

Report on the Republika Srpska part of the Project
Financial Statements of the

IRRIGATION DEVELOPMENT PROJECT

of the Ministry of Finance and Treasury of Bosnia and
Herzegovina

Financed by:

- IDA credit No. 5098 – BA

For the year ended 31 December 2019

CONTENTS

1	Introduction	1
2	Independent Auditor's Report	3
3	Project financial statements for the year 2019	5
4	Notes to the project financial statements	9

APPENDICES

A.1	Designated account statement - IDA Credit No. 5098 - BA	11
A.2	Local bank account - Government contribution	12
B	SoE Withdrawal Schedule of IDA Credit No. 5098 - BA	13
C	Reconciliation between World Bank's disbursement statements in XDR and IDA Credit account in EUR according to the balance sheet; SoE Withdrawal Schedule of IDA Credit No. 5098 - BA	14

IRRIGATION DEVELOPMENT PROJECT of the Ministry of Finance and Treasury of Bosnia and Herzegovina

1. Introduction

1.1 Objectives of the Project

The Project objective of the Irrigation Development Project (the "Project") is to improve the performance of the irrigation systems and the irrigation institutions to support agricultural producers in the project areas.

The Project objective would be achieved through:

- (i) Rehabilitating irrigation and drainage infrastructure, including construction, reconstruction, upgrading, and modernization, on existing agricultural land;
- (ii) Introduction of new technologies in irrigated agriculture; and
- (iii) Institutional development, strengthening of water resources management institutions and introducing a participatory approach to water management.

The project would support better water resources planning and management for sustainable use of the water resources in irrigation and drainage, mitigation of the impact of droughts and floods, and in general preparing more suitable adaptation strategies that can also cope with climate change

1.2 Components and activities of the Project

The Project is comprised of the following three components:

Component 1: Infrastructure Investment

The main activities include rehabilitation with some construction, reconstruction, upgrading and modernization and also the introduction of new technologies that promote water use efficiency such as drip irrigation and low-pressure sprinklers. This component will finance the implementation of irrigation and drainage infrastructure rehabilitation of about 12-13 subprojects, of which 6 each located in Republika Srpska ("RS") and the Federation of Bosnia and Herzegovina ("FB&H"). The subprojects are selected from the long-lists of potential sub-projects that were prepared by the two Ministries. The sub-projects are all located in existing agricultural land that in the past has been supplied with irrigation on existing agricultural lands.

The project will be implemented in three phases. Phase I will comprise about 4 schemes - Mostarsko polje, Široki Brijeg and Goražde in FB&H, and Novo Selo, Bijeljina and Pelagićevo in RS, that would be completely prepared, in order to start the works during the first year of the project. About 9 additional sub-projects will be in different stages of readiness by effectiveness and will be grouped into Phases 2 and 3. This component will fund the Phases 2 and 3 sub-projects preparation, as well as for their subsequent implementation.

Component 2: Irrigation Modernization

This component includes strengthening the capacity of Ministries, the Water Agencies, Irrigation Extension services in FB&H and RS including participating municipalities and cantons, in addressing new sector policies, establishing and facilitating the capacity of WUAs, oversight and maintenance arrangements for the introduced infrastructure and facilities, the fee determination, fee collection and management, sub-project level equipment for demonstrating water-monitoring good practices, and related water resources and irrigation management.

**IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

1. Introduction (continued)

1.2 Components and activities of the Project (continued)

This Component includes 3 main Subcomponents

(i) **Subcomponent (2a) Agency-level Strengthening:** this subcomponents will support the: (i) Development of the regulatory framework for operating irrigation schemes(tariff methodology, benchmarking of financial and technical performance, etc.) and (ii) Support the preparation of future irrigation strategies for the Entities. This sub-component would also support establishing a Technical Working Group comprising representatives of both Entities to enhance the learning from experiences across the country and help improve policy coordination.

(ii) **Subcomponent (2b) Farm-level Irrigation Advisory Service (IAS) and Modernization:** This subcomponent would finance (i) Strengthening the knowledge of the Entities field-level advisors on IAS, train WUAs on Operations and Maintenance, including on water quality and environmental aspects of irrigation and drainage); (ii) support on-farm demonstrations of water-saving good practices and (iii) finance on-farm water-management equipment for each Subproject serving no less than 1,000 ha (soil-moisture monitoring kits, water-flow meters, etc.

(iii) **Subcomponent (2c) On-demand training:** This will finance demand-driven training for WUAs, related to improved agricultural technologies and practices and linking to markets.

Component 3: Project Implementation Support

Strengthening of institutional capacity of the RS Agriculture Project Coordination Unit ("APCU"), through the provision of technical assistance, training, incremental operating costs, and equipment for Project implementation.

