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 January 01, 2019 to January 31, 2019
<table>
<thead>
<tr>
<th>CONTENTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditors' Report</td>
<td>3</td>
</tr>
<tr>
<td>Statement of Project Sources and Uses of Funds</td>
<td>6</td>
</tr>
<tr>
<td>Statement of Uses of Funds by Project Activity</td>
<td>9</td>
</tr>
<tr>
<td>Notes to the Special Purpose Financial Statements</td>
<td>10</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITORS’ REPORT

To the Director of Foreign Financing Projects Management Centre

Opinion

We have audited the accompanying special purpose financial statements of the Tax Administration, Modernization Project (hereinafter the TAMP) implemented by Foreign Financing Projects Management Center State Institution (hereinafter the FFPMC), which comprise Statement of Project Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Reconciliation Statement of Withdrawal Applications, Statement of Designated Account and Government Co-financed Account for the period from 01 January 2019 to 31 January 2019, and Statement of Financial Position as at 31 January 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 project sources and uses of funds, uses of funds by project activity and its cash flows for the period from 01 January 2019 to 31 January 2019 in accordance with the cash basis of accounting in line with International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of Accounting and Financing Agreement between the Republic of Armenia and International Development Association dated July 9, 2012 (Credit #5114-AM).

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 FFPMC 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 – Cessation of Activities of the FFPMC

We draw attention to Note 1(a) to the special purpose financial statements, which describes that according to the Republic of Armenia Government Decree #1427-N dated 13 December 2018, the activities of the FFPMC will be implemented by the Project Implementation Department of the Ministry of Finance of the Republic of Armenia through auxiliary professional structural subdivision. Our opinion is not modified in respect of this matter.
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 and the International Development Association to assist them in evaluating the TAMP’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. In addition to the matter described in the Cessation of Activities of the FFPMC section, we have determined the matters described below to be key audit matters to be communicated in our report.

In the scope of implementation of TAMP’s objectives, the procurements incurred for receipt of consulting services amounted to USD 3,383. 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;
- Reviewing compliance of procurements to applicable procurement guidelines designated by World Bank;
- 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 cash 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 TAMP’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 FFPMC or to cease operations of TAMP, 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 ãjsc
26 March 2019

Lilit Minasyan
Partner, Head of Audit Services
<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
<th>Project Appraisal Document</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Cash Balance</td>
<td>Cumulative</td>
<td>Cumulative</td>
<td>Cumulative</td>
<td></td>
</tr>
<tr>
<td>Government co-financing account for Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Designated Account for World Bank financing</td>
<td>71,723</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>71,723</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sources of Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government co-financing</td>
<td>2,323</td>
<td>2,233,881</td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank financing</td>
<td>-</td>
<td>11,031,180</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total donor funds</td>
<td>2,323</td>
<td>13,265,061</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign Exchange Difference</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government co-financing</td>
<td>-</td>
<td>(17,774)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>(17,774)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uses of Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Procurement of goods (co-financed by Government)</td>
<td>-</td>
<td>1,978,444</td>
<td>9,865</td>
<td>2,314,283</td>
</tr>
<tr>
<td>Consultancy services (co-financed by Government)</td>
<td>946</td>
<td>133,553</td>
<td>6,988</td>
<td>356,991</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------------------------</td>
<td>------------</td>
<td>-------------------------------------</td>
<td>------------</td>
</tr>
<tr>
<td>Training (co-financed by Government)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Operating expenses (co-financed by Government)</td>
<td>-</td>
<td>102,734</td>
<td>-</td>
<td>118,389</td>
</tr>
<tr>
<td>Procurement of goods (financed by credit)</td>
<td>-</td>
<td>10,163,089</td>
<td>49,327</td>
<td>11,433,774</td>
</tr>
<tr>
<td>Consultancy services (financed by credit)</td>
<td>2,437</td>
<td>424,380</td>
<td>27,746</td>
<td>1,195,327</td>
</tr>
<tr>
<td>Training (financed by credit)</td>
<td>-</td>
<td>80,778</td>
<td>-</td>
<td>115,479</td>
</tr>
<tr>
<td>Operating expenses (financed by credit)</td>
<td>-</td>
<td>293,646</td>
<td>-</td>
<td>321,152</td>
</tr>
<tr>
<td>Government co-financing</td>
<td>946</td>
<td>2,214,731</td>
<td>16,853</td>
<td>2,789,663</td>
</tr>
<tr>
<td>Credit financing</td>
<td>2,437</td>
<td>10,961,893</td>
<td>77,073</td>
<td>13,065,732</td>
</tr>
<tr>
<td>Total</td>
<td>3,383</td>
<td>13,176,624</td>
<td>93,926</td>
<td>15,855,395</td>
</tr>
</tbody>
</table>
Tax Administration Modernization Project
Statement of Project Sources and Uses of Funds for the period from January 01, 2019 to January 31, 2019

