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CONTENTS

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
(ESCOM)
-ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS**

**For the year ended
30 JUNE 2017**

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

| Contents | Page |
|--|-------------|
| 1 Introduction and directors' report | 1 |
| 1.1 Background information | 1 |
| 1.2 Project's immediate objective | 1 |
| 1.3 Project components | 1-2 |
| 2 The audit, scope and reporting | 3 |
| 2.1 Introduction | 3 |
| 2.2 Scope | 3 |
| 2.3 Reporting | 3 |
| 2.4 Distribution | 3 |
| 3 Statement of Directors' responsibilities | 4 |
| 4 Independent auditor's report | 5-8 |
| 5 Financial statements | 9 |
| 5.1 Statement of income and expenditure for the year ended 30 June 2016 | 10 |
| 5.2 Balance of Project's funds and cash status | 10 |
| 5.3 Notes to the statement of income and expenditure | 11 |
| 5.3.1 Significant accounting policies | 11 |
| 5.3.2 Income | 11 |
| 5.3.3 Expenditure | 11 |
| 5.3.4 Project unutilised funds | 11 |
| 5.3.5 Opening balance | 12 |
| 5.3.6 Critical accounting judgements and key sources of estimation uncertainty | 12 |
| 5.3.7 Exchange rates and inflation | 12 |
| 6 Report on our review of expenditure | 13 |
| 6.1 Scope and work performed | 13 |
| 6.2 Findings | 13 |
| 7 Annexures | 14 |
| 7.1 Fixed asset register | 14 |
| 7.2 Detailed income and expenditure report | 15 - 16 |
| 7.3 Detailed expenditure report by component | 17 - 18 |
| 7.4 Prior year restatements | 19 - 21 |

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

1. Introduction and directors report

1.1 Background information

Malawi Government entered into a contract agreement with the World Bank to finance the Energy Sector Support Project (ESSP) in Malawi. The project is implemented by the Electricity Supply Corporation of Malawi (ESCOM) in conjunction with the Ministry of Natural Resources, Energy and Environment (MoNREE). The project is financed by a credit and grant in the amounts of US\$19,300,000.00 and US\$ 65,400,000.00 respectively.

1.2 Project's immediate objective

The proposed project contributes directly to the set of objectives set out in the Malawi Country Assistance Strategy (CAS) (FY07-FY11). The CAS is a program of country assistance in support of the overall Malawi Growth and Development Strategy (MGDS), which underscores the importance of putting in place a foundation for long-term economic growth through improved infrastructure and the investment climate. It specifically proposes that the Bank continues to play a central role in infrastructure development, focusing its efforts in energy and water development.

The proposed Energy Sector Support Project encompasses:

- (i) rehabilitation, upgrading and expansion of existing electric transmission and distribution systems;
- (ii) funding of feasibility studies and preliminary design work for new hydropower plants and backbone transmission line;
- (iii) demand side management and energy efficiency measures; and
- (iv) Technical assistance and capacity building for ESCOM and MoNREE.

The project is directly associated with the CAS outcome of putting in place a foundation for long-term economic growth through improved infrastructure and the investment climate by helping to close the supply-demand gap and improve the electricity distribution and transmission sector.

The project aims at increasing the reliability and quality of electricity supply in the major load centres in Malawi.

1.3 Project components

Component 1: Electricity Network Strengthening and Expansion (estimated at US\$56.2 million, including contingencies)

This component includes the rehabilitation, upgrade and expansion of priority parts of the existing distribution and transmission system, including extension of the network in selected peri-urban areas and reinforcement of the Low Voltage (LV) reticulation. The component is divided into three sub-components:

- Component 1a: Distribution & Transmission Upgrading and Expansion (estimated at US\$41.9 million, including contingencies);
- Component 1b: Low Voltage Reticulation Reinforcement and Technical Implementation Support (estimated at US\$10.5 million, including contingencies); and
- Component 1c: Design, Procurement & Supervision (estimated at US\$3.8 million, including contingencies).

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

1. Introduction and directors report (Continued)

1.3 Project components (Continued)

Component 2: Generation and Transmission Feasibility and Design Studies (estimated at US\$15.2 million, including contingencies)

This component includes financing for feasibility studies needed for eventual development of an additional 200–380 Megawatts (MW) of new hydropower generation capacity in Malawi. The feasibility studies will include technical, engineering design & economic assessments and Environmental Social Impact Assessments (ESIAs) (at either preliminary or full level, depending on the site), and development of the necessary environmental and social mitigation/management plans (again at either preliminary or full level, depending on the site).

