



Ministry of Public Works

The Road Climate Resilience Project

Grant Number H683-0 TP

Annual Project Financial Statements For the Year Ended 31 December 2018

**MINISTRY OF PUBLIC WORKS
- ROAD CLIMATE RESILIENCE PROJECT
WORLD BANK GRANT - IDA NO. H683-O TP**

Recipient & Employing Authority: Ministry Of Finance (Democratic Republic of Timor-Leste)
Implementing agency: Ministry of Public Works – Project Management Unit
Grant number: H683-0 TP
Auditors: Merit Partners

TABLE OF CONTENTS

	Page
Statement of Approval	3
Independent Auditor's Report	4-5
Statement of Cash Receipts and Cash Payments	6
Notes to the Financial Statements	7-11

MINISTRY OF PUBLIC WORKS
- ROAD CLIMATE RESILIENCE PROJECT
WORLD BANK GRANT - IDA NO. H683-O TP

STATEMENT OF APPROVAL
FOR THE YEAR ENDED 31 DECEMBER 2018

The Project Manager of Road Climate Resilience Project ("the Project") hereby states that Ministry of Public Works Project Management Unit ("the PMU") has complied with the obligations imposed by the Grant Agreement No. H683-0 TP dated 6 July 2011, and later amended on 18 November 2013.

The financial statements of the Project for the year ended 31 December 2018 set out on pages 6 to 11, consists of the statement of cash receipts and cash payments and the accompanying notes to financial statements, which were prepared and signed by the PMU Financial Administrator and approved by the PMU Project Manager and Director of Road, Bridge and Flood Control on behalf of the Ministry of Public Works ("the MPW"), presents fairly the grant monies received and expended in accordance with the accounting policies described in Note 1 to the financial statements.

Prepared by:




Fernando L. Da Rosa
Financial Administrator
MPW-PMU
The Road Climate Resilience Project

Date: 31 May 2019

Approved by:



Joao Mário Gama de Sousa
Director of Road, Bridge and Flood Control
Ministry of Public Works



Odete G. Victor da Costa
Project Manager
MPW-PMU
The Road Climate Resilience Project

Date: 31 - May - 2019

Date: 04 - JUNHO 2019

Independent auditor's report to the Ministry of Public Works - Program Management Unit of The Road Climate Resilience Project

Report on the Audit of the Financial Report

We have audited the accompanying financial report of The Road Climate Resilience Project ("the Project"), which comprises the Statement of Cash Receipts and Cash Payments for the year ended 31 December 2018, a summary of significant accounting policies, other accompanying notes, and the Ministry of Public Works - Project Management Unit's ("MPW-PMU") Statement of Approval.

In our opinion, the financial report of The Road Climate Resilience Project presents fairly in all material respects the financial transactions for period ended 31 December 2018, and;

- a. is in accordance with the requirements under the World Bank ("WB") administered Grant No. H683-0 dated 6 July 2011, which was amended on 18 November 2013;
- b. the financial report are prepared in accordance with the basis of accounting as disclosed in Note 1; and
- c. complies with the World Bank *Disbursement Guidelines for Investment Project Financing*.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

We are independent of MPW-PMU in accordance with the independence requirements of the International Federation of Accountants ("IFAC") Code of Ethics for Professional Accountants. We have also fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Program Management Unit for the Financial Report

The Program Management Unit of the Project is responsible for the preparation and fair presentation of the financial report in accordance with the financial reporting requirements under the World Bank ("WB") administered International Development Association ("IDA") Grant No. H683-0 TP, dated 6 July 2011, which was amended on 18 November 2013 ("Grant Agreement"), and for such internal control as the Program Management Unit determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

The Program Management Unit is responsible for overseeing the Project's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report is 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 International Standards on Auditing 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 the financial report.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, 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 management.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

Merit Partners

Merit Partners



MunLi Chee
Director

Darwin

6 June 2019

MINISTRY OF PUBLIC WORKS
- ROAD CLIMATE RESILIENCE PROJECT
WORLD BANK GRANT - IDA NO. H683-O TP

STATEMENT OF CASH RECEIPTS AND CASH PAYMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018
(Amounts in US Dollar)

