

FOREIGN FINANCING PROJECTS MANAGEMENT CENTRE

TAX ADMINISTRATION MODERNIZATION PROJECT

CREDIT No. 5114-AM

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

For the period from 28 December 2012 to 31 December 2013

and for the year ended 31 December 2014

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INDEPENDENT AUDITORS' REPORT

To the Director of Foreign Financing Projects Management Centre

We have audited the accompanying special purpose financial statements of the Tax Administration, Modernization Project, which comprise Statement of Project Sources and Uses of Funds, Statement of Uses of Funds by Project Activity and Statement of Designated Account and Government Co-financed Account for the period from 28 December 2012 to 31 December 2013 and for the year ended 31 December 2014, and Statement of Financial Position as at 31 December 2013 and 31 December 2014 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the cash basis of accounting in line with International Public Sector Accounting Standards (IPSAS): Financial Reporting under the Cash Basis of Accounting. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these special purpose financial statements that are free from material misstatements, whether due to fraud or error and selecting and applying appropriate accounting policies.

Auditors' Responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements and to assess whether funds allocated to the Project were spent both efficiently and in conformity with "Financial Agreement for the Tax Administration Modernization Project" (Credit # 5114) signed between the International Development Association (IDA) and Republic of Armenia dated 9 July 2012 (Financing Agreement). The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used by management, as well as evaluating the overall presentation of the special purpose financial statements.

We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

Tax Administration Modernization Project
Statement of Project Sources and Uses of Funds for the period from 28 December 2012 to 31 December 2013 and 01 January 2014 to 31 December 2014

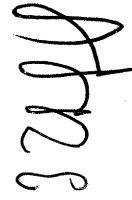
	Actual		Planned		Variance		Project Appraisal Document Life of Project
	2014	2013	2014	2013	2014	2013	
Less:							
Uses of Funds							
Procurement of goods (co-financed by Government)	497,231	25,640	369,894	23,850	127,337	1,790	129,127
Consultancy services (co-financed by Government)	27,040	6,192	27,481	6,192	(441)	-	(441)
Training (co-financed by Government)	-	-	-	-	-	-	-
Operating expenses (co-financed by Government)	17,637	8,224	19,879	8,808	(2,242)	(584)	(2,826)
Procurement of goods (financed by credit)	3,010,335	128,192	2,656,290	119,250	354,045	8,942	362,987
Consultancy services (financed by credit)	109,523	17,850	111,730	17,850	(2,207)	-	(2,207)
Training (financed by credit)	20,659	-	26,168	-	(5,509)	-	(5,509)
Operating expenses (financed by credit)	51,156	24,954	57,070	27,650	(5,914)	(2,696)	(8,610)
Government co-financing	541,908	40,056	417,254	38,850	124,654	1,206	125,860
							3,012,360

Tax Administration Modernization Project
Statement of Project Sources and Uses of Funds for the period from 28 December 2012 to 31 December 2013 and 01 January 2014 to 31 December 2014

	Actual		Planned		Variance		Project Appraisal Document Life of Project
	2014	2013	2014	2013	2013	2014	
Credit financing	3,191,673	170,996	2,851,258	164,750	3,016,008	340,415	12,049,440
Total	3,733,581	211,052	3,268,512	203,600	3,472,112	465,069	15,061,800
Closing Cash Balance							
Government co-financing account for credit	263,217	106,883					
Designated Account for credit (World Bank financing)	147,666	29,004					
Total	410,883	135,887					

The project special purpose financial statements were approved by the management of Foreign Financing Projects Management Centre and signed on its behalf on 30 June 2015.

