

Baker Tilly Re Opinion d.o.o.
Grbavička 4
71000 Sarajevo
Bosna i Hercegovina

T: +387 (0) 33 552 150
F: +387 (0) 33 552 152

info@bakertilly.ba
www.bakertilly.ba

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

19 March 2020

Dear Mr. Bevanda,

In accordance with the Annex No. 2 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 31 January 2020 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 Irrigation Development Project in the Federation of Bosnia and Herzegovina (the "Project") for the year ended 31 December 2019.

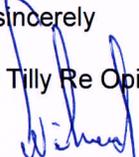
Our work has been carried out primarily for the purpose of expressing an opinion on the Summary of sources and uses of funds, Balance sheet, Designated account, local bank account and petty cash statement, Statements of Credit withdrawals as of and for the year ended 31 December 2019 of the Project. 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 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 identified certain issues that have no influence on our 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

**IRRIGATION DEVELOPMENT PROJECT IN THE FEDERATION OF BOSNIA AND HERZEGOVINA
PROJECT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

MANAGEMENT RECOMMENDATION LETTER

1. PAYMENTS OF EXPENDITURE RELATED TO IDA CREDIT FROM GOVERNMENT CONTRIBUTION

Finding

Based on reconciliation of cumulative financing, cumulative expenditure and cash balances as of 31 December 2019, we have determined that part of IDA expenditure in amount of EUR 10,192 have been paid from the Government funds. This may be presented as follows:

	Total	Direct payments	Total SoE
Cumulative financing as per Appendix B	8,035,784	987,160	7,048,624
Cumulative expenditure as per Appendix B	7,520,471	987,160	6,533,311
Remaining balance			515,313
Cash balance as of 31 December 2019 (Appendix A.1)			525,505
IDA expenditure paid from the Government funds			10,192

This can also be shown as follows:

	Total SoE
Expenses paid from Designated account during the year 2019 as per Appendix A.1	2,072,868
SoE applications from 2019 as per Appendix B	2,116,902
Difference – expenses paid from Government funds	44,034
Transfers from Designated account to Local bank account (for Government funds) related to expenses for year of 2019*	33,842
IDA expenditure paid from the Government funds for which transfer from Designated account was not made until 31 December 2019	10,192

**During the year of 2019, there were transfers from Designated account to Local bank account in total amount of EUR 74,370 in order to reconcile cash flows (as presented in Appendix A.1). Funds in amount of EUR 40,528 were transferred to reconcile payments from previous years. Remaining amount of EUR 33,842 refers to year of 2019.*

Considering abovementioned difference between expected and actual cash balance on Designated account, not all funds were transferred from Designated account to Local bank account in order to reconcile cash flows as of 31 December 2019.

Also, during our audit, we have identified difference in amount of expenses related to IDA Credit presented in **Summary of sources and uses of funds** and expenses presented in **Appendix B** in amount of EUR 61,978.

	Amount
Total expenditure as per 3.1.1. Summary of sources and used of funds under the IDA Credit No. 5098-BA	7,582,449
Total expenditure as per Appendix B – SoE Withdrawal Schedule of IDA Credit No. 5098-BA	7,520,471
Difference	61,978

MANAGEMENT RECOMMENDATION LETTER

All expenses related to Project purposes are paid 85% from IDA credit and 15% from Government funds. At the end of year 2019, payment from Local bank account in amount of 15% was realized, while direct payments from World Bank account in amount of 85% were realized in January and February 2020. Payments realized from Local bank account in amount of 15% were split and presented as follows:

- 15% as expenditure related to Government funds (under 3.1.2.)
- 85% as expenditure related to IDA Credit No. 5098-BA (under 3.1.1.)

This resulted in difference in amount of expenses presented in Summary of sources and used of funds and Appendix B as of 31 December 2019.

Recommendation

We recommend to the Management of the Project to ensure that the payments and financing claims for each cost category are performed in accordance with the relevant credit/financing agreements.

Project Management's response

Upon the final settlement of accounts and prior to the audit, additional EUR 10,064 was paid in to the Government account for the purpose of reconciliation on February 14, 2020 (UNICREDIT bank – Bank statement No: 15- February 14, 2020), this was presented and documented to the Audit. Difference of EUR 128 will be included in the next reconciliation.