

Report on the Republika Srpska 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 2018

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 Project objective of the Floods Emergency Recovery Project (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 three 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 parlors 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 2.A: Regional Infrastructure Rehabilitation

The main activities include rehabilitating or reconstructing high priority, regional-level public infrastructure through Sub-projects in Floods Affected Areas.

Subcomponent 2.B: Local Infrastructure Rehabilitation.

The main activities include rehabilitating or reconstructing high priority, local-level public service delivery infrastructure through Sub-projects in Floods Affected Areas.

Component 3: Project Implementation Support and Capacity Building

This component will finance the management of the Project and any support needed for the identification and implementation of sub-activities. The component will also provide technical assistance and capacity building on ensuring future improved disaster resilience.

This Component includes two main Subcomponents:

Subcomponent 3.A.

The main activities include project implementation support through the provision of incremental operating costs of RS APCU and equipment for Project implementation.

Subcomponent 3.B.

The main activities include strengthening the institutional capacity of the RS and local authorities within the RS to a proactive approach of risk management, through the provision of technical assistance and training.

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1. Introduction (continued)

1.3 Financing of the Project:

1.3.1 IDA Credit No. 5529 - BA

The State of Bosnia and Herzegovina ("B&H") is the 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 RS funds of the equivalent of XDR 30,875,000 have been lent to RS.

1.3.2 Financing of the Project

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
(3) Eligible Essential Goods and Commodities for part B.1 of the Project	12,350,000	100%
(4) Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Parts B.2 and B.3 of the Project	18,525,000	100%
Subtotal	30,875,000	

IDA Credit No. 5529 - BA became effective on 15 September 2014. Planned closing date was 31 December 2018, but extension of closing date is till 30 June 2019.

First Amendment to the Financing Agreement

Item	Amount of the Credit allocated (in XDR)	% of expenditure to be financed
(3) Eligible Essential Goods and Commodities for part B.1 of the Project	10,350,000	100%
(4) Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Parts B.2 and B.3 of the Project	20,525,000	100%
Subtotal	30,875,000	

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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 Floods Emergency Recovery Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, Statement of loan and 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 IDA Credit 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 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 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 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



Ezita Imamović, Certified Auditor

Sarajevo, Bosnia and Herzegovina

14 May 2019

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Project financial statements for the year ended 31 December 2018

(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2018

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

	Ref.	Actual 2018	Cumulative 2018	Cumulative 2017	Cumulative budget	Cumulative variance
FINANCING						
<i>IDA Credit No.5529-BA</i>						
Initial deposit			1,500,000	1,500,000	34,972,365	
Direct payments		436,751	2,705,469	2,268,898		
Reimbursement		-	10,589,230	10,589,230		
SoE replenishments		5,216,714	15,233,490	10,016,776		
TOTAL FINANCING	3.1	5,653,465	30,028,369	24,374,904	34,972,365	4,943,996
PROJECT EXPENDITURE						
<i>By Category</i>						
Eligible Essential Goods and Commodities for part B.1 of the Project		-	12,474,231	12,474,231	11,723,528	(750,703)
Goods, works nonconsulting services, consultants' services, Training and Incremental Operating Costs for Part B.2. and B.3. of the Project		5,894,107	17,207,237	11,313,130	23,248,837	6,041,600
TOTAL EXPENDITURE	3.1	5,894,107	29,681,468	23,787,361	34,972,365	5,290,897
PROJECT EXPENDITURE						
<i>By Component</i>						
Emergency Disaster Recovery Goods		-	12,474,231	12,474,231	11,723,528	(750,703)
Rehabilitation of key Public Infrastructure Project		5,782,523	16,870,497	11,087,974	22,199,666	5,329,169
Implementation Support and Capacity Building		111,584	336,740	225,156	1,049,171	712,431
TOTAL EXPENDITURE	3.2	5,894,107	29,681,468	23,787,361	34,972,365	5,290,897

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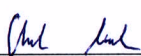
(all amounts in EUR, unless otherwise stated)

