

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

**"Road Department" SNCO**

**Lifeline Road Network Improvement Project**

**IBRD Loan Number 8957-AM**

As of 31 December 2020 and for the period from 17 May 2020  
to 31 December 2020



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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 accompanying Project financial statements of the Lifeline Road Network Improvement Project (the "Project"), financed by the International Bank for Reconstruction and Development (the "IBRD") Loan Agreement 8957-AM, which comprise the statement of financial position as of 31 December 2020, the statement of the Project sources and uses of funds, the statement of uses of funds by Project activities, the designated account statement as of 31 December 2020 and for the period from 17 May 2020 to 31 December 2020, as well as the statements of expenditures ("SOE") submitted to the World Bank for the period from 17 May 2020 to 31 December 2020 in support of the Loan Agreement 8957-AM withdrawals, and a summary of significant accounting policies and other explanatory information.

In our opinion, the Project financial statements give a true and fair view of the financial position of the Lifeline Road Network Improvement Project (Loan Agreement 8957-AM) as of 31 December 2020, and of the funds received and expenses incurred for the period from 17 May 2020 to 31 December 2020, in accordance with the accounting policies described in note 2 to the Project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8957-AM.

In addition, in our opinion, the SOEs submitted together with the internal controls and procedures involved in their preparation can be relied upon to support the applications for the Loan Agreement 8957-AM withdrawals.

## *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" 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 a 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 "Road Department" SNCO to meet the requirements of the financial reporting of the World 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 3 to the Project financial statements, which describes that the closing date of the Project is 30 December 2021. 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" SNCO is responsible for the preparation and fair presentation of these Project financial statements in accordance with the accounting policies described in note 2 to the Project financial statements, the World Bank guidelines, and the relevant points of the Loan Agreement 8957-AM, and for such internal control as management determines is necessary to enable the preparation of these 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" 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.

Armen Hovhannisyan  
Chief Executive Officer

Emil Vassilyan, FCCA  
Engagement Partner

30 June 2021

A blue ink signature, likely of Emil Vassilyan, written over the right side of the stamp.

# Statement of financial position

In Euro	Note	As of 31 December 2020
<b>Assets</b>		
Accumulated Project expenses		1,026,735
Advances for construction works		2,019,153
Bank balances	4	823,701
<b>Total assets</b>		<b>3,869,589</b>
<b>Funds and liabilities</b>		
World Bank financing	6	3,296,147
Government co-financing	7	626,818
Exchange rate differences		(220,773)
Accounts payable	5	167,397
<b>Total funds and liabilities</b>		<b>3,869,589</b>

The Project financial statements were approved on 30 June 2021 by:

Stepan Machyan  
General Director

Marina Safaryan  
Head of Financial Management and  
Accounting, Acting 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 16.

# Statement of the Project sources and uses of funds

In Euro	Actual		Budget		Variance		Life of Project
	Period from 17 May 2020 to 31 December 2020	As of 31 December 2020	Period from 17 May 2020 to 31 December 2020	As of 31 December 2020	Period from 17 May 2020 to 31 December 2020	As of 31 December 2020	
Sources of funds							
World Bank financing (note 6)	3,296,147	3,296,147					
Government co-financing (note 7)	626,818	626,818					
Total	3,922,965	3,922,965					
Loss from exchange rate differences	(220,773)	(220,773)					
Less: Uses of funds							
Goods, works, training, operating costs, non-consulting services, and consulting services under Parts 1 and 2 of the Project (note 8)	993,235	993,235	7,584,147	7,584,147	(6,590,912)*	(6,590,912)	16,716,500
Front-end Fee	33,500	33,500	33,500	33,500	-	-	33,500
Total	1,026,735	1,026,735	7,617,647	7,617,647	(6,590,912)	(6,590,912)	16,750,000
Net increase in working capital (note 9)	2,675,457	2,675,457					

\* The reason for the underperformance was the fact that the signing date of Loan Agreement was in October 2019, however, the agreement was finally ratified in April 2020.

