

**MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT**

**Independent Auditors report,  
Project Financial Statements  
for the period ending 31 December 2021  
and Management Letter for**

**LOCAL ROAD CONNECTIVITY PROJECT  
(LOAN NUMBER 9034 MK)**

**Skopje, July 2022**

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**INDEPENDENT AUDITOR'S REPORT  
TO THE  
MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT (IBRD LOAN 9034 MK)**

We have audited the accompanying Project Financial Statements of the Local Roads Connectivity Project (“the Project”), financed under IBRD Loan 9034 MK, for the year ended 31 December 2021 and prepared by the Ministry of Transport and Communications, Project Implementation Unit (“furthermore the Ministry of Transport and Communications-Project Implementation Unit”). 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 Ministry of Transport and Communications, Project Implementation Unit 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 accepted in the Republic of North Macedonia. 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  
MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT (IBRD LOAN 9034 MK)**

*Opinion*

In our opinion, the project financial statements for the year ended 31 December 2021, prepared by the Ministry of Transport and Communications - Project Implementation Unit, 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 9034 MK.

In our opinion, the project financial statements as at 31 December 2021, prepared by the Ministry of Transport and Communications - Project Implementation Unit, 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 9034 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 9034 MK.

*Other Matters*

The project financial statements, for the year ended 31 December 2020, were audited by another auditor who expressed an unmodified opinion on those statements on 30 December 2021.

Skopje, 19 July 2022

**Certified Auditor**

Kostadinka Kitanoska



**Manager and Certified Auditor**

Antonio Veljanov



**MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT  
LOCAL ROADS CONNECTIVITY PROJECT**

**STATEMENT OF SOURCES AND USES OF FUNDS  
IBRD Loan Number 9034  
During the Years Ended 2021 and 2020  
and Accumulated up to 31 December 2021**

	During the Year Ended		Accumulated up to 31 December 2021
	Note	31 December	
	2021	2020	
<b>SOURCES OF FUNDS</b>			
<b>IBRD Loan Number 9034</b>			
Initial advance to Designated Account (DA-A)	-	10,000,000	10,000,000
Initial advance to Designated Account (DA-B)		36,983,042	36,983,042
Replenishments on the DA	-	-	-
IBRD front-end commission	-	175,000	175,000
<b>Total IBRD Loan Number 9034</b>	<b>-</b>	<b>47,158,042</b>	<b>47,158,042</b>
<b>TOTAL FUNDS RECEIVED</b>	<b>-</b>	<b>47,158,042</b>	<b>47,158,042</b>
<b>USES OF FUNDS</b>			
<b>Financed from IBRD Loan Number 9034</b>			
Good, works, non-consulting services, consulting services, Operating Costs and Training for the Project	3,403,062	36,905,161	40,308,223
IBRD front-end commission	-	175,000	175,000
<b>Total Financed from IBRD Loan Number 9034</b>	<b>3,403,062</b>	<b>37,080,161</b>	<b>40,483,223</b>
<b>TOTAL PROJECT EXPENDITURES</b>	<b>3,403,062</b>	<b>37,080,161</b>	<b>40,483,223</b>
<b>Net increase (decrease) in cash flow</b>	<b>(3,403,062)</b>	<b>10,077,881</b>	<b>6,674,819</b>
Cash at Beginning of the Period	10,077,881	-	-
Cash at End of the Period	<b>6,674,819</b>	<b>10,077,881</b>	<b>6,674,819</b>

Project Director

Harita Pandovska



Minister,

Blagoj Bocharovski



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

**MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT  
LOCAL ROADS CONNECTIVITY PROJECT**

**STATEMENT OF USES OF FUNDS BY PROJECT ACTIVITY**

**IBRD Loan Number 9034**

**During the Years Ended 2021 and 2020**

**and Accumulated up to 31 December 2021**

**(Expressed in EUR)**

	<b>During the Year Ended 31 December</b>		<b>Accumulated up to 31 December</b>
	<b>2021</b>	<b>2020</b>	<b>2021</b>
<b>A. Financed from IBRD Loan Number 9034</b>			
<b>I. Part 1: Capacity Enhancement</b>			
Technical advisor to develop multi annual investment programme - pipeline of pre-mature and mature municipal projects for investment and training to the municipal staff on sustainable multi annual infrastructure projects planning for investment and maintenance	59,999	-	59,999
<b>Total</b>	<b>59,999</b>	<b>-</b>	<b>59,999</b>
<b>II. Part 2: Rehabilitation of Local Roads and Community Facilities</b>			
tender 1	2,161,094	-	2,161,094
Construction works for improvement of the local road infrastructure - tender 2	784,837	-	784,837
Supervision and Consulting services for the implementation of construction works - tender 1 and tender 2	166,639	-	166,639
	-	-	-
<b>Total</b>	<b>3,112,570</b>	<b>-</b>	<b>3,112,570</b>
<b>III. Part 3: Project implementation Support</b>			
Support project implementation units (PIU)	211,226	-	211,226
Interpretation services	4,720	-	4,720
Office equipment	-	-	-
Other operating costs	1,369	-	1,369
<b>Total</b>	<b>217,315</b>	<b>-</b>	<b>217,315</b>
<b>IV. Part 4: Contingent Emergency Response</b>			
Financial support for salary subsidies	-	35,860,209	35,860,209
Financial support for contribution subsidies	-	1,022,833	1,022,833
Purchasing of data	-	22,119	22,119
Audit	13,177	-	13,177
<b>Total</b>	<b>13,177</b>	<b>36,905,161</b>	<b>36,918,338</b>
<b>V. IBRD fee</b>			
IBRD front-end Commission	-	175,000	175,000
<b>Total</b>	<b>-</b>	<b>175,000</b>	<b>175,000</b>
<b>Total Project Expenditures</b>	<b>3,403,062</b>	<b>37,080,161</b>	<b>40,483,223</b>

