

# Audited Project Financial Statements

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Project Number: 46416-002

Loan/Grant Number: 3150

Period covered: 1 January 2016 to 31 December 2016

## ARM: Power Transmission Rehabilitation Project

Prepared by CJSC Electro Power System Operator (EPSO)

For the Asian Development Bank

Date received by ADB: 12 July 2017

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the CJSC Electro Power System Operator (EPSO).

ADB LOAN 3150 – ARM  
POWER TRANSMISSION AND REHABILITATION PROJECT  
EXTENSION AND UPGRADE OF THE SCADA/EMS PROJECT  
SPECIAL PURPOSE FINANCIAL STATEMENT AND  
AUDITOR'S REPORT  
FOR THE YEAR ENDED 31/12/2016



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## INDEPENDENT AUDITORS REPORT

### TO THE GENERAL DIRECTOR OF "ELECTRO POWER SYSTEM OPERATOR" CJSC MR.M. MNATSAKANYAN

YEREVAN- 08/06/2017

We have audited special purpose financial statements of ADB Loan 3150 – ARM Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project on fund resources and their utilization (hereinafter Special Purpose financial statement) as at December 31, 2016.

## MANAGEMENT'S RESPONSIBILITY

Company's Management is responsible for the preparation and fair presentation of Special Purpose financial statement in accordance with ARM 46416 project between the Asian Development Bank and "Electro Power System Operator" CJSC dated on 5 September 2014, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's

internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### OPINION

In our opinion, special purpose financial statements give a true and fair view of project's financial position and have been prepared in accordance with the framework of Cash Basis International Public Sector Accounting Standards and we confirm that "Electro Power System Operator" CJSC has utilized the proceeds of loan only for the sole purpose of 3150-ARM Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project.

DIRECTOR OF AUDITSERVICE LLC

LICENSED AUDITOR

GOR DAVTAYN



**Project Name:** Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

**Loan/Grant No:** 3150-ARM

**Special Purpose Statement of Cash Receipts and Payments<sup>1</sup>**

**For the Year Ended 31 December 2016**

(Expressed in US\$)

	<u>Note</u>	(Previous yr.) Year Ended 31/12/2015	(Current yr.) Year Ended 31/12/2016	Cumulative 31/12/2016
<b>Receipts</b>				
ADB Loan <sup>2</sup>	3,8	269,029.34	201,630.74	470,660.08
<b>Total Financing from ADB</b>		<b>269,029.34</b>	<b>201,630.74</b>	<b>470,660.08</b>
Fund received from Government	3	33,674.09	58,971.96	92,646.05
Other Donor Fund (EPSO)	3	-	-	
<b>Total Receipts from External Assistance</b>		<b>33,674.09</b>	<b>58,971.96</b>	<b>92,646.05</b>
Miscellaneous Receipts	4,5	-	-	
<b>Total Receipts</b>		<b>302,703.43</b>	<b>260,602.70</b>	<b>563,306.13</b>

**Payments {classification should been done in accordance with the Financing Agreement}**

Civil Works	12	-	-	-
Goods	13	-	-	-
Consultancy Services, including	14	302,703.43	260,602.70	<b>563,306.13</b>
a) Consulting Services	14.1	245,862.77	177,125.55	422,988.32
b) Reimbursement expenses	14.2	21,555.80	17,747.75	39,303.55
c) VAT	14.3	33,674.09	58,971.96	92,646.05
d) Interests	14.4	1,610.77	6,757.44	8,368.21
Plants, Vehicles and Machinery	11	-	-	-
Project Management Expenses	6	-	-	-
<b>Total Payments for Project Expenses</b>		<b>302,703.43</b>	<b>260,602.70</b>	<b>563,306.13</b>
Excess/(Shortfall) of Receipts over Project		-	-	-
Suspense Items	7	-	-	-
<b>Increase/(Decrease) in Cash</b>		<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Notes set out on pages 5 to 7 form an integral part of these Special Purpose Statement of Cash Receipts and Payments

<sup>2</sup> This include amounts received from ADB (Imprest account, direct payment and reimbursement method)

**Cash at beginning of reporting period**

Impress Account Cash in Hand	9	-	-	-
Cash in Hand	10	-	-	-

**Cash at the end of reporting period**

Impress Account Cash in Hand	9	-	-	-
Cash in Hand	10	-	-	-
<b>Increase/(Decrease) in Cash</b>		-	-	-

