

For: **ACTING AUDITOR GENERAL**

Jacob Mtonga

Kindly acknowledge receipt.

Please submit a copy to the Donor.

- 1. Project Financial Statements
- 2. Management Report

The reports comprise:

I submit the audit reports for the Energy Sector Support Project for the year ended 30 June 2018.

**AUDIT REPORT FOR THE ENERGY SECTOR SUPPORT PROJECT (ESSP) FOR THE YEAR ENDED 30 JUNE 2018**

FROM : THE AUDITOR GENERAL, P.O. BOX 30045, LILONGWE 3.

TO : THE SECRETARY TO THE TREASURY, P.O. BOX 30049, LILONGWE 3.

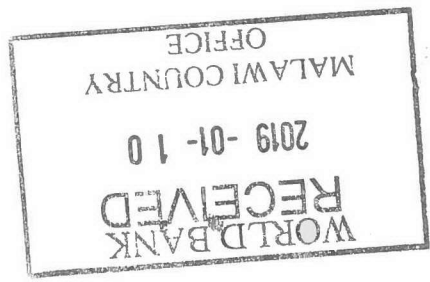
CC : THE CHIEF SECRETARY, OPC, P/B 55, LILONGWE.

: THE ACCOUNTANT GENERAL, P O BOX 30140, LILONGWE 3

: THE SECRETARY FOR NATURAL RESOURCES, ENERGY AND MINING, LILONGWE

: THE PROJECT COORDINATOR, KHOLOMBIDZO POWER PROJECT, MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING LILONGWE

Ref: **DEV/ESSP/1** 09 January 2019



National Audit Office  
P.O. Box 30045  
Capital City  
Lilongwe 3

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

**IDA GRANT NO.7150 MAI  
IDA CREDIT NO.4980 MAI  
ENERGY SECTOR SUPPORT PROJECT**

**MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING**

**Republic of Malawi**



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**1.0 Project Background**

The Government of Malawi with support from the International Development Agency (IDA) (World Bank (WB) is implementing the Energy Support Project which aims at increasing the reliability and quality of electricity supply in the major load centres. The project is financed with a grant of US\$ 65.4 million and a credit amounting to USD19.3 million. It became effective on 30 January, 2012 and its original closing date is 30 October, 2016 which was revised to close on 31<sup>st</sup> July, 2018. The project was extended for a further two and a half months to close on 15<sup>th</sup> October, 2018.

**2.0 Goal of the Project**

The main objective of the Energy Sector Support Project is to increase the reliability and quality of electricity supply in the major load centres in Malawi.

**3.0 Objectives of the Project**

Specifically, the project will undertake the following:

a. Finance the rehabilitation, upgrade and expansion of the existing transmission and distribution network in Blantyre, Zomba, Lilongwe and Mizuzu.

b. Finance the feasibility studies for several hydropower sites over a range of capacities and geographical locations.

c. Finance the feasibility studies for the back bone transmission line from Lilongwe to Karonga via Kasungu and Mizuzu.

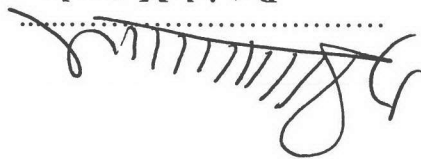
d. Finance the demand side management and energy efficiency measures to narrow the demand-supply gap cheaply.

**4.0 Project Achievements at the date of financial Statements**

The project has made substantial progress in implementing the project. As at 30<sup>th</sup> June 2018, the actual expenditure is USD12,443,963.19 representing 80.33% disbursement rate. The sum of USD2,197,557.12 is the outstanding amount against contracts already signed. Total amount committed as at 30<sup>th</sup> June, 2018 is USD14,641,519.31 making a 94.52% of the funding committed. All major contracts have now been completed except two and these are the geothermal prospects contract and the Tender documents for Mpatamanga Hydro Power scheme.

Project Achievements at the date of financial Statements ...cont'd

The major challenge has been the loss of Grant and Loan proceeds as a result of the appreciation of the United States Dollar (US\$) against the Special Drawing Rights (XDR). The time the project became effective, the dollar was 1.6 to the Special Drawing Rights but now it is hovering around 1.4 to the XDR which is a loss in value of 13%.



Patrick Matanda

SECRETARY FOR NATURAL RESOURCES,  
ENERGY & MINING

**STATEMENT OF MANAGEMENT RESPONSIBILITIES  
FOR THE FOR THE YEAR ENDED 30 JUNE 2018**

Management of the Energy Sector Support Project is required to prepare financial statements for each financial year 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 year.

