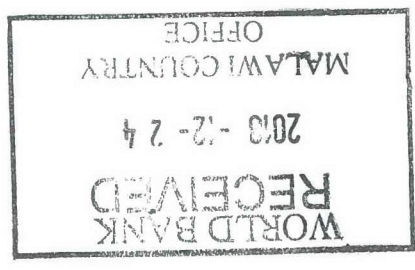


National Audit Office
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REPUBLIC OF MALAWI
ROADS FUND ADMINISTRATION
SOUTHERN AFRICA TRADE AND TRANSPORT FACILITATION PROJECT
(SATTF) PHASE 2 (SOP 2)
IDA CREDIT NO. 5622-MW
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE, 2018



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**CHAIRPERSON'S REPORT
FOR THE YEAR ENDED 30 JUNE, 2018**

1. Project Details

The Government of Malawi signed a financing agreement with International Development Association ("World Bank") for provision of a credit of SDR 49.1 million, equivalent to US\$69 million to support the Southern African Trade and Transport Facilitation Project (SATFP). The agreement was signed on 25 November 2015 and the loan became effective on 29th March 2016 after fulfilling agreed conditions. The project had a Preparation Facility of Five Million United States Dollars (US\$5,000,000) under Project Preparation Advance (PPA) No. Q8950.

The objective of the project is to facilitate the movement of goods and people along the north-south corridor (NSC) and at key border crossings in Malawi, while supporting improvements in road safety and health services along the corridor

The Project's key components are:

- 1) Improving Road Infrastructure
 - (a) Karonga - Songwe
 - (b) Accident Black-spot Improvement
- 2) Improving Social Infrastructure
 - (a) Improving management of road safety
 - (b) Improving health services and emergency response
- 3) Improving Trade Facilitation
 - (a) National Single Window feasibility studies
 - (b) Feasibility studies, design, technical supervision, environmental & social safeguards for upgrading & modernisation of Songwe, Mwanza, Dedza, and Mulozza Border Posts
 - (c) Integrated border management systems at four Border Crossings
- 4) Institutional Strengthening and Implementation Assistance
 - (a) Preparation of a National Transport Master Plan (NTMP).
 - (b) Support to Implementing Entity
 - (c) Consulting Services for ESIA & RAP for Mzimba - Chiweta Road Sections
 - (d) Quality review, technical audit of design and civil works, supervision & Works
 - (e) Road asset management system in the Project Implementing Entity
 - (f) Acquisition of integrated accounting & contract management software
 - (g) Studies for Rail Sector

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED 30 JUNE 2018 (CONT'D)

4 Bank Account Balances

	2018	2017		2018	2017
Opening Balances as at 1 July					
RBM Designated Account - USD	10,665,884.01	10,665,884.01		0.00	0.00
RBM Holding Account - MWK	935,555.44	935,555.44		0.00	0.00
Total	11,601,439.45	11,601,439.45		0.00	0.00
Closing Balances as at 30th June					
RBM Designated Account - USD	4,600,523.63	6,545.75		14,998.74	14,998.74
RBM Holding Account - MWK	576,299.93	805.17		1,305.28	1,305.28
Total	5,176,823.56	7,350.92		16,304.02	16,304.02

5. World Bank (IDA) Credits

	2018	2017		2018	2017
Project Preparation Facility (PPA Q8950)	335,445.33	335,445.33		599.94	599.94
IDA Credit No.5622 main	14,555,763	14,555,763		20,453	20,453
Total	14,891,209	14,891,209		21,053	21,053

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2018 (CONT'D)

2.4 Taxes

In accordance with financing agreements, all the project receipts and payments are eligible to tax in accordance with Taxation Act of Malawi.

3 Disbursement Method

The project is using transaction based method of disbursement. The Interim financial Reports (IFR) are used for replenishment into the Designated Bank Account.

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

1 Financial Management and implementation

Two independent government agencies are jointly implementing the project and these are Roads Fund Administration and Roads Authority. There is no independent stand alone Project Implementation Unit (PIU). Roads Fund Administration's responsibility is to manage and carry out financial management functions for the project while Roads Authority is responsible for implementation.

