

**Report on the Project Financial Statements of the  
GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

**Financed by:**  
- **GEF Grant TF17727**

**For the year ended 31 December 2017**

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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**CONTENTS**

1	Introduction	1
2	Independent Auditor's Report	3
3	Project Financial Statements for the year 2017	5
4	Notes to the Project Financial Statements	9

**APPENDICES**

A.1	Designated account statement - 2017 - GEF Grant TF 17727	10
A.2	Designated sub-account statement - 2017 - GEF Grant TF 17727	11
A.3	Local bank account statement – 2017 - GEF Grant TF 17727	12
B.1	SoE Withdrawal Schedule of GEF Grant TF 17727 for the year ended 31 December 2017	13
C	Reconciliation between World Bank's disbursement statements in USD and GEF Grant account in USD according to the balance sheet as of 31 December 2017; SoE Withdrawal Schedule of GEF Grant TF 17727	14

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)**  
**of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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**1. Introduction**

**1.1 Objective of the Project**

The Project's development and global environmental objectives are: (a) to reduce the discharge of pollutants with transboundary importance, particularly Nitrogen, in selected hot-spots of the eastern Adriatic Sea; and (b) to improve the capacity in the Republic of Croatia and Bosnia and Herzegovina to prepare pollution control projects in selected localities of Dalmatia and Herzegovina and to strengthen the capacity to monitor environmentally sensitive areas of the sea.

**1.2 Components of the Project**

**Component 1 – Demonstration investments to reduce nutrient discharges and improve water quality monitoring capacity** (USD 2,05 million are GEF financing). This Component will finance:

Design, supply, and installation of equipment for the reduction of nutrient discharges, including, inter alia, upgrading the leachate treatment plant in Mostar's landfill.

The current disposal site in the landfill in Mostar is expected to be closed and replaced by a new one recently completed, which includes adequate lining and leachate collection, but no leachate treatment, thus offering an excellent opportunity to demonstrate the potential for leachate treatment. The new disposal site in the landfill will be operated by a newly created municipal company (J.P. Deponija Mostar, d.o.o.).

**Component 2 – Technical Assistance** (USD 0,20 million are GEF financing):

This Component will finance consultant services for the preparation of proposals for funding by the EU, including all related analysis required by the EC, such as a Strategic Environmental Assessment of the overall program for leachate treatment; and the assessment of relative sources of nutrients to derive policy recommendations. Such TA is intended to reinforce the potential for replication of the demonstration investments and contribute to the launching of the overall regional Program for the Adriatic. These consultant services will be grouped in the following three activities:

Consultant services to prepare preliminary designs and project documentation, including preparation of tender documentation to access European Union ("EU") funds, for investments in leachate and wastewater treatment and management to comply with EU requirements in selected locations in Herzegovina and Neum.

The Government of BiH confirmed that Trebinje and Gacko in Eastern Herzegovina, Lise Livno, Glamoc and Posusje in Western Herzegovina, and Neum, on the Adriatic coast, would be eligible for this Project preparation facility, upon confirmation of availability of base documentation and compliance with requirements defined in the ESMF.

**Component 3 – Project Management and Dissemination** (USD 0.19 million are GEF Financing): This component will finance for BiH PMT incremental operating costs incurred by the PMT on account of Project implementation, management, monitoring and supervision (as such expenditures are set forth in the PMT annual budget), including office supplies, office equipment maintenance, communications, evaluation and dissemination of technical solutions, Project results and lessons learned (through publications, web-supported instruments and workshops), travel and per diem, translation, audit reports, bank fees, vehicle operation and maintenance and salaries of the PMT staff (but excluding salaries of civil servants of the Recipient).

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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**1. Introduction (continued)**

**1.3 Financing of the Project**

The Project is financed by GEF Grant TF 17727 in the amount of **USD 2,440,000**.

