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National Audit Office



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

Ref. No. NAO/19

12th December, 2019

FROM : THE ACTING AUDITOR GENERAL, P.O.BOX 30045, LILONGWE 3.
TO : THE SECRETARY TO TREASURY, P.O. BOX 30049, LILONGWE 3.
CC : The Secretary for Agriculture, Irrigation and Water Development, P.O. Box 30134,
Lilongwe 3
: The Chief Secretary, O.P.C, P/Bag 501, Lilongwe.
: The Accountant General, P.O. Box 30140, Lilongwe 3.
The Project Coordinator, Shire Valley Transformation Programme, P/Bag 379,
Chichiri, Blantyre 3.

**AUDIT REPORT: SHIRE VALLEY TRANSFORMATION PROGRAMME FOR THE
PERIOD ENDED 30TH JUNE, 2019**

Find attached the audit report and management letter for Shire Valley Transformation Programme (SVTP) for the period ended 30th June, 2019.

Kindly acknowledge receipt.

A handwritten signature in black ink, appearing to be 'A. Mwenitete'.

A. Mwenitete

For: **ACTING AUDITOR GENERAL**



**MINISTRY OF AGRICULTURE,
IRRIGATION AND WATER DEVELOPMENT**

SHIRE VALLEY TRANSFORMATION PROGRAMME

IDA Q9550

IDA CREDIT No. 61470

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2019**

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

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SHIRE VALLEY TRANSFORMATION PROGRAMME

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

CONTROLLING OFFICER'S REPORT

1.0 INTRODUCTION

The Government of Malawi is implementing the Shire Valley Transformation Programme (SVTP) and other related Green Belt Initiative projects as part of the process of attaining the objectives of the Malawi Growth and Development Strategy III (MGDS III). The MGDS III is the country's overarching operational medium-term strategy to attain the nation's Vision 2020. The MGDS II recognizes Irrigation as one of the key priority areas. In this regard, the Government of Malawi carried out Project Preparation Activities (PPA) for the Shire Valley Transformation Programme (SVTP). The PPA was jointly funded by the World Bank and the African Water facility of the African Development Bank (AfDB).

The Project Preparation Activities were completed in December 2016. The AfDB fielded an appraisal mission for the SVTP from 21st to 31st March 2017 and concluded that the SVTP is environmentally, socially, economical and financially feasible. The World Bank fielded its appraisal mission from 18th to 28th April 2017. Like the AfDB, the World Bank mission found the SVTP to be environmentally, socially, economical and financially feasible. A Project Appraisal Document (PAD) was completed. On 11th September 2017 an IDA Delegation visited Malawi for project negotiations and the negotiations were successfully conducted and concluded. The IDA Delegation informed the Malawi Delegation that the proposed Credit is scheduled to be presented for approval to the Board of Directors on October 17, 2017.

Loan negotiations between the Government of Malawi and the World Bank were held on 11th – 12th September 2017 and the World Bank Board considered and approved to fund the Project with a loan of USD160 million on 18th October 2017 for the first Phase of the Programme. On 12th December, 2017, Parliament passed a bill authorizing the Government of Malawi to sign the loan agreement with the World Bank and the loan agreement was signed on 2nd February 2018.

2.0 OBJECTIVES OF THE PROJECT

The Programme Development Objective (PDO) for the Shire Valley Transformation Programme is to increase agricultural productivity and commercialization for targeted households in the Shire Valley; and to improve the sustainable management and utilization of natural resources. The SVTP is planned to cover approximately 43,400 ha and will catalyse backward and forward economic linkages leading to sectoral growth due to manufacturing and import substitution, creation of employment, reduction of poverty and elimination of food insecurity.

The SVTP-I Project Development Objective is to provide access to reliable gravity fed irrigation and drainage services, secure land tenure for smallholder farmers, and strengthen management of wetlands and protected areas in the Shire Valley.

3.0 PROJECT COMPONENTS

Under SVTP-I there are four components:

- 1) **Component 1: Irrigation Service Provision (US\$135.80 million including US\$85.80 million IDA):** This component will finance the works, goods and services necessary to develop bulk irrigation and drainage infrastructure in the SVTP-I area and support the establishment of a professional management, operation and maintenance system for the scheme.
- 2) **Component 2: Land Tenure and natural resources management support (US\$27.29 million, including US\$9.50 million IDA and US\$5.59¹ million GEF):** This component will support the piloting of the new land legal framework in a development setting, formation of consolidated farm blocks by smallholders with secure land tenure and natural resources management to broaden the multi-sectoral benefits of the program and enhance environmental sustainability within the modernization program.
- 3) **Component 3: Agriculture Development and Commercialization (US\$56.60 million, including US\$49.80 IDA):** Component 3 will finance on-farm investments in irrigation and drainage, land leveling, and commercial farm development. This will also include farm equipment (fixed and moveable), initial production and management support at SOCFE level, and basic infrastructure.
- 4) **Component 4: Project Management and Coordination (US\$8.9 million IDA):** This component will finance the multiple coordination, monitoring and evaluation, and management needs of a project of this scale and focus on the roll out of the communications strategy and manage the grievance redress mechanism, as well as day-to-day management, and monitoring and evaluation of the project.

