

Ministry of Health and Social Protection

Health System Improvement Project

(LOAN No: 8466 - AL)

Special purpose financial information for the
period 1 January to 31 December 2019

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Independent Auditor's Report

To: Ministry of Finance and Economy of Republic of Albania and the Management of the Project
"Health System Improvement Project"

Opinion

We have audited the accompanying special purpose financial information comprising the statement of sources and uses of funds, statement of withdrawal applications and the related notes of the Project "Health System Improvement Project" (further referred to as the "Project") implemented by the Ministry of Health and Social Protection and financed by the Loan Agreement No. 8466 - AL ("IBRD 8466 - AL") from the International Bank for Reconstruction and Development ("IBRD" or the "World Bank) for the period 1 January to 31 December 2019. The special purpose financial information has been prepared by the management of the Project in accordance with policies described in notes 2 and 3 of the special purpose financial information.

In our opinion, the special purpose financial information of the Project "Health System Improvement Project" is prepared, in all material respects, in accordance with the cash receipts and disbursement basis of accounting as set out in notes 2 and 3 to the special purpose financial 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 are independent of the entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the special purpose financial information in Albania, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution

We draw attention to notes 2 and 3 to the special purpose financial information, which describe the basis of accounting. The special purpose financial information is prepared to provide information to Project's donors and lenders, and to Ministry of Finance and Economy of Republic of Albania and the management of the Project. As a result, the statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the information and use of the Project's management, the donors and lenders, and the Ministry of Finance and Economy of Republic of Albania and it should not be further distributed without our prior written consent.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Information

Management is responsible for preparation and fair presentation of the special purpose financial information in accordance with the basis of accounting described in notes 2 and 3; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the special purpose financial information in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a special purpose financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility 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 scepticism 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 entity's internal control.
- 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 entity'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 special purpose 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 entity to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.,
- Evaluate the overall presentation, structure and content of the special purpose financial information, including the disclosures, and whether the special purpose financial information represents the underlying transactions and events in a manner that achieves fair presentation.

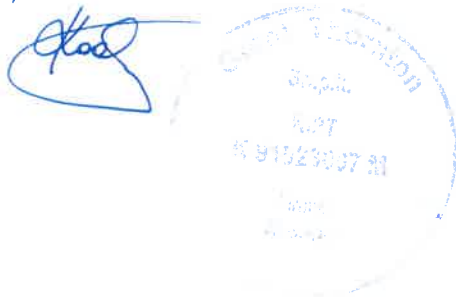
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton sh.p.k.

Tirana, Albania

4 March 2021

Median Kodra, Fcct





Statement of Sources and Uses of Funds

	Note	For the period from 1 January to 31 December 2019	For the period from 1 January to 31 December 2018	Cumulative from 28 August 2015 to 31 December 2019
Sources of funds				
IBRD funding	4	844,300	4,040,555	6,384,855
Funds received from Tender purchase		-	3,067	9,574
Interest received		81	334	727
Total		844,381	4,043,956	6,395,156
Uses of funds				
Goods	5	331,213	4,078,628	4,439,281
Consultancy services	6	534,830	108,843	984,270
Training	7	93,848	40,339	166,415
Incremental operating costs	8	14,811	20,023	52,169
Funds returned to GoA		3,471	-	3,563
Total		978,173	4,247,833	5,645,698
(Deficit)/Surplus of receipts over disbursements				
		(133,792)	(203,877)	749,458
Exchange rate differences		4,691	12,034	9,424
Cash at the beginning of the period	9	888,284	1,080,827	-
Total		759,183	888,984	758,882

The Statement of Sources and Uses of Funds is to be read in conjunction with the notes set out on pages 3 to 8 and forming an integral part of the special purpose financial information.

