AUDITORS REPORT
EXTERNAL AUDIT OF CLIMATE CHANGE PROJECT’S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
AUDITORS REPORT

EXTERNAL AUDIT OF CLIMATE CHANGE PROJECT’S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017
## TABLE OF CONTENTS

1. **AUDIT OPINION** .................................................................................................................. 3
2. **PRESENTATION OF THE CLIMATE CHANGE PROJECT** ...................................................... 6
   - OVERVIEW OF THE PROJECT .......................................................................................... 6
   - PROJECT IMPLEMENTATION UNIT .................................................................................. 7
3. **STATEMENT OF SOURCES AND USES OF FUNDS** .......................................................... 8
4. **RECONCILIATION OF THE USD DESIGNATED ACCOUNT** ................................................... 9
5. **EXECUTION OF BUDGET AT 31 DECEMBER 2016** ........................................................ 9
6. **ACCOUNTING POLICIES** .................................................................................................. 10
7. **NOTES TO THE FINANCIAL STATEMENTS** ..................................................................... 11
8. **MANAGEMENT LETTER** .................................................................................................. 12
   - COVER LETTER ............................................................................................................... 13
   - INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS ........................................... 14
   - FOLLOW UP OF LAST YEAR AUDIT RECOMMENDATIONS ............................................. 15
9. **STATEMENT OF BANK ACCOUNTS** .................................................................................. 16
   - STATEMENT OF BANK ACCOUNTS AT 31.12.2017 .................................................... 16
   - STATEMENT OF BANK ACCOUNTS AT 20.03.2018 ..................................................... 18
10. **STATEMENT OF EXPENDITURES** .................................................................................... 20
    - USD SPECIAL BANK ACCOUNT ................................................................................... 20
    - STD SPECIAL BANK ACCOUNT .................................................................................... 28
11. **STATEMENT OF FIXED ASSETS** .................................................................................... 39
12. **TERMS OF REFERENCE FOR THE AUDIT** .................................................................... 43
    - OBJECTIVE OF THE AUDIT .......................................................................................... 43
    - SCOPE OF THE AUDIT ................................................................................................. 43
ADAPTATION TO CLIMATE CHANGE PROJECT
Democratic Republic of Sao Tome and Principe

REPORT OF INDEPENDENT AUDITORS
Period between 1 January 2017 and 31 December 2017
Libreville 06 April 2018

REPORT OF INDEPENDENT AUDITORS

To the Management of the Adaptation to Climate Change Project

Dear Sir,

We have audited the accompanying financial statements of the Adaptation to Climate Change Project (the "Project") financed from the Global Environmental Facility through the World Bank (GEF) Grant no. TF099869-ST which comprise the statement and sources and uses of funds, statement of designated account, statement of withdrawal schedules for the period between 1 January 2017 and 31 December 2017, and a summary of significant accounting policies and other explanatory notes. We have also audited the Project's compliance with conditions of the relevant Grant Agreement, the World Bank guidelines, laws and regulations of the Republic of Sao Tomé during the year ended 31 December 2017.

Management’s Responsibility for the financial statements

Management of the Adaptation to Climate Change Project is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Section 5 of the accompanying financial statements. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of 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. Management is also responsible for compliance with the relevant Grant Agreement, the World Bank guidelines, laws and regulations.

Auditor’s Responsibility

Our responsibility is to express an opinion on the financial statements and on compliance based on our audit. We conducted our audit in accordance with International Standards on Auditing ("ISA") applicable to the audit of financial statements and to compliance auditing, with special reference to ISA 800 "The Independent Auditor’s Report on Special Purpose Audit Engagements" and to relevant World Bank Guidelines. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and about whether the Project has complied with the conditions of the relevant agreements, guidelines, laws and regulations.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by the Management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion:

a) The accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Project and to the Special Account as of 31 December 2017 and the Project’s related sources and uses of funds, movements in designated account and statement of expenditure for the period between 1 January 2017 and 31 December 2017, in accordance with the basis of accounting described in Section 5 to the accompanying financial statements; and

b) The Project was, in all material respects, in compliance with the conditions of the relevant Grant Agreements and the World Bank guidelines and laws and regulations of the Republic of Sao Tome during the year ended 31 December 2017. Nevertheless, we draw attention to the fact that the Project has not produced his statement of sources and uses of funds including for the latter a breakdown per components, categories and sub-categories as requested by the World Bank guidelines.

