

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

**"Road Department" Fund**

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

**Finance Contract number FIN 82634-AM**

**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 European Investment Bank (the "EIB") Finance Contract number FIN 82634-AM, which comprise the statement of Project sources and uses of funds, the Project account statement and the government co-financing account statement as of and for the year ended 31 December 2021, 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 (FIN 82634-AM) 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, as well as the appropriate covenants of the Finance Contract number FIN 82634-AM;
- the "Road Department" Fund has utilized all proceeds of the credit withdrawn from the European Investment Bank only for purposes of the Project as agreed between the Republic of Armenia and the European Investment Bank, in accordance with the Finance Contract number FIN 82634-AM; 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 Finance Contract number FIN 82634-AM.

In addition, (a) the Project account statement and the government co-financing account statement 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 the Project 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 European Investment 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 and Those Charged with Governance 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* and the financial covenants of the Finance Contract number FIN 82634-AM, 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.

- 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.

Armen Hovhannisyan  
Chief Executive Officer



Emil Vassilyan, FCCA  
Engagement Partner



11 July 2022



# Statement of the Project sources and uses of funds

In Euro		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		3,756		107,349					
Add: Financing									
European Investment Bank credit funds	3	4,012,787	33,895,387	1,882,600	29,882,600				
Government co-financing		1,917,536	4,786,705	566,717	2,869,169				
Total financing		5,930,323	38,682,092	2,449,317	32,751,769				
Less: Expenses									
European Investment Bank credit funds	4.1	(4,012,787)	(33,895,387)	(1,882,600)	(29,882,600)	(6,797,649)	(36,680,249)	2,784,862	2,784,862
Government co-financing	4.2	(1,747,504)	(4,605,307)	(675,684)	(2,857,803)	(1,884,473)	(4,742,276)	136,969	136,969
Total expenses		(5,760,291)	(38,500,694)	(2,558,284)	(32,740,403)	(8,682,122)	(41,422,525)	2,921,831	2,921,831
Gain/(loss) from exchange rate differences		(1,121)	(8,731)	5,374	(7,610)				
Closing balance of bank accounts		172,667		3,756					

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 9 to 12.

# Project account (Euro) statement

Loan number FIN 82634 - AM

In Euro

	2021	2020
Balance as of 1 January	-	-
Add:		
European Investment Bank credit funds	4,012,787	1,882,600
Total inflow	4,012,787	1,882,600
Less:		
Project expenses	(4,012,787)	(1,882,600)
Total outflow	(4,012,787)	(1,882,600)
Balance as of 31 December	-	-

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 9 to 12.

# Government co-financing account (AMD) statement

Loan number FIN 82634 - AM

In Euro

	2021	2020
Balance as of 1 January	3,756	107,349
Add:		
Government co-financing	1,921,292	675,061
Returned amount to the State budget	(3,756)	(108,344)
Total inflow	1,917,536	566,717
Gain/(loss) from exchange rate differences	(1,121)	5,374
Less:		
Project expenses	(1,747,504)	(675,684)
Total outflow	(1,747,504)	(675,684)
Balance as of 31 December	172,667	3,756

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

Gor Avetisyan

Marina Safaryan

Executive 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 9 to 12

# 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 Finance Contract signed between the Republic of Armenia and the European Investment Bank (the EIB) on 18 November 2013. According to N 1298-U decision of the Republic of Armenia dated 6 August 2021 the "Road Department" SNCO was reorganized into Fund.

The total amount of the credit was agreed to be Euro 60,000,000.

The Project is part of an overall "North-South Road Corridor Investment Program - Project 3" (the "Project") aimed at improving and upgrading the North-South Road Corridor (NSRC) in Armenia. The NSRC runs 556km from the border with Georgia at Bavra via Gyumri, Ashtarak, Yerevan, Goris and Kapan, to the border with Iran and Meghri. The Project aims to improve some 145 km of the northern part of the corridor between Yerevan and Bavra.

The budget of the Project is as follows:

Finance Contract number FIN 82634-AM

	In Euro
EIB	60,000,000
RA Government	12,000,000
Total	72,000,000

The Project includes the following:

Tranche 3 Talin – Gyumri (km 71+500 to km 117+670)

- i. New Highway construction to convert the existing 2-lane single carriageway to a 4-lane dual carriageway (as an extension of the Tranche 2 highway) from km 71+500 (Talin) to km 117+670 (Gyumri) with a total length of 46.17 km, where Lanjik-Gyumri (from km 90+200 to km 117+670) section will be financed under the loan provided by this Contract.
- ii. Upgrading of the entire technical infrastructure in conformity with motorway construction;
- iii. Construction of 152 No. bridges/structures
  - a) 6 No. Field Connector Overpasses,
  - b) 10 No. Field Connector Underpasses (4 No. at 3m high x 5m wide for pedestrians and animals and 6 No. at 4.5m high x 6m wide for machinery and animals).
  - c) 132 No. Gully Underpasses/Box Culverts, (generally 1.5m x 1.5m box culverts),
  - d) 3 No. River Underpasses,
  - e) 1 No. Railway Underpass.
- iv. The 3 No. River underpasses include the construction of 1 No large bridge structure, 36 m long, at the Karkachan river with 2x2 lanes.
- v. Construction of 10 No. grade separated interchanges at the following locations to provide access to
  - a) km 78 – Mastara
  - b) km 87.5 – Lanjik

