

**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 2018**

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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 FPPMC), 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 2018, and Statement of Financial Position as at 31 December 2018 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 2018 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 FPPMC 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.

### *Emphasis of Matter – Material Uncertainty Related to Going Concern of the TPQIP*

We draw attention to Note 1(b) 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 in the volume 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 – Cessation of Activities of the FFPMC*

We draw attention to Note 1(a) to the special purpose financial statements, which describes that according to the Republic of Armenia Government Decree #1427-N dated 13 December 2018, the activities of the FFPMC will be implemented by the Project Implementation Department 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.

*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 of the TPQIP and Cessation of Activities of the FFPMC sections, we have determined the matters described below to be key audit matters to be communicated in our report.

*-Results Based Financing (RBF)*

In the scope of implementation of TPQIP's objectives, PHP Audit CJSC was selected as an independent auditor for validation of the actual level of Eligible Expenditure Programs (EEPs) in the scope of agreed upon procedures. Validation of the actual EEPs covered in these special purpose financial statements is for the year ended 31 December 2017. The validated amount by the auditor is USD 3,060,731.

Our audit procedures in this area included:

- reconciling report on validation of the actual level of Eligible Expenditure Programs in the scope of agreed upon procedures to the payment made to the Government of the Republic of Armenia;
- reviewing the application of the withdrawal for any discrepancies.

As result of our audit procedures, we concluded that the World Bank accepted evidence submitted in the fulfillment of DLIs and approved payment for the total amount of USD 2,000,000 as defined by the loan agreement schedule and authorized payment of USD 2,000,000 based on withdrawal application. No any discrepancies were noted.

*-Procurements*

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 7,427. 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 cash 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.



Hovhannes Petrosyan  
Director

PHP Partners cjsc  
26 March 2019



Lilit Minasyan  
Partner, Head of Audit Services

*Trade Promotion and Quality Infrastructure Project*  
*Statement of Project Sources and Uses of Funds for the year ended 31 December 2018*

	Actual			Planned		Variance		PAD Life of Project
	2018	2017	Cumulative	2018	2017	2018	2017	
<b>USD</b>								
<b>Opening Cash Balance</b>								
Government co-financing account for Credit	-	482						
Designated Account for World Bank financing	335,777	381,703						
<b>Total</b>	<b>335,777</b>	<b>382,185</b>						
<b>Add:</b>								
<b>Sources of Funds</b>								
Government co-financing	4,206	19,617	64,953					
World Bank financing	2,000,000	2,000,000	8,125,000					
<b>Total donor funds</b>	<b>2,004,206</b>	<b>2,019,617</b>	<b>8,189,953</b>					
<b>Foreign Exchange Difference</b>								
Government co-financing	(4)	(2)	188					
<b>Total</b>	<b>(4)</b>	<b>(2)</b>	<b>188</b>					
<b>Less:</b>								
<b>Uses of Funds</b>								
Procurement of goods (co- financed by Government)	-	-	-					
Consultancy services (co- financed by Government)	1,238	12,749	30,663					
Training (co-financed by Government)	-	-	-					
Operating expenses (co- financed by Government)	2,964	7,348	34,478					

Trade Promotion and Quality Infrastructure Project  
Statement of Project Sources and Uses of Funds for the year ended 31 December 2018

	Actual			Planned			Variance		PAD Life of Project
	2018	2017	Cumulative	2018	2017	Cumulative	2018	2017	
Results Based Financing “Improving the Effectiveness of Trade Promotion and Quality Systems” (financed by credit)	2,000,000	2,000,000	7,500,000						
Procurement of goods (financed by credit)	-	-	-						
Consultancy services (financed by credit)	6,189	26,588	84,225						
Training (financed by credit)	-	-	-						
Operating expenses (financed by credit)	8,217	19,338	94,404						
<b>Government co-financing</b>	<b>4,202</b>	<b>20,097</b>	<b>65,141</b>	<b>35,702</b>	<b>183,242</b>	<b>260,199</b>	<b>(31,500)</b>	<b>(163,145)</b>	<b>10,040,520</b>
<b>Credit financing</b>	<b>2,014,406</b>	<b>2,045,926</b>	<b>7,678,629</b>	<b>480,428</b>	<b>2,633,000</b>	<b>6,732,595</b>	<b>1,533,978</b>	<b>(587,074)</b>	<b>49,875,000</b>
<b>Total</b>	<b>2,018,608</b>	<b>2,066,023</b>	<b>7,743,770</b>	<b>516,130</b>	<b>2,816,242</b>	<b>6,992,794</b>	<b>1,502,478</b>	<b>(750,219)</b>	<b>59,915,520</b>
<b>Front end fee</b>	<b>-</b>	<b>-</b>	<b>125,000</b>	<b>-</b>	<b>-</b>	<b>125,000</b>	<b>-</b>	<b>-</b>	<b>125,000</b>

<b>Closing Cash Balance</b>	
Government co-financing account for credit	-
Designated Account for credit (World Bank financing)	321,371
<b>Total</b>	<b>321,371</b>

The project special purpose financial statements were approved by the management of Foreign Financing Projects Management Centre and signed on its behalf on 26 March 2019.

