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The Ministry of Agriculture and Fisheries

The Sustainable Agriculture Productivity Improvement Project

GAFSP Grant Number TF0A2869

Annual Project Financial Statements for the Year Ended 31 December 2017

MINISTRY OF AGRICULTURE AND FISHERIES – SUSTAINABLE AGRICULTURE PRODUCTIVITY IMPROVEMENT PROJECT
WORLD BANK GRANT – GAFSP NO. TF0A2869

Recipient & Employing Authority:	The Ministry Of Finance (Democratic Republic of Timor-Leste)
Implementing agency:	The Ministry of Agriculture and Fisheries
GAFSP Grant number:	TF0A2869
Auditors:	Merit Partners

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MINISTRY OF AGRICULTURE AND FISHERIES – SUSTAINABLE AGRICULTURE PRODUCTIVITY IMPROVEMENT PROJECT
WORLD BANK GRANT – GAFSP NO. TF0A2869

STATEMENT OF APPROVAL
FOR THE YEAR ENDED 31 DECEMBER 2017

The Project Manager of the Sustainable Agriculture Productivity Improvement Project ("the Project") hereby states that Ministry of Agriculture and Fisheries Project Management Unit ("the PMU") has complied with the obligations imposed by the Grant Agreement No. TF0A2869 dated 16 November 2016.

The financial statements of the Project for the year ended 31 December 2017 set out on pages 7 to 12, consists of the statement of cash receipts and cash payments and the accompanying notes to the financial statements, which were prepared and signed by the Project Finance Officer and approved by the PMU Project Manager and Secretary General of the Project on behalf of the Ministry of Agriculture and Fisheries ('the MAF"), presents fairly the grant monies received and expended in accordance with the accounting policies described in Note 1 to the financial statements.

Prepared by:

Vasco da Costa
Finance Officer
PMU - MAF
The Sustainable Agriculture Productivity Improvement Project

Date: 26/06/2019

Approved by:

Cesar Jose da Cruz
Secretary General/Project Manager
The Ministry of Agriculture and Fisheries

Date: 26/06/2019

Ervina Soares Pinto
National Director of Administration and Finance
The Ministry of Agriculture and Fisheries

Date: 26/6/19

Independent auditor's report to the Ministry of Agriculture and Fisheries – Sustainable Agriculture Productivity Improvement Project

Report on the Audit of the Financial Report

Opinion

We have audited the accompanying financial report of the Sustainable Agriculture Productivity Improvement Project ("the Project"), which comprises the Statement of Cash Receipts and Cash Payments for the year ended 31 December 2017, a summary of significant accounting policies, other accompanying notes, and the Ministry of Agriculture and Fisheries - Project Management Unit's ("MDIR-PMU") Statement of Approval.

In our opinion the financial report of the Sustainable Agriculture Productivity Improvement Project presents fairly in all material respects the financial transactions for the period ended 31 December 2017, and;

a. is in accordance with the requirements under the World Bank ("WB") administered Grant Number TF0A2869 dated 16 November 2016;

b. the financial report is 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 the Project 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 the 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 Global Agriculture and Food Security Program Trust Fund Grant No. TF0A2869, dated 16 November 2016 ("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 based on 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 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

Matthew Kennon
Director

Darwin
28 June 2019

STATEMENT OF CASH RECEIPTS AND CASH PAYMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts in US Dollar)

	2017 $	Cumulative Total $
CASH RECEIPTS		
Grants -		
Designated account	2,000,000	**2,000,000**
	2,000,000	**2,000,000**
CASH DISBURSEMENTS		
Consulting services	82,463	**82,463**
Goods	34,026	**34,026**
Operating costs	53,611	**53,611**
	170,100	**170,100**
EXCESS OF CASH RECEIPTS OVER DISBURSEMENTS	1,829,900	**1,829,900**
CASH AT BEGINNING OF PERIOD	0	**0**
CASH AT END OF PERIOD	1,829,900	**1,829,900**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Project Description

The Government of Timor-Leste, through the Ministry of Agriculture and Fisheries ("the Ministry" or "MAF"), has received funding through a Grant from the Global Agriculture and Food Security Program Trust Fund ("GAFSP") administered by the World Bank, towards the cost of the Sustainable Agriculture Productivity Improvement Project ("the Project"). The Project will be financed by World Bank administered grants.

