ZIMBABWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861

GRANT NUMBER: TF0A1823

SPECIAL PURPOSE FINANCIAL REPORT

31 DECEMBER 2017
RE: SPECIAL PURPOSE FINANCIAL REPORT FOR THE ZIMBABWE NATIONAL WATER PROJECT GRANT NUMBER TF0A1823.

We have concluded our audit of the Zimbabwe National Water Project for the period ended 31 December 2017. The overall objective of this engagement was to allow us to express an opinion on the financial position and the income and expenditure for the period ended 31 December 2017 and to report on the adequacy of the internal controls and to express an opinion on the compliance with the covenants of the grant agreement and applicable laws and regulations (with regard to the financial aspects).

This report includes the following:

- the auditor’s report which includes the above mentioned opinions;
- the financial statements;
- notes to the financial statements which include the basis of preparation, a summary of funds received and a summary of reports used as a basis for withdrawal applications;
- a statement of sources and uses of funds which reconciles to the designated account and cash on hand and;
- the management letter which details the internal control weaknesses identified during the audit.

Please note that this report has been provided for use by the following parties, the Government of Zimbabwe, the project funders and the project management and may not be suitable for other purposes.

We would be pleased to provide you with further assistance and request that you do not hesitate to contact our office with regard to any queries.

Yours faithfully,

HLB ZIMBAWE Chartered Accountants
Engagement partner: Clement M. Ruzengwe
PAAB practicing certificate number: (099)
ZIMBAWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861

GRANT NUMBER: TF0A1823

IMPLEMENTING ENTITY: ZIMBABWE NATIONAL WATER AUTHORITY

PROJECT STEERING COMMITTEE:

Tinayeshe Mutazu (Chairman) - Ministry of Environment Water and Climate
Taurayi Mlaurukira - Zimbabwe National Water Authority
Mr. S. Kadaira - Ministry of Agriculture, Mechanization and Irrigation Development
Mike Mazai - Ministry of Rural Development, Promotion and Preservation of National Culture and Heritage.
Tariro Chipepera - Ministry of Women's Affairs, Gender and Community Development.
Priscilla Mudzinge - Ministry of Local Government, Public Works and National Housing
Jorum Willie Pfunye - Ministry of Finance and Economic Development
Fadzai Mukonoweshuro - World Bank
Norman Tinarwo - Department of International Development

PROJECT IMPLEMENTATION UNIT MANAGER
Eng. Takudza Makwangudze

PROJECT OFFICE:
13 Benatar way, Alex Park, Harare.

BANKERS:
Stanbic Bank, Samora Machel Branch, Harare.

AUDITORS:
HLB Zimbabwe Chartered Accountants
14 Downie Avenue, Alexandra Park, Harare.
ZIMBAWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861

GRANT NUMBER: TF0A1823

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31 DECEMBER 2017

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REPORT ON THE INTERNAL CONTROL STRUCTURE

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ZIMBABWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861

GRANT NUMBER: TF0A1823

BACKGROUND

The Government of Zimbabwe has applied for a grant from the Zimbabwe Reconstruction Fund (ZIMREF) managed by the World Bank for rehabilitation and expansion of water supply and sanitation infrastructure (investments) in seven rural and urban growth centres managed by the Zimbabwe National Water Authority (ZINWA), and provision of technical assistance as well as the capacity building of ZINWA, Local authorities and the Government of Zimbabwe.

The capital works consist of urgent rehabilitation of infrastructure, universal metering of production and customer consumption, expansion of distribution networks to non-serviced areas, and augmentation of treatment and storage capacity where needed.

Capacity building for ZINWA will focus on technical capacity in project planning and implementation, management and monitoring. This will boost ZINWA's technical and operational capacities. Capacity building will also promote institutional reform, improved commercial and customer focus, and better tariff designs, in order that ZINWA can be more accountable and more financially sustainable. The institutional reform will include improved customer, stakeholder and citizen engagement.

Local Authorities need assistance in developing consultative planning approaches, formal delegation of water supply responsibilities to service providers as per the new Water Policy provisions, and creation of effective mechanisms allowing stakeholder to monitor and enforce agreed service standards.

Project Development Objectives

The proposed project development objective is to strengthen the capacity of water sector institutions to improve the access to and the quality of water and sanitation services of communities in selected growth centers and to improve water resources planning.
BACKGROUND

Beneficiaries
The beneficiaries of the projects would be the inhabitants of seven small towns who will receive improved water supply. A total of 50,000 people stand to benefit, as well as ZINWA and the National Government through technical assistance. The project will be implemented over a four year period, from March 2016 to March 2020 and consists of three components as follows:

Component 1 – Rehabilitation and expansion of seven growth centers Water and Sanitation infrastructure
This component will finance the Rehabilitation and expansion of Seven Growth Centers Water and Sanitation infrastructure, namely:
- Guruve Growth Centre
- Gutu Growth Centre
- Madziwa Growth Centre
- Mataga Growth Centre
- Nembudziya Growth Centre
- Lupane Growth Centre
- Zirunya Growth Centre

