

MINISTRY OF HEALTH – SECOND SERBIA HEALTH PROJECT

IBRD LOAN NUMBER 8338YF

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Independent Auditor's report and Summary of funds received, The Summary of expenditures, The Statement of summary reports or IFRs, The Statement of the DA; and a Balance Sheet showing accumulated funds; Annex1 and Notes

For the period from 01 January 2022 till 30 April 2023

Belgrade, July 19th 2023

CONTENTS

	Pages
Independent Auditors' Report	
Project Financial Statements	
Summary of Funds received	3
Summary of Expenditures	4
Statement of Summary reports	5
Summary of Designated Account	6
Balance Sheet	7
 Annex 1 – Reconciliation between the amounts shown as receive by the Project from the IBRD and that shown as being disbursed by the IBRD	
 Annex 2 – Management Letter	
 Annex 3 – Representation Letter	
 Statement of Summary reports	



Independent auditor's report

To the Management of Ministry of Health of the Republic of Serbia "Second Serbian Health Project"

Our opinion

In our opinion, the special purpose financial information for the Project No. 8338 - YF entitled "Second Serbian Health Project" (the "Project") as at 30 April 2023 and for the period from 01 January 2022 until 30 April 2023, is prepared, in all material respects, in accordance with the basis of preparation as set out in Note 3 to the special purpose financial information.

What we have audited

The Project's special purpose financial information comprises the Summary of expenditures as at 30 April 2023 and for the period from 01 January 2022 until 30 April 2023 and related explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the special purpose financial information section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Ministry in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on auditing in the Republic of Serbia that are relevant to our audit of the special purpose financial information in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on auditing in the Republic of Serbia.

Emphasis of Matter - Basis of accounting and restriction on distribution and use

We draw attention to the Note 3 to the special purpose financial information, which describes the basis of accounting. The Project special purpose financial information is prepared for the purpose of reporting of Ministry of Health of the Republic of Serbia on the activities of the Project with respect to the funding received for the completion of the Project objectives in accordance with the respective loan agreement. As a result, the special purpose financial information may not be suitable for another purpose.

Our report is intended solely for the Ministry of Health of the Republic of Serbia and the IBRD and should not be distributed to or used by parties other than the Ministry of Health of the Republic of Serbia and the IBRD. Our opinion is not modified in respect of this matter.

Responsibilities of management for the special purpose financial information

Management is responsible for the preparation of this financial information in accordance with the basis of preparation as set out in note 3 to the special purpose financial information and for such internal control as management determines is necessary to enable the preparation of special purpose financial information that is free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial information, management is responsible for assessing the Ministry's ability to continue as a going concern, disclosing, as applicable, matters related to going



concern and using the going concern basis of accounting unless management either intends to liquidate the Ministry or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the special purpose financial information

Our objectives are to obtain reasonable assurance about whether the special purpose financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this special purpose financial information.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the special purpose financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ministry's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers d.o.o.
PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 19 July 2023

SUMMARY OF SUMMARY OF FUNDS RECEIVED
for the year ended 30 April 2023

Expressed in EUR	Cumulative	4th of 2023	In %	2022	In %	2021	In %	2020	In %	2019	In %	2018	In %	2017	In %	2016	In %	2015	In %
FUNDS RECEIVED																			
IBRD FUNDS	1,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000,000	92%
Withdrawal applications	8,710,485	-	-	280,227	43%	2,478,528	86%	1,485,150	100%	1,369,485	100%	1,683,082	10%	780,415	30%	537,061	100%	106,035	5%
Direct Withdrawal	18,307,267	-	-	318,338	53%	408,585	14%	-	-	-	-	15,776,826	90%	1,803,518	70%	-	-	-	-
WB fee	72,750	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	72,750	3%
Total from IBRD Funds	29,100,000	-	-	598,565	100%	2,887,113	100%	1,485,150	100%	1,369,485	100%	17,459,909	100%	2,583,933	100%	537,061	100%	2,178,785	100%
Returned to the bank account	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total interest received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL FUNDS RECEIVED	29,100,000	-	-	598,565	100%	2,887,113	100%	1,485,150	100%	1,369,485	100%	17,459,909	100%	2,583,933	100%	537,061	100%	2,178,785	100%