Component 3: Demand Side Management and Energy Efficiency Measures (estimated at US\$6.8 million, including contingencies)

Given the severe capacity constraints in Malawi's power system, and evidenced by the extensive and year-round load-shedding program, it was proposed to finance several demand-side management (DSM) and energy efficiency activities, focusing on reducing the coincident peak load and therefore reducing load-shedding. Some of those activities will also contribute to achieve energy savings. These interventions will provide, at relatively low cost, critical "quick wins" in Malawi's efforts to close the demand-supply gap, pending the installation of new generation capacity in the medium term. They will also help Malawi manage its system more reliably and at a lower cost.

Component 4: Capacity Building & Technical Assistance (estimated at US\$3.5 million, including contingencies)

This component will provide institutional strengthening and technical assistance to both MoNREE and ESCOM to support their efforts to further develop Malawi's energy sector. Activities will include:

- Component 4.A Support to ESCOM (estimated at US\$0.6 million, including contingencies); and
- Component 4.B Support to MoNREE (estimated at US\$2.9 million, including contingencies).

1.4. Going Concern

According to the financing agreements with the World Bank, the ESSP winds up on July 31, 2018. It is expected that all works will have been completed by that time hence all assets that have been acquired and developed under the project will be transferred to ESCOM.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

2 The audit, scope and reporting

2.1 Introduction

We were engaged to perform the audit of the Electricity Supply Corporation of Malawi Limited (ESCOM) - Energy Sector Support Project (ESSP) for the year ended 30 June 2017 in accordance with the engagement letter dated 12 December 2017 signed between the Electricity Supply Corporation of Malawi Limited (ESCOM) - Energy Sector Support Project (ESSP) and Deloitte.

The audit was undertaken to address the following specific objectives:

- To perform an audit in accordance with International Standards on Auditing in order to provide an opinion on the true and fair view of the project's financial statements for the year ended 30 June 2017;
- To confirm that the project is in compliance with relevant Project documents and applicable regulations;
- To report on significant control weaknesses and make recommendations to address these weaknesses as appropriate;
- To ascertain that the reported surplus/(loss) is represented with corresponding assets/liabilities; and
- To determine whether the project's income was used to further the project's objective.

The project's financial statements and the responsibility for establishing an effective system of internal control are the responsibility of project management.

2.2 Scope

We conducted our audit in accordance with International Standards on Auditing.

2.3 Reporting

We have presented our report as follows:

- Audit of the project's statement of income and expenditure (Section 5); and
- Review of the project's expenditure (Section 6).

2.4 Distribution

This report may only be used by Management of ESCOM-Energy Sector Support Project (ESSP) for the intended purposes based on the specified procedures.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

3 **Statement of directors' responsibilities**

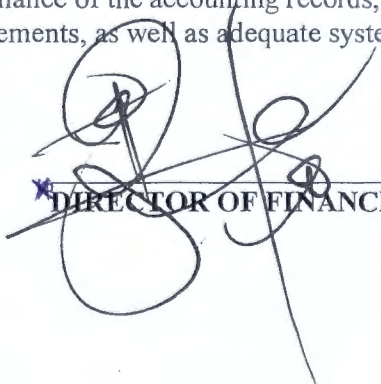
Directors are responsible for preparing the financial statements that reflects a true and fair view of the project's financial statements in accordance with the Cash Basis of Accounting Method of the International Public Sector Accounting Standards. Directors are also responsible for the maintenance of adequate accounting records and internal controls, the selection and application of suitable accounting policies, and safeguarding the assets of the project.

Directors accept responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with the requirements of the project.

Directors further accept responsibility for the maintenance of the accounting records, which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.



CHIEF EXECUTIVE OFFICER



DIRECTOR OF FINANCE

Date: 17th April 2018

4 **Independent auditor's report**
To the Stakeholders of Electricity Supply Corporation of Malawi Limited (ESCOM) - Energy Sector Support Project (ESSP)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Electricity Supply Corporation of Malawi (ESCOM)-Energy Sector Support Project (ESSP) (the Project) as set out on pages 9 to 21, which comprise the statement of income and expenditure for the year ending 30 June 2017, balance of project funds and cash status, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Electricity Supply Corporation of Malawi (ESCOM)-Energy Sector Support Project (ESSP) as at 30 June 2017, and its financial performance and cash status for the year then ended in accordance with the Cash Basis of Accounting Method of the International Public Sector Accounting Standards and in the manner required by the World Bank.

