

**FOREIGN FINANCING PROJECTS MANAGEMENT CENTRE**  
**TRADE PROMOTION AND QUALITY INFRASTRUCTURE PROJECT**  
**LOAN No. 8390-AM**  
**SPECIAL PURPOSE FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**  
**For the year ended 31 December 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Director of Foreign Financing Projects Management Centre

We have audited the accompanying special purpose financial statements of the Trade Promotion and Quality Infrastructure Project (hereinafter the TPQIP), implemented by Foreign Financing Projects Management Center State Institution (hereinafter the FFPMC), which comprise Statement of Project Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Reconciliation Statement of Withdrawal Applications, Statement of Designated Account and Government Co-financed Account for the year ended 31 December 2016, and Statement of Financial Position as at 31 December 2016 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 project sources and uses of funds, uses of funds by project activity and its cash flows for the year ended 31 December 2016 in accordance with the cash basis of accounting in line with International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of Accounting and Financing Agreement between the Republic of Armenia and International Bank for Reconstruction and Development dated 6 August, 2014 (Loan #8390-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 *Auditors Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Union in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1(c) in the special purpose financial statements, which indicates that the Ministry of Economic Development and Investments, who is responsible for the entire project and has the overall project coordination role, did not initiate activities to be implemented in the scope of Part B: Promoting Investment and Exports and Part C: Modernizing the National Quality Infrastructure as provided by the Project Operational Manual. Lack of such activities indicate that a material uncertainty exists that may cast significant doubt on the TPQIP's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Emphasis of Matter - Restriction on Distribution or Use*

We draw attention to Note 2(a) to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements have been prepared for providing information to the Government of the Republic of Armenia and the International Development Association to assist them in evaluating the TPQIP's implementation. As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the special purpose financial statements of the current period. These matters were addressed in the context of our audit of the special purpose financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be key audit matters to be communicated in our report.

In the scope of implementation of TPQIP's objectives, the procurements incurred for receipt of consulting services, works and supply of goods amounted to USD 63,809. The procurements shall be performed in line with applicable procurement guidelines designated by World Bank.

Our audit procedures in this area included, among other:

- Corroborating with management the process of procurement and compliance to applicable procurement guidelines designated by World Bank;
- Analysing the procurement plan, conditions associated to each procurement, correspondence with the World Bank, method of procurement and discussing compliance of these conditions to applicable procurement guidelines designated by World Bank;
- On sample basis, reviewing compliance of procurement packages to applicable procurement guidelines designated by World Bank;
- On sample basis, reviewing the documentation supporting the procurement as well as availability of deliverables designated by the procurement contracts.

As result of our audit procedures, we concluded that procurements were performed in line with applicable procurement guidelines designated by World Bank.

### *Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements*

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with accrual basis of accounting as described in Note 2(a), and for such internal control as management determine is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the TPQIP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the FPPMC or to cease operations of TPQIP, or has no realistic alternative but to do so.

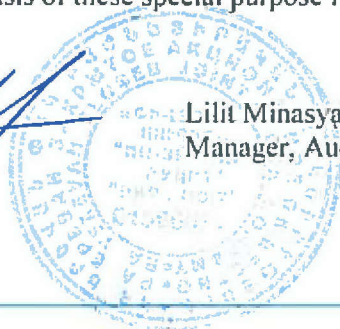
### *Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements*

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 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 special purpose financial statements.

Davit Yedigaryan  
Director

PHP Audit cjsc  
26 June 2017

Lilit Minasyan  
Manager, Audit Department



*Trade Promotion and Quality Infrastructure Project*  
*Statement of Project Sources and Uses of Funds for the year ended 31 December 2016*

