



Project's Financial Statements and
Independent Auditor's Report

Cabinet of the Deputy Prime Minister for Economic Affairs
and Coordination of Economic Departments

"Local and Regional Competitiveness Project" -
International Bank for Reconstruction and Development
Grant number TF0A1779

For the period from 28 July 2016 to 31
December 2017

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Management Responsibility


The accompanying financial statements comprising the Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Balance sheet, Statement of Breakdown of Loans and Grants, Statement of Withdrawals (SOE's), Designated Account Statements and related disclosure Notes (further referred as to "Project's Financial Statements"), of the Cabinet of the Deputy Prime Minister for Economic Affairs and Coordination of Economic Departments ("the Cabinet"), "Local and Regional Competitiveness Project" (further referred to as "the Project"), financed under International Bank for Reconstruction and Development Grant ("IBRD") numbered TF0A1779 as at and for the period from 28 July 2016 to 31 December 2017 included on pages 4 to 14, are the responsibility of, and have been approved by the Project's management.

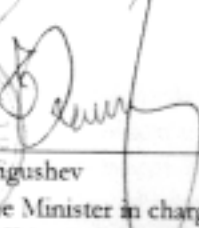
The accompanying Project's financial statements have been compiled by the Project's management, for the purposes of reporting to the Ministry and the International Bank for Reconstruction and Development, in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Grant Agreement numbered TF0A1779 dated 14 January 2016.

Project's management, in furtherance of the integrity and objectivity of the Project's financial statements, has developed and maintained an internal control structure, including the appropriate control environment, accounting systems and control procedures. Project's management believes that internal controls provide assurance that financial records are reliable and form a proper basis for the preparation of financial statements, and that assets are properly accounted for and safeguarded. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The internal control process also includes management's communication to employees of policies, which govern ethical business conduct.

Grant Thornton DOO Skopje, Independent Auditors, have been engaged to audit these Project's financial statements in accordance with the International Standards on Auditing. Their report is included on pages 2 and 3.

12 July 2018




Dr. Koco Angushev
Deputy Prime Minister in charge for
Economic Affairs and Coordination of
Economic Departments


Antonia Sisak
Project Director


Stojance Mitovski
Financial Management
Specialist

Independent Auditor's Report

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To the Management of the Project

We have audited the accompanying financial statements of the Cabinet of the Deputy Prime Minister for Economic Affairs and Coordination of Economic Departments ("the Cabinet"), "Local and Regional Competitiveness Project" (further referred to as "the Project"), financed under International Bank for Reconstruction and Development, Grant numbered TF0A1779, comprising the Statement of Sources and Uses of Funds, Balance sheet, Statement of Uses of Funds by Project Activity, Statement of Breakdown of Loans and Grants, Statement of Withdrawals, Designated Account Statements and related disclosure Notes (further referred to as "the Project's Financial Statements") as at and for the period from 28 July 2016 to 31 December 2017 and included on pages 4 to 14.

Management's responsibility for the Project's financial statements

These Project's financial statements are compiled for the purposes of reporting to the Cabinet and the International Bank of Reconstruction and Development management, and are the responsibility of the management of the Project. The Projects' management is responsible for developing and maintaining such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Project's Management policy is to prepare the accompanying Project's financial statements on the cash receipts and disbursement basis in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Grant Agreement numbered TF0A1779 dated 14 January 2016. On this basis, cash receipts are recognized when received rather than when earned and cash expenditures are recognized when paid rather than when incurred.

Auditor's responsibility

Our responsibility is to express an opinion on these Project's financial statements based on our audit. We conducted our audit in accordance with auditing standards accepted in the Republic of Macedonia¹. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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.

¹ International Standards on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board ("IAASB"), effective from 15 December 2009, translated and published in the "Official Gazette" of the Republic of Macedonia no. 79 from 2010.

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 Project'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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.


Opinion

In our opinion, the accompanying financial statements of "Local and Regional Competitiveness Project", financed under International Bank for Reconstruction and Development, Grant numbered TF0A1779, present fairly, in all material respects, the Project's financial position as at 31 December 2017, and the movements on the Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Statement of Breakdown of Loans and Grants, Statement of Withdrawals and Designated Account Statements for the period from 28 July 2016 to 31 December 2017, in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Grant Agreement numbered TF0A1779 dated 14 January 2016.