**Withdrawal of the Proceeds of the Grant for BiH**

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH	2,250,000	100%
(2) Incremental Operating Costs (including audit)	190,000	100%
<b>TOTAL AMOUNT</b>	<b>2,440,000</b>	



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## Independent Auditor's Report

To the State of Bosnia and Herzegovina,  
Ministry of Finance and Treasury  
Attn. of Minister of Finance and Treasury H.E. Mr. Vjekoslav Bevanda

## Report on the Project Financial Statements

### Opinion

We have audited the accompanying project financial statements of the Preparation for Adriatic Sea Environment Pollution Control Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account statements, local bank account, Statements of Grant withdrawals as of and for the year ended 31 December 2017, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under GEF Grant TF 17727.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2017, and of the funds received and disbursed during the year then ended, in accordance with the cash basis of accounting based on International Public Sector Accounting Standard ("IPSAS"), as described in Note 4.1.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and "Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities" issued by FMSB. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Ministry of Finance and Treasury in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The management of project implementation unit is responsible for the preparation of these project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., Guidelines: Annual Financial Reporting and Auditing for World Bank-Financed Activities, 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.

In preparing the financial statements, management is responsible for assessing the Project'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 Project or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process.

### **Responsibilities for the Audit of 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content 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.

We communicate with those charged with governance 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.

### **Report on other requirements**

In addition, with respect to the Statement of Expenditure, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditure incurred; and all expenditure included in withdrawal applications and reimbursed against are eligible for financing under the project.

Signed on behalf of Baker Tilly Re Opinion d.o.o. Sarajevo

Nihad Fežić, Director and Certified Auditor

Sarajevo, 20 June 2018



Emma Sinanović, Certified Auditor

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**3. Project financial statements for the year 2017**

**3.1 Summary of sources and uses of funds under the GEF Grant TF 17727 and Other income**

	Ref.	Actual 2017	Cumulative 2017	Cumulative 2016	Cumulative budget	Cumulative variance
<b>FINANCING</b>						
GEF Grant TF 17727	3.1.1	36,859	256,311	219,452	2,440,000	2,183,689
Other income	3.1.2	4,886	4,886	-	-	(4,886)
<b>TOTAL FINANCING</b>	<b>3.2</b>	<b>41,745</b>	<b>261,197</b>	<b>219,452</b>	<b>2,440,000</b>	<b>2,178,803</b>

**PROJECT  
EXPENDITURE**

***By Category***

(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH		27,661	61,972	34,311	2,250,000	2,188,028
(2) Incremental Operating Costs (including audit)		20,223	42,223	22,000	190,000	147,777
<b>TOTAL EXPENDITURE</b>	<b>3.2</b>	<b>47,884</b>	<b>104,195</b>	<b>56,311</b>	<b>2,440,000</b>	<b>2,335,805</b>

**PROJECT  
EXPENDITURE**

***By Component***

(1) Demonstration investments to reduce nutrient discharges and improve water quality monitoring capacity		-	34,311	34,311	2,050,000	2,015,689
(2) Technical Assistance		27,661	27,661	-	200,000	172,339
(3) Project Management and Dissemination		20,223	42,223	22,000	190,000	147,777
<b>TOTAL EXPENDITURE</b>	<b>3.2</b>	<b>47,884</b>	<b>104,195</b>	<b>56,311</b>	<b>2,440,000</b>	<b>2,335,805</b>

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**3. Project financial statements for the year 2017 (continued)**

**3.1.1 Summary of sources and uses of funds under the GEF Grant agreement TF 17727**

	Ref.	Actual 2017	Cumulative 2017	Cumulative 2016	Cumulative budget	Cumulative variance
<b>FINANCING</b>						
GEF Grant TF 17727					2,440,000	
Initial deposit		-	200,000	200,000		
SoE replenishments		36,859	44,256	7,397		
Direct payments		-	12,055	12,055		
<b>TOTAL FINANCING</b>	3.1	<b>36,859</b>	<b>256,311</b>	<b>219,452</b>	<b>2,440,000</b>	<b>2,183,689</b>
<b>PROJECT EXPENDITURE</b>						
<b>By Category</b>						
(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH		27,661	61,972	34,311	2,250,000	2,188,028
(2) Incremental Operating Costs (including audit)		20,221	42,221	22,000	190,000	147,779
<b>TOTAL EXPENDITURE</b>	3.2	<b>47,882</b>	<b>104,193</b>	<b>56,311</b>	<b>2,440,000</b>	<b>2,335,807</b>