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 Financial Statements* section of our report. We are independent of the Project 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 financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and 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

We draw attention to note 1.4 of the financial statements. The Project is no longer a going concern because it winds up on 31 July 2018. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Key Audit Matters (Continued)

| Key Audit Matter | How the matter was addressed in the audit |
|--|--|
| <p>Basis of accounting and restatement of prior year financial statements</p> <p>As disclosed on 5.3.1 (b), the financial statements are prepared using the Cash Basis of Accounting Method of the International Public Sector Accounting (IPSAS). In the prior year (2016), we disclaimed the opinion for the 2016 financial statements due to the significant misstatements that were noted mainly due to erroneous application of the Accrual Accounting Basis on some transactions of the Project instead of Cash Accounting basis as per IPSAS. In the current year, as disclosed on note 7.4 to the financial statements, the financial statements for the years ended 30 June 2016 and 30 June 2015 have been restated to correct the prior year misstatements.</p> <p>We considered the basis of accounting as a key audit matter due to the mix up of accounting bases that was noted in the prior year and led to a disclaimer.</p> | <p>We checked and ensured that the financial statements are prepared using the Cash Basis of Accounting Method of the IPSAS and not accruals basis.</p> <p>For selected expenditures, we checked if they were recognised when disbursement of cash had occurred. We further checked if income was recognised on receipt of cash.</p> <p>For the restatements, we carried out audit procedures in the areas of amendment to satisfy ourselves of all the relevant assertions. We also checked if the issues that led to the prior year disclaimer have been properly addressed and accounted for.</p> <p>We assessed the presentation and disclosure in respect of the restatement and considered whether the disclosures correctly reflected the restatement.</p> <p>We assessed the accounting basis that was applied and no issues were noted. We further concurred with the Project' treatment of the restatement and found the related disclosures adequate.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the introduction and directors' report which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Responsibilities of the directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Cash Basis of Accounting Method of the International Public Sector Accounting Standards and the requirements of the World Bank and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Project or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 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 these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 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 Project's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' 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 Project'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 financial statements 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 Project to cease to continue as a going concern; and
- 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.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

We communicate with the directors 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.

We also provide the directors with a statement that we 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 our independence, and where applicable, related safeguards.

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



Chartered Accountants
Madalo Mwenelupembe
Partner
17 April 2018

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

5 Financial statements

5.1 Statement of income and expenditure for the year ended 30 June 2017

| | <u>2017</u> <u>MK</u> | <u>2017</u> <u>USD</u> | <u>2016</u> <u>MK</u> <u>Restated*</u> | <u>2016</u> <u>USD</u> <u>Restated*</u> | <u>2015</u> <u>MK</u> <u>Restated*</u> | <u>2015</u> <u>USD</u> <u>Restated*</u> |
|--|---------------------------|---------------------------|--|---|--|---|
| RECEIPTS | | | | | | |
| Opening balance | 3 210 085 442.59 | 4 554 884.46 | 1 461 377 940.69 | 3 363 893.72 | 901 981 420.79 | 2 370 169.88 |
| Replenishments during the year | 8 879 059 047.87 | 12 380 911.91 | 3 805 324 341.22 | 6 061 988.69 | 1 661 047 773.26 | 3 731 852.64 |
| Interest received | 10 207 783.65 | 14 272.63 | 1 820 865.66 | 3 317.47 | - | - |
| Exchange difference | 204 671 646.94 | - | 1 108 139 988.72 | - | 297 538 968.23 | - |
| Total financing | <u>12 304 023 921.05</u> | <u>16 950 069.00</u> | <u>6 376 663 136.29</u> | <u>9 429 199.88</u> | <u>2 860 568 162.28</u> | <u>6 102 022.52</u> |
| PROJECT EXPENDITURES BY COMPONENT | | | | | | |
| COMPONENT 1 | (8 077 817 221.72) | (11 093 749.13) | (2 582 758 313.97) | (3 851 353.24) | (1 282 761 040.53) | (2 476 305.58) |
| COMPONENT 2 | - | - | - | - | (82 797 109.28) | (181 533.70) |
| COMPONENT 3 | (921 140 599.08) | (1 256 094.02) | (157 515 243.36) | (300 254.60) | - | - |
| COMPONENT 4 | (313 721 249.18) | (432 737.17) | (426 304 136.37) | (722 707.58) | (33 632 071.78) | (80 289.52) |
| Total project expenditures | <u>(9 312 679 069.98)</u> | <u>(12 782 580.32)</u> | <u>(3 166 577 693.70)</u> | <u>(4 874 315.42)</u> | <u>(1 399 190 221.59)</u> | <u>(2 738 128.80)</u> |
| Balance carried forward | <u>2 991 344 851.07</u> | <u>4 167 488.68</u> | <u>3 210 085 442.59</u> | <u>4 554 884.46</u> | <u>1 461 377 940.69</u> | <u>3 363 893.72</u> |
| CASH | | | | | | |
| ESSP Standard Bank of Malawi | 2 961 595 392.69 | 4 128 466.94 | 3 208 990 851.66 | 4 552 889.37 | 1 446 582 880.07 | 3 334 550.93 |
| ESSP FDH Bank Limited | 29 749 458.38 | 39 021.74 | 1 094 590.93 | 1 995.09 | 14 795 060.62 | 29 342.79 |
| Total | <u>2 991 344 851.07</u> | <u>4 167 488.68</u> | <u>3 210 085 442.59</u> | <u>4 554 884.46</u> | <u>1 461 377 940.69</u> | <u>3 363 893.72</u> |