Edgar Avetyan
Executive director



Armen Shahnazaryan
Financial Manager




Tax Administration Modernization Project
Statement of Uses of Funds by Project Activity for the period from 28 December 2012 to 31 December 2013 and 01 January 2014 to 31 December 2014

Project Activities	Actual		Planned		Cumulative		Variance		PAD Life of Project
	2014	2013	2014	2013	2014	2013	2014	2013	
Part A: Institutional Development and change management	46,445	13,986	49,710	11,956	61,666	2,030	(3,265)	2,030	1,198,457
Government co-financing	36,323	2,331	35,210	1,992	37,202	339	1,113	339	239,691
Credit financing	10,122	11,655	14,500	9,964	24,464	1,691	(4,378)	1,691	958,766
Part B: Strengthened Operations	-	139,846	-	131,144	131,144	8,702	-	8,702	1,477,043
Government co-financing	-	23,309	-	21,858	21,858	1,451	-	1,451	295,409
Credit financing	-	116,537	-	109,286	109,286	7,251	-	7,251	1,181,634
Part C: IT Infrastructure and System Modernization	3,566,924	-	3,090,434	-	3,090,434	-	476,490	-	11,459,800
Government co-financing	475,826	-	350,044	-	350,044	-	125,782	-	2,291,960
Credit financing	3,091,098	-	2,740,390	-	2,740,390	-	350,708	-	9,167,840
Part D: Project management	120,211	57,220	128,368	60,500	188,868	(3,280)	(8,156)	(3,280)	926,500
Government co-financing	29,758	14,416	32,000	15,000	47,000	(584)	(2,242)	(584)	185,300
Credit financing	90,454	42,804	96,368	45,500	141,868	(2,696)	(5,914)	(2,696)	741,200
Total project expenditure	3,733,581	211,052	3,944,633	203,600	3,472,112	7,452	465,069	472,521	15,061,800

1 Background

(a) Organisation and operations

The Foreign Financing Projects Management Centre (FFPMC) State Institution was established by RoA Minister of Economy Decree No. 37, dated 29 March 2000. Within the scope of its operation the FFPMC is guided by local legal acts and Credit and Grant Agreements, signed between the Government of Armenia and the International Development Association (World Bank). The main objective of operation of FFPMC is to implement projects on the account of credit and grant proceeds allocated to the Republic of Armenia by the World Bank.

According to the financing agreement concluded between the International Development Association and Republic of Armenia dated 9 July 2012 (Financing Agreement) a credit in an amount equivalent to seven million eight hundred thousand Special Drawing Rights (SDR 7,800,000) was extended for the implementation of Tax Administration Modernization Project to finance procurement of goods, consultants' services and incremental operating expenses.

Tax consequences arising from the procured goods, consultants' services and incurred operating expenses are paid from the proceeds of the co-financing received from the Government of the Republic of Armenia. Total amount of Government co-financing approximates to USD 3,000,000.

The Project's objective is to modernize Armenia's tax administration in order to:

- Increase voluntary tax compliance ,
- Reduce tax evasion,
- Reduce compliance costs,
- Increase administrative efficiency.

The Project consists of the following parts:

- **Part A: Institutional Development and Change Management**
Provision of consultants' services to the Ministry of Finance (former State Revenue Committee for Tax) of the Republic of Armenia workflow analysis and developing organizational restructuring plan, and purchase of equipment for tax administration centers,
- **Part B: Strengthened Operations**
Provision of consultants' services to the Ministry of Finance, and goods and information technology (IT) systems and software to tax service centers providing range of services to taxpayers,
- **Part C: IT Infrastructure and Systems Modernization**
Provision of goods to the Ministry of Finance to upgrade its Information and Communication Technology to develop a comprehensive and integrated tax management system,
- **Part D: Project Management**
Provision of Operating Costs and consultants' services to FFPMC and Ministry of Finance to assist in the Project implementation and management, and provision of technical assistance, including Training.

Closing date of the Project is 30 April 2016.

2 Basis of preparation

(a) Statement of compliance

The special purpose financial statements are prepared in accordance with the cash basis of accounting in line with the International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of the Accounting.

The special purpose project financial statements consist of:

- Project Sources and Uses of Funds,
- Uses of Funds by Project Activity,
- Statement of Financial Position,
- Statement of Designated Accounts,
- Statement of Project Account.

Cash basis of accounting recognises transactions and other events only when cash is received or paid.

(b) Reporting currency

The reporting currency of special purpose financial statements is US dollar (USD). All financial information presented in USD has been rounded to the nearest USD.

