

# **Project Financial Statements and Independent Auditor's Report**

**"Road Department" Fund**

**North-South Road Corridor Investment Program-  
Project 3**

**Loan Agreement number 2993-ARM**

As of and for the year ended 31 December 2021



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# Independent auditor's report

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To the Government of the Republic of Armenia,

## Opinion

We have audited the Project financial statements of the North-South Road Corridor Investment Program-Project 3 (the "Project"), financed by the Asian Development Bank (the "ADB") Loan Agreement number 2993-ARM, which comprise the statement of Project sources and uses of funds, the advance account statement and the government co-financing accounts statement as of and for the year ended 31 December 2021 and the statement of expenditures ("SOEs") submitted to the ADB for the year ended 31 December 2021 in support of Loan Agreement number 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 (Loan Agreement number 2993-ARM) as of 31 December 2021, 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 appropriate covenants of the Loan Agreement number 2993-ARM;
- the "Road Department" Fund has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Republic of Armenia and the Asian Development Bank, in accordance with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 Project have been utilized for other purposes;
- as of the reporting date the "Road Department" Fund 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 2021; and (b) these receipts and payments support advance account liquidations/replenishments during the year ended 31 December 2021.

### *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 “Road Department” Fund 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 a Matter*

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 “Road Department” Fund 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.

### *Responsibilities of Management for the Project Financial Statements*

Management of the “Road Department” Fund 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 number 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.

Those charged with governance are responsible for overseeing the Project’s financial reporting process.

### *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 “Road Department” Fund’s internal control.
- Evaluate the appropriateness of accounting policies and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

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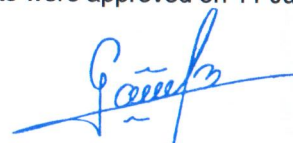


# Statement of the Project sources and uses of funds

In USD		Actual				Budget		Variance	
	Note	Year ended 31 December 2021	As of 31 December 2021	Year ended 31 December 2020	As of 31 December 2020	Year ended 31 December 2021	As of 31 December 2021	Year ended 31 December 2021	As of 31 December 2021
Opening balance of bank accounts	4	1,070,702		1,251,430					
Add: Financing									
ADB loan number 2993-ARM	5	9,428,397	53,532,553	2,940,522	44,104,156				
Government co-financing	6	2,537,582	14,886,625	446,593	12,349,043				
Total financing		11,965,979	68,419,178	3,387,115	56,453,199				
Less: Expenses									
ADB Loan Agreement number 2993-ARM	7.1	(9,671,662)	(53,528,116)	(3,049,283)	(43,856,454)	(9,686,978)	(53,543,432)	15,316	15,316
Government co-financing	7.2	(2,590,592)	(14,063,976)	(450,977)	(11,473,384)	(2,626,961)	(14,100,345)	36,369	36,369
Total expenses		(12,262,254)	(67,592,092)	(3,500,260)	(55,329,838)	(12,313,939)	(67,643,777)	51,685	51,685
Gain/(loss) from exchange rate differences		56,231	3,572	(67,583)	(52,659)				
Closing balance of bank accounts	4	830,658		1,070,702					

The Project financial statements were approved on 11 July 2022 by:

Gor Avetisyan  
Executive Director



Marina Safaryan



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 10 to 18.





# Advance account (USD) statement

Loan Agreement number 2993-ARM

In USD

	2021	2020
Balance as of 1 January	247,702	356,463
Add:		
ADB funds	241,220	330,740
Total inflow	241,220	330,740
Less:		
Project expenses	(484,485)	(439,501)
Total outflow	(484,485)	(439,501)
Balance as of 31 December	4,437	247,702

The Project financial statements were approved on 11 July 2022 by:

Gor Avetisyan

Executive Director

Marina Safaryan

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 10 to 18.

# Government co-financing account (AMD) statement

Loan Agreement number 2993-ARM

In USD

	2021	2020
Balance as of 1 January	99,283	106,542
Add:		
Government co-financing	2,636,865	553,153
Returned amount to the State budget	(99,283)	(106,560)
Total inflow	2,537,582	446,593
Gain/(loss) from exchange rate differences	(7,759)	(2,875)
Less:		
Project expenses	(2,590,043)	(450,977)
Total outflow	(2,590,043)	(450,977)
Balance as of 31 December	39,063	99,283

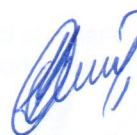
The Project financial statements were approved on 11 July 2022 by:

Gor Avetisyan

Executive Director

Marina Safaryan

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 10 to 18.





# Notes to the Project financial statements

## 1 Activity

The "Road Department" Fund (the "Fund") implements the "North-South Road Corridor Investment Program - Project 3" (the "Project"), which is financed under the Loan Agreement number 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. According to N 1298-U decision of the Republic of Armenia dated 6 August 2021 the "Road Department" SNCO was reorganized into Fund.

