

Audited Project Financial Statements

Project Number: 42145-043

Loan/Grant Number: 2993

Period covered: 01 January 2017 to 31 December 2017

ARM: North-South Road Corridor Investment Program – Tranche 3

Prepared by “Transport Projects Implementation Organization” State Non-Commercial Organization

For the Asian Development Bank

Date received by ADB: 29 June 2018

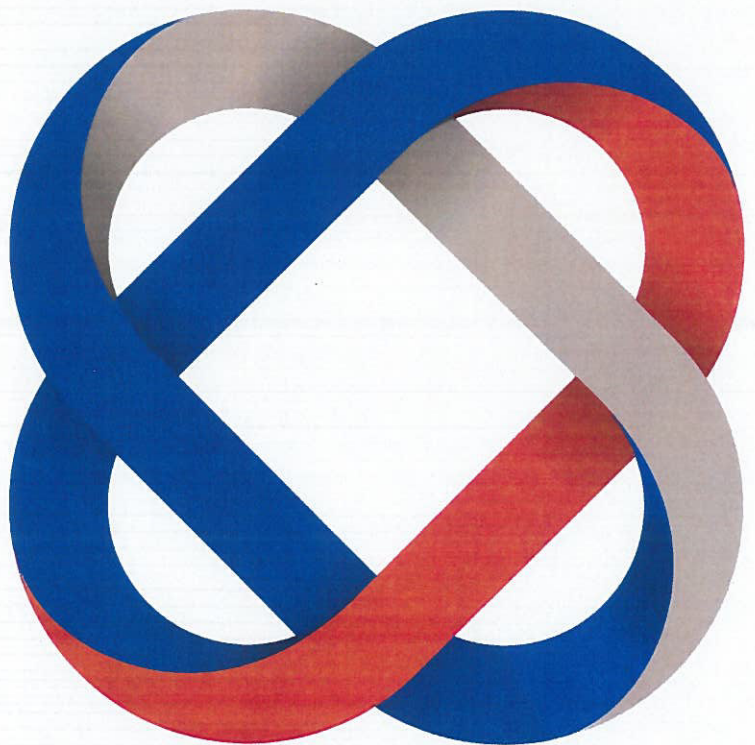
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Project Financial Statements and Independent Auditor's Report

**Transport Project Implementation Organization
SNCO**

**North-South Road Corridor Investment Program-
Project 3
Loan Number 2993-AM**

As of and for the year ended 31 December 2017



Contents

Independent auditor's report	3
Statement of the Project sources and uses of funds	6
Advance account (USD) statement	7
Government co-financing account (AMD) statement	8
Government co-financing account (AMD) statement, LARP financing	9
SOE withdrawal schedule	10
Notes to the Project financial statements	11

Independent auditor's report

Գրանթ Թորնթոն ՓԲԸ
ՀՀ, ք.Երևան 0012
Վաղարշյան 8/1

Հ. + 374 10 260 964
Ֆ. + 374 10 260 961

Grant Thornton CJSC
8/1 Vagharshyan Str.
0012 Yerevan, Armenia

T + 374 10 260 964
F + 374 10 260 961

To the Government of the Republic of Armenia

Opinion

We have audited the project financial statements of North-South Road Corridor Investment Program-Project 3 (the "Project"), financed by the Asian Development Bank (the "ADB") Loan number 2993-ARM, implemented by the "Transport Project Implementation Organization" SNCO, which comprise the statement of project sources and uses of funds, the advance account statement and the government co-financing accounts statements as of and for the year ended 31 December 2017 and the statement of expenditures ("SOEs") submitted to the ADB for the year ended 31 December 2017 in support of Loan Agreement 2993-ARM withdrawals, and notes to the project financial statements, including a summary of significant accounting policies.

In our opinion,

- the accompanying project financial statements and appended notes that were also the subject of the audit, give a true and fair view of the cash position of the North-South Road Corridor Investment Program-Project 3 as of 31 December 2017, and of 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 Asian Development Bank guidelines ("Project Financial Management and Analysis") and the covenants of the Loan number 2993-ARM;
- the "Transport Project Implementation Organization" SNCO has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Republic of Armenia and the Asian Development Bank, in accordance with the loan agreement; and no proceeds of the loan have been utilized for other purposes;
- as of the reporting date the "Transport Project Implementation Organization" SNCO was in compliance with all financial covenants of the Loan Agreement number 2993-ARM.

