



THE WORLD BANK



**FINANCIAL STATEMENT
FOR THE
VANUATU RURAL
ELECTRIFICATION PROJECT
(VREP)
TF18003 IN VANUATU**

For the Year Ended 31 December 2015

Prepared Under IPSAS: Financial Reporting Under the Cash Basis Accounting

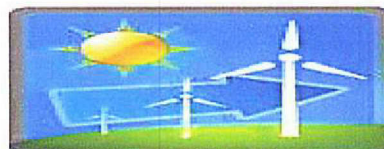
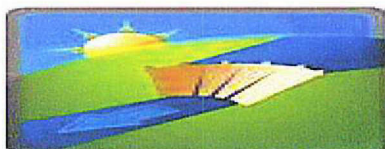


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PROJECT BACKGROUND

Vanuatu Rural Electrification Project (VREP) provides Grant Funding of US \$ 4.7 million to the Department of Energy (DoE) to support the Government of Vanuatu to increase access to sustainable electricity services for rural households, and aid posts and community halls located in dispersed off-grid areas.

The project under the oversight of the Department of Energy (TF 18003) – is planned to target 85 percent of the 20,470 dispersed off-grid households in Vanuatu, which equates to approximately 17,500 households, and 230 aid posts and 2,000 not-for-profit community halls. The Project will subsidize the retail cost of eligible solar photovoltaic (PV) systems by 50 percent. The objective of the project is to scale up access to electricity services for rural households, aid posts and community halls located in dispersed off-grid areas. The project consists of the following parts:

Part 1: Electrification of off-grid households, aid posts and community halls

Provision of Subsidies for the supply of solar photovoltaic systems to eligible off-grid households, aid posts and not-for-profit community halls.

Part 2: Technical Assistance and Project Management

Carrying out a program of activities to support implementation of the Project.

This report provides the financial statements for the Vanuatu Rural Electrification Project (VREP) TF 18003 for the 12 months ended 31 December 2015. The VREP project commenced in December 2014 and will end on 31 December 2019.



Mr Jesse Benjamin

Director General

Ministry of Climate Change Adaptation, Meteorology, Geo-Hazards, Environment & Energy

30 June 2016

Independent Auditors' Report

Vanuatu Rural Electrification Project

The Auditor-General is the auditor of Vanuatu Rural Electrification Project (VREP). The Auditor-General has appointed Law Partners to undertake the audit of VREP pursuant to Section 24(1) of the Expenditure Review and Audit Act [CAP 241].

Scope

We have audited the financial statements of Vanuatu Rural Electrification Project for the financial year ended 31 December 2015 consisting of the statement of cash receipts and payments, statement of comparison of budget and actual amount and accompanying notes set out on pages 5 to 11.

Members' responsibility for the financial statements

The Director of Ministry of Climate Change Adaption, Meteorology, Geo-Hazards, Environment and Energy is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards: Financial Reporting under Cash Basis of Accounting. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, 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 controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinion

In our opinion, the financial statements present fairly in all material respects the cash receipt and payments and cash flows of the Project for the year ended 31 December 2015, in accordance with International Public Sector Accounting Standards – Financial Reporting under Cash Basis of Accounting and the project administration complies with relevant Vanuatu legislation and regulations.

Law Partners

LAW PARTNERS

Chartered Accountants

(Qualified auditors under Section 130 of the Companies Act
No. 25 of 2012 of the Republic of Vanuatu)

Port Vila
30 June 2016

FINANCIAL STATEMENTS

VANUATU RURAL ELECTRIFICATION PROJECT STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

		2015		
	Notes	Receipt/(Payment) Controlled by the Government (VUV)	Direct Payments to Third Parties (VUV)	Project Total (VUV)
		12 Months		
CASH RECEIPTS				
World Bank Grant Received	3	35,000,000		35,000,000
World Bank - Transferred to Development Fund	3	2,998,272		2,998,272
World Bank - Payments made directly to third parties	12		3,836,224	3,836,224
TOTAL CASH RECEIPTS	3	37,998,272	3,836,224	41,834,496
CASH PAYMENTS				
VREP Subsidies		-	-	-
Consultants		3,221,913	3,836,224	7,058,137
Goods	5	179,023	-	179,023
Workshops		349,700	-	349,700
Incrementing operating Costs		191,700	-	191,700
TOTAL CASH PAYMENTS	4 & 5	3,942,336	3,836,224	7,778,560
CASH RECEIPTS LESS CASH PAYMENTS		34,055,936	-	34,055,936
INCREASE/(DECREASE) IN CASH		34,055,936	-	34,055,936
Cash at 1 January 2015		-	-	-
Cash at 31 December 2015	6	34,055,936	-	34,055,936

This statement is to be read in conjunction with the accompanying notes and accounting policies.




