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Project Financial Statements and Independent Auditor's Report

**Ministry of Labor and Social Affairs of the Republic
of Armenia**

**Social Protection Administration II Project
Credit Agreement No. 5398-AM**

As of and for the year ended 31 December 2020



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Independent auditor's report

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Երևանի Պլազա բիզնես կենտրոն
ՀՀ, ք. Երևան 0015
Գրիգոր Լևոնյանի 9
Հ. + 374 10 50 09 64/61

Grant Thornton CJSC
Yerevan Plaza Business Center
9 Grigor Lussavorich Street,
Yerevan 0015, Republic of Armenia
T + 374 10 50 09 64/61

To the Ministry of Labor and Social Affairs of the Republic of Armenia,

Opinion

We have audited the accompanying project financial statements of the Social Protection Administration Project (the "Project"), financed within the framework of the Credit Agreement No. 5398-AM by the International Development Association (the "IDA") and implemented by the Ministry of Labor and Social Affairs of the Republic of Armenia (the "MLSA"), which comprise the statement of cash receipts and payments and the statement of uses of funds by Project activities as of and for the year ended 31 December 2020 and notes to the project financial statements, including a summary of significant accounting policies.

In our opinion, the project financial statements present fairly the cash balance of the Social Protection Administration Project as of 31 December 2020, and the cash received and cash paid for the year then ended, in accordance with the International Public Sector Accounting Standards ("IPSAS") "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, the World Bank guidelines, as well as the relevant points of the Credit Agreement No. 5398-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 Auditor's Responsibilities for the Audit of the Project Financial Statements section of our report. We are independent of the Ministry of Labor and Social Affairs of the Republic of Armenia in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a Matter

We draw attention to note 2 to the project financial statements, which describes the basis of accounting. The project financial statements are prepared to assist the MLSA to meet the requirements of the World Bank guidelines and the relevant points of the Credit Agreement No. 5398-AM. As a result, the project financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Matter

The project financial statements as of and for the year ended 31 December 2019 were audited by another auditor, whose auditor's report dated 10 June 2020 expresses an unqualified opinion on those statements.

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

The MLSA is responsible for the preparation and fair presentation of the project financial statements in accordance with IPSAS "Financial Reporting Under the Cash Basis of Accounting", the World Bank guidelines and the relevant points of the Credit Agreement No. 5398-AM, and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Project Financial Statements

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

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

- Identify and assess the risks of material misstatement of the project financial statements, 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.
- 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 MLSA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the project financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the MLSA, 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.

Armen Hovhannisyan

Director

30 June 2021

Emil Vassilyan, FCCA

Engagement Partner



Statement of cash receipts and payments

| US dollars | Actual | | Planned | | Variance | | Life of Project |
|--|-----------------------------|------------------------|-----------------------------|------------------------|-----------------------------|------------------------|-------------------|
| | Year ended 31 December 2020 | As of 31 December 2020 | Year ended 31 December 2020 | As of 31 December 2020 | Year ended 31 December 2020 | As of 31 December 2020 | |
| Opening cash balance (note 6) | 1,387,952 | | | | | | |
| Add: cash receipts | | | | | | | |
| Credit 5398-AM (note 4) | 1,800,000 | 9,709,887 | | | | | |
| Government co-financing | 474,984 | 1,851,164 | | | | | |
| Total cash receipts | 2,274,984 | 11,561,051 | | | | | |
| Exchange rate difference | (7,653) | (5,484) | | | | | |
| Less: cash payments | | | | | | | |
| Goods, works, non-consulting services, consultants' services, Training and incremental Operating Costs under the Project except for activities under Part II.2. of the Project | 2,797,995 | 10,698,179 | 4,054,749 | 14,290,552 | (1,256,754) | (3,692,373) | 22,941,588 |
| Total cash payments | 2,797,995 | 10,698,179 | 4,054,749 | 14,290,552 | (1,256,754) | (3,692,373) | 22,941,588 |
| Closing cash balance (note 6) | 857,388 | | | | | | |

The project financial statements were approved on 30 June 2021 by:

Samvel Muradyan

Secretary General of the RA MISA Staff

Rima Babayan

Financial management specialist



This statement is to be read in conjunction with the notes to and forming part of the special purpose project financial statements set out on pages 8 to 13.