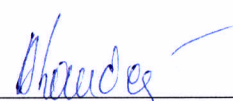
3. Project financial statements for the year 2018 (continued)

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 IDA Credit No. 5529	3.1	29,681,468	23,787,361
		29,681,468	23,787,361
Designated bank account - IDA Credit No. 5529	A	346,901	587,543
		346,901	587,543
Total assets		30,028,369	24,374,904
LIABILITIES			
IDA Credit No. 5529	C	30,028,369	24,374,904
Total liabilities		30,028,369	24,374,904

Signed and authorised by:


 Mr Stefan Mitrović
 APCU Director


 Anđelka Kovačević
 Accountant

Banja Luka, 14 May 2019

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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 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.

Interest on Designated account

Interest earned on the Designated account belongs to the Borrower.

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(all amounts in EUR, unless otherwise stated)

APPENDIX A

DESIGNATED ACCOUNT STATEMENT

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

Account No.: 5672410000514933

Depository Bank: Sberbank a.d. Banja Luka

Address: Jevrejska 71, Banja Luka

Related Credit: IDA Credit No. 5529 - BA

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2018	3.2	587,543
Add:		
World Bank replenishments	B	5,216,714
		5,216,714
Deduct:		
Payments to suppliers - Expenditure under IDA Credit		5,457,356
		5,457,356
Ending balance 31 December 2018	3.2	346,901

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APPENDIX B 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	1.132708	34,972,365
Disbursed in previous years	19,509,760		24,374,904
Withdrawal 30	479,011	1.178431	564,481
Withdrawal 31	286,133	1.216133	347,976
Withdrawal 32	382,074	1.209270	462,031
Withdrawal 33	479,875	1.197519	574,659
Withdrawal 34	730,088	1.219422	890,285
Withdrawal 35	687,485	1.208205	830,623
Withdrawal 36	505,949	1.220107	617,312
Withdrawal 37	359,849	1.213707	436,751
Withdrawal 38	177,606	1.213654	215,552
Withdrawal 39	226,563	1.214842	275,239
Withdrawal 40	360,998	1.214842	438,556
Total disbursed in 2018	4,675,631		5,653,465
Cumulative disbursements as of 31 December 2018	24,185,391		30,028,369
Calculated undisbursed balance as of 31 December 2018	6,689,609		4,943,996
Undisbursed balance as per World Bank Summary for December 2018	6,689,609	1,218220	8,149,415
Potential exchange rate gain			3,205,419

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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; SoE Withdrawal Schedule of IDA Credit No. 5529 - BA

	Initial deposit	Eligible Essential Goods and Commodities for part B.1 of the Project	Goods, works non- consulting services, consultants' services, training and incremental operating Costs for Parts B.2. and B.3. of the Project	Total application	Total replenished
Previous period	1,500,000	12,474,231	11,313,130	23,787,361	24,374,904
Application 30*	-	-	-	-	564,481
Application 31*	-	-	-	-	347,976
Application 32	-	-	462,031	462,031	462,031
Application 33	-	-	574,659	574,659	574,659
Application 34	-	-	890,285	890,285	890,285
Application 35	(408,000)	-	1,238,623	1,238,623	830,623
Application 36	-	-	617,312	617,312	617,312
Application 37	-	-	436,751	436,751	436,751
Application 38	(200,000)	-	415,552	415,552	215,552
Application 39	-	-	275,239	275,239	275,239
Application 40	-	-	438,556	438,556	438,556
Application 41**	-	-	221,432	221,432	-
Application 42**	-	-	323,667	323,667	-
Total SoE applications	(608,000)	-	5,894,107	5,894,107	5,653,465
Total 2018	(608,000)	-	5,894,107	5,894,107	5,653,465
As of 31 December 2018	892,000	12,474,231	17,207,237	29,681,468	30,028,369

* Application No. 30 and 31 were replenished in 2018, but expenses were made in 2017.

** Application No. 41 and 42 will be replenished in 2019, but expenses were made in 2018.