* Prior year restatements have been effected as detailed in note 7.4 to the financial statements.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

5 Financial statements (Continued)

5.2 Balance of project's funds and cash status

| | 2017 | | 2016 | | 2015 | |
|--|-------------------------|---------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>MK</u> | <u>USD</u> | <u>MK</u> Restated* | <u>USD</u> Restated* | <u>MK</u> Restated* | <u>USD</u> Restated* |
| 1. Opening balance | 3 210 085 442.59 | 4 554 884.46 | 1 461 377 940.69 | 3 363 893.72 | 901 981 420.79 | 2 370 169.88 |
| 2. Add: Total income during the reporting period | 8 879 059 047.87 | 12 380 911.91 | 3 805 324 341.22 | 6 061 988.69 | 1 661 047 773.26 | 3 731 852.64 |
| 3. Less: Total expenditure during the reporting period | (9 312 679 069.98) | (12 782 580.32) | (3 166 577 693.70) | (4 874 315.42) | (1 399 190 221.59) | (2 738 128.80) |
| 4. Add: Interest received | 10 207 783.65 | 14 272.63 | 1 820 865.66 | 3 317.47 | - | - |
| 5. Add: Exchange rate gain | <u>204 671 646.94</u> | <u>-</u> | <u>1 108 139 988.72</u> | <u>-</u> | <u>297 538 968.23</u> | <u>-</u> |
| Excess of income over Expenditure | <u>2 991 344 851.07</u> | <u>4 167 488.68</u> | <u>3 210 085 442.59</u> | <u>4 554 884.46</u> | <u>1 461 377 940.69</u> | <u>3 363 893.72</u> |

* Prior year restatements have been effected as detailed in note 7.4 to the financial statements.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

5. Financial statements (Continued)

5.3 Notes to the statement of income and expenditure

5.3.1 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are as follows:

(a) Accounting convention

The financial statements have been prepared under the historical cost convention. The historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies are set out below in the following paragraphs.

(b) Basis of accounting

The statement of income and expenditure has been prepared on the Cash Basis of Accounting Method of the International Public Sector Accounting Standards whereby income is recognised on receipt of cash or cash equivalents and the expenditures recognised on the disbursement of cash or cash equivalents.

(c) Revenue recognition

Grant income is recognised on a cash receipt basis.

(d) Foreign currency transactions

Transactions in other currencies are translated into Malawi Kwacha at the rate ruling on the date of transaction.

(e) Reporting currency

The financial statements are presented in Malawi Kwacha and United States Dollar.

(f) Property, plant and equipment

Plant, vehicle and equipment are recorded as an expense at the time of acquisition, because of the short-term nature of the project. A comprehensive fixed assets register is maintained for all items of plant and equipment held by the project.

5.3.2 Income

Income represents grants received from World Bank and interest from the bank.

5.3.3 Expenditure

The reported expenditure includes all payments made by the project.

5.3.4 Project unutilised funds

Total income for the project (unutilised funds brought forward plus funding received during the year and any other income) is reduced by total expenditure incurred by the project to arrive at unutilised funds carried forward to the following year.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
 - ENERGY SECTOR SUPPORT PROJECT (ESSP)
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2017**

5. Financial statements (Continued)

5.3.5 Opening balance

The opening balance is made up of cash balances from both Standard Bank US Dollar designated account and FDH Bank Malawi Kwacha Account.

5.3.6 Critical accounting judgements and key sources of estimation uncertainty

No critical judgements were made by the management during the current year that would have a material impact on the financial statements and no estimates were made as there is no uncertainty concerning the future at the reporting date that may have a significant risk of causing any material adjustment to the carrying amounts of assets within the next financial year.