Management is also required to ensure that 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 consolidated financial statements comply with the financial agreements and statutes.

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

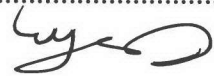
- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgment and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards when preparing the consolidated financial statements, subject to any material departures being disclosed and explained in the consolidated financial statements.

Management also accepts responsibility for taking such steps as are reasonably open to them to safeguard the assets of the project and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities

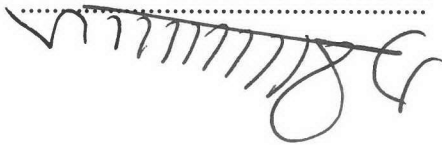
Management is of the opinion that the financial statements give a true and fair view of the financial affairs of the project and of its operating results.

The financial statements have been approved by the Ministry Natural Resources, Energy and Mining and are signed on its behalf by:

.....  
**DIRECTOR OF ENERGY AFFAIRS**



.....  
**SECRETARY FOR NATURAL  
RESOURCES, ENERGY & MINING**





I have determined that there is no need to communicate key audit matters in my report due the nature of the audited entity.  
I have determined that there is no need to communicate key audit matters in my report due the nature of the audited entity.  
provide a separate opinion on these matters.

**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.

**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 Energy Sector Support Project and the Ministry of Natural Resources, Energy and Mining in accordance with the International Standards of Supreme Audit Institutions (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.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Energy Sector Support Project as at 30<sup>th</sup> June, 2018 in accordance with the International Public Sector Accounting Standards (IPSAS), Donor terms of agreement and financial provisions.

**Opinion**  
I have audited the accompanying financial statements for the Energy Sector Support Project comprising Statement of Receipts and Payments; Statement of Sources and Use of funds for the year ended 30<sup>th</sup> June, 2018, and related notes as set out on pages 9 to 14.

**TO THE SECRETARY FOR NATURAL RESOURCES, ENERGY AND MINING ON THE FINANCIAL STATEMENTS OF THE ENERGY SECTOR SUPPORT PROJECT (ESSP) - IDA CREDIT NO. 4980 MAI AND GRANT NO. 7150 MAI FOR THE YEAR ENDED 30 JUNE, 2018**

**AUDITOR GENERAL'S REPORT**

**AUDITOR GENERAL**



NATIONAL AUDIT OFFICE  
P.O. BOX 30045  
CAPITAL CITY  
LILONGWE 3  
MALAWI

In reply please quote No. ....

All Communications should be addressed to:  
National Audit Office

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+265 1 774 138

**The Energy Sector Support Project Management's Responsibility for the Project's Financial**

**Statements**

The Energy Sector Support Project Management 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.

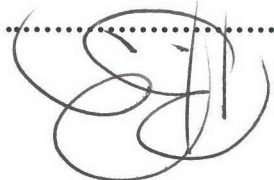
I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.



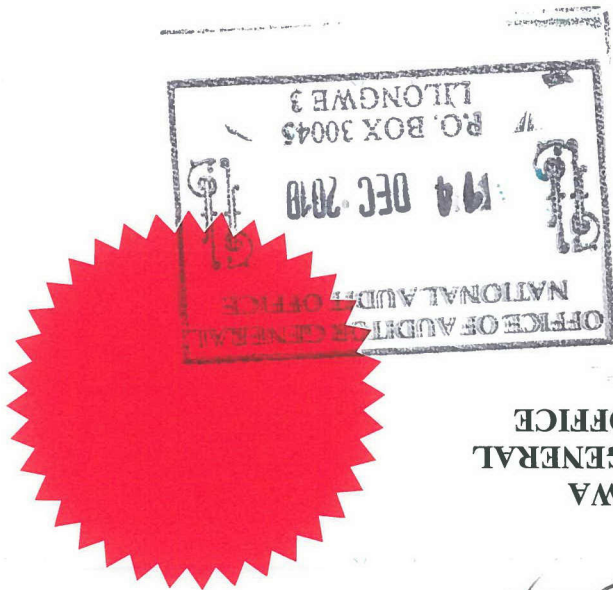
From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes 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:.....  