The objective of the Project is to increase the productivity and marketed production of smallholder agriculture in selected geographical locations in Timor-Leste.

The Project consists of the following parts:

Component 1: Integrated Watershed Agriculture Development Planning

Carrying out a program of activities designed to improve agriculture development planning within targeted watershed, such activities include:

a. Forming and maintaining of new Watershed Management Councils, and strengthening existing Watershed Management Councils ("WSMC");
b. Preparation of watershed agricultural development plans aimed at increasing the productivity and marketability of agricultural produce at the municipal level, and where such plans already exist, updating such plans based on community consultations; and
c. Preparation of sustainable community agriculture development plans aimed at increasing the productivity and marketability of agricultural produce at the community level, and where such plans already exist, carrying out verification and additional consultations with rural communities as required.

Component 2: Smallholder Organization, Advisory Support and Training

Carrying out a program of activities designed to develop new, and strengthen existing Farmers' Groups, to improve farm productivity and marketability, including:

a. Forming new Farmers' Groups, and/or identifying and assessing existing Farmers' Groups;
b. Providing guidance, support and capacity building to ensure the sustainability and effectiveness of Farmers' Groups
c. Facilitation of farmer-to-farmer learning through farmer field schools, demonstrations, and additional training activities; and
d. Providing training to Farmers' Groups on topics such as productivity, business planning, marketing, financial management, internal organization, environmental management, community participation and governance, nutrition awareness, and food safety.

Component 3: Sustainable Watershed Management and Support to Farmers' Groups

Carrying out a program of activities designed to support Farmers' Groups in the implementation of sustainable community agriculture development plans through the provision of targeted on-farm investments; including:

a. Rapid roll out of post-harvest storage and processing technology and equipment to Farmers' Groups, including hire and maintenance of the Independent Verifier;

b. Development and delivery of production, storage, and processing facilities, equipment and technology to Farmers' Groups consistent with the watershed agricultural development plans developed under Part 1 of the Project; and

c. Provision of sub-grants to Farmers' Groups for the implementation of watershed agricultural development plans

Component 4: Strengthening of the Ministry of Agriculture and Fisheries Institutional Capacity

a. Carrying out a program of activities designed to enhance the institutional capacity of the MAF, including building MAF's capacity for:
    i. Providing analytical support for policy reforms
    ii. Adaptive research
    iii. Improved management strategy and institutional governance

b. Carrying out a program of activities designed to support MAF in the development of a monitoring and evaluation system, including a results-based financing monitoring and evaluation system.

Component 5: Project Management and Monitoring

Carrying out a program of activities designed to strengthen the capacity of the MAF for implementation, coordination, financial and procurement management, reporting, audit of the Project including establishment, operationalization and strengthening of in integrated Project Management Unit.

Component 6: Contingency for Disaster Risk Response

Carrying out a program of activities designed to provide rapid response to disaster, emergency or catastrophic events, as needed.

The Ministry established the Project Management Unit ("MAF PMU") to support the implementation of the Project.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont.

a. Project Description – cont.

The Grant Agreement was signed on 16 November 2016. The trust fund will close on 31 August 2022 and the unspent funds will be transferred to the World Bank after close date.

b. Basis of Accounting

The financial report is for the MAF project for Sustainable Agriculture Productivity Improvement Project ("the Project"), a project established in Timor-Leste and financed through the World Bank's administered grant funding. The financial report is intended only for Project's disbursements funded through World Bank administered grant funding.

The financial report is for the period 1 January to 31 December 2017 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.

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

Grant payments to the designated account are recognised as receipts when received. Direct payments made by the World Bank are recognised as receipts when notification of payment is received.

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 2017

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 MAF 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.

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. MAF PMU maintains a fixed assets register.

f. Commitment

Eligible expenditures incurred but not 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:

- Payments to non-residents 10%

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

NOTE 2: 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 2017, this account consisted of:

Designated Account	$1,829,900
	$1,829,900