In addition:

- (a) with respect to the statements of expenditures, adequate supporting documentation has been maintained to support claims to the Asian Development Bank for reimbursements of expenditures incurred; and (b) expenditures are eligible for financing under Loan Agreement number 2993-ARM.
- (a) the advance account and the government co-financing accounts give a true and fair view of the receipts collected and payments made during the year ended 31 December 2017; and (b) these receipts and payments support advance account liquidations/replenishments during the year ended 31 December 2017.

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 "Transport Project Implementation Organization" SNCO 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 "Transport Project Implementation Organization" SNCO to meet the requirements of the financial reporting of the Asian Development Bank. 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 10 to the accompanying financial statements, which describes the changes in the political situation of the Republic of Armenia. Although there is certain political instability at present, the management of the "Transport Project Implementation Organization" SNCO does not consider that these processes will have a significant impact on the Project's performance, direction and continuity, and according to the management of the "Transport Project Implementation Organization" SNCO, there is no necessity to adjust the project financial statements as of and for the year ended 31 December 2017. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Project Financial Statements

Management of the "Transport Project Implementation Organization" SNCO 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 financial covenants of the Loan Agreement 2993-ARM and the Asian Development Bank guidelines, 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 "Transport Project Implementation Organization" SNCO's internal control.
- Evaluate the appropriateness of accounting policies 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

Managing Partner

28 June 2018

Emil Vassilyan, FCCA

Engagement Partner



Statement of the Project sources and uses of funds

As of and for the year ended 31 December 2017

In USD		Year ended 31 December 2017			As of 31 December 2017		
	Note	Actual	Planned	Variance	Actual	Planned	Variance
Opening balance of bank accounts	4	1,682,628					
Add: Financing							
ADB loan number 2993 - ARM	5	11,085,548			23,387,444		
Government co-financing	6	3,599,316			8,425,246		
Total financing		14,684,864			31,812,690		
Gain from exchange rate differences		5,592			6,114		
Less: Expenses							
ADB loan number 2993-ARM	7.1	11,094,341	14,125,248	(3,030,907)	23,387,444	26,418,351	(3,030,907)
Government co-financing	7.2	4,368,464	5,210,512	(842,048)	7,521,081	8,363,129	(842,048)
Total expenses		15,462,805	19,335,760	(3,872,955)	30,908,525	34,781,480	(3,872,955)
Closing balance of bank accounts	4	910,279			910,279		

The project financial statements were approved on 28 June 2018 by:

Vardan Karapetyan

Manana Tarposhyan

Acting General Director

Head of Financial Management and Accounting
Department/Chief Accountant



This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 19.

Advance account (USD) statement

Account number: 900000900051

Bank: State Treasury of the Republic of Armenia

Address: Yerevan 0010, Melik-Adamyan 1

Loan number 2993 - ARM

Currency: USD

As of and for the year ended 31 December 2017

In USD

Balance as of 1 January 2017

8,793

Add:

ADB funds

2,089,899

Total inflow

2,089,899

Less:

Project expenses

2,098,692

Total outflow

2,098,692

Balance as of 31 December 2017

-

The project financial statements were approved on 28 June 2018 by:

Vardan Karapetyan

Manana Tarposhyan

Acting General Director

Head of Financial Management and Accounting
Department/Chief Accountant



This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 19.

Government co-financing account (AMD) statement

Account number: 900000929217

Bank: State Treasury of the Republic of Armenia

Address: Yerevan 0010, Melik-Adamyan 1

Loan number 2993 - ARM

Currency: AMD

As of and for the year ended 31 December 2017

	In USD
Balance as of 1 January 2017	1
Add:	
Government co-financing	3,536,411
Total inflow	3,536,411
Loss from exchange rate differences	(188)
Less:	
Project expenses	3,529,568
Returned amount to budget	1
Total outflow	3,529,569
Balance as of 31 December 2017	6,655

The project financial statements were approved on 28 June 2018 by:

Vardan Karapetyan

Manana Tarposhyan

Acting General Director

Head of Financial Management and Accounting
Department/Chief Accountant



This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 19.

Government co-financing account (AMD) statement, LARP financing

Account number: 900000900721

Bank: State Treasury of the Republic of Armenia

Address: Yerevan 0010, Melik-Adamyan 1

Loan number 2993 - ARM

Currency: AMD

As of and for the year ended 31 December 2017

Balance as of 1 January 2017

Add:

Government co-financing

Total inflow

Gain from exchange rate differences

Less:

Project expenses

Total outflow

Balance as of 31 December 2017

In USD

-

62,906

62,906

139

63,045

63,045

-

The project financial statements were approved on 28 June 2018 by:

Vardan Karapetyan

Manana Tarposhyan

Acting General Director

Head of Financial Management and Accounting
Department/Chief Accountant



This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 19.

