

LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT

STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended

30 June 2019

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MALAWI COUNTRY
OFFICE

**LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT (LWSP)**

**STATEMENT OF CASH RECEIPTS AND PAYMENTS
For the year ended 30 June 2019**

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**LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT (LWSP)**

**EXECUTIVE SUMMARY
For the year ended 30 June 2019**

Background

The Government of Malawi (GoM) is committed to providing adequate, reliable and sustainable water and sanitation services to the urban, peri-urban, towns and rural population of Malawi to meet the ever-increasing demand for safe water for domestic, institutional, industrial, commercial and agricultural use. One focus area is Lilongwe City, the Capital City of Malawi, which currently faces a number of challenges related to water supply and sanitation services delivery due to dwindling water resources, lagging infrastructure development, and aging water and sanitation systems. The current water and sanitation situation in the city is alarming, which calls for comprehensive measures that will bring about sustainable and reliable improved water services. The Lilongwe Water and Sanitation Project (LWSP) was developed as one of the investments to address the immediate and medium-term water and sanitation needs and support a long-term solution to Lilongwe City's growing demand for improved water services and safely managed sanitation services. It is against this background that Lilongwe Water Board (LWB) and Lilongwe City Council (LCC) embarked on this project with financing from the IDA and commit themselves to successful implementation of the project which aligns with Malawi's development goals as well as strategic plans for the two institutions. The World Bank will make available to Malawi a financial loan not exceeding US\$ 100 million to be used exclusively to finance the Project in the planned implementation period, from 2018 to 2023. The Government of Malawi shall make available US\$ 2 million as contribution towards the project.

Project Objective

The project development objective is to increase access to improved water services and safely managed sanitation services in Lilongwe City.

The project is being implemented under four components as indicated in the table below;

Component 1-Network Rehabilitation, Expansion and Non-Revenue Water Reduction

Phase 1-Priority Network Rehabilitation;

Phase 2-Non-Revenue Water reduction and Network expansion.

Component 2-Priority Sanitation Improvements

Rehabilitation and Expansion of Kauma sewage Ponds;

Rehabilitation and Expansion of the Sewerage Network;

Onsite Sanitation Improvements.

Component 3- Technical Assistance

Sub-component 3.1- Technical Assistance for Water Supply;

Sub-component 3.2- Technical Assistance for Sanitation.

Component 4-Institutional Capacity Strengthening

Sub-component 4.1 Institutional Capacity Strengthening Lilongwe;

Sub-component 4.2 Institutional Capacity Strengthening of Lilongwe City Council.

**LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT**

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2019

Directors are required to prepare financial statements for each financial period that presents fairly, in all material respects the state of affairs of the project as at the end of the financial period and of the surplus or deficit of the project for that period, in accordance with the International Public Sector Accounting Standards (IPSAS): Financial Reporting under the Cash Basis of Accounting.

Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 30 June 2019.

Directors also confirm that applicable donor reporting requirements have been followed and that the financial statements have been prepared on a going concern basis subject to project duration terms and conditions of the funding and Financing Agreement.

Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the project and which enable them to ensure that the financial statements comply with applicable laws and regulations. They are responsible for safeguarding the assets of the project and, hence, for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

Subject to the loan agreement, no matters have come to the attention of the Directors to indicate that the project will not remain a going concern for at least the ensuing financial period.

Directors are of the opinion that the financial statements present fairly, in all material respects the state of the financial affairs of the project and of its operating results.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the International Public Sector Accounting Standards (IPSAS): Financial Reporting under the Cash Basis of Accounting.

Financial performance:

The results of the project are set out in the accompanying statement of cash receipts and payments, significant accounting policies and other explanatory notes.

Registered office and physical location:

Lilongwe Water Board
PO Box 96

LILONGWE 3

Bankers:

Reserve Bank of Malawi
NBS Bank Limited

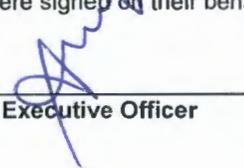
Independent auditor:

Grant Thornton
Chartered Accountants and Business Advisors
Anamwino House
P.O. Box 30453
Capital City

LILONGWE

Approval of financial statements

The financial statements of the project were approved for issue by the Directors on 5 December 2019 and were signed on their behalf by:



Chief Executive Officer



Director of Finance

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF LILONGWE WATER BOARD

Opinion

We have audited the financial statements of Lilongwe Water and Sanitation Project being managed by Lilongwe Water Board as set out on pages 5 to 8, which comprise the statement of cash receipts and payments for the year ended 30 June 2019, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the statement of cash receipts and payments presents fairly, in all material respects, the financial position of Lilongwe Water and Sanitation Project being managed by Lilongwe Water Board as at 30 June 2019 and of its cash receipts and disbursements for the year then ended, in accordance with the International Public Sector Accounting Standard ("IPSAS") - Financial Reporting under the Cash Basis of Accounting.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the statement of cash receipts and payments* section of our report. We are independent of Lilongwe Water Board and the project management team in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw our attention to note 2 to the statement of cash and receipts and payments, which describes the basis of accounting. Our report is intended solely for Lilongwe Water and Sanitation Project and should not be distributed to or used by parties other than Lilongwe Water Board, Malawi Government and World Bank.