Théophile PEMENZI MFONZIE
Partner
Chartered Accountant
CEMAC License Number EC265

Francis NANA
Partner
Chartered Accountant
CEMAC License Number EC311
2. PRESENTATION OF THE CLIMATE CHANGE PROJECT

OVERVIEW OF THE PROJECT

The Democratic Republic of Sao Tome and Principe (STP) is an archipelago of two main islands and four islets in the Gulf of Guinea 350 km from the west coast of Africa. The country is one of the smallest nations on the African continent with a total area of 1,001 km2 and a population of 166,000 inhabitants. Gross national income per capita of the country is 870 USD (eight hundred seventy dollars).

The economy of Sao Tome and Principe is extremely fragile and was affected by the food crisis, energy and financial, which resulted in the soaring inflation and negatively affected household incomes, particularly the most vulnerable populations - especially Angolares fishermen crafts, who have been living in Sao Tome and Principe since 1540 and has long retained their special connection to the sea.

The limited production base of the nation has significantly increased the country's vulnerability to external shocks, which limits their ability to adapt. Given its small size, isolation, limited capacity to achieve sustainable development, the country has gained the status of a small island developing State (SIDS). Sao Tome and Principe is considered extremely vulnerable to climate change, climate variability and rising sea levels, both by the UN Convention on the regime of climate change (United Nations Framework Convention on climate change) - UNFCCC - and by the Intergovernmental Panel on climate change (IPCC).

Sao Tome and Principe in 2007 launched the National Action Program for Adaptation to Climate Change (NAPA), which identifies 22 urgent and immediate priorities for climate change. Studies conducted during the preparation of the National Action Program for Adaptation to Climate Change (NAPA) highlighted that Sao Tome and Principe experienced the following phenomena: (i) increase in temperature, (ii) reduction of rainfall and subsequent decrease in the level of rivers and water supply, (iii) the death of fishermen and loss of fishing equipment due to increased fog, high winds and greater turbulence in the sea (abandonment of the traditional practice of navigation and safety at sea), (iv) the destruction of fishing vessels in ports and beaches due to heavy storms, (v) an increase in female poverty due to the loss of life of their husbands and their fishing equipment (vi) long dry periods which result in more favourable conditions for drought followed by torrential rains, leading to landslides, flooding and groundwater contamination (vii) increase in coastal erosion which leads to loss of housing and infrastructure and the consequent isolation of local communities and (viii) a decline in tourism.

The project is fully compatible with the new program to support the poverty reduction (2011-2015) of the Government, which will support, among others, strengthening social cohesion and promoting integral human development. A key priority of this pillar is to preserve the natural heritage and strengthening coping mechanisms and mitigation of climate change. The project is also consistent with the rating of the Interim Strategy Note (ISN) of Sao Tome and Principe for EF2011-2012. ISN offers a selective and targeted support program to remove constraints to growth, based on two main pillars: (i) extensive accelerated and sustainable economic growth and strengthening Governance (II), public institutions and human capital. Pillar II, in particular, meet the challenges of employment growth and reduce poverty by focusing, among others, the strengthening of environmental protection and resilience to climate change for the benefit of the poor. It specifically identifies the challenges faced by fishermen and coastal communities, including coastal erosion, flooding and maritime security, which are the focus of the current project.

This program is now integrated in the new government program called “Program to support poverty reduction” (2011-2015) that refers the strength of social cohesion and promotion of the human development. One of its main priorities is the preservation of natural heritage and reinforcement of the mechanisms to mitigate climate change.