The special purpose financial information of Health System Improvement Project were authorized for issue by the management of the Ministry of Health and Social Protection on 18 December 2019 and signed on its behalf by:


 Blerina Dudushi
 Project Manager
 Ministry of Health and Social Protection


 Daniela Gjylameti
 Financial Specialist
 Ministry of Health and Social Protection

Health System Improvement Project
 For the period from 28 August 2015 to 31 December 2019
 (amounts expressed in EUR unless otherwise stated)

Statement of Withdrawal Applications

IBRD 8466 AL

As of 31/12/2019

No	Withdrawal application number	Date of withdrawal application	Type of Disbursement	Category 2 Goods	Category 3 Consultancy and training	Category 3 Incremental Costs	Advance Payments	Total disbursed	Total approved by donor
1.	WA 10	30-Sep-2019	Direct payments	601,250	272,275	10,775	-	844,300	844,300
Total				601,250	272,275	10,775	-	844,300	844,300

As of 31/12/2018

No	Withdrawal application number	Date of withdrawal application	Type of Disbursement	Category 2 Goods	Category 3 Consultancy and training	Category 3 Incremental Costs	Advance Payments	Total disbursed	Total approved by donor
1.	WA 4	03-May-2018	Direct payments	1,017,907	-	-	-	1,017,907	1,017,907
2.	WA 3	24-Jul-2018	Replenishment	171	320,046	-	-	320,217	320,217
3.	WA 5	24-Jul-2018	Direct payments	544,608	-	-	-	544,608	544,608
4.	WA 6	12-Oct-2018	Special Commitment	664,050	-	-	-	664,050	664,050
5.	WA 7	01-Nov-2018	Special Commitment	248,800	-	-	-	248,800	248,800
6.	WA 9	12-Dec-2018	Replenishment	756,563	76,470	-	-	833,033	833,033
7.	WA 8	27-Dec-2018	Special Commitment	411,940	-	-	-	411,940	411,940
Total				3,644,039	396,516	-	-	4,040,555	4,040,555

Notes to the Special Purpose Financial Information

1. General Information

The Health System Improvement Project (the “Project”) managed through the Ministry of Health and Social Protection of the Republic of Albania was established with the objective to contribute to: (a) improving the efficiency of care on selected hospitals in the Borrower’s territory; (b) improving the management of information in the health system; and (c) increasing financial access to health services.

The Project will include the following components:

Component 1: Improving Hospital Services (Euro 15.10 million; US\$ 18.80 million equivalent)

This component aims to improve efficiency and quality of hospital services delivery in Albania. The component will finance the technical assistance, training, study tours, civil works, and goods to support the design and implementation of a sustainable hospital network with the appropriate infrastructure and human capital to deliver needs-based hospital services, and to strengthen autonomy and accountability for hospitals and managers. Implementation will build on the results and concepts developed under the previous Bank-supported project (HSMP).

Sub-component 1.1: Strengthening the Albanian Network of Hospital Services (Euro 2.72 million; US\$ 3.4 million equivalent).

Sub-component 1.2: Improving hospital infrastructure and the management of medical equipment (Euro 12.38 million; US\$ 15.40 million equivalent).

Component 2: Expanding the Health Management Information System (Euro 13.60 million; US\$ 16.95 million equivalent).

A number of complementary and interrelated subcomponents will move HMIS forward on a number of critical fronts. The component addresses the need for improved provider-based systems, focusing on the country’s regional hospital sector which significantly impacts the orchestration of services across the spectrum of care. It places emphasis on strengthening referrals to/from both the primary care and tertiary care levels (QSUT). It also addresses the need to provide the hospitals with a means of adopting the new provider payment methods, which are being organized under sub-component 3.1. In addition, it addresses the need for improved automation in the country’s health insurance payer, the HIF. Finally, it provides the foundational activities to support these developments, and an institutional home to support and sustain them in the long run.

1. General Information (continued)

Sub-component 2.1: HMIS/eHealth Foundational Activities and Establishing the National Health Information Center (NHIC) (Euro 2.68 million; US\$ 3.35 million equivalent).

Sub-component 2.2: Implementing Regional Hospital Information Systems (Euro 9.30 million; US\$ 11.60 million equivalent).

Sub-component 2.3 Implementing a new Health Insurance Information System (HIIS) for the Health Insurance Fund (HIF) (Euro 1.62 million; US\$ 2.0 million equivalent).

