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State of Bosnia and Herzegovina  
Ministry of Finance and Treasury  
Attn. of Minister of Finance and Treasury H.E. Mr. Vjekoslav Bevanda  
Trg Bosne i Hercegovine 1  
71000 Sarajevo  
Bosnia and Herzegovina

10 May 2019

Dear Mr. Bevanda,

In accordance with the Annex No.1 to the Contract for Consultants' Services No. BA-MFT-Audit WB-2017 (our reference: 868/A/18-4238) dated 11 June 2018, signed as of 1 April 2019 between, on the one hand, the Ministry of Finance and Treasury of Bosnia and Herzegovina and on the other hand, Baker Tilly Re Opinion d.o.o. Sarajevo, we have performed an audit of the project financial statements of the GEF Adriatic Sea Environmental Pollution Control Project (the "Project") for the year ended 31 December 2018.

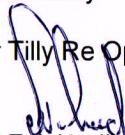
Our work has been carried out primarily for the purpose of expressing an opinion on the Summary of sources and uses of funds, Balance sheet, Designated account statements, local bank account, Statements of Grant withdrawals as of and for the year ended 31 December 2018 of the Project. Consequently, our examination may have not covered all those areas where improvements could be made. The examination was set at a level which, in the given circumstances, was necessary for the audit purposes. For this reason, it is likely that that the weaknesses commented upon in this letter are not the only ones that exist.

Usual auditors' practice is to issue Management Recommendation Letter, whose aim is to bring to your attention any significant matters revealed by our audit (if any), and if applicable to make recommendations. During the course of our audit we have identified certain issues that have influence on our audit opinion. We want to bring to your attention the following remarks and recommendations.

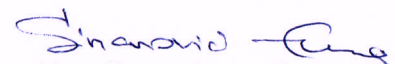
This letter is intended solely for the information and use of the Ministry of Finance and Treasury of Bosnia and Herzegovina and the Management of the Project.

Your sincerely

Baker Tilly Re Opinion d.o.o.

  
Nihad Fejzić, director and certified auditor



  
Ema Sinanović, certified auditor

**GEF ADRIATIC SEA ENVIRONMENTAL POLLUTION CONTROL PROJECT  
MANAGEMENT RECOMMENDATION LETTER**

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**1. UNJUSTIFIED ADVANCE PAYMENTS**

**Finding**

Out of total expenses presented in Summary of sources and uses of funds under the GEF Grant Agreement TF 17727, expenses in amount of USD 186,946 refer to advance paid to contractor JV Izgradnja Tojaga d.o.o. Mostar & Process Engineering SRL, BiH, in connection to Contract No. BA-ASEPCP-GEF-ICB-S&I-15-02 "Plant, Design, Supply and Installation for treatment of leachate at the sanitary landfill Uborak-Buđevci in Mostar". Draft of Contract Termination Agreement was prepared, but up to date of our audit it was not signed. It is described in Draft of Contract Termination Agreement that Project manager reviewed and approved costs relating to design services, filling of advance guarantee and filling of performance guarantee, so remaining amount of USD 65,084 the contractor has to return not later than 15 May 2019. For this amount services were not performed, and advance was not justified. Expenses relating to budget category "Goods, works, non-consulting services, and consultant's services under the Project in BiH" in amount of USD 65,084 would be considered ineligible, if this amount is not returned within defined deadline.

**Recommendation**

The management of project implementation unit, who is responsible for preparation of project financial statements, is responsible for establishment of internal control necessary to enable the preparation of project financial statements that are free from material misstatements, i.e. financial statements that present fairly, in all material aspects, the financial position of the Project and the funds received and disbursed during the year.

During project implementation, management of project implementation unit is responsible for establishment of adequate control procedures for monitoring spending of funds, which includes monitoring of justification of advances given and performance of contracted services.

**Project Management's response**