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 16.



# Statement of uses of funds by Project activities

In Euro	Actual		Budget		Variance		Life of Project
	Period from 17 May 2020 to 31 December 2020	As of 31 December 2020	Period from 17 May 2020 to 31 December 2020	As of 31 December 2020	Period from 17 May 2020 to 31 December 2020	As of 31 December 2020	
<b>Part 1: Lifeline Road Improvement</b>	<b>977,110</b>	<b>977,110</b>	<b>7,601,522</b>	<b>7,601,522</b>	<b>(6,624,412)</b>	<b>(6,624,412)</b>	<b>15,066,500</b>
Road Rehabilitation Works	800,704	800,704	5,455,152	5,455,152	(4,654,448)	(4,654,448)	11,750,000
Supervision and Technical Designs	176,406	176,406	2,146,370	2,146,370	(1,969,964)	(1,969,964)	3,316,500
<b>Part 2: Project Management and Institutional Strengthening</b>	<b>16,125</b>	<b>16,125</b>	<b>16,125</b>	<b>16,125</b>	<b>-</b>	<b>-</b>	<b>1,650,000</b>
Project Management and Implementation, including audits	2,405	2,405	2,405	2,405	-	-	1,650,000
Technical Assistance	13,720	13,720	13,720	13,720	-	-	-
<b>Total</b>	<b>993,235</b>	<b>993,235</b>	<b>7,617,647</b>	<b>7,617,647</b>	<b>(6,624,412)</b>	<b>(6,624,412)</b>	<b>16,716,500</b>

The statement of uses of funds by Project activities does not include the Front-end Fee at the amount of Euro 33,500 as of 31 December 2020.

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 16.



# SOE withdrawal schedule

*For the period from 17 May 2020 to 31 December 2020*

*IBRD Loan Agreement 8957-AM*

*In Euro*

		Category
Application No.	Goods, works, training, operating costs, non-consulting services, and consulting services under Parts 1 and 2 of the Project	
2-DA		928,050
3-DA		834,597
Total		1,762,647

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 16.

# Designated account statement

As of 31 December 2020 and for the period from 17 May 2020 to 31 December 2020

IBRD Loan Agreement 8957-AM

In Euro

Balance as of 17 May 2020		-	
Add:			
Cumulative unexplained discrepancy		-	
Loan replenishment during the period *	3,262,587		
	<u>3,262,587</u>		<u>3,262,587</u>
Less:			
Refund to the World Bank from the designated account during the period			-
Present outstanding amount advanced to the designated account (1)			<u>3,262,587</u>
Balance as of 31 December 2020			808,930
Add:			
Amount of eligible expenditures paid during the period	2,453,657		
Service charges (if applicable)		-	
	<u>2,453,657</u>		<u>2,453,657</u>
Less:			
Interest earned (if credited into the designated account)			-
Total advance accounted for (2)			<u>3,262,587</u>
Discrepancy (1) – (2) to be explained			-

\* During the reporting period the Organization has received Euro 3,262,647 loan replenishment from the World Bank, from which Euro 60 were charged by the intermediate bank for transfer services.

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 16.

# Notes to the Project financial statements

## 1 Activity

The "Road Department" SNCO (the "Organization") implements the Lifeline Road Network Improvement Project (the "Project"), which is financed under the Loan Agreement number 8229-AM signed between the International Bank for Reconstruction and Development (the "IBRD") and the Government of the Republic of Armenia on 11 February 2013.

On 26 August 2015 the new Loan Agreement 8523-AM (Additional Financing for the Lifeline Road Network Improvement Project) has entered into force between the International Bank for Reconstruction and Development (the "IBRD") and the Government of the Republic of Armenia, providing additional financing for the Lifeline Road Network Improvement Project.