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**3. Project financial statements for the year 2017 (continued)**

**3.1.2 Summary of sources and uses of funds under Other income**

	Ref.	Actual 2017	Cumulative 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
VAT returns		4,886	4,886	-	(4,886)
Interest		-	-	-	-
<b>TOTAL FINANCING</b>	3.1	<b>4,886</b>	<b>4,886</b>	-	<b>(4,886)</b>
<b>PROJECT EXPENDITURE By Category</b>					
(1) Goods, works, non-consulting services, and consultants' services under the Project in BiH		-	-	-	-
(2) Incremental Operating Costs (including audit)		2	2	-	(2)
<b>TOTAL EXPENDITURE</b>	3.2	<b>2</b>	<b>2</b>	-	<b>(2)</b>

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**3. Project financial statements for the year 2017 (continued)**

**3.2 Balance sheet as of 31 December 2017 showing accumulated funds of the Project and bank balances concerning World Bank funding**

	Ref.	31 December 2017	31 December 2016
<b>ASSETS</b>			
Project expenditure under GEF Grant TF 17727	3.1.1	104,193	56,311
Project expenditure under Other income	3.1.2	2	-
		<b>104,195</b>	<b>56,311</b>
Designated account - GEF Grant TF 17727	A.1	152,118	163,141
Designated sub-account - GEF Grant TF 17727	A.2	-	-
Local bank account - Other income	A.3	4,889	-
		<b>157,007</b>	<b>163,141</b>
Exchange rate difference		(5)	-
<b>Total assets</b>		<b>261,197</b>	<b>219,452</b>
<b>LIABILITIES</b>			
GEF Grant TF 17727	C	256,311	219,452
Other income		4,886	-
	3.1	<b>261,197</b>	<b>219,452</b>
<b>Total liabilities</b>		<b>261,197</b>	<b>219,452</b>

Signed and authorised by:



**Jovanka Aleksić**  
Project Coordinator



**Dijana Dangubić**  
Financial Officer

Sarajevo, 20 June 2018

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**4. Notes to the project financial statements**

**4.1 Basis of preparation and accounting records**

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard: "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the accounting policies below, which have been consistently followed in all material respects and comply with the "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities", issued by the Financial Management Sector Board.

**4.2 Accounting policies**

The Project's fiscal year is January 1 to December 31 for the recording of all transactions.

***Cash basis of accounting***

All receipts and expenses under GEF Grant are recorded on actual receipt and payment basis of accounting as per approved categories.

Project expenditure is stated at original cost on the balance sheet.

***Direct payments***

Direct payments concern the amounts paid directly from the Grant account of the World Bank.

***Statement of Expenditure (SoE)***

Statements of Expenditure are used to state the expenditure under GEF Grant during a certain period. These statements are sent to the World Bank's disbursement department who authorises the payment of the expenditure through the Designated accounts.

***Currency conversions***

The reporting currency is USD. Sources and use of funds (payments to suppliers and contractors) in currencies other than USD have been converted to USD using the currency rate at the moment of the transaction.

Bank balances, recorded on the balance sheet at year-end, have been converted at year-end rate.

***Designated accounts***

This is the total amount of the withdrawals from the Grant account for the Project. The Grant account is in USD.

***Interest on Designated account***

Interest earned on the Designated account belongs to the Borrower.

