



YEREVAN – AUDIT CONSULT CJSC

Report for an Expenditure Verification of a Grant Contract

External Actions of the European Union

Operating Grant for Annual Work Programme

ENI/2015/365-502

TABLE OF CONTENTS

| | |
|--|-----------|
| 1.REPORT OF FACTUAL FINDINGS | 2 |
| 2. INFORMATION ABOUT THE GRANT CONTRACT | 4 |
| 3. PROCEDURES PERFORMED AND FACTUAL FINDINGS | 4 |
| 4. GENERAL PROCEDURES | 5 |
| 5. PROCEDURES TO VERIFY CONFORMITY OF EXPENDITURE WITH THE BUDGET AND ANALYTICAL REVIEW | 5 |
| 6. PROCEDURES TO VERIFY SELECTED EXPENDITURE | 10 |

1. REPORT OF FACTUAL FINDINGS

Ms. Diana Sarumova

Executive Director

European Business Association (EBA)

Union of legal entities

Armenia, 0019, Yerevan, Baghramyan Ave. 18

06th October 2017

Dear Ms. Sarumova

In accordance with the terms of reference that you agreed with us, we provide our Report of Factual Findings (“the Report”), with respect to the accompanying Financial Report for the period covering *10 March 2016 - 10 September 2017* (Annex 2 of this Report). You requested certain procedures to be carried out in connection with your Financial Report and the European Union financed Grant Contract concerning “Operating Grant for Annual Work Programme” (Project # ENI/2015/365-502)

Objective

Our engagement was expenditure verification, which is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract between you and *the European Commission* the ‘Contracting Authority’. The objective of this expenditure verification is for us to carry out certain procedures to which we have agreed and to submit to you a report of factual findings with regard to the procedures performed.

Standards and Ethics

Our engagement was undertaken in accordance with:

International Standard on Related Services (‘ISRS’) 4400 *Engagements to perform Agreed-upon Procedures regarding Financial Information* as promulgated by the International Federation of Accountants (‘IFAC’);

the *Code of Ethics for Professional Accountants* issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also comply with the independence requirements of the *Code of Ethics for Professional Accountants*;

Procedures performed

As requested, we have only performed the procedures listed in Annex 2A of the terms of reference for this engagement.

These procedures have been determined solely by the Contracting Authority and the procedures were performed solely to assist the Contracting Authority in evaluating whether the expenditure claimed by you in the accompanying Financial Report is eligible in accordance with the terms and conditions of the Grant Contract.

Because the procedures performed by us did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying Financial Report.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the Beneficiary in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

Sources of Information

The Report sets out information provided to us by you in response to specific questions or as obtained and extracted from your accounts and records

Factual Findings

The total expenditure which is the subject of this expenditure verification amounts is 59,851 € which include 768 € contingency reserve.

The Expenditure Coverage Ratio is 81.1 %. This ratio represents the total amount of expenditure verified by us expressed as a percentage of the total expenditure, which has been subject of this expenditure verification.

We report the details of our factual findings, which result from the procedures that we performed in Chapter 2 of this Report.

Use of this Report

This Report is solely for the purpose set forth above under objective.

This report is prepared solely for your own confidential use and solely for the purpose of submission by you to the Contracting Authority in connection with the requirements as set out in General Conditions of the Grant Contract. This report may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Contracting Authority is not a party to the agreement (the terms of reference) between you and us and therefore we do not owe or assume a duty of care to the Contracting Authority who may rely upon this expenditure verification report at its own risk and discretion. The Contracting Authority can assess for itself the procedures and findings reported by us and draw its own conclusions from the factual findings reported by us.

The Contracting Authority may only disclose this Report to others who have regulatory rights of access to it in particular the European Anti Fraud Office and the European Court of Auditors.

This Report relates only to the Financial Report specified above and does not extend to any of your financial statements.

We look forward to discussing our Report with you and would be pleased to provide any further information or assistance, which may be required.

Yours sincerely,

Mr. Levon Ghonyan

Auditors' signature

Director Levon Ghonyan

Auditor Levon Ghonyan

Auditors' address Baghramyan 3, Yerevan, Armenia

Date of signature 06th October 2017

2. INFORMATION ABOUT THE GRANT CONTRACT

Operating Grant for Annual Work Programme commenced in March 2016. The project has been implemented by European Business Association. The project has funded by the European Union. The project life was from March 2016 to September 2017. The total eligible costs were estimated at 60,000 EUR. The EU funding shall be made as follows: initial pre-financing EUR 45,714 and the final amount: EUR 14,286.

