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LOAN NO. 5864-MW, GRANT NO. D1170-MW FINANCIAL STATEMENTS

CONTROLLING OFFICER'S REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2017

BACKGROUND AND PROJECT IDENTIFICATION

The Southern Africa Tuberculosis and Health Systems Support Project (SATBHSSP) is a five-year project being financed by the International Development Association (IDA). This project is also being implemented in three other countries in the Southern Africa Development Community (SADC) region namely Lesotho, Mozambique and Zambia. The total project costs are USD 17 million comprising, a loan of USD 7.5 million under highly-concessional terms and a grant of USD 9.5 million. Part of the loan financed a Project Preparatory Advance (PPA) amounting to USD465,615.

The project is being implemented in the nine (9) districts of Nsanje, Blantyre, Balaka, Lilongwe, Kasungu, Mzimba South, Mzimba North, Rumphi and Karonga in the country. The Secretariat facilitating the project is housed in the National Tuberculosis Programme (NTP) in Lilongwe. A special account of the project is maintained at the Reserve Bank of Malawi account no 0013001600093 while the operating account is at the First Merchant Bank, Capital city Branch account no '0004707000172. The Ministry of Health and Population is the Lead Implementing Agency followed by the Ministry of Labour and Department of Mines.

The project has three components and five categories to which funds were allocated. Component 1, Innovative Prevention, Detection and Treatment of TB, was allocated \$4.4million; Component 2, Regional Capacity for Disease Surveillance, Diagnostics and Management of TB and Occupational Lung Diseases, a total of \$5.1million and Component 3, Regional Learning and Innovation and Project Management has \$7.3million. Component three include funds for Eastern, Central and Southern Africa - Health Community (ECSA-HC), \$1.2million and New Partnership for Africa Development (NEPAD), \$.6million who acts as regional project coordinators.

OVERALL PROJECT GOAL

The GoM prioritised the mining sector and included it in the second Malawi Growth and Development Strategy (MDGS II) 2011-2016 which spells out the national development plan for Malawi. According to the MGDS II, mining is expected to contribute to economic diversification and development and over the period of its implementation, it was expected to contribute 20% to the Gross Domestic Product. While the successor MGDS is still being developed, it should be stressed that Malawi will still prioritise investments in the mining sector because of its potential to significantly contribute to Malawi's economic development. If this is to be realised then the GoM needs to create an enabling environment for mining including the improvement of the governance of the mining sector.

SPECIFIC OBJECTIVES

The objective of the project is to improve coverage and quality of TB control and occupational lung disease services in targeted geographical areas of the Participating Countries; and to strengthen regional capacity to manage the burden of TB and occupational lung diseases.

CONTROLLING OFFICER'S REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

The development objective of the project is to improve the efficiency, transparency and sustainability of the management of the mining sector. This development objective is consistent with Malawi's national development agenda as well as the themes of Promoting Sustainable, diversified and Inclusive Growth and Improving Governance as contained in the 2012-2015 Country Assistance Strategy for the World Bank. The following results indicators will be used to assess the success of implementing the project:

- (i) Efficiency: a reduction in the days needed on average to issue mineral rights;
- (ii) Transparency: annual public reporting of mineral sector tax revenues; and
- (iii) Sustainability: an increase in the percentage of mining operations subjected to environmental certification.

PROJECT PERFORMANCE

The project became effective on 1st December 2016 after meeting the Project Appraisal Document (PAD) requirements. At the time of effectiveness, other PPA activities were still in progress and the World Bank advised that the Main Project activities should be implemented in parallel with the PPA as its activities period was ending February 2017. However, at the end of February 2017, the PPA activities were still underway and only 63% of the disbursed funds were utilized. The project was given an approval to continue implementing the remaining activities.

The Main Project funds amounting to \$2,883,607 were disbursed in March 2017 which resulted in the project losing two months (January & February) of implementation. This was due to the long process of approving the Year 1 annual work plan and budgets.

The disbursement rate as at 31^{st} December 2017 was 20% (\$3,348,722.89 disbursed of total (\$17,000,000). The absorption rate for PPA was 100% (\$465,115) and 84% (\$2,923,376.46) for the Main project.

