

Report on the Consolidated Project Financial
Statements of the

DRINA FLOOD PROTECTION PROJECT

of the Ministry of Finance and Treasury of Bosnia and
Herzegovina

Financed by:

- IDA Credit No. 5444-BA

For the year ended 31 December 2019

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

CONTENTS

1	Introduction	1
2	Independent Auditor's Report	2
3	Consolidated Project Financial Statements for the year 2019	4
4	Notes to the consolidated Project Financial Statements	8

APPENDICES

A.1	Designated account statement – IDA Credit No.5444-BA (FB&H)	10
A.2	Designated account statement – IDA Credit No.5444-BA (RS)	11
A.3	Petty cash statement – IDA Credit No.5444-BA (FB&H)	12
A.4	Local bank account statement - Other income (FB&H)	13
B	SoE Withdrawal Schedule of IDA Credit No.5444-BA for the year ended 31 December 2019	14
C	Reconciliation between World Bank's disbursement statements in EUR and IDA Credit No.5444-BA account in EUR according to the consolidated balance sheet as of 31 December 2019; SoE Withdrawal Schedule of IDA Credit No.5444-BA	15

1. Introduction

1.1 Objectives of the Project

The main objective of the Drina Flood Protection Project (the "Project") is to provide increased protection from flood events to agricultural and commercial interest and communities in the Project area.

1.2 Components and activities of the Project

The Project is comprised of the following two components:

Component 1: Flood Protection Works

The main activities include strengthening flood protection on the Drina River in the Bijeljina area near the confluence with the Sava River.

Component 2: Project Management and Institutional Strengthening

The main activities include Project management support and institutional strengthening, through the provision of works, goods, consultant's services, Training and Incremental Operating Costs.

1.3 Financing of the Project

1.3.1 IDA Credit No. 5444-BA

The State of Bosnia and Herzegovina ("B&H") is the borrower of the International Development Association (IDA) Credit No. 5444-BA amounting to the equivalent of XDR 15,600,000. Later the World Bank cancelled an amount of the Credit equal to 1,249,003 million SDRs as of 30 April 2019, so the total amount is XDR 14,350,997.

Under the terms of a Subsidiary Finance Agreement between the State and the Federation of Bosnia and Herzegovina ("FBiH"), funds of XDR 6,630,000 have been lent to the FBiH while under the terms of a subsidiary finance agreement between B&H and RS funds of the equivalent of XDR 7,720,997 have been lent to RS (previously XDR 8,970,000).

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
(1)	Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs under Part B of the Project	6,630,000	100%
(2)	Goods, works, non-consulting services, consulting services, training and incremental operating costs for Part A of the Project	7,720,997	100%
	Subtotal	14,350,997	

IDA Credit No. 5444 - BA became effective on 21 May 2015. Planned closing date was 31 December 2019, but it was extended until 31 December 2020. Application date is 30 April 2021.

Baker Tilly Re Opinion d.o.o.
Grbavička 4
71000 Sarajevo
Bosna i Hercegovina

T: +387 (0) 33 552 150
F: +387 (0) 33 552 152

info@bakertilly.ba
www.bakertilly.ba

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 Consolidated Project Financial Statements

Opinion

We have audited the accompanying consolidated project financial statements of the Drina Flood Protection Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, local bank accounts and petty cash statements, 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. 5444-BA.

In our opinion, the accompanying consolidated 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 Consolidated Project Financial Statements

The management of project implementation unit in FB&H and project coordination unit in RS are responsible for the preparation of separate 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 separate project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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. These consolidated financial statements are sum of separate project financial statements.

Responsibilities for the Audit of Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated project financial statements, including the disclosures, and whether the consolidated 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, 6 May 2020

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

3. Consolidated project financial statements for the year 2019

3.1 Summary of Sources and Uses of funds under IDA Credit 5444-BA and Other income

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
IDA Credit 5444-BA	3.1.12	12,279,010	8,900,827	6,621,817	17,900,062	8,999,235
Other income	3.1.2	138,563	1,485,116	1,346,553	-	(1,485,116)
TOTAL FINANCING	3.2	2,417,573	10,385,943	7,968,370	17,900,062	7,514,119

