

**CENTRE FOR EDUCATION PROJECTS
EDUCATION IMPROVEMENT PROJECT**

CREDIT No. 5387-AM

LOAN No. 8342-AM

SPECIAL PURPOSE FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

For the year ended 31 December 2016

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INDEPENDENT AUDITORS' REPORT

To the Director of Centre for Education Projects

Opinion

We have audited the accompanying special purpose financial statements of the Education Improvement Project (hereinafter EIP) implemented by the Center for Education Projects (hereinafter CFEP), which comprise Summary of Funds Received, Summary of Expenditures, Summary of Summary Reports or SOEs, Statement of Designated Accounts for the year ended 31 December 2016, and Statement of Financial Position as at 31 December 2016 and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the financial position of the Education Improvement Project as at December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with the accrual basis of accounting as described in Note 2 (a).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Union in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient appropriate to provide a basis for our opinion.

Emphasis of Matter - Restriction on Distribution or Use

We draw attention to Note 2(a) to the special purpose financial statements, which describes the basis of accounting. The special purpose financial statements have been prepared for providing information to the Government of the Republic of Armenia, the International Development Association and the International Bank for Reconstruction and Development to assist them in evaluating the EIP's implementation. As a result, the special purpose financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the special purpose financial statements of the current period. These matters were addressed in the context of our audit of the special purpose financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The CFEP has provided grants to preschools in the scope of sub-component 1.1. *Promoting School Readiness and equal opportunities at the start of General Education* in the amount of USD 288,364 for the year ended December 31, 2016. The provision and subsequent spending of grants shall be performed in line with Operation Manual for *Preschool Education Micro-Project Grants* that provides criteria for eligibility of preschools, selection procedures, subsequent duties of grantees, reporting and monitoring procedures.

Our audit procedures in this area included, among other:

- Corroborating with management the process of grant provision and compliance to Operation Manual;
- On samples basis, analysing conditions associated to the grant and discussing compliance of these conditions by the grantee;
- On samples basis, comparing reports provided by the grantees to documentation supporting the expenditures;
- On samples basis, reviewing the compliance of procurements performed out of provided grants to applicable procurement guidelines designated by World Bank.

As result of our audit procedures, we concluded that provision of grants complied with eligibility criteria, procedures and requirements set forth in the Operation Manual.

The CFEP has provided grants to Higher Education Institutions (hereinafter HEI) in the scope of component 2. *Mainstreaming of the Competitive Innovation Fund (hereinafter CIF) for HEI into full implementation* in the amount of USD 835,084 for the year ended December 31, 2016. The provision and subsequent spending of grants shall be performed in line with Operation Manual for *Mainstreaming the CIF for HEI into full implementation under the EIP* that provides criteria for eligibility of HEIs, selection procedures, subsequent duties of HEIs, reporting and monitoring procedures.

Our audit procedures in this area included, among other:

- Corroborating with management the process of grant provision and compliance to Operation Manual;
- Analysing conditions associated to the grant and discussing compliance of these conditions by the HEI;
- Analysing proposals provided by HEIs for receipt of grant in 2016 together with supporting correspondence and other submissions;
- Comparing reports provided by the HEIs to documentation supporting the expenditures;
- Reviewing the compliance of procurements performed out of provided grants to applicable procurement guidelines designated by World Bank.

As result of our audit procedures, we concluded that provision of grants complied with eligibility criteria, procedures and requirements set forth in the Operation Manual.

In the scope of implementation of EIP's objectives, CFEP has incurred procurements for receipt of consulting services, works and supply of goods in the total amount of USD 2,280,942. The procurements shall be performed in line with applicable procurement guidelines designated by World Bank.

Our audit procedures in this area included, among other:

- Corroborating with management the process of procurement and compliance to applicable procurement guidelines designated by World Bank;
- Analysing the procurement plan, conditions associated to each procurement, correspondence with the World Bank, method of procurement and discussing compliance of these conditions to applicable procurement guidelines designated by World Bank;

- On sample basis, reviewing compliance of procurement packages to applicable procurement guidelines designated by World Bank;
- On sample basis, reviewing the documentation supporting the procurement as well as availability of deliverables designated by the procurement contracts.

As result of our audit procedures, we concluded that procurements were performed in line with applicable procurement guidelines designated by World Bank.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with accrual basis of accounting as described in Note 2 (a), and for such internal control as management determine is necessary to enable the preparation of the special purpose financial statements that are free from material misstatement whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the EIP'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 CFEP or to cease operations of EIP, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose 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 special purpose financial statements.