Belgrade, July 7th 2023

Finance Specialist



Dragana Gocević

PCU Coordinator



Biljana Kozlović

SUMMARY SUMMARY OF EXPENDITURE
for the year ended 30 April 2023

Expressed in EUR	Year 2015 to December 31 st	Year 2016 to December 31 st	Year 2017 to December 31 st	Year 2018 to December 31 st	Year 2019 to December 31 st	Year 2020 to December 31 st	Year 2021 to December 31 st	Year 2022 to December 31 st	Year 2023 to April 30 th	Cumulative	In %
IBRD EXPENSES											
Goods, works, non-consulting services, Operating Costs, Training and consultants' services for the Project (except for goods and works for Part 3(b)(i)), including audit, and for Quality Improvement Sub-grants	246,542	577,333	900,274	1,202,894	2,058,725	1,331,143	2,252,495	1,481,357	218,938	10,269,701	35%
Goods and works for Part 3(b)(i)	0	0	2,018,212	16,170,715	346,877	63,648	52,900	91,811	-	18,764,163	6%
Front - end Fee	72,750	0	0	0	0	0	-	-	-	72,750	0%
Refund from Grants 2020	-	-	-	-	-	-	(18,603)	-	-	(18,603)	0%
Premia for Interest Rate Caps and Interest Rate Collars	-	-	-	-	-	-	-	-	-	-	-
Total Project Expenditure	319,292	577,333	2,938,486	17,373,609	2,405,602	1,394,791	2,286,792	1,573,167	218,938	29,088,012	100%

Belgrade, July 7th 2023

Finance Specialist



Dragana Gocević

PCU Coordinator



Biljana Kozlović

SUMMARY OF SUMMARY REPORTS
for the year ended 30 April 2023

Expressed in EUR	2023		2022		2021		2020		2019-2018		2015-2016		Total	
Payment type	Total funds received from IBRD	Total expenditures	Total funds received from IBRD	Total expenditures	Total funds received from IBRD	Total expenditures	Total funds received from IBRD	Total expenditures	Total funds received from IBRD	Total expenditures	Total funds received from IBRD	Total expenditures	Total funds received from IBRD	Total expenditures
Opening balance as of 1 January	230,927	-	1,205,529	-	605,209	-	1,550,967	-	1,819,220	-	2,000,000	-	2,000,000	-
Advance payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repayments	-	-	280,227	-	2,478,528	-	2,854,635	-	2,463,498	-	643,096	-	8,719,983	-
I Quarter Interim Report	-	216,369	-	130,447	2,478,528	154,369	1,934,183	265,266	716,112	695,352	140,508	190,751	-	1,652,555
II Quarter Interim Report	-	2,570	280,227	241,207	-	426,370	265,266	512,220	695,352	439,012	84,716	254,961	-	1,876,340
III Quarter Interim Report	-	-	-	474,399	-	502,988	236,689	1,249,867	439,012	613,022	114,454	197,384	-	3,037,660
IV Quarter Interim Report	-	-	-	408,777	-	794,480	418,497	1,773,039	613,022	984,366	303,419	180,780	-	4,141,441
Direct payments	-	-	408,589	408,589	408,589	408,589	-	-	17,580,344	17,580,344	-	-	18,007,367	18,007,367
Front and fee	-	-	-	-	-	-	-	-	-	-	72,750	72,750	72,750	72,750
Total	230,927	218,938	1,804,093	1,573,167	3,492,322	2,286,792	4,405,602	3,800,393	21,863,062	20,312,095	2,715,846	896,626	29,100,000	29,088,012
Closing balance as of the year end	11,988	-	230,927	-	1,205,529	-	605,209	-	1,550,967	-	1,819,220	-	11,988	-