**PROJECT
EXPENDITURE**

By Category

Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Part A of the Project		1,616,299	2,277,422	661,123	9,991,904	7,714,482
Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Part B of the Project		2,201,790	6,266,977	4,065,187	7,908,158	1,641,181
TOTAL EXPENDITURE	3.2	3,818,089	8,544,399	4,726,310	17,900,062	9,355,663

**PROJECT
EXPENDITURE**

By Component

I. Flood Protection Works and Support		3,718,252	8,277,554	4,559,302	17,045,708	8,768,154
II. Project Implementation Support		99,837	266,845	167,008	854,354	587,509
TOTAL EXPENDITURE	3.2	3,818,089	8,544,399	4,726,310	17,900,062	9,355,663

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

3. Consolidated project financial statements for the year 2019 (continued)

3.1.1 Summary of Sources and Uses of funds under the IDA Credit 5444-BA

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
IDA Credit 5444-BA					17,900,062	
Initial deposit		-	2,000,000	2,000,000		
SoE replenishments		2,279,052	6,900,785	4,621,733		
Interest income		-42	42	84		
TOTAL FINANCING	3.1	2,279,010	8,900,827	6,621,817	17,900,062	8,999,235
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Part A of the Project		1,616,299	2,277,422	661,123	9,991,904	7,714,482
Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Part B of the Project		2,201,766	6,266,923	4,065,157	7,908,158	1,641,235
TOTAL EXPENDITURE	3.2	3,818,065	8,544,345	4,726,280	17,900,062	9,355,717

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

3. Consolidated project financial statements for the year 2019 (continued)

3.1.2 Summary of sources and uses of funds under Other income (FB&H only)

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
Return of VAT		138,563	717,543	578,980	-	(717,543)
Sava river watershed						
Agency payment		-	766,938	766,938	-	(766,938)
Tender						
documentation sold –						
Other income account		-	635	635	-	(635)
TOTAL FINANCING	3.1	138,563	1,485,116	1,346,553	-	(1,485,116)
PROJECT EXPENDITURE						
By Category						
Goods, works, non-						
consulting services,						
consultants` services,						
Training and						
Incremental Operating						
Costs for Part B of the						
Project		24	54	30	-	(54)
TOTAL						
EXPENDITURE	3.2	24	54	30	-	(54)

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

3. Consolidated 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	3.1.1	8,544,345	4,726,280
Project expenditure under Other income	3.1.2	54	30
		8,544,399	4,726,310
Designated account – IDA Credit 5444-BA (FB&H)	A.1	297,339	993,033
Designated account – IDA Credit 5444-BA (RS)	A.2	58,795	901,984
Petty cash – IDA Credit 5444-BA (FB&H)	A.3	348	520
Local bank account - Other income (FB&H)	A.4	1,485,062	1,346,523
		1,841,544	3,242,060
Total assets		10,385,943	7,968,370
LIABILITIES			
IDA Credit 5444-BA	3.1.1	8,900,827	6,621,817
Other income	3.1.2	1,485,116	1,346,553
Total liabilities		10,385,943	7,968,370

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

4. Notes to the consolidated project financial statements

4.1 Basis of preparation and accounting records

These consolidated project financial statements have been prepared on the cash basis of accounting based on International Public Sector Accounting Standards: "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 1 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 IDA 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 consolidated balance sheet at year-end, have been converted at year-end rate.

Designated account

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

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

4. Notes to the consolidated project financial statements (continued)

4.2 Accounting policies (continued)

Other income

Other income includes tender documentation sold and return of VAT.

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.

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated 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.: BA39 1994 9900 3150 4549

Depository Bank: Sparkasse bank d.d. BiH

Address: Zmaja od Bosne 7, Sarajevo

Related Credit: IDA Credit N0.5444-BA

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2019	3.2	993,033
Add:		
World Bank replenishments	B	1,505,942
Interest		819
		<u>1,506,761</u>
		2,499,794
Deduct:		
Payments to suppliers - Expenditure under IDA Credit		2,201,594
Transfer of interest to the Ministry of Finance and Treasury of B&H		861
		<u>2,202,455</u>
Ending balance 31 December 2019	3.2	297,339

