

PUBLIC ENTERPRISE FOR STATE ROADS

**Independent Auditors report,
Project Financial Statements
for the period ending 31 December 2015 and 2014
and Management Letter for**

**NATIONAL AND REGIONAL ROADS
REHABILITATION PROJECT
(LOAN NUMBER 8420 MK)**

Skopje, September 2016

**PUBLIC ENTERPRISE FOR STATE ROADS
NATIONAL AND REGIONAL ROADS REHABILITATION PROJECT**

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**INDEPENDENT AUDITOR'S REPORT
TO THE
PROJECT COORDINATION UNIT (IBRD LOAN 8420 MK)
OF THE
PUBLIC ENTERPRISE FOR STATE ROADS**

We have audited the accompanying Project Financial Statements of the National and Regional Roads Rehabilitation Project ("the Project"), financed under IBRD Loan 8420 MK, for the year ended 31 December 2015 and prepared by the Public Enterprise for State Roads ("furthermore the Public Enterprise for State Roads"). The Project Financial Statements which comprise Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Statement of Expenditure Withdrawals and Statement of Designated Account are prepared in accordance with the International Bank for Reconstruction and Development (IBRD) Guidelines.

Management's Responsibility for the Project Financial Statements

The Public Enterprise for State Roads management is responsible for the preparation and fair presentation of these Project Financial Statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT (Continued)
TO THE
PROJECT COORDINATION UNIT (IBRD LOAN 8420 MK)
OF THE
PUBLIC ENTERPRISE FOR STATE ROADS**

Opinion

In our opinion, the project financial statements for the year ended 31 December 2015, prepared by the Public Enterprise for State Roads, give true and fair view of sources and uses of funds of the Project, in accordance with the IBRD Guidelines, which are financed under IBRD Loan 8420 MK.

In our opinion, the project financial statements as at 31 December 2015, prepared by the Public Enterprise for State Roads, give true and fair view of the financial position of the Designated Account, in accordance with the IBRD Guidelines, which are financed under IBRD Loan 8420 MK.

In addition, with respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred, and which expenditures are eligible for financing under IBRD Loan 8420 MK.

Skopje, 14 September 2016

Certified Auditor

Goce Hristov

Manager and Certified Auditor

Antonio Veljanov



**PUBLIC ENTERPRISE FOR STATE ROADS
NATIONAL AND REGIONAL ROADS REHABILITATION PROJECT**

**STATEMENT OF SOURCES AND USES OF FUNDS
IBRD LOAN 8420 MK
During the Years Ended 2015 and 2014
and Accumulated up to 31 December 2015
(Expressed in EUR)**

Note	During the Year Ended 31 December		Accumulated up to 31 December
	2015	2014	2015
SOURCES OF FUNDS			
IBRD Loan 8420 MK			
Initial advance to Designated Account (DA)	4,000,000.00	-	4,000,000.00
Replenishments on the DA	2,910,335.86	-	2,910,335.86
Reimbursements	-	-	-
Direct Payments	-	-	-
IBRD front-end fee	-	130,000.00	130,000.00
Return of funds to IBRD	-	-	-
Total IBRD Loan 8420 MK	6,910,335.86	130,000.00	7,040,335.86
TOTAL FUNDS RECEIVED	6,910,335.86	130,000.00	7,040,335.86
USES OF FUNDS			
Financed from IBRD Loan 8420 MK			
Road Civil Works	4,201,261.77	-	4,201,261.77
Institutional Strengthening and Project Management	29,493.45	-	29,493.45
IBRD front-end fee	-	130,000.00	130,000.00
Total Financed from IBRD Loan 8420 MK	4,230,755.22	130,000.00	4,360,755.22
TOTAL PROJECT EXPENDITURES	4,230,755.22	130,000.00	4,360,755.22
Net increase (decrease) in cash flow	2,679,580.64	-	2,679,580.64
Cash at Beginning of the Period	-	-	-
Cash at End of the Period	2,679,580.64	-	2,679,580.64

Project Director
Aleksandar Stojanov



Public enterprise for state
roads
Aleksandar Stojanov



*Notes comprise an integral part to the Project Financial Statements
Auditors' report is on pages 1 and 2.*

**PUBLIC ENTERPRISE FOR STATE ROADS
NATIONAL AND REGIONAL ROADS REHABILITATION PROJECT**

STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY

IBRD LOAN 8420 MK

During the Years Ended 2015 and 2014

and Accumulated up to 31 December 2015

(Expressed in EUR)