THOMAS K B MAKIWA  
ACTING AUDITOR GENERAL  
NATIONAL AUDIT OFFICE  
LILONGWE  
MALAWI

Date:.....  
14/12/18



**Statement of Receipts and Payments**  
For the year ended 30 June 2018

Notes

	2017/18	2016/17	
Opening Balances	1,150,952	867,392	USD
Designated Account USD	834,958,121	618,398,296	MWK
ESSP Holding Account	25,124,690	57,599,390	
ESSP Local Account	(37,169)	(18,031,174)	
<b>Total Opening Balances</b>	<b>1,143,591</b>	<b>913,569</b>	
Add : Receipts	1,559,631	4,126,473	
IDA Funds	2,703,222	5,040,042	
Cash Available	1,131,944,654	2,988,451,896	
<b>Expenditure</b>	<b>58,170</b>	<b>40,316</b>	
Subsistence Allowance	41,614,750	28,765,842	
Accommodation Charges	13,367,988	11,123	
External travel	-	1,816	
Telephone Charges	4,082,918	7,101	
Computer Costs	69,900	225	
Consumable stores	1,016,418	1,432	
Postage Charges	57,410	492	
Publication and Advertising	15,000	49	
Stationery	732,669	3,991	
External Training	55,462,529	21,888	
Consultancy Costs	16,088,677	36,920	
Professional and Technical Services	1,301,573,036	3,740,632	
Bank Charges	352,941	423	
Fuel Charges	15,622,000	13,520	
Insurance of Motor Vehicles	1,066,419	-	
Maintenance of Motor Vehicles	7,285,358	5,252	
Purchase of Office Equipment	3,507,634	11,269	
<b>Total Expenditure</b>	<b>2,039,676</b>	<b>3,896,451</b>	
Cash available less expenditure	508,090,776	1,143,591	
Exchange Rate Loss	(32,449,419)	-	
Closing Balances	475,641,544	1,143,591	
Designated Account USD	466,603,033	1,150,952	
ESSP Holding Account	25,703,194	29,808	
ESSP Local Account	(16,664,683)	(37,169)	
<b>Total Closing Balances</b>	<b>663,546</b>	<b>1,143,591</b>	

*Patrick Matanda*

SECRETARY FOR NATURAL RESOURCES, ENERGY AND MINES

**Sources and Uses of Funds (Expenditure by Item Categories)**  
For the year ended 30 June 2018

	2017/18		2016/17	
	US\$	MWK	US\$	MWK
<b>Opening Balances</b>				
Designated Account USD	1,150,952	834,958,121	867,392	618,398,296
ESSP Holding Account	29,808	25,124,690	76,761	57,599,390
ESSP Local Account	(37,169)	(22,020,855)	(30,585)	(18,031,174)
<b>Total Opening Balances</b>	<b>1,143,591</b>	<b>838,061,956</b>	<b>913,568</b>	<b>657,966,512</b>
<b>Add : Receipts</b>				
IDA Funds	1,559,631	1,131,944,654	4,126,472	2,988,451,896
Cash Available	2,703,222	1,970,006,610	5,040,040	3,646,418,408
<b>Uses</b>				
Consultancy Services	1,815,880	1,301,573,036	3,777,550	2,726,379,429
Goods, Consultants, Training, Operating Costs D2	223,796	160,342,610	118,899	84,838,945
<b>Total Expenditure</b>	<b>2,039,676</b>	<b>1,461,915,647</b>	<b>3,896,451</b>	<b>2,811,218,374</b>
<b>Cash available less expenditure</b>	<b>663,546</b>	<b>508,090,776</b>	<b>1,143,591</b>	<b>835,200,034</b>
Foreign Exchange gain/loss	4	(32,449,419)	-	2,861,922
<b>Net Cash Available</b>	<b>663,546</b>	<b>475,641,544</b>	<b>1,143,591</b>	<b>838,061,956</b>
<b>Closing Balances</b>				
Designated Account USD	650,937	466,603,033	1,150,952	834,958,121
ESSP Holding Account	35,857	25,703,194	29,808	25,124,690
ESSP Local Account	(23,248)	(16,664,683)	(37,169)	(22,020,855)
<b>Total Closing Balances</b>	<b>663,546</b>	<b>475,641,544</b>	<b>1,143,591</b>	<b>838,061,956</b>

Notes

Designated Account Activity Statement - IDA-H7150

For the Period Ending : 30th June, 2018

IDA Credit No.H7150

Account No.0013001780049

Part I

1. Cumulative advances to end of current reporting period	13,135,925
2. Cumulative expenditures to end of last reporting period	10,432,704
3. Outstanding advance to be accounted for	2,703,221

Part II

4. Opening DA Balance at beginning of reporting period (as of 1 July 2017)	1,143,591
5. Add/ Subtract : Cumulative Adjustments (if any)	1,559,631
6. Advances during period	1,559,631
7. Subtotal (lines 5 and 6)	1,559,631
8. Outstanding balances to be accounted for (add lines 4 and 7)	2,703,222
9. Closing DA balance at end of current reporting period	663,546
10. Add / Subtract : Cumulative adjustments	2,039,676
11. Expenditures for current reporting period	2,039,676
12. Add lines 10 and 11	2,039,676
13. Add lines 9 and 12	2,703,222
14. Difference (if any) (line 8 less line 13)	-