This was the first year of implementation for the project as it was supposed to start implementation after effectiveness date of 1st December 2016. However, the project started implementation under the PPA in September 2016 with funds amounting to USD 0.465million. PPA implemented activities at reporting date were as follows;

The physical activities under PPA were classified into four as follows;

i. Administrative

- The project facilitated the signing of the finance Agreement for Grant and loan, opening of the designated Bank Account and operating bank account.
- Office equipment that includes 13 computers, 2 printers, one scanner and 5 sets of furniture was procured.
- Recruitment of Project Implementation Unit (PIU) staff that comprise of Finance
 Manager, Monitoring and Evaluation Specialists, Procurement Specialists and Project Accountant.

CONTROLLING OFFICER'S REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 DECEMBER 2017

ii. Finance Management;

The project through a consultant developed a financial management manual and procured a financial management system to ensure that income and expenditure is properly recorded as the activities are being implemented.

iii. Preparation of Programme Implementation Manual (PIM);

The programme through a consultant developed a PIM and was approved by IDA. The PIM will be reviewed periodically and as need arises.

The major activities implemented under the main project are;

- i. Developing Job aides and mentorship tool and distribute to assist standardized support.
- ii. Sensitize DHO, DHMT, hospital in-charges on the intervention.
- iii. Review the mapping for sputum collection and transportation.
- iv. Develop, print and disseminate TB in mines specific BCC materials.
- v. Conducting regular joint inspections of mining institutions to ascertain adherence to mining health guidelines.
- vi. External Quality Assurance of Microscopy and Expert sites.
- vii. Procurement of X-ray machines, motor vehicles, motor cycles, IT equipment and office furniture.

DR. DAN NAMARIKA SECRETARY FOR HEALTH

STATEMENT OF MANAGEMENT RESPONSIBILITIES

FOR THE PERIOD ENDED 31 DECEMBER 2017

The Project Appraisal Document of the International Development Association (IDA) loan agreement of 5th August, 2016 and the Public Finance Management Act, 2003 requires management to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Project as at the end of the financial year and of the operating results for that period.

The Project Appraisal Document and the Act, also require management to ensure the Project keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Project and enable them to ensure that the financial statements comply with applicable statutes.

In preparing the financial statements, management accepts responsibility for the following;

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and consistent application thereof;
- Making judgments and estimates that are reasonable and consistently applied;
- Compliance with applicable accounting standards when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Project will continue in business in the foreseeable future.

Management also accepts responsibility for taking reasonable steps to safeguard the assets of the Project and to maintain adequate systems of internal control to prevent and detect fraud and other irregularities.

The financial statements have been approved on 1122018...by the Ministry of Health and Population are signed on its behalf by:

Re

SECRETARY OF HEALTH AND POPULATION

PROJECT COORDINATOR

Telephone: + 265 1 770 700 Facsimile: +265 1 773 071

+265 1 776 125 +265 1 774 138

All Communications should be addressed to: National Audit Office



In reply please quote No.

NATIONAL AUDIT OFFICE
P.O. BOX 30045

CAPITAL CITY

LILONGWE 3

MALAWI

AUDITOR GENERAL

AUDITOR GENERAL'S REPORT

TO THE CONTROLLING OFFICER OF THE MINISTRY OF HEALTH AND POPULATION ON THE FINANCIAL STATEMENTS OF THE SOUTHERN AFRICA TUBERCULOSIS AND HEALTH SYSTEMS SUPPORT PROJECT (SATBHSSP) - IDA LOAN No. 5864-MW AND GRANT NO. D1170-MW - FOR THE 16 MONTHS PERIOD ENDED 31 DECEMBER, 2017

Opinion

I have audited the Financial Statements of Southern Africa Tuberculosis and Health Systems Support Project (SATBHSSP) – IDA Loan No. 5864-MW and Grant No. D1170-MW, comprising Statement of Receipts and Payments, Statement of Designated Account and other explanatory notes for the 16 months period ended 31 December, 2017 as set out on pages 10 to 15.

In my opinion, the financial statements, present fairly, in all material respect, the financial position of Southern Africa Tuberculosis and Health Systems Support Project as at 31st December, 2017, and of its financial performance for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and in the manner required by the Donor.