Davit Yedigaryan
Director

PHP Audit cjsc
14 June 2017



Lilit Minasyan
Manager, Audit Department

Education Improvement Project
Summary of Project Sources and Uses of Funds for the year ended 31 December 2016

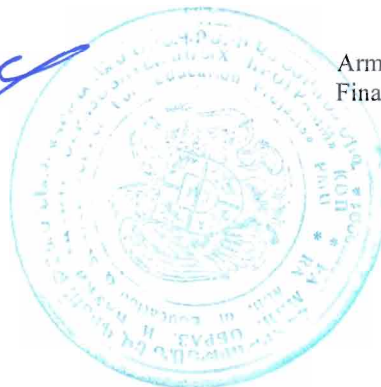
<i>USD</i>	Actual	Planned	Variance	Project Appraisal Document Life of Project
Opening Working Capital				
Cash and cash equivalents	1,605,419			
Prepayments	172,472			
Payables	(32,870)			
Payables to Government (income from sales of bidding documents)	-			
Total	1,745,021			
Sources of Funds				
IDA financing	1,686,651			
IBRD financing	1,686,651			
Government financing	984,364			
Government financing	3,764			
Total donor funds	4,361,430			
Foreign Exchange Difference	2,944			
Uses of Funds				
Works	1,619,318	2,728,762	(1,109,444)	
Goods	12,364	1,666,211	(1,653,847)	
Consultant's services	649,260	764,594	(115,334)	
Trainings	16,839	55,448	(38,609)	
Grants	1,123,448	519,931	603,517	
Miscellaneous				
Operating expenses	315,640	166,943	148,697	
Total	3,736,869	5,901,889	(2,165,020)	37,500,000
Front end fee	-	-	-	37,500
Closing Working Capital				
Cash and cash equivalents	1,272,494			

Education Improvement Project
Summary of Project Sources and Uses of Funds for the year ended 31 December 2016

<i>USD</i>	Actual	Planned	Variance	Project Appraisal Document Life of Project
Prepayments	1,202,427			
Payables	(102,395)			
Total	2,372,526			

The project special purpose financial statements were approved by the management of Center for Education Projects and signed on its behalf on 14 June 2017.

Grisha Hovhannisyan
 Director

Armine Khachatryan
 Financial Manager



Education Improvement Project
Summary of Uses of Funds by Project Activity for the year ended 31 December 2016

<i>USD</i>	Actual	Planned	Variance	PAD Life of Project
Project Activities				
Component 1.				
Enhancing the Quality of General Education				
Sub-component 1.1.				
Promoting School Readiness and equal opportunities at the start of General Education	324,934	118,936	205,998	1,875,000
Sub-component 1.2.				
Enriching Upper Secondary Schools	2,074,204	4,501,642	(2,427,438)	22,500,000
Sub-component 1.3.				
Improving data- collection and monitoring of the education system performance	42,700	379,293	(336,593)	2,500,000
Sub-component 1.4.				
Supporting Further Improvements in the Quality of Education through Curriculum Revision	104,087	96,832	7,255	625,000
	2,545,925	5,096,703	(2,550,778)	27,500,000
Component 2.				
Mainstreaming of the Competitive Innovation Fund (CIF) for Higher Education Institutions (HEI) into full implementation	853,207	429,391	423,816	6,250,000
Component 3. Project Management and Implementation	337,737	375,795	(38,058)	3,712,500
	3,736,869	5,901,889	(2,165,020)	37,462,500
Front End Fee	-	-	-	37,500
Total project expenditure	3,736,869	5,901,889	(2,165,020)	37,500,000

<i>USD</i>	31 December 2016	31 December 2015
ASSETS		
<i>Cash and cash equivalents</i>		
Designated account for IDA funds	608,914	802,232
Designated account for IBRD funds	608,914	802,232
Government financing account	54,666	955
	1,272,494	1,605,419
 <i>Cumulative Project Expenditure</i>		
IDA financed cumulative expenditure	1,917,679	422,932
IBRD financed cumulative expenditure	1,917,679	422,932
Government financed cumulative expenditure	958,840	211,465
	4,794,198	1,057,329
Prepayments	1,202,427	172,472
Front end fee	37,500	37,500
Total assets	7,306,619	2,872,720
 FUNDS		
<i>Project financing</i>		
IDA financing	2,970,023	1,283,372
IBRD financing	3,007,524	1,320,872
Government financing	1,220,261	235,897
Penalties from contracts	3,764	-
Total funds	7,201,572	2,840,141
 Payables	102,395	32,870
Foreign exchange difference	2,652	(291)
Total liabilities	7,306,619	2,872,720

Education Improvement Project
Statement of Designated Account for IDA Funds
for the year ended 31 December 2016

<i>USD</i>	2016	From 20 November 2014 to 31 December 2015
Opening balance	802,232	-
Advance/replenishment received from IDA during the reporting period	1,686,651	1,283,372
Present outstanding amount advanced to the designated account	2,488,883	1,283,372
Closing balance carried forward to next period	608,914	802,232
Amount of eligible expenditures paid during the reporting period	1,379,969	481,140
Total advance accounted for	2,488,883	1,283,372

Education Improvement Project
Statement of Designated Account for IBRD Funds
for the year ended 31 December 2016

	2016	From 20 November 2014 to 31 December 2015
<i>USD</i>		
Opening balance	802,232	-
Advance/replenishment received from IBRD during the reporting period	<u>1,686,651</u>	<u>1,283,372</u>
Present outstanding amount advanced to the designated account	<u>2,488,883</u>	<u>1,283,372</u>
Closing balance carried forward to next period	608,914	802,232
Amount of eligible expenditures paid during the reporting period	<u>1,879,969</u>	<u>481,140</u>
Total advance accounted for	<u>2,488,883</u>	<u>1,283,372</u>