2 Accounting Policies

2.1 Basis of preparing the Accounts

The Accounts have been prepared on a cash basis in accordance with International Public Sector Accounting Standards (IPSSAS). All receipts and expenses incurred in the period are reflected in the financial statements.

2.2 Foreign Currency Translation

Foreign currency translation for income and expenditure items are converted using the actual exchange rate at the date of draw down from Designated Bank Account. All expenditures paid from the local currency bank account are translated back to the US Dollar at the actual rate at which draw-down was converted at date of transfer from Designated account to local account.

Where the expenditure cannot be fully met from the proceeds of a draw down, and part of the expenditure has to be met from the proceeds of the subsequent draw down, which may have come at a different rate, the conversion rate of the total expenditure from the local currency to the US dollar is on First in First out (FIFO) basis. That is, the preceding draw down has to be exhausted before the subsequent draw down. Bank balances are translated using the rate at the closing date (Closing Rate Method)

The closing exchange rate to one US Dollar was MWK717,5847 as at 30 June 2018 and there was no exchange gain or loss recognized during the year.

2.3 Receipts

These are stated at actual amounts drawn from the World Bank in the form of advances and replenishment to the Designated Account held with the reserve Bank of Malawi Bank account.

Government of Malawi
ROADS FUND ADMINISTRATION
SOUTHERN AFRICA TRADE AND TRANSPORT FACILITATION PROJECT
(SATTFP) PHASE 2 (SOP 2)
IDA CREDIT NO. 5622-MW

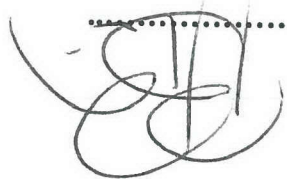
	2018	2017	2018	2017
	MK'000	US\$'000	MK'000	US\$'000
Part I				
1. Cumulative advances to end of current reporting period	14,891,209	21,053	14,891,209	21,053
2. Cumulative expenditures to end of last reporting period	3,289,769	4,749	335,445	600
3. Outstanding advance to be accounted for	11,601,439	16,304	14,555,763	20,453
Part II				
4. Opening DA Balance at beginning of reporting period (as of beginning of quarter 3)	11,601,439	16,304	0	0
5. Add/Subtract: Cumulative Adjustments (if any) -	0	0	0	0
6. Advances from World Bank during period	0	0	14,555,763	20,453
7. Lines 5 and 6	0	0	14,555,763	20,453
8. Outstanding balances to be accounted for (add lines 4 and 7)	11,601,439	16,304	14,555,763	20,453
9. Closing DA balance at end of current reporting period (as of quarter 1)	5,176,824	7,351	11,601,439	16,304
10. Add / Subtract: Cumulative adjustments	0	0	0	0
11. Expenditures for current reporting period	6,424,616	8,953	2,954,324	4,149
12. Add lines 10 and 11	6,424,616	8,953	2,954,324	4,149
13. Add lines 9 and 12	11,601,439	16,304	14,555,763	20,453
14. Difference (if any) (line 8 less line 13)	0	0	0	0
Part III				
15. Total forecasted amount to be paid by World Bank	6,637,289	9,249	11,004,265	15,366
16. Less: Closing DA balance after adjustments	0	0	0	0
17. Less: Closing DA balance after adjustments	5,176,824	7,351	11,601,439	16,304
18. Add lines 16 and 17	5,176,824	7,351	11,601,439	16,304
19. Cash requirement from World Bank for next two reporting period (line 15 less line 18)	1,460,465	1,899	-597,175	-938

Government of Malawi
ROADS FUND ADMINISTRATION
SOUTHERN AFRICA TRADE AND TRANSPORT FACILITATION PROJECT
(SATFP) PHASE 2 (SOP 2)
IDA CREDIT NO. 5622-MW

