

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

**Transport Project Implementation Organization  
SNCO**

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

**Finance Contract number FIN 82634-AM**

As of and for the year ended 31 December 2018



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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 North-South Road Corridor Investment Program-Project 3 (the "Project"), financed by the European Investment Bank (the "EIB") finance contract number FIN 82634-AM, implemented by the "Transport Project Implementation Organization" SNCO, 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 2018, 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 2018, 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- the "Transport Project Implementation Organization" SNCO has utilized all proceeds of the credit withdrawn from the European Investment Bank only for purposes of the Project as agreed between the Republic of Armenia and the European Investment Bank, in accordance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; and no proceeds of the credit 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 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 2018; and (b) these receipts and payments support Project account liquidations/replenishments during the year ended 31 December 2018.

### *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 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.
- We draw attention to note 6 to the project financial statements, which states that Prosecutor General of Armenia is conducting investigations on the whole project of “North-South Road Corridor”. As a result, a criminal case has been sent to the Investigative Committee of the Republic of Armenia with the instruction of making further investigation. 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 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.

### *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

Emil Vassilyan, FCCA

Managing Partner

Engagement Partner

28 June 2019



# Statement of the Project sources and uses of funds

As of and for the year ended 31 December 2018

In Euro	Note	Year ended 31 December 2018			As of 31 December 2018		
		Actual	Planned	Variance	Actual	Planned	Variance
Opening balance of bank accounts		1,255					
Add: Financing							
European Investment Bank credit funds	3	2,076,025			26,983,345		
Government co-financing		417,468			1,706,411		
Total financing		2,493,493			28,689,756		
Less: Expenses							
European Investment Bank credit funds	4	2,076,025	3,029,708	(953,683)	26,983,345	27,937,028	(953,683)
Government co-financing		415,225	414,030	1,195	1,693,361	1,692,166	1,195
Total expenses		2,491,250	3,443,738	(952,488)	28,676,706	29,629,194	(952,488)
Loss from exchange rate differences		(1,653)			(11,205)		
Closing balance of bank accounts		1,845			1,845		

The project financial statements were approved on 28 June 2019 by:

Christine Ghalechyan

Acting General Director



Narine Mikaelyan

Financial Management and Accounting Specialist

This statement of the Project sources and uses of funds 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

Account number: 900000901331

Bank: State Treasury of the Republic of Armenia

Address: Yerevan 0010, Melik-Adamyán 1

Finance contract number FIN 82634-AM

Currency: Euro

As of and for the year ended 31 December 2018

	In Euro
Balance as of 1 January 2018	-
Add:	
European Investment Bank credit funds	2,076,025
Total inflow	2,076,025
Less:	
Project expenses	2,076,025
Total outflow	2,076,025
Balance as of 31 December 2018	-

The project financial statements were approved on 28 June 2019 by:

Christine Ghalechyan

Acting General Director



Narine Mikaelyan

Financial Management and Accounting  
Specialist

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

Account number: 900000929209  
Bank: State Treasury of the Republic of Armenia  
Address: Yerevan 0010, Melik-Adamyanyan 1  
Finance contract number FIN 82634-AM  
Currency: AMD  
As of and for the year ended 31 December 2018

	In Euro
Balance as of 1 January 2018	1,255
Add:	
Government co-financing	417,468
Total inflow	417,468
Loss from exchange rate differences	(1,653)
Less:	
Project expenses	415,225
Total outflow	415,225
Balance as of 31 December 2018	1,845

The project financial statements were approved on 28 June 2019 by:

Christine Ghalechyan

Acting General Director



Narine Mikaelyan

Financial Management and Accounting  
Specialist



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 Nature of operations and general information

The "Transport Project Implementation Organization" SNCO, which is the successor of State Agency "Transport Project Implementation Unit" of the the Ministry of Territorial Administration and Infrastructure 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 Decree No 1304-A of the Government of the Republic of Armenia dated 15 December 2016.

The Finance Contract between the Republic of Armenia and the European Investment Bank (the "EIB") was signed on 18 November 2013. 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 at 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
<b>Total</b>	<b>72,000,000</b>

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
  - f. km 78 – Mastara
  - g. km 87.5 – Lanjik
  - h. km 94 – Dzorakap and Sarnaghbyur
  - i. km 96 – Artik and Maralik
  - j. km 98.5 – Maralik
  - k. km 104 – Hayrenyats
  - l. km 106.5 – Horom
  - m. km 107.5 – Lusakert
  - n. km 110 – Beniyamin
  - o. km 113.5 – Azatan/Aravik

Each interchange includes 1 No. overbridge (2x18m=36m long)

- vi. Construction of a drainage system (of all facilities), including cleaning and rehabilitation of the existing drainage ditches and culverts;
- vii. Landscaping and other environmental protection facilities to mitigate adverse impacts on the environment;
- viii. Lighting and power including: road signs and road markings, traffic safety and motorway security elements;
- ix. Planning, design, supervision, environmental/other monitoring, auditing, legal, and testing services plus insurance; and
- x. Relocation/reinstatement of utilities as necessary
  - p. facilitate efficient subregional road transport transit;
  - q. increase trade flows and competitiveness;
  - r. lower transport costs;

- s. increase mobility and accessibility to markets, jobs and social services;
- t. improve governance.

The Project closing date is 20 December 2020.

The operating address of the "Transport Project Implementation Organization" SNCO is 4 Tigran Mets Str., 7-th floor, Yerevan, Armenia.

During the reporting year the average number of the staff involved in the Project was 14 (2017: 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 financial statements of the Project are also prepared in accordance with the EIB finance contract number FIN 82634-AM.

### 2.2 Financing

The Project account 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.

### 2.3 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 and included in the project financial statements when the payment to suppliers for works performed is made. Payments are made from both the Project account and the Government co-financing account.

### 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. The project financial statements of the Project 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.

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 Euro at the rate announced by the Central Bank of Armenia prevailing on that date, which is 553.65 drams for 1 Euro as of 31 December 2018 (580.1 Armenian drams for 1 Euro as of 31 December 2017).

### 3 Financing

The Republic of Armenia received financing from the EIB as of 31 December 2018 at the amount of Euro 28,000,000. Within the scope of the Project, during the reporting year Euro 2,076,025 is transferred to the Project account. In the statement of project sources and uses of funds are included only those amounts that are controlled and used by the "Transport Project Implementation Organization" SNCO.

### 4 Expenses

In accordance with the contract number T3-CW-02 signed between the Ministry of Territorial Administration and Infrastructure of the Republic of Armenia and Sinohydro Corporation Limited (the "Contractor") dated on 8 December 2015, the Contractor should execute works known as T3-CW-02: Reconstruction and Improvement of the M1 Talin to Gyumri Road from km 90+200 to km 117+670 (Lanjik-Gyumri section). The contractual amount made up Euro 74,066,180. Within the scope of the contract, as of 31 December 2018, payments are made to the Contractor from the EIB and the RA Government co-financing funds at the amount of Euro 26,983,345 and Euro 1,693,361, respectively.

### 5 Project implementation

As of 31 December 2018 45% of payments were performed in the framework of the Finance Contract, while only 17% of civil works were performed.

### 6 Legal issues

- The Prosecutor General of Armenia is conducting investigations on the whole project of "North-South Road Corridor". As a result, a criminal case has been sent to the Investigative Committee of the Republic of Armenia with the instruction of making an investigation. As of the reporting date the management of the Organization cannot assess the effect of these investigations on the effectiveness of the Project.
- As of the reporting date there are legal claims against the Organization, where the claimants demand the Organization to buy those parts of the purchased plots of land, which have not been procured by the Organization.