*Education Improvement Project
Summary of SOEs of IDA Funds
for the year ended 31 December 2016*

2016	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
CDA-C7	5,835	-	22,972	2,484	86,948	36,834	155,073
CDA-C8	1,234	-	34,454	4,242	(5)	28,526	68,451
CDA-C9	-	-	19,890	-	41,549	28,372	89,811
CDA-C10	137,838	724	7,951	-	287,316	23,668	457,597
CDA-C11	352,051	2,980	11,115	2,499	86,134	17,992	472,771
CDA-C12	157,371	-	14,531	-	41,500	9,187	222,589
	654,329	3,704	110,913	9,225	543,442	144,579	1,466,192

From 20 November 2014 to 31 December 2015	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
CDA-C2	-	-	-	-	-	20,282	20,282
CDA-C3	-	-	558	-	-	32,599	33,157
CDA-C4	-	6,745	3,518	-	86,979	25,373	122,615
CDA-C5	-	-	33,569	2,967	49,999	20,783	107,318
	-	6,745	37,645	2,967	136,978	99,037	283,372

*Education Improvement Project
Summary of SOEs of IBRD Funds
for the period from 20 November 2014 to 31 December 2015*

2016	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
LDA-B7	5,835	-	22,972	2,484	86,948	36,834	155,073
LDA-B8	1,234	-	34,454	4,242	(5)	28,526	68,451
LDA-B9	-	-	19,890	-	41,549	28,372	89,811
LDA-B10	137,838	724	7,951	-	287,316	23,668	457,597
LDA-B11	352,051	2,980	11,115	2,499	86,134	17,992	472,771
LDA-B12	157,371	-	14,531	-	41,500	9,187	222,589
	654,329	3,704	110,913	9,225	543,442	144,579	1,466,192

From 20 November 2014 to 31 December 2015	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
LDA-B2	-	-	-	-	-	20,282	20,282
LDA-B3	-	-	558	-	-	32,599	33,157
LDA-B4	-	6,745	3,518	-	86,979	25,373	122,615
LDA-B5	-	-	33,569	2,967	49,999	20,783	107,318
	-	6,745	37,645	2,967	136,978	99,837	283,372

1 Background

(a) Organization and operations

The Centre for Education Projects (CFEP) State Institution was established in 2010 under the structure of the RoA Ministry of Education and Science. The main objective of its operation is to implement projects in the sector of education.

The Government of Armenia has signed the Financing and Loan Agreements with the World Bank (IDA Credit 5387 and IBRD Loan 8342) to support the implementation of Education Improvement Project (Project).

The Project Development Objectives are to improve school readiness of children entering primary education, improve physical conditions and the availability of educational resources in upper secondary schools, and support improved quality and relevance in higher education institutions in Armenia.

The Project is implemented by the CFEP, which is responsible for the general administration, ongoing coordination, implementation, and monitoring of activities under the Project. The CFEP is also responsible for financial management, disbursements, accounting and accountability of Project funds, as well as for ensuring safeguards compliance, procurement of all goods, works, and services, and monitoring of the grant projects. In particular, there are two grant projects under the Project: grants to institutions for the implementation of preschool micro projects and grants to higher education institutions for the implementation of innovative projects (CIF).

The Total Project cost is about USD 37,500 thousand, from which the amount of the World Bank financing is about USD 30,000 thousand consisting of two equal parts from International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD). The co-financing provided by RoA Government is in the amount of about USD 7,500 thousand.

The Project consists of three components:

- Component 1 - Enhancing the Quality of General Secondary Education
 - Subcomponent 1.1 - Promoting School Readiness and Equal Opportunities at the Start of General Education;
 - Subcomponent 1.2 - Enrichment of the Upper Secondary Schools;
 - Subcomponent 1.3 - Improving Data Collection and the Monitoring of the education System Performance;
 - Subcomponent 1.4 - Supporting Further Improvement in the Quality of Education through Curriculum Revisions;
- Component 2 - Mainstreaming of the Competitive Innovation Fund (CIF) for Higher Education Institutions into full implementation
- Component 3 - Project Management, Monitoring and Evaluation

Closing date of the Project is 30 September 2019.

2 Basis of preparation

(a) Statement of compliance

The special purpose financial statements are prepared in accordance with the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the special purpose financial statements of the periods to which they relate. The special purpose project financial statements consist of:

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

(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, disbursements are made in USD on the designated accounts of the Project. Payment of eligible and accepted expenditures (goods, services and other) are made by the CFEP out of designated accounts.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the reporting currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in a foreign currency and measured at historical cost are translated into the reporting currency using the exchange rate specified at the date of the transaction

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 2016 amounts to AMD 483.94. Project expenditures are presented in USD using the USD exchange rate defined by the Central Bank of the Republic of Armenia on the transaction date.

(b) Taxes

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