

Report on the Project Financial Statements of
the

**GEF ADRIATIC SEA ENVIRONMENTAL
POLLUTION CONTROL PROJECT (I)**

of the Ministry of Finance and Treasury of Bosnia and
Herzegovina
Financed by:
- GEF Grant TF17727
For the year ended 31 December 2018

GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

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GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)

of the Ministry of Finance and Treasury of Bosnia and Herzegovina

1. Introduction

1.1 Objective of the Project

The Project's development and global environmental objectives are: (a) to reduce the discharge of pollutants with transboundary importance, particularly Nitrogen, in selected hot-spots of the eastern Adriatic Sea; and (b) to improve the capacity in the Republic of Croatia and Bosnia and Herzegovina to prepare pollution control projects in selected localities of Dalmatia and Herzegovina and to strengthen the capacity to monitor environmentally sensitive areas of the sea.

1.2 Components of the Project

Component 1 – Demonstration investments to reduce nutrient discharges and improve water quality monitoring capacity (USD 2,05 million are GEF financing). This Component will finance:

Design, supply, and installation of equipment for the reduction of nutrient discharges, including, *inter alia*, upgrading the leachate treatment plant in Mostar's landfill.

The current disposal site in the landfill in Mostar is expected to be closed and replaced by a new one recently completed, which includes adequate lining and leachate collection, but no leachate treatment, thus offering an excellent opportunity to demonstrate the potential for leachate treatment. The new disposal site in the landfill will be operated by a newly created municipal company (J.P. Deponija Mostar, d.o.o.).

Component 2 – Technical Assistance (USD 0,20 million are GEF financing):

This Component will finance consultant services for the preparation of proposals for funding by the EU, including all related analysis required by the EC, such as a Strategic Environmental Assessment of the overall program for leachate treatment; and the assessment of relative sources of nutrients to derive policy recommendations. Such TA is intended to reinforce the potential for replication of the demonstration investments and contribute to the launching of the overall regional Program for the Adriatic. These consultant services will be grouped in the following three activities:

Consultant services to prepare preliminary designs and project documentation, including preparation of tender documentation to access European Union ("EU") funds, for investments in leachate and wastewater treatment and management to comply with EU requirements in selected locations in Herzegovina and Neum.

The Government of BiH confirmed that Trebinje and Gacko in Eastern Herzegovina, Lise Livno, Glamoc and Posusje in Western Herzegovina, and Neum, on the Adriatic coast, would be eligible for this Project preparation facility, upon confirmation of availability of base documentation and compliance with requirements defined in the ESMF.

Component 3 – Project Management and Dissemination (USD 0.19 million are GEF Financing): This component will finance for BiH PMT incremental operating costs incurred by the PMT on account of Project implementation, management, monitoring and supervision (as such expenditures are set forth in the PMT annual budget), including office supplies, office equipment maintenance, communications, evaluation and dissemination of technical solutions, Project results and lessons learned (through publications, web-supported instruments and workshops), travel and per diem, translation, audit reports, bank fees, vehicle operation and maintenance and salaries of the PMT staff (but excluding salaries of civil servants of the Recipient).

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)
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1. Introduction (continued)

1.3 Financing of the Project

The Project is financed by GEF Grant TF 17727 in the amount of **USD 2,440,000**.

Withdrawal of the Proceeds of the Grant for BiH

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH	2,250,000	100%
(2) Incremental Operating Costs (including audit)	190,000	100%
TOTAL AMOUNT		2,440,000

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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

Qualified Opinion

We have audited the accompanying project financial statements of the Preparation for Adriatic Sea Environment Pollution Control Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account statements, local bank account, Statements of Grant withdrawals as of and for the year ended 31 December 2018, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under GEF Grant TF 17727.

In our opinion, except for matters described in *Basis for Qualified Opinion* paragraph, 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

As described in 3.1.1. *Summary of sources and uses of funds under the GEF Grant agreement TF 17727*, expenses in amount of USD 186,946 refer to advance paid to contractor JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL, BiH, in connection to Contract No. BA-ASEPCP-GEF-ICB-S&I-15-02 "Plant, Design, Supply and Installation for treatment of leachate at the sanitary landfill Uborak-Buđevci in Mostar". Draft of Contract Termination Agreement was prepared, but up to date of our audit it was not signed. It is described in Draft of Contract Termination Agreement that Project manager reviewed and approved costs relating to design services, filling of advance guarantee and filling of performance guarantee, so remaining amount of USD 65,084 the contractor has to return not later than 15 May 2019. For this amount services were not performed, and advance was not justified. Expenses relating to budget category "Goods, works, non-consulting services, and consultant's services under the Project in BiH" in amount of USD 65,084 would be considered ineligible, in this amount is not returned within defined deadline.

