

**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 2019**

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INDEPENDENT AUDITORS' REPORT

To the Acting 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 Project Sources and Uses of Funds, Summary of Uses of Funds by Project Activities, Statements of Designated Accounts, Summary of Summary of Expenditures for the year ended 31 December 2019, and Statement of Financial Position as at 31 December 2019 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, 2019 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 CFEP 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) of 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 216,149 for the year ended December 31, 2019. 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 132,950 for the year ended December 31, 2019. The 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 duties of HEIs, reporting and monitoring procedures.

Our audit procedures in this area included, among other:

- Reconciling 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 spending of grants complied with 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, goods and works in the total amount of USD 2,356,221. 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.


Hovhannes Petrosyan
Director

PHP Partners cjsc
15 June 2020




Lilit Minasyan
Head of Audit Services

	Actual	Planned	Variance	Actual	Planned	Variance	Project Appraisal Document Life of Project
	2019	2019	2019	Cumulative	Cumulative	Cumulative	
<i>USD</i>							
Opening Working Capital							
Cash and cash equivalents	1,770,776						
Prepayments	93,332						
Payables	(148,235)						
Total	1,715,873						
Sources of Funds							
IDA financing	1,915,974			8,664,243			
IBRD financing	1,915,974			8,701,744			
Government financing	926,240			3,855,671			
Income from penalties	325			14,721			
Total donor funds	4,758,513			21,236,379			
Foreign Exchange Difference	2,510			(192)			
Uses of Funds							
Works	1,820,532	3,747,786	(1,927,254)	9,022,257	10,949,511	(1,927,254)	
Goods	331,038	2,563,626	(2,232,588)	748,595	2,981,183	(2,232,588)	
Consultant's services	204,651	300,920	(96,269)	1,537,366	1,633,635	(96,269)	

Education Improvement Project
Summary of Project Sources and Uses of Funds for the year ended 31 December 2019

	Actual	Planned	Variance	Actual	Planned	Variance	Project Appraisal Document Life of Project
USD	2019	2019	2019	Cumulative	Cumulative	Cumulative	
Trainings	28,665	44,532	(15,867)	81,001	96,868	(15,867)	
Grants	349,099	790,830	(441,731)	4,792,586	5,234,317	(441,731)	
Miscellaneous Operating expenses	333,402	322,349	11,053	1,607,373	1,596,320	11,053	
Total	3,067,387	7,770,043	(4,702,656)	17,789,178	22,491,834	(4,702,656)	37,462,500
Front end fee	-	-	-	37,500	37,500	-	37,500
Closing Working Capital							
Cash and cash equivalents	1,896,954						
Prepayments	1,632,489						
Payables	(119,934)						
Total	3,409,509						

The project special purpose financial statements were approved by the management of Center for Education Projects and signed on its behalf on 15 June 2020.

Grisha Hovhannisyan
Acting Director

Armine Khachatryan
Financial Manager

Education Improvement Project
Summary of Uses of Funds by Project Activity for the year ended 31 December 2019

	PAD				Life of Project
	Actual	Planned	Variance	Actual	Planned
2019	2019	2019	2019	Cumulative	Cumulative
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	260,755	244,449	16,306	1,534,265	1,517,959
Sub-component 1.2. Enriching Upper Secondary Schools	1,644,470	5,823,763	(4,179,293)	9,183,558	13,362,851
Sub-component 1.3. Improving data-collection and monitoring of the education system performance	633,898	605,742	28,156	1,665,859	1,637,703
Sub-component 1.4. Supporting Further Improvements in the Quality of Education through Curriculum Revision	51,082	130,600	(79,518)	202,767	282,285
	2,590,205	6,804,554	(4,214,349)	12,586,449	16,800,798
					(4,214,349)
					27,500,000
Component 2. Mainstreaming of the Competitive Innovation Fund (CIF) for Higher Education Institutions (HEI) into full implementation	149,026	619,135	(470,109)	3,514,070	3,984,179
Component 3. Project Management and Implementation	328,156	346,354	(18,198)	1,688,659	1,706,857
					(18,198)
					3,712,500
	477,182	965,489	(488,307)	5,202,729	5,691,036
					(488,307)
					37,462,500
Front End Fee	-	-	-	37,500	37,500
					-
Total project expenditure	3,067,387	7,770,043	(4,702,656)	17,826,678	22,529,334
					(4,702,656)
					37,500,000

Education Improvement Project
Statement of Financial Position as at 31 December 2019