4. IMPLEMENTATION STATUS

The SVTP-I became effective on 21st March 2018. Since then, implementation has progressed well.

During the reporting period, the Programme finalised the bid evaluation of the contractor for the fast track phase (Intake and first 6km of Main Canal 1) and submitted the report to the World Bank for No Objection. In addition, the Programme produced the technical evaluation report for the Procurement of design and supervising engineer and submitted to the World Bank for a No Objection.

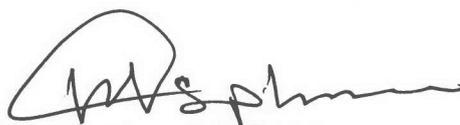
The Programme conducted social screening and ESMP for proposed office complex and residential buildings at Kasinthula Research station in Chikwawa. The report has been sent to the World Bank for review. The ESMP for Intake up to Lengwe National Park and the ESIA report was also reviewed and update.

The Transaction Advisor, IFC commenced their assignment during the reporting period and submitted draft technical reports which were reviewed by the Department of Irrigation and comments were submitted for action. The IFC will be responsible for identifying and developing

¹ The exact GEF grant is US\$5,587,156. This figure is in the financing agreement and here rounds off to US\$5.59 million

modus operandi of the infrastructure manager and to negotiate with farmers who will be the users of the water.

The final Resettlement Action Plan (RAP) report has been cleared by both the World Bank and African Development Bank. Funding for the compensation of Project Affected Persons (PAPs) has been allocated by the Government of Malawi and compensation will commence as soon as the funding is received.



Gray Nyandule Phiri
Secretary for Agriculture, Irrigation and Water Development

**SHIRE VALLEY TRANSFORMATION PROGRAMME
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019**

STATEMENT OF MANAGEMENT RESPONSIBILITIES

The management of Shire Valley Transformation Program 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 consolidated financial statements, subject to any material departures being disclosed and explained in the consolidated financial statements.

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

The management is of the opinion that the financial statements give a true and fair view of the financial affairs of the project and of its operating results.

The financial statements have been approved by the Ministry of Agriculture Irrigation and Water Development on...28/11/19...and are signed on its behalf by:



**SECRETARY FOR AGRICULTURE,
IRRIGATION AND WATER DEVELOPMENT**



PROJECT COORDINATOR

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MALAWI

AUDITOR GENERAL

AUDITOR GENERAL'S REPORT TO THE SECRETARY FOR AGRICULTURE, IRRIGATION AND WATER DEVELOPMENT ON THE FINANCIAL STATEMENTS OF THE SHIRE VALLEY TRANSFORMATION PROGRAMME FOR THE YEAR ENDED 30TH JUNE, 2018

Opinion

I have audited the accompanying Statement of Financial Position of the Shire Valley Transformation Programme for the year ended 30th June, 2019 and related Statement of Receipts and Payments and Notes to the Accounts for the period then ended as set out on pages 10 to 22.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Shire Valley Transformation Programme as at 30th June, 2019 in accordance with the International Public Sector Accounting Standards (IPSAS), Donor terms of agreement and financial provisions.

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 Shire Valley Transformation Programme and the Ministry of Agriculture, Irrigation and Water Development in accordance with the International Standards of Supreme Audit Institutions 30 - *Code of ethics* (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.

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.

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

The Shire Valley Transformation Programme Management's Responsibility for the Project's Financial Statements

The Shire Valley Transformation Programme Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) Financial Reporting under the Cash Basis of Accounting, Donor terms of agreement and financial provisions, 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 Audit of the Project's 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 Project's 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.

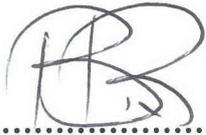
I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.

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 General's report is:



Signature:.....