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 qualified 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, except for matter described in *Basis for Qualified Opinion* paragraph, 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, 10 May 2019



 
Ema Sinanović, Certified Auditor

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

3. Project financial statements for the year 2018

3.1 Summary of sources and uses of funds under the GEF Grant TF 17727 and Other income

	Ref.	Actual 2018	Cumulative 2018	Cumulative 2017	Cumulative budget	Cumulative variance
FINANCING						
GEF Grant TF 17727	3.1.1	281,690	538,001	256,311	2,440,000	1,901,999
Other income	3.1.2	35,000	39,886	4,886	-	(39,886)
TOTAL FINANCING	3.2	316,690	577,887	261,197	2,440,000	1,862,113

**PROJECT
EXPENDITURE**

By Category

(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH	296,296	358,268	61,972	2,250,000	1,891,732
(2) Incremental Operating Costs (including audit)	76,258	118,481	42,223	190,000	71,519
TOTAL EXPENDITURE	3.2	372,554	476,749	104,195	2,440,000
					1,963,251

**PROJECT
EXPENDITURE**

By Component

(1) Demonstration investments to reduce nutrient discharges and improve water quality monitoring capacity	186,945	221,256	34,311	2,050,000	1,828,744
(2) Technical Assistance	109,351	137,012	27,661	200,000	62,988
(3) Project Management and Dissemination	76,258	118,481	42,223	190,000	71,519
TOTAL EXPENDITURE	3.2	372,554	476,749	104,195	2,440,000
					1,963,251

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Project financial statements for the year ended 31 December 2018

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

3.1.1 Summary of sources and uses of funds under the GEF Grant agreement TF 17727

	Ref.	Actual 2018	Cumulative 2018	Cumulative 2017	Cumulative budget	Cumulative variance
FINANCING						
GEF Grant TF 17727					2,440,000	
Initial deposit		-	200,000	200,000		
SoE replenishments		281,690	325,946	44,256		
Direct payments		-	12,055	12,055		
TOTAL FINANCING	3.1	281,690	538,001	256,311	2,440,000	1,901,999
PROJECT EXPENDITURE						
<i>By Category</i>						
(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH		296,296 (i)	358,268	61,972	2,250,000	1,891,732
(2) Incremental Operating Costs (including audit)		76,250	118,471	42,221	190,000	71,529
TOTAL EXPENDITURE	3.2	372,546	476,739	104,193	2,440,000	1,963,261

(i) Out of total amount of USD 296,296 for "Goods, works, non-consulting services, and consultants' services under the Project in BiH", amount of USD 186,946 refers to advance paid to contractor JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL, BiH.

Advance is paid for Contract No. BA-ASEPCP-GEF-ICB-S&I-15-02 dated 29 January 2018 "Plant, Design, Supply and Installation for treatment of leachate at the sanitary landfill Uborka-Buđevci in Mostar" with total contract value of EUR 1,533,633.

Draft of Contract Termination Agreement was prepared, in which is stated that as of 29 May 2018 the contractor was transferred advance payment in amount of EUR 153,363 (which is equal to USD 186,946). Project manager reviewed and approved costs relating to design services, filling of advance guarantee and filling of performance guarantee, so remaining balance in amount of EUR 56,822 (which is equal to USD 65,084 using exchange rate as of 31 December 2018) the contractor has to return not later than 15 May 2019.

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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

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

3.1.2 Summary of sources and uses of funds under Other income

	Actual Ref. 2018	Cumulative 2018	Cumulative 2017	Cumulative budget	Cumulative variance
FINANCING					
VAT returns	34,998	39,884	4,886	-	(39,884)
Interest	2	2	-	-	(2)
TOTAL FINANCING	3.1	35,000	39,886	4,886	(39,886)
PROJECT					
EXPENDITURE					
<i>By Category</i>					
(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH	-	-	-	-	-
(2) Incremental Operating Costs (including audit)	8	10	2	-	(10)
TOTAL EXPENDITURE	3.2	8	10	2	(10)

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)
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Project financial statements for the year ended 31 December 2018

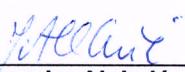
(all amounts in USD, unless otherwise stated)

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

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

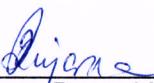
	Ref.	31 December 2018	31 December 2017
ASSETS			
Project expenditure under GEF Grant TF 17727	3.1.1	476,739	104,193
Project expenditure under Other income	3.1.2	10	2
		476,749	104.195
Designated account - GEF Grant TF 17727	A.1	61,262	152,118
Designated sub-account - GEF Grant TF 17727	A.2	-	-
Local bank account - Other income	A.3	39,182	4,889
		100,444	157,007
Exchange rate difference		694	(5)
Total assets		577,887	261,197
LIABILITIES			
GEF Grant TF 17727	C	538,001	256,311
Other income		39,886	4,886
	3.1	577,887	261,197
Total liabilities		577,887	261,197

Signed and authorised by:



Jovanka Aleksić
Project Coordinator

Sarajevo, 10 May 2019



Dijana Dangubić
Financial Officer

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)
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Project financial statements for the year ended 31 December 2018

(all amounts in USD, unless otherwise stated)

4. Notes to the project financial statements

4.1 Basis of preparation and accounting records

These project financial statements have been prepared 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 GEF Grant are recorded on actual receipt and payment basis of accounting as per approved categories.

