

Project Financial Statements and Independent Auditor's Report

"Road Department" SNCO

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

Loan Agreement number 2993-ARM

As of and for the year ended 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 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 2020 and the statement of expenditures ("SOEs") submitted to the ADB for the year ended 31 December 2020 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 2020, 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- the "Road Department" SNCO has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Republic of Armenia and the Asian Development Bank, in accordance with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" SNCO 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 2020; and (b) these receipts and payments support advance account liquidations/replenishments during the year ended 31 December 2020.

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 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" SNCO 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" 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*, 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" 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



Statement of the Project sources and uses of funds

	In USD	Note	Actual			Budget			Variance	
			Year ended 31 December 2020	As of 31 December 2020	Year ended 31 December 2019	As of 31 December 2019	Year ended 31 December 2020	As of 31 December 2020	Year ended 31 December 2020	As of 31 December 2020
Opening balance of bank accounts		4	1,251,430		783,775					
Add: Financing										
ADB loan number 2993-ARM		5	2,940,522	44,104,156	10,284,276	41,163,634				
Government co-financing		6	446,593	12,349,043	2,052,478	11,902,450				
Total financing			3,387,115	56,453,199	12,336,754	53,066,084				
Less: Expenses										
ADB Loan Agreement number 2993-ARM		7.1	(3,049,283)	(43,856,454)	(9,927,813)	(40,807,171)	(3,377,385)	(44,184,556)	328,102	328,102
Government co-financing		7.2	(450,977)	(11,473,384)	(1,948,579)	(11,022,407)	(1,511,901)	(12,534,308)	1,060,924	1,060,924
Total expenses			(3,500,260)	(55,329,838)	(11,876,392)	(51,829,578)	(4,889,286)	(56,718,864)	1,389,026	1,389,026
Gain/(loss) from exchange rate differences			(67,583)	(52,659)	7,293	14,924				
Closing balance of bank accounts		4	1,070,702		1,251,430					

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 10 to 17.



Government co-financing account (AMD) statement

Loan Agreement number 2993-ARM

In USD

	2020	2019
Balance as of 1 January	106,542	1,951
Add:		
Government co-financing	553,153	2,054,429
Returned amount to the State budget	(106,560)	(1,951)
Total inflow	446,593	2,052,478
Gain/(loss) from exchange rate differences	(2,875)	692
Less:		
Project expenses	(450,977)	(1,948,579)
Total outflow	(450,977)	(1,948,579)
Balance as of 31 December	99,283	106,542

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 10 to 17.

SOE withdrawal schedule

Loan Agreement number 2993-ARM

In USD

For the year ended 31 December 2020

No of withdrawal	Item	Contracts on Works, Goods, Consulting Services and Project Management Support	
		ADB percentage of financing*	Amount to be reimbursed
00115	2. Consulting Services	100%	380,937
	4. Project Management Support	100%	127,257
00121	2. Consulting Services	100%	160,086
	4. Project Management Support	100%	170,676
Total			838,956

For the year ended 31 December 2019

No of withdrawal	Item	Contracts on Works, Goods, Consulting Services and Project Management Support	
		ADB percentage of financing*	Amount to be reimbursed
00099	2. Consulting Services	100%	2,912
	4. Project Management Support	100%	66,588
00104	2. Consulting Services	100%	8,894
	4. Project Management Support	100%	59,916
00105	4. Project Management Support	100%	69,500
00114	2. Consulting Services	100%	139,373
	4. Project Management Support	100%	60,627
Total			407,810

* Exclusive of taxes and duties imposed within the territory of the Republic of Armenia

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 10 to 17.



Notes to the Project financial statements

1 Activity

The "Road Department" SNCO (the "Organization") 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.

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:

- a) facilitate efficient sub-regional road transport transit;
- b) increase trade flows and competitiveness;
- c) lower transport costs;
- d) increase mobility and accessibility to markets, jobs and social services;
- e) 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 Organization is Government House 3, Republic Square, Yerevan, Armenia.

During the reporting year the average number of the staff involved in the Project was 11 (2019: 12).

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

These Project financial statements are presented in US dollars (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.

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 USD at the rate announced by the Central Bank of Armenia prevailing on that date, which is 522.59 Armenian drams for 1 US dollar as of 31 December 2020 (479.7 Armenian drams for 1 US dollar as of 31 December 2019).

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 Organization 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 2020	As of 31 December 2019
Computer software and equipment	21,010	21,010
Furniture	833	833
Other	687	687
	<u>22,530</u>	<u>22,530</u>

4 Bank accounts

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

	As of 31 December 2020	
	In USD	In AMD
ADB imprest 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

	As of 31 December 2019	
	In USD	In AMD
ADB imprest account in USD	356,463	170,995,301
Government co-financing account in AMD	106,542	51,108,119
Bank account in AMD (account 15100-09017860800)	788,425	378,207,374
Total	1,251,430	600,310,794

