

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.

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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
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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

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

	Ref.	Actual 2018	Cumulative 2018	Cumulative 2017	Cumulative budget	Cumulative 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	1,748,130

**PROJECT
EXPENDITURE**

By Component

I. Enhanced Planning and Monitoring for SFLM

	23,448	25,472	2,024	550,667	525,195
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II. Demonstration and Replication of SFLM Techniques in vulnerable Areas

	278,008	945,866	667,858	2,099,212	1,153,346
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III. Project Management

	15,874	68,411	52,537	138,000	69,589
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TOTAL EXPENDITURE	3.2	317,330	1,039,749	722,419	2,787,879	1,748,130
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(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

	Ref.	Actual 2018	Cumulative 2018	Cumulative 2017	Cumulative budget	Cumulative variance
FINANCING						
<i>GEF Grant No.</i>						
<i>TF016646</i>						
Initial deposit		-	300,000	300,000	2,787,879	
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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3. Project financial statements for the year 2018 (continued)

3.1.2 Summary of sources and uses of funds under Other income

		Actual	Cumulative	Cumulative	Cumulative	Cumulative
	Ref.	2018	2018	2017	budget	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						
By Category						
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

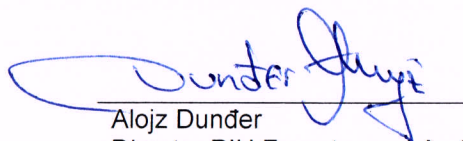
(all amounts in USD, unless otherwise stated)

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

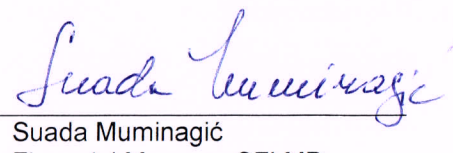
3.2 Balance sheet as of 31 December 2018 showing accumulated funds of the Project and bank balances concerning World Bank funding

	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

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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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(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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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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(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	1,206
		2,215	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
		1,284	792
Ending balance 31 December 2018*	3.2	931	546

***Client Connection rate 1,7079**

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(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: Government contribution (Indirect Taxation Authority – VAT return)

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**

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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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(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