

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 period ended 3 September 2019

**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).

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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

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 period ended 3 September 2019, and a summary of significant accounting policies and other explanatory notes for the period then ended, financed under GEF Grant TF 17727.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 3 September 2019, and of the funds received and disbursed during the period 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 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, 21 May 2020




Ema Sinanović, Certified Auditor

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Project financial statements for the period ended 3 September 2019

(all amounts in USD, unless otherwise stated)

3. Project financial statements for the period ended 3 September 2019

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

	Ref.	Actual 3 September 2019	Cumulative 3 September 2019	Cumulative 31 December 2018	Cumulative budget	Cumulative variance
FINANCING						
GEF Grant TF 17727	3.1.1	31,523	569,524	538,001	2,440,000	1,870,476
Other income	3.1.2	(36,848)	3,038	39,886	-	(3,038)
TOTAL FINANCING	3.2	(5,325)	572,562	577,887	2,440,000	1,867,438

**PROJECT
EXPENDITURE**

By Category

(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH	49,195	407,463	358,268	2,250,000	1,842,537
(2) Incremental Operating Costs (including audit)	43,595	162,076	118,481	190,000	27,924
TOTAL EXPENDITURE	3.2	92,790	569,539	476,749	2,440,000

**PROJECT
EXPENDITURE**

By Component

(1) Demonstration investments to reduce nutrient discharges and improve water quality monitoring capacity	(69,219)	152,037	221,256	2,050,000	1,897,963
(2) Technical Assistance	118,414	255,426	137,012	200,000	(55,426)
(3) Project Management and Dissemination	43,595	162,076	118,481	190,000	27,924
TOTAL EXPENDITURE	3.2	92,790	569,539	476,749	2,440,000

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3. Project financial statements for the period ended 3 September 2019 (continued)

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

	Actual 3 September 2019	Cumulative 3 September 2019	Cumulative 31 December 2018	Cumulative budget	Cumulative variance
FINANCING					
GEF Grant TF 17727				2,440,000	
Initial deposit	-	200,000	200,000		
SoE replenishments	31,523	357,469	325,946		
Direct payments	-	12,055	12,055		
TOTAL FINANCING	3.1	31,523	569,524	538,001	2,440,000
				1,870,476	
PROJECT EXPENDITURE					
<i>By Category</i>					
(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH	49,195	407,463	358,268	2,250,000	1,842,537
(2) Incremental Operating Costs (including audit)	43,590	162,061	118,471	190,000	27,939
TOTAL EXPENDITURE	3.2	92,785	569,524	476,739	2,440,000
				1,870,476	

In previous years advance in amount of USD 186,946 was paid to contractor JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL, BiH. Advance was paid for Contract No. BA-ASECP-GEF-ICB-S&I-15-02 dated 29 January 2018 "Plant, Design, Supply and Installation for treatment of leachate at the sanitary landfill Uborak-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 154,363 (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 the contractor was obliged to return not later than 15 May 2019.

During the year of 2019, contractor made refund in total amount of USD 69,219.

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3. Project financial statements for the period ended 3 September 2019 (continued)

3.1.2 Summary of sources and uses of funds under Other income

	Actual 3 September 2019	Cumulative 3 September 2019	Cumulative 31 December 2018	Cumulative budget	Cumulative variance
FINANCING					
VAT returns	(36,851)	3,033	39,884	-	(3,033)
Interest	3	5	2	-	(5)
TOTAL FINANCING	3.1	(36,848)	3,038	39,886	(3,038)
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)	5	15	10	-	(15)
TOTAL EXPENDITURE	3.2	5	15	10	(15)

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3. Project financial statements for the period ended 3 September 2019 (continued)

3.2 Balance sheet as of 3 September 2019 showing accumulated funds of the Project and bank balances concerning World Bank funding

	Ref.	3 September 2019	31 December 2018
ASSETS			
Project expenditure under GEF Grant TF 17727	3.1.1	569,524	476,739
Project expenditure under Other income	3.1.2	15	10
		569,539	476,749
Designated account - GEF Grant TF 17727	A.1	-	61,262
Designated sub-account - GEF Grant TF 17727	A.2	-	-
Local bank account - Other income	A.3	-	39,182
		-	100,444
Exchange rate difference		3,023	694
Total assets		572,562	577,887
LIABILITIES			
GEF Grant TF 17727	C	569,524	538,001
Other income		3,038	39,886
	3.1	572,562	577,887
Total liabilities		572,562	577,887