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

**MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT  
LOCAL ROADS CONNECTIVITY PROJECT**

**STATEMENT OF EXPENDITURE (SOE)  
WITHDRAWALS  
IBRD Loan Number 9034  
Year Ended 31 December 2021  
(Expressed in EUR)**

Application #	Year Ended 31 December 2021				
	Disbursement Categories				
Note	Replenishments on the DA	Initial Advance on DA	Total	Disbursed	Difference
				-	-
<b>Total:</b>	-	-	-	-	-

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

**MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT  
LOCAL ROADS CONNECTIVITY PROJECT**

**STATEMENT OF DESIGNATED ACCOUNT  
IBRD Loan Number 9034  
During the Years Ended 2021 and 2020  
and Accumulated up to 31 December 2021**

For the year ended 31. December 2021  
Account number 00-701-0001793.6  
Depository Bank National Bank of the Republic of North Macedonia  
Address Bul. "Kuzman Josifovski Pitu" br.1  
Credit Number 9034  
Currency EUR

	<u>2021</u>	<u>2020</u>	<u>Cumulative</u>
<b>Opening Balance as at 1 January</b>	<b>10,077,881</b>	-	
<b>Additions:</b>			
Initial advance to Designated Account (DA-A)	-	10,000,000	10,000,000
Initial advance to Designated Account (DA-B)	-	36,983,042	36,983,042
IBRD Replenishments	-	-	-
IBRD front-end commission	-	-	-
<b>Total additions</b>	<b>-</b>	<b>46,983,042</b>	<b>46,983,042</b>
<b>Deductions:</b>			
Project Expenditure Payments	(3,403,062)	(36,905,161)	(40,308,223)
<b>Total deductions</b>	<b>(3,403,062)</b>	<b>(36,905,161)</b>	<b>(40,308,223)</b>
<b>Closing Balance as at 31 December</b>	<b><u>6,674,819</u></b>	<b><u>10,077,881</u></b>	<b><u>6,674,819</u></b>

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



**MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT  
LOCAL ROADS CONNECTIVITY PROJECT  
NOTES TO THE FINANCIAL STATEMENTS**

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**1. GENERAL INFORMATION**

On December 20, 2019, the Ministry of Finance of the Republic of North Macedonia (“the Borrower”) entered into the Loan Agreement with the International Bank for Reconstruction and Development (“IBRD”) for the amount of EUR 70 million.

The Borrower shall carry out the Project through Ministry of Transport and Communication in accordance with the provisions of Article V of the General Conditions and Schedule 2 to the Agreement.

According to the Section I. of Project Execution of the Loan Agreement, the Borrower shall, through Ministry of Transport and Communications, shall maintain throughout Project implementation, a Project Implementation Unit (“PIU”) within composition, resources, terms of reference and functions acceptable to the Bank, including the responsibility to manage, coordinate, monitor and evaluate the implementation of the Project.

Without limitation upon the provisions of Article II of the General conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan 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:

<b>Category</b>	<b>Amount of the Loan Allocated</b>	<b>Percentage of Expenditures to be financed (Exclusive of taxes)</b>
(1) Goods, Works, Non-consulting services, Consultants services, Operating Costs and Training for the project	69,825,000	100%
(2) Emergency Expenditures under Part 4 of the Project	0	100%
(3) Front-end Fee	175,000	
(4) Interest Rate Cap or Interest Rate Collar premium	0	
<b>Total Amount</b>	<b>70,000,000</b>	

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

The Closing Date for withdrawals is December 31, 2024.

The Borrower shall pay front-end Fee equal to one quarter of one percent (0.25%) of the Loan amount. The commitment charge is one quarter of one percent (0.255) per annum on the Unwithdrawn Loan balance. Interest and other charges shall be payable semiannually on March 1 and September 1 in each year.

