

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

**FLOODS EMERGENCY RECOVERY
PROJECT**

of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Financed by:

- IDA Credit No. 5529-BA

For the year ended 31 December 2019

FLOODS EMERGENCY RECOVERY PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

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FLOODS EMERGENCY RECOVERY PROJECT

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1. Introduction

1.1 Objectives of the Project

The objective of the Project is to meet critical needs and restore functionality of infrastructure essential for public services and economic recovery in floods affected areas.

1.2 Components and activities of the Project

The Project is comprised of the following two components:

Component 1: Emergency Disaster Recovery Goods

The recent floods have created significant strains on the supply chains for a variety of goods crucially needed to ensure the continuity of public services and economic opportunities. For example, some coal mines have been flooded, resulting in a restriction of supply to the main thermal power plants. The flooded areas traditionally have been oriented towards agriculture and agribusiness, which were severely affected by the floods, resulting in fodder and forage shortages and an urgent need for seeds and fertilizers for reseeded. The Project will therefore finance, through the use of a positive list, the purchase of goods urgently needed during the recovery phase. The positive list will include logistical goods, reconstruction goods, emergency goods, energy and power sector goods as well as agricultural recovery goods, with an initial priority set of fuel and food, agricultural and emergency goods. The positive list will include:

- (i) Logistical goods: including water, land and air transport equipment, including spare parts; communications equipment.
- (ii) Reconstruction goods: including construction materials; construction equipment and industrial machinery (including trucks, dozers, excavators); prefabricated houses.
- (iii) Emergency goods: including emergency and medical supplies and equipment; food and water containers; chemicals and equipment for water purification and sanitation of land, buildings and other structures; basic food commodities; cleaning and hygienic supplies; mud and water pumping equipment; equipment and furniture for emergency shelters and accommodations; moisture removal equipment; emergency vehicles and supplies; waste management and disposal equipment.
- (iv) Energy and power sector goods: including petroleum and fuel products; power purchases; power transmission and distribution equipment; mining equipment and pumps to remove water from mines, controls, monitoring and measurement equipment; emergency power generators; and other electrical equipment.
- (v) Agricultural recovery goods: including agricultural equipment and immovable productions systems such as greenhouses, milking parlours and auxiliary installations, sorting or packaging equipment; inputs (excluding pesticides); such as seedlings for perennial crops, orchards and wine yards as well as seeds and fertilizer for reseeded of fields; as well concentrated animal forage and fodder stocks that were destroyed by floods; livestock.
- (vi) Other Essential Goods: any other goods or commodities essential to the Recipient's recovery from flooding, as agreed in advance by the Association.

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1. Introduction (continued)

1.2 Components and activities of the Project (continued)

Component 2: Rehabilitation of Key Public Infrastructure

This Component will support the rehabilitation of both local and regional public infrastructure on the basis of the RNA. The impact of the floods was concentrated on around 60 municipalities in the central, northwest and northeast parts of the country; in many of these, public services delivery was severely impacted. This Component will therefore finance the rehabilitation or reconstruction of high priority, public service delivery infrastructure in the worst affected areas.

This component is designed under a framework approach in which activities will be identified in a demand-driven manner, based on the on-going RNA. The project will put particular emphasis on Rural Development, Energy, Transport and Water and Sanitation activities but other public services (education, health) will be considered on a case-by-case basis. The Component will be divided in two Subcomponents that will follow somewhat different project cycles, depending on whether the infrastructure is local or regional.

Sub-component 2A: Regional Infrastructure Rehabilitation

The main activities include rehabilitation of strategic, regional-level public infrastructure such as transport links, electricity distribution and transmission infrastructure, dikes and other strategic public infrastructure.

Subcomponent 2B: Local Infrastructure Rehabilitation.

Subcomponent 2B will be focused on local-level infrastructure, such as water supply schemes, local roads and bridges etc.