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**APPENDIX A.1**

**DESIGNATED ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina  
**Account No.:** BA 391994990031597960  
**Depository Bank:** Sparkasse Bank d.d. BiH  
**Address:** Zmaja od Bosne 7, Sarajevo  
**Related Credit:** GEF Grant TF 17727  
**Currency:** USD

	Ref.	USD
<b>Opening balance 1 January 2017</b>		<b>163,141</b>
Add:		
World Bank's replenishments	B	36,859
		<u>36,859</u>
Deduct:		
Payments to suppliers - Expenditure under GEF Grant TF 17727		74
Transfer to Designated sub-account - GEF Grant TF 17727	A.2	47,808
		<u>47,882</u>
<b>Ending balance 31 December 2017</b>	<b>3.2</b>	<b>152,118</b>

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**APPENDIX A.2**

**DESIGNATED SUB-ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina  
**Account No.:** 1994990031597960  
**Depository Bank:** Sparkasse Bank d.d. BiH  
**Address:** Zmaja od Bosne 7, Sarajevo  
**Related Credit:** GEF Grant TF 17727  
**Currency:** BAM

	Ref.	BAM	USD
<b>Opening balance 1 January 2017</b>		-	-
Add:			
Transfer from Designated account - GEF Grant TF 17727	A.1	79,785	47,808
		<b>79,785</b>	<b>47,808</b>
Deduct:			
Payments to suppliers - Expenditure under GEF Grant TF 17727		79,785	47,808
		<b>79,785</b>	<b>47,808</b>
<b>Ending balance 31 December 2017</b>	3.2	-	-

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**APPENDIX A.3**

**LOCAL BANK ACCOUNT STATEMENT**

**Account owned by:** Ministry of Foreign Trade and Economic Relations of B&H  
**Account No.:** 3387302205068988  
**Depository Bank:** UniCredit Bank d.d.  
**Address:** Kardinala Stepinca b.b., Mostar  
**Related Credit:** Other income  
**Currency:** BAM

	Ref.	BAM	USD
<b>Opening balance 1 January 2017</b>	3.2	-	-
Add:			
VAT returns		7,977	4,886
Interest		-	-
		<u>7,977</u>	<u>4,886</u>
Deduct:			
Payments to suppliers - Expenditure under Other income		4	2
Exchange rate gain			(5)
		<u>4</u>	<u>(3)</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>7,973</b>	<b>4,889</b>

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**APPENDIX B      SoE Withdrawal Schedule of GEF Grant TF 17727 for the year ended  
31 December 2017**

	Initial deposit	Goods, works, non- consulting services, and consultants' services under the Project in BiH	Incremental Operating Costs (including audit)	Total application	Total disbursed
<b>Previous periods</b>	200,000	34,311	22,000	56,311	219,452
Application 4*	-	-	-	-	36,859
Application 5**	-	27,661	20,221	47,882	-
<b>Total SoE applications</b>	-	27,661	20,221	47,882	36,859
<b>Total 2017</b>	-	27,661	20,221	47,882	36,859
<b>Cumulative 2017</b>	200,000	61,972	42,221	104,193	256,311

\* Application No.4 was replenished in 2017, but expenses were made in 2016.

\*\* Application No.5 was replenished in 2018, but expenses were made in 2017.

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT (I)  
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2017

*(all amounts in USD, unless otherwise stated)*

**APPENDIX C      Reconciliation between World Bank's disbursement statements in USD  
and GEF Grant account in USD according to the balance sheet as of 31  
December 2017; SoE Withdrawal Schedule of GEF Grant TF 17727**

	<b>Changes in GEF Grant (in USD)</b>
<b>Original amount</b>	<b>2,440,000</b>
<b>Disbursed in previous years</b>	<b>219,452</b>
Withdrawal 4	36,859
<b>Total disbursed in 2017</b>	<b>36,859</b>
<b>Cumulative disbursements</b>	<b>256,311</b>
<b>Calculated undisbursed balance as of 31 December 2017</b>	<b>2,183,689</b>
<b>Undisbursed balance as per World Bank Summary for December 2017</b>	<b>2,183,689</b>