Skopje,

12 July 2018

Grant Thornton DOO, Skopje


Director
Suzana Stavrik




Certified Auditor
Suzana Stavrik

Financial Statements
 For the period from 28 July 2016 to 31 December 2017

Statement of Sources and Uses of Funds

	(Amounts in EUR)					
	Actual		Planned		Variance	
	Current period	Cumulative to date	Current period	Cumulative to date	Current period	Cumulative to date
Sources of funds						
Grant	3,217,913	3,217,913	404,771	404,771	2,813,142	2,813,142
National co-financing	-	-	-	-	-	-
Interests Earned	-	-	-	-	-	-
Total sources of funds	3,217,913	3,217,913	404,771	404,771	2,813,142	2,813,142
Uses of funds						
Financed by WB						
Component 2: Strengthening destination management & enabling environment						
2.1 Central level capacity, coordination and policy	-	-	-	-	-	-
2.2 Destination management	-	-	-	-	-	-
Component 3: Investment in tourism-related infrastructure & linkages at destination						
3.1 Infrastructure investments	-	-	-	-	-	-
3.2 Grants for enhanced tourism service-delivery & local economic impact	-	-	-	-	-	-
Component 4: Strengthening project management	355,369	355,369	404,771	404,771	(49,402)	(49,402)
Front and fee	-	-	-	-	-	-
Total uses of funds	355,369	355,369	404,771	404,771	(49,402)	(49,402)
Balance	2,862,544					
Bank balances, at beginning of the period	-	-	-	-	-	-
Bank balances, at end of the period	2,862,544					

The Project's Financial Statements have been approved by the Cabinet on 12 July 2018 and signed on its behalf by:


 Dr. Koco Angishev
 Deputy Prime Minister in charge for
 Economic Affairs and Coordination of
 Economic Departments


 Antonia Sisak
 Project Director


 Stojance Mitovski
 Financial Management
 Specialist

Financial Statements
 For the period from 28 July 2016 to 31 December 2017

Statement of Uses of Funds by Project Activity

	(Amounts in EUR)					
	For the period from 28 July 2016 to 31 December 2017				Variance	
	Actual Current period	Cumulative to Date	Planned Current period	Cumulative to Date	Current period	Cumulative to Date
Component 2: Strengthening destination management & enabling environment						
2.1 Central level capacity, coordination & policy						
2/1 Training in public private dialogue and tourism development	-	-	-	-	-	-
2/2 Design of software for data gathering	-	-	-	-	-	-
2/3 Equipment for data gathering system	-	-	-	-	-	-
2/4 Technical assistance (TA) for implementation of business licensing reforms	-	-	-	-	-	-
2/5 TA for implementation of standards improvement	-	-	-	-	-	-
2/6 TA for regulatory simplification and design of platform for electronic issuing of licenses and permits in tourism	-	-	-	-	-	-
Payments without contract	-	-	-	-	-	-
2.2 Destination management						
2/7 TA on destination Management: Study tours (several)	-	-	-	-	-	-
2/7-1 TA on Destination Management: Stakeholder mapping; Design of structured PPD platform and process; Training on Destination Management; Development of toolkits and manuals	-	-	-	-	-	-
2/7-1.1 Info sessions (Ohrid, Gradsko, Shtip)	-	-	-	-	-	-
-3	-	-	-	-	-	-
2/8 Design of software to support destination management	-	-	-	-	-	-
2/9 Equipment to support destination management (computers, office furniture, others)	-	-	-	-	-	-
2/10 Annual survey of the project's impact on beneficiaries and local economies	-	-	-	-	-	-
Payments without contract	-	-	-	-	-	-
Sub-total Component 2	-	-	-	-	-	-

Financial Statements
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Statement of Uses of Funds by project activity (continued)

