

**MINISTRY OF HEALTH – ADDITIONAL FINANCING FOR SECOND SERBIA HEALTH PROJECT**  
**IBRD LOAN NUMBER 8830YF**

**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 till 31 December 2021**

**Belgrade, June 30<sup>th</sup> 2022**

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IBRD Loan No. 8830YF

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## Independent auditor's report

To the Management of Ministry of Health of the Republic of Serbia.

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### Our opinion

In our opinion, the financial information for the Project No. 8330 - YF entitled "Additional Financing for Second Serbian Health Project" (the "Project") of the Ministry of Health of the Republic of Serbia (the Ministry) as at 31 December 2021 and for the year then ended, is prepared, in all material respects, in accordance with the accounting policies described in Note 3 to the financial information.

### What we have audited

The Project's financial information comprises the Summary of expenditures as at 31 December 2021 and for the year then ended and related explanatory information.

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### 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 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 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.

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

We draw attention to the Note 3 to the financial information, which describes the basis of accounting. The 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 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.

The financial information does not comprise a full set of financial statements prepared in accordance with the Law on Accounting in the Republic of Serbia. Our opinion is not modified in respect of this matter.

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**Responsibilities of management for the 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 financial information and for such internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

In preparing the 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.

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**Auditor's responsibilities for the audit of the financial information**

Our objectives are to obtain reasonable assurance about whether the 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. Misinformation 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 financial information.

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

- Identify and assess the risks of material misstatement of the 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 Ministry 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, 30 June 2022

SUMMARY OF FUNDS RECEIVED  
for the year ended 31 December 2021

Additional Financing for Second Serbia Health Project  
International Bank for Reconstruction and Development  
IBRD Loan No. 8830YF

<i>Expressed in EUR</i>	<i>Cumulative</i>	<b>2021</b>	<b>In %</b>	<b>2020</b>	<b>In %</b>	<b>2019</b>	<b>In %</b>
<b>FUNDS RECEIVED</b>							
<b>IBRD FUNDS</b>	<b>2,000,000</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>2,000,000</b>	<b>29.6%</b>
Withdrawal applications	3,374,817	1,842,463	100.0%	1,532,354	100.0%	0	0.0%
Direct Withdrawal	4,703,600	0	0.0%	0	0.0%	4,703,600	69.5%
WB fee	62,500	0	0.0%	0	0.0%	62,500	0.9%
<b>Total from IBRD Funds</b>	<b>10,140,917</b>	<b>1,842,463</b>	<b>100%</b>	<b>1,532,354</b>	<b>100%</b>	<b>6,766,100</b>	<b>100%</b>
Refund to the bank account	0						
Total interest received	0						
<b>TOTAL FUNDS RECEIVED</b>	<b>10,140,917</b>	<b>1,842,463</b>	<b>100%</b>	<b>1,532,354</b>	<b>100%</b>	<b>6,766,100</b>	<b>100%</b>

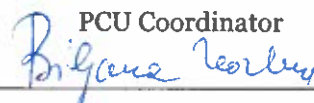
Belgrade, June 30<sup>th</sup> 2022

Finance Specialist



Dragana Gocević

PCU Coordinator



Biljana Kozlović

<i>Expressed in EUR</i>	<i>Year 2019 to December 31<sup>st</sup></i>	<i>In %</i>	<i>Year 2020 to December 31<sup>st</sup></i>	<i>In %</i>	<i>Year 2021 to December 31<sup>st</sup></i>	<i>In %</i>	<i>Cumulative</i>	<i>In %</i>
<b>IBRD EXPENSES</b>								
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	490,038	9%	1,911,361	100%	1,655,407	100%	4,056,807	46%
Goods and works for Part 3(b)(i)	4,710,845	90%	0	0%	0	0%	4,710,845	53%
Front - end Fee	62,500	1%	0	0%	0	0%	62,500	1%
Premia for Interest Rate Caps and Interest Rate Collars								
<b>Total Project Expenditure</b>	<b>5,263,383</b>	<b>100%</b>	<b>1,911,361</b>	<b>100%</b>	<b>1,655,407</b>	<b>100%</b>	<b>8,830,152</b>	<b>100%</b>