1.3 Financing of the Project

1.3.1 IDA Credit No. 5098-BA

The State of Bosnia and Herzegovina ("B&H") is the borrower of the International Development Association (IDA) Credit No. 5098-BA amounting to the equivalent of XDR 25,800,000.Under the terms of a subsidiary finance agreement between B&H and RS, funds of the equivalent of XDR 13,222,000 have been lent to RS. 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 XDR)	% of expenditure to be financed
(2) Goods, works, non-consulting services, consulting services, training and incremental operating costs for Part B of the Project	13,222,000	85%
Subtotal		13,222,000

IDA Credit No. 5098 - BA became effective on 29 March 2013. Planned closing date was at 02 March 2020.

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2. 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 Republika Srpska part of the Irrigation Development Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account statement, Local Bank Account, Statement of loan 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 No. 5098 - 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 coordination 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., 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 SoE withdrawal schedule, adequate supporting documentation has been maintained to support claims for reimbursements of expenditures occurred and such expenditure were eligible under IDA Credit No.5098 - BA.

In addition, in our opinion, the accompanying designated account statements present fairly, in all material aspects, the funds received and disbursements made from the designated accounts of the Project for the year ended 31 December 2019, in accordance with the basis of accounting described in Note 4.1.

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

Nihad Fejzić, director and licensed auditor

Sarajevo, Bosnia and Herzegovina

29 April 2020



Ezita Imamović, licensed auditor

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(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 IDA Credit No. 5098 - BA, Government Contribution

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
IDA Credit No. 5098 - BA Contribution	3.1.1	3,638,694	14,457,659	10,818,965	15,433,244	975,585
	3.1.2	392,570	2,835,846	2,443,276	2,723,514	(112,332)
TOTAL FINANCING	3.2	4,031,264	17,293,505	13,262,241	18,156,758	863,253
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, works, non-consulting services, consulting services, training and incremental operating costs for Part B of the Project		4,199,433	16,370,139	12,170,706	18,156,758	1,786,619
TOTAL EXPENDITURE	3.2	4,199,433	16,370,139	12,170,706	18,156,758	1,786,619
PROJECT EXPENDITURE						
<i>By Component</i>						
Infrastructure Investment		4,093,838	15,499,243	11,405,405	16,486,478	987,235
Irrigation Modernization		1,755	310,309	308,554	881,681	571,372
Project implementation support		103,840	560,587	456,747	788,599	228,012
TOTAL EXPENDITURE	3.2	4,199,433	16,370,139	12,170,706	18,156,758	1,786,619

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2019

3.1.1 Summary of sources and uses of funds under the IDA Credit No. 5098 - BA

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
<i>IDA Credit No. 5098-BA</i>					15,433,244	
Initial deposit		-	1,300,000	1,300,000		
Direct payments		1,024,122	3,801,275	2,777,153		
SoE replenishments		2,614,572	9,356,384	6,741,812		
TOTAL FINANCING	3.1	3,638,694	14,457,659	10,818,965	15,433,244	975,585
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, works, non-consulting services, consulting services, training and incremental operating costs for Part B of the Project		3,569,517	13,914,616	10,345,099	15,433,244	1,518,628
TOTAL EXPENDITURE	3.2	3,569,517	13,914,616	10,345,099	15,433,244	1,518,628

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2019

3.1.2 Summary of sources and uses of funds under the Government contribution

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
Contribution		392,570	2,835,846	2,443,276	2,723,514	(112,332)
TOTAL FINANCING	3.1	392,570	2,835,846	2,443,276	2,723,514	(112,332)
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, works, non-consulting services, consulting services, training and incremental operating costs for Part B of the Project		629,916	2,455,523	1,825,607	2,723,514	267,991
TOTAL EXPENDITURE	3.2	629,916	2,455,523	1,825,607	2,723,514	267,991

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
Project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2019

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

	31 December Ref.	31 December 2019	31 December 2018
ASSETS			
Project expenditure under IDA Credit No. 5098 - BA	3.1.1	13,914,616	10,345,099
Project expenditure under Government contribution	3.1.2	2,455,523	1,825,607
16,370,139			12,170,706
Designated account - IDA Credit No. 5098 - BA	A.1	543,041	473,864
Local bank account - Government contribution	A.2	380,325	617,671
923,366			1,091,535
Total assets		17,293,505	13,262,241
LIABILITIES			
IDA Credit No. 5098 - BA	C.1	14,457,659	10,818,965
Contribution	3.1.2	2,835,846	2,443,276
Total liabilities		17,293,505	13,262,241

Signed and authorised by:


Mr Stefan Mitrović
APCU Director

Banja Luka, 29 April 2020


Dragana Stojičić
Financial Manager

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
Project financial statements for the year ended
31 December 2019
(all amounts in EUR, 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 1 January to 31 December 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 specialist who authorises the payment of the expenditure through the Designated account.