Component 2 – Technical Assistance
This component will finance Technical assistance for carrying out of critical studies and activities aimed at capacitating the participating institutions as follows:
- Sub-component 2.1: National Water Resources Plan
- Sub-component 2.2: Technical Assistance for a Water Services Regulator
- Sub-component 2.3: Technical Assistance to Local authorities
- Sub-component 2.4: Institutional strengthening of ZINWA
- Sub-component 2.5: Training

Component 3 – Project Management
This component will finance the Project management costs, which include costs in supervision and management of the project.
REPORT OF THE INDEPENDENT AUDITORS TO THE WORLD BANK

ZIMBABWE NATIONAL WATER PROJECT

PROJECT NUMBER: P15486  GRANT NUMBER: TF0A1823

Opinion
We have audited the financial statements of the Zimbabwe National Water Project Grant Number TF0A1823 set out on pages 7 to 12 which comprise the statement of income and expenditure and statement of financial position for the period ended 31 December 2017, and the notes to the financial statements, which include a summary of the significant accounting policies.

In our opinion, the financial reports of the Zimbabwe National Water Project as at 31 December 2017 and for the period then ended have been prepared in conformity with note 1.1 and give a true and fair view of the results and position of the Zimbabwe National Water Project in all material respects.

Report on legal and regulatory compliance
In our opinion, the financial statements have in all material respects also been properly prepared in conformity with the provisions of the Zimbabwe Reconstruction Fund Grant Agreement, Grant Number TF0A1823.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the organisation in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Professional Code of Conduct, and we have 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.
Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use
We draw attention to Note 1.1 to the financial statements, which describe the basis of accounting. The financial statements have been prepared in accordance with the modified cash basis of accounting to assist the Project’s management with meeting the reporting requirements of the Project donors and the Government of Zimbabwe.

Our report is prepared in terms of ISA 800 and is for the Project management’s reporting purposes to the project donors and the Government of Zimbabwe. As a result, the financial statements and the auditor’s report may not be suitable for any other purpose. Our opinion is not modified in respect of this matter.

Responsibilities of the Project Management for the Financial Statements
The Project management is responsible for the preparation of the financial statements in accordance with the financial provisions of the World Bank and for such internal control as the Project management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the project management is responsible for assessing the project’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the project donors, the Government of Zimbabwe or the implementing entity (ZINWA) intend to cease the project’s operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements
The overall objective of the audit of this engagement (audit of the project financial statements), is to allow the auditor to express a professional opinion on the financial position of the project at the end of the period audited, and of the income and expenditure for the accounting period ending on that date, and also to report on the adequacy of the internal controls, and to express an opinion on the compliance with the covenants of the grant agreement and applicable laws and regulations.

Our 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 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 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 financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We 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 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.

We also 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 organisation's internal control. We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the project management. We also conclude on the appropriateness of the project management's 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 project’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 financial statements 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 project to cease to continue. We communicate with those charged with governance, 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.

HLB ZIMBAWE Chartered Accountants
Engagement partner: Clement M. Ruzengwe
PAAB practicing certificate number: (099)

HARARE
Date: 27 JUNE 2018

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ZIMBABWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861

GRANT NUMBER: TF0A1823

STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

<table>
<thead>
<tr>
<th>Notes</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>3</td>
<td>3,576</td>
</tr>
<tr>
<td>Security deposit</td>
<td>4</td>
<td>1,250</td>
</tr>
<tr>
<td>Bank and cash balances</td>
<td>5</td>
<td>47,972</td>
</tr>
<tr>
<td>Receivables</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Prepayments</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td>NET ASSETS</td>
<td></td>
<td>52,798</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>8</td>
<td>95,725</td>
</tr>
<tr>
<td>NET ASSETS</td>
<td></td>
<td>95,725</td>
</tr>
<tr>
<td>FINANCED BY:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated fund</td>
<td></td>
<td>(42,927)</td>
</tr>
<tr>
<td>TOTAL RESERVES</td>
<td></td>
<td>(42,927)</td>
</tr>
</tbody>
</table>

Chief Executive Officer
Zimbabwe National Water Authority

Project Manager

Project Accountant

27 June 2018
ZIMBABWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861
GRANT NUMBER: 11031823

STATEMENT OF INCOME AND EXPENDITURE
for the year ended 31 December 2017

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
<th>Cumulative Prior Periods</th>
<th>Current Period</th>
<th>Cumulative Current Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>USD</td>
<td>USD</td>
<td>USD</td>
</tr>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grant received from the World Bank</td>
<td>100,000</td>
<td>4,219,255</td>
<td>4,319,255</td>
</tr>
</tbody>
</table>