In this context, the government of Sao Tome and Principe, in conjunction with the World Bank, signed a grant agreement with the following objectives:
External audit of the Adaptation to Climate Change Project
Year ended 31st December 2017

1st Component: Assessment of the needs and feasibility analysis of the Project

This component includes the carrying out of several technical, financial and social studies, sustainability and risk analysis to design and prepare the several components of the project, considering the following:

a) Assessment of risks associated with climate change and final selection of high-risk communities;

b) Design of an early warning system for maritime safety; and,

c) Geomorphology and study of the coastal adaptation.

2nd Component: Implementation of mechanisms to mitigate climate change effects and project management

Coastal early warning and maritime security

- Implementation of Coastal Early Warning System - through the acquisition and installation of early warning Systems and fortification of the interaction and coordination of the meteorological forecasts capacity of early warning Systems;
- Improvement of safety conditions for artisanal fishing boats - purchase and installation of equipment to enable increased security on ships as well as increase of rescue ability;
- Training of artisanal fishermen in matters of maritime safety; distribution of marine safety equipment to training target fishermen; and,
- Training of coastal communities to increase responsiveness to disasters of fishing communities

Coastal Protection for Vulnerable Communities

- Develop within vulnerable communities strategies for participatory development plans in the context of climate change;
- To promote the research and the engineering projects to reduce the risk of floods and landslides;
- Development of measures for protection of vulnerable communities through the funding of coastal adaptation activities of medium scale;
- Promotion of pilot small communities to develop activities for climate resilience;
- To supply technical assistance and training to promote the sharing and dissemination of lessons learned; and,
- Developing climate resilience in spatial planning and resource management.

Project Management

- Support the development of the project in terms of communication, reporting, monitoring and evaluation; and,
- Funding the operating costs of the project

PROJECT IMPLEMENTATION UNIT

The project implementation unit is made up of the key people as follow:

- Doctor Arlindo Carvalho (Coordinator)
- M. Jorge de Menezes (Procurement Manager)
- M. Joe Oliveira da Trindade (Finance Manager)
- M. Olivio Diogo(sociologist).
### 3. STATEMENT OF SOURCES AND USES OF FUNDS

<table>
<thead>
<tr>
<th>Note</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$</td>
<td>US$</td>
</tr>
<tr>
<td><strong>OPENING BALANCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD special account</td>
<td>414 848.21</td>
<td>583 478.34</td>
</tr>
<tr>
<td>STD special account</td>
<td>431.89</td>
<td>1.18</td>
</tr>
<tr>
<td>EUR special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td><strong>415 280.10</strong></td>
<td><strong>583 479.52</strong></td>
</tr>
<tr>
<td><strong>ADD: FUNDS RECEIVED</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank replenishments</td>
<td>70 000.00</td>
<td>325 093.86</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td><strong>70 000.00</strong></td>
<td><strong>325 093.86</strong></td>
</tr>
<tr>
<td><strong>TOTAL SOURCE OF FUNDS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>485 280.10</strong></td>
<td><strong>908 573.38</strong></td>
</tr>
<tr>
<td><strong>LESS: EXPENDITURE BY NATURE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>96 957.03</td>
<td>79 723.71</td>
</tr>
<tr>
<td>Construction</td>
<td>143 994.24</td>
<td>213 909.57</td>
</tr>
<tr>
<td>Consulting fees</td>
<td>131 983.92</td>
<td>109 311.71</td>
</tr>
<tr>
<td>Operating costs</td>
<td>74 396.98</td>
<td>61 846.54</td>
</tr>
<tr>
<td>Training</td>
<td>23 654.26</td>
<td>26 349.82</td>
</tr>
<tr>
<td>Cash compensation under Part B.2.(c) of the Project</td>
<td>-</td>
<td>2 257.51</td>
</tr>
<tr>
<td>Exchange difference</td>
<td>346.05</td>
<td>(105.58)</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td><strong>471 332.48</strong></td>
<td><strong>493 293.28</strong></td>
</tr>
<tr>
<td><strong>CLOSING BALANCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank USD special account</td>
<td>13 941.41</td>
<td>414 848.21</td>
</tr>
<tr>
<td>Cash at bank transit account</td>
<td>6.21</td>
<td>431.89</td>
</tr>
<tr>
<td>Cash at bank EUR special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td><strong>13 947.62</strong></td>
<td><strong>415 280.10</strong></td>
</tr>
<tr>
<td><strong>TOTAL USES OF FUNDS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>485 280.10</strong></td>
<td><strong>908 573.38</strong></td>
</tr>
</tbody>
</table>
4. RECONCILIATION OF THE USD DESIGNATED ACCOUNT