SOE withdrawal schedule

For the year ended 31 December 2017

Loan number 2993-ARM

In USD

No of withdrawal	Item	Contracts on Works, Goods, Consulting Services and Project Management Support	
		ADB percentage of financing*	Amount to be reimbursed
00033			
	2. Consulting Services	100%	139,612
	4. Project Management Support	100%	63,501
			203,113
00046			
	1. Works	100%	142,613
	2. Consulting Services	100%	61,725
	4. Project Management Support	100%	94,908
			299,246
00063			
	1. Works	100%	208,223
	2. Consulting Services	100%	16,753
	3. Goods	100%	8,669
	4. Project Management Support	100%	94,888
			328,533
00066			
	1. Works	100%	193,575
	2. Consulting Services	100%	37,689
	4. Project Management Support	100%	57,743
			289,007
Total			1,119,899

* Exclusive of taxes and duties imposed within the territory of the Republic of Armenia

The project financial statements were approved on 28 June 2018 by:

Vardan Karapetyan

Acting General Director

Manana Tarposhyan

Head of Financial Management and Accounting
Department/Chief Accountant

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 11 to 19.



Notes to the Project financial statements

1 Nature of operations and general information

The "Transport Project Implementation Organization" SNCO, which is the successor of State Agency "Transport Projects Implementation Unit" of the Ministry of Transport, Communication and Information Technologies of the Republic of Armenia and "North-South Road Corridor Investment Project Implementation Organization" SNCO, was established as a State Non-Commercial Organization by the Government Decree No 1304-A of the Government of the Republic of Armenia dated 15 December 2016.

The "Transport Project Implementation Organization" SNCO implements the "North-South Road Corridor Investment Program - Project 3" (the "Project"), which is financed under the Loan Agreement 2993-ARM signed between the Government of the Republic of Armenia and the Asian Development Bank (the "ADB") on 11 March 2014. The loan was declared effective on 24 July 2014.

The budget of the Project is as follows:

Loan number 2993-ARM

	In USD
ADB	100,000,000
RA Government	32,467,457
Total	132,467,457

The objective of the Project is to develop a subregional and national road transport network within the Republic of Armenia. Upon implementation, the Project will:

- a) facilitate efficient subregional road transport transit;
- b) increase trade flows and competitiveness;
- c) lower transport costs;
- d) increase mobility and accessibility to markets, jobs and social services;
- e) improve governance.

The Project comprises the following parts:

- Part A. Reconstruction of the two-lane road section between towns of Talin and Lanjik of approximately 18.7 kilometers and widening such section to a four-lane dual carriageway;
- Part B. Preparation and implementation of a long term road subsector plan and road asset management and road maintenance administration system;
- Part C. Preparation of feasibility study for Artashat-Kajaran section (304 km) of the North-South corridor; and
- Part D. Project implementation support and preparation of a subsequent tranche under the Project, including preparation of the related feasibility study and detailed engineering design.

The Project closing date is 14 September 2019.

The Project is mainly financed through the following categories:

Loan number 2993-ARM

Category			ADB Financing
Number	Item	Total Amount Allocated for ADB Financing (In USD)	Percentage and basis for withdrawal from the Loan Account
1	Works	65,000,000	100 percent of total expenditure*
2	Consulting Services	10,600,000	100 percent of total expenditure*
3	Goods	2,400,000	100 percent of total expenditure*
4	Project Management Support	2,000,000	100 percent of total expenditure*
5	Interest Charge and Commitment Charge	5,000,000	100 percent of amounts due
6	Unallocated	15,000,000	
	Total	100,000,000	

* Exclusive of taxes and duties imposed within the territory of the Republic of Armenia.

The financing of land acquisition and resettlement within the scope of the Project is implemented from Government of Armenia sources.

The operating address of the "Transport Project Implementation Organization" SNCO is 4 Tigran Mets Ave, Yerevan, Armenia.

During the reporting year the average number of the staff involved in the Project was 18.

2 Significant accounting policies

2.1 Basis of preparation

The project financial statements have been prepared in accordance with IPSAS Financial Reporting Under the Cash Basis of Accounting. Under this basis of accounting financing is recognized when received rather than when earned and expenses are recognized when paid rather than when incurred. The project financial statements also comply with the Asian Development Bank guidelines ("Project Financial Management and Analysis") and the covenants of the Loan number 2993-ARM.

2.2 Financing

The Project financing is recognized as such and included in the project financial statements only when suppliers are paid from the loan account for direct payment procedures. Advance account financing is recognized as such and included in the project financial statements only when the funds from the loan account are transmitted to the advance account opened in the State Treasury of the Republic of Armenia.

