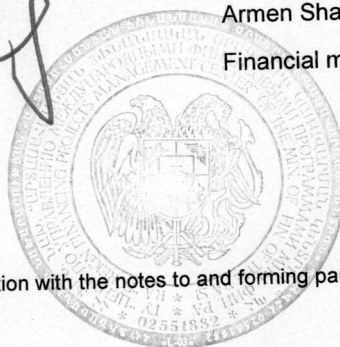
Statement of cash receipts and payments

US dollars	Actual		Planned		Variance		Life of Project
	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	
Opening cash balance (note 4)	804,438						
Add: cash receipts							
IBRD Fund (note 5)	1,706,170	2,756,959					
Government co-financing (note 6)	225,161	343,085					
RF Financing (note 7)	2,500,000	2,900,000					
Total cash receipts	4,431,331	6,000,044					
Exchange rate difference	59	(156)					
Less: cash payments							
(1) Goods, works, consultants' services, Training and Incremental Operating Costs for Parts 1.2,2.3 and 4 of the Project	2,080,027	2,791,587	2,569,873	3,281,433	(489,846)	(489,846)	18,622,860
(2) Goods, works, consultants' services and Training for activities under Part 1.1 (a) of the Project	-	-	1,058,213	1,058,213	(1,058,213)	(1,058,213)	18,100,000
(3) Front-end Fee	-	52,500	-	52,500	-	-	52,500
Total cash payments	2,080,027	2,844,087	3,628,086	4,392,146	(1,548,059)	(1,548,059)	36,775,360
Closing cash balance (note 4)	3,155,801	3,155,801					

The project financial statements were approved on 4 February 2019 by:

Edgar Avetyan
Director

Armen Shahnazaryan
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		Project life
	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	Year ended 31 December 2018	As of 31 December 2018	
Part 1: Public Financial Management Information Systems	-	-	1,199,544	1,199,544	(1,199,544)	(1,199,544)	19,022,860
Part 2: e-Governance Solutions for Improved Service Delivery	1,879,363	2,391,431	2,115,775	2,627,843	(236,412)	(236,412)	14,000,000
Part 3: Capacity Building and Small Capacity Building Interventions	-	-	-	-	-	-	1,850,000
Part 4: Project Management and implementation	200,664	400,156	312,767	512,259	(112,103)	(112,103)	1,850,000
Front-end Fee	-	52,500	-	52,500	-	-	52,500
Total	2,080,027	2,844,087	3,628,086	4,392,146	(1,548,059)	(1,548,059)	36,775,360

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 (RA) 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, works, consultants' services, Training and Incremental Operating Costs for Parts 1.2,2,3 and 4 of the Project	100 %	14,663,500
(2) Goods, works, consultants' services and Training for activities under Part 1.1 (a) of the Project	100 %	6,284,000
(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.

In order to provide free financial assistance to the Republic of Armenia within the framework of the "Third Public Sector Modernization 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, which will be used to finance the expenses for creating a single automated information management system for the Government of Armenia.

According to the agreement the Russian Federation should transfer the above mentioned amount with the following schedule:

Year	Amount (US dollars)
2017	400,000
2018	2,500,000
2019	2,600,000
2020	1,300,000
2021	1,400,000
Total	8,200,000

In 2018, within the scope of this agreement US dollars 2,500,000 has been transferred to the deposit account opened in the RA Treasury.

The Project is implemented by the State Institution "Foreign Financing Projects Management Center" of the Ministry of Finance of the Republic of Armenia (the "FFPMC"). The FFPMC was established as a state institution by the Republic of Armenia Government Resolution # 37 dated 29 March, 2000, on the basis of the Department of Aid Coordination and Technical Assistance of the Ministry of Economy of the Republic of Armenia. The founder of the FFPMC is the Government of the Republic of Armenia.

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

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

The average number of the FFPMC staff in 2018 was 6 (2017: 6).

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 FFPMC 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 of the Project for the year ended 31 December 2018, 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 drams for 1 US dollar as of 31 December 2018 (31 December 2017: drams 484.10 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 11).