5.3.7 Exchange rates and inflation

| | <u>2017</u> K | <u>2016</u> K |
|--------------------|------------------|------------------|
| Kwacha/US Dollar | 733.95 | 704.81 |
| Inflation rate (%) | 10.2% | 22.6 % |

As at 15 March 2018 the above rates had moved as follows:

| | |
|-----------------------------------|------|
| Kwacha/US Dollar | 726 |
| Inflation rate (%) (January 2018) | 8.1% |

No adjustments arising from the movement of the exchange and inflation rates after the year-end have been made in the financial statements.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

6. Report on our review of expenditure

6.1 Scope and work performed

We performed the following procedures on a sample basis:-

- We checked that the opening and closing foreign accounts relating to the project were translated at the rate ruling on the opening and closing dates respectively;
- We verified that expenditures made out of the projects accounts were stated at the rate ruling on the transaction date;
- We reviewed a sample of project purchases and checked that a no objection approval was obtained from the World Bank;
- We checked that the project's financial reports were prepared in an accurate, reliable and timely manner;
- We checked that the project's staff received training and have experience in World Bank funded projects;
- We reviewed the statement of income and expenditure and ensured it was in compliance with the World Bank acceptable reporting requirements;
- We reviewed designated accounts and bank accounts showing deposits and replenishments received and payments duly supported by withdraw application's, interest earned on the accounts and the balance at end of reporting period;
- We checked that procurement reports provided information on the procurement of goods, works and consultant and on compliance with the agreed procurement methods;
- We checked that the project accounts were prepared on cash basis;
- We verified if the reconciliations of bank and other control accounts were periodically prepared in accordance with project appraisal document;
- We verified if the fixed assets schedule was properly maintained and if it reconciled with the general ledger and also that the assets were safely guarded;
- We verified if the account balances in the trial balance are reconciled in the underlying ledgers;
- We reviewed the management accounts to ensure that they reconcile with the trial balance; and
- We reviewed reports of the internal audit department of ESCOM for any issues raised relating to the project.

6.2 Findings

Exceptions noted have been reported in the management letter which has been issued separately.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

7. Annexure

7.1 Fixed asset register

2017

| Asset | Supplier | Unit price MK | Qty | Total cost MK |
|------------------------|-------------------|--------------------------|------------|--------------------------|
| Land | Ministry of Lands | 44 072 350.25 | 1 | 44 072 350.25 |
| Office Equipment | Various | | | 13 626 628.00 |
| Toyota Coaster BU 6384 | Toyota | 50 200 250.25 | 1 | 50 200 250.25 |
| Toyota Hino BU 5148 | Toyota | 79 844 533.70 | 1 | 79 844 533.70 |
| Toyota Hilux BU 2088 | MBH Power | 24 003 711.71 | 1 | 24 003 711.71 |
| Toyota Hilux BU 2095 | MBH Power | 24 003 711.71 | 1 | 24 003 711.71 |
| Toyota Hilux BU 2093 | MBH Power | 24 003 711.71 | 1 | 24 003 711.71 |
| IVECO Truck BU 5055 | Rousant | 142 451 036.20 | 1 | 142 451 036.20 |
| IVECO Truck BU 5054 | Rousant | 72 947 146.25 | 1 | 72 947 146.25 |
| IVECO Truck BU 5053 | Rousant | 142 451 036.20 | 1 | 142 451 036.20 |
| IVECO Truck BU 5052 | Rousant | 72 947 146.25 | 1 | 72 947 146.25 |
| IVECO Truck BU 5051 | Rousant | 72 947 146.25 | 1 | 72 947 146.25 |
| IVECO Truck BU 5049 | Rousant | 142 451 036.20 | 1 | 142 451 036.20 |
| Ford Ranger BU 4105 | Sieyan | 17 132 902.29 | 1 | 17 132 902.29 |
| Ford Ranger BU 4106 | Sieyan | 17 132 902.29 | 1 | 17 132 902.29 |
| Ford Ranger BU 4107 | Sieyan | 17 132 902.29 | 1 | 17 132 902.29 |
| | | | | <u>957 348 151.55</u> |

2016

Restated*

| Asset | Supplier | Unit price MK | Qty | Total cost MK |
|--------------|-------------------|--------------------------|------------|--------------------------|
| Land | Ministry of Lands | <u>44 072 350.25</u> | - | <u>44 072 350.25</u> |

* Prior year restatements have been effected as detailed in note 7.4 to the financial statements.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7. Annexure (Continued)