Statement of uses of funds by Project activities

| US dollars | Actual | | Planned | | Variance | | Life of Project |
|--|-----------------------------|------------------------|-----------------------------|------------------------|-----------------------------|------------------------|-------------------|
| | Year ended 31 December 2020 | As of 31 December 2020 | Year ended 31 December 2020 | As of 31 December 2020 | Year ended 31 December 2020 | As of 31 December 2020 | |
| Part I: Rolling-Out of Integrated Social Protection Service Delivery | 2,559,933 | 6,119,642 | 3,804,651 | 11,286,657 | (1,245,018) | (3,167,115) | 20,268,000 |
| Part II: Supporting the Implementation of the Recipient's New Employment Strategy | - | - | - | 248,287 | - | (246,287) | - |
| Part III: Modernization of the Pension System | - | 41,800 | - | 104,149 | - | (62,349) | 41,800 |
| Part IV: Strengthening MLSI's Analytical Capacity, Monitoring & Evaluation Systems | 7,478 | 413,120 | 8,051 | 455,306 | (573) | (42,186) | 556,583 |
| Part I - IV: Combined components | - | 590,730 | - | 590,730 | - | - | - |
| Part V: Project management | 230,884 | 1,532,987 | 242,047 | 1,607,423 | (11,183) | (74,436) | 2,075,205 |
| Total | 2,797,965 | 10,698,179 | 4,054,749 | 14,290,552 | (1,256,754) | (3,592,373) | 22,941,688 |

This statement is to be read in conjunction with the notes to and forming part of the project financial statements set out on pages 8 to 13.

Notes to the Project financial statements

1 Activity

The Credit Agreement No. 5398-AM of the Social Protection Administration Project (the "Project") was signed on 23 May 2014 between the Republic of Armenia and the International Development Association (the "IDA"). The total amount of the Credit was agreed to be Special Drawing Rights (SDR) 13,466,950.

The objectives of the Project are to: (i) improve social protection service delivery and (ii) strengthen analytical and monitoring and evaluation functions of the agencies delivering social protection benefits and services.

The Project consists of the following parts:

Part I. Rolling-Out of Integrated Social Protection Service Delivery

1. Constructing, redesigning, refurbishing and equipping selected Integrated Social Protection Centers (ISPC) including through: (i) the improvement of their electricity, water and sewage system; (ii) strengthening the building against seismic shocks; and (iii) the improvement of accessibility for disabled people.
2. Strengthening the management information system of the ISPC through: (i) supporting the implementation of said new management information system; (ii) the development of required software; and (iii) the provision of information technology support.
3. Drafting legislation aimed at supporting service delivery and implementation of the integrated social protection service.
4. Providing training for ISPC staff in integrated social protection service delivery including: (i) the development of Training materials and manuals; (ii) practical Training for ISPCs and MISA staff; and (iii) mentoring and on-the-job Training.
5. Carrying out public outreach activities on integrated social protection service delivery including: (i) awareness campaigns, and (ii) the design and production of printed materials.
6. Redesigning, refurbishing and equipping the central offices of State Employment Service Agency (SESA) and Agency for Medico-Social Expertise (AMSE), including through: (i) the improvement of their electricity, water and sewage system; (ii) strengthening the building against seismic shocks; and (iii) the improvement of accessibility for disabled people.

Part II. Supporting the Implementation of the Recipient's New Employment Strategy

1. Strengthening the capacity of the SESA to provide central services through: (i) the carrying out of training activities for the staff of the SESA; (ii) the improvement of the information technology infrastructure of the SESA, including upgrading GORTS.
2. Piloting labor market programs through, inter alia: (a) the design and implementation of an ALMP targeting unskilled youth; (b) the design and implementation of an Active Labor Market Program (ALMP) to support self-employment and the creation of small businesses; (c) the provision of training and mentoring to programs' participants; and (d) the development of business plans.
3. Expanding career orientation towards specific skills through: (i) the improvement of the information system of the (Professional Orientation Methodological Center) POMC; (ii) the development of online consultancy and distance-training programs accessible on the POMC webpage; and (iii) the development and installation of software for testing of professional orientation.