	2012	2013	2014	2015	2016	2017	2018	Cumulative Total
	\$	\$	\$	\$	\$	\$	\$	\$
CASH RECEIPTS								
Grants and contributions -								
International Development Association	3,314,143	2,249,854	1,461,429	2,931,831	7,475,651	801,664	0	18,234,572
	<u>3,314,143</u>	<u>2,249,854</u>	<u>1,461,429</u>	<u>2,931,831</u>	<u>7,475,651</u>	<u>801,664</u>	<u>0</u>	<u>18,234,572</u>
CASH DISBURSEMENTS								
Goods	36,300	46,635	9,900	264,550	0	0	0	357,385
Consulting Services	1,688,637	1,667,686	1,032,031	2,052,127	998,814	79,903	0	7,519,198
Civil Works	413,307	344,861	17,792	1,063,943	6,151,033	924,902	266,790	9,182,628
Operating Cost	11,504	121,513	87,676	153,645	80,279	39,662	49,583	543,862
	<u>2,149,748</u>	<u>2,180,695</u>	<u>1,147,399</u>	<u>3,534,265</u>	<u>7,230,126</u>	<u>1,044,467</u>	<u>316,373</u>	<u>17,603,073</u>
EXCESS (DEFICIT) OF CASH RECEIPTS OVER DISBURSEMENTS	1,164,395	69,159	314,030	(602,434)	245,525	(242,803)	(316,373)	631,499
CASH AT BEGINNING OF PERIOD	0	1,164,395	1,233,554	1,547,584	945,150	1,190,675	947,872	0
CASH AT END OF PERIOD	<u>1,164,395</u>	<u>1,233,554</u>	<u>1,547,584</u>	<u>945,150</u>	<u>1,190,675</u>	<u>947,872</u>	<u>631,499</u>	<u>631,499</u>

The Statement Should be Read in Conjunction with the Accompanying Notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Project Description

The Government of Timor-Leste, through the Ministry of Public Works (“the Ministry” or “MPW”), has received funding through the Grant from the International Development Association (“IDA”) administered by the World Bank, towards the cost of the Road Climate Resilience Project (“the Project”). The Project will be co-financed by World Bank administered loans and the Government of Timor-Leste (“the Government” or “GoTL”).

The objective of the Project is to deliver sustainable climate resilient road infrastructure on the Dili-Ainaro Road Corridor.

The Project consists of the following parts:

Part 1: Development of Climate Resilient Road Infrastructure

- a. Carrying out of urgent road infrastructure repairs on Dili-Ainaro road corridor.
- b. Carrying out of civil works to reduce the impact of volume and intensity of rainfall on road infrastructure, including: (a) construction or reinforcement of slope stabilization structures; (b) improvement of drainage structures; and pavement repair and resurfacing in selected road sections on the Dili-Ainaro road corridor.
- c. Design and Supervision of activities in Part 1.A and 1.B of the Project.

Part 2: Climate Responsive Maintenance and Emergency Planning and Response Systems

- a. Maintenance of the entire Dili-Ainaro road corridor during construction and defects liability period of selected road segments thereof.
- b. Extension of road infrastructure upgrading considered in the Receptient’s Road Maintenance Program to Aileu and Ainaro districts.
- c. Design of emergency planning and response systems.
- d. Pilot testing of emergency planning and response system on the Dili-Ainaro road corridor.

Part3: Project Support and Training

Strengthening the implementation capacity of the Project Management Unit (“PMU”) to support Ministry of Infrastructure (MOI) or any successor thereto Project execution, and carrying out of a training program for MOI staff, local contractors and community- based contractors for assisting in the implementation of Parts 1 and 2 of the Projects, as well as the hiring of an independent monitor for supervision of the implementation of the Resettlement Policy framework and any Resettlement Action Plans.

Part4: Feasibility Studies and Detailed Design

Carrying out feasibility studies and detailed design of selected road segments linked to the Dili-Ainaro Road Corridor.

The Project is being implemented by the Ministry through Project Management Unit (“MPW-PMU”).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont.

a. Project Description – cont.

The Grant Agreement was signed on 6 July 2011 and later amended on 18 November 2013. The trust fund will close on 31 December 2018 and the unspent funds will be transferred to the World Bank after close date.

b. Basis of Accounting

The financial report is for MPW project for Road Climate Resilience Project (“the Project”), a project established in Timor-Leste and co-financed by the Government of Timor-Leste and through World Bank’s administered loans and grant funding. The financial report is intended only for Project disbursements funded through World Bank administered grant funding.

The financial report is for the period 1 January to 31 December 2018 and has been prepared in accordance with the applicable World Bank grant terms and conditions.

The financial report is prepared on a cash basis of disbursements made by the World Bank in respect of the Project. On this basis, Project expenditures are recognized when disbursements are paid rather than when incurred.

The Project’s disbursements financed by World Bank administered loans and the Government of Timor-Leste are disclosed in Note 4 of this report. A separate financial report is prepared for these Project expenditures.

Reporting Currency

The financial report is presented in US dollars, which is the Project’s functional currency.

Foreign Currencies

Transactions involving foreign currencies have been recorded in United States dollars (US\$) using the rates of exchange ruling on the date of transactions.

Receipts

Portion of the Project eligible disbursements is funded through World Bank administered grant. The grant is administered by the IDA in the Head Office and disbursed periodically based on the Grant Agreement and the Project Appraisal Document.

Payments

Payments comprise of eligible expenditure incurred to deliver the project as defined by the Grant Agreement.