According with Schedule 2 of the Agreement, the Borrower shall repay the principal amount of the credit in semi-annually installments payable each March 1 and September 1, commencing March 1, 2025 and ending September 1, 2034. The installment share is 5.00%.

## 2. OBJECTIVES AND NATURE OF THE PROJECT

### 2.1. Project Objectives

The objectives of the Project are to improve government capacity to manage local roads and improve access to markets and services.

The Project consists of the following parts:

**Part I:** Capacity Enhancement

**Part II:** Rehabilitation of Local Roads and Community Facilities

**Part III:** Project Implementation Support

**Part IV:** Contingent Emergency Response

The objectives of Part I are:

- (a) carrying out of a municipal capacity assessment to assess the strengths and weaknesses of the current system for the management of local roads and, if required, design a program for enhancing capacity; (b) developing simplified road maintenance contracts; (c) assessing how smaller Municipalities can benefit from the economies of scale afforded by larger contracts, such as area-based maintenance contracts; and (d) developing a simplified RAMS for maintenance and rehabilitation planning and support some of its data collection needs.
- Provision of technical assistance to strengthen Ministry of Transport and Communication capacity for the oversight and development and quality of local roads, including, inter alia: (i) the development of a central government policy for municipal roads, (ii) the definition of a sustainable source of financing for both capital investment and maintenance; (iii) the review and/or update of the allocation formula used to transfer funding to Municipalities via PERS; (iv) the development of a central government mechanism for monitoring municipal road conditions; (v) the carrying out of road safety capacity review and recommendations for institutional change; (vi) the development of climate resilient design guidelines for local and low volume roads; and (vii) coordination with stakeholders.

The objectives of Part II are:

- Rehabilitation of municipal roads and streets to improve their quality, safety and resilience.
- Carrying out of a pilot to support priority investments identified by selected Communities to enhance their mobility and road safety.

## **2. OBJECTIVES AND NATURE OF THE PROJECT (Continued)**

### **2.1. Project Objectives (Continued)**

The objectives of Part III are:

- Provision of support to the PUI including procurement, financial management, monitoring and evaluation, safeguards and technical oversight, and policy coordination.
- Carrying out of independent technical audits and the Project's independent financial audits.

The objectives of Part IV are:

- Provision of immediate response to an Eligible Crisis or Emergency, as needed.

### **2.2. Project Management**

The overall responsibility for carrying out the Project is assigned to the Ministry of Transport and Communications, Project Implementation Unit.

### **2.3. Project Execution**

The Project Implementation Unit ("PIU") shall be responsible for the procurement, financial management, disbursement, monitoring and evaluation and safeguards compliance under the Project. The Borrower, through Ministry of Transport and Communication - Project Implementation Unit, adopt the Project Operations Manual ("POM") and thereafter implement the Project in accordance with the POM, in form and substance satisfactory to the Bank, which sets out the operational and administrative procedures and requirements for Project implementation.

## **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 9034 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.

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

#### b. Comparative figures

The Financial statements have been prepared for the year ended 31 December 2021 and 2020 and accumulated up to 31 December 2021. Comparative figures are presented.

#### 3.2. Reporting Currency

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.

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

- The amounts shown in Macedonian Denars (MKD) are calculated by the exchange rate of the National Bank of the Republic of North Macedonia for the currency of payment, on the date of transfer from EUR account to Denar account. This exchange rate during 2021 is between 61.170 MKD / EUR and 61.6020 MKD/EUR.
- The amounts shown in MKD as at 31 December 2021 are calculated by the exchange rate of the National Bank of the Republic of North Macedonia on date of transfer from EUR account to Denar account, and it's 61.31 MKD/EUR.

**MANAGEMENT LETTER****TO THE  
MINISTRY OF TRANSPORT AND COMMUNICATIONS  
PROJECT IMPLEMENTATION UNIT (IBRD LOAN 9034 MK)**

According to your request, we have audited the 2021 Project Financial statements of the Local Roads Connectivity Project financed under IBRD Loan 9034 MK and implemented by the Ministry of Transport and Communications, Project Implementation Unit. We have carried out our audit in accordance with the accepted professional auditing practice in the Republic of North Macedonia, which is in accordance with the International Auditing Standards issued by the International Federation of Accountants (IFAC) and with the IBRD Guidelines, in order to issue an opinion on the Project financial statements.

We have carried out sufficient testing in order to shape the opinion about the financial statements, thus obtaining assurance that the information contained in the submitted accounting records and in the other sources of information, are correct and represent sound basis for the financial statements. We have also checked weather the information has been correctly presented in the financial statements.

Because of the nature of the testing carried out, and because of the other constraints of the audit, together with the accompanying constraints inherent for any internal controls system, there is an inevitable risk, that even a material misstatement could remain undiscovered.

Our work did not identify any conditions that we believed to be significant or material weakness.

Skopje, 19 July 2022

**Certified Auditor**

Kostadinka Kitanoska

**Manager and Certified Auditor**

Antonio Veljanov