1.3 Financing of the Project

The State of Bosnia and Herzegovina is borrower of the International Development Association (IDA) Credit No. 5529-BA amounting to the equivalent of XDR 65,000,000. Under the terms of a subsidiary finance agreement between B&H and FB&H, funds of the equivalent of XDR 30,875,000 have been lent to FB&H.

Categories of cost items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each category and the percentage of expenditure for cost items so to be financed in each category are as follows:

Item	Amount of the Credit allocated (in SDR)	% of expenditure to be financed (inclusive of taxes)
(1) Eligible Essential Goods and Commodities for Part A.1.1 of the Project	12,350,000	100%
(2) Goods, works, non-consulting services, consultant's services, Training and Incremental Operating Costs for Parts A.2 and A.3. of the Project	18,525,000	100%
Subtotal	30,875,000	

IDA Credit No. 5529-BA become effective on 15 September 2014. Planned closing date was 31 December 2018. First Amendment to the Financing Agreement Credit 5529-BA was signed in May 2016. Another amendment to the Financing Agreement Credit 5529-BA was signed on 14 December 2018 to extend the closing date until 30 June 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 Floods Emergency Recovery Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, local bank account, Statements of credit withdrawals as of and for the year ended 31 December 2019, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under IDA Credit Agreement No. 5529-BA.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2019, 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, 13 March 2020




Ema Sinanović, Certified Auditor

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(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2019

3.1 Summary of sources and uses of funds under the IDA Credit No.5529-BA and Other income

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
IDA Credit No. 5529-BA	3.1.1	752,215	36,138,279	35,386,064	39,282,389	3,144,110
VAT returns	3.1.2	193,120	1,719,997	1,526,877	-	(1,719,997)
Other income	3.1.3	204	6,477	6,273	-	(6,477)
TOTAL FINANCING	3.2	945,539	37,864,753	36,919,214	39,282,389	1,417,636
PROJECT EXPENDITURE						
By Category						
Eligible Essential Goods and Commodities for Part A.1.1 of the Project		-	10,670,296	10,670,296	15,712,954	5,042,658
Goods, works, non-consulting services, consults services, Training and Incremental Operating Costs for Parts A.2 and A.3. of the Project		1,389,540	25,945,250	24,555,710	23,569,435	(2,375,815)
TOTAL EXPENDITURE	3.2	1,389,540	36,615,546	35,226,006	39,282,389	2,666,843
PROJECT EXPENDITURE						
By Component						
Emergency Disaster Recovery Goods		-	10,670,296	10,670,296	15,712,954	5,042,658
Rehabilitation of Key Public Infrastructure		1,224,888	25,185,213	23,960,325	21,605,315	(3,579,898)
Project Implementation Support and Capacity Building		164,652	760,037	595,385	1,964,120	1,204,083
TOTAL EXPENDITURE	3.2	1,389,540	36,615,546	35,226,006	39,282,389	2,666,843

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3. Project financial statements for the year 2019 (continued)

3.1.1 Summary of sources and uses of funds under the IDA Credit agreement No. 5529-BA

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
IDA Credit No. 5529-BA					39,282,389	
Initial deposit			1,500,000	1,500,000		
Direct payments		-	11,222,868	11,222,868		
SoE replenishments		969,473	23,632,669	22,663,196		
Return of unused funds		(217,258)	(217,258)			
TOTAL FINANCING	3.2	752,215	36,138,279	35,386,064	39,282,389	3,144,110
PROJECT EXPENDITURE						
By Category						
Eligible Essential Goods and Commodities for Part A.1.1 of the Project		-	10,670,296	10,670,296	15,712,954	5,042,658
Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Parts A.2 and A.3. of the Project		1,255,478	25,467,983	24,212,505	23,569,435	(1,898,548)
TOTAL EXPENDITURE	3.2	1,255,478	36,138,279	34,882,801	39,282,389	3,144,110

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3. Project financial statements for the year 2019 (continued)