Mr Jesse Benjamin

Director General

Ministry of Climate Change Adaptation, Meteorology, Geo-Hazards, Environment & Energy

Port Vila, 30 June 2016

VANUATU RURAL ELECTRIFICATION PROJECT
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL
FOR THE YEAR ENDED 31 DECEMBER 2015

(Expressed in Vanuatu Vatu)

		2015			
		ACTUAL	ANNUAL BUDGET	FINAL BUDGET	Difference Actual and Annual Budget
	Notes	12 Months	12 Months	60 Months	
CASH INFLOWS					
World Bank Grant		41,834,496	32,606,818	423,000,000	9,227,678
Total Receipts	7	41,834,496	32,606,818	423,000,000	9,227,678
CASH OUTFLOWS					
Category 1:					
Consultants		7,058,137	11,273,850	42,650,100	(4,215,713)
Goods		179,023	576,000	655,650	(396,977)
Workshops and Training		349,700	2,070,000	3,874,590	(1,720,300)
Incremental Operating Costs		191,700	771,300	7,241,220	(579,600)
Category 2:					
Subsidy Payment under Part 1 of the Project		-	-	279,000,000	-
Unallocated Funds		-	17,915,668	89,578,440	(17,915,668)
Total Payments	8	7,778,560	32,606,818	423,000,000	(24,828,258)
NET CASH FLOWS					
		34,055,936	-	-	34,055,936

This statement is to be read in conjunction with the accompanying notes and accounting policies.

**VANUATU RURAL ELECTRIFICATION PROJECT
STATEMENT OF ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. Accounting Policies

a. Reporting Entity

The Vanuatu Rural Electrification Project (VREP) is administered by the Department of Energy (DoE). The objective of the project is to scale up access to electricity services for rural households, aid posts and community halls located in dispersed off-grid areas. The project consists of the following parts:

- (i) Electrification of off-grid households, aid posts and community halls
- (ii) Technical assistance and project management

b. Authorization Date

The financial statements of the Grant TF 18003 was for the 12 months ended 31 December 2015 and was authorized for issue on June 2016 by Mr. Jesse Benjamin for the Department of Energy. No other body has the power to amend these financial statements once they have been issued.

c. Basis of Preparation

The financial statements of the Grant have been prepared in accordance with requirements of the Public Finance and Economic Management Act [CAP.244] which includes the requirement to comply with generally accepted accounting practice.

The financial statements comply with IPSAS "Financial Reporting under the Cash Basis of Accounting" for the 12 months ended 31 December 2015.

As this is the first period of reporting for the project, there are no comparative figures.

d. Presentation currency

The financial statements are presented in Vanuatu Vatu (VUV).

e. Foreign currency

The receipts received from the World Bank in foreign currency (USD) and reported in these financial statements have been converted by the Reserve Bank of Vanuatu at the rate on the day of transaction.

VANUATU RURAL ELECTRIFICATION PROJECT
STATEMENT OF ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2015

f. Cash and Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Department of Energy receives the grant from the World Bank which is managed through the centralized Smartstream system. Under this arrangement the Department of Energy does not control the grant as their own bank account but rather the central entity will make payments on behalf of the department after appropriate authorization and documentation. These transactions have been disclosed in a separate column in the "Statement of cash receipts and payments".

g. Property, Plant & Equipment

Purchases of fixed assets have been included in the statement of Cash Receipts and Payments under Goods. Separate disclosure has been disclosed in Note 5 of these accounts.

Fixed assets are stated at cost at the date of purchase.

There are no fixed assets purchased on hire purchase schemes and no depreciation is being charged.

h. Budget

The budget is prepared on a cash basis when cash is expected to be received and paid. The classification of the budget is prepared on the common revenue sources and expenditure is classified on the nature of expenditure normally incurred by the project. Goods are treated as part of normal operational expenditure.

The final budget is the budget that was approved by the World Bank dated 4 December 2014. The approved budget is developed on the same accounting basis, classification basis, as the financial statements. The final budget is for the whole project period of 60 months which is different to the 12-month period prepared for these financial statements.