The following specific accounting policies have been adopted in the preparation of this report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont.

c. Payment Protocol

Project expenditures are paid using the Designated Account and Direct Payment methods, following World Bank *Disbursement Guidelines for Investment Project Financing* (“the WB Guidelines”).

The Designated Account method is payment made for eligible expenditures paid through an account maintained by MPW-PMU on behalf of the Project. The designated account is replenished in accordance with the provisions set out in section 5 of the WB Guidelines.

The Direct Payment method is payment made for eligible expenditures through direct transfers of funds from the World Bank to the Project’s contractors or consultants. The direct payment is based on World Bank’s proportionate share of the invoiced amount.

d. Cash

Cash, held at Designated Account and Petty Cash, are stated at their nominal amount in United States dollar (US\$).

e. Fixed Assets

All items of property, plant and equipment are expensed in the statement of cash receipts and payments in the year of acquisition. Property, plant and equipment are procured as per project requirements and in accordance with the World Bank’s procurement guidelines. All property, plant and equipment procured under the grant will become the property of the Government of Timor-Leste after the Project is completed. A fixed assets register is maintained by MPW-PMU.

f. Commitment

Eligible expenditures incurred but not yet paid are recorded separately from the accounting records, and are not recorded in the statement of cash receipts and payments.

g. Taxation

Withholding tax receipts owed to Timor-Leste Revenue Services are withheld from the Government’s payment made to suppliers of goods and services for the supplier’s full invoice amount at the following rates:

- | | |
|---------------------------------------|-----|
| • Construction or building activities | 2% |
| • Construction consulting services | 4% |
| • Payments to non-residents | 10% |

The withholding taxes for the Civil Works have been deducted and covered by the Government’s counterpart fund. Taxes related to the consulting services are charge from the grant as the consulting services are disbursed 100% from the grant.

NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont.

h. Foreign currencies

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate.

i. Advance Payments and Retention Payable

As per agreements with the contractors, the contractor may request for advance payment on receipt of notice of commencement. This is equivalent to 15% of the accepted contract amount or as determine in each of the agreements. The advance payment made by the Project is included in the statement of cash receipts and cash payments. These are recovered proportionately from the contractor's billings commencing from the 30% progress completion report.

The Project also withheld payment equivalent to 10% of the contractor's progress billings. The 10% retention is only applicable for civil works and will be paid to the contractors upon completion and acceptance of the Project. The retention payables are recorded separately from the accounting records, and are not recorded in the statement of cash receipts and cash payments.

NOTE 2: GRANT AGREEMENT

The Government of Timor-Leste, through Ministry of Finance ("the Ministry or MPW"), signed a grant agreement with International Development Association ("IDA") administered by the World Bank, towards the cost of the Project. The Grant Agreement was signed on 6 July 2011 and later amended on 18 November 2013.

The above grant will provide additional financial support to the Project, whose main funding are from World Bank administered loans consisting of IDA Credit No. 5303-TL, IBRD Loan No. 8290-TL and IDA Credit No. 6012-TL.

As stipulated in the grant agreement, the grants from World Bank will partly or in whole finance the eligible expenditures of the Project whereas the remaining part will be funded World Bank administered loans and by the Government of Timor-Leste (GoTL). The associated costs financed by World Bank administered loans and GoTL are disclosed in Note 4.

	Grant H683-0 TP	Government of Timor-Leste
<u>Category 1</u> – Civil Works:		
Works under Phase 1 and 2 under IDA Credit	85%	15%
<u>Category 2</u> – Goods, consultants' services, non-consulting services, incremental operating cost and training for Parts 1,2 and 3 of project.	100%	n/a

MINISTRY OF PUBLIC WORKS
- ROAD CLIMATE RESILIENCE PROJECT
WORLD BANK GRANT - IDA NO. H683-O TP

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 3: DESIGNATED ACCOUNT

Pursuant to terms and conditions set out for the grant agreement (see Note 2), the Project expenditures for eligible expenditures were made pursuant to WB Guidelines. Eligible expenditures are paid through direct payment from World Bank or reimbursement through the designated account. The designated account is replenished in accordance with the provisions set out in section 5 of the WB Guidelines.

At 31 December 2018, this account consisted of:

Designated Account	\$631,469
Petty Cash	30
	<hr/>
	\$631,499
	<hr/>

NOTE 4: PROJECT FUNDING

The costs of the Project, as disclosed in Note 2, are financed through World Bank administered loans and grants and by Government of Timor-Leste (GoTL). The cumulative Project expenditures as at 31 December 2017 amounted to \$90.32 million and is financed / funded through the following:

World Bank Loans	
Loan No. IDA Credit No. 5303-TL	\$25,274,242
Loan No. IBRD Loan No. 8290-TL	5,336,410
Loan No. IDA Credit No. 6012-TL	2,884,016
World Bank Grants – IDA No. H683-0	17,603,073
GoTL Disbursements	39,221,744
Total Project expenditures	<hr/>
	\$90,319,485
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