

**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 2020**

CONTENTS

Independent Auditors' Report	3
Summary of Project Sources and Uses of Funds	6
Summary of Uses of Funds by Project Activity	8
Statement of Financial Position	9
Statement of Designated Accounts	10
Summary of SOEs	12
Notes to the Special Purpose Financial Statements	14

Փի-Էյչ-Փի Փարթներզ ՓԲԸ
PHP Partners CJSC

Իրավաբանական հասցե՝ ՀՀ, Երևան, Ալեք Մանուկյան 15ա
Registration address: 15a Alek Manukyan, Yerevan
Գործունեության հասցե՝ ՀՀ, Երևան, Ադոնցի 2, Երազ բիզնես կենտրոն
Activity address: 2 Adonts str., Yeraz Business Centre, Yerevan, Armenia

Հեռ. (+374)10204090
Tel.
Էլ-փոստ general@php.am
E-mail

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 2020, and Statement of Financial Position as at 31 December 2020 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, 2020 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 – Material Uncertainty Related to Going Concern of the CFEP

We draw attention to Note 1(a) of the special purpose financial statements, which describes that Project closing date is September 30, 2021. The governing ministry of CFEP, Ministry of Education, Science, Culture and Sports of the Republic of Armenia has requested approval of the Government of the Republic of Armenia for applying to World Bank for attract additional financing for extension of the Project for another 5 years. No any formal approval has yet been received from the Government of the Republic of Armenia for World Bank application.

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 200,177 for the year ended December 31, 2020. 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 684,836 for the year ended December 31, 2020. 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 9,248,477. 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.

Education Improvement Project
Summary of Project Sources and Uses of Funds for the year ended 31 December 2020

	Actual	Planned	Variance	Actual	Planned	Variance	Project Appraisal Document Life of Project
	2020	2020	2020	Cumulative	Cumulative	Cumulative	
<i>USD</i>							
Opening Working Capital							
Cash and cash equivalents	1,896,954						
Prepayments	1,632,489						
Payables	(119,934)						
Total	3,409,509						
Sources of Funds							
IDA financing	3,556,056			12,220,299			
IBRD financing	3,556,056			12,257,800			
Government financing	1,900,208			5,755,879			
Income from penalties	3,293			18,014			
Total donor funds	9,015,613			30,251,992			
Foreign Exchange Difference	(1,944)			(2,136)			
Uses of Funds							
Works	6,449,126	5,621,736	827,390	15,471,383	14,643,993	827,390	
Goods	2,544,132	2,460,971	83,161	3,292,727	3,209,566	83,161	

Education Improvement Project
Summary of Project Sources and Uses of Funds for the year ended 31 December 2020

	Actual	Planned	Variance	Actual	Planned	Variance	Project Appraisal Document Life of Project
USD	2020	2020	2020	Cumulative	Cumulative	Cumulative	
Consultant's services	255,219	340,955	(85,736)	1,792,585	1,878,321	(85,736)	
Trainings	21,069	40,336	(19,267)	102,070	121,337	(19,267)	
Grants	885,013	1,196,099	(311,086)	5,677,599	5,988,685	(311,086)	
Miscellaneous Operating expenses	303,215	331,179	(27,964)	1,910,588	1,938,552	(27,964)	
Total	10,457,774	9,991,276	466,498	28,246,952	27,780,454	466,498	37,462,500
Front end fee	-	-	-	37,500	37,500	-	37,500
Closing Working Capital							
Cash and cash equivalents	1,461,036						
Prepayments	960,228						
Payables	(455,860)						
Total	1,965,404						

The project special purpose financial statements were approved by the management of Center for Education Projects and signed on its behalf on 14 May 2021.

Grisha Hovhannisyan
Acting Director

Armine Khachatryan
Financial Manager



Armine Khachatryan

Education Improvement Project
Summary of Uses of Funds by Project Activity for the year ended 31 December 2020

	Actual	Planned	Variance	Actual	Planned	Variance	PAD
	2020	2020	2020	Cumulative	Cumulative	Cumulative	Life of Project
<i>USD</i>							
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	207,135	215,366	(8,231)	1,741,400	1,749,631	(8,231)	1,875,000
Sub-component 1.2. Enriching Upper Secondary Schools	8,905,367	7,959,840	945,527	18,088,925	17,143,398	945,527	22,500,000
Sub-component 1.3. Improving data-collection and monitoring of the education system performance	257,922	298,786	(40,864)	1,923,781	1,964,645	(40,864)	2,500,000
Sub-component 1.4. Supporting Further Improvements in the Quality of Education through Curriculum Revision	79,427	173,585	(94,158)	282,194	376,352	(94,158)	625,000
	9,449,851	8,647,577	802,274	22,036,300	21,234,026	802,274	27,500,000
Component 2. Mainstreaming of the Competitive Innovation Fund (CIF) for Higher Education Institutions (HEI) into full implementation	688,733	995,232	(306,499)	4,202,806	4,509,305	(306,499)	6,250,000
Component 3. Project Management and Implementation	319,190	348,467	(29,277)	2,007,846	2,037,123	(29,277)	3,712,500
	1,007,923	1,343,699	(335,776)	6,210,652	6,546,428	(335,776)	37,462,500
Front End Fee	-	-	-	37,500	37,500	-	37,500
Total project expenditure	10,457,774	9,991,276	466,498	28,284,452	27,817,954	466,498	37,500,000