- c) km 94 – Dzorakap and Sarnaghbyur
- d) km 96 – Artik and Maralik
- e) km 98.5 – Maralik
- f) km 104 – Hayrenyats
- g) km 106.5 – Horom
- h) km 107.5 – Lusakert
- i) km 110 – Beniyamin
- j) km 113.5 – Azatan/Aravik

The Project closing date is 30 June 2023.

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 financial statements of the Project are also prepared in accordance with the EIB Finance Contract number FIN 82634-AM.

### 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 Euro (presentation currency).

Government co-financing amounts in Armenian drams and payments made from those amounts are converted into Euro applying the exchange rate announced by the Central Bank of Armenia on the previous date of the transaction.

At the reporting date, monetary items denominated in AMD are retranslated into Euro at the rate announced by the Central Bank of Armenia prevailing on that date, which is 542.61 Armenian drams for 1 Euro as of 31 December 2021 (641.11 Armenian drams for 1 Euro as of 31 December 2020).

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

### 2.3 Financing

The Project financing is recognized and included in the Project financial statements only when the credit amounts are transferred to the Project 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 and included in the Project financial statements when the payment to counterparties for works performed is made. Payments are made from both the Project account and the Government co-financing account.

## 3 EIB financing

The Republic of Armenia received financing from the EIB, which as of 31 December 2021 amounts to Euro 33,895,387 (as of 31 December 2020: Euro 29,882,600). Within the scope of the Project, during the reporting year Euro 4,012,787 is transferred to the Project accounts (year ended 31 December 2020: Euro 1,882,600). Included in the statement of Project sources and uses of funds are only those amounts that are controlled and used by the Fund.

## 4 Expenses

### 4.1 From EIB fund

In Euro						
	For the year ended 31 December 2021			As of 31 December 2021		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	3,794,339	6,536,684	(2,742,345)	33,676,939	36,419,284	(2,742,345)
Consulting Services	218,448	260,965	(42,517)	218,448	260,965	(42,517)
	4,012,787	6,797,649	(2,784,862)	33,895,387	36,680,249	(2,784,862)

In Euro						
	For the year ended 31 December 2020			As of 31 December 2020		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	1,882,600	1,882,426	60,174	29,882,600	29,882,426	60,174
	1,882,600	1,882,426	60,174	29,882,600	29,882,426	60,174

### 4.2 From government co-financing amounts

In Euro						
	For the year ended 31 December 2021			As of 31 December 2021		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	1,454,544	1,576,498	(121,954)	3,744,240	3,866,194	(121,954)
Consulting Services	291,761	306,583	(14,822)	859,868	874,690	(14,822)
Other expenses	1,199	1,392	(193)	1,199	1,392	(193)
	1,747,504	1,884,473	(136,969)	4,605,307	4,742,276	(136,969)

In Euro	For the year ended 31 December 2020			As of 31 December 2020		
	Actual	Budget	Variance	Actual	Budget	Variance
Loan number 2993-ARM						
Works	107,577	109,510	(1,933)	2,289,696	2,291,629	(1,933)
Consulting Services	568,107	587,394	(19,287)	568,107	587,394	(19,287)
	675,684	696,904	(21,220)	2,857,803	2,897,023	(21,220)

## 5 Subsequent events

The request for replenishment of loan and grant accounts has been sent to EIB on 16 August 2021, nevertheless, up to 31 December 2021 the accounts have not been replenished. The Project was progressing at a high pace in 2021, however, the payments for the submitted and accepted Interim Payment Certificates (IPCs) of Contractor for the last 4 months were not paid due to lack of funding. As of 31 December, 2021 there is a credit debt amounted 2,257,918.70 Euros in terms of loan and/or grant, without any liabilities in terms of Government co-financing. Therefore, in March 2022 the Contractor submitted an official letter of termination of works. The penalty for late payments is set by the Contract.

The Government of Armenia took measures to resolve the situation and on 2 June 2022 established Government Decree No 813-A following to which additional funds have been provided from the stabilization deposit budget of the state government budget for repaying the existing credit debt to resume ongoing work and make necessary payments, with the condition, that the provided amounts will be returned to the stabilization deposit account of the state budget of the RA after getting replenishment from the EIB Loan.

## 6 Project implementation

As of 31 December 2021 the financial progress of the Project was 56% (as of 31 December 2020: 50%) in the framework of the Finance Contract. Meanwhile, the physical progress of the Project (Construction of Tranche 3) was only 67% (as of 31 December 2020: 22%).