4. Carrying out public awareness activities on reforms and programs implemented in the labor and employment sector.
5. Strengthening of the monitoring and evaluation capacities of the SESA, including through the carrying out of impact evaluations of ALMPs piloted under Part II.2 of the Project.

Part III. Modernization of the Pension System

Improving and upgrading the core business processes of the State Social Security Service (SSSS) in line with ISPC requirements through: (i) investment in information technology; (ii) development of the SSSS' electronic pension information system; (iii) development of a risk-based fraud-and-error supervision system and software; (iv) improvement of capacity of the regional centers of the SSSS and the ISPC through the provision of training in various pension reform aspects and core and new business processes including central payment services for the integrated social delivery system, and (v) carrying out of study tour for SSSS staff to analyze social enterprise management software and its implementation in selected countries.

Part IV. Strengthening MLSA's Analytical Capacity and Monitoring and Evaluation System

Strengthening the capacity of the monitoring and evaluation unit within the MLSA and developing an integrated system of monitoring and evaluation of social protection benefits and services including: (i) the provision of information and technology equipment, (ii) the development of required software, (iii) the development of a monitoring and evaluation model, as well as the carrying out of various studies and analyses on social protection reform options, and (iii) the provision of Training to the monitoring and evaluation specialists of the MLSA.

Part V. Project Management

Supporting Project management including provision of financing for: (i) Incremental Operating Costs for the Project Implementation Unit (PIU) and Project Coordination Unit (PCU); (ii) the carrying out of Training; and (iii) Project audit.

| Category | Amount of the Credit Allocated (in SDR) |
|---|---|
| Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs under the Project except for activities under Part II.2 of the Project | 13,466,950 |
| | <u>13,466,950</u> |

Until 1 January 2020 the fiduciary part of the Project was implemented by the Project Implementation Department (PID) of the Ministry of Finance of the Republic of Armenia. Starting from 1 January 2020, in accordance to the addition of the Financing agreement as of 25 December 2019, the authorization of the fiduciary part of the Project was transferred to the MLSA.

The legal address of the MLSA is Government House 3, Republic Square, Yerevan, Republic of Armenia.

2 Significant accounting policies

2.1 Statement of compliance

The project financial statements are prepared in accordance with the International Public Sector Accounting Standards "Financial Reporting Under the Cash Basis of Accounting", the World Bank guidelines and the relevant points of the Credit Agreement No. 5398-AM.

Alternatively, the MLSA presents a statement of financial position of the Project as of the reporting date as an encouraged additional disclosure, as prescribed in the part 2 of the International Public Sector Accounting Standards IPSAS "Financial Reporting Under the Cash Basis of Accounting" (refer to note 8).

2.2 Project financial statements

The project financial statements include:

- a) The statement of cash receipts and payments of the Project as of and for the year ended 31 December 2020, showing the World Bank and counterpart funds separately, and the statement of uses of funds by Project activities as of and for the year ended 31 December 2020.
- b) Accounting policies and explanatory notes (including additional accounting policies and disclosures), covering
 - Summary of summary reports or SOEs used as the basis for the submission of withdrawal applications in the notes, as appropriate;
 - Statement of designated account in the notes, as appropriate;
 - Statement of financial position showing accumulated funds of the Project, bank balances, other assets of the Project, and liabilities, if any, as described in the note 2.

2.3 Functional and presentation currency

The national currency of Armenia is the Armenian dram ("dram"), which is the Project's functional currency, since this currency best reflects the economic substance of the underlying events and transactions of the Project.

These project financial statements are presented in US dollars (presentation currency).