Main activities of EBA were conducted through conferences/seminars, round tables and discussions between EU businesses operating in Armenia and the government authorities. EBA periodically organized corresponding business meetings and networking events. Based on companies' need assessment EBA also made a proposal to the government on legislation issues that can potentially improve business climate. EBA advocated the interests of EU organizations that have impeded and meet some difficulties in legal, tax, customs or any other sphere of activity.

EBA activities complemented each other to get more comprehensive impact on business and investment environment.

The Overall Objective: EU Businesses and their affiliates in Armenia will bundle requests for the local Government and authorities and receive more transparent information in cooperation with the EUD to Armenia.

Objective 1: Armenian government received continuous and accumulated information to improve business climate from EBA

Objective 2: EU Business community in Armenia received relevant business information from the authorities on request

Objective 3: Clear advocacy from bottom up via the EU Delegation in Armenia have been established

Activities organized by EBA :

- EBA is established by four leading National Chambers and Business Associations and launched its activities in March 2016.
- EBA has been approved as a member of SME Development Council under the Government of RA chaired by Prime Minister.
- EBA is establishing its networking with EU Member State Embassies and Business Community.
- EBA hold an official meeting with the First Deputy Minister of Economy Mr. Garegin Melkonyan, during which it was agreed to conduct further collaboration with the Ministry.
- EBA jointly with the Business Community and the European Diplomatic Community in Armenia conducted a business forum on 'Business perspectives (impediments and opportunities) for foreign and local companies/investors doing business in Armenia'.
- EBA continued its involvement in the ongoing discussions between the EU and Armenian government on Public Procurement procedure improvement that should be applied by the Government to make the process more efficient, transparent and fair.
- EBA has initiated the cooperation with the State Revenue Committee of Armenia and agreed to work on the legislative amendments as well as on the improvement of tax inspections and customs procedures.
- The Public-Private Dialog was organized by EBA; the commitment of the government was received to cooperate with business associations in the direction of creation of better business and investment climate in Armenia.
- Memorandum of Understanding signed between 14 Armenian and European Business Associations was presented to the Government of RA. The main objective of MOU is to emphasize the most important areas for business environment improvement in Armenia and to demonstrate willingness to work together to eliminate main obstacles for business development.

- EBA continued its Public-Private Dialog to resolve Reference Price (transaction value method) issue, which was identified as one of the most important for EBA members and majority of companies operating in Armenia. EBA had its first success story on this matter, however continues to follow up and keep the focus on the further development.
- EBA became a Board Member with the voting right of the Revenue Administration reform Council under the State Revenue Committee of Armenia.
- EBA Became a Board Member of the Income Policy Improvement council under the Ministry of Finance.
- EBA members participated the Business Breakfast with the Head of the European Delegation to the Republic of Armenia, EU Ambassador H.E. Mr. Piotr Antoni Switalski. European Businesses expressed their appreciation of EBA's active efforts to improve business environment in Armenia.
- EBA in Armenia has initiated a discussion/round table at the State Revenue Committee on the main issues related to transportation and customs procedures.
- EBA initiated a round table discussion on the main topics in the new Tax Code that are related to businesses as well as updates on the current and future improvements in the customs regulations. More than 50 German, French, British, Italian, Swedish, Swiss, Armenian and other business representatives attended the round table/discussion.
- EBA Armenia attended EBO WWN regional meeting in South Korea.
- EBA made a speech and emphasized main impediments for the Investment Climate improvement in Armenia at the National Assembly Hearings of the Republic of Armenia related to the Foreign Investment climate improvement issues.

IMPROVEMENT OF DOING BUSINESS RANKING

By the request of the Ministry of Economy, EBA presented its proposals on activities to improve the Armenian ranking in Doing Business, particularly for paying taxes indicator

- a. To introduce and implement a deduction system for the unified income tax in order to smooth the negative influence of the increase of the unified income tax rates prescribed by the new Tax Code.
- b. To introduce and implement the efficient and effective system for collection of property tax taking into consideration the cases of property tax avoidance through splitting one property into different properties as well as the procedure of property valuation which decreases the taxes for luxury property in multiple times.
- c. To provide profit tax exemption for 5 years to the Fortune 500 companies in case of making investments in Armenia.