The amounts of the Government co-financing are recognized as such and included in the project financial statements when the funds are transmitted to the Project current account (the "Government co-financing account"), which is opened in the State Treasury of the Republic of Armenia.

2.3 Planned expenses

As of the end of the year "Planned Project Expenses" comprise the sum of the amount of "Actual Project Expenses" as of the end of the previous year and the annual budget expenses of the reporting year.

2.4 Expenses

The Project expenses are recognized as such and included in the project financial statements when the payment is made to suppliers of goods, works and/or services. The payments are made either directly from the Loan account or from the advance and Government co-financing accounts. The costs of fixed assets acquired are recognized as an expense in the Statement of Project sources and uses of funds. For certain users the cost of acquired fixed assets is disclosed in note 3.

2.5 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the "Transport Project Implementation Organization" SNCO's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the "Transport Project Implementation Organization" SNCO.

These project financial statements are presented in US dollars (presentation currency).

Government co-financing amounts in Armenian drams and payments made from those amounts are converted into USD applying the exchange rate announced by the Central Bank of Armenia on the previous date of the transaction. For direct payments denominated in currency other than the functional currency to the contractor/consultant from the ADB share, the exchange rate set out for the presentation of the operation in the system LFIS (lfis.adb.org) is used.

In preparing the project financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange announced by the Central Bank of Armenia prevailing on the previous dates of the transactions. At the reporting date, monetary items denominated in AMD are retranslated into USD at the rate announced by the Central Bank of Armenia prevailing on that date, which is 484.10 Armenian drams for 1 US dollar as of 31 December 2017 (483.94 Armenian drams for 1 US dollar as of 31 December 2016).

3 Fixed assets

The fixed assets of the Project consist of property and equipment purchased for the needs of the "Transport Project Implementation Organization" SNCO for the period of the Project implementation. The cost of fixed assets includes purchase price and other related acquisition costs which were financed from the ADB funds. The fixed assets actually used within the framework of the Project consist of the following:

In USD

	For the year ended 31 December 2017	As of 31 December 2017
Computer software and equipment	11,822	21,010
Furniture	-	833
Other	475	687
	<u>12,297</u>	<u>22,530</u>

4 Bank accounts

The account balances of the Project are stated in the following table:

	As of 31 December 2017	
	In USD	In AMD
Government co-financing account in AMD	6,655	3,221,475
Bank account in AMD (account 15100-09017860800)	903,624	437,444,293
Total	<u>910,279</u>	<u>440,665,768</u>

	As of 1 January 2017	
	In USD	In AMD
Advance account in USD	8,793	4,255,284
Government co-financing account in AMD	1	399
Bank account in AMD (account 15100-09017860800)	1,154,823	558,865,282
Bank account in AMD (account 15100-09017860900)	519,011	251,170,004
Total	1,682,628	814,290,969

5 ADB financing

In USD	For the year ended 31 December 2017	As of 31 December 2017
Loan number 2993-ARM		
Advance account	2,089,899	3,716,447
Direct payment	8,603,802	18,859,502
Interest charge	391,847	811,495
	11,085,548	23,387,444

6 Government co-financing

In USD	For the year ended 31 December 2017	As of 31 December 2017
Loan number 2993-ARM		
Government co-financing	3,536,411	5,988,693
Less: amount returned to budget	(1)	(92)
	3,536,410	5,988,601
 Government co-financing, LARP financing	 62,906	 2,533,963
Less: amount returned to budget	-	(97,318)
	62,906	2,436,645
	3,599,316	8,425,246

7 Expenses

7.1 From ADB fund

In USD

Loan number 2993-ARM	For the year ended 31 December 2017			As of 31 December 2017		
	Actual	Planned	Variance	Actual	Planned	Variance
Works	8,656,992	10,001,433	(1,344,441)	17,682,609	19,027,050	(1,344,441)
Consulting Services	1,644,783	2,076,313	(431,530)	3,541,551	3,973,081	(431,530)
Goods	9,625	1,210,729	(1,201,104)	9,625	1,210,729	(1,201,104)
Project Management Support	391,094	444,926	(53,832)	1,342,164	1,395,996	(53,832)
Interest and Commitment charge	391,847	391,847	-	811,495	811,495	-
	11,094,341	14,125,248	(3,030,907)	23,387,444	26,418,351	(3,030,907)

Project Management Support is disclosed in the following table:

In USD

	For the year ended 31 December 2017	As of 31 December 2017
Employee compensation	277,314	1,033,150
Rent expenses	51,466	189,282
Consultation expenses	21,573	30,429
Trip expenses	9,718	21,484
Machinery and equipment expenses	6,315	18,976
Office expenses	4,036	11,154
Communication expenses	1,775	11,077
Representation expenses	1,298	3,184
Other expenses	17,599	23,428
Total	391,094	1,342,164