Project expenditure is stated at original cost on the balance sheet.

Direct payments

Direct payments concern the amounts paid directly from the Grant account of the World Bank.

Statement of Expenditure (SoE)

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

Currency conversions

The reporting currency is USD. Sources and use of funds (payments to suppliers and contractors) in currencies other than USD have been converted to USD using the currency rate at the moment of the transaction.

Bank balances, recorded on the balance sheet at year-end, have been converted at year-end rate.

Designated accounts

This is the total amount of the withdrawals from the Grant account for the Project. The Grant account is in USD.

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.: BA 391994990031597960
Depository Bank: Sparkasse Bank d.d. BiH
Address: Zmaja od Bosne 7, Sarajevo
Related Credit: GEF Grant TF 17727
Currency: USD

	Ref.	USD
Opening balance 1 January 2018		152,118
Add:		
World Bank's replenishments	B	281,690
		433,808
Deduct:		
Payments to suppliers - Expenditure under GEF Grant TF 17727		43,578
Transfer to Designated sub-account - GEF Grant TF 17727	A.2	328,968
		372,546
Ending balance 31 December 2018	3.2	61,262

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APPENDIX A.2

DESIGNATED SUB-ACCOUNT STATEMENT

Account owned by: Ministry of Finance and Treasury of Bosnia and Herzegovina
Account No.: 1994990031597960
Depository Bank: Sparkasse Bank d.d. BiH
Address: Zmaja od Bosne 7, Sarajevo
Related Credit: GEF Grant TF 17727
Currency: BAM

	Ref.	BAM	USD
Opening balance 1 January 2018		-	-
Add:			
Transfer from Designated account - GEF Grant TF 17727	A.1	539,551	328,968
		539,551	328,968
Deduct:			
Payments to suppliers - Expenditure under GEF Grant TF 17727		539,551	328,968
		539,551	328,968
Ending balance 31 December 2018	3.2	-	-

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Project financial statements for the year ended 31 December 2018

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APPENDIX A.3 LOCAL BANK ACCOUNT STATEMENT

Account owned by: Ministry of Foreign Trade and Economic Relations of B&H
Account No.: 3387302205068988
Depository Bank: UniCredit Bank d.d.
Address: Kardinala Stepinca b.b., Mostar
Related Credit: Government contribution (Indirect Taxation Authority – VAT return)
Currency: BAM

	Ref.	BAM	USD
Opening balance 1 January 2018	3.2	7,973	4,889
Add:			
VAT returns		58,941	34,998
Interest		3	2
		66,917	39,889
Deduct:			
Payments to suppliers - Expenditure under Other income		12	8
Exchange rate gain			699
		12	707
Ending balance 31 December 2018	3.2	66,905	39,182

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)
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**APPENDIX B SoE Withdrawal Schedule of GEF Grant TF 17727 for the year ended
31 December 2018**

	Initial deposit	Goods, works, non- consulting services, and consultants' services under the Project in BiH	Incremental Operating Costs (including audit)	Total application	Total disbursed
Project in BiH					
Previous periods	200,000	61,972	42,221	104,193	256,311
Application 5*	-	-	-	-	47,882
Application 6	-	125,472	8,470	133,942	133,942
Application 7	(99,866)	81,952	17,914	99,866	-
Application 8	99,866	-	-	-	99,866
Application 9**	-	88,872	49,866	138,738	-
Total SoE applications	-	296,296	76,250	372,546	281,690
Total 2018	-	296,296	76,250	372,546	281,690
Cumulative 2018	200,000	358,268	118,471	476,739	538,001

* Application No.5 was replenished in 2018, but expenses were made in 2017.

** Application No.9 was replenished in 2019, but expenses were made in 2018.

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(all amounts in USD, unless otherwise stated)

**APPENDIX C Reconciliation between World Bank's disbursement statements in USD
and GEF Grant account in USD according to the balance sheet as of 31
December 2018; SoE Withdrawal Schedule of GEF Grant TF 17727**

	Changes in GEF Grant (in USD)
Original amount	2,440,000
Disbursed in previous years	256,311
Withdrawal 5	47,882
Withdrawal 6	133,942
Withdrawal 7	-
Withdrawal 8	99,866
Total disbursed in 2018	281,690
Cumulative disbursements	538,001
Calculated undisbursed balance as of 31 December 2018	1,901,999
Undisbursed balance as per World Bank Summary for December 2018	1,901,999