3 Significant accounting policies

(a) Foreign currency transactions

In the scope of the Project IDA makes disbursements in USD on the designated account 900000903451 for the project. Payment of eligible and accepted expenditures (goods, services and other) should be made by the FFPMC out of designated account, or FFPMC will submit withdrawal applications to the Bank for payments to contractors, suppliers and consultants directly from loan account. FFPMC converts the amounts received and transfers to contractors, suppliers and consultants.

The outstanding balances of the project account are translated to USD based on the USD exchange rate defined by the Central Bank of the Republic of Armenia as at 31 December 2013 and 31 December 2014 equaling to AMD 405.64 and AMD 474.97.

(b) Taxes

All the applicable tax liabilities are calculated and paid in accordance to tax regulations of the Republic of Armenia.

(c) Funds for the Project

Funds for the Project are received from the International Development Association and from Government of Armenia.

(d) Planning of cash payments

The planned amount of cash payments presented in the special purpose financial statements are based on the Project Appraisal Document (PAD - Annex 7: Procurement plan dated 2 April 2012).

4 Reconciliation statement of withdrawal applications

Withdrawal Application Reference	Application Type	Amount Requested by FFPMC USD	Amount Paid by World Bank USD	Difference USD
1 A	Advance to Designated Account	200,000	200,000	-
2 A	Advance to Designated Account	300,000	300,000	-
3 DP	Direct Payment under Category 1	645,072	645,072	-
4 DP	Direct Payment under Category 1	1,290,144	1,290,144	-
5 DP	Direct Payment under Category 1	1,075,120	1,075,120	-
		<u>3,510,336</u>	<u>3,510,336</u>	<u>-</u>

5 Statement of Designated Account and Government Co-financed Account

<i>USD</i>	<u>2014</u>	<u>2013</u>
Opening balance	29,004	-
<i>Add:</i>		
Advance/replenishment received from World Bank during the current period	<u>300,000</u>	<u>200,000</u>
Present outstanding amount advanced to the designated account	<u>329,004</u>	<u>200,000</u>
Closing balance carried forward to next period	147,666	29,004
Add: Amount of eligible expenditures paid during the current period	<u>181,338</u>	<u>170,996</u>
Total advance accounted for	<u>329,004</u>	<u>200,000</u>

<i>USD</i>	<u>2014</u>	<u>2013</u>
Opening balance	106,883	-
<i>Add:</i>		
Government co-financing during the current period	<u>713,586</u>	<u>146,698</u>
Present outstanding amount advanced to project account	<u>820,469</u>	<u>146,698</u>
Closing balance carried forward to next period	263,217	106,883
Add: Amount of eligible expenditures paid during the current period	541,908	40,056
Less: Interest earned	<u>(15,344)</u>	<u>241</u>
Total advance accounted for	<u>820,469</u>	<u>146,698</u>

6 Statement of Financial Position

<i>USD</i>	2014	2013
ASSETS		
Current assets		
<i>Cash and cash equivalents</i>		
Government co-financing account for credit	263,217	106,883
Designated Account for credit (World Bank financing)	147,666	29,004
Total current assets	410,883	135,887
Non-current assets		
<i>Cumulative Project Expenditure</i>		
Government co-financed cumulative expenditure	581,964	40,056
Credit financed cumulative expenditure	3,362,669	170,996
Total non-current assets	3,944,633	211,052
Total assets	4,355,516	346,939
 FUNDS		
Project financing		
Government co-financing account for credit	860,284	146,698
Designated Account for credit (World Bank financing)	3,510,335	200,000
Total funds	4,370,619	346,698
 Foreign exchange difference		
Government co-financing account for credit	(15,103)	241
Designated Account for credit (World Bank financing)	-	-
Total foreign exchange difference	(15,103)	241
Total net assets and liabilities	4,355,516	346,939

7 Events after the reporting date

The Statement of Expenditures (SOE) - Application No. 6 DA for the period from 28 December 2012 to 30 June 2014 was provided to World Bank on 27 January 2015 by FPPMC. Total expenditure for the period from 28 December 2012 to 30 June 2014 was USD 274,463.