

Audit Report of
HCFC Phase-Out ODS III Project
Grant # TF013968
Ministry of Environment
Amman - Jordan
for the year ended 31 December 2016

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INDEPENDENT AUDITOR REPORT

To Ministry of Environment
HCFC Phase-Out ODS III Project P127702
Amman, Jordan

Opinion

We have audited the accompanying special purpose project financial statement comprising of the statement of Cash Receipts and Payments of HCFC Phase-Out ODS III Project P127702 Grant # TF013968 for the year ended **31 December 2016**, and the explanatory notes for the period then ended.

- (a) The general purpose project financial statement presents fairly, in all material respects, the cash receipts and payments of the Project for the year ended to **31 December 2016** in accordance with the International Public Sector Accounting Standards, under the cash basis of accounting
- (b) Internal control over financial reporting involved in the preparation of replenishments, direct payments and reimbursement can be relied upon to support the related withdrawals for the period
- (c) The project was in all material respects in compliance with laws, regulations, guidelines and provisions governed by the Grant agreement

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement section of our report. We are independent of the project management, in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Project Management responsibilities

Project Management is responsible for the preparation and fair presentation of the statement for and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the statement is 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 documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement, 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.
2. 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 organization's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Evaluate the overall presentation, structure and contest 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.
5. Obtain sufficient appropriate audit evidence regarding the financial information of the project activities within the project to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the project audit. We remain solely responsible for our audit opinion.

We communicate with project management 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.

Other matter:

This report is intended solely for the information and use of World Bank, the Government of Jordan, Ministry of Environment and the related project management.

Mohammad Qazzaz
License # 712
30 March 2017



HYDROCHLOROFLUOROCARBON (HCFC) PHASE - OUT project (ODS III)

WB Grant P127702

Statement of Cash Receipts & Payments

for the year ended 31 December 2016

	<u>amounts in USD</u>	
	<u>Year</u>	<u>Dec 2016</u>
	<u>2016</u>	<u>Cumu- lative</u>
<u>Financing</u>		
Initial Deposit Transferred from WB		300,000
WB to Designated Account (Replenishments)	435,127	693,767
Direct Transfers from WB to Contractors		-
Total Financing	<u><u>435,127</u></u>	<u><u>993,767</u></u>
<u>Expenditures</u>		
<u>Category (1)</u>		
Sub-grant to Beneficiary Enterprises	288,527	524,520
<u>Category (2)</u>		
Consultants Services, Training, Goods and Incremental Operating Cost under Component 2 of projects	93,360	100,130
<u>Category (3)</u>		
Consultants Services, Training, Goods and Incremental Operating Cost and Recurrent Cost under Component 3 of projects	75,199	278,127
Total Expenditures	<u><u>457,086</u></u>	<u><u>902,777</u></u>
Net Fund (Surplus/Deficit)		90,990

* The attached disclosures are integral part of this statement

1. General Background

Grant Amount: USD 2,783,149 reduced to USD 1,422,299 effective June 2016
Agreement Date: 20 May 2013

The Hashemite Kingdom of Jordan ratified the Montreal Protocol on Substances that Deplete the Ozone Layer and both its London and Copenhagen Amendments. Jordan also ratified the Montreal and Beijing Amendments. The National Ozone Unit (NOU) in the Ministry of Environment (MoEnv) has been empowered to monitor the implementation of ozone depleting substances (ODS) phase-out activities in Jordan in order to fulfill obligations under the Montreal Protocol.

The meeting of the parties in 2007 decides to phase-out (HCFCs) as follow:

1. Freezing consumption in 2013 according base line consumption in (2009-2010).
2. Redacting 10% in 2015 according baseline.
3. Redacting 35% in 2020 according baseline.
4. Redacting 67.5% in 2025 according baseline.
5. Redacting 97.5% in 2030 according baseline.
6. Redacting 100% in 2040.

In November 2011, the Multilateral Fund for the Implementation of the Montreal Protocol (MLF) approved Jordan's HCFC Phase-out Management Plan (HPMP), which constructs a detailed picture of HCFC consumption and uses by substance and product, presents patterns of growth and identifies priority sectors for receiving MLF funding and achieving its first reductions. HCFC consumption in Jordan is made up of primarily HCFC-141b and HCFC-22 for manufacturing in the foam and refrigeration and air-conditioning (RAC) sectors, respectively, as well as HCFC-22 for servicing installed refrigeration and air-conditioning equipment.

The HPMP assumed an average HCFC growth rate of 15%. Using historical consumption figures for each major sector (foam and RAC manufacturing, and servicing) however, variations were seen with the growth rate for HCFC-22-based manufacturing of AC units coming out in front at an estimated 28%. Of the total HCFC-22 consumed in 2010, 25 tons, or 43%, went to AC manufacturing alone. Industrial trends in Jordan and neighboring countries confirm growing demand for air-conditioning with two new enterprises starting operations in 2008 and 2009, enlarging the sector to six HCFC-based manufacturers.