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing Cash Balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government co-financing account for credit</td>
<td></td>
<td>1,377</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Designated Account for credit (World Bank financing)</td>
<td></td>
<td>69,286</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>70,663</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The project special purpose financial statements were approved by the management of Foreign Financing Projects Management Centre and signed on its behalf on 26 March 2019.

Edgar Avetyan
Executive director

Armen Shahnazaryan
Financial Manager
<table>
<thead>
<tr>
<th>Project Activities</th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
<th>Life of Project</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative</td>
<td>Cumulative</td>
<td>Cumulative</td>
<td></td>
</tr>
<tr>
<td><strong>Part A: Institutional Development and change management</strong></td>
<td>-</td>
<td>1,000,554</td>
<td>-</td>
<td>1,239,746</td>
</tr>
<tr>
<td>Government co-financing</td>
<td>-</td>
<td>166,119</td>
<td>-</td>
<td>231,700</td>
</tr>
<tr>
<td>Credit financing</td>
<td>-</td>
<td>834,435</td>
<td>-</td>
<td>1,008,046</td>
</tr>
<tr>
<td><strong>Part B: Strengthened Operations</strong></td>
<td>-</td>
<td>1,275,441</td>
<td>-</td>
<td>1,699,790</td>
</tr>
<tr>
<td>Government co-financing</td>
<td>-</td>
<td>131,290</td>
<td>-</td>
<td>234,504</td>
</tr>
<tr>
<td>Credit financing</td>
<td>-</td>
<td>1,144,151</td>
<td>-</td>
<td>1,465,286</td>
</tr>
<tr>
<td><strong>Part C: IT Infrastructure and System Modernization</strong></td>
<td>-</td>
<td>9,967,935</td>
<td>59,192</td>
<td>11,621,071</td>
</tr>
<tr>
<td>Government co-financing</td>
<td>-</td>
<td>1,680,697</td>
<td>49,327</td>
<td>2,032,189</td>
</tr>
<tr>
<td>Credit financing</td>
<td>-</td>
<td>8,287,238</td>
<td>9,865</td>
<td>9,588,882</td>
</tr>
<tr>
<td><strong>Part D: Project management</strong></td>
<td>3,383</td>
<td>932,694</td>
<td>34,734</td>
<td>1,294,788</td>
</tr>
<tr>
<td>Government co-financing</td>
<td>946</td>
<td>236,625</td>
<td>27,746</td>
<td>351,490</td>
</tr>
<tr>
<td>Credit financing</td>
<td>2,437</td>
<td>696,069</td>
<td>6,988</td>
<td>943,298</td>
</tr>
<tr>
<td><strong>Total project expenditure</strong></td>
<td>3,383</td>
<td>13,176,624</td>
<td>93,926</td>
<td>15,855,395</td>
</tr>
</tbody>
</table>
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.