Belgrade, July 7th 2023

Finance Specialist



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PCU Coordinator



Biljana Kozlović

STATEMENT OF DESIGNATED ACCOUNT
for the year ended 30 April 2023

Expressed in EUR	April 30, 2023	December 31, 2022	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Opening balance	230,927	1,205,529	605,209	514,850	1,550,967	1,464,668	1,819,220	1,859,492	-
Add:									
Withdrawal Application	-	280,227	2,478,528	1,485,150	1,369,485	1,683,082	780,415	537,061	2,106,035
Direct Withdrawal	-	318,338	408,585	-	-	15,776,826	1,803,518	-	-
WB fee	-	-	-	-	-	-	-	-	72,750
Refund to the bank account	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-
Total Funds	230,927	1,804,093	3,492,322	2,000,000	2,920,452	18,924,577	4,403,154	2,396,553	2,178,785
Deduct:									
Project expenditure payment	(218,938)	(1,481,357)	(1,896,809)	(1,394,791)	(2,405,602)	(1,596,783)	(1,134,968)	(577,333)	(246,542)
Direct payments	-	(91,811)	(408,585)	-	-	(15,776,826)	(1,803,518)	-	-
Refund from Grants 2020	-	-	18,602	-	-	-	-	-	-
WB fee	-	-	-	-	-	-	-	-	72,750
Total Project Expenditure Payments	(218,938)	(1,573,167)	(2,286,792)	(1,394,791)	(2,405,602)	(17,373,609)	(2,938,486)	(577,333)	(319,292)
Cash balance per Bank's statement	11,988	230,927	1,205,529	605,209	514,850	1,550,967	1,464,668	1,819,220	1,859,492

Belgrade, July 7th 2023

Finance Specialist

Dragana Gocević
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PCU Coordinator

Biljana Kozlović
Biljana Kozlović

Second Serbia Health Project
International Bank for Reconstruction and Development
IBRD Loan No. 8338YF

BALANCE SHEET
for the year ended 30 April 2023

Expressed in EUR	Cumulative April 30, 2023	30-Apr-23	31-Dec-22	31-Dec-21	31-Dec-20	31-Dec-19	31-Dec-18	31-Dec-17	31-Dec-16	31-Dec-15
ASSETS										
IBRD Funds	2,000,000									2,000,000
Opening balance Cash on the Designated Account	9,250,861	230,297	1,205,529	605,208	514,850	1,550,967	1,464,668	1,819,220	1,859,492	
Front - end Fee	72,750									72,750
Disbursements	8,719,983		280,227	2,478,528	1,485,150	1,369,485	1,683,082	780,415	537,061	106,035
Direct Withdrawal	18,307,267		318,338	408,585			15,776,826	1,803,518		
Cash and Cash at Bank	29,100,000	230,927	1,804,093	3,492,321	2,000,000	2,920,452	18,924,576	4,403,154	2,396,553	2,178,785
TOTAL ASSETS	29,100,000	230,927	1,804,093	3,492,321	2,000,000	2,920,452	18,924,576	4,403,154	2,396,553	2,178,785
Project Expenditures										
Goods, works, non-consulting services, Operating Costs, Training and consultants' services for the Project (except for goods and works for Part 3(b)(i)), including audit, and for Quality Improvement Sub-grants	10,269,701	218,938	1,481,357	2,252,495	1,331,143	2,058,725	1,202,894	900,274	577,333	246,542
Goods and works for Part 3(b)(i)	18,764,163		91,811	52,900	63,648	346,877	16,170,715	2,038,212		
Refund Grants 2020	(18,602)			18,602						
Front - end Fee	72,750									72,750
Premia for Interest Rate Caps and Interest Rate Collars										
TOTAL PROJECT EXPENDITURE	29,088,012	218,938	1,573,167	2,286,792	1,394,791	2,405,602	17,373,609	2,938,486	577,333	319,292
WB Special Account	11,988	11,988	230,927	1,205,529	605,208	514,850	1,550,967	1,464,668	1,819,220	1,859,492
TOTAL FUNDS RECEIVED	29,100,000	-	598,565	2,887,113	1,485,150	1,369,485	17,459,909	2,583,933	537,061	2,178,785