The budget of the Project is as follows:

Loan Agreement number 2993-ARM

	In USD
ADB	100,000,000
RA Government	32,443,503
Total	132,443,503

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

- facilitate efficient sub-regional road transport transit;
- increase trade flows and competitiveness;
- lower transport costs;
- increase mobility and accessibility to markets, jobs and social services;
- 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 31 December 2023.

The Project is mainly financed through the following categories:

Loan Agreement 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	14,200,000	100 percent of total expenditure*
3	Goods	2,400,000	100 percent of total expenditure*
4	Project Management Support	3,400,000	100 percent of total expenditure*
5	Interest Charge and Commitment Charge	5,000,000	100 percent of amounts due
6	Unallocated	10,000,000	
	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 Fund is Government House 3, Republic Square, Yerevan, Armenia.

During the reporting year the average number of the staff involved in the Project was 18 (2020: 11).

## 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 Agreement number 2993-ARM.

### 2.2 Functional and presentation currency

The national currency of Armenia is the Armenian dram (AMD), which is the Fund's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Fund.

These Project financial statements are presented in US dollars (USD - 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.

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 480.14 Armenian drams for 1 US dollar as of 31 December 2021 (522.59 Armenian drams for 1 US dollar as of 31 December 2020).

## 2.3 Financing

The Project financing is recognized as such and included in the Project financial statements only when contractors or consultants 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.

## 2.4 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.

## 2.5 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.

## 3 Fixed assets

The fixed assets of the Project consist of property and equipment purchased for the needs of the Fund 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	As of 31 December 2021	As of 31 December 2020
Machinery and equipment	131,709	-
Computer software and equipment	28,024	21,010
Furniture	2,183	833
Other	3,296	687
	<u>165,212</u>	<u>22,530</u>

## 4 Bank accounts

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

	As of 31 December 2021	
	In USD	In AMD
ADB advance account in USD	4,437	2,130,458
Government co-financing account in AMD	39,063	18,755,776
Bank account in AMD (account 15100-09017860800)	787,158	377,945,984
Total	830,658	398,832,218

	As of 31 December 2020	
	In USD	In USD
ADB advance account in USD	247,702	129,446,588
Government co-financing account in AMD	99,283	51,884,379
Bank account in AMD (account 15100-09017860800)	723,717	378,207,374
Total	1,070,702	559,538,341

## 5 ADB financing

In USD	For the year ended 31 December 2021	As of 31 December 2021	For the year ended 31 December 2020	As of 31 December 2020
Loan Agreement number 2993-ARM				
Advance account	241,220	6,133,379	330,740	5,892,159
Direct payment	8,726,374	43,325,914	1,714,428	34,599,540
Interest charge	460,803	4,073,260	895,354	3,612,457
	9,428,397	53,532,553	2,940,522	44,104,156

## 6 Government co-financing

In USD	For the year ended 31 December 2021	As of 31 December 2021	For the year ended 31 December 2020	As of 31 December 2020
Government co-financing	2,636,865	12,664,509	553,153	10,027,644
Less: amount returned to the State budget	(99,283)	(214,529)	(106,560)	(115,246)
	2,537,582	12,449,980	446,593	9,912,398
Government co-financing, LARP financing	-	2,533,963	-	2,533,963
Less: amount returned to the State budget	-	(97,318)	-	(97,318)
	-	2,436,645	-	2,436,645
	2,537,582	14,886,625	446,593	12,349,043



## 7 Expenses

### 7.1 From ADB fund

In USD						
Loan number 2993-ARM	For the year ended 31 December 2021			As of 31 December 2021		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	7,188,128	7,182,990	5,138	36,698,386	36,693,248	5,138
Consulting Services	1,662,818	1,668,635	(5,817)	9,816,226	9,822,043	(5,817)
Goods	-	-	-	332,620	332,620	-
Project Management Support	359,913	374,550	(14,637)	2,607,624	2,622,261	(14,637)
Interest charge	460,803	460,803	-	4,073,260	4,073,260	-
	9,671,662	9,686,978	(15,316)	53,528,116	53,543,432	(15,316)

Project Management Support is disclosed in the following table:

In USD		
	For the year ended 31 December 2021	As of 31 December 2021
Employee compensation	298,259	1,955,131
Rent expenses	-	388,474
Consultation expenses	3,689	71,616
Trip expenses	2,313	30,225
Machinery and equipment expenses	16,861	35,837
Office expenses	3,321	23,072
Communication expenses	1,085	13,398
Other expenses	34,385	89,871
Total	359,913	2,607,624

In USD						
Loan number 2993-ARM	For the year ended 31 December 2020			As of 31 December 2020		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	432,718	848,270	(415,552)	29,510,258	29,925,810	(415,552)
Consulting Services	1,447,858	1,303,276	144,582	8,153,408	8,008,826	144,582
Goods	-	17,490	(17,490)	332,620	350,110	(17,490)
Project Management Support	273,353	312,995	(39,642)	2,247,711	2,287,353	(39,642)
Interest charge	895,354	895,354	-	3,612,457	3,612,457	-
	3,049,283	3,377,385	(328,102)	43,856,454	44,184,556	(328,102)

