

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](http://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

29 April 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 Irrigation Development Project in the Federation of Bosnia and Herzegovina (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, local bank account and petty cash statement, Statements of Credit 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 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 2018**

**MANAGEMENT RECOMMENDATION LETTER**

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**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 2018, we have determined that, in cumulative, the IDA Credit expenditures in the amount of EUR 40,528 have been paid from the Government funds. Expected cash balance as of 31 December 2018 is EUR 1,055,619 (calculated as difference between cumulative financing in amount of EUR 5,472,028 and cumulative expenditure in amount of EUR 4,416,409), while actual cash balance as of 31 December on Designated account is EUR 1,096,147.

Also, we have determined that expenses paid during the year of 2018 from Designated account were in amount of EUR 292,647 while total expenditures related to IDA Credit for the year of 2018 were in amount of EUR 346,879, which leads to the conclusion that expenditures for the year of 2018 in amount of EUR 54,232 were paid from the Government funds. During the year of 2018, there were transfers from Designated account to Local bank account (for Government funds) in total amount of EUR 94,679 in order to reconcile cash flows.

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.

**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**

Funding the Irrigation Development Project expenses is done in following ratio: 85% IDA credit and 15% FB&H Government Contribution.

Taking into account that signatories of Special Account are the authorized officials from Federal Ministry of Finance and Federal Ministry of Agriculture, Water Management and Forestry, often happened that due to their absence payment orders haven't been signed for month or so. In such situations due to the urgency of situation and timely payment of invoices delivered by supplier, payments were made from FB&H Government contribution and afterwards being reimbursed from IDA account in amount of 85% and that way reconciled. Sometimes due to the simplification of procedure total amount of invoice is being paid from IDA account and afterwards reimbursed from FB&H government contribution.

Balancing of cumulative payment FB&H Government contribution and IDA credit in amount of EUR 40.528 will be conducted as soon as the authorized signatories sign the payment order.