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

Date: 29TH NOVEMBER

2017
OFFICE OF AUDITOR GENERAL
NATIONAL AUDIT OFFICE
DEC 2013
PO BOX 30045
LILONGWE 3
B 3



Land Tenure and Natural Resources Management	686,986,884	956,806	6,905,000	9,617	691,431,404	962,996
Agriculture Development and Natural Resources Management	72,311,699	100,713	-	-	72,401,699	100,838
Project Coordination and Management	876,756,735	1,221,110	65,395,925	91,081	934,696,939	1,301,806
Refund for PPA	-	-	822,549,775	1,145,613	4,064,525,326	6,002,131
Total Expenditure	1,770,520,614	2,465,906	915,750,388	1,275,419	5,928,246,553	8,597,843
Surplus/Deficit						
Foreign Exchange Gain	9	115,890,227	16,991,118	-	164,515,062	-
Net Cash Available		4,823,584,434	1,876,596,488	2,613,645	4,823,584,434	6,358,475
Closing Balances						
Designated Account USD	8	3,803,631,058	1,251,786,330	1,743,435	3,803,631,058	4,977,077
Operating Account & Transitory	8	1,019,953,376	624,810,157	870,209	1,019,953,376	1,381,398
Total Closing Balances		4,823,584,434	1,876,596,487	2,613,644	4,823,584,434	6,358,475

Government of Malawi: Shire Valley Transformation Program

Designated Account Activity Statement - GEF

For the Period Ending : 30th June 2019

GEF Grant No. TF0A5749

Deposit Bank: Reserve Bank of Malawi

Currency of Designated Account:

US Dollar

Account No. 0013006240190

Part I

US\$

US\$

1. Cumulative advances to end of current reporting period	2,017,936.98
2. Cumulative expenditures to end of last reporting period	79,134.96
3. Outstanding advance to be accounted for (line 1 minus line 2)	1,938,802.02

Part II

4. Opening DA Balance at beginning of reporting period (as of beginning of quarter)	187,984.99
5. Add/ Subtract : Funds Balance in Project Accounts /Cumulative Adjustments (if any)	788,865.03
6. Advances from World Bank during period	961,952.00
7. lines 5 and 6	1,750,817.03
8. Outstanding balances to be accounted for (add lines 4 and 7)	1,938,802.02

9. Closing DA balance at end of current reporting period (as of quarter)	1,149,936.99
10. Add / Subtract : Funds balance in Project accounts and adjustments	666,305.49
11. Expenditures for current reporting period	122,559.54
12. Add lines 10 and 11	788,865.03
13. Add lines 9 and 12	1,938,802.02

14. Difference (if any) (line 8 less line 13) -

Part III

15. Total forecasted amount to be paid by World Bank	1,149,936.99
16. Less : Closing DA balance after adjustments	1,149,936.99
17. Direct Payments / Special Commitments	-
18. Add lines 16 and 17	1,149,936.99

19 Cash requirement from World Bank for next two reporting period (line 15 less line 18) -

SHIRE VALLEY TRANSFORMATION PROGRAMME

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2019

1.0 NATURE OF BUSINESS

The SVTP is a 14-year program (2018-2031) which will be implemented in three sequential but partially overlapping phases. The objective is to increase agricultural productivity and commercialization for targeted households in the Shire Valley; and to improve the sustainable management and utilization of natural resources. The Programme targets the development of 43,370 ha abstracting water from the Shire River at Kapichira and conveying it by gravity to the irrigable area (in Chikwawa and Nsanje districts) mainly through canals.

2.0 Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are set out below:

2.1 Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with International Public Sector Accounting Standards (IPSAS) "Financial Reporting under the Cash Basis of Accounting"

2.2 Receipts

Transfers from International Development Association (IDA), Global Environment Facility (GEF) and Government of Malawi are recognized as receipts when received in designated Programme's bank account (Special Account and Operating Account)

Direct disbursements to third parties made by the International Development Association (IDA) and Global Environment Facility (GEF) is recognized as receipt upon notification by IDA and GEF.

2.3 Expenditure

Expenditure is recognized when payment is made.

2.4 Property, Plant and Equipment

Property, plant and equipment are expensed upon acquisition. They are usually expenditures categorized as vehicles, goods and equipment bought under the programme. At the end of the programme, they will be transferred to the Ministry of Agriculture, Irrigation and water development

9.0	Foreign Exchange Gain	Conversion Rate	US\$
	MWK		
	Opening Balances		
	Designated Account	1,251,786,330	1,743,435
	Operating Account & Holding	624,810,157	870,209
		1,876,596,487	2,613,644
	Sources		
	IDA Funding	2,880,525,589	3,879,255
	GEF Funding	1,495,967,745	2,017,937
	Counterpart Funding	225,000,000	313,370
	Interest Received	125,000	174
	Total Sources	4,601,618,334	6,210,736
	Cash Available	6,478,214,821	8,824,380
	Expenditure	1,770,520,614	2,465,906
	Net Cash Available	4,707,694,207	6,358,474
	Closing Balances		
	Designated Account	3,803,631,058	4,977,077
	Holding Account & Operating	1,019,953,376	1,381,398
	Total Closing Balances	4,823,584,434	6,358,475
	Exchange Rate Difference	115,890,227	-