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Southern Africa Tuberculosis and Health Systems Support Project and the Ministry of Health and Population in accordance with the International Standards of Supreme Audit Institutions - *Code of ethics* (ISSAI 30) as promulgated by the International Organisation of Supreme Audit Institutions (INTOSAI), and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

I have determined that there is no need to communicate key audit matters in my report due the nature of the audited entity.

Responsibilities of Management for the Project's Financial Statements

Management of the Southern Africa Tuberculosis and Health Systems Support Project is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) Financial Reporting under the Cash Basis of Accounting, Donor terms of agreement and financial provisions, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Project's Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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 these Project's Financial Statements.

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

- Identify and assess the risks of material misstatement of the financial statements,
 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
 my 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement auditor on the audit resulting in this independent Auditor General's report is:

Signature. Signature.

STEPHENSON KAMPHASA AUDITOR GENERAL NATIONAL AUDIT OFFICE LILONGWE MALAWI

Date: 11/6/2018

STATEMENT OF RECEIPTS AND PAYMENTS BY CATEGORY

FOR THE 16 MONTHS PERIOD ENDED DECEMBER, 2017

	NOTES	MWK	<u>USD</u>
Receipts			
IDA D1170-MW	3	2,398,744,403	3,348,722
Direct Payment - IMOSYS	4	100,487,647	_133,070
Total Receipts		2,499,232,050	3,481,792
Less: Uses of Funds by Category			
1. Innovative Prevention, Detection and Treatment of TI	3	367,754,279	513,715
2. Regional Capacity for disease Surveillance, Diagnosti Management of TB and Occupational Lung	ics and	511,307,412	714,244
3. Regional learning and Innovation and Project Manage	ement	983,177,346	1,373,398
6. Preparatory Advance		332,399,923	465,115
Total Expenditures		2,194,638,960	3,066,472
Net Cash Available		304,593,090	415,321
Represented By			
Project Operating Accounts		297,329,079	415,320
IDA Designated Account			
Total Closing Cash Balance		297,329,079	415,320

STATEMENT OF RECEIPTS AND PAYMENTS BY COMPONENT

FOR THE 16 MONTHS PERIOD ENDED DECEMBER, 2017

	NOTES	MWK	<u>USD</u>
Receipts			
IDA D1170-MW Direct Payment – IMOSYS	3 4	2,398,744,403 100,487,647	3,348,722 133,070
Total Receipts		2,499,232,050	3,481,792
Less: Uses of Funds by Component 1. Innovative prevention, Detection and Treatment of TB			
Enhance case detection & Treatment Success		319,335,219	446,078
Standardized package of occupational Health Services and Mining Safety across participating countries		48,419,069	67,636
2. Regional Capacity for disease surveillance, Diagnostics and Management of TB Occupational Lung Diseases			
Improving Quality and Availability of Human Resources		52,972,975	73,998
Strengthening Diagnostic Capacity and Disease Surveillance		417,738,505	583,538
Strengthening Mine Health Regulation		40,595,944	56,708
3. Regional Learning and Innovation and Project Management			
Operational Research and Knowledge Sharing		187,341,237	261,695
Centers of Excellence in TB and Occupational Lung Disease Control		37,686,495	52,644
Project management		758,149,636	1,059,059
Total Expenditure Net Cash Balances		2,194,639,003 304,593,047	3,066,471 415,321
Represented By			
Project Operating Accounts		304,593,047	415,320
IDA Designated Account Total Closing Cash Balance		304,593,047	415,320

DESIGNATED ACCOUNT ACTIVITY STATEMENT- IDA FOR THE 16 MONTHS PERIOD ENDED DECEMBER, 2017

Part I	Total US Dollars	Grant US Dollars	Loan US Dollars
1. Cumulative advances to end of current reporting period	3,348,722	2,883,607	465,115
2. Cumulative expenditures to end of last reporting period	1,789,968	1,324,853	465,115
3. Outstanding advance to be accounted for	1,558,754	1,558,754	-
Part II 4. Opening DA Balance at beginning of reporting period -Sept 17 Account DA	403,723	403,723	
Account Holding & Operating	1,155,032	1,155,032	_
6 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 -	1,558,754	1,558,754	
5. Add/ Subtract : Cumulative Adjustments (if any)6. Advances from World Bank during period7. Add lines 5 and 68. Outstanding balances to be accounted for (add lines 4 and 7)			
PART III	1,558,754	1,558,754	
9. Closing DA balance at end of current reporting period- Dec 17 Account DA		_	_
Account Holding & Operating	415,320	415,320	Ma.
10. Add / Subtract : Cumulative adjustments	415,320	415,320	-
11. Expenditures for current reporting period	1,143,434	1,143,434	-
12. Add lines 10 and 11	1,143,434	1,143,433	
13. Add lines 9 and 12	1,558,754	1,558,753	
14. Difference (if any) (line 8 less line 13)	-	-	_