In preparing the project financial statements, transactions in currencies other than US dollar are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. Direct payments denominated in currencies other than US dollar from the World Bank funds to the Project's counterparties are recorded at the exchange rate of the client connection (<https://clientconnection.worldbank.org>) system. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rate defined by the Central Bank of Armenia prevailing on that date, which is 522.59 drams for 1 US dollar as of 31 December 2020 (31 December 2019: drams 479.7 for 1 US dollar). Any exchange rate differences are recognized in the statement of cash receipts and payments and the accumulated figure of exchange rate difference is disclosed in the Statement of financial position under "Foreign exchange rate difference".

2.4 Project expenses

Expenses incurred in the framework of the Project are recognized on the cash basis of accounting, i.e. when the relevant cash is paid. The expenses are recognized in the statement of cash receipts and payments under the caption "cash payments". Additionally, the Project expenses are disclosed in the statement of uses of funds by Project activities.

2.5 Project financing

Financing received in the framework of the Credit Agreement No. 5396-AM is recorded in the statement of cash receipts and payments as "cash receipts" and is recognized at each replenishment. In addition, the Project funds received are disclosed in the Statement of financial position (refer to note 8).

2.6 IDA financing

To finance eligible expenditures under the letter agreement, the World Bank disburses proceeds from the Credit account using one or more of the disbursement methods, which are stated below:

a. Reimbursement

The Bank may reimburse the beneficiary to finance eligible expenditures that the beneficiary has refinanced from its own resources.

b. Advance

The Bank may advance credit proceeds into a Designated account of the beneficiary to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.

c. Direct payments

The Bank may make payments, at the beneficiary's request, directly to a third party for eligible expenditures.

d. Special commitment

The Bank may pay amounts to a third party for eligible expenditures under Special commitments entered into, in writing, at the beneficiary's request and on terms and conditions agreed between the Bank and the beneficiary.

3. Closing date of the Project

According to the letter dated 2 April 2020 the closing date of the Project has been extended by 31 October 2022.

4. Credit Agreement No. 5398-AM financing

US dollars

| | Year ended 31 December 2020 | As of 31 December 2020 |
|---|--------------------------------|---------------------------|
| SOE and other procedures | 2,177,609 | 6,587,496 |
| Designated account advance/(redemption) | (377,609) | 1,122,391 |
| | <u>1,800,000</u> | <u>9,709,887</u> |

7. Reconciliation between the amounts received by the MLSA and disbursed by the World Bank

For the year ended 31 December 2020

In US dollars

| Category | Appl. | MLSA | The World Bank | Difference |
|--|-------|------------------|------------------|------------|
| Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs under the Project except for activities under Part II.2. of the Project | | | | |
| | DA-18 | 112,048 | 112,048 | - |
| | DA-19 | 769,904 | 769,904 | - |
| | DA-20 | 108,749 | 108,749 | - |
| | DA-21 | 1,186,908 | 1,186,908 | - |
| | | <u>2,177,609</u> | <u>2,177,609</u> | - |
| Advance to designated account/ (redemption) | | | | |
| | DA-18 | (112,048) | (112,048) | - |
| | DA-19 | (769,904) | (769,904) | - |
| | DA-20 | 791,251 | 791,251 | - |
| | DA-21 | (286,908) | (286,908) | - |
| | | <u>(377,609)</u> | <u>(377,609)</u> | - |
| Total | | <u>1,800,000</u> | <u>1,800,000</u> | - |

8. Statement of financial position

As described in the note 2.1, the policy of the MLSA is to prepare the "project financial statements in accordance with IPSAS "Financial Reporting Under the Cash Basis of Accounting". However, the MLSA also has presented a separate statement of financial position as a disclosure encouraged under IPSAS "Financial Reporting Under the Cash Basis of Accounting".