*Edgar Avetyan*

Edgar Avetyan  
Executive director



*Armen Shahnazaryan*

Armen Shahnazaryan  
Financial Manager

*Trade Promotion and Quality Infrastructure Project*  
*Statement of Uses of Funds by Project Activity for the year ended 31 December 2018*

Project Activities	Actual		Planned		Variance		Cumulative	PAD
	2018	2017	2018	2017	2018	2017		
<b>Part A: Improving the Effectiveness of Trade Promotion and Quality Systems</b>								
Government co-financing	2,000,000	2,000,000	-	-	-	-	-	10,000,000
Credit financing	-	-	-	-	-	-	-	-
	2,000,000	2,000,000	7,500,000	7,500,000	-	-	-	10,000,000
<b>Part B: Promoting Investment and Exports</b>								
Government co-financing	-	-	-	-	-	-	-	35,761,600
Credit financing	-	-	-	-	-	-	-	6,526,600
	-	-	-	-	-	-	-	29,235,000
<b>Part C: Modernizing the National Quality Infrastructure</b>								
Government co-financing	-	20,378	-	-	-	-	-	11,589,920
Credit financing	-	9,098	-	9,098	-	-	-	2,949,920
	-	11,280	-	11,280	-	-	-	8,640,000
<b>Part D: Project Management, Monitoring and Evaluation</b>								
Government co-financing	18,608	45,645	-	-	-	-	-	2,564,000
Credit financing	4,202	10,998	-	-	-	-	-	564,000
	14,406	34,647	-	-	-	-	-	2,000,000
<b>Front End Fee</b>	-	-	-	-	-	-	125,000	125,000
<b>Total project expenditure</b>	<b>2,018,608</b>	<b>2,066,023</b>	<b>516,130</b>	<b>2,816,242</b>	<b>1,502,478</b>	<b>(750,219)</b>	<b>750,976</b>	<b>60,040,520</b>



## **1 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.

Nevertheless, according to the Republic of Armenia Government Decree #1427-N dated 13 December 2018, the activities of the FFPMC will be implemented by the Project Implementation Department of the Ministry of Finance of the Republic of Armenia through auxiliary professional structural subdivision. Currently, FFPMC undergoes a process of liquidation and transfer of its functions to the Project Implementation Department of the Ministry of Finance of the Republic of Armenia.

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.

### **(b) 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 in the volume 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 DLI and the EEPs.

## **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 2018 equaling to AMD 483.75.

**(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 Bank for Reconstruction and Development and from Government of Armenia.

**4 Reconciliation statement of withdrawal applications**

Withdrawal Application Reference	Application Type	Amount Requested by FFPMC USD	Amount Paid by World Bank USD	2018
				Difference USD
EEP-DA 5	Reimbursement/ Results Based Financing	2,000,000	2,000,000	-
		<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>
Withdrawal Application Reference	Application Type	Amount Requested by FFPMC USD	Amount Paid by World Bank USD	2017
				Difference USD
EEP-DA 4	Reimbursement/ Results Based Financing	2,000,000	2,000,000	-
		<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>

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

<u>USD</u>	<u>2018</u>	<u>2017</u>
<b>Opening balance</b>	335,777	381,703
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	-	-
<b>Present outstanding amount advanced to the designated account</b>	<u>335,777</u>	<u>381,703</u>
<b>Closing balance carried forward to next period</b>	321,371	335,777
<i>Add:</i> Amount of eligible expenditures paid during the current period	14,406	45,926
<b>Total advance</b>	<u>335,777</u>	<u>381,703</u>

<u>USD</u>	<u>2018</u>	<u>2017</u>
<b>Opening balance</b>	-	482
<i>Add:</i>		
Government co-financing during the current period	4,206	19,617
Less: Foreign exchange difference	(4)	(2)
<b>Present outstanding amount advanced to project account</b>	<u>4,202</u>	<u>20,097</u>
<b>Closing balance carried forward to next period</b>	-	-
<i>Add:</i> Amount of eligible expenditures paid during the current period	4,202	20,097
<b>Total advance</b>	<u>4,202</u>	<u>20,097</u>

## 6 Statement of Financial Position

<i>USD</i>	2018	2017
<b>ASSETS</b>		
<b>Current assets</b>		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	-	-
Designated Account for credit (World Bank financing)	321,371	335,777
<b>Total current assets</b>	<b>321,371</b>	<b>335,777</b>
<b>Non-current assets</b>		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	65,141	60,939
Credit financed cumulative expenditure	7,803,629	5,789,223
<b>Total non-current assets</b>	<b>7,868,770</b>	<b>5,850,162</b>
<b>Total assets</b>	<b>8,190,141</b>	<b>6,185,939</b>
 <b>FUNDS</b>		
<b>Project financing</b>		
Government co-financing account for credit	64,953	60,747
Designated Account for credit (World Bank financing)	8,125,000	6,125,000
<b>Total funds</b>	<b>8,189,953</b>	<b>6,185,747</b>
 <b>Foreign exchange differences</b>		
Government co-financing account for credit	188	192
Designated Account for credit (World Bank financing)	-	-
<b>Total foreign exchange differences</b>	<b>188</b>	<b>192</b>
<b>Total net assets and liabilities</b>	<b>8,190,141</b>	<b>6,185,939</b>