

Report on the Federation part of the Project
Financial Statements of the

**SUSTAINABLE FOREST AND LANDSCAPE
MANAGEMENT PROJECT**

of the Ministry of Finance and Treasury of Bosnia and
Herzegovina

Financed by:

- GEF Grant TF 016646

For the year ended 31 December 2018

**SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT of the Ministry of Finance and Treasury of Bosnia and Herzegovina

1. Introduction

1.1 Objectives of the Project

The main objective of the Sustainable Forest and Landscape Management Project (the "Project") is to build capacity of forestry sector stakeholders and to demonstrate approaches for Sustainable Forest Land Management (SFLM) through integrated management of vulnerable forest, scrub, and pasture landscapes.

1.2 The Project consists of the following parts:

Part A The Federation of Bosnia and Herzegovina

I. Enhanced Planning and monitoring for SFLM

- (a) Supporting the certification and recertification of forest management in the Federation.
- (b) Strategic planning for forest roads through: (i) the preparation of a model forest roads master plan; and (ii) the adoption of road rehabilitation guidelines to minimize environmental and social impacts.
- (c) Strengthening the use of FMIS for decision-making through: (i) the introduction of information related to climate change; and (ii) dissemination of information to stakeholders.

II. Demonstration and replication of SFLM techniques in vulnerable areas

- (a) Carrying out afforestation, assisted natural regeneration and forest stand rehabilitation activities on selected public forest estates including: (i) afforestation with native species; (ii) afforestation with new species appropriate for drying conditions or increased fire hazard; (iii) stand management complementing natural regeneration through thinning and weeding; (iv) stand rehabilitation using enrichment planting, limbing or thinning; (v) forest conservation from coppice forest to high forest; and (vi) production of seedlings using methods or species appropriate to improve climate resilience, all in accordance with existing forest management plans.
- (b) Carrying out SFLM demonstration activities in Selected Areas including activities such as: (i) non-timber forest product (NTFP) harvesting; (ii) hunting and wildlife management complementing forest management; (iii) bio-mass management for energy production; (iv) bio-mass thinning for local use and fire management; and (v) forest-based tourism.
- (c) Carrying out small scale fire management demonstration activities in areas under fire hazard.
- (d) Providing operational support for the facilitation of local participation in the SFLM and fire management Demonstration Activities.

III. Project Management

- (a) Supporting Project management including (i) financial management and procurement; (ii) annual audits; and (iii) project evaluations.

**SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT
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1. Introduction (continued)

1.3 Financing of the Project

1.3.1 GEF Grant No. TF016646

The State of Bosnia and Herzegovina ("the State") is the recipient of trust funds made available by the GLOBAL ENVIRONMENT FACILITY ("GEF") TF016646 BOS in amount USD 5,575,758.

The International Bank for Reconstruction and Development/International Development Association ("World Bank") is acting as Administrator of grant funds.

Under the terms of a Subsidiary Finance Agreement between the State and the Federation of Bosnia and Herzegovina ("FB&H"), funds of USD 2,787,879 have been lent to the FB&H.

| Item | Amount of the Grant allocated (in USD) (inclusive of taxes) | % of expenditure to be financed |
|--|--|--|
| (1) Goods, works, non-consulting services, consultants' services, training and incremental operating costs under Part A of the Project | 2,787,879 | 100% |
| Subtotal | 2,787,879 | |

GEF Grant TF016646 became effective on 9 June 2014. Planned closing date is 31 May 2019.

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Independent Auditor's Report

To the State of Bosnia and Herzegovina,
Ministry of Finance and Treasury
Attn. of Minister of Finance and Treasury H.E. Mr. Vjekoslav Bevanda

Report on the Project Financial Statements

Opinion

We have audited the accompanying project financial statements of the Federation part of the Sustainable Forest Land Management Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, local bank account and petty cash statements, Statements of grant withdrawals as of and for the year ended 31 December 2018, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under GEF Grant TF 016646.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2018, and of the funds received and disbursed during the year then ended, in accordance with the cash basis of accounting based on International Public Sector Accounting Standard ("IPSAS"), as described in Note 4.1.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities issued by FMSB. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Ministry of Finance and Treasury in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

The management of project implementation unit is responsible for the preparation of these project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities, 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.

In preparing the financial statements, management is responsible for assessing the Project'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 the Project or to cease operations or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process.

Responsibilities for the Audit of 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 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 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 Project'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 Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the project 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.

Report on other requirements

In addition, with respect to the Statement of Expenditure, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditure incurred; and all expenditure included in withdrawal applications and reimbursed against are eligible for financing under the project.