| In US dollars | As of 31 December 2020 | As of 31 December 2019 |
|------------------------------------|------------------------------|------------------------------|
| Assets | | |
| Accumulated Project expenses | 10,713,980 | 7,841,333 |
| Advances | 210,685 | 158,211 |
| Bank balances | 857,388 | 1,387,852 |
| Total assets | <u>11,782,053</u> | <u>9,387,496</u> |
| Funds and liabilities | | |
| Accumulated Project financing | 11,561,051 | 9,288,068 |
| Foreign exchange rate difference | 8,171 | 19,268 |
| Accounts payable | 212,831 | 82,162 |
| Total funds and liabilities | <u>11,782,053</u> | <u>9,387,496</u> |

5. SOE withdrawal schedule

For the year ended 31 December 2020

In US dollars

| Application No. | Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs under the Project except for activities under Part II.2. of the Project |
|-----------------|--|
| DA-18 | 106,850 |
| DA-19 | 747,116 |
| DA-20 | 100,547 |
| Total | 954,312 |

6. Designated account statement

As of and for the year ended 31 December 2020

In US dollars

| | | |
|---|------------------|------------------|
| Opening balance as of 1 January 2020 | | 1,387,952 |
| Add: | | |
| Cumulative unexplained discrepancy | - | |
| Credit replenishment during the year | 1,800,000 | |
| | <u>1,800,000</u> | <u>1,800,000</u> |
| Less: Refund to the IDA from the designated account during the year | | - |
| Present outstanding amount advanced to the designated account (1) | | <u>3,187,952</u> |
| Closing balance as of 31 December 2020 | | 857,388 |
| Add: | | |
| Amount of eligible expenditures paid during the year | 2,330,564 | |
| Service charges (if applicable) | - | |
| | <u>2,330,564</u> | <u>2,330,564</u> |
| Less: Interest earned (if credited into the designated account) | | - |
| Total advance accounted for (2) | | <u>3,187,952</u> |
| Discrepancy (1) - (2) to be explained | | - |

7. Reconciliation between the amounts received by the MLSA and disbursed by the World Bank

For the year ended 31 December 2020

In US dollars

| Category | Appl. | MLSA | The World Bank | Difference |
|---|-------|------------------|------------------|------------|
| <i>Goods, works, non-consulting services, consultants' services, Training and Incremental Operating Costs under the Project except for activities under Part II.2. of the Project</i> | | | | |
| | DA-18 | 112,048 | 112,048 | - |
| | DA-19 | 769,904 | 769,904 | - |
| | DA-20 | 108,749 | 108,749 | - |
| | DA-21 | 1,188,908 | 1,186,908 | - |
| | | <u>2,177,609</u> | <u>2,177,609</u> | - |
| <i>Advance to designated account/ (redemption)</i> | | | | |
| | DA-18 | (112,048) | (112,048) | - |
| | DA-19 | (769,904) | (769,904) | - |
| | DA-20 | 791,251 | 791,251 | - |
| | DA-21 | (286,908) | (286,908) | - |
| | | <u>(377,609)</u> | <u>(377,609)</u> | - |
| Total | | <u>1,800,000</u> | <u>1,800,000</u> | - |

8. Statement of financial position

As described in the note 2.1, the policy of the MLSA is to prepare the project financial statements in accordance with IPSAS "Financial Reporting Under the Cash Basis of Accounting". However, the MLSA also has presented a separate statement of financial position as a disclosure encouraged under IPSAS "Financial Reporting Under the Cash Basis of Accounting".

| In US dollars | As of 31 December 2020 | As of 31 December 2019 |
|----------------------------------|------------------------|------------------------|
| <i>Assets</i> | | |
| Accumulated Project expenses | 10,713,980 | 7,841,333 |
| Advances | 210,685 | 158,211 |
| Bank balances | 857,388 | 1,387,952 |
| Total assets | <u>11,782,053</u> | <u>9,387,496</u> |
| <i>Funds and liabilities</i> | | |
| Accumulated Project financing | 11,561,051 | 9,266,066 |
| Foreign exchange rate difference | 8,171 | 19,268 |
| Accounts payable | 212,831 | 82,162 |
| Total funds and liabilities | <u>11,782,053</u> | <u>9,387,496</u> |