	During the Year Ended 31 December		Accumulated up to 31 December
	2015	2014	2015
A. Financed from IBRD Loan 8420 MK			
I. Road Civil Works			
Lot 1: Rehabilitation of national road A3 section Bitola-Makazi	463,243.74	-	463,243.74
Lot 1: Land Slopes improvements Mavroro-Debar	115,267.67	-	115,267.67
Lot 1: Rehabilitation of regional road R2233 section Brvenica-Cegrane	843,187.24	-	843,187.24
Lot 2: Rehabilitation of regional road R2249 Melnicki Most-Centar Zupa	132,383.46	-	132,383.46
Lot 2: Land Slopes improvements Kratovo-Stracin, Openica; Tetovo-Popova Sapka	80,568.17	-	80,568.17
Lot 2: Rehabilitation of regional roads A3 section Resen-Bukovo	416,489.60	-	416,489.60
Lot 2: Rehabilitation of regional roads R1105 section Nov Dojran-Nikolic and R1402 section Mokrino-Smolari	356,762.93	-	356,762.93
Lot 3: Rehabilitation of regional road R2343 Delcevo-Golak	200,230.16	-	200,230.16
Lot 3: Rehabilitation of regional road R1202 section Boskov Most-Debar	385,647.79	-	385,647.79
Lot 4: Rehabilitation of regional roads R1202 section Novo Selo-Mavrovi Anovi	1,207,481.01	-	1,207,481.01
Total	4,201,261.78	-	4,201,261.78
II. Institutional Strengthening and Project Management			
FM specialist	13,361.02	-	13,361.02
Procurement specialist	16,132.43	-	16,132.43
Total	29,493.45	-	29,493.45
III. IBRD fee			
IBRD front-end fee	-	130,000.00	130,000.00
Total	-	130,000.00	130,000.00
Total financed from IBRD Loan 8420 MK	4,230,755.22	130,000.00	4,360,755.22
Total Project Expenditures	4,230,755.22	130,000.00	4,360,755.22

**PUBLIC ENTERPRISE FOR STATE ROADS
NATIONAL AND REGIONAL ROADS REHABILITATION PROJECT**

**STATEMENT OF EXPENDITURE (SOE) WITHDRAWALS
IBRD LOAN 8420MK
Year Ended 31 December 2015
(Expressed in EUR)**

		Year Ended 31 December 2015					
		Disbursement Categories					
Application #	Note	Goods and Works	Consultant Services	Initial Advance on DA	Total	Disbursed	Difference
1		-	-	800,000.00	800,000.00	-	800,000.00
2		-	-	3,200,000.00	3,200,000.00	-	3,200,000.00
3		2,887,509.09	22,826.77	-	2,910,335.86	-	2,910,335.86
Total:		<u>2,887,509.09</u>	<u>22,826.77</u>	<u>4,000,000.00</u>	<u>6,910,335.86</u>	<u>-</u>	<u>6,910,335.86</u>

*Notes comprise an integral part to the Project Financial Statements.
Auditors' report is on pages 1 and 2.*

**PUBLIC ENTERPRISE FOR STATE ROADS
NATIONAL AND REGIONAL ROADS REHABILITATION PROJECT**

**STATEMENT OF DESIGNATED ACCOUNT
IBRD LOAN 8420 MK
During the Years Ended 2015 and 2014
and Accumulated up to 31 December 2015
(Expressed in EUR)**

For the year ended 31 December 2015 and 2014
Account number 7001000004-6839673
Depository Bank Sparkasse Bank Makedonija AD Skopje
Address St.Makedonija No.9-11
Credit Number 8420 MK
Currency EUR

	<u>2015</u>	<u>2014</u>	<u>Cumulative</u>
Opening Balance as at 1 January	-	-	-
Additions:			
Initial advance to Designated Account	4,000,000.00	-	4,000,000.00
World Bank Replenishments	2,910,335.86	-	2,910,335.86
Return of funds to IBRD	-	-	-
Total additions	<u>6,910,335.86</u>	<u>-</u>	<u>6,910,335.86</u>
Deductions:			
Project Expenditure Payments	(4,201,261.77)	-	(4,201,261.77)
Institutional Strengthening and Project Management	(29,493.45)	-	(29,493.45)
IBRD fee	-	-	-
Total deductions	<u>(4,230,755.22)</u>	<u>-</u>	<u>(4,230,755.22)</u>
Closing Balance as at 31 December	<u><u>2,679,580.64</u></u>	<u><u>-</u></u>	<u><u>2,679,580.64</u></u>

*Notes comprise an integral part to the Project Financial Statements.
Auditors' report is on pages 1 and 2.*

**PUBLIC ENTERPRISE FOR STATE ROADS
NATIONAL AND REGIONAL ROADS REHABILITATION PROJECT
NOTES TO THE FINANCIAL STATEMENTS**

1. GENERAL INFORMATION

On October 21 2014, the Public enterprise for State Roads of the Republic of Macedonia (“the Borrower”) entered into the Loan Agreement with the International Bank For Reconstruction and Development (“IBRD”) for the amount of EUR 52 million.

According to the Section I. of Project Execution of the Loan Agreement, the Borrower is responsible for day-to-day Project implementation and for procurement, financial management, disbursement and monitoring and reporting for the entire Project.

The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General conditions of the Loan agreement and such additional instructions as the IBRD shall specify by notice to the Borrower to finance Eligible Expenditures as set forth in the table below.

The table below sets forth the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each category and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Loan Allocated	Percentage of Expenditures to be financed (Exclusive of taxes)
(1) Goods, Works, Consultants’ Services, Training and Incremental Operating Costs for the project	51,870,000	100%
(2) Front-end Fee	130,000	
Total Amount	52,000,000	

The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 of the Loan Agreement.