	Actual		Planned		Variance		PAD Life of Project
	2016	2015	Cumulative	2016	2015	Cumulative	
<i>USD</i>							
Opening Cash Balance							
Government co-financing account for Credit	-	-					
Designated Account for World Bank financing	470,832	-					
<b>Total</b>	<b>470,832</b>	<b>-</b>					
Add:							
Sources of Funds							
Government co-financing	31,860	9,270	41,130				
World Bank financing	2,325,000	1,800,000	4,125,000				
<b>Total donor funds</b>	<b>2,356,860</b>	<b>1,809,270</b>	<b>4,166,130</b>				
Foreign Exchange Difference							
Government co-financing	210	(15)	195				
<b>Total</b>	<b>210</b>	<b>(15)</b>	<b>195</b>				
Less:							
Uses of Funds							
Procurement of goods (co- financed by Government)	-	-	-				
Consultancy services (co- financed by Government)	15,957	719	16,676				
Training (co-financed by Government)	-	-	-				
Operating expenses (co- financed by Government)	15,631	8,536	24,167				

*Trade Promotion and Quality Infrastructure Project*  
*Statement of Project Sources and Uses of Funds for the year ended 31 December 2016*

USD	Actual		Planned		Variance		PAD Life of Project			
	2016	2015	2016	2015	2016	2015				
	Cumulative	2016	Cumulative	2016	Cumulative	2015				
Results Based Financing										
“Improving the Effectiveness										
of Trade Promotion and										
Quality Systems” (financed										
by credit)	2,325,000	1,175,000	3,500,000							
Procurement of goods										
(financed by credit)										
Consultancy services										
(financed by credit)	47,852	3,596	51,448							
Training (financed by credit)										
Operating expenses (financed										
by credit)	41,277	25,572	66,849							
Government co-financing	31,588	9,255	40,843	32,000	156,019	41,255	(412)	(146,764)	(412)	10,040,520
Credit financing	2,414,129	1,204,168	3,618,297	2,415,000	2,280,095	3,619,168	(871)	(1,075,927)	(871)	49,875,000
Total	2,445,717	1,213,423	3,659,140	2,447,000	2,436,114	3,660,423	(1,283)	(1,222,691)	(1,283)	59,915,520
Front end fee	-	125,000	125,000	-	125,000	125,000	-	-	-	125,000

Closing Cash Balance		
Government co-financing		
account for credit	482	
Designated Account for credit		
(World Bank financing)	381,703	470,832
Total	382,185	470,832

The project special purpose financial statements were approved by the management of Foreign Financing Projects Management Centre and signed on its behalf on 26 June 2017.

Edgar Avetyan  
 Executive director



Armen Shahnazaryan  
 Financial Manager



*Trade Promotion and Quality Infrastructure Project*  
*Statement of Uses of Funds by Project Activity for the year ended 31 December 2016*

Project Activities	Actual		Planned		Variance		PAD Life of Project
	2016	2015	Cumulative	2016	2015	Cumulative	
<i>Part A: Improving the Effectiveness of Trade Promotion and Quality Systems</i>	2,325,000	1,175,000	3,500,000	-	-	-	10,000,000
Government co-financing	-	-	-	-	-	-	-
Credit financing	2,325,000	1,175,000	3,500,000	-	-	-	10,000,000
<i>Part B: Promoting Investment and Exports</i>	-	-	-	-	-	-	35,761,600
Government co-financing	-	-	-	-	-	-	6,526,600
Credit financing	-	-	-	-	-	-	29,235,000
<i>Part C: Modernizing the National Quality Infrastructure</i>	-	-	-	-	-	-	11,589,920
Government co-financing	-	-	-	-	-	-	2,949,920
Credit financing	-	-	-	-	-	-	8,640,000
<i>Part D: Project Management, Monitoring and Evaluation</i>	120,717	38,422	159,140	-	-	-	2,564,000
Government co-financing	31,588	9,255	40,843	-	-	-	564,000
Credit financing	89,129	29,168	118,297	-	-	-	2,000,000
Front End Fee	-	125,000	125,000	-	125,000	-	125,000
Total project expenditure	2,445,717	1,338,423	3,784,140	2,447,000	2,561,114	3,785,423	(1,283)
						(1,222,691)	(1,283)

## **I Background**

### **(a) Organisation and operations**

The Foreign Financing Projects Management Centre (FFPMC) State Institution was established by RoA Minister of Economy Decree No. 37, dated 29 March 2000. Within the scope of its operation the FFPMC is guided by local legal acts and Loan and Grant Agreements, signed between the Government of Armenia and the International Bank for Reconstruction and Development (World Bank). The main objective of operation of FFPMC is to implement projects on the account of loan and grant proceeds allocated to the Republic of Armenia by the World Bank.