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 31 December 2020.

4. Cash balances

US dollars

	As of 31 December 2018	As of 31 December 2017
Designated account (note 9)	255,801	404,438
RF Financing treasury account (note 7)	2,900,000	400,000
	<u>3,155,801</u>	<u>804,438</u>

5. IBRD financing

US dollars

	Year ended 31 December 2018	As of 31 December 2018
Other procedures	1,377,112	1,746,054
SOE procedures (note 8)	129,058	258,405
Front-end fee	-	52,500
Designated account advance	200,000	700,000
	<u>1,706,170</u>	<u>2,756,959</u>

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

Under the method of "Other procedures" of financing, the FPPMC 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

	Year ended 31 December 2018	As of 31 December 2018
Co-financing received	236,208	417,436
Returned amount	(11,047)	(74,351)
	<u>225,161</u>	<u>343,085</u>

7. Russian Federation financing

US dollars

	Year ended 31 December 2018	As of 31 December 2018
Financing received	2,500,000	2,900,000
	<u>2,500,000</u>	<u>2,900,000</u>

8. SOE withdrawal schedule

For the year ended 31 December 2018

In US dollars

Application No.	Category
	Goods, works, consultants' services, Training and Incremental Operating Costs
4 DA	76,468
5 DA	34,936
6 DA	1,517
7 DA	16,137
Total	<u>129,058</u>

9. Designated account statement

As of and for the year ended 31 December 2018

In US dollars

Opening balance as of 1 January 2018		404,438
Add:		
Cumulative unexplained discrepancy	-	
Credit replenishment during the year	1,706,170	
	<u>1,706,170</u>	<u>1,706,170</u>
Less: Refund to the IBRD from the designated account during the year		-
Present outstanding amount advanced to the designated account (1)		<u>2,110,608</u>
Closing balance as of 31 December 2018		255,801
Add:		
Amount of eligible expenditures paid during the year	1,854,807	
Service charges (if applicable)	-	
	<u>1,854,807</u>	<u>1,854,807</u>
Less: Interest earned (if credited into the designated account)		-
Total advance accounted for (2)		<u>2,110,608</u>
Discrepancy (1) – (2) to be explained		-

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

For the year ended 31 December 2018

In US dollars

Category	Appl.	FFPMC	The World Bank	Difference
Goods, works, consultants' services, Training and Incremental Operating Costs	4-DA	439,260	439,260	-
	5-DA	396,455	396,455	-
	6-DA	289,651	289,651	-
	7-DA	380,804	380,804	-
		<u>1,506,170</u>	<u>1,506,170</u>	<u>-</u>
Designated account advance	6A-DA	200,000	200,000	-
		<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total		<u>1,706,170</u>	<u>1,706,170</u>	<u>-</u>

11. Statement of financial position

As described in the note 2.1, the policy of the FFPMC is to prepare the project financial statements in accordance with IPSAS "Financial Reporting Under the Cash Basis of Accounting". However, the FFPMC 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 2018	As of 31 December 2017
<i>Current assets</i>		
Balances in bank accounts		
Designated account	255,801	404,438
RF Fund Financing treasury account	2,900,000	400,000
	<u>3,155,801</u>	<u>804,438</u>
<i>Non-current assets</i>		
Project expenditures	2,842,762	805,909
	<u>2,842,762</u>	<u>805,909</u>
Total assets	<u>5,998,563</u>	<u>1,610,347</u>
<i>Net assets and liabilities</i>		
<i>Net assets funded by:</i>		
IBRD Fund	2,756,959	1,050,789
Government co-financing	343,085	117,924
RF Fund Financing	2,900,000	400,000
Exchange rate difference	(1,512)	(2,596)
Other	31	31
	<u>5,998,563</u>	<u>1,566,148</u>
<i>Current liabilities</i>		
Accounts payable	-	44,199
	<u>-</u>	<u>44,199</u>
Total net assets	<u>5,998,563</u>	<u>1,610,347</u>