7.2 Detailed income and expenditure report

Reporting period: 1 July 2016 to 30 June 2017

| | USD | MK |
|---|-----------------------------|---------------------------------|
| INCOME | | |
| Opening balance | 4 554 884.46 | 3 210 085 442.59 |
| World Bank Funds received during the year | 12 380 911.91 | 8 879 059 047.87 |
| Exchange gain | - | 204 671 646.94 |
| Interest received | <u>14 272.63</u> | <u>10 207 783.65</u> |
| Total income | <u>16 950 069.00</u> | <u>12 304 023 921.05</u> |
| EXPENDITURE | | |
| Consultancy | 1 474 769.75 | 1 078 724 887.00 |
| Travel and subsistence allowance | 52 522.32 | 36 443 195.94 |
| Line materials | 3 943 239.87 | 2 846 943 613.81 |
| Tax paid | 78 681.26 | 57 212 186.03 |
| Consumables and sundries | 20 615.13 | 15 039 343.50 |
| Spare parts | 128 913.89 | 94 380 380.39 |
| Clearing goods charges | 16 165.23 | 11 791 177.65 |
| Motor vehicles | 1 143 949.61 | 835 107 303.30 |
| Purchase of software | 1 255 758.01 | 920 894 595.23 |
| Training | 135 438.54 | 98 519 918.15 |
| Bank charges | 5 049.75 | 3 688 164.91 |
| Audit fee | 29 106.19 | 21 562 823.69 |
| Substations | <u>4 498 370.77</u> | <u>3 292 371 480.38</u> |
| Total expenditure | <u>12 782 580.32</u> | <u>9 312 679 069.98</u> |
| Surplus income over expenditure | <u>4 167 488.68</u> | <u>2 991 344 851.07</u> |

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7. Annexure (Continued)

7.2 Detailed income and expenditure report (Continued)

Reporting period: 1 July 2015 to 30 June 2016

Restated*

| | USD | MK |
|---|----------------------------|--------------------------------|
| INCOME | | |
| Opening balance | 3 363 893.72 | 1 461 377 940.69 |
| World Bank Funds received during the year | 6 061 988.69 | 3 805 324 341.22 |
| Exchange gain | - | 1 108 139 988.72 |
| Interest received | <u>3 317.47</u> | <u>1 820 865.66</u> |
| Total income | <u>9 429 199.88</u> | <u>6 376 663 136.29</u> |
| EXPENDITURE | | |
| Bank charges | 27 105.80 | 17 735 007.52 |
| Withholding Tax | 52 730.00 | 28 672 492.12 |
| Land acquisition | 82 484.31 | 44 072 348.40 |
| Clearing goods charges | 21 802.30 | 11 032 219.41 |
| Consultancy | 1 329 899.48 | 760 992 287.25 |
| Advances | 2 278 345.26 | 1 642 698 855.57 |
| Substation | 114 682.32 | 81 997 858.80 |
| Travel and subsistence | 1 987.84 | 1 081 800.00 |
| Consumables and sundries | 519 007.28 | 311 658 657.24 |
| Training | 33 686.00 | 23 442 280.00 |
| Purchase of software | 411 272.50 | 242 473 887.39 |
| Audit fees | <u>1 312.33</u> | <u>720 000.00</u> |
| Total expenditure | <u>4 874 315.42</u> | <u>3 166 577 693.70</u> |
| Surplus income over expenditure | <u>4 554 884.46</u> | <u>3 210 085 442.59</u> |

* Prior year restatements have been effected as detailed in note 7.4 to the financial statements.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7. Annexure (Continued)

7.3 Detailed Expenditure Report by Component

Reporting period: 1 July 2016 to 30 June 2017

| | <u>Component 1</u> | | <u>Component 2</u> | | <u>Component 3</u> | | <u>Component 4</u> | | <u>Total</u> | |
|--------------------------|----------------------|-------------------------|--------------------|----|---------------------|-----------------------|--------------------|-----------------------|----------------------|-------------------------|
| | USD | MK | USD | MK | USD | MK | USD | MK | USD | MK |
| Consultancy | 1 474 769.75 | 1 078 724 887.00 | - | - | - | - | - | - | 1 474 769.75 | 1 078 724 887.00 |
| Travel and Subsistence | - | - | - | - | - | - | 52 522.32 | 36 443 195.94 | 52 522.32 | 36 443 195.94 |
| Line Materials | 3 833 538.81 | 2 766 905 397.05 | - | - | - | - | 109 701.06 | 80 038 216.76 | 3 943 239.87 | 2 846 943 613.81 |
| Tax Paid | - | - | - | - | - | - | 78 681.26 | 57 212 186.03 | 78 681.26 | 57 212 186.03 |
| Consumables and Sundries | - | - | - | - | - | - | 20 615.13 | 15 039 343.49 | 20 615.13 | 15 039 343.15 |
| Spare Parts | 128 913.89 | 94 380 380.39 | - | - | - | - | - | - | 128 913.89 | 94 380 380.39 |
| Clearing Charges | - | - | - | - | - | - | 16 165.23 | 11 791 177.65 | 16 165.23 | 11 791 177.65 |
| Motor vehicles | 1 143 949.61 | 835 107 303.30 | - | - | - | - | - | - | 1 143 949.61 | 835 107 303.30 |
| Purchase of Software | - | - | - | - | 1 255 758.01 | 920 894 595.23 | - | - | 1 255 758.01 | 920 894 595.23 |
| Training | 11 345.27 | 8 231 587.57 | - | - | - | - | 124 093.27 | 90 288 330.58 | 135 438.54 | 98 519 918.15 |
| Audit fee | - | - | - | - | - | - | 29 106.19 | 21 562 823.69 | 29 106.19 | 21 562 823.69 |
| Bank Charges | 2 861.03 | 2 096 186.02 | - | - | 336.01 | 246 003.85 | 1 852.71 | 1 345 975.04 | 5 049.75 | 3 688 164.91 |
| Substations | <u>4 498 370.77</u> | <u>3 292 371 480.38</u> | - | - | - | - | - | - | <u>4 498 370.77</u> | <u>3 292 371 480.38</u> |
| Total | <u>11 093 749.13</u> | <u>8 077 817 221.72</u> | - | - | <u>1 256 094.02</u> | <u>921 140 599.08</u> | <u>432 737.17</u> | <u>313 721 249.18</u> | <u>12 782 580.32</u> | <u>9 312 679 069.98</u> |