Signed and authorised by:


Jovanka Aleksić
 Project Coordinator

Sarajevo, 21 May 2020


Dijana Dangubić
 Financial Officer

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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 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 2019		61,262
Add:		
World Bank's replenishments	B	138,738
Return of funds made by JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL, B&H		55,050**
		193,788
Deduct:		
Payments to suppliers - Expenditure under GEF Grant TF 17727		62,374
Transfer to Designated sub-account - GEF Grant TF 17727	A.2	99,580
PMT Refund		38,046*
PIT Refund-1		55,050**
		255,050
Ending balance 3 September 2019	3.2	-

*Refund to World Bank in amount of USD 38,046 was made as of 31 May 2019 (Bank statement No.18). Difference in amount of USD 50, comparing to Appendix B and C refers to bank fees.

**After supplier JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL returned funds, refund to World Bank was made in amount of USD 55,050 as of 7 June 2019 (Bank statement No.20). Difference in amount of USD 105, comparing to Appendix B and C refers to bank fees.

Supplier JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL made direct refund in amount of USD 14,274 to account of World Bank. This transfer was not made through Designated account at Sparkasse bank d.d.

***Total expenses paid from bank account during the year were in amount of USD 161,954. Total expenses for the period presented in 3.1.1 and Appendix B were in amount of USD 92,785. Difference in amount of USD 69,219 refers to expenses for which supplier JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL made refund. These expenses occurred in previous periods. Remaining difference refers to bank fees.

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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 2019		-	-
Add:			
Transfer from Designated account - GEF Grant TF 17727	A.1	171,941	99,580
		171,941	99,580
Deduct:			
Payments to suppliers - Expenditure under GEF Grant TF 17727		171,941	99,580
		171,941	99,580
Ending balance 3 September 2019	3.2	-	-

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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: Other income
Currency: BAM

	Ref.	BAM	USD
Opening balance 1 January 2019	3.2	66,905	39,182
Add:			
VAT returns		27,210	14,988
Interest	5	3	3
		94,120	54,173
Deduct:			
Payments to suppliers - Expenditure under Other income		8	5
Transfer on another account of Ministry of Foreign Affairs and Economic Relations of B&H (for project West Balkans Drina River Basin Management)		94,112	51,839
Exchange rate gain		-	2,329
		94,120	54,173
Ending balance 3 September 2019	3.2	-	-

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APPENDIX B SoE Withdrawal Schedule of GEF Grant TF 17727 for the period ended 3 September 2019

	Initial deposit	Goods, works, non- consulting services, and consultants' services under the Project in BiH	Incremental Operating Costs (including audit)	Total application	Total disbursed
Previous periods					
	200,000	358,268	118,471	476,739	538,001
Application 9*	-	-	-	-	138,738
Application 10	(161,916)	118,414	43,502	161,916	-
Application 11	(88)	-	88	88	-
Total SoE applications	(162,004)	118,414	43,590	162,004	138,738
PMT Refund	(37,996)	-	-	-	(37,996)
PIT Refund-1	-	(54,945)	-	(54,945)	(54,945)
PIT Refund-2	-	(14,274)	-	(14,274)	(14,274)
Total 2019	(200,000)	49,195	43,590	92,785	31,523
Cumulative 2019	-	407,463	162,061	569,524	569,524

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

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**APPENDIX C Reconciliation between World Bank's disbursement statements in USD
and GEF Grant account in USD according to the balance sheet as of 3
September 2019; SoE Withdrawal Schedule of GEF Grant TF 17727**

	Changes in GEF Grant (in USD)
Original amount	2,440,000
Disbursed in previous years	538,001
Withdrawal 9	138,738
Withdrawal 10	-
Withdrawal 11	-
Total disbursed in 2019	138,738
PMT Refund	(37,996)
PIT Refund-1	(54,945)
PIT Refund-2	(14,274)
Cumulative disbursements	569,524
Calculated undisbursed balance as of 3 September 2019	1,870,476
Undisbursed balance as per World Bank Summary for 3 September 2019	1,870,476