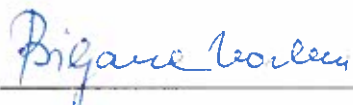
Belgrade, June 30<sup>th</sup> 2022

Finance Specialist



Dragana Gocević

PCU Coordinator



Biljana Kozlović

## SUMMARY OF SUMMARY REPORTS

Additional Financing for Second Serbia Health Project  
International Bank for Reconstruction and Development  
IBRD Loan No. 8830YF

for the year ended 31 December 2021

<i>Expressed in EUR</i>	<b>Total</b>		<b>2021</b>		<b>2020</b>		<b>2019</b>	
Payment type	Total funds received from IBRD 2019-2021	Total expenditure s 2019-2021	Total funds received from IBRD	Total expenditure s 2021	Total funds received from IBRD	Total expenditure s 2020	Total funds received from IBRD	Total expenditure s 2019
Opening Balance as of 1 January	2,000,000		1,123,709		1,502,717		2,000,000	
Advanced payments								
Replenishments	<b>3,374,817</b>		<b>1,842,463</b>		<b>1,532,354</b>		<b>0</b>	<b>0</b>
I Quarter Interim Report		517,243		409,303		107,940	0	
II Quarter Interim Report		1,739,284		812,153		927,130	0	
III Quarter Interim Report		845,420		212,367		633,052	0	
IV Quarter Interim Report		962,106		221,584		243,239	0	497,283
Direct payments	4,703,600	4,703,600					4,703,600	4,703,600
Front and fee	62,500	62,500						
<b>Total</b>	<b>10,140,917</b>	<b>8,830,152</b>	<b>2,966,172</b>	<b>1,655,407</b>	<b>3,035,071</b>	<b>1,911,361</b>	<b>6,703,600</b>	<b>5,200,883</b>
<b>Closing balance as of 31 December</b>	<b>1,310,765</b>		<b>1,310,765</b>		<b>1,123,709</b>		<b>1,502,717</b>	

Belgrade, June 30<sup>th</sup> 2022

Finance Specialist



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PCU Coordinator



Biljana Kozlović

STATEMENT OF DESIGNATED ACCOUNT  
for the year ended 31 December 2021

Additional Financing for Second Serbia Health Project  
International Bank for Reconstruction and Development  
IBRD Loan No. 8830YF

<i>Expressed in EUR</i>	<b>December 31,2021</b>	<b>December 31,2020</b>	<b>December 31,2019</b>
<b>Opening balance</b>	<b>1,123,709</b>	<b>1,502,717</b>	2,000,000
<b>Add:</b>			
Withdrawal Application	1,842,463	1,532,354	
Direct Withdrawal			4,703,600
WB fee			62,500
Refund to the bank account			
Interest			
<b>Total Funds</b>	<b>2,966,172</b>	<b>3,035,071</b>	<b>6,766,100</b>
<b>Deduct:</b>			
Project expenditure payment	1,655,407	1,911,361	497,283
Direct payments			4,703,600
WB fee			62500
<b>Total Project Expenditure Payments</b>	<b>1,655,407</b>	<b>1,911,361</b>	<b>5,263,383</b>
<b>Cash balance per Bank's statement</b>	<b>1,310,765</b>	<b>1,123,709</b>	<b>1,502,717</b>

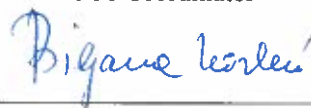
Belgrade, June 30<sup>th</sup> 2022

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## BALANCE SHEET

for the year ended 31 December 2021

Additional Financing for Second Serbia Health Project  
International Bank for Reconstruction and Development  
IBRD Loan No. 8830YF