	(Amounts in EUR)					
	For the period from 28 July 2016 to 31 December 2017					
	Actual		Planned		Variance	
	Current period	Cumulative to Date	Current period	Cumulative to Date	Current period	Cumulative to Date
Component 3: Investment in tourism-related infrastructure & linkages at destination						
3.1 Infrastructure investments						
Grant 1	-	-	-	-	-	-
Contract 1	-	-	-	-	-	-
Contract 2	-	-	-	-	-	-
Payments without contract	-	-	-	-	-	-
3.2 Grants for enhanced tourism-service delivery & local economic impact						
Grant 1	-	-	-	-	-	-
Contract 1	-	-	-	-	-	-
Contract 2	-	-	-	-	-	-
Payments without contract	-	-	-	-	-	-
Sub-total Component 3	-	-	-	-	-	-
Component 4: Strengthening Project Management						
4/1 PIU Director Contract No. LRCP-IC-4/1	45,174	45,174	46,550	46,550	(1,376)	(1,376)
4/2 FM Specialist Contract No. LRCP-IC-4/2	16,687	16,687	34,200	34,200	(17,513)	(17,513)
4/3 Procurement Specialist Contract No. LRCP-IC-4/3	34,752	34,752	34,200	34,200	552	552
4/5 Civil Engineer Contract No. LRCP-IC-4/4	27,148	27,148	23,400	23,400	3,748	3,748
4/6 Architect and Cultural Heritage Specialist	-	-	15,600	15,600	(15,600)	(15,600)
4/7 Tourism Development Specialist Contract No. LRCP-IC-4/7	36,933	36,933	34,200	34,200	2,733	2,733
4/8 Regional Development Specialist Contract No. LRCP-IC-4/8	36,934	36,934	34,200	34,200	2,734	2,734
4/9 Tourism Expert 1	-	-	-	-	-	-
4/10 Tourism Expert 2	-	-	-	-	-	-
4/11 Tourism Expert 3	-	-	-	-	-	-
4/12 M&E and Communication Specialist Contract No. LRCP-IC-4/12	7,240	7,240	15,600	15,600	(8,360)	(8,360)
4/13 Environmental Specialist Contract No. LRCP-IC-4/13	18,099	18,099	15,600	15,600	2,499	2,499
4/14 Procurement Officer Contract No. LRCP-IC-4/14	24,622	24,622	22,800	22,800	1,822	1,822
4/15 Administrative / assistant / operative / translator Contract No. LRCP-IC-4/15	17,201	17,201	15,300	15,300	1,901	1,901
4/16 Financial/accounting Software and support and maintenance for the project duration	140	140	23,724	23,724	(23,584)	(23,584)
4/17 Office equipment (computers, furniture)	32,125	32,125	31,633	31,633	492	492
4/17 Project Vehicle	-	-	26,361	26,361	(26,361)	(26,361)
4/18 Training for PIU staff	-	-	9,885	9,885	(9,885)	(9,885)
4/19 Project audit	-	-	-	-	-	-
4/20 Visibility and Promotional Campaign	-	-	-	-	-	-
4/21 Operational cost	58,314	58,314	21,518	21,518	36,796	36,796
Payments without contract	-	-	-	-	-	-
Sub-total Component 4	355,369	355,369	404,771	404,771	(49,402)	(49,402)
Front end fee	-	-	-	-	-	-
Total Project Expenditures	355,369	355,369	404,771	404,771	(49,402)	(49,402)

Financial Statements
For the period from 28 July 2016 to 31 December 2017

Balance sheet

In EUR	31 December 2017
Assets	
Bank balances	2,862,544
Total assets	2,862,544
Funds and liabilities	
Funds	
Unspent funds	2,862,544
Fund balance	2,862,544
Total Fund and liabilities	2,862,544

Statement of Breakdown of Loans and Grants

	Sub-Loan/grant WB approved date	Sub-Loan/grant amount	Cumulative for the period from 28 July 2016 through 31 December 2017 Paid sub- loan/grant amount	Remaining balance	Outstanding payments	Payment requests processed (number of transactions)
Component 3: Investment in tourism-related infrastructure & linkages at destinations						
3.1 Infrastructure investments						
Municipality 1						
Grant 1		-	-	-	-	-
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Remaining funds		-	-	-	-	-
3.2 Linkages and innovation grants						
Soft-infrastructure grants						
Beneficiary 1						
Grant 1		-	-	-	-	-
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Remaining funds		-	-	-	-	-
Matching grants						
Beneficiary 1						
Grant 1		-	-	-	-	-
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Remaining funds		-	-	-	-	-
Total		-	-	-	-	-

Financial Statements
For the period from 28 July 2016 to 31 December 2017

Statement of Withdrawals – Designated Account

(Amounts in EUR)

For the period from 28 July 2016 to 31 December 2017

Application # and date	Total Requested	Total Disbursed	Difference
IBRD Grant TF0A1779			
#1A Application / 12.08.2016	233,000	233,000	-
#2A Application / 10.05.2017	400,000	400,000	-
#3A Application / 04.12.2017	2,584,913	2,584,913	-
	3,217,913	3,217,913	-

Financial Statements
For the period from 28 July 2016 to 31 December 2017

Statement of Designated Account – EUR

Account number	00 701 0001585.2
Depository Bank	National Bank of the Republic of Macedonia
Address	Complex of Banks, 1000 Skopje, Republic of Macedonia
Grant Number	TF0A1779
Currency	EUR

(Amounts in EUR)
For the period from 28 July 2016 to 31 December
2017

At 28 July 2016	-
Add: Inflows	
Replenishment during the period	3,217,913
Interest received	-
	3,217,913
Deduct: Outflows	
Transfer to treasury account (Mirror designated account) - MKD	(358,265)
	(358,265)
At 31 December 2017	2,861,648

Financial Statements
For the period from 28 July 2016 to 31 December 2017

Statement of Treasury Account (Mirror Designated Account) – MKD

Account number	100000000063095
Depository Bank	National Bank of the Republic of Macedonia
Address	Complex of Banks, 1000 Skopje, Republic of Macedonia
Grant Number	TF0A1779
Currency	Macedonian Denars ("MKD")

(Amounts in EUR)
For the period from 28 July 2016 to 31 December 2017

At 28 July 2016	-
Add: Inflows	
Transfer from designated account – EUR	356,265
	356,265
Deduct: Outflows	
Amount of eligible expenses paid during the period	(355,369)
	(355,369)
At 31 December 2017	896

Notes to Project's financial statements

1 General

On 14 January 2016, the Cabinet of the Deputy Minister of Economic Affairs and Coordination of Economic Departments ("the Cabinet" or "the Recipient"), entered into the Grant Agreement numbered TF0A1779 with the International Bank for Reconstruction and Development ("IBRD") for financing the "Local and Regional Competitiveness Project" (further referred to as "the Project") in the amount of EUR 15,760,000.

