

**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 2017

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Փի-Էյ-Փի Առկիտ ՓԲԸ
PHP Audit CJSC

Իրավաբանական հասցե: Նալբանդյան 47/4, Երևան, ՀՀ
Registration address: 47/4 Nalbandyan str., Yerevan, Armenia
Գործունեության հասցե: Արնից 2, Երազ բիզնես կենտրոն, Երևան, ՀՀ
Activity address: 2 Adonts str., Eraz Business Centre, Yerevan, Armenia

Հեռ. (010) 20 40 90
Տեղ. (011) 20 40 90
Էլ-փոստ
E-mail general@php.am

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 2017, and Statement of Financial Position as at 31 December 2017 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 2017 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 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 - 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.

-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 the financial statements is for the year ended 31 December 2016. The validated amount by the auditor is USD 2,929,336.

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 39,337. 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.

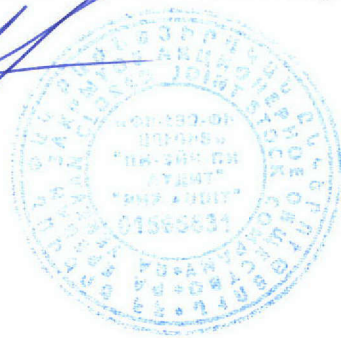
In preparing the special purpose financial statements, management is responsible for assessing the TPQIP's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the FFPMC 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
27 June 2018



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 2017

<i>USD</i>	Actual		Planned		Variance		PAD Life of Project
	2017	2016	2017	2016	2016	Cumulative	
Opening Cash Balance							
Government co-financing account for Credit	482	-					
Designated Account for World Bank financing	381,703	470,832					
Total	382,185	470,832					
Add:							
Sources of Funds							
Government co-financing	19,617	31,860				60,747	
World Bank financing	2,000,000	2,325,000				6,125,000	
Total donor funds	2,019,617	2,356,860				6,185,747	
Foreign Exchange Difference							
Government co-financing	(2)	210				192	
Total	(2)	210				192	
Less:							
Uses of Funds							
Procurement of goods (co-financed by Government)	-	-				-	
Consultancy services (co-financed by Government)	12,749	15,957				29,425	
Training (co-financed by Government)	-	-				-	
Operating expenses (co-financed by Government)	7,347	15,631				31,514	

*Trade Promotion and Quality Infrastructure Project
Statement of Project Sources and Uses of Funds for the year ended 31 December 2017*

	Actual		Planned		Variance		PAD Life of Project
	2017	2016	2017	2016	2017	2016	
		Cumulative		Cumulative		Cumulative	
Results Based Financing “Improving the Effectiveness of Trade Promotion and Quality Systems” (financed by credit)	2,000,000	2,325,000		5,500,000			
Procurement of goods (financed by credit)	-	-		-			
Consultancy services (financed by credit)	26,588	47,852		78,036			
Training (financed by credit)	-	-		-			
Operating expenses (financed by credit)	19,339	41,277		86,187			
Government co-financing	20,096	31,588	183,242	32,000	224,497	(163,146)	10,040,520
Credit financing	2,045,927	2,414,129	2,633,000	2,415,000	6,252,167	(587,073)	49,875,000
Total	2,066,023	2,445,717	2,816,242	2,447,000	6,476,664	(1,283)	59,915,520
Front end fee	-	-	-	-	125,000	-	125,000

Closing Cash Balance

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

The project special purpose financial statements were approved by the management of Foreign Financing Projects Management Centre and signed on its behalf on 27 June 2018.

Edgar Avetyan
Executive director



Armen Shahmazaryan
Financial Manager

Trade Promotion and Quality Infrastructure Project
Statement of Uses of Funds by Project Activity for the year ended 31 December 2017

	Actual		Planned		Variance		PAD Life of Project
	2017	2016	Cumulative	2017	2016	Cumulative	
Project Activities							
<i>Part A: Improving the Effectiveness of Trade Promotion and Quality Systems</i>							
Government co-financing	2,000,000	2,325,000	5,500,000	-	-	-	10,000,000
Credit financing	-	-	-	-	-	-	-
	2,000,000	2,325,000	5,500,000	-	-	-	10,000,000
<i>Part B: Promoting Investment and Exports</i>							
Government co-financing	-	-	-	-	-	-	35,761,600
Credit financing	-	-	-	-	-	-	6,526,600
	-	-	-	-	-	-	29,235,000
<i>Part C: Modernizing the National Quality Infrastructure</i>							
Government co-financing	20,378	-	20,378	-	-	-	11,589,920
Credit financing	9,098	-	9,098	-	-	-	2,949,920
	11,280	-	11,280	-	-	-	8,640,000
<i>Part D: Project Management, Monitoring and Evaluation</i>							
Government co-financing	45,645	120,717	204,784	-	-	-	2,564,000
Credit financing	10,998	31,588	51841	-	-	-	564,000
	34,647	89,129	152,943	-	-	-	2,000,000
Front End Fee	-	-	125,000	-	-	125,000	-
Total project expenditure	2,066,023	2,445,717	5,850,162	2,816,242	2,447,000	(750,219)	(751,502)
							60,040,520

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.

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 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.

(d) 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 2017 equaling to AMD 484.10.

(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

				2017
Withdrawal Application Reference	Application Type	Amount Requested by FFPMC USD	Amount Paid by World Bank USD	Difference USD
EEP-DA 4	Reimbursement/ Results Based Financing	2,000,000	2,000,000	-
		2,000,000	2,000,000	-
				2016
Withdrawal Application Reference	Application Type	Amount Requested by FFPMC USD	Amount Paid by World Bank USD	Difference USD
EEP-DA 2	Advance to Designated Account	325,000	325,000	-
EEP-DA 3	Reimbursement/ Results Based Financing	2,000,000	2,000,000	-
		2,325,000	2,325,000	-

5 Statement of Designated Account and Government Co-financed Account

<u>USD</u>	<u>2017</u>	<u>2016</u>
Opening balance	381,703	470,832
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	-	-
Present outstanding amount advanced to the designated account	381,703	470,832
Closing balance carried forward to next period	335,777	381,703
<i>Add:</i> Amount of eligible expenditures paid during the current period	45,926	89,129
Total advance	381,703	470,832

<u>USD</u>	<u>2017</u>	<u>2016</u>
Opening balance	482	-
<i>Add:</i>		
Government co-financing during the current period	19,617	31,860
Less: Foreign exchange difference	(2)	210
Present outstanding amount advanced to project account	20,097	32,070
Closing balance carried forward to next period	-	482
<i>Add:</i> Amount of eligible expenditures paid during the current period	20,097	31,588
Total advance	20,097	32,070

6 Statement of Financial Position

<i>USD</i>	2017	2016
ASSETS		
Current assets		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	-	482
Designated Account for credit (World Bank financing)	335,777	381,703
Total current assets	335,777	382,185
Non-current assets		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	60,939	40,843
Credit financed cumulative expenditure	5,789,223	3,743,297
Total non-current assets	5,850,162	3,784,140
Total assets	6,185,939	4,166,325
FUNDS		
Project financing		
Government co-financing account for credit	60,747	41,130
Designated Account for credit (World Bank financing)	6,125,000	4,125,000
Total funds	6,185,747	4,166,130
Foreign exchange difference		
Government co-financing account for credit	192	195
Designated Account for credit (World Bank financing)	-	-
Total foreign exchange difference	192	195
Total net assets and liabilities	6,185,939	4,166,325