EBA presented also number of proposals related to the Trading across Borders, starting a business and getting credit indicators.

INFORMATION ABOUT THE BUDGET FOR 10 MARCH 2016 - 10 SEPTEMBER 2017

| Budget item | TOTAL BUDGET | ACTUAL EXPENDITURES Sum (EURO) |
|---|-----------------|-----------------------------------|
| 1. Human resources | € 24,786 | € 24,980 |
| 2. Travel | € 4,460 | € 5,332 |
| 3. Equipment and supplies | € 3,302 | € 2,909 |
| 4. Local Office | € 9,900 | € 7,455 |
| 5. Subcontracted services | € 17,525 | € 18,407 |
| 6. Other | € 0 | € 0 |
| 7. SUBTOTAL DIRECT ELIGIBLE COSTS (1-6) | € 59,973 | € 59,083 |
| 8. Indirect costs (maximum 7% of 7, subtotal of direct eligible costs of the Action) | 0 | 0 |
| 9. TOTAL ELIGIBLE COSTS OF THE ACTION, EXCLUDING RESERVE (7+8) | € 59,973 | € 59,083 |
| 10. Provision for contingency reserve (maximum 5% of 7, subtotal of direct eligible costs of the Action)` | € 27 | € 768 |
| 11. TOTAL ELIGIBLE COSTS (9+10) | € 60,000 | € 59,851 |

3. PROCEDURES PERFORMED AND FACTUAL FINDINGS

We have performed the specific procedures listed in Annex 2A of the terms of reference for the expenditure verification of the Grant Contract ('ToR') . These procedures are:

1. General Procedures
2. Procedures to verify conformity of Expenditure with the Budget and Analytical Review
3. Procedures to verify selected Expenditure

We have applied the rules for selection of expenditure and the principles and criteria for verification coverage as set out in Annex 2B (sections 3 and 4) of the ToR for this expenditure verification.

We did not encounter any difficulties in verifying the expenditure or tracing it through the accounting records. We also did not encounter any difficulties agreeing the expenditure per the accounting records to that shown within the financial report prepared by you.

The total expenditure verified by us is 59,851 € which is summarised in the table N 1. The overall Expenditure Coverage Ratio is 81.1 %.

We have verified the selected expenditure as shown in Table and we have carried out, for each expenditure item selected, the verification procedures specified at point 3.1 to 3.7 of Annex 2A of the ToR for this expenditure verification. We report our factual findings resulting from these procedures below.

4. GENERAL PROCEDURES

4.1. Terms and Conditions of the Grant Contract

We have obtained an understanding of the terms and conditions of this Grant Contract in accordance with the guidelines in Annex 2B (section 2) of the ToR.

No areas were identified where expenditure had not been properly incurred in the course of carrying out the work agreed under the Grant Contract. All expenditure incurred and verified was found to be correctly recorded in the accounting records and correctly reflected in the financial report.

4.2. Financial Report for the Grant Contract

We have checked the financial report and agreed the details back to the accounting records. All items reflected in the financial report agree in full to the detailed accounting records maintained by the client.

4.3. Rules for Accounting and Record keeping

The record keeping was found to be in accordance with Article 16 of the General Conditions of the Grant Contract. Expenditure relating to this Grant is clearly identifiable, the records are maintained on a double entry book keeping system and interest has been accrued on funds paid by the Contracting Authority.

4.4. Reconciling the Financial Report to the Beneficiary's Accounting System and Records

The details of expenditure shown within the financial report have been agreed 100% to the clients accounting system. No irregularities were identified.

4.5. Exchange Rates

costs incurred in other currencies than the one used in the Beneficiary(ies)'s accounts for the Action shall be converted according to its usual accounting practices, provided they respect the following basic requirements: (i) they are written down as an accounting rule, i.e. they are a standard practice of the Beneficiary, (ii) they are applied consistently, (iii) they give equal treatment to all types of transactions and funding sources, (iv) the system can be demonstrated and the exchange rates are easily accessible for verifications.