<table>
<thead>
<tr>
<th>Description</th>
<th>2017 (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD special account</td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>415,280.10</td>
</tr>
<tr>
<td>ADD: FUNDS RECEIVED</td>
<td></td>
</tr>
<tr>
<td>World Bank replenishments</td>
<td>70,000.00</td>
</tr>
<tr>
<td>DEDUCT:</td>
<td></td>
</tr>
<tr>
<td>Eligible expense</td>
<td>468,027.04</td>
</tr>
<tr>
<td>Bank charges</td>
<td>3,305.44</td>
</tr>
<tr>
<td>Eligible expenditure</td>
<td>471,332.48</td>
</tr>
<tr>
<td>Balance at 31.12.2017</td>
<td>13,947.62</td>
</tr>
<tr>
<td>FUNDS RETURNED TO WB</td>
<td></td>
</tr>
<tr>
<td>World Bank transfer at 20.03.2018</td>
<td>13,579.52</td>
</tr>
<tr>
<td>Bank charges</td>
<td>468.10</td>
</tr>
<tr>
<td>Closing balance at 20.03.2018</td>
<td>0.00</td>
</tr>
</tbody>
</table>

PAMCZC's available cash on 31st December 2017 amounts to US$13,947.62 and represents the balance at the end of the project. The funds were fully transferred to the World Bank on March 20th, 2018.

5. EXECUTION OF BUDGET AT 31 DECEMBER 2016

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>BUDGET</th>
<th>EXPENDITURE</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, Works and consultant's services under the project</td>
<td>3,440,000</td>
<td>3,401,733.00</td>
<td>38,267.00</td>
</tr>
<tr>
<td>Assets</td>
<td>1,108,775.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>1,383,182.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consulting fees</td>
<td>909,775.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs and training</td>
<td>655,000</td>
<td>652,080.95</td>
<td>2,919.05</td>
</tr>
<tr>
<td>Operating costs</td>
<td>354,025.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>298,055.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Compensation under PartB.2.(c) Of the Project</td>
<td>5,000</td>
<td>5,084.72</td>
<td>-84.72</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,100,000</td>
<td>4,058,898.67</td>
<td>41,101.33</td>
</tr>
</tbody>
</table>

The project's expenditure as at 31st December 2017 represents 99% of the World Bank grant.
6. ACCOUNTING POLICIES

A) Basis of Accounting

These special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard ("IPSAS") Financial Reporting under the Cash Basis of Accounting issued by the International Public Sector Accounting Standard Board ("IPSASB"), an independent standard-setting body within the International Federation of Accountants ("IFAC") and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities" issued by the World Bank’s Financial Management Sector Board. Project Financing is recognised as a source of project funds when the cash is received. Project expenditure is recognised as a use of project funds when payment is made.

B) Period of accounts

These special purpose financial statements cover the period from 1st January 2017 to 31 December 2017.