3.1.2 Summary of sources and uses of funds under the Government

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
VAT returns		193,120	1,495,360	1,302,240	-	(1,495,360)
Co-financing municipalities		-	181,057	181,057	-	(181,057)
Co-financing Sava River Watershed Agency		-	43,580	43,580	-	(43,580)
TOTAL FINANCING	3.1	193,120	1,719,997	1,526,877	-	(1,719,997)
PROJECT EXPENDITURE						
By Category						
Goods, works, non-consulting services, consults' services, Training and Incremental Operating Costs for Parts A.2 and A.3. of the Project		134,062	477,267	343,205	-	(477,267)
TOTAL EXPENDITURE	3.2	134,062	477,267	343,205	-	(477,267)

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(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2019 (continued)

3.1.3 Summary of sources and uses of funds under Other income

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
Tender documentation sold		204	6,477	6,273	-	(6,477)
TOTAL FINANCING	3.2	204	6,477	6,273	-	(6,477)
PROJECT EXPENDITURE						
By Category						
Goods, works, non-consulting services, consults' services, Training and Incremental Operating Costs for Parts A.2 and A.3. of the Project		-	-	-	-	-
TOTAL EXPENDITURE	3.2	-	-	-	-	-

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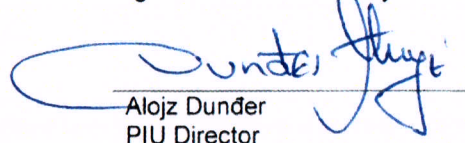
(all amounts in EUR, unless otherwise stated)

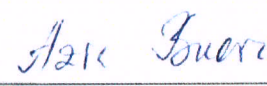
3. Project financial statements for the year 2019 (continued)

3.2 Balance sheet as of 31 December 2019 showing accumulated funds of the project and bank balances concerning World Bank funding

	Ref.	31 December 2019	31 December 2018
ASSETS			
Project expenditure under IDA Credit No. 5529-BA	3.1.1	36,138,279	34,882,801
Project expenditure under Government	3.1.2	477,267	343,205
		36,615,546	35,226,006
Designated account - IDA Credit No. 5529-BA	A.1	-	503,711
Government VAT returns	A.2	1,249,207	1,189,497
		1,249,207	1,693,208
Total assets		37,864,753	36,919,214
LIABILITIES			
IDA Credit No. 5529-BA	3.1.1	36,138,279	35,386,064
Government VAT returns	3.1.2	1,719,997	1,526,877
Other income	3.1.3	6,477	6,273
Total liabilities		37,864,753	36,919,214

Signed and authorized by:


Alojz Dunder
PIU Director


Azra Bukva
Financial Manager

Sarajevo, 13 March 2020

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4. Notes to the project financial statements

4.1 Basis of preparation and accounting records

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard: "Financial Reporting under the Cash Basis of Accounting" 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 IDA Credit 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 Credit account of the World Bank.

Statement of Expenditure (SoE)

Statements of Expenditure are used to state the expenditure under IDA Credit during a certain period. These statements are sent to the World Bank's disbursement department who authorizes the payment of the expenditure through the Designated accounts.

Currency conversions

The reporting currency is Euro (EUR). Sources and use of funds (payments to suppliers and contractors) in currencies other than EUR have been converted to EUR 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 accounts

This is the total amount of the withdrawals from the Credit account for the Project. IDA Credit account is in XDR.

Other income

Other income includes income from tender documentation sold.

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4. Notes to the project financial statements (continued)

4.2 Accounting policies (continued)

Interest on Designated account

Interest earned on the Designated account belongs to the Borrower.

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APPENDIX A.1

DESIGNATED ACCOUNT STATEMENT

Account owned by: Ministry of Finance and Treasury of Bosnia and Herzegovina

Account No.: 53001201964572

Depository Bank: Intesa Sanpaolo Banka d.d

Address: Obala Kulina bana 9a 71000 Sarajevo

Related Credit: IDA Credit No. 5529-BA

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2019	3.2	503,711
Add:		
World Bank replenishments	B	969,473
		1,473,184
Deduct:		
Payments to suppliers - Expenditure under IDA Credit	B	1,255,318
Return of initial deposit		217,258
Bank fees occurred during return of initial deposit		160
Transfer to local account *		448
		1,473,184
Ending balance 31 December 2019	3.2	0

*Funds from paid tender documentation by foreign companies in amount of EUR 448 were transferred to the local account upon closure of Special account.