According to the financing agreement concluded between the International Bank for Reconstruction and Development and Republic of Armenia dated 6 August 2014 (Loan Agreement) a loan in an amount equivalent to fifty million United States Dollars (\$50,000,000) was extended for the implementation of Trade Promotion and Quality Infrastructure Project to finance procurement of goods, consultants' services and incremental operating expenses. The Project Management Unit is formed within the Ministry of Economic Development and Investments of the Republic of Armenia.

Tax consequences arising from the procured goods, consultants' services and incurred operating expenses are paid from the proceeds of the co-financing received from the Government of the Republic of Armenia. Total amount of Government co-financing approximates to USD 9,500,000.

The Project's objective is to strengthen the Borrower's capacity to provide export promotion, investment attraction and quality management services to firms.

The Project consists of the following components:

- **Part A: Improving the Effectiveness of the Trade Promotion and Quality System**  
The objective of this Component is to promote reforms aimed at improving the trade promotion and quality infrastructure system.
- **Part B: Promoting Investment and Exports**  
The objective of this component is to strengthen the capacity of local exporters to compete in foreign markets, facilitate cluster development, and attract efficiency seeking FDI (Foreign Direct Investment).
- **Part C: Modernizing the National Quality Infrastructure**  
The objective of this component is to modernize metrological, accreditation and standards services in order to provide relevant quality assurance services to industry.
- **Part D: Project Management and Monitoring and Evaluation**  
The objective of this component is to finance project implementation and monitoring.

Closing date of the Project is 30 June 2020.

### **(c) TPQIP's going concern**

In the scope of TPQIP the Ministry of Economic Development and Investments, who is responsible for the entire project and has the overall project coordination role, did not initiate activities to be implemented in the scope of Part B: Promoting Investment and Exports and Part C: Modernizing the National Quality Infrastructure as provided by the Project Operational Manual. Accordingly, the going concern of the TPQIP is highly dependent on the ability and willingness of Ministry of Economic Development and Investments to initiate abovementioned. activities.



**(c) Results Based Financing (RBF)**

In the scope of Part A “Improving the Effectiveness of the Trade Promotion and Quality System” of the Project, the World Bank has made Results Based Financing subject to validation by independent auditor.

This RBF component disburses loan funds to the Government of Armenia (GoA) for agreed-upon actions, outputs and outcomes (“Disbursement-Linked Indicators” or DLIs) that result in improvements to the trade promotion and quality system. The GoA receives disbursements based on established amounts allocated to the achieved DLIs to the extent there are sufficient Eligible Expenditure Programs (EEPs) incurred by the Government.

The Project Management Unit reports the achievement of the DLIs by providing documentation of the achievement of the given DLJ and the EEPs.

PHP Audit CJSC was selected as an independent auditor for validation of the actual level of EEPs in the scope of agreed upon procedures. Validation of the actual EEPs covered in the financial statements is for the year ended 31 December 2015. The validated amount by the auditor is USD 3,560,087.

The World Bank accepted evidence submitted in the fulfillment of nine DLIs for the total amount of USD 2,000,000 and three DLIs for the total amount of USD 325,000 not fulfilled from prior year.

Disbursements under Part A, in the form of RBF, were made to the Central Bank of Armenia for USD 325,000 on 21 June 2016 and USD 2,000,000 on 19 December 2016.

**2 Basis of preparation**

**(a) Statement of compliance**

The special purpose financial statements are prepared in accordance with the cash basis of accounting in line with the International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of the Accounting.

The special purpose project financial statements consist of:

- Project Sources and Uses of Funds,
- Uses of Funds by Project Activity,
- Statement of Financial Position,
- Statement of Designated Accounts,
- Statement of Project Account.

Cash basis of accounting recognizes transactions and other events only when cash is received or paid.

**(b) Reporting currency**

The reporting currency of special purpose financial statements is US dollar (USD). All financial information presented in USD has been rounded to the nearest USD.