On 10 October 2019 another Loan Agreement 8957-AM (Second Additional Financing for the Lifeline Road Network Improvement Project) has entered into force between the International Bank for Reconstruction and Development (the "IBRD") and the Government of the Republic of Armenia, providing additional financing for the Lifeline Road Network Improvement Project at the amount of Euro 13,400,000.

The objective of the Project is to improve access of rural communities to markets and services through the upgrading of selected Lifeline Roads, and to strengthen the capacity of the Organization to manage the Lifeline Road Network.

The Project consists of the following parts:

### Part 1: Lifeline Road Improvement

- Carrying out improvement works for approximately 450 kilometres of selected roads within the Lifeline Road Network.
- (i) Carrying out, on a pilot basis, rehabilitation and routine maintenance works of approximately 23.4 kilometres of selected segments of the Lifeline Road Network, under the terms of a Rehabilitation and Maintenance Contract, and (ii) carrying out rehabilitation and routine maintenance works of approximately 23 kilometres of selected segments of the Lifeline Road Network, under the terms of two Rehabilitation and Maintenance Contracts.
- Carrying out detailed design studies, related technical supervision activities and independent technical audits for rehabilitation activities under the Project.
- Carrying out of road safety improvement works, including: (i) Black Spots improvements, (ii) works associated with the implementation of the Safe Villages in all roads rehabilitated under the Project, and (iii) the acquisition and installation of road signs.

## Part 2: Project Management and Institutional Strengthening

- Provision of support for Project coordination and implementation through: (i) the financing of Operating Costs required for Project administration and monitoring, and (ii) the carrying out of Project financial audits.
- (i) Acquisition of a road asset management system database, including installation and training to MoTAI personnel for the use of said database, (ii) acquisition of road survey equipment for surveying road conditions and traffic, (iii) acquisition of road laboratory equipment for testing the quality of works carried out under the Project, and (iv) carrying out Lifeline Road Network data collection for the road asset management system.
- Carrying out of a road safety program, including inter alia, (i) the detailed design for carrying out of Black Spots improvement works, (ii) the provision of technical assistance and training programs for MoTAI and Traffic Police personnel in road safety management topics, (iii) the carrying out of road safety educational practices in Safe Villages schools, (iv) the carrying out of road safety campaigns linked to the Lifeline Road Network, (v) the development of a road safety action plan, (vi) the implementation of selected activities of the action plan developed under Part 2(c)(v) of the Project, and (vii) the development and installation of a crash data collection and management system and the provision of a training program for Traffic Police, MoTAI, and other stakeholders as needed in using the system.
- Provision of technical assistance for, inter alia, the: (i) carrying out of a feasibility study for the rehabilitation and maintenance of roads using a performance-based approach, including the identification of at least one road section, (ii) carrying out of studies on social monitoring and evaluation related to the Project, as well as road sector financial sustainability, (iii) provision of training to MoTAI staff and local contractors on the new concepts introduced by the Project, including design and implementation of multi-year performance based contracts, efficient design standards, and planning and contract monitoring for MoTAI, (iv) carrying out of technical studies and detailed designs required for the preparation of potential future investments in the road sector, (v) preparing a strategic development plan for the Lifeline Road Network, and (vi) enhancing disaster risk preparedness for the road sector, including the carrying out of a risk assessment of natural hazards to road infrastructure.

## Part 3: Contingent Emergency Response Component

Provision of support upon occurrence of an Eligible Emergency, as needed.

In accordance with the Loan Agreement 8957-AM dated 10 October 2019, the financing of the Project is implemented through the following categories:

Category	Percentage of expenditures to be financed (inclusive of taxes)	Amount of the Loan allocated (in Euro)
Goods, works, training, operating costs, non-consulting services, and consulting services under Parts 1 and 2 of the Project	80%	13,366,500
Emergency expenditures under Part 3 of the Project	100%	-
Front-end Fee		33,500
Total		13,400,000

The Front-end Fee payable by the Republic of Armenia shall be equal to one quarter of one percent (0.25%) of the Loan amount.