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

APPENDIX A.2

DESIGNATED ACCOUNT STATEMENT

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

Account No.: 5672410000610769

Depository Bank: Sberbank a.d. Banjaluka

Address: Jevrejska 71, Banjaluka

Related Credit: IDA Credit No. 5444-BA

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2019	3.2	901,984
Add:		
World Bank replenishments		773,110
		773,110
Deduct:		
Payments to suppliers - Expenditure under IDA Credit		1,616,299
		1,616,299
Ending balance 31 December 2019	3.2	58,795

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

APPENDIX A.3

PETTY CASH STATEMENT

Address: PIU, Sarajevo
Related Credit: IDA Credit 5444-BA
Currency: BAM

	Ref.	BAM	EUR
Opening balance 1 January 2019	3.2	1,018	520
		1,018	520
Deduct:			
Payments to suppliers - Expenditure under IDA Credit		337	172
		337	172
Ending balance 31 December 2019	3.2	681	348

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated project financial statements for the year ended
31 December 2019

(all amounts in EUR, unless otherwise stated)

APPENDIX A.4

LOCAL BANK ACCOUNT STATEMENT

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

Account No.: 1027080000004907

Depository Bank: Union banka d.d. Sarajevo

Address: Dubrovačka br. 6

Related Credit: Government contribution (Indirect Taxation Authority – VAT return; Sava River Watershed Agency – cofinancing of the Project in accordance with Contract No. 1051-12/17 dated 22 December 2017)

Currency: BAM

	Ref.	BAM	EUR
Opening balance 1 January 2019	3.2	2,633,570	1,346,523
Add:			
VAT return		271,005	138,563
		271,005	138,563
		2,904,575	1,485,086
Deduct:			
Payments to suppliers - Expenditure under Other income		47	24
		47	24
Ending balance 31 December 2019	3.2	2,904,528	1,485,062

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated 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.5444-BA for the year ended 31 December 2019

	Initial deposit	Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Part A of the Project	Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs for Part B of the Project	Total application	Total replenished
Previous years	2,000,000	661,123	4,065,157	4,726,280	6,621,733
Application 5 (RS)*	-	-	-	-	98,016
Application 6 (RS)	-	675,094	-	675,094	675,094
Application 7 (RS)**	-	476,701	-	476,701	-
Application 8 (RS)**	-	385,351	-	385,351	-
Application 10 (RS)**	-	79,153	-	79,153	-
Application 16 (FB&H)***	-	-	-	-	6,531
Application 17 (FB&H)	-	-	235,078	235,078	235,078
Application 18 (FB&H)	-	-	269,054	269,054	269,054
Application 19 (FB&H)	-	-	414,812	414,812	414,812
Application 20 (FB&H)	-	-	580,467	580,467	580,467
Application 21 (FB&H)****	-	-	702,355	702,355	-
Total 2019	-	1,616,299	2,201,766	3,818,065	2,279,052
As of 31 December 2019	2,000,000	2,277,422	6,266,923	8,544,345	8,900,785

* Application No. 5 is replenished in 2019 but expenses were made in 2018.

** Application No. 7, 8 and 10 will be replenished in 2020 but expenses were made in 2019.

*** Application No.16 was replenished in 2019, but expenses were made in 2018.

**** Application No.21 was replenished in 2020, but expenses were made in 2019.

DRINA FLOOD PROTECTION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Consolidated 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 as of 31 December
2019; SoE Withdrawal Schedule of IDA Credit No.5444-BA**

	Changes in IDA Credit (in XDR)	Exchange rate used	Changes in IDA Credit (in EUR)
Original amount	14,350,997	1.247304	17,900,062
Total disbursed in previous periods	5,260,118		6,621,733
Withdrawal 05	79,624	1.230981	98,016
Withdrawal 06	549,477	1.228612	675,094
Withdrawal 16	5,346	1.221730	6,531
Withdrawal 17	190,687	1.232792	235,078
Withdrawal 18	217,685	1.235977	269,054
Withdrawal 19	334,198	1.241214	414,812
Withdrawal 20	467,043	1.242855	580,467
Total disbursed in 2019	1,844,060		2,279,052
Cumulative disbursements as of 31 December 2019	7,104,178		8,900,785
Calculated undisbursed balance as of 31 December 2019	7,246,819		8,999,277
Undisbursed balance as per World Bank Summary for December 2019	7,246,819		8,965,564
Potential exchange rate loss			(33,713)