2018	2018	2017	2017
(MK'000)	(USD'000)	(MK'000)	(USD'000)
Notes			
2018	16,304	2017	20,453
Opening Balances	11,601,439	14,555,763	20,453
RECEIPTS			
IDA 5622-MW	-	14,555,763	20,453
Total Receipts	-	14,555,763	20,453
Total Funds available	11,601,439	14,555,763	20,453
Less - USES OF FUNDS BY COMPONENT			
<i>1. Road Infrastructure</i>			
(a) Karonga - Songwe works	3,494,443	4,870	-
(b) Accident Black-spot Improvement	-	-	-
<i>2. Improving Social Infrastructure</i>			
(a) Improving management of road safety	38,816	54	-
(b) Improving health services and emergency response	819,066	1,141	37
<i>3. Investments in Trade Facilitation</i>			
(a) National Single Window feasibility studies	-	-	-
(b) Feasibility, Design, Technical supervision, Enviro & Social Safeguards for upgrading & modernisation of Songwe, Mwanza, Dedza, and Mulozza Border Posts	246,767	344	750
(c) Integrated border management systems at 4 Border Crossings	-	-	-
<i>4. Institutional Strengthening and Implementation Assistance</i>			
(a) Preparation of a National Transport Master Plan	762,230	1,062	2,068
(b) Support to Implementing Entity	481,832	671	452
(c) Consultants for ESIA & RAP for Mzimba - Chiweta	358,010	499	612
(d) Quality review & audit of design, supervision & Works	-	-	-
(e) Road asset management system	-	-	-
(f) Acquisition of integrated accounting & contract management software	-	-	-
(g) Studies for Rail Sector	-	-	-
(h) Capacity Building for Ministry of Transport	223,454	311	231
Total Payments	6,424,616	8,953	4,149
Funds available less payments	5,176,824	7,351	16,304
Closing Balances	5,176,824	7,351	16,304

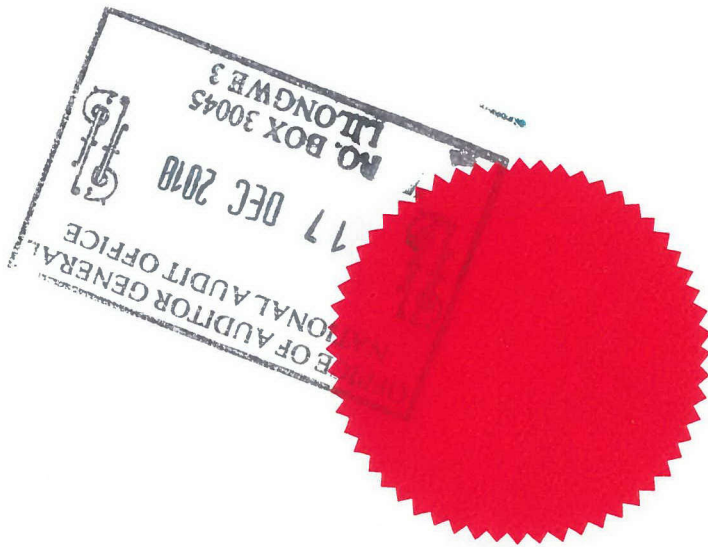
From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes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

Signature:.....


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

Date: 15/11/18.....



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

Responsibilities of Management for the Financial Statements

Management of the Southern African Trade and Transport Facilitation Project is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPAS) Financial Reporting under the historical cost convention 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 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 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.

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 Southern African Trade and Transport Facilitation Project 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.

Opinion
 In my opinion, the financial statements present fairly, in all material respects, the financial position of the Southern African Trade and Transport Facilitation Project for the year ended 30th June, 2018 in accordance with the International Public Sector Accounting Standards (IPSA).
 I have audited the financial statements comprising, Statement of Receipts and Payments and Designated Account Activity Statement of the Southern African Trade and Transport Facilitation Project (SATTFP) PHASE 2 - IDA CREDIT NO. 5622-MW for the year ended 30th June, 2018 and related notes as set out on pages 9 to 13.