Other information

Management is responsible for the other information. The other information comprises the Executive Summary, the Statement of Directors' Responsibilities but does not include the statement of cash receipts and payments and our auditor's report there on.

Our opinion on the statement of cash receipts and payments 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 statement of cash receipts and payments, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the statement of cash receipts and payments or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

Responsibilities of Directors for the statement of cash receipts and payments

Directors are responsible for the preparation of the statement of cash receipts and payments that presents fairly, in all material respects in accordance with International Public Sector Accounting Standard ("IPSAS"): Financial Reporting under the Cash Basis of Accounting and for such internal control as Directors determine is necessary to enable the preparation of statement of cash receipts and payments that is free from material misstatement, whether due to fraud or error.

In preparing the statement of cash receipts and payments, Directors are responsible for assessing the Board'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 Directors either intend to liquidate the project or to cease operations, or have no realistic alternative but to do so.

**Grant Thornton
Malawi**

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INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the audit of the statement of cash receipts and payments

Our objectives are to obtain reasonable assurance about whether the statement of cash receipts and payments 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

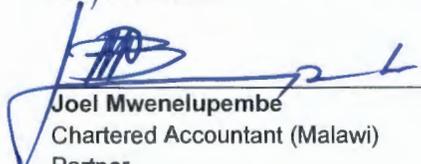
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the statement of cash receipts and payments.

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 statement of cash receipts and payments, 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 projects's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management 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 Board'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 statement of cash receipts and payments 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 Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the statement of cash receipts and payments, including the disclosures, and whether the statement of cash receipts and payments represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the 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.


Grant Thornton


Joel Mwenelupembe
Chartered Accountant (Malawi)
Partner
Lilongwe, Malawi

Date 17 DECEMBER 2019

LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT

STATEMENT OF CASH RECEIPTS AND PAYMENTS
For the year ended 30 June 2019

Receipts	Notes	MK	US\$
Opening balances		2019	2019
LWSP Loan	7	807,810,109	1,098,872
LWSP Grant	7	728,946,045	991,592
Grant and Loan receipts			
LWSP Loan	7	5,979,837,534	8,192,762
LWSP Grant	7	609,080,071	830,551
Other receipts			
Foreign exchange differences	7	337,792,762	-
Interest Income	7	2,965	4
Total receipts		<u>8,463,469,486</u>	<u>11,113,781</u>
Payments			
Network rehabilitation, expansion and non-revenue water reduction	8	79,109,983	107,363
Technical assistance	8	1,020,152,480	1,391,810
Institutional capacity strengthening	8	963,898,962	1,323,596
Total payments		<u>2,063,161,425</u>	<u>2,822,769</u>
Excess receipts over payments		<u>6,400,308,061</u>	<u>8,291,012</u>
Represented by:			
Cash and bank balances			
IDA Designated US\$ A/c - Loan	9	5,595,956,723	7,219,059
IDA Designated US\$ A/c - Grant		491,955,511	634,647
IDA Holding MWK A/c - Loan	9	1,858,500	2,548
IDA Holding MWK A/c - Grant		2,641,000	10,478
IDA Operating MWK A/c - Loan	9	238,438,441	330,014
IDA Operating MWK A/c - Grant	9	64,164,303	87,065
LCC - LWSP MWK A/c	9	5,293,583	7,201
Total cash and bank balances		<u>6,400,308,061</u>	<u>8,291,012</u>

The financial statements were approved by the Board on 5 December 2019 and were signed on its behalf by:



Chief Executive Officer



Director of Finance

**LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT**

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS

For the year ended 30 June 2019

1. The Government of Malawi secured financing for the implementation of the Lilongwe Water and Sanitation Project (LWSP). The objective of the project is to increase access to improved water services and safely managed sanitation services in Lilongwe city. The project scope consists of four components:
 - Component 1—Water distribution network rehabilitation, expansion and non-revenue water reduction;
 - Component 2—Priority sanitation improvements;
 - Component 3—Technical assistance; and
 - Component 4—Institutional capacity strengthening.

The total cost for the project is USD102 million with USD 75 million being credit and USD 25million grant. The Government of Malawi is expected to contribute USD 2 million. Under this project Lilongwe Water Board is the lead project implementation agency responsible for all aspects of project management, including planning, procurement, finance management, results monitoring and evaluation and safeguards, Lilongwe City Council is the project beneficiary.