The Closing Date for withdrawals is September 30, 2019.

The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each interest period equal to The Reference rate for the Loan Currency plus the Variable Spread. The Borrower shall pay front-end Fee equal to one quarter of one percent (0.25%) of the Loan amount. Interest and other charges shall be payable semiannually on October 15 and April 15 in each year.

According to the amortization schedule of the Agreement, the Borrower shall repay the principal amount of the credit in semi-annually installments payable each October 15 and April 15, commencing October 15, 2020 and ending April 15, 2037. The installment share is 2.94%, except for the last installment which is in amount of 2.98%.

2. OBJECTIVES AND NATURE OF THE PROJECT

2.1. Project Objectives

The objectives of the Project are: (i) to enhance the connectivity of selected national and regional roads, primarily to Corridors X and VIII; and (ii) to improve the Borrower's capacity for roads safety and climate resilience.

The Project consists of the following parts:

Part I: Roads Civil Works

Part II: Institutional Strengthening and Project management

The objectives of Part I are:

- Carrying out of (i) rehabilitation works on about 112 km of selected national and regional road sections, and (ii) black spots improvement in selected areas.
- Carrying out of independent technical audits of rehabilitation works under the Project
- Carrying out of land slide remediation in selected areas.

The objectives of Part II are:

- (i) Strengthening the technical capacity of the Project management team ("PMT") through the provision of technical assistance; and (ii) carrying out the annual financial audits of the Project.
- Carrying out of roads safety activities, including: (i) development of nationwide roads safety including the identification of black spots and their improvement; (ii) preparation of road safety audits guidelines and manuals; (iii) training and (iv) carrying out of an iRAP Survey of the national and regional roads network.
- (i) Provision of equipment for and carrying out of network data collection activities to survey road conditions and collect traffic data for three years, and (ii) providing technical assistance for the preparation of a Strategic Program of periodic maintenance and rehabilitation works.
- Provision of technical assistance for the preparation of potential future investments in the Borrower's road sector, including: (i) the preparation of best practice manuals; (ii) carrying out of Training for the Borrower's staff and local contractors; (iii) carrying out of an economic evaluation of road investments, road safety audits, and climate resilience measures; (iv) review of current maintenance practices and standards and provision of recommendations for improvement; and (v) monitoring activities, beneficiary satisfaction activities, as well as mid-term and impact evaluation surveys.

2.2. Project Management

The overall responsibility for carrying out the Project is assigned to the Public enterprise for state roads.

2. OBJECTIVES AND NATURE OF THE PROJECT (Continued)

2.3. Project Execution

The Borrower shall be responsible for day-to-day Project implementation and for procurement, financial management, disbursement and monitoring, and reporting for the entire Project. To that end, the Borrower shall maintain a Project Management Team ("PMT") with adequate staff and resources, in a manner satisfactory to the Bank, with qualifications, terms of reference and a composition satisfactory to the Bank, including a Project director, at least three engineering specialists, a procurement specialist, a financial management specialist and an office administrator/translator.

3. BASIS FOR PREPARATION OF THE PROJECT FINANCIAL STATEMENTS

3.1. General

The accompanying financial statements have been prepared for the purposes of reporting to the World Bank on the activities of the Project related to funding received for the completion of the Project's objectives in accordance with the respective Loan Agreement. These financial statements include all project-related expenditures incurred, which are financed by the IBRD Loan 8420 MK.

a. Accounting Convention

The Project Financial Statements have been prepared, in all material respects, in accordance with World Bank Guidelines. Such Guidelines generally comply with International Financial Reporting Standards with the exception that Project expenditures are accounted for on a cash basis. Certain accounts which are required to be maintained under Macedonian accounting regulations have been adjusted or reclassified and, in some cases, combined in order to comply with World Bank Guidelines.

b. Comparative figures

The Financial statements have been prepared for the year ended 31 December 2015 and 2014 and accumulated up to 31 December 2015. Comparative figures are presented.

3.4. Reporting Currency

The Project accounts are kept in local currency i.e. in Macedonian Denars ("MKD or "Denars") for the Government's part of financing of the Project. The Project accounts comprising the part financed by IBRD Loan are kept in local currency i.e. in Macedonian Denars and in Euros. The Project Financial Statements are prepared in EUR as this is the reporting currency of the Project.

**3. BASIS FOR PREPARATION OF THE PROJECT FINANCIAL STATEMENTS
(Continued)**

3.4. Reporting Currency (Continued)

The Project Financial Statements are translated from Macedonian Denars into Euros as it follows:

- The amounts shown in Euro (EUR) are calculated by the exchange rate of IBRD for the currency of payment, on the date of payment.
- The amounts shown in Macedonian Denars (MKD) are calculated by the exchange rate of the Sparkasse Bank Makedonija AD Skopje for the currency of payment, on the date of payment.
- The amounts shown in MKD as at 31 December 2015 are calculated by the exchange rate of the Sparkasse Bank Makedonija AD Skopje on the specified date.

The exchange rates used for translation were as follows:

		2015	2014
		(MKD)	(MKD)
As at 31 December	1 EUR	61.45	61.45