**3 Significant accounting policies**

**(a) Foreign currency transactions**

In the scope of the Project IBRD makes disbursements in USD on the designated account 900000900408 for the project. Payment of eligible and accepted expenditures (goods, services and

other) should be made by the FFPMC out of designated account, or FFPMC will submit withdrawal applications to the Bank for payments to contractors, suppliers and consultants directly from loan account. FFPMC converts the amounts received and transfers to contractors, suppliers and consultants.

The outstanding balances of the project account are translated to USD based on the USD exchange rate defined by the Central Bank of the Republic of Armenia as at 31 December 2016 equaling to AMD 483.94.

**(b) Taxes**

All the applicable tax liabilities are calculated and paid in accordance to tax regulations of the Republic of Armenia.

**(c) Funds for the Project**

Funds for the Project are received from the International Development Association and from Government of Armenia.

**4 Reconciliation statement of withdrawal applications**

				<b>2016</b>
<b>Withdrawal Application Reference</b>	<b>Application Type</b>	<b>Amount Requested by FFPMC USD</b>	<b>Amount Paid by World Bank USD</b>	<b>Difference USD</b>
EEP-DA 2	Advance to Designated Account	325,000	325,000	-
EEP-DA 3	Reimbursement/ Results Based Financing	2,000,000	2,000,000	-
		<u>2,325,000</u>	<u>2,325,000</u>	<u>-</u>
				<b>2015</b>
<b>Withdrawal Application Reference</b>	<b>Application Type</b>	<b>Amount Requested by FFPMC USD</b>	<b>Amount Paid by World Bank USD</b>	<b>Difference USD</b>
A1	Advance to Designated Account	500,000	500,000	-
EEP-DA 1	Reimbursement/ Results Based Financing	1,175,000	1,175,000	-
		<u>1,675,000</u>	<u>1,675,000</u>	<u>-</u>



## 5 Statement of Designated Account and Government Co-financed Account

<u>USD</u>	<u>2016</u>	<u>2015</u>
Opening balance	470,832	-
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	-	500,000
<b>Present outstanding amount advanced to the designated account</b>	<b>470,832</b>	<b>500,000</b>
Closing balance carried forward to next period	381,703	470,832
<i>Add:</i> Amount of eligible expenditures paid during the current period	89,129	29,168
<b>Total advance accounted for</b>	<b>470,832</b>	<b>500,000</b>

<u>USD</u>	<u>2016</u>	<u>2015</u>
Opening balance	-	-
<i>Add:</i>		
Government co-financing during the current period	31,860	9,270
Less: Foreign exchange difference	210	(15)
<b>Present outstanding amount advanced to project account</b>	<b>32,070</b>	<b>9,255</b>
Closing balance carried forward to next period	482	-
<i>Add:</i> Amount of eligible expenditures paid during the current period	31,588	9,255
<b>Total advance accounted for</b>	<b>32,070</b>	<b>9,255</b>

## 6 Statement of Financial Position

<i>USD</i>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current assets</b>		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	482	-
Designated Account for credit (World Bank financing)	<u>381,703</u>	<u>470,832</u>
<b>Total current assets</b>	<u>382,185</u>	<u>470,832</u>
<b>Non-current assets</b>		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	40,843	9,255
Credit financed cumulative expenditure	<u>3,743,297</u>	<u>1,329,168</u>
<b>Total non-current assets</b>	<u>3,784,140</u>	<u>1,338,423</u>
<b>Total assets</b>	<u>4,166,325</u>	<u>1,809,255</u>
<b>FUNDS</b>		
<b>Project financing</b>		
Government co-financing account for credit	41,130	9,270
Designated Account for credit (World Bank financing)	<u>4,125,000</u>	<u>1,800,000</u>
<b>Total funds</b>	<u>4,166,130</u>	<u>1,809,270</u>
<b>Foreign exchange difference</b>		
Government co-financing account for credit	195	(15)
Designated Account for credit (World Bank financing)	<u>-</u>	<u>-</u>
<b>Total foreign exchange difference</b>	<u>195</u>	<u>(15)</u>
<b>Total net assets and liabilities</b>	<u>4,166,325</u>	<u>1,809,255</u>