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7. Annexure (Continued)

7.3 Detailed Expenditure Report by Component (Continued)

Reporting period: 1 July 2015 to 30 June 2016

Restated*

| | <u>Component 1</u> | | <u>Component 2</u> | | <u>Component 3</u> | | <u>Component 4</u> | | <u>Total</u> | |
|---|---------------------|-------------------------|--------------------|----------|--------------------|-----------------------|--------------------|-----------------------|---------------------|-------------------------|
| | USD | MK | USD | MK | USD | MK | USD | MK | USD | MK |
| Bank charges | 16 678.18 | 11 729 901.43 | - | - | 730.10 | 380 766.89 | 9 697.52 | 5 624 339.20 | 27 105.80 | 17 735 007.52 |
| Tax paid | | - | - | - | - | - | - | 52 730.00 | 28 672 492.12 | 52 730.00 |
| | 28 672 492.12 | | | | | | | | | |
| Land Acquisition | - | - | - | - | - | - | 82 484.31 | 44 072 348.40 | 82 484.31 | 44 072 348.40 |
| Clearing goods charges | - | - | - | - | - | - | 21 802.30 | 11 032 219.41 | 21 802.30 | 11 032 219.41 |
| Consultancy | 1 329 899.48 | 760 992 287.25 | - | - | - | - | - | - | 1 329 899.48 | 760 992 287.25 |
| Advances for rehabilitation of power stations and Supply of materials | 2 278 345.26 | 1 642 698 855.57 | - | - | - | - | - | - | 2 278 345.26 | 1 642 698 855.57 |
| Substations | 114 682.32 | 81 997 858.80 | - | - | - | - | - | - | 114 682.32 | 81 997 858.80 |
| Travel and subsistence allowance | | - | - | - | - | - | - | 1 987.84 | 1 081 800.00 | 1 987.84 |
| | 1 081 800.00 | | | | | | | | | |
| Consumables and Sundries | - | - | - | - | - | - | 519 007.28 | 311 658 657.24 | 519 007.28 | 311 658 657.24 |
| Training | | - | - | - | - | - | - | 33 686.00 | 23 442 280.00 | 33 686.00 |
| | 23 442 280.00 | | | | | | | | | |
| Purchase of Software | 111 748.00 | 85 339 410.92 | - | - | 299 524.50 | 157 134 476.47 | - | - | 411 272.50 | 242 473 887.39 |
| Audit Fees | - | - | - | - | - | - | 1 312.33 | 720 000.00 | 1 312.33 | 720 000.00 |
| Total | <u>3 851 353.24</u> | <u>2 582 758 313.97</u> | <u>-</u> | <u>-</u> | <u>300 254.60</u> | <u>157 515 243.36</u> | <u>722 707.58</u> | <u>426 304 136.37</u> | <u>4 874 315.42</u> | <u>3 166 577 693.70</u> |

* Prior year restatements have been effected as detailed in note 7.4 to the financial statements.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7.4 Prior year restatements

The 2016 and 2015 financial statements have been restated to enhance comparability and correct materials errors due to mainly 2016 erroneous application of the Accrual Accounting Basis on some transactions of the Project' financial statements instead of Cash Accounting basis as per IPSAS and financier requirement to prepare the financial statements on a cash basis.

Restatement of comparatives and related impact

The financial statements have accordingly been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and related disclosures made in accordance with IAS 1 *Presentation of Financial Statements*.