Belgrade, July 7th 2023

Finance Specialist



Dragana Gocević

PCU Coordinator



Biljana Kozlović

ANNEX 1

RECONCILIATION BETWEEN THE AMOUNTS SHOWN AS RECEIVED BY THE PROJECT FROM THE IBRD AND THAT SHOWN AS BEING DISBURSED BY THE IBRD

ANNEX 1

Reconciliation between the amounts shown as received by the Project from the IBRD and the shown as being disbursed by the IBRD for the year ended 30 April 2023

Description	Type of reimbursement	Date requested	Value date	EUR Received	Received by the Project	Disbursed by the IBRD
Replenishments	DA - 26	01.04.2022.	01.04.2022.	794,470	No	Yes
Replenishments	DA - 28	18.10.2022.	18.10.2022.	280,227	Yes	No
Replenishments	DA - 28A	18.10.2022.	18.10.2022.	29,883	No	Yes
Replenishments	DA - 29	07.03.2023.	07.03.2023.	814,272	No	Yes
Replenishments	DA - 30	25.04.2023.	25.04.2023.	219,939	No	Yes
Total Replenishments				<u>2,138,792</u>		
Final Total				<u>2,138,792</u>		

PROJECT BACKGROUND

for the year ended 30 April 2023

1) Project Background – General information

The Republic of Serbia has received a Loan from the International Bank for Reconstruction and Development in the amount of EUR 29.1 million for the implementation of the Second Serbia Health Project (SSHP). The Loan agreement YF 8338 was signed on 10 July 2014 and the project became effective on 8 May 2015, with the establishment of the Project Coordination Unit (PCU) by the Ministry of Health (MoH). The project end date is 31 December 2021.

The main project development objective is to contribute to the health care system improvement in the areas of financing, efficient procurement of medicines and medical devices, health care quality and management of selected priority non-communicable diseases. The project's key beneficiaries are health care institutions in Serbia.

The activities that are financed by the SSHP are structured into four components with subcomponents:

1. Improvement of Health Financing

1.1: Support Hospital Financing Reforms

1.2: Strengthen Primary Health Care Financing

This component will support reforms focused on improving the health care financing (by the Health Insurance Fund (HIF) on the primary, secondary and tertiary health care levels. It will, specifically, finance technical assistance, training and procurement of goods necessary to improve reporting by health care institutions according to diagnosis-related groups (DRG) and to improve the capitation formula. The project will also finance grants to improve the quality-of-service provision in primary health care centers, as well as technical assistance for the necessary amendments to by-laws and other regulations required for the implementation of the health financing reform.

All the results of project proposals evaluation by the Grants Implementation Committee were regulated by the Decision of the Ministry of Health (MoH) and published on the MoH Website, and a total of EUR 2,310,000 was awarded for the implementation of 91 projects submitted by 83 Primary Health Care (PHC) Centers.

The implementation of projects in all the primary health centers has continued in accordance with the changed situation caused by the COVID-19 epidemics.

After the submission of financial and narrative progress reports on the first phase of project implementation and following the control and the approval of the reports by the Grant Financial Specialist and Grant Coordinator, the second installment - another 50% of the grant value - was transferred in August 2020.

2. Efficient Purchasing of Pharmaceuticals and Medical Products

- 2.1: Establish a Centralized Procurement System
- 2.2: Strengthen Health Technology Assessment
- 2.3: Improve Medical Equipment Maintenance Systems

This component will provide support to the centralized procurement of medicines and medical devices through concluding framework agreements. Improvement of the health technology assessment (HTA) and medical equipment maintenance systems will also be funded by the project. Activities in this field will include: technical assistance, training and procurement of goods, including piloting contracts with companies for maintenance of equipment by the same manufacturers in different health care institutions.