C) Transactions and balances in foreign currencies

The Project is domiciled in the Republic of Sao Tome where the local currency is the Dobras ("Db"). Because the majority of the Project’s transactions are funded and expended in United States dollars and in accordance with the requirements of the World Bank, these special purpose financial statements are presented in United States dollars ("USS" or "USD") which is the reporting currency of the Project. Transactions in other currencies are treated as transactions in foreign currencies. Cash receipts and payments arising from transactions in a foreign currency are recorded in the Project’s reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of receipt and payment. Cash balances held in a foreign currency are reported using the closing rate, which is the spot exchange rate at the reporting date. Unrealised gains and losses arising from changes in foreign currency exchange rates are no cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of sources and uses of funds and other statements in order to reconcile cash at the beginning and the end of the period. These amounts are presented separately from cash receipts and payments and include the differences, if any, had those cash receipts and payments and balances been reported at end-of-period exchange rates.

D) Bank accounts

USD special bank account. The USD Special Account is a bank account with no 350012310002 opened and kept in Dollars of the United States of America (USD) by the Borrower with the BISTP (International Bank of Sao Tome and Principe). This is the account project or designated account into which the World Bank makes advances and replenishments.

STD special bank account. The STD special account designated as transit account is a bank account with no. 350012310001 open and kept in Dobras (STD) by the Borrower with the BISTP (International Bank of Sao Tome and Principe). It is use for cash payments in local currency.

EUR special bank account. The EUR special account, designated as suspense account is a bank account with no. 350012310003 open in Euros (EUR) by the Borrower with the BISTP (International Bank of Sao Tome and Principe). The balance on this account was cleared in March 2015 to pay via letter of credit for imported equipments. Although still opened the account has not recorded any transaction in 2016.
7. NOTES TO THE FINANCIAL STATEMENTS

Note 1 - World Bank replenishments: USD70,000
The World Bank paid US$70,000 into the Project's designated account.

Note 2 - Assets: USD96,957.03
Assets purchased include payments made to Siroco for USD91,173.94 for life saving equipment, and others purchases of IT equipment and office furniture.

Note 3 - Construction: USD143,994.24
Construction works relating to the component Coastal Protection for Vulnerable Communities have continued in 2017 with the following payments made to:
- JAA CONSTRUÇÕES for the contract N° 01/W/2017 of USD126,728 to realize the opening and landfill of the zone of safe expansion in the community of Beach Burra in RAP
- Construction of fence of the Lô Grande School in Pedra Seca for USD11,941.59,
- and various expenses incurred in connection with the works.

Note 4 - Consulting fees: USD131,983.92
Consulting fees mainly relate to:
- Staff monthly salaries,
- HLB Premus financial audit fees,
- Consulting fees for supervision of construction works, project evaluation indicators and environmental management plan.

Note 5 - Operating costs: USD74,396.98
Operating costs mainly include:
- Salary of the project's coordinator,
- Travel costs and miscellaneous expenses.

Note 6 - Training: USD23,654.26
Training costs include professional training on maritime safety and preparedness for coastal emergencies for artisanal fishers in direct support of Priorities 1 and the National Action Program for Adaptation to Climate Change (NAPA) (Training and Equipment for Artisanal Fishermen and Alert Systems Priority to Climate Change). It will also address NAPA Priority 15, Capacity Building of Civil Protection Agencies, to strengthen the preparation of STPs against climate effects.

Note 7 - Cash: USD13,947.62
PAMCZC's available cash at December 31, 2017, was USD 13,947.62.
HLB Premus Central Africa
Audit | Expertise Comptable | Fiscalité | Conseil

Société d’Expertise Comptable agréée CEMAC N° SEC 060

Boulevard Triomphal, Descente Ancienne Sobraga
BP: 7414 Libreville - Gabon
T: +241 07 62 82 62 (Mobile)
F: +241 01 73 07 45 (Fixe)
E: contact@hlbpremus.com
W: www.hlbpremus.com / www.hlbi.com

HLB Premus Central Africa is a member of HLB International, a worldwide network of independent accounting firms and business advisers.