Nevertheless, according to the Republic of Armenia Government Decree #1427-N dated 13 December 2018, the activities of the FFPMC will be implemented by the Project Implementation Department of the Ministry of Finance of the Republic of Armenia through auxiliary professional structural subdivision. Currently, FFPMC undergoes a process of liquidation and transfer of its functions to the Project Implementation Department of the Ministry of Finance of the Republic of Armenia.

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 form the proceeds of the co-financing received from the Government of the Republic of Armenia. Total amount of Government co-financing approximates to USD 3,100,000.

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.

The project closing date has been extended till January 31, 2019.
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 recognizes 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 January 2019 equaling to AMD 486.98.

(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.
## Reconciliation statement of withdrawal applications

<table>
<thead>
<tr>
<th>Withdrawal Application Reference</th>
<th>Application Type</th>
<th>Expenditure reported</th>
<th>Amount Requested by FFPMC</th>
<th>Amount Paid by World Bank</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>23 DA</td>
<td>Advance to Designated Account</td>
<td>$171,360</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23 DA (SS)</td>
<td>Advance to Designated Account</td>
<td>$656,918</td>
<td></td>
<td></td>
<td>$828,278</td>
</tr>
<tr>
<td>24 DA</td>
<td>Advance to Designated Account</td>
<td>$820</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24 DA (SS)</td>
<td>Advance to Designated Account</td>
<td>$1,617</td>
<td></td>
<td></td>
<td>$2,437</td>
</tr>
</tbody>
</table>
5 Statement of Designated Account and Government Co-financed Account

<table>
<thead>
<tr>
<th>USD</th>
<th>Jan 01, 2019 –</th>
<th>Jan 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>71,723</td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance received from World Bank during the current period</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Present outstanding amount advanced to the designated account</td>
<td>71,723</td>
<td></td>
</tr>
<tr>
<td>Closing balance carried forward to next period</td>
<td>69,286</td>
<td></td>
</tr>
<tr>
<td>Add: Amount of eligible expenditures paid during the current period</td>
<td>2,437</td>
<td></td>
</tr>
<tr>
<td>Total advance accounted for</td>
<td>71,723</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>USD</th>
<th>Jan 01, 2019 –</th>
<th>Jan 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government co-financing during the current period</td>
<td>2,323</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange difference</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Present outstanding amount advanced to project account</td>
<td>2,323</td>
<td></td>
</tr>
<tr>
<td>Closing balance carried forward to next period</td>
<td>1,377</td>
<td></td>
</tr>
<tr>
<td>Add: Amount of eligible expenditures paid during the current period</td>
<td>946</td>
<td></td>
</tr>
<tr>
<td>Total advance accounted for</td>
<td>2,323</td>
<td></td>
</tr>
</tbody>
</table>
### 6 Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>Jan 01, 2019 – Jan 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
</tr>
<tr>
<td>Government co-financing account for credit</td>
<td>1,377</td>
</tr>
<tr>
<td>Designated Account for credit (World Bank financing)</td>
<td>69,286</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>70,663</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Cumulative Project Expenditure</strong></td>
<td></td>
</tr>
<tr>
<td>Government co-financed cumulative expenditure</td>
<td>2,214,731</td>
</tr>
<tr>
<td>Credit financed cumulative expenditure</td>
<td>10,961,893</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>13,176,624</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>13,247,287</td>
</tr>
</tbody>
</table>

| **FUNDS**           |                             |
| Project financing   |                             |
| Government co-financing account for credit | 2,233,881 |
| Designated Account for credit (World Bank financing) | 11,031,180 |
| **Total funds**     | 13,265,061 |

| **Foreign exchange differences** |                             |
| Government co-financing account for credit | (17,774) |
| Designated Account for credit (World Bank financing) | - |
| **Total foreign exchange differences** |                             |
|                     | (17,774)                  |
| **Total net assets and liabilities** |                             |
|                     | 13,247,287                |