Currency exchange transactions for the period 01/03/16 - 31/05/17

| Date | Document N | Converted amount in EUR | Acutally converted amount in AMD |
|-------------|-------------------|--------------------------------|---|
| 1-Apr-16 | 001 | 2,000.00 € | AMD 1,085,000 |
| 22-Apr-16 | 002 | 2,000.00 € | AMD 1,073,000 |
| 29-Apr-16 | 003 | 1,000.00 € | AMD 540,000 |
| 20-May-16 | 004 | 300.00 € | AMD 159,000 |
| 25-May-16 | 005 | 2,000.00 € | AMD 1,058,000 |
| 15-Jun-16 | 006 | 1,000.00 € | AMD 532,000 |
| 20-Jun-16 | 007 | 1,000.00 € | AMD 535,000 |
| 14-Jul-16 | 008 | 5,000.00 € | AMD 2,615,000 |

| | | | |
|---|-----|--------------------|--------------------------|
| 1-Aug-16 | 009 | 1,000.00 € | AMD 526,500 |
| 5-Aug-16 | 010 | 1,000.00 € | AMD 525,000 |
| 10-Aug-16 | 011 | 1,500.00 € | AMD 790,500 |
| 23-Sep-16 | 012 | 2,000.00 € | AMD 1,052,000 |
| 17-Oct-16 | 013 | 1,000.00 € | AMD 518,500 |
| 26-Oct-16 | 014 | 2,000.00 € | AMD 1,026,000 |
| 11-Nov-16 | 015 | 1,000.00 € | AMD 516,500 |
| 22-Nov-16 | 016 | 500.00 € | AMD 251,000 |
| 28-Nov-16 | 017 | 2,000.00 € | AMD 1,006,000 |
| 1-Dec-16 | 018 | 1,000.00 € | AMD 505,500 |
| 14-Dec-16 | 019 | 50.00 € | AMD 25,600 |
| 19-Dec-16 | 021 | 50.00 € | AMD 24,975 |
| 19-Dec-16 | 020 | 200.00 € | AMD 99,900 |
| 26-Dec-16 | 022 | 2,500.00 € | AMD 1,251,250 |
| 30-Dec-16 | 023 | 600.00 € | AMD 304,200 |
| 20-Jan-17 | 024 | 2,000.00 € | AMD 1,031,000 |
| 31-Jan-17 | 025 | 1,000.00 € | AMD 516,000 |
| 3-Feb-17 | 026 | 1,000.00 € | AMD 519,000 |
| 27-Feb-17 | 027 | 2,000.00 € | AMD 1,019,000 |
| 13-Mar-17 | 028 | 1,000.00 € | AMD 515,500 |
| 20-Mar-17 | 029 | 500.00 € | AMD 257,750 |
| 31-Mar-17 | 030 | 2,000.00 € | AMD 1,024,000 |
| 2-May-17 | 031 | 3,000.00 € | AMD 1,573,500 |
| 20-May-17 | 032 | 500.00 € | AMD 267,500 |
| 26-May-17 | 033 | 3,000.00 € | AMD 1,606,500 |
| Total | | 46,700.00 € | AMD24, 350,175.00 |
| Average rate per transactions as at 31.05.2017 | | | 521.42 |
| RA CB rate per the day the funds received | | | 544.78 |
| Total expenses in AMD as at 31.05.2017 | | | AMD22, 885,343.02 |
| The difference of reported amount taking into account the 2 FX rates | | | 1,882.26 € |

5. PROCEDURES TO VERIFY CONFORMITY OF EXPENDITURE WITH THE BUDGET AND ANALYTICAL REVIEW

5.1. Budget of the Grant Contract

We have verified the budget shown within the Financial Report and agreed that this is in accordance with the budget that was agreed under the Grant Contract.

5.2. Amendments to the Budget of the Grant Contract

Audit Process and Methodology

Rational and Strategy

Team Work: To conduct an effective audit process, the auditors created the team with clearly distinguished responsibilities among the members. This means that within our team, the communications between all members are unrestricted and informal; the issues are discussed by freely exchanging views and respecting everyone's opinion. Combined with the firm's system of quality control, teamwork leads us to very good results.