Education Improvement Project
Statement of Financial Position as at 31 December 2020

<i>USD</i>	<u>31 December 2020</u>	<u>31 December 2019</u>
ASSETS		
<i>Cash and cash equivalents</i>		
Designated account for IDA funds	730,518	948,477
Designated account for IBRD funds	730,518	948,477
Government financing account	-	-
	<u>1,461,036</u>	<u>1,896,954</u>
 <i>Cumulative Project Expenditure</i>		
IDA financed cumulative expenditure	11,298,781	7,115,671
IBRD financed cumulative expenditure	11,298,781	7,115,671
Government financed cumulative expenditure	5,649,390	3,557,836
	<u>28,246,952</u>	<u>17,789,178</u>
Prepayments	960,228	1,632,489
Front end fee	37,500	37,500
Total assets	<u>30,705,716</u>	<u>21,356,121</u>
 FUNDS		
<i>Project financing</i>		
IDA financing	12,220,299	8,664,243
IBRD financing	12,257,800	8,701,744
Government financing	5,755,879	3,855,671
Penalties from contracts	18,014	14,721
Total funds	<u>30,251,992</u>	<u>21,236,379</u>
 Payables	455,860	119,934
Foreign exchange difference	(2,136)	(192)
Total liabilities	<u>30,705,716</u>	<u>21,356,121</u>

*Education Improvement Project
Statement of Designated Account for IDA Funds
for the year ended 31 December 2020*

<i>USD</i>	2020	2019
Opening balance	948,477	885,388
Advance/replenishment received from IDA during the reporting period	3,556,056	1,915,974
Present outstanding amount advanced to the designated account	4,504,533	2,801,362
Closing balance carried forward to next period	730,518	948,477
Amount of eligible expenditures paid during the reporting period	3,774,015	1,852,885
Total advance	4,504,533	2,801,362

Education Improvement Project
Statement of Designated Account for IBRD Funds
for the year ended 31 December 2020

<i>USD</i>	<u>2020</u>	<u>2019</u>
Opening balance	948,477	885,388
Advance/replenishment received from IBRD during the reporting period	3,556,056	1,915,974
Present outstanding amount advanced to the designated account	<u>4,504,533</u>	<u>2,801,362</u>
Closing balance carried forward to next period	730,518	948,477
Amount of eligible expenditures paid during the reporting period	3,774,015	1,852,885
Total advance	<u>4,504,533</u>	<u>2,801,362</u>

*Education Improvement Project
Summary of SOEs of IDA Funds
for the year ended 31 December 2020*

2020	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
CDA-C30	66,767	65,856	11,960	-	-	26,457	171,040
CDA-C31	161,320	117,480	6,865	-	64,667	10,852	361,184
CDA-C32	318,270	100,474	15,432	-	180,941	16,899	632,016
CDA-C33	364,485	157,194	14,860	1,188	18,472	18,751	574,950
CDA-C34	485,197	3,609	19,547	6,045	60,729	17,431	592,558
CDA-C35	660,536	6,363	25,203	769	56,803	22,937	772,611
	2,056,575	450,976	93,867	8,002	381,612	113,327	3,104,359¹

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	1,860,775²

¹ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 451,697.

² In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 55,199.

*Education Improvement Project
Summary of SOEs of IBRD Funds
for the year ended 31 December 2020*

2020	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
LDA-B30	66,767	65,856	11,960	-	-	26,457	171,040
LDA-B31	161,320	117,480	6,865	-	64,667	10,852	361,184
LDA-B32	318,270	100,474	15,432	-	180,941	16,899	632,016
LDA-B33	364,485	157,194	14,860	1,188	18,472	18,751	574,950
LDA-B34	485,197	3,609	19,547	6,045	60,729	17,431	592,558
LDA-B35	660,536	6,363	25,203	769	56,803	22,937	772,611
	2,056,575	450,976	93,867	8,002	381,612	113,327	3,104,359³

2019	Works	Goods	Consultants' Services	Trainings	Grants	Operating Expenses	TOTAL
LDA-B24	111,391	-	17,976	446	2,262	35,938	168,013
LDA-B25	20,114	-	6,327	450	52,141	27,997	107,029
LDA-B26	457,855	10,944	11,146	6,040	83,777	29,573	599,335
LDA-B27	116,577	82,577	14,274	2,570	3,234	17,554	236,786
LDA-B28	248,432	13,595	4,498	905	32,900	8,852	309,182
LDA-B29	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	1,860,775⁴

³ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 451,697.

⁴ In addition to Statement of Expenditures, Copies of Records are presented in the total amount of USD 55,199.

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.

The governing ministry of CFEP, Ministry of Education, Science, Culture and Sports of the Republic of Armenia has requested approval of the Government of the Republic of Armenia for applying to World Bank for attract additional financing for extension of the Project for another 5 years. No any formal approval has yet been received from the Government of the Republic of Armenia for World Bank application.

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 2020 amounts to AMD 522.59. 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.