



Republic of Malawi

MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING

ENERGY SECTOR SUPPORT PROJECT

IDA CREDIT NO.4980 MAI

IDA GRANT NO.7150 MAI

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30TH JUNE 2016

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

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CONTROLLING OFFICER'S REPORT

1.0 Project 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 centres. The project is financed with a grant of US\$ 65.4 million and a credit amounting to USD19.3 million and it became effective on 30 January, 2012 and its original closing date is 30th October, 2016. However, the project has been extended for a further twenty-one months to 31st July 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 Mzuzu.
- 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 LL to KA via KU and MZ.
- 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 30th June, the actual expenditure is USD6, 500,826.80 representing a 42% disbursement rate. The sum of USD6, 149,346.00 is the outstanding amount against contracts already signed. Total amount committed as at 30th June is USD12, 650,173.00 making an 82% of the funding committed. All major contracts have now been signed are in the process of being implemented.

**MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
ENERGY SECTOR SUPPORT PROJECT IDA CREDIT NUMBER 4980 - MAI**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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**

MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
ENERGY SECTOR SUPPORT PROJECT IDA CREDIT NUMBER 4980 – MAI
FINANCIAL STATEMENTS FOR THE FOR THE YEAR ENDED 30 JUNE 2016

STATEMENT OF MANAGEMENT RESPONSIBILITIES

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.

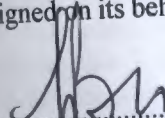
In preparing the financial statements, management accepts responsibility for the following:

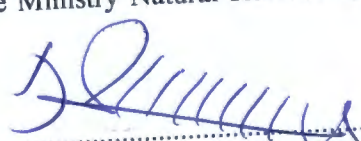
- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgment and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards when preparing the consolidated financial statements, subject to any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



AUDITOR GENERAL

AUDITOR GENERAL'S REPORT

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, 2016

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 30th June, 2016, and related notes as set out on pages 8 to 14.

Management's responsibility for the financial statements

The Management of Energy Sector Support Project is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards, Donor terms of agreement and financial provisions. This responsibility includes: designing, implementing and maintaining internal control system relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on my judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, I consider internal control system relevant to the project's preparation and fair presentation of the financial statements 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 project's internal control system.

An audit also includes evaluating the appropriateness of accounting policies used, as well as evaluating the overall presentation of financial statements.

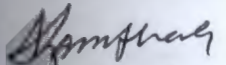
AUDITOR GENERAL'S REPORT

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, 2016

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mining Governance and Growth Support Project funded by the World Bank and European Union for the year ended 30th June 2016 in accordance with International Public Sector Accounting Standards, Donor terms of agreement and financial provisions.


S.D.L. Kamphasa

Date: 31/12/2016



MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
ENERGY SECTOR SUPPORT PROJECT - IDA CREDIT NUMBER 4980 - MAI AND GRANT 7150-MAI

Statement of Receipts and Payments for the year ended 30 June 2016.

	US\$	K	US\$	K
Opening Balances				
Designated Account USD	987,275	418,926,001	-	-
ESSP Holding Account	150,401	64,749,296	-	-
ESSP Local Account	<u>(51,037)</u>	<u>(19,780,981)</u>	-	-
Total Opening Balances	1,086,639	463,894,316	-	-
Add: Receipts				
IDA Funds (Note 3)	<u>3,686,806</u>	<u>2,451,777,795</u>	<u>3,763,016</u>	<u>1,427,281,603</u>
Cash Available	<u>4,773,444</u>	<u>2,915,672,111</u>	<u>3,763,016</u>	<u>1,427,281,603</u>
Expenditure				
Public Transport	-	-	32	9,000
Subsistence Allowance	54,380	27,705,862	153,661	52,037,207
Accommodation Charges	16,351	7,448,913	40,824	15,187,363
external travel	602	327,948	-	-
Telephone Charges	3,710	1,922,650	5,564	2,067,349
Computer Costs	225	122,325	1,724	668,979
Consumable stores	2,612	1,435,987	3,022	1,119,345
Postage Charges	-	-	351	145,143
Publication and Advertising	627	341,515	5,697	1,984,105
Stationery	6,355	3,290,834	18,324	5,782,896
Internal Training	-	-	16,165	4,586,998
External Training	61,182	35,301,073	163,740	48,275,882
Consultancy Costs	117,869	64,812,348	131,708	43,914,000
Professional and Technical Services	3,560,271	2,243,905,071	1,940,361	992,540,057
Bank Charges	362	220,142	609	222,976
Fuel Charges	20,150	10,375,000	58,334	16,335,088
Insurance of Motor Vehicles	1,492	1,065,420	18,125	5,901,010
Maintenance of Motor Vehicles	6,896	3,521,252	8,657	3,329,605
Purchase of Motor vehicles	-	-	81,606	23,156,806
Purchase of Office Equipment	<u>6,795</u>	<u>4,045,754</u>	<u>27,874</u>	<u>8,805,418</u>
Total Expenditure	<u>3,859,877</u>	<u>2,405,842,092</u>	<u>2,676,378</u>	<u>1,226,069,229</u>
Cash available less expenditure	913,567	509,830,019	1,086,638	201,212,374
Exchange Rate Gain (note 4)	<u>-</u>	<u>148,136,493</u>	<u>-</u>	<u>262,681,942</u>
	<u>913,567</u>	<u>657,966,512</u>	<u>1,086,638</u>	<u>463,894,316</u>
Closing Balances				
Designated Account USD	867,392	618,398,296	987,275	418,926,001
ESSP Holding Account	76,762	57,599,390	150,401	64,749,296
ESSP Local Account	<u>(30,585)</u>	<u>(18,031,174)</u>	<u>(51,037)</u>	<u>(19,780,981)</u>
Total Closing Balances	<u>913,569</u>	<u>657,966,512</u>	<u>1,086,639</u>	<u>463,894,316</u>

MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
ENERGY SECTOR SUPPORT PROJECT - IDA CREDIT NUMBER 4980 - MAI AND GRANT 7150-MAI

Sources and Uses of Funds for the year ended 30 June 2016

(Expenditure by item Categories)

	2016		2015	
	US\$	MWK	US\$	MWK
Opening Balances				
Designated Account USD	987,275	418,926,001	-	-
ESSP Holding Account	150,401	64,749,296	-	-
ESSP Local Account	<u>(51,037)</u>	<u>(19,780,981)</u>	-	-
Total Opening Balances	1,086,639	463,894,316	-	-
Add: Receipts				
IDA Funds (Note 3)	<u>3,686,806</u>	<u>2,451,777,795</u>	3,763,016	1,427,281,603
Cash Available	<u>4,773,444</u>	<u>2,915,672,111</u>	3,763,016	1,427,281,603
Uses				
Consultancy Services	3,635,678	2,287,071,180	2,072,069	1,031,454,056
Goods, Consultants, Training, Operating Costs D2	224,198	118,770,912	604,310	194,615,173
Total Expenditure	3,859,876	2,405,842,092	2,676,379	1,226,069,229
Surplus/Deficit	913,568	509,830,019	1,086,638	201,212,374
Foreign Exchange Difference	<u>-</u>	<u>148,136,493</u>	-	<u>262,681,942</u>
Net Cash Available	913,568	657,966,512	1,086,638	463,894,316
Closing Balances				
Designated Account USD	867,392	618,398,296	987,275	418,926,001
ESSP Holding Account	76,761	57,599,390	150,401	64,749,296
ESSP Local Account	<u>(30,585)</u>	<u>(18,031,174)</u>	<u>(51,037)</u>	<u>(19,780,981)</u>
Total Closing Balances	<u>913,568</u>	<u>657,966,512</u>	1,086,639	<u>463,894,316</u>

MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
ENERGY SECTOR SUPPORT PROJECT - IDA CREDIT NUMBER 4980 - MAI AND GRANT 7150-MAI

Designated Account Activity Statement for the year ended 30th June 2016

IDA Credit No.H7150

Deposit Bank ...RBM

Account No. 0013001780049

Part I

	US\$
1. Cumulative advances to end of current reporting period	7,449,822.00
2. Cumulative expenditures to end of last reporting period	<u>2,676,378.00</u>
3. Outstanding advance to be accounted for (line 1 minus line 2)	4,773,444.00

Part II

4. Opening DA Balance at beginning of reporting period (as of 1 July, 2015)	1,086,639.00
5. Add/Subtract: Cumulative Adjustments (if any)	-
6. Advances from World Bank during period	<u>3,686,806.00</u>
7. Subtotal (lines 5 and 6)	3,686,806.00
8. Outstanding balances to be accounted for (add 4 and 7)	<u>4,773,444.00</u>
9. Closing DA balance at end of current reporting period (as of quarter)	<u>913,568.00</u>
10. Add /Subtract: Cumulative adjustments	-
11. Expenditures for current reporting period	<u>3,859,876.00</u>
12. Add lines 10 and 11	<u>3,859,876.00</u>
13. Add lines 9 and 12	<u>4,773,444.00</u>
14. Difference (if any) (line 8 less line 13)	<u>-</u>

**MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
ENERGY SECTOR SUPPORT PROJECT IDA CREDIT NUMBER 4980 - MAI AND GRANT 7150-MAI**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTES TO THE FINANCIAL STATEMENTS

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 and it became effective on 30 January, 2012 and its original closing date is 30 October, 2016. However, the project has been extended for a further twenty-one months to July 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 capitalised in the year it is incurred and no provision for depreciation is made on all non-current assets.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

2.5. Expenditure to date – USD 6,537,885.24

Actual expenditure has included expenditure incurred and paid for to June 2016 although a sum of USD 661,350.55 claimed from the Donor was not yet received as at 30th June 2016.

2.6 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.

MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
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FINANCIAL STATEMENTS FOR THE FOR THE YEAR ENDED 30 JUNE 2016

3.0 WITHDRAWAL APPLICATIONS

World Bank Transactions Number	Borrower Reference	Beneficiary Name	Beneficiary Account Number	Amount on Application (US\$)	Transaction Date	Amount MK
0015	MONREE ESSP 0022	ESSProject	13001780049	62,665.90	28-Jul-16	31,233,311.22
0016	MONREE ESSP 0023	ESSProject	13001780049	432,135.44	08-Sep-15	242,462,552.68
0017	MONREE ESSP 0024	ESSProject	13001780049	470,942.37	20-Oct-16	258,415,497.27
0018	MONREE ESSP 0025	ESSProject	13001780049	63,688.45	03-Dec-16	38,832,758.62
0021	MONREE ESSP 0026	ESSProject	13001780049	87,585.70	19-Jan-16	61,358,162.14
0023	MONREE ESSP 0027	ESSProject	13001780049	911,842.29	27-Jan-16	656,535,162.14
0024	MONREE ESSP 0028	ESSProject	13001780049	36,470.25	15-Mar-16	25,031,356.09
0026	MONREE ESSP 0029	ESSProject	13001780049	549,836.02	25-Apr-16	376,978,572.03
0027	MONREE ESSP 0030	ESSProject	13001780049	240,736.28	02-Jun-16	170,831,279.01
0029	MONREE ESSP 0018	ESSProject	13001780049	830,903.20	17-Jun-16	590,099,143.61
Total				3,686,805.90		2,451,777,794.81

MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING

ENERGY SECTOR SUPPORT PROJECT IDA CREDIT NUMBER 4980 - MAI AND GRANT 7150-MAI

FINANCIAL STATEMENTS FOR THE FOR THE YEAR ENDED 30 JUNE 2016

4. EXCHANGE RATE GAIN

	Amount in USD	Conversion Rate	MWK
Opening Balances			
Designated Account USD	987,275.00	424.33	418,926,001.00
ESSP Holding Account	150,401.00	430.51	64,749,296.00
ESSP Local Account	(51,037.00)	387.58	(19,780,981.00)
Total Opening Balances	1,086,639.00		463,894,316.00
Add : Receipts			
MONREE ESSP 0022	62,665.90	498.41	31,233,311.22
MONREE ESSP 0023	432,135.44	561.08	242,462,552.68
MONREE ESSP 0024	470,942.37	548.72	258,415,497.27
MONREE ESSP 0025	63,688.45	609.73	38,832,758.62
MONREE ESSP 0026	87,585.70	700.55	61,358,162.14
MONREE ESSP 0027	911,842.29	720.01	656,535,162.14
MONREE ESSP 0028	36,470.25	686.35	25,031,356.09
MONREE ESSP 0029	549,836.02	685.62	376,978,572.03
MONREE ESSP 0030	240,736.28	709.62	170,831,279.01
MONREE ESSP 0018	830,903.20	710.19	590,099,143.61
Total Receipts	3,686,806.00		2,451,777,795.00
Cash Available	4,773,444.00		2,915,672,111.00
Expenditure	3,859,876.00		2,405,842,092.00
Net Cash Available	913,568.00		509,830,019.00
Closing Balances			
Designated Account USD	867,392.00		618,398,296.00
ESSP Holding Account	76,762.00		57,599,390.00
ESSP Local Account	(30,585.00)		(18,031,174.00)
Total Closing Balances	913,568.00		657,966,512.00
Exchange Rate Gain			148,136,493.00