Project Management Support is disclosed in the following table:

In USD

	For the year ended 31 December 2020	As of 31 December 2020
Employee compensation	188,867	1,656,872
Rent expenses	54,239	388,474
Consultation expenses	13,907	67,927
Trip expenses	86	27,912
Machinery and equipment expenses	-	18,976
Office expenses	2,846	19,751
Communication expenses	264	12,313
Representation expenses	838	5,020
Other expenses	12,306	50,466
Total	273,353	2,247,711

## 7.2 From government co-financing amounts

In USD

	For the year ended 31 December 2021			As of 31 December 2021		
Loan number 2993- ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	2,240,374	2,265,271	(24,897)	9,982,522	10,007,419	(24,897)
Consulting Services	337,921	341,358	(3,437)	2,230,616	2,234,053	(3,437)
Land Acquisition and Resettlement	549	-	549	1,651,057	1,650,508	549
Goods	-	-	-	81,747	81,747	-
Project Management Support	11,748	20,332	(8,584)	118,034	126,618	(8,584)
	2,590,592	2,626,961	(36,369)	14,063,976	14,100,345	(36,369)

In USD

	For the year ended 31 December 2021	As of 31 December 2021
Rent expenses	-	65,578
Consultation expenses	1,278	23,681
Machinery and equipment expenses	1,986	5,446
Office expenses	674	3,720
Communication expenses	216	2,393
Other expenses	7,594	17,216
Total	11,748	118,034

In USD

	For the year ended 31 December 2020			As of 31 December 2020		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	33,632	942,409	(908,777)	7,742,148	8,650,925	(908,777)
Consulting Services	395,948	503,449	(107,501)	1,892,695	2,000,196	(107,501)
Land Acquisition and Resettlement	-	-	-	1,650,508	1,650,508	-
Goods	-	45,474	(45,474)	81,747	127,221	(45,474)
Project Management Support	21,397	20,569	828	106,286	105,458	828
	450,977	1,511,901	(1,060,924)	11,473,384	12,534,308	(1,060,924)

Project Management Support is disclosed in the following table:

In USD

	For the year ended 31 December 2020	As of 31 December 2020
Rent expenses	10,695	65,578
Consultation expenses	4,892	22,403
Machinery and equipment expenses	-	3,460
Office expenses	221	3,046
Communication expenses	23	2,177
Representation expenses	67	301
Other expenses	5,499	9,321
Total	21,397	106,286

## 8 Reconciliation between the amounts received by the Fund and disbursed by the ADB

For the year ended 31 December 2021

In USD	ADB	Fund	Difference
Works			
00126	303,532	303,532	-
00127	70,179	70,179	-
00129	564,783	564,783	-
00130	131,463	131,463	-
00131	1,153,560	1,153,560	-
00132	282,400	282,400	-
00137	162,649	162,649	-
00138	600,181	600,181	-
00139	235,000	235,000	-
00141	42,843	42,843	-
00146	67,102	67,102	-
00147	1,047,538	1,047,538	-
00148	282,618	282,618	-
00149	163,374	163,374	-
00150	640,283	640,283	-
00157	578,627	578,627	-
00158	146,557	146,557	-
00159	570,851	570,851	-
00127	144,588	144,588	-
	7,188,128	7,188,128	-
Consulting Services			
00125	80,724	80,724	-
00128	39,281	39,281	-
00133	94,952	94,952	-
00134	116,550	116,550	-
00135	109,809	109,809	-
00136	109,930	109,930	-
00140	69,348	69,348	-
00142	60,867	60,867	-
00143	116,928	116,928	-
00144	115,165	115,165	-
00145	120,055	120,055	-
00151	122,120	122,120	-
00152	94,493	94,493	-
00153	96,321	96,321	-
00154	96,292	96,292	-
00155	110,349	110,349	-
00156	54,410	54,410	-
	1,607,594	1,607,594	-

	<b>ADB</b>	<b>Fund</b>	<b>Difference</b>
Project Management Support			
00140	249,080	249,080	-
	249,080	249,080	-
Imprest account redemption			
00140	(77,208)	(77,208)	-
	(77,208)	(77,208)	-
Interest	460,803	460,803	-
Total	9,428,397	9,428,397	-

## 9 Project implementation

As of 31 December 2021 the financial progress of the Project was 54% (as of 31 December 2020: 44%) in the framework of the Loan Agreement. Meanwhile, the physical progress of the Project (Construction of Tranche 3) was 62% (as of 31 December 2020: 41%).

## 10 Legal commitments

The Contractor company Sinohydro has requested the Information Disputes Council (DC) to require the Fund to allocate additional payments (6,801,956 US dollar) to the Contractor for the replacement of the cement-based to concrete-based pavement. A part of the claim (561,787 US dollar) has been met in 2022 and the amount has been transferred to the Contractor, whereas DC decided that the Contractor should provide additional justifications for the rest of the claim.