Signed on behalf of Baker Tilly Re Opinion d.o.o. Sarajevo

Nihad Fejzić, Director and Certified Auditor

Sarajevo, 26 April 2019



Ema Sinanović, Certified Auditor

**SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

3. Project financial statements for the year 2018

3.1 Summary of sources and uses of funds under GEF Grant No. TF016646 and Other income

| | Actual | Cumulative | Cumulative | Cumulative | Cumulative | |
|------------------------|------------|----------------|------------------|------------------|------------------|------------------|
| | Ref. | 2018 | 2018 | 2017 | budget | variance |
| FINANCING | | | | | | |
| GEF Grant No. TF016646 | 3.1.1 | 328,544 | 1,284,371 | 955,827 | 2,787,879 | 1,503,508 |
| Other income | 3.1.2 | 36,342 | 114,456 | 78,114 | - | (114,456) |
| TOTAL FINANCING | 3.2 | 364,886 | 1,398,827 | 1,033,941 | 2,787,879 | 1,389,052 |

**PROJECT
EXPENDITURE
By Category**

| | | | | | |
|---|------------|----------------|------------------|----------------|------------------|
| Goods, works, non-consulting services, consultants' services, training and incremental operating expenses under Part A of the Project | 317,330 | 1,039,749 | 722,419 | 2,787,879 | 1,748,130 |
| TOTAL EXPENDITURE | 3.2 | 317,330 | 1,039,749 | 722,419 | 2,787,879 |

**PROJECT
EXPENDITURE
By Component**

| | | | | | |
|--|------------|----------------|------------------|----------------|------------------|
| I. Enhanced Planning and Monitoring for SFLM | 23,448 | 25,472 | 2,024 | 550,667 | 525,195 |
| II. Demonstration and Replication of SFLM Techniques in vulnerable Areas | 278,008 | 945,866 | 667,858 | 2,099,212 | 1,153,346 |
| III. Project Management | 15,874 | 68,411 | 52,537 | 138,000 | 69,589 |
| TOTAL EXPENDITURE | 3.2 | 317,330 | 1,039,749 | 722,419 | 2,787,879 |

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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

3. Project financial statements for the year 2018 (continued)

3.1.1 Summary of sources and uses of funds under the GEF Grant No. TF016646

| | Actual Ref. 2018 | Cumulative 2018 | Cumulative 2017 | Cumulative budget | Cumulative variance |
|--|---------------------|--------------------|--------------------|----------------------|------------------------|
| FINANCING | | | | | |
| <i>GEF Grant No.</i> | | | | | |
| TF016646 | | | | 2,787,879 | |
| Initial deposit | - | 300,000 | 300,000 | | |
| Direct payments | - | - | - | | |
| SoE replenishments | 328,544 | 984,371 | 655,827 | | |
| TOTAL FINANCING | 3.1 328,544 | 1,284,371 | 955,827 | 2,787,879 | 1,503,508 |
| PROJECT EXPENDITURE | | | | | |
| <i>By Category</i> | | | | | |
| Goods, consultants' services, training, audit cost, and incremental operating expenses under Part I of the | | | | | |
| Project | 317,320 | 1,039,703 | 722,383 | 2,787,879 | 1,748,176 |
| TOTAL EXPENDITURE | 3.2 317,320 | 1,039,703 | 722,383 | 2,787,879 | 1,748,176 |

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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

3. Project financial statements for the year 2018 (continued)

3.1.2 Summary of sources and uses of funds under Other income

| | Actual Ref. 2018 | Cumulative 2018 | Cumulative 2017 | Cumulative budget | Cumulative variance |
|--|---------------------|--------------------|--------------------|----------------------|------------------------|
| FINANCING | | | | | |
| Tender documentation sold – GEF Grant account | - | 100 | 100 | - | (100) |
| Tender documentation sold - Other income account | 65 | 353 | 288 | - | (353) |
| VAT return-Other income account | 36,277 | 114,003 | 77,726 | | (114,003) |
| TOTAL FINANCING | 3.1 36,342 | 114,456 | 78,114 | - | (114,456) |
| PROJECT EXPENDITURE | | | | | |
| <i>By Category</i> | | | | | |
| Goods, consultants' services, training, audit cost, and incremental operating expenses under Part I of the Project | 10 | 46 | 36 | - | (46) |
| TOTAL EXPENDITURE | 3.2 10 | 46 | 36 | - | (46) |

**SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT
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Project financial statements for the year ended 31 December 2018