Phase Approach: In performing our firm audit approach as described, we will segment the overall audit into separate manageable phases. Each had a clear set of objectives, procedures and deliverables. Through the implementation of the phase approach we ensure the attainment of audit objectives within a reasonable time framework.

Risk Based No Surprises Approach: the auditors focused on risks, early identification and resolution of issues and regular communications with the client to avoid surprises.

Policy: includes following main policies – Confidentiality, Independence and Impartiality, Qualification and Experience.

Work Plan: the whole process of audit shall be defined by three consequent steps: planning, audit testing procedures, conclusion and reporting.

Methodology: To minimize the omission risk we've implemented the following approach:

Expenditures were divided into 6 categories in accordance with Project Budget lines, namely: 1 Human Resources; 2 Travel; 3 Equipment and Supplies; 4 Local Office; 5 Subcontracted services; 6 Contingency reserve. All expenditure headings represent direct costs of the Action. The overall Expenditures Coverage Ratio (ECR) was implemented during the process of verification is 81.1 % (48,556 Euro out of 59,851 Euro). ECR's for each of the above categories was implemented during the process of verification are as shown in Table N1:

Table N1

| Budget item | ACTUAL EXPENDITURES Sum (EURO) | VERIFIED EXPENDITURES Sum (EURO) | ECR Coverage % |
|---------------------------|--------------------------------------|--|----------------------|
| 1. Human resources | € 24,980 | € 22,482 | 90% |
| 2. Travel | € 5,332 | € 4,532 | 85% |
| 3. Equipment and supplies | € 2,909 | € 2,472.6 | 85% |
| 4. Local Office | € 7,455 | € 6,336.7 | 85% |
| 5. Subcontracted services | € 18,407 | € 11,964.5 | 65% |
| 6. Other | € 0 | € 0 | 0% |
| 10. Contingency reserve | € 768 | € 768 | 100% |

OBSERVATIONS

No observations have been found.

6. PROCEDURES TO VERIFY SELECTED EXPENDITURE

We have reported further below all the exceptions resulting from the verification procedures specified at point 3.1 – to 3.7 of Annex 2A of the ToR for this expenditure verification insofar these procedures did apply to the selected expenditure item.

No exceptions were highlighted as a result of our verification work.

6.1. Eligibility of Costs

We have verified, for each expenditure item selected, the eligibility criteria set out at procedure 3.1 in Annex 2A of the ToR for this expenditure verification.

6.2. Eligibility of Direct Costs (Article 14.2)

All items shown under sections 1-3 of the financial report were found to be eligible direct costs.

6.3. Provision for Contingency Reserve (Article 14.3)

Contingency reserve in amount of 768 Euro has been included within the financial report.

6.4. Administrative costs (Article 14.4)

According to budget structure there is no administrative costs within the financial report.

6.5. Non-eligible costs (Article 14.6)

There was no VAT payment during the Project implementation.

6.6. Revenues of the Action

No revenues received in relation to this Grant Contract.

“YEREVAN- AUDIT CONSULT” CJSC

Director

L.Ghonyan

Auditor

L.Ghonyan

Annex 1 Information about the Grant Contract and Partnership Agreement(s)

| Information about the Grant Contract | |
|---|--|
| Reference number and date of the Grant Contract | ENI/2015/365-502 10.03.2016 |
| Grant contract title | Operating Grant for Annual Work Programme |
| Country | Armenia |
| Coordinator | European Business Association Diana Sarumova Executive Director 18 M.Baghramyan ave., 0019 Yerevan, RA |
| Beneficiary(ies) and affiliated entity(ies) | |
| Start date of the implementation period of the Action | 10.03.2016 |
| End date of the implementation period of the Action | 10.09.2017 |
| Total eligible cost of the Action | 66,000 Euro |
| Grant maximum amount | 60,000 Euro |
| Total amount received to date by the Coordinator from Contracting Authority | Total amount received as per 08.09.2017 is 54,380.5 Euro |
| Total amount of the payment request | 60,000 Euro |
| Contracting Authority | |
| European Commission | European Commission Delegation of the European Union to Armenia Mrs. Rozina Asatryan 21Frik str., 0002 Yerevan, Armenia |
| Auditor | “Yerevan-Audit Consult” CJSC, Address: M. Baghramyan ave. 3, Yerevan 0019, Armenia Managing Partner / CEO Levon Ghonyan |