

**OFFICE OF THE PRIME MINISTER OF THE REPUBLIC OF
ARMENIA**

FOURTH PUBLIC SECTOR MODERNIZATION PROJECT

Credit No. 9338-AM

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

**For the period from 14 November 2022 (inception date) to 31 December
2022 and for the year ended 31 December 2023**

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INDEPENDENT AUDITORS' REPORT

To the Office of the Prime Minister of the Republic of Armenia

We have audited the accompanying special purpose financial statements of the Fourth Public Sector Modernization Project (hereinafter the PSMP 4), implemented by Office of the Prime Minister of the Republic of Armenia (hereinafter OPM), which comprise Statement of Project Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Statement of Designated Account and Government Co-financed Account for the period from 14 November 2022 (inception date) to 31 December 2022 and for the year ended 31 December 2023, and Statement of Financial Position as at 31 December 2022 and 31 December 2023 and a summary of significant accounting policies and other explanatory notes.

In our opinion, the special purpose financial statements present fairly in all material respects the project sources and uses of funds, uses of funds by project activity and its cash flows for the period from 14 November 2022 (inception date) to 31 December 2022 and for the year ended 31 December 2023 in accordance with the cash basis of accounting in line with International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of Accounting and Financing Agreement between the Republic of Armenia and International Bank for Reconstruction and Development dated 18 March 2022 (Loan #9338-AM).

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 *Auditors Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Office of the Prime Minister of the Republic of Armenia in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

Emphasis of Matter - Restriction on Distribution or Use

We draw attention to Note 2(a) to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements have been prepared for providing information to the Government of the Republic of Armenia and the International Development Association to assist them in evaluating the PSMP 4's implementation. As a result, the special purpose 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 Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with cash basis of accounting as described in Note 2(a), and for such internal

control as management determines is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the PSMP 4's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate, or to cease operations of PSMP 4, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose 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 special purpose financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 OPM's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OPM's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the OPM to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, 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.

Hovhannes Petrosyan
Director

PHP Partners cjsc
24 June 2024



Lilit Minasyan
Partner, Head of Audit Services

Fourth Public Sector Modernization Project

Statement of Project Sources and Uses of Funds for the period from 14 November 2022 (inception date) to 31 December 2022 and for the year ended 31 December 2023

EUR	Actual			Planned			Variance			PAD Life of Project
	Year ended 31 December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulative As of 31 December 2023	Year ended December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulative As of December 2023	Year ended 31 December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulative As of 31 December 2023	
Opening Cash Balance										
Project Account /GOA/ Designated Account /WB fund/	-	-								
Total	-	-								
Add:										
Sources of Funds										
Government Co-financing	94,331	-	94,331							
WB fund	1,200,000	66,250	1,266,250							
Total donor funds	1,294,331	66,250	1,360,581							
Foreign Exchange Difference										
Government Co-financing	(264)	-	(264)							
Total	(264)	-	(264)							
Less:										
Uses of Funds										
(1) Goods, non-consulting services, consulting services, Training and Workshops, and Operating Costs for the Project										
Government Co-financing	94,067	-	94,067							



Fourth Public Sector Modernization Project

Statement of Project Sources and Uses of Funds for the period from 14 November 2022 (inception date) to 31 December 2022 and for the year ended 31 December 2023

EUR	Actual			Planned			Variance			PAD Life of Project
	Year ended 31 December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulative As of 31 December 2023	Year ended December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulative As of December 2023	Year ended 31 December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulative As of 31 December 2023	
WB fund	608,180	-	608,180							
(2) Front end fee WB	-	66,250	66,250							
Total	702,247	66,250	768,497	765,942	66,250	832,192	(63,695)	-	(63,695)	31,800,000
Closing Cash Balance										
Project Account /GOA/	-	-								
Designated Account /WB fund/	591,820	-								
Total	591,820	-								

The project special purpose financial statements were approved and signed on 24 June 2024.

