

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

**SUSTAINABLE FOREST AND LANDSCAPE
MANAGEMENT PROJECT**

of the Ministry of Finance and Treasury of Bosnia and
Herzegovina

Financed by:

- GEF Grant TF 016646

For the year ended 31 December 2018

**SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT of the Ministry of Finance and Treasury of Bosnia and Herzegovina

1. Introduction

1.1 Objectives of the Project

The objective of the Project is to build capacity of forestry sector stakeholders and to demonstrate approaches for the Sustainable Forest and Landscape Management through integrated management of vulnerable forest, scrub, and pasture landscapes.

1.2 Components and activities of the Project

The Project is comprised of the following three components:

Component I: Enhanced Planning and monitoring for the Sustainable Forest and Landscape Management

- (a) Supporting the recertification of forest management in the RS.
- (b) Strategic planning for forest roads through: (i) the preparation of a model forest roads master plan; and (ii) the adoption of road rehabilitation guidelines to minimize environmental and social impacts.
- (c) Strengthening the use of FMIS for decision-making through: (i) the introduction of information related to climate change; and (ii) dissemination of information to stakeholders.

Component II: Demonstration and replication of the Sustainable Forest and Landscape Management techniques in vulnerable areas

- (a) Carrying out afforestation, assisted natural regeneration and forest stand rehabilitation activities on selected public forest estates including: (i) afforestation with native species; (ii) afforestation with new species appropriate for drying conditions or increased fire hazard; (iii) stand management complementing natural regeneration through thinning and weeding; (iv) stand rehabilitation using enrichment planting, limbing or thinning; (v) forest conversion from coppice forest to high forest; and (vi) production of seedlings using methods or species appropriate to improve climate resilience, all in accordance with existing forest management plans.
- (b) Carrying out the Sustainable Forest and Landscape Management demonstration activities in Selected Areas including activities such as: (i) non-timber forest product (NTFP) harvesting; (ii) hunting and wildlife management complementing forest management; (iii) bio-mass management for energy production; (iv) bio-mass thinning for local use and fire management; and (v) forest-based tourism.
- (c) Carrying out small scale fire management demonstration activities in areas under fire hazard.
- (d) Providing operational support for the facilitation of local participation in the Sustainable Forest and Landscape Management and fire management Demonstration Activities.

Component III: Project Management

Supporting Project management including (i) financial management and procurement; (ii) annual audits; and (iii) project evaluations.

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1. Introduction (continued)

1.3 Financing of the Project:

1.3.1 GEF Grant TF 016646

The State of Bosnia and Herzegovina ("B&H") is the recipient of trust funds made available by International Bank for Reconstruction and Development, acting as an implementing agency of the GEF, in the form of a grant TF 016646 amounting to the equivalent of USD 5,575,758.

Under the terms of a subsidiary finance agreement between B&H and Republika Srpska ("RS") funds of the equivalent of USD 2,787,879 have been lent to RS.

Categories of cost items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant 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 Grant allocated (in USD)	% of expenditure to be financed
(2) Goods, works non-consultants' services, consultants' services ,Training and Incremental Operating Costs under Part B of the Project	2,787,879	100%
Subtotal		2,787,879

GEF Grant TF 016646 became effective on 9 June 2014. Planned closing date is 31 May 2019.

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2. Independent Auditor's Report

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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 Sustainable Forest and Landscape Management Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, Designated sub-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 GEF Grant No. TF 016646.

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

Sarajevo, Bosnia and Herzegovina

13 May 2019



Ezita Imamović, Certified Auditor

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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

3.1 Summary of sources and uses of funds under the GEF Grant Agreement TF 016646

	Ref.	Actual 2018	Cumulative 2018	Cumulative 2017	Cumulative budget	Cumulative variance
FINANCING						
GEF Grant TF 016646					2,787,879	
Initial deposit		300,000	300,000			
Direct payments		999,548	999,548			
SoE replenishments		279,318	1,332,321	1,053,003		
TOTAL FINANCING	3.1	279,318	2,631,869	2,352,551	2,787,879	156,010
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, works non- consultants' services, consultants' services, Training and Incremental Operating Costs under Part B of the Project		254,332	2,503,448	2,249,116	2,787,879	284,431
TOTAL EXPENDITURE	3.2	254,332	2,503,448	2,249,116	2,787,879	284,431
PROJECT EXPENDITURE						
<i>By Component</i>						
Enhanced Planning and monitoring for SFLM		83,802	240,738	156,936	551,645	310,907
Demonstration and replication of SFLM techniques in vulnerable areas		126,125	2,166,816	2,040,691	2,098,234	(68,582)
Project Management		44,405	95,894	51,489	138,000	42,106
TOTAL EXPENDITURE	3.2	254,332	2,503,448	2,249,116	2,787,879	284,431