<i>Expressed in EUR</i>	<i>Cumulative December 31,2021</i>	<i>31-Dec-21</i>	<i>31-Dec-20</i>	<i>31-Dec-19</i>
<b>ASSETS</b>				
IBRD Funds	2,000,000			2,000,000
Opening balance Cash on the Designated Account		1,123,709	1,502,717	0
Front - end Fee	62,500			62,500
Disbursements	3,374,817	1,842,463	1,532,354	0
Direct Withdrawal	4,703,600			4,703,600
<b>Cash and Cash at Bank</b>				
<b>TOTAL ASSETS</b>	<b>10,140,917</b>	<b>2,966,172</b>	<b>3,035,071</b>	<b>6,766,100</b>
<b>Project Expenditures</b>				
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	2,401,399	1,655,407	1,911,361	490,038
Goods and works for Part 3(b)(i)	4,710,845			4,710,845
Front - end Fee	62,500			62,500
Premia for Interest Rate Caps and Interest Rate Collars	0			0
<b>TOTAL PROJECT EXPENDITURE</b>	<b>7,174,744</b>	<b>1,655,407</b>	<b>1,911,361</b>	<b>5,263,383</b>
<b>WB Special Account</b>	<b>2,966,172</b>	<b>1,310,766</b>	<b>1,123,709</b>	<b>1,502,717</b>
<b>TOTAL FUNDS RECEIVED</b>	<b>3,594,854</b>	<b>2,966,172</b>	<b>3,035,071</b>	<b>2,062,500</b>

Belgrade, June 30<sup>th</sup> 2022

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 31 December 2021

Additional Financing for Second Serbia Health Project  
International Bank for Reconstruction and Development  
IBRD Loan No. 883oYF

Description	Type of reimbursement	Date requested	Value date	EUR Received	Received by the Project	Disbursed by the IBRD
Replenishments	DA - 7	22.10.2021.	24.02.2021.	165,406.04	Yes	Yes
Replenishments	DA - 9	24.03.2021.	07.04.2021.	243,238,26	Yes	Yes
Replenishments	DA - 10	11.06.2021.	17.06.2021.	409,302,80	Yes	Yes
Replenishments	DA - 11	05.11.2021.	10.11.2021.	812,153,12	Yes	Yes
Replenishments	DA - 12	11.06.2021.	10.11.2021.	212,362,97	Yes	Yes
<b>Total Replenishments</b>				<b>1,842,463</b>		
<b>Final Total</b>				<b>1,842,463</b>		

## **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 25 million for the implementation of Additional Financing for Second Serbia Health Project (AF SSHP). The Loan agreement YF 8830 was signed on 21 March 2018 and the project became effective on 24 July 2018, with the establishment of the Project Coordination Unit (PCU) by the Ministry of Health (MoH). The project end date is 31 December 2021.

The objective of the Project is to contribute to improving the efficiency and quality of the public health system of the Republic of Serbia through the strengthening of: (i) health financing, purchasing, and maintenance systems; and (ii) quality improvement systems 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 AF SSHP are structured into four components with subcomponents:

### **1. Improvement of Health Financing**

Health financing reform has been set as one of the top priorities of the Ministry of Health (MoH) and notable progress has been documented in health financing under the current project.

The Project consists of the following parts:

- 1.1: Support Hospital Financing Reforms
- 1.2: Strengthen Primary Health Care Financing
- 1.3: Health Care Network Optimization Plan (Masterplan)

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. Due to fragmentation and documented under-utilization of capacities, there is a strong need for the Network Optimization Plan (Masterplan) for public health.

Activities under this sub-component may also include support in piloting of developing palliative care, opening day hospitals (i.e. small surgery under local anesthesia, chemotherapy, internist care, etc.) and other interventions towards increased and more efficient utilization of existing capacities.

## **2. Improve Access to Quality Health Care**

### **2.1: Improve Access to Medicines**

### **2.2: Strengthen Health Technology Assessment**

### **2.3: Improve Medical Equipment Maintenance Systems**

This component will support the establishment of e-health, and the continuation of activities on the rationale use of antibiotics in line with the *National Programme for Antibiotic Resistance Control for the period 2019-2021* and its Action Plan. 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 in different health care institutions.