7.2 From government co-financing amounts

In USD

Loan number 2993-ARM	For the year ended 31 December 2017			As of 31 December 2017		
	Actual	Planned	Variance	Actual	Planned	Variance
Works	3,627,158	4,536,911	(909,753)	5,178,432	6,088,185	(909,753)
Consulting Services	404,281	496,126	(91,845)	768,753	860,598	(91,845)
Land Acquisition and Resettlement	313,864	64,162	249,702	1,527,332	1,277,630	249,702
Goods	1,921	84,741	(82,820)	1,921	84,741	(82,820)
Project Management Support	21,240	28,572	(7,332)	44,643	51,975	(7,332)
	4,368,464	5,210,512	(842,048)	7,521,081	8,363,129	(842,048)

Project Management Support is disclosed in the following table:

In USD

	For the year ended 31 December 2017	As of 31 December 2017
Rent expenses	10,299	25,654
Consultation expenses	6,122	9,320
Machinery and equipment expenses	2,578	3,460
Office expenses	742	2,139
Communication expenses	332	2,113
Representation expenses	57	127
Other expenses	1,110	1,830
Total	21,240	44,643

8 Reconciliation between the amounts received by the “Transport Project Implementation Organization” SNCO and disbursed by the ADB

Loan number 2993-ARM

For the year ended 31 December 2017

In USD	ADB	Organization	Difference
Works			
00029	46,051	46,051	-
00031	163,590	163,590	-
00032	136,157	136,157	-
00034	78,442	78,442	-
00036	172,501	172,501	-
00037	154,744	154,744	-
00038	74,178	74,178	-
00039	105,673	105,673	-
00041	161,360	161,360	-
00042	282,800	282,800	-
00043	82,167	82,167	-
00045	207,501	207,501	-
00046	142,613	142,613	-
00047	32,074	32,074	-
00048	46,887	46,887	-
00050	125,719	125,719	-
00051	759,168	759,168	-
00052	191,883	191,883	-
00054	401,038	401,038	-
00055	101,619	101,619	-
00056	24,133	24,133	-
00057	69,728	69,728	-
00058	110,697	110,697	-
00059	357,436	357,436	-
00060	89,761	89,761	-
00061	197,883	197,883	-
00062	18,872	18,872	-
00063	208,223	208,223	-
00064	34,874	34,874	-
00066	193,575	193,575	-
00067	106,036	106,036	-
00068	55,861	55,861	-
00069	138,712	138,712	-
00070	1,149,859	1,149,859	-
00071	288,217	288,217	-
00073	641,849	641,849	-

In USD	ADB	Organization	Difference
00075	224,322	224,322	-
00076	389,560	389,560	-
	7,765,763	7,765,763	-
Consulting Services			
00033	139,612	139,612	-
00035	305,185	305,185	-
00040	137,410	137,410	-
00044	147,608	147,608	-
00046	61,725	61,725	-
00049	130,500	130,500	-
00053	142,212	142,212	-
00063	16,753	16,753	-
00065	144,455	144,455	-
00066	37,689	37,689	-
00072	254,978	254,978	-
00074	120,102	120,102	-
	1,638,229	1,638,229	-
Goods			
00063	8,669	8,669	-
	8,669	8,669	-
Project Management Support			
00033	63,501	63,501	-
00046	94,908	94,908	-
00063	94,888	94,888	-
00066	57,743	57,743	-
	311,040	311,040	-
Advance account advance			
00030	328,533	328,533	-
00077	641,467	641,467	-
	970,000	970,000	-
Interest	391,847	391,847	-
Total	11,085,548	11,085,548	-

9 Project implementation

As of December 31, 2017 the financial progress of the Project was 23% in the framework of the Loan Agreement. Meanwhile, the physical progress of the Project (Construction of Tranche 3) was only 11%.

10 Subsequent events

In April-May 2018 after the resignation of the Prime Minister nominated and elected by the ruling political party in the National Assembly as a result of the political upheaval and disobedience of the population in the Republic of Armenia, the National Assembly nominated the popular candidate for the post of the Prime Minister, and accordingly, a new government was formed, which considers itself temporary until the formation of the new National Assembly through extraordinary elections. Although there is certain political instability at present, the management of the "Transport Project Implementation Organization" SNCO does not consider that these processes will have a significant impact on the Project's performance, direction and continuity, and according to the management of the "Transport Project Implementation Organization" SNCO, there is no necessity to adjust the financial statements of the Project as of and for the year ended 31 December 2017.