The objectives of the Project are to: (i) to enhance the contribution of tourism to local economic development; and (ii) improve the capacity of the Recipient's government and public entities to foster tourism growth and facilitate destination management.

The Borrower has established the Project Implementation Unit ("PIU"), responsible for the day-to-day activities and for procurement, financial management, disbursement and monitoring and reporting for the entire Project.

The following table underlines the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocation of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for the Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in Euro)	Percentage of the Expenditures to be Financed (exclusive of Taxes, other than personal income taxes)
1. Goods, operating costs, training, non-consulting services, and consultants' services under Component 2 and 4 of the Project	2,500,000	100%
2. Subprojects under Component 3 of the Project	13,260,000	100%
Total	15,760,000	

The Closing Date of the Project is 31 December 2019.

2 Project Objectives, Activities and Institutional Arrangements

Project Objectives and Activities

The Project consists of four components:

Component 1: Technical assistance for tourism development (Bank-executed)

Provision of technical assistance to (i) improve the capacity of public and private stakeholders in supporting tourism development at the national level in a number of areas, including, inter alia, institutional coordination, data usage, and business environment; and (ii) support the Recipient-executed activities under Components 2, 3 and 4 of the Project.

Component 2: Strengthening destination management and enabling environment

2.1: Strengthening the Recipient's institutional capacity and coordination at the central governmental level through, inter alia: (i) carrying out of training in public-private dialogue and tourism development; (ii) supplying software systems and equipment to implement improvements in data-and information-gathering; and (iii) provision of technical assistance.

2.2: Developing destination management capacity of key stakeholders (including, inter alia, tour operators, municipalities, centers for regional development, NGOs, skills development institutions, national parks authorities) in selected locations within the Recipient's territory, through the provision of technical assistance, training, equipment and software systems, all in accordance with the relevant criteria set forth in the Project Operations Manual.

Component 3: Investment in tourism-related infrastructure and linkages at destinations

3.1: Provision of technical assistance and financing to selected infrastructure Subprojects that are aimed to improve the physical condition, access and marketing of touristic local attractions, cultural and natural heritage sites.

3.2: Provision of financing to selected non-infrastructure Subprojects (relating to, inter alia, promotional activities, capacity building and technological innovation in connection with tourism products and services) aimed to enhance tourism service-delivery and benefit local economies.

Component 4: Strengthening project management

Improving the institutional capacity of the PIU through the provision of consultant services, training, goods, and operating costs associated with the implementation, monitoring and evaluation of the Recipient-executed activities under Component 2, 3 and 4 of the Project.

Institutional Arrangements

Throughout the duration of the Project, the Recipient shall maintain the PIU with a composition, adequate staff and resources, functions and responsibilities (including the responsibility to manage, coordinate, monitor and evaluate the implementation of the Project) satisfactory to the World Bank.

The Recipient shall carry out the Project in accordance with the Project Operational Manual and shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior approval of the Bank.

3 Accounting policies

Following are the principle accounting policies adopted in preparation of these financial statements. These accounting policies are consistently applied to all financial periods presented.

Basis of preparation

The accompanying financial statements have been prepared for the purposes of reporting to IBRD, on the activities of the Project related to the grant received for the completion of the Project's objectives, in accordance with the respective provisions set out in the Grant Agreement numbered TF0A1779 signed between the IBRD and the Cabinet of the Deputy Prime Minister for Economic Affairs and Coordination of Economic Departments. These financial statements are prepared on the cash receipts and disbursement basis and include all Project - related expenditures incurred, which are financed under the provisions set out in Grant Agreement numbered TF0A1779 dated 14 January 2016.

These instructions closely follow the World Bank's Disbursement Guidelines for Projects.

The financial statements have been prepared for the period from 28 July 2016 through 31 December 2017.

Currency translation

Project's financial statements are kept in Euro as this is the reporting currency of the Project. Transactions denominated in currencies other than Euro are translated using the buying foreign exchange rates of the National Bank of the Republic of Macedonia for international payment operations of the government bodies of Republic of Macedonia by which each instalment of EUR is transferred to Denar account in bank, until that Denar amount is spent.