3. Strengthening Quality of Service Delivery

- 3.1: Strengthen Quality Improvement Systems
- 3.2: Improve Cancer Management

This component will provide support to the reforms focused on the strengthening of the health care quality system, as well as technical assistance and training. In addition, within Component 3, one of the main objectives is quality improvement of cancer care including procurement of linear accelerators for oncology centers throughout Serbia, along with associated equipment and necessary civil works.

4. Monitoring, Evaluation, and Project Management

This component will support project management, monitoring and evaluation, as well as audits of the project's financial statements. It will also finance the project's operating costs, cost for the trainings, including translation, interpretation, equipment, supervision costs and PCU staffing costs.

The activities that are financed by the SSHP are structured into four components with subcomponents:

Cod of the activity	Estimated Cost - taxes included (EUR)	Total expenditures 2015	Total expenditures 2016	Total expenditures 2017	Total expenditures 2018	Total expenditures 2019	Total expenditures 2020	Total expenditures 2021	Total expenditures 2022	Total expenditures 4m of 2023	Cumulative
1. Improvement of Health Financing	4,140,000	9,519	59,852	203,487	335,800	1,485,494	651,717	1,742,915	687,369	50,364	5,226,518
1.1: Support Hospital Financing Reforms	2,840,000	9,519	59,852	195,418	257,301	1,416,736	603,730	1,694,691	676,478	35,929	4,949,653
1.2: Strengthen Primary Health Care Financing	1,300,000	0	0	8,069	78,499	68,758	47,988	48,224	10,891	14,435	276,865
2. Efficient Purchasing of Pharmaceuticals and Medical Products	3,200,000	458	25,361	78,740	193,410	70,287	219,498	169,388	28,364	2,559	788,066
2.1: Establish a Centralized Procurement System	870,000	458	25,361	78,740	193,410	57,570	219,498	169,388	28,364	2,559	775,348
2.2: Strengthen Health Technology Assessment	1,080,000	-	-	-	-	12,717	-	-	-	-	12,717
2.3: Improve Medical Equipment Maintenance Systems	1,250,000	-	-	-	-	-	-	-	-	-	-
3. Strengthening Quality of Service Delivery	19,510,000	16,611	213,756	2,249,620	16,457,337	449,395	371,195	260,509	713,795	10,554	20,742,772
3.1: Strengthen Quality Improvement Systems	1,550,000	5,310	10,470	125,953	117,097	80,900	307,548	207,609	621,984	10,554	1,487,425
3.2: Improve Cancer Management	17,960,000	11,300	203,286	2,123,667	16,340,240	368,495	63,647	52,900	91,811	-	19,255,346
4. Monitoring, Evaluation, and Project Management	2,250,000	219,955	278,364	406,638	387,061	400,426	152,380	113,980	143,639	155,463	2,257,906
Project Management	2,117,250	219,955	278,364	398,175	378,698	331,355	152,380	113,980	129,293	141,127	2,143,327
Monitoring and Evaluation	60,000	-	-	8,463	8,364	69,071	-	-	14,346	14,336	114,579
WB Fee	72,750	72,750	-	-	-	-	-	-	-	-	72,750
TOTAL	29,100,000	319,293	577,333	2,938,486	17,373,609	2,405,602	1,394,791	2,286,792	1,573,167	218,938	29,088,012

PROJECT BACKGROUND
for the year ended 30 April 2023

2) The Loan Agreement

The Loan Agreement Number 8338 -YF between the Republic of Serbia and the International Bank for Reconstruction and Development (the "Bank") became effective on 8 May 2015. The Bank agrees to lend to the Borrower, under the terms and conditions set forth or referred to in the Agreement, the amount of twenty-nine million one hundred thousand Euros (EUR 29,100,000).