The impact of these restatements is detailed in the analysis below.

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7.4 Prior year restatements (Continued)

2016

| | <u>Restated</u> | <u>Restated</u> | <u>As previously reported in 2016</u> | | <u>Adjustment</u> | <u>Adjustment</u> |
|---|-----------------------|---------------------------|---------------------------------------|---------------------------|---------------------|-------------------------|
| | USD | MK | USD | MK | USD | MK |
| Opening Balance | 3 363 893.72 | 1 461 377 940.69 | 3 368 655.36 | 1 461 377 940.69 | (4 761.64) | - |
| World Bank Fund during the year | 6 061 988.69 | 3 805 324 341.22 | 6 056 656.40 | 3 802 150 534.37 | 5 332.29 | 3 173 806.85 |
| Exchange gain/ loss | - | 1 108 139 988.72 | - | 1 108 139 988.72 | - | - |
| Bank Interest received | <u>3 317.47</u> | <u>1 820 865.66</u> | <u>3 267.48</u> | <u>2 408 544.20</u> | <u>49.99</u> | <u>(587 678.54)</u> |
| Total income | <u>9 429 199.88</u> | <u>6 376 663 136.29</u> | <u>9 428 579.24</u> | <u>6 374 077 007.98</u> | <u>620.64</u> | <u>2 586 128.31</u> |
| PROJECT EXPENDITURES BY COMPONENT: | | | | | | |
| Component 1 | (3 851 353.24) | (2 582 758 313.97) | (3 751 032.57) | (2 618 536 743.96) | (100 320.67) | 35 778 429.99 |
| Component 2 | - | - | (471 390.61) | (98 115 657.01) | 471 390.61 | 98 115 657.01 |
| Component 3 | (300 254.60) | (157 515 243.36) | (366 501.35) | (198 403 903.54) | 66 246.75 | 40 888 660.18 |
| Component 4 | <u>(722 707.58)</u> | <u>(426 304 136.37)</u> | <u>(285 212.33)</u> | <u>(171 720 409.52)</u> | <u>(437 495.25)</u> | <u>(254 583 726.85)</u> |
| Total Expenditure | <u>(4 874 315.42)</u> | <u>(3 166 577 693.70)</u> | <u>(4 874 136.86)</u> | <u>(3 086 776 714.03)</u> | <u>(178.56)</u> | <u>(79 800 979.67)</u> |
| Balance carried forward | 4 554 884.46 | 3 210 085 442.59 | 4 554 442.38 | 3 287 300 293.95 | 442.08 | (77 214 851.36) |
| CASH | | | | | | |
| ESSP Standard Bank Account | 4 552 889.37 | 3 208 990 851.66 | 4 552 889.37 | 3 208 959 290.58 | - | 31 561.08 |
| ESSP FDH Bank Account | 1 995.09 | 1 094 590.93 | 1 553.01 | 1 094 590.93 | 442.08 | - |
| Unreconciled Difference | - | - | - | 77 246 412.44 | - | (77 246 412.44) |
| Total cash | <u>4 554 884.46</u> | <u>3 210 085 442.59</u> | <u>4 554 442.38</u> | <u>3 287 300 293.95</u> | <u>442.08</u> | <u>(77 214 851.36)</u> |

**ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED (ESCOM)
- ENERGY SECTOR SUPPORT PROJECT (ESSP)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7.4 Prior year restatements (Continued)

2015

| | <u>Restated</u> | | <u>As previously reported in 2015</u> | | <u>Adjustment</u> | <u>Adjustment</u> |
|---|-----------------------|---------------------------|---------------------------------------|---------------------------|--------------------|----------------------|
| | USD | MK | USD | MK | USD | MK |
| PROJECT EXPENDITURES BY COMPONENT: | | | | | | |
| Component 1 | (2 476 305.58) | (1 282 761 040.53) | (2 505 648.37) | (1 297 556 101.15) | 29 342.79 | 14 795 060.62 |
| Total Expenditure | (2 738 128.80) | (1 399 190 221.59) | (2 767 471.59) | (1 413 985 282.21) | (29 342.79) | 14 795 060.62 |
| Balance carried forward | 3 363 893.72 | 1 461 377 940.69 | 3 334 550.93 | 1 446 582 880.07 | 29 342.79 | 14 795 060.62 |
| CASH | | | | | | |
| ESSP FDH Bank Account | 29 342.79 | 14 795 060.62 | - | - | 29 342.79 | 14 795 060.62 |
| Total cash | 3 363 893.72 | 1 461 377 940.69 | 3 334 550.93 | 1 446 582 880.07 | 29 342.79 | 14 795 060.62 |