The Grant Agreement identified the budget categories according to the following components to be procured under the project. It encompasses the same entities as the financial statement.

VANUATU RURAL ELECTRIFICATION PROJECT
STATEMENT OF ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2015

h. Budget (continued)

Category 1: Goods, Consultant services, Training and Workshops, and Incremental Operating Costs under the Project.

Category 2: Subsidy Payments under Part 1 of the project.

The budget was originally designed in USD and was converted into VUV at the rate of USD 1= VUV90 as per summary of disbursements.

i. Changes in accounting policies

There have been no changes in accounting policies during the financial year.

2. Government counterpart funding

The project does not receive any funds from the Vanuatu Government as this project is fully funded by the World Bank.

3. Donor grant assistance

In 2014, the Department of Energy signed a grant agreement (World Bank Grant No. TF18003) with the World Bank. The purpose of the project is to scale up access to electricity services for rural households, aid posts and community halls located in dispersed off-grid areas the arrangement was for US\$ 4,700,000 from 2014 to 2019.

The grant agreement specifically sets out the areas for spending of which US\$ 1,600,000 allocated for the Goods, Consultant services, Training and Workshops, and Incremental Operating Costs under the Project and US\$ 3,100,000 allocated for Subsidy Payments under Part 1 of the Project.

As at 31 December 2015, US\$ 391,959 (total grant received for the financial year of Vt41,834,496) had been drawn down from the World Bank with a remaining balance of US\$ 4,308,041 (approximately VUV473,798,349) to be drawn down from 2016 to 2019.

An amount of VUV 2,998,272 was received within the Development Fund account as of 22 December 2015. This transfer was later recorded into Smartstream on 14 January 2016. Spending against this transfer is expected to occur in 2016.

VANUATU RURAL ELECTRIFICATION PROJECT
STATEMENT OF ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2015

4. Operating Expenditure

	2015
Consultants Fees	7,058,137
Subsistence Allowances	10,000
Vehicles Fuel	5,000
Facilities Hire	227,500
Telephone / Fax - Communications	7,000
Incidental	5,000
Local Travel	5,200
Equipment - Additional General	12,000
Advertising - Communications	127,779
Printing -Communications	90,000
Stationery - Communications	51,921
Total	7,599,537

5. Capital Expenditure

	2015
Equipment - Additional General	179,023
Total	179,023

6. Closing cash balance

	2015
Made up as follows:	
Smartstream central account	31,057,664
World Bank-Funds Transfer directly to Development Fund	2,998,272
Total	34,055,936

7. Revenue difference between actual and budget

The difference in budget relates to the late commencement of the project which required new systems, processes and procedures. Also, the exchange rate used in the final budget is US\$ 1 = VUV 90 while the actuals used the exchange rate on the transaction date.

VANUATU RURAL ELECTRIFICATION PROJECT
STATEMENT OF ACCOUNTING POLICIES AND NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2015

8. Expenditure variance between budget and actual

The project underspent VUV 24,828,258 against the annual budget of VUV32,606,818. This is due to the late commencement of the project which required the establishment of new systems, processes and procedures compliant with World Bank requirements. These have now been established and many of the grant activities are progressing well.

9. Debtors and other receivables

The Project has no outstanding debtors as at 31 December 2015.

10. Creditors and other payables

The total payable of the Project as at 31 December 2015 is VUV765,084. The amount outstanding are for the consultant and audit fee.

11. Imprest Account

As at 31st December 2015, there are no outstanding Imprest Account for the Trust Fund.

12. Payments by Third Parties

There were three direct payments (total amounting to VUV3,836,224) made to Geoffrey Stapleton (Consultant) in 2015. Direct payment was made in the World Bank Financial System (Client Connection) for the consultant fees. For reporting purposes, the Department of Energy is required to keep a record of every transaction that occurs in Client Connection. Therefore, a general journal has been prepared and processed into Smartstream by debiting the Consultant fees account and crediting the Energy Sector Management Assistance: World Bank Contributions.

13. Statement of Commitments

As at 31 December 2015, Vanuatu Rural Electrification Project signed contracts with local consultants. These contracts extended beyond balance date as outlined below:

	<u>2015</u>
	VUV
Contractual Commitments	
Due not later than one year	9,186,725
Due between 1 and 5 years	5,100,358
Total	14,287,083

14. Related Parties

There are no related party transactions during the year.