Component 3: Improving the Health Financing System (Euro 2.40 million equivalent; US\$ 3.0 million equivalent)

This component will address improvement of technical and allocative efficiency, and will support the shift towards output-based and performance-based financing for hospitals and primary care services. It will enable the expansion of health insurance coverage particularly for the poor, and the pooling of health care resources. It will improve the policies for pharmaceuticals, which in turn will reduce high out-of-pocket expenditures on drugs and improve quality and efficiency.

Sub-component 3.1: Payment Reform (Euro 1.70 million; US\$ 2.10 million equivalent).

Sub-component 3.2: Support to the HIF for strategic purchasing, improved coverage and pharmaceutical reform (Euro 0.70 million; US\$ 0.90 million equivalent).

Component 4: Monitoring, Evaluation and Project Management (Euro 0.92 million equivalent; US\$ 1.15 million equivalent).

This component will support routine Project management, including fiduciary tasks and Monitoring and Evaluation (M&E). It will finance Project operating costs including translation, interpretation, equipment, supervision costs (transportation and per diem), staffing costs of the Project Coordination Unit (PCU), M&E, studies and surveys, and incremental costs for the PCU in the MoH. Since reforms of health service delivery run the risk of being misunderstood by various stakeholders affected by it, this component will support a strong communication strategy. It would aim at appropriately explaining the reform to health professionals and population at large. Monitoring the implementation of the reforms, including potential unintended consequences, will be supported under this component. Study tours are possible to countries where similar reforms are at an advanced stage of implementation and where significant results have been achieved.

The Project became effective on 28 August 2015 and will be completed on 31 December 2022.

Project Cost and Financing

Table 1: Project Costs by Component (In EURO million)

Project Components	Project cost	IBRD Financing	% Financing
1. Improving Hospital Services	19.10	15.10	79
2. Expanding Health Information System	13.60	13.60	100
3. Improving the Health Financing System	2.40	2.40	100
4. M&E, and Project Management	0.92	0.92	100
Total Project Costs	36.02	32.02	89
Front-and Fees	0.08	0.08	100
Total Financing Required	36.10	32.10	89

According to the Loan Agreement the Government will finance 37 percent of all rehabilitation works under the Project.

1. General Information (continued)

The Project is financed from the following source:

IBRD 8466 - AL

According to the Loan Agreement dated March 24, 2015 between GoA and IBRD, the Project is entitled to a loan of 32,100,000 Euro.

The table below sets forth the items to be financed out of the proceeds of the loan, the allocation of the amounts of the loan and the percentage of expenditures to be financed:

Table 2: Expenditure Categories

Category	Original contract Amount of the Loan Allocated (expressed in Euros)	Amended (05/10/2020) Amount of the Loan Allocated (expressed in Euros)	Amended (05/10/2020) Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Works	6,760,000	13,837,382	100%
(2) Goods, Non-Consulting services	18,360,000	12,463,794	100%
(3) Consultant Services, Training and Operating Costs	6,500,000	5,718,574	100%
(4) Front-end Fee	80,250	80,250	-
(5) Unallocated	399,750	-	-
Total	32,100,000	32,100,000	

The Loan will be used to finance up to 100% of expenditures consisting of goods, consultancy services, meetings and workshops and operating costs for the Project. In addition, the project management costs will be financed on 100%. Based on the approval of the Loan Amendment from IBRD, signed as of 05/10/2020, due to the reallocation of the proceeds among the existing disbursement categories, the Category 1 Civil Works also is going to be fully financed from the Bank (it was 63%).

As at 31 December 2019 Euro 844,300 has been disbursed from the Donor funds (31.12.2018: EUR 4,040,555).

GoA's contribution

The Government of Albania is to finance project expenses relating to Civil Works.

2. Basis of preparation

The special purpose financial information has been prepared in accordance with the accounting policies in note 3, under the Cash Basis of Accounting.

The special purpose financial information is presented in EUR. Euro is also functional currency of the Project being the currency in which funds are received and most of expenses are settled.