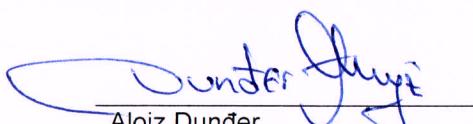
(all amounts in USD, unless otherwise stated)

3. Project financial statements for the year 2018 (continued)

3.2 Balance sheet as of 31 December 2018 showing accumulated funds of the Project and bank balances concerning World Bank funding

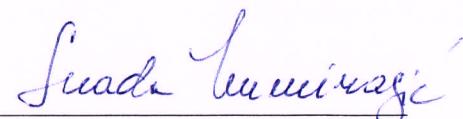
| | Ref. | 31 December 2018 | 31 December 2017 |
|--|------------|---------------------|---------------------|
| ASSETS | | | |
| Project expenditure under GEF Grant No. TF016646 | 3.1.1 | 1,039,703 | 722,383 |
| Project expenditure under Other income | 3.1.2 | 46 | 36 |
| | 3.1 | 1,039,749 | 722,419 |
| Designated account - GEF Grant No. TF016646 | A.1 | 244,216 | 233,433 |
| Petty cash - GEF Grant No. TF016646 | A.2 | 546 | 132 |
| Local bank account - Other income | A.3 | 112,821 | 83,294 |
| | | 357,583 | 316,859 |
| Exchange rate differences | | 1,495 | (5,337) |
| Total assets | | 1,398,827 | 1,033,941 |
| LIABILITIES | | | |
| GEF Grant No. TF016646 | C | 1,284,371 | 955,827 |
| Other income | 3.1.2 | 114,456 | 78,114 |
| Total liabilities | 3.1 | 1,398,827 | 1,033,941 |

Signed and authorised by:



Alojz Dunder
Director PIU Forestry and Agriculture

Sarajevo, 26 April 2019



Suada Muminagić
Financial Manager SFLMP

**SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT
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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

4. Notes to the project financial statements

4.1 Basis of preparation and accounting records

These project financial statements have been prepared on the cash basis of accounting based on International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the accounting policies below, which have been consistently followed in all material respects and comply with the "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities", issued by the Financial Management Sector Board.

4.2 Accounting policies

The Project's fiscal year is January 1 to December 31 for the recording of all transactions.

Cash basis of accounting

All receipts and expenses under GEF Grant are recorded on actual receipt and payment basis of accounting as per approved categories.

Project expenditure is stated at original cost on the balance sheet.

Direct payments

Direct payments concern the amounts paid directly from the Grant account of the World Bank.

Statement of Expenditure (SoE)

Statements of Expenditure are used to state the expenditure under GEF Grant during a certain period. These statements are sent to the World Bank's disbursement specialist who authorises the payment of the expenditure through the Designated account.

Currency conversions

The reporting currency is USD. Sources and use of funds (payments to suppliers and contractors) in currencies other than USD have been converted to USD using the currency rate at the moment of the transaction.

Bank balances, recorded on the balance sheet at year-end, have been converted at year-end rate.

Designated account

This is the total amount of the withdrawals from the Grant account for the Project. The GEF Grant account is in USD.

Local bank account

This concerns bank account at local bank (other than Designated account) in local currency translated at the exchange rate at the date of the balance sheet.

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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

4. Notes to the project financial statements (continued)

4.2 Accounting policies (continued)

Other income

Other income includes tender documentation sold and VAT returns.

Interest on Designated account

Interest earned on the Designated account belongs to the Borrower.

Interest on local bank account

Interest earned on the local bank account used for the other income is treated as additional source of financing of the Project.

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(all amounts in USD, unless otherwise stated)

APPENDIX A.1

DESIGNATED ACCOUNT STATEMENT

| | |
|--------------------------|--|
| Account owned by: | Ministry of Finance and Treasury of Bosnia and Herzegovina |
| Account No.: | BA391611000002395085; 660000709-7 |
| Depository Bank: | Raiffeisen Bank dd, Bosna i Hercegovina |
| Address: | Zmaja od Bosne bb, 71000 Sarajevo |
| Related Credit: | GEF Grant No. TF016646 |
| Currency: | USD |

| | Ref. | USD |
|---|------|----------------|
| Opening balance 1 January 2018 | 3.2 | 233,433 |
| Add: | | |
| World Bank replenishments in 2018* | B | 328,388 |
| Interest earned in 2017 | | 85 |
| | | 561,906 |
| Deduct: | | |
| Payments to suppliers - Expenditure under GEF Grant in 2018 | | 316,399 |
| Interest returned | | 85 |
| Transfers to petty cash - GEF Grant | A.2 | 1,206 |
| | | 317,690 |
| Ending balance 31 December 2018 | 3.2 | 244,216 |

* Difference of USD 156 between the replenishments for 2018 as per Appendix B and Appendix C, and replenishments for 2018 as per Appendix A.1 represents bank fees incurred in the cash transfers.