<i>USD</i>	31 December 2019	31 December 2018
ASSETS		
<i>Cash and cash equivalents</i>		
Designated account for IDA funds	948,477	885,388
Designated account for IBRD funds	948,477	885,388
Government financing account	-	-
	1,896,954	1,770,776
 <i>Cumulative Project Expenditure</i>		
IDA financed cumulative expenditure	7,115,671	5,888,717
IBRD financed cumulative expenditure	7,115,671	5,888,717
Government financed cumulative expenditure	3,557,836	2,944,357
	17,789,178	14,721,791
Prepayments	1,632,489	93,332
Front end fee	37,500	37,500
Total assets	21,356,121	16,623,399
 FUNDS		
<i>Project financing</i>		
IDA financing	8,664,243	6,748,269
IBRD financing	8,701,744	6,785,770
Government financing	3,855,671	2,929,431
Penalties from contracts	14,721	14,396
Total funds	21,236,379	16,477,866
 Payables	119,934	148,235
Foreign exchange difference	(192)	(2,702)
Total liabilities	21,356,121	16,623,399

*Education Improvement Project
Statement of Designated Account for IDA Funds
for the year ended 31 December 2019*

<i>USD</i>	<u>2019</u>	<u>2018</u>
Opening balance	885,388	692,098
Advance/replenishment received from IDA during the reporting period	<u>1,915,974</u>	<u>1,631,031</u>
Present outstanding amount advanced to the designated account	<u>2,801,362</u>	<u>2,323,129</u>
Closing balance carried forward to next period	948,477	885,388
Amount of eligible expenditures paid during the reporting period	<u>1,852,885</u>	<u>1,437,741</u>
Total advance	<u>2,801,362</u>	<u>2,323,129</u>

Education Improvement Project
Statement of Designated Account for IBRD Funds
for the year ended 31 December 2019

<i>USD</i>	<u>2019</u>	<u>2018</u>
Opening balance	885,388	692,098
Advance/replenishment received from IBRD during the reporting period	<u>1,915,974</u>	<u>1,631,031</u>
Present outstanding amount advanced to the designated account	<u>2,801,362</u>	<u>2,323,129</u>
Closing balance carried forward to next period	948,477	885,388
Amount of eligible expenditures paid during the reporting period	<u>1,852,885</u>	<u>1,437,741</u>
Total advance	<u>2,801,362</u>	<u>2,323,129</u>

*Education Improvement Project
Summary of SOEs of IDA Funds
for the year ended 31 December 2019*

2019	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
CDA-C24	111,391	-	17,976	446	2,262	35,938	168,013
CDA-C25	20,114	-	6,327	450	52,141	27,997	107,029
CDA-C26	457,855	10,944	11,146	6,040	83,777	29,573	599,335
CDA-C27	116,577	82,577	14,274	2,570	3,234	17,554	236,786
CDA-C28	248,432	13,595	4,498	905	32,900	8,852	309,182
CDA-C29	289,707	-	24,378	1,506	100,987	23,852	440,430
	1,244,076	107,116	78,599	11,917	275,301	143,766	1,860,775¹

2018	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
CDA-C19	193,948	-	4,869	(86)	28,814	20,717	248,262
CDA-C20	239,637	-	8,771	-	146,445	38,493	433,346
CDA-C21	247,359	-	16,630	339	75,530	28,893	368,751
CDA-C22	177,389	-	3,859	-	79,047	17,595	277,890
CDA-C23	152,426	-	6,560	7,193	46,640	18,687	231,506
	1,010,759	-	40,689	7,446	376,476	124,385	1,559,755²

¹ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 55,199.

² In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 71,276.

*Education Improvement Project
Summary of SOEs of IBRD Funds
for the year ended 31 December 2019*

2019	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
LDA-C24	111,391	-	17,976	446	2,262	35,938	168,013
LDA-C25	20,114	-	6,327	450	52,141	27,997	107,029
LDA-C26	457,855	10,944	11,146	6,040	83,777	29,573	599,335
LDA-C27	116,577	82,577	14,274	2,570	3,234	17,554	236,786
LDA-C28	248,432	13,595	4,498	905	32,900	8,852	309,182
LDA-C29	289,707	-	24,378	1,506	100,987	23,852	440,430
	1,244,076	107,116	78,599	11,917	275,301	143,766	1,860,775³

2018	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
LDA-B19	193,948	-	4,869	(86)	28,814	20,717	248,262
LDA-B20	239,637	-	8,771	-	146,445	38,493	433,346
LDA-B21	247,359	-	16,630	339	75,530	28,893	368,751
LDA-B22	177,389	-	3,859	-	79,047	17,595	277,890
LDA-B23	152,426	-	6,560	7,193	46,640	18,687	231,506
	1,010,759	-	40,689	7,446	376,476	124,385	1,559,755⁴

³ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 55,199.

⁴ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 71,276.

1 Background

(a) Organization and operations

The Centre for Education Projects (CFEP) State Institution was established in 2000 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

On March 1, 2018 the Ministry of Finance of the Republic of Armenia requested 24 months project extension by official request. The request is fulfilled by the World Bank and Project closing date is extended from September 30, 2019 until September 30, 2021.

Government of the Republic of Armenia, in general, announced cessation of activities of project implementation units and integration of their activities within the structure of governing ministries. No any formal procedures are yet undertaken by the governing ministry of CFEP, Ministry of Education, Science, Culture and Sports of the Republic of Armenia on this matter.

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 2019 amounts to AMD 479.7. 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.