**AUDITOR GENERAL'S REPORT
 TO THE CHAIRMAN AND BOARD OF DIRECTORS ON THE FINANCIAL
 STATEMENTS OF THE SOUTHERN AFRICA TRADE AND TRANSPORT
 FACILITATION PROJECT (SATTFP) PHASE 2 (SOP2) FOR THE YEAR ENDED
 30TH JUNE, 2018**

AUDITOR GENERAL



NATIONAL AUDIT OFFICE
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STATEMENT OF MANAGEMENT RESPONSIBILITIES (CONTINUED)

The 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 Board of Directors of Roads Fund Administration on and are signed on its behalf by:

Chief Executive Officer

.....


Director of Finance

.....


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

The management of Southern African Trade Facilitation confirm to the best of our knowledge and belief, the following information and opinions given to you in connection with your examination of the Project's Financial Statements for the twelve months period ended 30 June 2018 for the purpose of expressing an opinion as to whether the Project Financial Statements fairly present, in all material respects, the activities of Southern African Transport and Trade Facilitation Project in accordance with project agreements.

Certain representations in this letter are described as being limited to matters that are material. We understand items are considered material if they involve an omission or misstatement of accounting information that could influence the economic decisions of users taken on the basis of the Project Financial Statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.

The management of Southern African Trade Facilitation 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.

The 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 financial statements comply with the financial agreements and statutes.

In preparing the financial statements the 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 financial statements, subject to any material departures being disclosed and explained in the financial statements.

c) Procurement of ICT equipment was completed.

Designs for refurbishment of health centres has not been completed.

A contract for feasibility study to assess options for establishing a National Single Window (NSW) facility has been awarded and will be implemented in the coming year.

Works for upgrading and modernisation of border post facilities at Songwe, Mwanza, Dedza and Muloza has not commenced. Design issue have not been resolved. This also includes Songwe/Kasumulo OSBP.

3 Challenges

Significant progress has been registered on road rehabilitation. However, other components have experienced significant procurement delays such that works for construction and modernisation of Songwe, Mwanza, Dedza and Muloza and Songwe border crossings as well as refurbishment of Health Centres have not commenced. Improvement of Assorted Accident Blackspots has also delayed.

Mr Chaney Gondwe



Board Chairperson, Roads Fund Administration

CHAIRPERSON'S REPORT (CONTINUED)

(h) Capacity Building for Ministry of Transport & Public Works

The table below shows budget allocations to components.

NO	COMPONENT	US\$ Million
1	Improvement of Road Infrastructure	28
2	Improving the Social Infrastructure	5.5
3	Improving Trade Facilitation	26.8
4	Institutional Strengthening and Implementation Assistance	8.7
	Total	69

2 Outputs

The project did not receive any advance from the World Bank because the available funds were adequate for the planned activities. Total payments made during the year were US\$8,953,104.

The Works for 46km Karonga – Songwe section of the M1 Road are being executed by Zhejiang Provincial Transportation Engineering Construction Group Co. Ltd at a revised Contract Price of US\$24,918,139. As at the end of the financial year, a total of 26km (57%) had been surfaced and open to traffic. Completion was revised from December 2018 to April 2019 following approval of the addendum.

Procurement of services/works to address Accident Blackspots which falls under Component 1(b) has no yet been completed is still an early stated of implementation. Under component 2(a), specifications and bidding documents for procurement of equipment and cars for Directorate of Road Traffic and Safety were approved by the Bank. However, the procurement process is still underway. Terms of reference for various studies have not yet been approved by the Bank. The Directorate undertook some sensitisation meetings across the country during the year.

Under Component 2(b) - Improving health services and emergency response, the following were achieved:

- a) Training of 'First Respondents' to accident sites has been done to 443 out of the targeted 500.
- b) Payment for twelve ambulances procured through UNOPS was made fully awaiting delivery. Delivery of first consignment is due in October 2018. Delivery of one utility vehicle is due in September 2018.