## **3. Strengthening Quality of Service Delivery**

### **3.1: Strengthen Quality Improvement Systems**

### **3.2: Improve Cancer Management**

This component aims to improve standards of quality and efficiency of care in the Serbian health sector through two main approaches: (i) strengthening quality improvement systems; and (ii) modernizing cancer management at selected tertiary facilities. Within Component 3, one of the main objectives is quality improvement of cancer care through procurement of linear accelerators for Oncology Institute of Vojvodina, 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, including translation, interpretation, equipment, supervision costs and PCU staffing costs.

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

Cod of the activity	Estimated Cost - taxes included (EUR)	Total expenditures 2021	Total expenditures 2020	Total expenditures 2019	Cumulative
<b>1. Improving Health Financing</b>	<b>3,000,000</b>	<b>730,892</b>	<b>764,861</b>	<b>246,597</b>	<b>1,742,350</b>
1.1: Support Hospital Financing Reforms	610,000	55,908	60,869	12,620	129,396
1.2: Strengthen Primary Health Care Financing	879,000	81,418	506,075	36,174	623,667
1.3.: Health Care Network Optimization Plan (Masterplan)	1,050,000	593,566	197,917	197,803	989,286
1.4.: Training and capacity building	250,000			0	0
Unallocated	211,000				
<b>2. Improve Access to Quality Health Care</b>	<b>1,500,000</b>	<b>88,116</b>	<b>62,758</b>	<b>5,460</b>	<b>156,334</b>
2.1: Improve access to medicines	125,000	11,645	21,834	5,460	38,939
2.2: Strengthening Health Technology Assessment Capacity	300,000	49,743	25,631	0	75,374
2.3: Improve Medical Equipment Maintenance Systems	700,000	26,728	15,294	0	42,022
2.4.: Training and capacity building	300,000			0	0
Unallocated	75,000				
<b>3. Strengthening Quality of Service Delivery</b>	<b>19,000,000</b>	<b>351,779</b>	<b>690,497</b>	<b>4,868,193</b>	<b>5,910,468</b>
3.1: Strengthen Quality Improvement Systems. Clinical Pathways	460,000	171,730	59,214	34,484	265,428
3.2: Improve Cancer Management		140,107			140,107
3.2.1: The Serbian Comprehensive Cancer Management Strategy	200,000				0
3.2.2: Improvement of National Coverage of Radiotherapy Services	5,994,000		631,283	4,833,708	5,464,991
3.2.3: Improvement of Timely Diagnostics in Oncology	12,250,000			0	0
3.4.: Training and capacity building	100,000	39,942		0	39,942
Unallocated					
<b>4. Monitoring, Evaluation, and Project Management</b>	<b>1,437,500</b>	<b>484,620</b>	<b>393,246</b>	<b>80,634</b>	<b>958,499</b>
Project Management	1,437,500	484,620	393,246	80,634	958,499
<b>TOTAL</b>	<b>24,937,500</b>	<b>1,655,407</b>	<b>1,911,362</b>	<b>5,200,883</b>	<b>8,767,652</b>
WB Fee	62,500				62,500
<b>TOTAL FUNDS</b>	<b>25,000,000</b>	<b>1,655,407</b>	<b>1,911,362</b>	<b>5,200,883</b>	<b>8,830,152</b>

## **2) The Loan Agreement**

The Loan Agreement Number 8830-YF between the Republic of Serbia and the International Bank for Reconstruction and Development (the "Bank") became effective on 24 July 2018. 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-five Million Euros (EUR 25,000,000).

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.