The following table specifies the categories of Eligible Expenditures that may be financed from the proceeds of the Loan ("Category"), the allocation of the Loan amounts by Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in EUR)	Reallocated Amount of the Loan (expressed in EUR)	Percentage of Expenditures to be financed
1) Goods, works, non-consulting services, Operating Costs, Training and consultant's services for the Project (except for goods and works for Part 3 (b) (i), including audit, and for Quality Improvement Sub – grants.	11,067,250	10,197,250	100% (Inclusive of Taxes)
2) Goods and works for Part 3 (b)(i)	17,960,000	18,830,000	100% (exclusive of Taxes)
3) Front end Fee	72,750	72,750	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
Total Amount	29,100,000	29,100,000	

UNDISTRIBUTED FUNDS

Undistributed funds received from the International Bank for Reconstruction and Development (IBRD) as of 30 April 2023 is cash on the Designated Account amounting to EUR.

PROJECT BACKGROUND

for the year ended 30 April 2023

PROJECT INCOME AND EXPENDITURE PAYMENTS

Project income and expenditure payments for the period from January, 1st 2022 till April, 30th 2023 comprise the following:

<i>Expressed in EUR</i>	30.04.2023	31.12.2022
Opening balance	230,927	1,205,529
Income		
Withdrawal Application	-	280,227
Direct payments	-	318,338
WB fee	-	-
Total Income	230,927	1,804,093
Expense		
Goods, works, non-consulting services, Operating Costs, Training and consultants' services for the Project (except for goods and works for Part 3(b)(i)), including audit, and for Quality Improvement Sub-grants	(218,938)	(1,481,357)
Goods and works for Part 3 (b)(i)	-	(91,811)
Front – end fee	-	-
Total Expense	(218,938)	(1,573,167)
Cash balance per Bank's statement	11,988	230,927

The refund to the bank account relates to the amounts withdrawn by the Project management staff and returned as a residual amount after coverage of the incurred expenses.

PROJECT BACKGROUND

for the year ended 30 April 2023

AMOUNTS DISTRIBUTED AND OUTSTANDING TOWARD IBRD

The disbursed amounts of total Loan Funds, as well as available amounts, as on 30 April 2023 toward IBRD, are presented in the table as follows:

	Total Funds	Distributed amounts	Available amounts
<i>Expressed in EUR</i>			
8338-YF	29,100,000	29,088,012	11,988

OTHER

Details of the Designated Account of the Project are as follows:

Account No.:	01-504636-100193230
Depository Bank:	National Bank of Serbia Belgrade
Address:	Nemanjina 17
Loan Number:	8338-YF
Currency:	Euro (EUR)

PROJECT BACKGROUND

for the year ended 30 April 2023

3) Basis of preparation

3.1 General

The accompanying special purpose financial statements have been prepared for the purposes of reporting of Ministry of Health of the Republic of Serbia on the activities of the Project with respect to the funding received for the completion of the Project objectives in accordance with the Loan agreement Project No. 8338 - YF entitled "Second Serbia Health Project" from IBRD (International Bank for Reconstruction and Development).

3.2 Accounting Records and Basis of Presentation

Funds originated through the IBRD loan are accounted for using the cash receipts and disbursements basis. The Project Financial Statements are prepared in accordance with a comprehensive basis of accounting other than international accounting standards or national standards. The comprehensive basis of accounting is in accordance with the financial reporting provisions of the Loan Contract No. 8338-YF, dated 8th May 2015 between International Bank for Reconstruction and Development (IBRD) and the Government of Serbia ("the Contract"). The financial reporting provisions of the Contract are based on generally accepted accounting principles and practices and relevant IBRD / World Bank guidelines.

The Project policy is to present Project Financial Statements on a cash receipts and disbursement basis of accounting. On this basis, revenue is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred.

The Project Financial Statements are presented in Euros (EUR) and all values are rounded to the nearest euro, except when otherwise indicated. Acquisition costs of non-expendable equipment and supplies are expensed on payment. Accordingly, no depreciation charge is required to be set aside. The accounting policies have been applied consistently throughout the period.