Currency of Designated Account: US\$

Deposit Bank ...RBM



NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 30 JUNE 2018

**1.0 Background**  
 The Government of Malawi with support from the International Development Agency (IDA) (World Bank (WB) is implementing the Energy Support Sector Project which aims at increasing the reliability and quality of electricity supply in the major load centers. The project is financed with a grant of US\$ 65.4 million and a credit amounting to USD19.3 million. It became effective on 30 January, 2012 and its original closing date is 30 October, 2016 which was revised to close on 31<sup>st</sup> July, 2018. The project was extended for a further two and a half months to close on 15<sup>th</sup> October, 2018

**2.0 ACCOUNTING POLICIES**

**2.1 Basis**  
 The financial statements have been prepared using the historic cost convention and on a cash basis. All receipts and expenses incurred in the period are reflected in the financial statements.

**2.2 Foreign Currency Transactions**  
 Local currency Receipts and Payments Account transactions are translated back to foreign currency using the exchange rate at the date of draw down, while payments in foreign currency are translated to local currency using actual exchange rate on the transaction date.

Expenditures in local currency are translated back to foreign currency using the exchange rate at which the draw down was converted.  
 Closing bank balances are translated using the rate at which the funds were converted.

**2.3 Receipts**  
 Receipts are stated at actual amounts withdrawn from the World Bank Grant/Credit account H750-MAI in the form of replenishment to the special account, charges and direct payments to suppliers of goods and services.

**2.4 Non-Current Assets**  
 Capital expenditure is expensed in the year it is incurred.

**2.5 Local Account Balance**  
 The balance in the local Account shows a negative amount. This represent amount paid by the local bank but not yet claimed from the Reserve Bank.

NOTES TO THE FINANCIAL STATEMENTS .... Cont'd

3.0 WITHDRAWAL APPLICATIONS

Transaction Number	Transaction Date	Borrower Reference	Beneficiary Name	Amount on Application (US\$)	Exchange Rate	MWK Equivalent
085	26 July 2017	MONREE ESSP 0043	ESSP Project	140,830	725.9872	102,241,119
090	09 September 2017	MONREE ESSP 0044	ESSP Project	269,309	726.9720	195,780,044
092	27 October 2018	MONREE ESSP 0045	ESSP Project	190,352	725.9735	138,190,537
093	29 November 2018	MONREE ESSP 0046	ESSP Project	538,762	727.6988	392,056,439
064	15 December 2017	MONREE ESSP 0047	ESSP Project	88,837	722.3454	64,170,745
069	07 February 2018	MONREE ESSP 0048	ESSP Project	154,036	722.4120	111,277,491
075	14 May 2018	MONREE ESSP 0050	ESSP Project	177,505	722.3998	128,229,475
		<b>Total Receipts</b>		<b>1,559,631</b>		<b>1,131,945,850</b>



NOTES TO THE FINANCIAL STATEMENTS .... Cont'd

4. EXCHANGE RATE LOSS

Opening Balances	Amount in USD	Conversion Rate	MWK Equivalent
Designated Account	1,150,952		834,958,128
ESSP Holding Account	29,808		25,124,690
ESSP Local Account	(37,169)		(22,020,855)
Total Opening Balances	1,143,591		838,061,956
<b>Add Receipts</b>			
MONREE ESSP 0043	140,830	725.9872	102,241,119
MONREE ESSP 0044	269,309	726.9720	195780044.2
MONREE ESSP 0045	190,352	725.9735	138,190,537
MONREE ESSP 0046	538,762	727.6988	392,056,439
MONREE ESSP 0047	88,837	722.3454	64,170,745
MONREE ESSP 0048	154,036	722.4120	111,277,491
MONREE ESSP 0049	-		-
MONREE ESSP 0050	177,505	722.3998	128,229,475
Total Receipts	1,559,631		1,131,945,850
Cash available	2,703,222		1,970,007,806
Expenditure	2,039,658		1,461,916,172
Net cash available	663,564		508,091,634
<b>Closing Balances</b>			
Designated Account	650,937	716.81875	466,603,847
ESSP Holding Account	35,857	716.81875	25,702,970
ESSP Local Account	(23,248)	716.81875	(16,664,602)
Total Closing Balance	663,546	716.81875	475,642,214
Exchange rate loss			32,449,420