5 ADB financing

In USD	For the year ended 31 December 2020	As of 31 December 2020	For the year ended 31 December 2019	As of 31 December 2019
Loan Agreement number 2993-ARM				
Advance account	330,740	5,892,159	1,047,810	5,561,419
Direct payment	1,714,428	34,599,540	8,072,051	32,885,112
Interest charge	895,354	3,612,457	1,164,415	2,717,103
	<u>2,940,522</u>	<u>44,104,156</u>	<u>10,284,276</u>	<u>41,163,634</u>

6 Government co-financing

In USD	For the year ended 31 December 2020	As of 31 December 2020	For the year ended 31 December 2019	As of 31 December 2019
Government co-financing	553,153	10,027,644	2,054,429	9,474,491
Less: amount returned to the State budget	(106,560)	(115,246)	(1,951)	(8,686)
	<u>446,593</u>	<u>9,912,398</u>	<u>2,052,478</u>	<u>9,465,805</u>
Government co-financing, LARP financing	-	2,533,963	-	2,533,963
Less: amount returned to the State budget	-	(97,318)	-	(97,318)
	<u>-</u>	<u>2,436,645</u>	<u>-</u>	<u>2,436,645</u>
	<u>446,593</u>	<u>12,349,043</u>	<u>2,052,478</u>	<u>11,902,450</u>

7 Expenses

7.1 From ADB fund

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

Included in employee compensation expenses are USD 2,455 (year ended 31 December 2019: nil), which relate to payments in the scopes of another project. This amount has been redeemed in the subsequent reporting period.

In USD

Loan number 2993- ARM	For the year ended 31 December 2019			As of 31 December 2019		
	Actual	Budget	Variance	Actual	Budget	Variance
Works	6,623,793	7,399,242	(775,449)	29,077,540	29,852,989	(775,449)
Consulting Services	1,563,957	1,928,156	(364,199)	6,705,550	7,069,749	(364,199)
Goods	283,005	279,777	3,228	332,620	329,392	3,228
Project Management Support	292,643	319,095	(26,452)	1,974,358	2,000,810	(26,452)
Interest charge	1,164,415	1,164,415	-	2,717,103	2,717,103	-
	9,927,813	11,090,685	(1,162,872)	40,807,171	41,970,043	(1,162,872)

Project Management Support is disclosed in the following table:

In USD	For the year ended 31 December 2019	As of 31 December 2019
Employee compensation	195,113	1,468,005
Rent expenses	72,415	334,235
Consultation expenses	12,600	54,020
Trip expenses	2,878	27,826
Machinery and equipment expenses	-	18,976
Office expenses	2,025	16,905
Communication expenses	667	12,049
Representation expenses	381	4,182
Other expenses	6,564	38,160
Total	292,643	1,974,358

7.2 From government co-financing amounts

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)

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

In USD

	For the year ended 31 December 2019			As of 31 December 2019		
Loan number 2993-ARM	Actual	Budget	Variance	Actual	Budget	Variance
Works	1,460,812	2,107,446	(646,634)	7,708,516	8,355,150	(646,634)
Consulting Services	387,818	661,052	(273,234)	1,496,747	1,769,981	(273,234)
Land Acquisition and Resettlement	-	8,221	(8,221)	1,650,508	1,658,729	(8,221)
Goods	79,826	79,055	771	81,747	80,976	771
Project Management Support	20,123	23,366	(3,243)	84,889	88,132	(3,243)
	1,948,579	2,879,140	(930,561)	11,022,407	11,952,968	(930,561)

Project Management Support is disclosed in the following table:

In USD

	For the year ended 31 December 2019	As of 31 December 2019
Rent expenses	14,721	54,883
Consultation expenses	4,248	17,511
Machinery and equipment expenses	-	3,460
Office expenses	109	2,825
Communication expenses	21	2,154
Representation expenses	49	234
Other expenses	975	3,822
Total	20,123	84,889

8 Reconciliation between the amounts received by the Organization and disbursed by the ADB

Loan Agreement number 2993-ARM

For the year ended 31 December 2020

In USD

	ADB	Organization	Difference
Works			
00123	351,522	351,522	-
00124	81,196	81,196	-
	<u>432,718</u>	<u>432,718</u>	<u>-</u>
Consulting Services			
00115	380,916	380,916	-
00116	266,232	266,232	-
00117	461,280	461,280	-
00118	192,200	192,200	-
00120	167,844	167,844	-
00121	160,086	160,086	-
00122	194,154	194,154	-
	<u>1,822,712</u>	<u>1,822,712</u>	<u>-</u>
Project Management Support			
00115	127,257	127,257	-
00121	170,655	170,655	-
	<u>297,912</u>	<u>297,912</u>	<u>-</u>
Imprest account redemption			
00115	(508,174)	(508,174)	-
	<u>(508,174)</u>	<u>(508,174)</u>	<u>-</u>
Interest	<u>895,354</u>	<u>895,354</u>	<u>-</u>
Total	<u>2,940,522</u>	<u>2,940,522</u>	<u>-</u>

9 Project implementation

As of 31 December 2020 the financial progress of the Project was 44% (as of 31 December 2019: 41%) in the framework of the Loan Agreement. Meanwhile, the physical progress of the Project (Construction of Tranche 3) was only 41% (as of 31 December 2019: 29%).