The Bank has been engaged with Jordan on Montreal Protocol implementation since the early 1990s. The first Jordan ODS Phase-out Project (P005238) saw the creation of the institutional and regulatory framework for implementing the Protocol as well as the implementation of the first investment activities targeted at reducing CFC consumption. The ODS Phase-out II Project (P049706) continued in the same vein through support for enhancing the institutional

capacity of the ozone focal point in the Ministry of Environment while providing grants to enterprises for reduction and total elimination of CFCs and halon (controlled as "Annex A" substances) by the 2010 MP phase-out target. The cumulative phase-out of 834 CFC tons of consumption under ODS II has also resulted in climate benefits amounting to roughly 5.8 million tCO₂ eq. per year of avoided emissions (given the GWP of CFCs of up to 10,900).

Jordan received funding in April 2010 from the MLF Executive Committee (under UNIDO) to phase out HCFC use at one AC manufacturer by the end of 2011 (Petra Engineering). Although the project presented the opportunity to demonstrate improved energy efficiency in appliances when converting operations from HCFC, the national impact of this project in terms of energy efficiency and HCFC phase-out will be negligible and not enforceable given that the remaining AC manufacturing base continues to grow at a rapid pace based on the production of cheaper, energy inefficient HCFC-based units to maximize profits from high demand for air-conditioning.

It is in the context that the Government of Jordan has decided to prioritize HCFC phase-out in the entire AC manufacturing sector for meeting its first two Montreal Protocol obligations, allowing it to eventually ban both manufacturing and import of HCFC-22 based AC units, while pursuing, in close coordination with the MEMR and other related agencies, an intervention that aims to transform the AC sector to the production of more energy efficient appliances in line with its energy strategy.

In June 2016 The Government of Jordan and the World Bank amended the Grant agreement by reducing an amount equal to USD 1,360,850. The New Grant Agreement total shall be USD 1,422,299

Accordingly the new revised withdrawal table (Budget) shall be as per the following:

Category (1)	Sub-grant to Beneficiary Enterprises	628,000
Category (2)	Consultants Services, Training, Goods and Incremental Operating Cost under Component 2 of projects	352,300
Category (3)	Consultants Services, Training, Goods and Incremental Operating Cost and Recurrent Cost under Component 3 of projects	441,999
Total Expenditures		1,422,299

Still the Jordanian Ministry of Environment – National Ozone Unit is responsible for the administrative and financial implementation of the project

2. Summary of Significant Accounting Policies

Basis of Accounting & Reporting:
The Ministry of Environment followed and maintained its accounts under Cash Basis of Accounting in recording the transactions; accordingly project management recognizes funds when received and expenditures when paid.

As for reporting of this grant project management reports the project operations in accordance with International Public Sector Accounting Standards, under the cash basis of accounting.

Translation of currencies:

Functional currency for the project operations is Jordanian Dinars (JOD) and translated into United States Dollars (USD) at the prevailing exchange rate of USD 1 = JOD .708, and maintains the accounts in USD.

The project also reports all transactions in USD.

3. Designated Account

Ministry of Environment opened a bank account (3193/3660/1) in USD as a project designated account with the Central Bank of Jordan.

Initial Deposit:

Initial Deposit from the World Bank of USD 300,000 was transferred to the Designated Account in February 2014

Disbursements: Disbursements made from the Designated Account during the period are illustrated below in USD:

Beginning Balance	112,950
Add:	
World Bank Replenishment	435,127
Deduct:	
Payments for Expenditures	(457,087)
Ending Balance	<u><u>90,990</u></u>

4. Uses of grant funds per part (component) in USD:

	<u>Cumulative 2016</u>	<u>Budget</u>	<u>Available Fund Balance</u>
Component 1			
Invest. in HCFC-22 Consumption Reduction	524,519.88	628,000	103,480
Component 2			
Tech. Assist. policies and AC Sector plan Mgt.	100,130.15	352,300	252,170
Component 3			
Institutional Strengthening	278,126.73	441,999	163,872
Total Expenditures	<u><u>902,777</u></u>	<u><u>1,422,299</u></u>	<u><u>519,522</u></u>

5. Contract Listing

The Status of signed contracts under the grant as of **31 December 2016** is illustrated in the following table in USD:

#	Name of Activity	Contractor	Total Contract	Disbursed to Dec. 2016	Unpaid balance
1	Invest. in HCFC-22 Consumption Reduction	Abu Haltam Group for Investment	359,310	276,754	82,556
2	Invest. in HCFC-22 Consumption Reduction	National Refrigeration Company	268,690	251,149	17,542
3	Independent External Audit	QAZAZ & Co	8,110	3,244	4,866
Totals			636,110	531,147	104,964