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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

APPENDIX A.2

PETTY CASH STATEMENT

Address: PIU, Sarajevo
Related Credit: GEF Grant No. TF016646
Currency: BAM

| | Ref. | BAM | USD |
|--|-------------|----------------------------|--------------------------|
| Opening balance 1 January 2018 | 3.2 | 215 | 132 |
| Add: | | | |
| Transfers from Designated account - GEF Grant | A.1 | 2,000 2,215 | 1,206 1,338 |
| Deduct: | | | |
| Payments to suppliers in 2017- refund | | (350) | (228) |
| Payments to suppliers in 2018 - Expenditure under GEF Grant | | 1,634 | 993 |
| Exchange rate loss | | - | 27 |
| Ending balance 31 December 2018* | 3.2 | 1,284 931 | 792 546 |

*Client Connection rate 1,7079

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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

APPENDIX A.3

LOCAL BANK ACCOUNT STATEMENT

| | |
|------------------------------------|--|
| Account owned by: | Federal Ministry of Agriculture, Water Management and Forestry |
| Account No.: | 1027080000004131 |
| Depository Bank: | Union banka d.d. |
| Address: | Dubrovačka br. 6 |
| Related Credit: return) | Government contribution (Indirect Taxation Authority – VAT |
| Currency: | BAM |

| | Ref. | BAM | USD |
|--|-------|----------------|----------------|
| Opening balance 1 January 2018 | 3.2 | 135,836 | 83,294 |
| Add: | | | |
| Vat return | 3.1.2 | 56,727 | 36,277 |
| Tender documentation sold | 3.1.2 | 100 | 65 |
| | | 56,827 | 36,342 |
| Deduct: | | | |
| Payments to suppliers - Expenditure under Other income | | 15 | 10 |
| Exchange rate loss | | - | 6,805 |
| | | 15 | 6,815 |
| Ending balance 31 December 2018* | 3.2 | 192,648 | 112,821 |

***Client Connection rate 1,7079**

**SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT
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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

APPENDIX B SoE Withdrawal Schedule of GEF Grant No. TF016646

| | Initial deposit | Goods, consultants' services, training, audit cost, and incremental operating expenses under Part I of the Project | Total application | Total replenished |
|---|--------------------|---|----------------------|----------------------|
| Previous years | 300,000 | 722,383 | 722,383 | 955,827 |
| Application 14 * | - | - | - | 66,556 |
| Application 15 | - | 154,064 | 154,064 | 154,064 |
| Application 16 | - | 64,286 | 64,286 | 64,286 |
| Application 17 | - | 43,638 | 43,638 | 43,638 |
| Application 18 *** | - | 55,332 | 55,332 | - |
| Total SoE applications 2018 ** | - | 317,320 | 317,320 | 328,544 |
| As of 31 December 2018 | 300,000 | 1,039,703 | 1,039,703 | 1,284,371 |

* Application No. 14 was replenished in 2018, but expenses were made in 2017.

** Difference of USD 156, between the replenishments for 2018 as per Appendix B and Appendix C, and replenishments for 2018 as per Appendix A.1 represents bank fees incurred in the cash transfers. These expenses were subsequently submitted and claimed through Applications No. 14, 15, 16 and 17.

*** Application No. 18 was replenished in 2019, but expenses were made in 2018.

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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

**APPENDIX C.1 Reconciliation between World Bank's disbursement statements in USD and
GEF Trust Fund Grant account in USD according to the balance sheet; SoE
Withdrawal Schedule of GEF Grant No. TF016646**

| | Changes in GEF Trust Fund Grant |
|--|--|
| Original amount | 2,787,879 |
| Disbursed in previous years | 955,827 |
| Withdrawal 14 | 66,556 |
| Withdrawal 15 | 154,064 |
| Withdrawal 16 | 64,286 |
| Withdrawal 17 | 43,638 |
| Total disbursed in 2018 | 328,544 |
| Cumulative disbursements as of 31 December 2018 | 1,284,371 |
| Calculated undisbursed balance as of 31 December 2018 | 1,503,508 |
| Undisbursed balance as per World Bank Summary for December 2018 | 1,503,508 |