Currency conversions

The reporting currency is 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 account

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

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.

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
Project financial statements for the year ended
31 December 2019
(all amounts in EUR, unless otherwise stated)

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.

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.

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(all amounts in EUR, unless otherwise stated)

APPENDIX A.1

DESIGNATED ACCOUNT STATEMENT

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

Account No.: 5551101010451097

Depository Bank: Nova banka a.d. Banja Luka

Address: Kralja Alfonsa XIII 37 a, Banja Luka

Related Credit: IDA Credit No. 5098 - BA

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2019	3.2	473,864
Add:		
World Bank replenishments	B	<u>2,614,572</u>
		<u>2,614,572</u>
Deduct:		
Payments to suppliers - Expenditure under IDA Credit		2,545,395
Ending balance 31 December 2019	3.2	543,041

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(all amounts in EUR, unless otherwise stated)

APPENDIX A.2

LOCAL BANK ACCOUNT STATEMENT

Account owned by: Ministry of Agriculture, Water Management and Forestry of RS

Account No.: 5551000008813485

Depository Bank: Nova banka a.d.

Address: Kralja Alfonsa XIII 37 A, Banja Luka

Related Credit: Government contribution

Currency: BAM

	Ref.	BAM	EUR
Opening balance 1 January 2019	3.2	1,208,059	617,671
Add:			
Contribution from Municipalities		767,292	392,310
Contribution from Government of RS		-	-
Tender documentation sold	510	260	
		767,802	392,570
Deduct:			
Payments to suppliers - Expenditure under Government		1,232,008	629,916
		1,232,008	629,916
Ending balance 31 December 2019		743,853	380,325

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(all amounts in EUR, unless otherwise stated)

APPENDIX B SoE Withdrawal Schedule of IDA Credit No. 5098 - BA

	Initial deposit	Goods, works, non- consulting services, consulting services, training and incremental operating costs for Part B of the Project	Total application	Total replenished
Previous period	1,300,000	10,345,099	10,345,099	10,818,965
Application 20	-	430,176	430,176	430,176
Application 22		593,946	593,946	593,946
Total direct applications	-	1,024,122	1,024,122	1,024,122
Application 18	-		-	826,135
Application 19	-	678,368	678,368	678,368
Application 21	-	1,110,069	1,110,069	1,110,069
Application 24	-	756,958	756,958	-
Total SoE applications	-	2,545,395	2,545,395	2,614,572
Total 2019	-	3,569,517	3,569,517	3,638,694
As of 31 December 2019	1,300,000	13,914,616	13,914,616	14,457,659

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(all amounts in EUR, unless otherwise stated)

APPENDIX C **Reconciliation between World Bank's disbursement statements in XDR and IDA Credit account in EUR according to the balance sheet; SoE Withdrawal Schedule of IDA Credit No. 5098 - BA**

	Changes in IDA Credit (in XDR)	Exchange rate used	Changes in IDA Credit (in EUR)
Original amount	13,222,000	1.133819	15,433,244
Cumulative disbursements			
as of 31 December 2015	3,457,511		3,955,944
Withdrawal 05	220,163	1.255017	276,309
Cumulative disbursements			
as of 31 December 2016	3,677,674		4,232,253
Calculated undisbursed balance as of 31 December 2016	9,544,326		11,200,991
Withdrawal 6	202,215	1.236708	250,082
Withdrawal 7	816,052	1.196269	976,218
Withdrawal 8	391,029	1.198361	468,594
Withdrawal 9	415,344	1.198361	497,732
Withdrawal 10	1,115,292	1.198361	1,336,522
Cumulative disbursements			
as of 31 December 2017	6,617,606		7,761,401
Withdrawal 11	305,952	1.209268	369,978
Withdrawal 12	335,254	1.212359	406,448
Withdrawal 13	289,755	1.197519	346,987
Withdrawal 14	479,735	1.219421	584,999
Withdrawal 15	385,668	1.204180	464,413
Withdrawal 16	298,487	1.199452	358,021
Withdrawal 17	434,240	1.212964	526,718
Cumulative disbursements			
as of 31 December 2018	9,146,697		10,818,965
Withdrawal 18	671,629	1.230045	826,135

IRRIGATION DEVELOPMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
 Project financial statements for the year ended
 31 December 2019
(all amounts in EUR, unless otherwise stated)

Withdrawal 19	552,142	1.228612	678,368
Withdrawal 20	344,542	1.248545	430,176
Withdrawal 21	891,422	1.245278	1,110,069
Withdrawal 22	476,591	1.246238	593,946
Cumulative disbursements as of 31 December 2019	12,083,023		14,457,659
Calculated undisbursed balance as of 31 December 2019	1,138,977		975,585
Undisbursed balance as per World Bank Summary for December 2019	1,138,977	1.237480	1,409,461
Potential exchange rate gain			433,876