3.3 Exchange Rates and Foreign currency differences

The expenditures paid in Serbian Dinars (RSD) were converted to EUR at the middle exchange rate of National Bank of Serbia in effect on the date of each payment. The IBRD disbursed the funds to the Republic of Serbia, Ministry of Finance in EUR, which were afterwards forwarded to the project-designated account opened with the National Bank of Serbia (NBS). During the year, the funds were converted into local currency, the Republic of Serbia dinars (RSD), using the NBS middle rate on the date of conversion transactions. The local currency funds originating from the conversion that had been transferred to the Project account open with the Ministry of Finance Treasury Administration in RSD were afterwards used for purchases of goods and services by the Project management in local currency (RSD). For the purpose of presentation in the Project Financial Statements, the amounts have been converted to EUR, the reporting currency of the Project, using the historic foreign currency rate as at the relevant bank conversion transactions; therefore, no foreign exchange gain/losses are reported.

CONVERSIONS in period between 2022 and April 30, 2023

Date of conversion	E/R	Bank provision	Amount in EUR
29.03.2022	117.7560	900.08	300,000.00
09.08.2022	117.3216	900.09	300,000.00
05.10.2022	117.3326	450.00	150,000.00
26.10.2022	117.3073	599.96	200,000.00
03.02.2023	117.3269	405.02	135,000.00
		TOTAL	1,085,000.00

ANNEX 2
MANAGEMENT LETTER

Ministry of Health - SECOND SERBIA HEALTH PROJECT (IBRD LOAN NUMBER 883oYF)

Management Letter

P. Kocovic

19 July 2023

To the Ministry of Health – Second Serbia Health Project

Dom zdravlja Savski Venac
Second Serbia Health Project (SSHP)
Project Coordination Unit / Procurement Office
Pasterova 1, 11000 Belgrade
Republic of Serbia

19 July 2023,

Dear Management of Ministry of Health,

In planning and performing our audit of the financial statements of the Second Serbia Health Project. for the period ended 31 December 2022, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control that might be significant deficiencies in internal control or deficiencies in the design or in the operation of internal control, as defined under International Standards on Auditing (ISA 265.6) below (and highlighted in the attached detailed report):

a. Deficiency in internal control – This exists when:

- i. A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- ii. A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.

b. Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

However, we noted certain matters involving the system of internal control and its operation and are submitting for your consideration related observations and recommendations designed to help the Company improve the system of internal control and achieve operational efficiencies. As we agreed upon in the engagement letter in June 2019, a full detailed report of the internal control comments and business issues we have identified is included.

This report is intended solely for the information and use of the audit committee, board of directors, management, and others within the organization or specified regulatory agency and is not intended to be and should not be used by anyone other than these specified parties

If you would like any further information or would like to discuss any of the issues raised, please do not hesitate to contact engagement partner.

Yours faithfully,


Biljana Bogovac

Engagement partner, PricewaterhouseCoopers d.o.o., Serbia

Detailed below is given the observation over particular things to which we as and Auditor have to pay special attention:

Project documentation "Second Health Serbia Project"				
Observations				
	Finding:	Risk Significance	Recommendation	Management response:
1. The summary reports (or interim reports) have been prepared in accordance with the provisions of the relevant financing agreement;	There are no findings regarding this matter that may draw your attention. All reports have been prepared in accordance to the relevant financing agreement.	N/a	N/a	
2. Expenditures have been made wholly and necessarily for the realization of project objectives	The Audit process is done on sample basis and during our testing and all evidence obtained we are confirming that all expenditures have been made wholly and necessarily for the realization of the project.	N/a	N/a	
3. Information and explanation necessary for the purpose of the audit have been obtained	For the purposes of our Audit all necessary explanations have been obtained.	N/a	N/a	
4. Supporting records and documents necessary for the purpose of the audit have been retained	For the purposes of our Audit all supporting records and documents necessary have been obtained	N/a	N/a	
5. The summary reports (or interim reports) can be relied upon to support the related withdrawal applications	The summary reports over which we have performed our Audit can be relied upon to support the related withdrawal applications	N/a	N/a	