M. Mnacakanyan

General Director

01/06/2017

L. Melkonyan

Chief Accountant

01/06/2017



**Project Name:** Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

**Loan/Grant No:** 3150-ARM

**Statement of Comparison Budgeted and Actual Amounts**

**For the Year Ended 31 December 2016**

Loan	For the current year ended 31/12/2016		Cumulative from [beginning of project] to year to date	
	Budgeted expenditures	Actual expenditures	Budgeted expenditures	Actual expenditures
	USD	USD	USD	USD
Cost Categories				
Civil Works	-	-	-	-
Goods	-	-	-	-
Consultancy Services	183,000	260,602.70	503,000	563,306.13
Plants, Vehicles and Machinery	2,071,300	-	2,071,300	-
Project Management Expenses	-	-	-	-
Total	2,254,300	260,602.70	2,574,300	563,306.13

M. Mnacakanyan  
General Director

01/06/2017

L. Melkonyan  
Chief Accountant

01/06/2017

**Project Name:** Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

**Loan/Grant No:** 3150-ARM

## **Notes to Special Purpose Statement of Cash Receipts and Payments**

**For the Year Ended 31 December 2016**

Tabular amounts are presented in US Dollar

### **1. BACKGROUND, NATURE OF OPERATIONS AND ACTIVITIES**

The Government of Republic of Armenia has received financial assistance from the Asian Development Bank (ADB) in the form of a loan amounting to \$37 million to finance "Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS" Project. The Government of Republic of Armenia has also agreed to contribute the payments on taxes, duties and custom clearance actual in the borrower area made on behalf of the project.

The main purpose of the project is the enhancement of power transmission network operational efficiency. It is aiming to improve the national electro power system operation reliability and transmission capacity.

The project, including the financial activities, is administered and managed by the RA Ministry of Energy and Natural Resources. ADB's contributions are used to pay project expenses through "direct payment method" to the suppliers and consultants for the benefit of the project. An imprest account had been set up by "Electro Power System Operator" CJSC in the RA Ministry of Finance for the purposes of paying the amounts of VAT calculated on the consulting services related to the project. Payments to consultants had made up directly by ADB on which corresponding notes were submitted to "Electro Power System Operator" CJSC.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

The Special Purpose Statement of Cash Receipts and Payments (Statement) has been prepared in accordance with Cash Basis International Public Sector Accounting Standards Financial Reporting under the Cash Basis of Accounting and comply with ADB guidelines. Accordingly, they are prepared for the special purpose of the project management and ADB in accordance with the agreements between the RA Government and ADB.

Cash receipts are recognized when they are credited in the bank account. Payments made directly by ADB to third parties for project expenses are recognized as project expenditures and receipts as financing under the project, even if the cash does not flow through the project as it is for the benefit of the project. Such payments and receipts are recognized based on the value dates of the payment transactions made by ADB. For payments out of Imprest Account maintained with the Ministry of Finance, they are recognized when the payments are executed.



The accounting policies have been applied consistently throughout the reporting year.

#### **Reporting entity**

The Statement solely reflects the financial status of “Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS” Project. The Project is funded by ADB, as well as co-financed by the RA Government.

#### **Reporting Period**

The Statement apply to fiscal year ended 31 December 2016 and has been prepared based on transactions for the year from 01 January 2016 to 31 December 2016.

#### **Reporting currency and Foreign Currency Transactions**

The currency of reporting is United States dollar (US\$).

Transactions in AMD are converted to USD at the exchange rate prevailing at the date of transaction. Foreign currency bank balances are re-stated at the year-end rate, and the resulting gains/losses are recognized in the statement of receipts and payments account.

#### **Cash and Cash Equivalent**

Cash and cash equivalents represent the balance remaining in the Imprest Account and cash in hand.

#### **Bank Charges**

No bank charges were made in order to transfer VAT to the RA state budget under the project.

### **3. STATUS OF FUNDS AND UNCOMMITTED FUNDS**

The project is financed by ADB through a loan, as well as co-financed by the RA Government. During the reporting period, in-kind contributions were not reflected. The total funds financing the project and the available funds for future commitments as of 31 December 2016 are as follow:

	<b>Total Financing</b>	<b>Total Committed as of 31/12/2016</b>	<b>Available Balance as Of 31/12/2016</b>
ADB Loan	470,066.08	470,066.08	-
Contribution of the RA Government	92,646.05	92,646.05	-
Other Fund	-	-	-
<b>Total</b>	<b>563,306.13</b>	<b>563,306.13</b>	

The RA Government contributions are implemented in accordance with the Sub-loan agreement signed on February 6, 2015 between the RA Ministry of Finance and “Electro Power System Operator” CJSC (Article 3, paragraph 3.1).