Edgar Mkrtchyan
Head of the Office of the Deputy Prime Minister Mher Grigoryan

Susanna Sahadyan
Head of Financial and Accounting Department



Anahit Karapetyan
Project Financial Management specialist

Statement of Uses of Funds by Project Activity for the period from 14 November 2022 (inception date) to 31 December 2022 and for the year ended 31 December 2023

EUR	Actual			Planned			Variance			PAD Life of Project
Year ended 31 December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulativ e As of 31 December 2023	Year ended 31 December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulativ e As of 31 December 2023	Year ended 31 December 2023	From 14 November 2022 (inception date) to 31 December 2022	Cumulativ e As of 31 December 2023		
Project Activities										
Part I: Modernization of the public administration	-	-	-	-	-	-	-	-	8,681,187	
Government Co-financing	-	-	-	-	-	-	-	-	1,413,629	
WB fund	-	-	-	-	-	-	-	-	7,267,558	
Part II: Digital service delivery	538,142	-	538,142	585,460	-	585,460	(47,318)	-	16,990,666	
Government Co-financing	67,737	-	67,737	74,227	-	74,227	(6,490)	-	2,810,064	
WB fund	470,405	-	470,405	511,233	-	511,233	(40,828)	-	14,180,602	
Part III: Data management and digital infrastructure	-	-	-	-	-	-	-	-	4,246,204	
Government Co-financing	-	-	-	-	-	-	-	-	701,054	
WB fund	-	-	-	-	-	-	-	-	3,545,150	
Part IV: Project management	164,105	66,250	230,355	180,482	66,250	246,732	(16,377)	-	1,881,943	
Government Co-financing	26,330	-	26,330	28,969	-	28,969	(2,639)	-	375,254	
WB fund	137,775	-	137,775	151,513	-	151,513	(13,738)	-	1,440,439	
Front End Fee WB	-	66,250	66,250	-	66,250	66,250	-	-	66,250	
Total project expenditure	702,247	66,250	768,497	765,942	66,250	832,192	(63,695)	-	31,800,000	

1 Background

(a) Organisation and operations

The Fourth Public Sector Modernization Project (the Project) is being implemented by Office of the Prime Minister of the Republic of Armenia (hereinafter OPM).

According to the Fourth Public Sector Modernization Project 9338-AM financing agreement concluded between the International Bank for Reconstruction and Development (“IBRD”) and Republic of Armenia dated 18 March 2022 (Loan Agreement) a loan in an amount of EUR 26,500,000.

Tax consequences arising from the procured goods, consultants’ services and incurred operating expenses are paid from the proceeds of the co-financing received from the Government of the Republic of Armenia. Total amount of Government co-financing approximates to EUR 5,300,000.

The project development objective is to improve the efficiency of and access to selected public services for businesses and citizens.

The Project consists of the following components:

1. Modernization of the public administration
 - 1.1. Improve the efficiency of the civil service administration;
 - 1.2. Improve the efficiency and compliance of justice services and judicial processes;
 - 1.3. Support the modernization of systems of the new Ministry of Interior;
2. Digital service delivery
 - 2.1. Modernization of the tax and customs administration systems aimed at improving the efficiency of revenue mobilization;
 - 2.2. Strengthening of central government service delivery;
 - 2.3. Support of local governments through the piloting of activities related to re-engineering databases, data infrastructure and computing systems aimed at aligning business processes with central government agencies’ business processes and digitalization of local public services;
3. Data management and digital infrastructure
 - 3.1. Enhance the efficiency and security of digital infrastructure;
 - 3.2. Improve the resilience to cyber threats of the Borrower's digital infrastructure and assets;
 - 3.3. Improve the application of data science, machine learning and artificial intelligence in GovTech;
4. Project management

Support Project implementation, including but not limited to the provision of administrative support to Project Management Group in relation to Project implementation, such as procurement, financial management, monitoring and evaluation, capacity building, Project management, coordination, and development of institutional capacity and absorption of the Project-supported reforms.