The special purpose financial information comprise the Statement of Sources and Uses of Funds, the Statement of Withdrawal Applications (and related expenditure) used as the basis for the submission of withdrawal applications and a summary of significant accounting policies and other explanatory notes.

3. Summary of significant accounting policies

A summary of significant accounting policies underlying the preparation of the Project's financial statements is presented below.

3.1 Foreign currency transactions

The Project has adopted the Euro as its reporting currency for consistency with the reporting needs of its main donor, the World Bank.

Cash and bank balances in other currencies are converted into Euro at the year-end rate of exchange. Transactions in currencies other than Euro are converted to the reporting currency at the rate ruling at the date of the transaction. Foreign exchange differences are recognized in the Statement of Sources and Uses of Funds.

As at 31 December 2019, 1 Euro was equivalent to 121.77 All.

As at 31 December 2018, 1 Euro was equivalent to 123.42 All.

3.2 Cash

Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents comprise balances with banks and investments in short term money market instruments. Amounts appropriated to the Entity are deposited in the Entity's bank account and are controlled by the Entity. Receipts from exchange transactions are deposited in trading fund accounts controlled by the Entity. They are transferred to revenue at each year end.

3.3 Recognition of income and expenses

Income is recognized when received rather than when earned, and expenses are recognized when paid rather than when incurred. Accordingly, direct payments of the Project's expenses, which are made from the proceeds of the trust fund, are recognized as sources and uses of funds at the time the payment is made. The Statement of Withdrawal Applications presents only applications submitted during the year and only expenses settled through such applications. Expenses presented in the notes to the special purpose financial information include all expenses settled during the year in spite of the supporting withdrawal application period.

3.4 Taxation

The Project is exempt from income tax. The Project is liable for withholding tax and personnel income tax for its staff. The Project is liable for all VAT expenses incurred.

4. IBRD funding

Funds received from IBRD funding for the period from 1 January to 31 December 2019 were composed as follows:

	Period from 1 January to 31 December 2019	Period from 1 January to 31 December 2018
Special Commitment	-	1,324,790
Direct payments	-	1,562,515
Replenishment	844,300	1,153,250
Total	844,300	4,040,555

5. Goods

Goods for the period from 1 January to 31 December, 2019 were composed as follows:

	Period from 1 January to 31 December 2019	Period from 1 January to 31 December 2018
Office furniture for PCU	-	-
Medical Equipment for regional Hospitals Supply & installation of Financial Management System Software in about 420 PHCs	-	3,785,976
	331,213	292,652
Total	331,213	4,078,628

6. Consultancy services

The consultancy services for the period from 1 January to 31 December, 2019 were composed as follows:

	Period from 1 January to 31 December 2019	Period from 1 January to 31 December 2018
Staff salaries including the insurance paid by the staff	97,285	67,608
QSUT management assessment & preparation of ToR-s for the international management team	436,119	19,641
Communication campaign for hospitals' reform	1,426	21,594
Design of technical specifications of Supply & installation of Financial Management System Software in about 420 PHCs	-	-
Total	534,830	108,843

7. Training

Training for the period from 1 January to 31 December, 2019 were composed as follows:

	Period from 1 January to 31 December 2019	Period from 1 January to 31 December 2018
Harvard Training	-	12,364
Roundtable Vienna	-	1,956
Training in USA Flagship Course	-	24,881
Training Budva-Montenegro	-	1,138
Training in USA HSIP staff	33,993	-
Study Tour/s - HIF-Croatia	59,855	-
Total	93,848	40,339

8. Incremental operating costs

Operating costs for the period from 1 January to 31 December, 2019 were composed as follows:

	Period from 1 January to 31 December 2019	Period from 1 January to 31 December 2018
Bank Charges/ Commissions	1,839	1,120
Services	-	843
Health and Social Insurance for staff (portion paid out of IOC funds)	10,272	5,999
Office Supplies	2,174	2,371
The annual tax of the Municipality	161	-
Other Incremental Cost	365	9,690
Total Incremental Operating Costs	14,811	20,023

9. Cash at the end of the period

Cash at the end of the period as at 31 December 2019 was composed as follows:

	Period from 1 January to 31 December 2019	Period from 1 January to 31 December 2018
Cash at Banks		
IBRD Special Account BoA EUR	644,300	(300)
IBRD Credins Bank Account in ALL	39,799	410,564
IBRD Credins Bank Account in EUR	75,084	478,720
Total	759,183	888,984

10. Subsequent events

On 05/10/2020 the Bank (IBRD) has informed the MoF that they concur with their request (dated 15.09.2020) and they agreed to amend the Loan Agreement no 8466-AL as follows:

- 1 Extend Closing Date of the Project as of December 31, 2022.
- 2 Change the disbursement percentage of Category 1 (Works) to 100%
- 3 Reallocation of Amounts among existing categories.

The restructured Project Costs by Category (In EURO million) are as follows:

Category	Amount of the Loan Allocated	% of Expenditures to be financed
1. Works	13,837	100
2. Goods, Non-Consulting services	12,464	100
3. Consultancy Services, Training and Operation Cost	5,719	100
4. Front-and Fees	80	Amount payable pursuant to Section 2.0 of the Agreement in accordance with Section 2.07 of the General Conditions
5. Interest Rate Cap or Interest Rate Collar Premium	0	Amount due pursuant to Section 2.08 of the Agreement
6. Unallocated	0	
Total Project Costs	32,100	

APPENDICES

(Loan No: 8466-AL)

Health System Improvement Project
Statements of Special and Project's Accounts

(Supplementary schedules to the Special purpose
financial information)

Appendix 1

Supplementary Schedule of Special Account Statement

Donor	IBRD Loan 8466-AL	
Account No:	2117653E	
Depository Bank	Bank of Albania	
Address	Sheshi Skenderbej, No 1, Tirana	
Currency	EUR	
	2019	2018
Balance at beginning of period	-	749,700
Funds received:		
Advance from IBRD	844,300	1,153,250
Total funds received	844,300	1,902,950
Disbursements:		
Funds transferred to Project Operational Account-POA in ALL	(100,000)	(653,250)
Funds transferred to Project Operational Account-POA in EUR	(100,000)	(1,250,000)
Bank Charges	-	300
Total disbursements	(200,000)	(1,902,950)
Balance at end of the period	644,300	-

Appendix 2

Supplementary Schedule of Project Operational Account Statement-Euro

Donor	IBRD Loan 8466-AL	
Account No:	739084	
Depository Bank	Credins Bank	
Address	Rr. Ismail Qemali Nr.4, Tiranë	
Currency	EUR	
	2019	2018
Balance at beginning of period	478,720	132,059
Funds received:		
Funds received from Special Account	100,000	1,250,000
Funds received from D.Gjylameti (Correction)	40	-
Funds received from internal transfer All account to euro account	286,158	-
Funds received from bank Interest	8	178
Total funds received	386,206	1,250,178
Disbursements:		
Project expenditures	(788,112)	(672,956)
Bank charges/Bank commission	(1,627)	(969)
Funds transferred to Project Account in ALL	-	(229,592)
Total funds disbursed	(789,739)	(903,517)
Balance at end of the period	75,187	478,720

Appendix 3

Supplementary Schedule of Project Operational Account Statement-ALL

Donor	IBRD Loan 8466-AL	
Account No:	739084	
Depository Bank	Credins Bank	
Address	Rr. Ismail Qemali Nr.4, Tiranë	
Currency	ALL	
	2019	2018
Balance at beginning of period	50,671,808	26,466,074
Funds received:		
Funds received from Special Account	12,305,000	80,980,956
Funds received from Internal transfer	-	28,899,073
Funds received from Tender purchase	-	385,000
Funds received from bank Interest	41,001	19,686
	12,309,101	110,284,715
Disbursements:		
Project expenditures	(23,053,276)	(86,069,813)
Internal transfer from All Account to Euro account	(35,054,355)	
Bank charges/Bank commission	(27,017)	(9,168)
Total	(58,134,648)	(86,078,981)
Balance at end of the period in ALL	4,846,261	50,671,808
Balance at end of the period equivalent in EUR	39,799	410,564