#### 4. IN-KIND CONTRIBUTIONS

In-kind contributions were not reflected in the reporting year for the implementation of the project.

#### 5. MISCELLANEOUS RECEIPTS

There were no other cash inflows for the implementation of the project.

#### 6. PROJECT MANAGEMENT EXPENSES

Project management expenses comprise recurrent expenses of the Project Management Office within the RA Ministry of Energy and Natural Resources that is responsible for the implementation of the project. Such expenses were not intended in the project budget for the reporting year and were not made actually.

#### 7. SUSPENSE ITEMS

Suspense items consist of payments made by the project, which are initially considered as eligible expenses but are later found to be ineligible, and thus cannot be charged to the project. They are placed in Suspense Accounts pending the receipt of refund. Such expenses were not intended in the project budget for the reporting year and were not made actually.

#### 8. ADB LOAN

Loan	31/12/2015	31/12/2016
Transfer to Imprest Account by ADB	-	-
Direct Payment made by ADB	269,029.34	201,630.74
Reimbursement made		
Commitment Letter		
Total ADB Loan Receipts	269,029.34	201,630.74

#### 9. IMPREST ACCOUNT

The accrued VAT amounts on consulting services related to the Project were transferred to the budget through this account. Other cash flows were not made on this account. No balances were available in the account as of December 31, 2016.

#### 10. CASH IN HAND

Cash transactions were not reflected during the reporting year for the implementation of the project.

#### 11. PLANT, EQUIPMENT AND VEHICLES

Such expenses were not intended in the project budget for the reporting year and were not made actually.

#### 12. CIVIL WORKS

Such expenses were not intended in the project budget for the reporting year and were not made actually.

### 13. GOODS

Such expenses were not intended in the project budget for the reporting year and were not made actually.

### 14. CONSULTANCY SERVICES

	31/12/2015	31/12/2016
Loan no.3150-ARM	269,029.34	201,630.74
Government contribution	33,674.09	58,971.96
Donor fund	-	-
<b>Total</b>	<b>302,703.43</b>	<b>260,602.70</b>

### 15. RECONCILIATION BETWEEN THE AMOUNTS RECEIVED BY "ELECTRO POWER SYSTEM OPERATOR" CJSC AND ADB AS OF AND FOR THE YEAR ENDED 31/12/2016

In US dollars

Category	Application No	Project	ADB	Difference
Works	-	-	-	-
Construction of the plant	-	-	-	-
Environmental and remediation	-	-	-	-
Consulting services	A0004 -A0007	113,051	201,630.74	-88,579.74
Capacity development	-	-	-	-
Project management	-	-	-	-
Explain the causes of difference				

**Project Name:** Power Transmission and Rehabilitation Project Extension and Upgrade of the SCADA/EMS Project

**Loan/Grant No:** 3150-ARM

**Statement of Funds Received by Methods of Withdrawals**

**For the Year Ended 31 December 2016**

Loan

<b>Funds Received from</b>	<b>31.12.2015</b>	<b>31.12.2016</b>
ADB Loan	269,029.34	201,630.74
The RA Government	33,674.09	58,971.96
Other Donor		
Interest Received		
<b>Total Funds Received</b>	<b>302,703.43</b>	<b>260,602.70</b>

<b>Payments through Direct Payment</b>	-	-
Civil Works	-	-
Goods	-	-
Consultancy Services	267,418.57	194,873.30
Plants, Vehicles and Machinery		
Interests	1,610.77	6,757.44
<b>Total Direct Payment</b>	<b>269,029.34</b>	<b>201,630.74</b>

<b>Payments through Imprest Account</b>	-	-
Project Management Expenses	-	-
VAT payment	33,674.09	58,971.96
Movement in Imprest Account	-	-
Closing balance	-	-
Opening balance	-	-
<b>Total Imprest Account Payment</b>	<b>33,674.09</b>	<b>58,971.96</b>

<b>Reimbursable Expenses</b>	-	-
Ineligible Expenses	-	-
<b>Total Payment Made</b>	<b>302,703.43</b>	<b>260,602.70</b>

M. Mnacakanyan

General Director

01/06/2017

L. Melkonyan

Chief Accountant

01/06/2017