During the 2021 the table in Section III A of Schedule 2 to the Loan Agreement is hereby amended to read in its entirety as follows:

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in EUR)</b>	<b>Percentage of Expenditures to be financed</b>
(1) Goods, works, non-consulting services, Operating Costs, Training and consultants' services for the Project (except for goods and works for Part 3(b)(iv) and 3(b)(v), including audit, and for Quality Improvement Sub-grants.	7,237,500	100% (inclusive of Taxes)
(2) Goods and works for Part 3(b)(iv)	17,700,000	100% (exclusive of Taxes)
(3) Front-end Fee	62,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>25,000,000</b>	

Section III B.1 (b) of Schedule 2 to the Loan Agreement is hereby deleted in its entirety. All other provisions of the Loan Agreement, except as expressly amended herein, shall remain unchanged and continue to be in full force and effect.

## **UNDISTRIBUTED FUNDS**

Undistributed funds received from the International Bank for Reconstruction and Development (IBRD) as of 31 December 2021 is cash on the Designated Account amounting to EUR 1,310,765.

## PROJECT INCOME AND EXPENDITURE PAYMENTS

Project income and expenditure payments for the year ended 31 December 2021 comprise the following:

<i>Expressed in EUR</i>	<b>31.12.2021</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
<b>Opening balance</b>	<b>1,123,709</b>	<b>1,502,717</b>	<b>2,000,000</b>
<b>Income</b>			
Withdrawal Application	1,842,463	1,532,354	
Direct Withdrawal			4,703,600
WB fee			62,500
<b>Total Income</b>	<b>2,966,172</b>	<b>3,035,071</b>	<b>6,766,100</b>
<b>Expense</b>			
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	-1,655,407	-1,911,361	-490,038
Goods and works for Part 3(b)(i)			-4,710,845
Front - end fee			-62,500
<b>Total Expense</b>	<b>-1,655,407</b>	<b>-1,911,361</b>	<b>-5,263,383</b>
<b>Cash balance per Bank's statement</b>	<b>1,310,765</b>	<b>1,123,709</b>	<b>1,502,717</b>

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 31 December 2021

Additional Financing for Second Serbia Health Project  
International Bank for Reconstruction and DevelopmentIBRD Loan No. 8830YF

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**AMOUNTS DISBURSED AND OUTSTANDING TOWARD IBRD**

The distributed amounts of total Loan Funds, as well as available amounts, as on 31 December 2021 toward IBRD, are presented in the table as follows:

	<b>Total Funds</b>	<b>Distributed amounts</b>	<b>Available amounts</b>
<i>Expressed in EUR</i>			
8830-YF	25,000,000	10,140,917	14,859,083

**OTHER**

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

**Account No.:**  
**Depository Bank:**  
**Address:**  
**Loan Number:**  
**Currency:**

01-504727-10019323094  
National Bank of Serbia Belgrade  
Nemanjina 17  
8830-YF  
Euro (EUR)

### **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. 8830 - YF entitled "Additional Financing for 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. 8830-YF, dated 24<sup>th</sup> July 2018 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 2021

Date of conversion	E/R	Bank provision	Amount in EUR	Amount in RSD
28.01.2021	117.5723	1,199.94	400,000.00	47,028,920.00
11.05.2021	117.5723	899.94	300,000.00	35,272,470.00
18.06.2021	117.5673	300.00	100,000.00	11,756,730.00
07.07.2021	117.5666	900.00	300,000.00	35,269,980.00
06.12.2021	117.5781	1,199.88	400,000.00	47,031,240.00
		<b>TOTAL</b>	<b>1,500,000.00</b>	<b>176,359,340.00</b>

**ANNEX 2**

**MANAGEMENT LETTER**

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**Ministry of Health – ADDITIONAL FINANCING FOR SECOND SERBIA HEALTH PROJECT**  
(IBRD LOAN NUMBER 8830YF)

**Management letter report**

30 June 2022

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***To the Ministry of Health –Additional Financing for Second Serbia Health Project***

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

30 June 2022,

Dear Management of Ministry of Health,

In planning and performing our audit of the financial statements of the Additional Financing for Second Serbia Health Project. for the period ended 31 December 2021, 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 on 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 “Additional Financing for 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 you 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	