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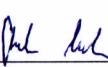
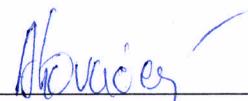
(all amounts in USD, unless otherwise stated)

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 016646	3.1.1	2,503,448	2,249,116
		2,503,448	2,249,116
Designated account - GEF Grant TF 016646	A.1	128,421	103,435
Designated sub-account - GEF Grant TF 016646	A.2	-	-
		128,421	103,435
Total assets		2,631,869	2,352,551
LIABILITIES			
GEF Grant TF 016646	C	2,631,869	2,352,551
Total liabilities		2,631,869	2,352,551

Signed and authorised by:

	
Mr Stefan Mitrović APCU Director	Anđelka Kovačević Accountant

Banja Luka, 13 May 2019

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(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 1 January to 31 December 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 specialist who authorises the payment of the expenditure through the Designated account.

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 account

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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(all amounts in USD, unless otherwise stated)

APPENDIX A.1

DESIGNATED ACCOUNT STATEMENT

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

Account No.: 530913000 660000711-3

Depository Bank: Raiffeisen Bank d.d. Bosna i Hercegovina

Address: Zmaja od Bosne bb, Sarajevo

Related Credit: GEF Grant TF 016646

Currency: USD

	Ref.	USD
Opening balance 1 January 2018	3.2	103,435
Add:		
World Bank replenishments	B	<u>279,318</u>
		<u>279,318</u>
Deduct:		
Payments to suppliers - Expenditure under GEF Grant		75,489
Transfers to Designated sub-account - GEF Grant	A.2	<u>178,843</u>
		<u>254,332</u>
Ending balance 31 December 2018	3.2	128,421

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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.: 530911000 660000711-3

Depository Bank: Raiffeisen Bank d.d. Bosna i Hercegovina

Address: Zmaja od Bosne bb, Sarajevo

Related Credit: GEF Grant TF 016646

Currency: BAM

	Ref.	BAM	USD
Opening balance 1 January 2018	3.2	-	-
Add:			
Transfers from Designated account - GEF Grant	A.1	<u>297,063</u>	<u>178,843</u>
		<u>297,063</u>	<u>178,843</u>
Deduct:			
Payments to suppliers - Expenditure under GEF Grant		<u>297,063</u>	<u>178,843</u>
		<u>297,063</u>	<u>194,836</u>
Ending balance 31 December 2018	3.2	-	-

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(all amounts in USD, unless otherwise stated)

APPENDIX B SoE Withdrawal Schedule of GEF Grant TF 016646

	Initial deposit	Goods, works non- consultants' services, consultants' services, Training and Incremental Operating Costs under Part B of the Project	Total application	Total replenished
Previous period	300,000	2,249,116	2,249,116	2,352,551
Application 14*		-	-	63,667
Application 15*		-	-	132,898
Application 16		82,753	82,753	82,753
Application 17**		156,011	156,011	-
Application 18	(15,568)	15,568	15,568	-
Total SoE applications	(15,568)	254,332	254,332	279,318
Total 2018	(15,568)	254,332	254,332	279,318
Cumulative 2018	284,432	2,503,448	2,503,448	2,631,869

* Application No. 13 and No. 14 were replenished in 2018, but expenses were made in 2017.

** Application No. 17 will be 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; SoE Withdrawal Schedule of GEF Grant TF 016646**

	Changes in GEF Grant (in USD)
Original amount	2,787,879
Disbursed in previous period	2,352,551
Withdrawal 14	63,667
Withdrawal 15	132,898
Withdrawal 16	82,753
Total disbursed in 2018	279,318
Cumulative disbursements	2,631,869
Calculated undisbursed balance as of 31 December 2018	156,010
Undisbursed balance as per World Bank Summary for December 2018	156,010