Financing of the project is received through the Government of Malawi which channels the funds to Lilongwe Water Board to support the implementation of the project.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of statement of cash receipts and payments are set below:

- 2.1 **Basis of accounting**

The statement of cash receipts and payments has been prepared in accordance with International Public Sector Accounting Standard (IPSAS): Financial Reporting Under the Cash Basis of Accounting.

- 2.2 **Presentation currency**

The financial statements are presented in Malawi Kwacha and US Dollar.

- 2.3 **Use of estimates and judgements**

There are no estimates relating to the project.

3. **Receipts**

Receipts are recognized on cash basis. Receipts represent funding from World Bank through Malawi Government.

4. **Payments**

Payments are recognized when paid. Payments are made in Malawi Kwacha and US Dollars.

5. **Assets**

Items of property plant and equipment are charged to the statement of cash receipts and payments in the period of purchase. All other assets are recognized at cost and charged to the statement of cash receipts and payments.

6. **Bank and cash balances**

Cash comprise cash on hand and bank balances comprising balances held with NBS Bank Limited and the Reserve Bank of Malawi.

**LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT**

**NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS
For the year ended 30 June 2019**

7. Receipts

This represent direct transfers from World Bank to Lilongwe Water and Sanitation Project holding and operation account. All loans received are implemented by Lilongwe Water Board and all Grants received are implemented by Lilongwe City Council.

	<u>2019</u>	<u>2019</u>
	MK	US\$
Receipts		
Opening balance		
LWSP Loan-Implemented by Lilongwe Water Board	807,810,109	1,098,872
LWSP Grant-Implemented by Lilongwe City Council	728,946,045	991,592
Grant and Loan receipts		
LWSP Loan-Implemented by Lilongwe Water Board	5,979,837,534	8,192,762
LWSP Grant-Implemented by Lilongwe City Council	609,080,071	830,551
Other receipts		
Foreign exchange differences	337,792,762	-
Interest Incomes	2,965	4
Total receipts	<u>8,463,469,486</u>	<u>11,113,781</u>

8. Payments

Component 1: Network Rehabilitation, Expansion and NRW Reduction

Subcomponent 1.2: NRW reduction and network expansion 79,109,983 107,363

Component 3: Technical Assistance

Subcomponent 3.1: Technical assistance for water supply 762,589,613 1,039,032

Subcomponent 3.2: Technical assistance for sanitation 257,562,867 352,779

Component 4: Institutional Capacity Strengthening

Subcomponent 4.1: Institutional capacity strengthening for LWB 424,304,735 589,616

Subcomponent 4.2: Institutional capacity strengthening for LCC 539,594,227 733,979

Total payments **2,063,161,425** **2,822,769**

9. Cash and Bank balances

Designated US\$ A/c - Loan- Lilongwe Water Board 5,595,956,723 7,219,059

Designated US\$ A/c - Grant -Lilongwe City Council 491,955,511 634,647

Holding MWK A/c - Loan-Lilongwe Water Board 1,858,500 254,797

Holding MWK A/c - Grant -Lilongwe City Council 2,641,000 10,478

Operating MWK A/c - Loan -Lilongwe Water Board 238,438,441 330,014

Operating MWK A/c - Grant -Lilongwe Water Board 64,164,303 87,065

Lilongwe City Council - LWSP MWK A/c 5,293,583 7,201

Total cash and bank balances **6,400,308,061** **8,291,012**

10. Foreign currency translation

Foreign currency transaction for receipts and payments account were converted using the actual exchange at the date of transaction. Closing balances for the project have been transacted at the closing rate as at 30 June 2019. The rate was 1 US\$/MK 786.0941.

11. Capital of commitment

There were no capital commitments as at the period-end requiring disclosure in the statement of cash receipts and payments.

12. Contingent liabilities/provisions

There were no contingent liabilities in the period requiring disclosure in the statement of cash receipts and payments.

LILONGWE WATER BOARD
LILONGWE WATER AND SANITATION PROJECT

NOTES TO THE STATEMENT OF CASH RECEIPTS AND PAYMENTS
For the year ended 30 June 2019

13. Exchange rates

The average of the period end buying and selling rates of the foreign currencies most affecting the performance and state of affairs of the project are stated below, together with National Consumer Price Index for the year, which represents an official measure of inflation.

	<u>2019</u>
Kwacha/US Dollar	735
Kwacha/Euro	862
Inflation rate	<u>9.9%</u>

As at the date of signing the audit report, the exchange and inflation rate were as follows;

Kwacha/US Dollar	735
Kwacha/Euro	865
Inflation rate	<u>9.3%</u>

14. Subsequent events

Subsequent to the reporting date there were no significant events necessitating adjustments to/ or disclose in the statement of receipts and payments.