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 16 MONTHS PERIOD ENDED DECEMBER, 2017

1. Nature of Business

Southern Africa Tuberculosis and Health Systems Support Project is an IDA funded project implemented by the Ministry of Health and Population. The project has a five year life span and the total project costs is USD 17 million comprising, a loan of USD 7.5 million and a grant of USD 9.5 million. The major activities of the project are to orient and sensitize miners, ex miners and their family contacts on the TB interventions, TB screening in the areas surrounding the mines, case notification through the E-Health system and procurement of health equipment. There is a component to establish and maintain sputum collection points to increase case notification and improve patient follow-ups.

2. Significant Accounting Policies

2.1 Basis of preparation

The financial statements have been prepared on cash basis in accordance with the International Public Sector accounting Standards.

The financial statements of the Project are expressed in US Dollars and Malawi Kwacha, which is the reporting and functional currency respectively of the Project.

2.2 Foreign currency transactions

Local currency receipts and expenditures are translated into United States Dollars using the exchange rates that Reserve Bank of Malawi used to convert the proceeds from the special account. Where part of the expenditures has to be met from the proceeds of subsequent drawdowns from special to local account, this is done on First in First out (FIFO) basis. All local expenditures paid from the local accounts/currency are translated back to the USD at the actual rate used for the transfer from special to local account. Cash balances held in foreign currency are reported using the closing rate. Gains/Losses on foreign currency transactions/balances are dealt within the Statement of Special Account Activities.

2.3 Receipts

Receipts are recognised when they are credited in the projects designated account held at Reserve Bank of Malawi. The project receipts comprised, funding from the donor, and direct payments made to the suppliers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE 16 MONTHS PERIOD ENDED DECEMBER, 2017

3. Replenishment to the Special Account

These are amounts of withdrawals applications received during the period under review as follows:

Withdrawal Application Number	Amount (US\$)	Amount (MK)
WA 01 (PPA V0200)	465,615	331,817,317
WA 02	2,883,107	2,066,927,086
Total	3,348,722	2,398,744,403

4. IDA Direct Payments

These are amounts that were paid by IDA Direct to the suppliers during the period under review as follows:

Withdrawal Application

Number	Supplier	Amount (US\$)	Amount (MK)
DP 01	Intelligent Monitoring Systems	133,070	100,487,647

5. Disbursement Method

The project is using reporting Based method of disbursement. The Interim Financial Reports (IFRs) are used for replenishment to the Designated Account.

6. Non-Current Assets (for disclosure purposes only)

Capital expenditure is expensed in the year of purchase and no provision for depreciation is made on all non-current assets. This schedule includes all assets acquired since the project inception and are stated at cost.

Details	Amount	
	2017 (USD)	2017 (MWK)
Opening Balance	-	
Additions	892,767	647,560,679
Disposals	-	
Closing Balance	892,767	647,560,679

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE 16 MONTHS PERIOD ENDED DECEMBER, 2017

7. IDA Loan/Grant Disbursements

The loan and grant funds are accessed through initial submission of a six months forecast to IDA who in turn disburses funds as an advance to the Project Designated Account. The Interim Financial Reports are then used to document the utilisation of funds on a quarterly basis through the Client Connection Portal. In terms of procurements above the required threshold, suppliers are directly paid to their bank accounts. The total disbursements for the year under review were US\$465,615 loan and US\$2,883,107 grant.

8. Economic Factors

Economic factors relevant to the project's performance are set out below;

Economic trends as at 31st December 2017 were as follows;

Kwacha/Rand 59.0129 Kwacha/Dollar 724.1976 Inflation 7.1%