The closing date of the Project is 31 March 2028.

2 Basis of preparation

(a) Statement of compliance

The special purpose financial statements are prepared in accordance with the cash basis of accounting in line with the International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of the Accounting, the World Bank guidelines and the relevant points of the Loan Agreement 9338-AM..

The special purpose project financial statements consist of:

- Project Sources and Uses of Funds,
- Uses of Funds by Project Activity,
- Statement of Financial Position,
- Statement of Designated Accounts,
- Statement of Project Account.

Cash basis of accounting recognizes transactions and other events only when cash is received or paid.

(b) Reporting currency

The reporting currency of special purpose financial statements is Euro (EUR). All financial information presented in EUR has been rounded to the nearest EUR.

3 Significant accounting policies

(a) Foreign currency transactions

The outstanding balances of the project account are translated to EUR based on the EUR exchange rate defined by the Central Bank of the Republic of Armenia as at 31 December 2022 equaling to AMD 420,06 and as at 31 December 2023 equaling to AMD 447,9.

(b) Taxes

All the applicable tax liabilities are calculated and paid in accordance to tax regulations of the Republic of Armenia.

(c) Funds for the Project

Funds for the Project are received from the International Bank for Reconstruction and Development and from Government of Armenia.

4 Statement of Designated Account and Government Co-financed Account

<i>EUR</i>	2023	From 14 November 2022 (inception date) to 31 December 2022
Opening balance	-	-
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	1,200,000	66,250
Present outstanding amount advanced to the designated account	1,200,000	66,250
Closing balance carried forward to next period	591,820	-
<i>Add:</i> Amount of eligible expenditures paid during the current period	608,180	66,250
Total advance	1,200,000	66,250

<i>EUR</i>	2023	From 14 November 2022 (inception date) to 31 December 2022
Opening balance	-	-
<i>Add:</i>		
Government co-financing during the current period	94,331	-
Foreing exchange difference	(264)	-
Present outstanding amount advanced to project account	94,067	-
Closing balance carried forward to next period	-	-
<i>Add:</i> Amount of eligible expenditures paid during the current period	94,067	-
Total advance	94,067	-

for the period from 14 November 2022 (inception date) to 31 December 2022 and for the year ended 31 December 2023

5 Statement of Financial Position

<i>EUR</i>	2023	From 14 November 2022 (inception date) to 31 December 2022
ASSETS		
Current assets		
<i>Cash and cash equivalents</i>		
Government co-financing account	-	-
Designated Account (World Bank financing)	591,820	-
Total current assets	591,820	-
Non-current assets		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	94,067	-
Credit financed cumulative expenditure ¹	674,430	66,250
Total non-current assets	768,497	66,250
Total assets	1,360,317	66,250
FUNDS		
Project financing		
Government co-financing account	94,331	-
Designated Account (World Bank financing) ²	1,266,250	66,250
Total funds	1,360,581	66,250
Foreign exchange differences		
Government co-financing account	(264)	-
Designated Account (World Bank financing)	-	-
Total foreign exchange differences	(264)	-
Total net assets and liabilities	1,360,317	66,250

¹ Cumulative Project Expenditures includes Front End Fee EUR 66,250

² Cumulative Project Financing Funds: includes Front End Fee EUR 66,250

6 Reconciliation statement of withdrawal applications

2023

Application	Category	Amounts received by the OPM EUR	Amounts disbursed by the WB EUR	Amount documented EUR
1 A -DA		400,000	400,000	-
2-DA	Goods, non-consulting services, consulting services, Training and Workshops, and Operating Costs for the Project	200,000	200,000	179,507
3-DA		600,000	600,000	278,185
4 DA		-	-	150,488
		1,200,000	1,200,000	608,180