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APPENDIX A.2

LOCAL BANK ACCOUNT STATEMENT

Account owned by: Ministry of Agriculture, Water Management and Forestry of FB&H

Account No.: 140 101 10200007 20

Depository Bank: Sberbank BH d.d.

Address: Fra Anđela Zvizdića 1, 71000 Sarajevo

Related Credit: Government – VAT returns

Currency: BAM

	Ref.	BAM	EUR
Opening balance 1 January 2019	3.2	2,326,453	1,189,497
Add:			
VAT returns	3.1.2	377,710	193,120
Tender documentation sold		400	204
Transfer from Special account		876	448
		2,705,439	1,383,269
Deduct:			
Payments to suppliers – bank fees	3.1.2	262,203	134,062
		262,203	134,062
Ending balance 31 December 2019	3.2	2,443,236	1,249,207

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APPENDIX B **SoE Withdrawal Schedule of IDA Credit No. 5529-BA for the year ended 31 December 2019**

	Initial deposit	Eligible Essential Goods and Commodities for Part A.1.of the Project	Goods, works, non-consulting services, training and incremental operating Costs for Parts A.2 and A3 of Project	Total application	Total replenished
Previous years*	1,325,000	10,670,296	24,212,505	34,882,801	35,386,064
Application 84**	-	-	-	-	46,596
Application 85**	-	-	-	-	775,134
Application 86	(67.000)	-	200.387	200.387	133.387
Application 87	-	-	14,356	14,356	14,356
Application 88	(246,275)	-	246,275	246,275	-
Application 89	(396.928)	-	396,928	396,928	-
Application 90	(380,591)	-	380.591	380,591	-
Application 91	(16,781)	-	16,781	16,781	-
Total SoE applications	(1,107,575)	-	1,255,318	1,255,318	969,473
Return of initial deposit *	(217,258)	-	-	-	(217,258)
Bank fees occurred during return of initial deposit	(160)	-	160	160	-
Total 2019	(1,324,993)	-	1,255,478	1,255,478	752,215
As of 31 December, 2019	7*	10,670,296	25,467,983	36,138,279	36,138,279

* The unspent amount of initial deposit, after Application No. 91, was EUR 217,418 and it was returned to the World Bank. This amount was deducted for amount of bank fees EUR 130 (Intesa SanPaolo bank d.d. Sarajevo) and correspondent bank EUR 30, so amount of EUR 217,258 was paid into World Bank account.

**Applications No.84 and 85 were replenished in 2019, but expenses were made in 2018

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APPENDIX C Reconciliation between World Bank's disbursement statements in XDR and IDA Credit account in EUR according to the balance sheet as of 31 December 2019; SoE Withdrawal Schedule of IDA Credit No. 5529-BA

	Changes in IDA Credit (in XDR)	Exchange rate used	Changes in IDA Credit (in EUR)
Original amount	30,875,000	1.272304	39,282,389
Disbursed in previous years	28,363,266	1.247601	35,386,064
Withdrawal 84	38,146	1.221517	46,596
Withdrawal 85	630,167	1.300047	775,134
Withdrawal 86	107,965	1.235465	133,387
Withdrawal 87	11,630	1.234393	14,356
Withdrawal 88	-		-
Withdrawal 89	-		-
Withdrawal 90	-		-
Withdrawal 91	-		-
Total disbursed in 2019	787,908		969,473
Return of initial deposit	(174,709)	1.243542	(217,258)
Cumulative disbursements as of 31 December 2019	28,976,465		36,138,279
Calculated undisbursed balance as of 31 December 2019	1,898,535		3,144,110
Undisbursed balance as per World Bank Summary for December 2019	1,898,535	1.2358799	2,346,361
Potential exchange rate loss			797,749