**EXPENDITURE**

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
<th>Cumulative Prior Periods</th>
<th>Current Period</th>
<th>Cumulative Current Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Component 1: Growth Center Water and Sanitation Improvements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Lupane</td>
<td></td>
<td>1,435,422</td>
<td>1,435,422</td>
</tr>
<tr>
<td>1.2</td>
<td>Zinshava</td>
<td></td>
<td>798,045</td>
<td>798,045</td>
</tr>
<tr>
<td>1.3</td>
<td>Garwe</td>
<td></td>
<td>533,450</td>
<td>533,450</td>
</tr>
<tr>
<td><strong>Total for Component 1</strong></td>
<td></td>
<td></td>
<td>2,766,917</td>
<td>2,766,917</td>
</tr>
<tr>
<td>2</td>
<td>Component 2: Technical Assistance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Water resources master plan</td>
<td></td>
<td>512,378</td>
<td>512,378</td>
</tr>
<tr>
<td>2.2</td>
<td>Technical Strengthening of ZINWA</td>
<td></td>
<td>342,762</td>
<td>342,762</td>
</tr>
<tr>
<td>2.3</td>
<td>Training</td>
<td></td>
<td>22,039</td>
<td>22,039</td>
</tr>
<tr>
<td><strong>Total for Component 2</strong></td>
<td></td>
<td></td>
<td>1,213,131</td>
<td>1,340,213</td>
</tr>
<tr>
<td>3</td>
<td>Component 3: Project Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1</td>
<td>PEF consultants</td>
<td></td>
<td>63,639</td>
<td>95,295</td>
</tr>
<tr>
<td>3.2</td>
<td>Procurement specialist</td>
<td></td>
<td>26,600</td>
<td>26,600</td>
</tr>
<tr>
<td>3.3</td>
<td>External audit</td>
<td></td>
<td>12,320</td>
<td>12,320</td>
</tr>
<tr>
<td>3.4</td>
<td>Project management costs</td>
<td></td>
<td>107,173</td>
<td>120,107</td>
</tr>
<tr>
<td>3.5</td>
<td>Bank charges</td>
<td></td>
<td>941</td>
<td>1,330</td>
</tr>
<tr>
<td><strong>Total for component 3</strong></td>
<td></td>
<td></td>
<td>210,073</td>
<td>255,052</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td></td>
<td></td>
<td>172,061</td>
<td>4,362,182</td>
</tr>
</tbody>
</table>

(Deficit)surplus for the year

(72,061) 29,134  (42,927)
NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2017

1. BASIS OF PREPARATION

1.1 Basis of preparation

The financial statements have been prepared using the modified cash basis of accounting. Under the modified cash basis of accounting, income is recognised when received and expenditures are recognised when incurred.

1.2 Basis of measurement

The financial statements are prepared based on records that are maintained under the historical cost convention.

1.3 Functional and presentation currency

The financial statements have been prepared in United States dollars (USD), which is the Project’s functional currency.
ZIMBABWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861

GRANT NUMBER: TF0A1823

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements, set out below, have been consistently followed in all material respects.

2.1 Income recognition

Income is recognised when received.

2.2 Expenditure recognition

Expenditure is recognised when incurred. Capital expenditure is fully expensed when purchased, however, an asset register is maintained for all project assets.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD</td>
<td>USD</td>
</tr>
</tbody>
</table>

3 INVENTORIES

Fuel coupons

3,576

4 Security deposit

Security deposit

1,250

A security deposit was made to the landlord for the office being rented by the project situated at 2 Iona Close, Borrowdale, Harare.

5 Bank and cash balances

Designated account

47,972

Cash on hand

47,972

6 RECEIVABLES

Advances to project staff

- 73

Consultancy fees

- 183

- 256

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2017

7 PREPAYMENTS

Prepayments relate to the rental deposit paid for the office being rented for the project situated at 2 Iona Close, Corner Borrowdale Road, Harare.

8 Payables

*ZINWA-Salary creditors
Trade Payables

*Creditors include an amount owed to ZINWA for the procurement consultant fee paid using ZINWA funds.
ZIMBABWE NATIONAL WATER PROJECT

PROJECT NUMBER: P154861

GRANT NUMBER: TF0A1823

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

9. SUMMARY OF FUNDS RECEIVED

Disbursements amounting to USD 4,219,255 (Four million two hundred and nineteen thousand two hundred and thirty four United States Dollars) were received from the World Bank for the period ending 31 December 2017 made up of the following amounts:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disbursements from the bank</td>
<td>265,422</td>
<td>100,000</td>
</tr>
<tr>
<td>Direct payments</td>
<td>3,953,833</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,219,255</td>
<td>100,000</td>
</tr>
</tbody>
</table>

There were no other donor or counterpart funds received for the project.

10. SUMMARY OF REPORTS USED AS BASIS FOR WITHDRAWAL APPLICATIONS

There were 3 withdrawal applications amounting to USD 265,422 and reports accompanying the application for withdrawals are kept for audit trail. The 3 withdrawals are summarised as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>First withdrawal</td>
<td>99,933</td>
<td>100,000</td>
</tr>
<tr>
<td>Second withdrawal</td>
<td>81,489</td>
<td>-</td>
</tr>
<tr>
<td>Third withdrawal</td>
<td>84,000</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>265,422</td>
<td>100,000</td>
</tr>
</tbody>
</table>

11. EVENTS AFTER THE REPORTING DATE

There were no material subsequent events after the reporting date.

12. GOING CONCERN

The project’s management assessed the ability of the project to continue operating as a going concern and believe that the preparation of these financial statements on a going concern is still appropriate.