AUDITORS REPORT

EXTERNAL AUDIT OF CLIMATE CHANGE PROJECT'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016
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THE YEAR ENDED 31 DECEMBER 2016
External audit of Adaptation to Climate Change Project
Year ended 31 December 2016

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HLB Premus Central Africa

Inspired Around the World
ADAPTATION TO CLIMATE CHANGE PROJECT
Democratic Republic of Sao Tome and Principe

REPORT OF INDEPENDENT AUDITORS
Period between 1 January 2016 and 31 December 2016
Libreville 28 July 2017

REPORT OF INDEPENDENT AUDITORS

To the Management of the Adaptation to Climate Change Project

Dear Sir,

We have audited the accompanying financial statements of the Adaptation to Climate Change Project (the "Project") financed from the Global Environmental Facility through the World Bank (GEF) Grant n° TF099869-ST which comprise the statement and sources and uses of funds, statement of designated account, statement of withdrawal schedules for the period between 1 January 2016 and 31 December 2016, and a summary of significant accounting policies and other explanatory notes. We have also audited the Project's compliance with conditions of the relevant Grant Agreement, the World Bank guidelines, laws and regulations of the Republic of Sao Tomé during the year ended 31 December 2016.

Management's Responsibility for the financial statements

Management of the Adaptation to Climate Change Project is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Section 5 of the accompanying financial statements. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management is also responsible for compliance with the relevant Grant Agreement, the World Bank guidelines, laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and on compliance based on our audit. We conducted our audit in accordance with International Standards on Auditing ("ISA") applicable to the audit of financial statements and to compliance auditing, with special reference to ISA 800 "The Independent Auditor's Report on Special Purpose Audit Engagements" and to relevant World Bank Guidelines. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and about whether the Project has complied with the conditions of the relevant agreements, guidelines, laws and regulations.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by the Management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion:

a) The accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Project and to the Special Account as of 31 December 2016 and the Project's related sources and uses of funds, movements in designated account and statement of expenditure for the period between 1 January 2016 and 31 December 2016, in accordance with the basis of accounting described in Section 5 to the accompanying financial statements; and

b) The Project was, in all material respects, in compliance with the conditions of the relevant Grant Agreements and the World Bank guidelines and laws and regulations of the Republic of Sao Tome during the year ended 31 December 2016. Nevertheless, we draw attention to the fact that the Project has not produced his statement of sources and uses of funds including for the latter a breakdown per components, categories and sub-categories as requested by the World Bank guidelines.

Théophile PEMENZI MFONZIE
Partner
Chartered Accountant
CEMAC License Number EC265

Francis NANA
Partner
Chartered Accountant
CEMAC License Number EC311
2. PRESENTATION OF THE CLIMATE CHANGE PROJECT

OVERVIEW OF THE PROJECT

The Democratic Republic of Sao Tome and Principe (STP) is an archipelago of two main islands and four islets in the Gulf of Guinea 350 km from the west coast of Africa. The country is one of the smallest nations on the African continent with a total area of 1,001 km² and a population of 166,000 inhabitants. Gross national income per capita of the country is 870 USD (eight hundred seventy dollars).

The Democratic Republic of Sao Tome and Principe is an archipelago of two main islands and four islets in the Gulf of Guinea 350 km from the west coast of Africa. The country is one of the smallest nations on the African continent with a total area of 1,001 km² and a population of 166,000 inhabitants. Gross national income per capita of the country is 870 USD (eight hundred seventy dollars).

The economy of Sao Tome and Principe is extremely fragile and was affected by the food crisis, energy and financial, which resulted in the soaring inflation and negatively affected household incomes, particularly the most vulnerable populations - especially Angolares fishermen crafts, who have been living in Sao Tome and Principe since 1540 and has long retained their special connection to the sea.

The limited production base of the nation has significantly increased the country's vulnerability to external shocks, which limits their ability to adapt. Given its small size, isolation, limited capacity to achieve sustainable development, the country has gained the status of a small island developing State (SIDS). Sao Tome and Principe is considered extremely vulnerable to climate change, climate variability and rising sea levels, both by the UN Convention on the regime of climate change (United Nations Framework Convention on climate change) - UNFCCC - and by the Intergovernmental Panel on climate change (IPCC).

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Sao Tome and Principe in 2007 launched the National Action Program for Adaptation to Climate Change (NAPA), which identifies 22 urgent and immediate priorities for climate change. Studies conducted during the preparation of the National Action Program for Adaptation to Climate Change (NAPA) highlighted that Sao Tome and Principe experienced the following phenomena: (i) increase in temperature, (ii) reduction of rainfall and subsequent decrease in the level of rivers and water supply, (iii) the death of fishermen and loss of fishing equipment due to increased fog, high winds and greater turbulence in the sea (abandonment of the traditional practice of navigation and safety at sea), (iv) the destruction of fishing vessels in ports and beaches due to heavy storms, (v) an increase in female poverty due to the loss of life of their husbands and their fishing equipment (vi) long dry periods which result in more favourable conditions for drought followed by torrential rains, leading to landslides, flooding and groundwater contamination (vii) increase in coastal erosion which leads to loss of housing and infrastructure and the consequent isolation of local communities and (viii) a decline in tourism.

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The project is fully compatible with the new program to support the poverty reduction (2011-2015) of the Government, which will support, among others, strengthening social cohesion and promoting integral human development. A key priority of this pillar is to preserve the natural heritage and strengthening coping mechanisms and mitigation of climate change. The project is also consistent with the rating of the Interim Strategy Note (ISN) of Sao Tome and Principe for EF2011-2012. ISN offers a selective and targeted support program to remove constraints to growth, based on two main pillars: (i) extensive accelerated and sustainable economic growth and strengthening Governance (II), public institutions and human capital. Pillar II, in particular, meet the challenges of employment growth and reduce poverty by focusing, among others, the strengthening of environmental protection and resilience to climate change for the benefit of the poor. It specifically identifies the challenges faced by fishermen and coastal communities, including coastal erosion, flooding and maritime security, which are the focus of the current project.

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This program is now integrated in the new government program called "Program to support poverty reduction" (2011-2015) that refers the strength of social cohesion and promotion of the human development. One of its main priorities is the preservation of natural heritage and reinforcement of the mechanisms to mitigate climate change.

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In this context, the government of Sao Tome and Principe, in conjunction with the World Bank, signed a grant agreement with the following objectives:
1st Component: Assessment of the needs and feasibility analysis of the Project

This component includes the carrying out of several technical, financial and social studies, sustainability and risk analysis to design and prepare the several components of the project, considering the following:

a) Assessment of risks associated with climate change and final selection of high-risk communities;
b) Design of an early warning system for maritime safety; and,
c) Geomorphology and study of the coastal adaptation.

2nd Component: Implementation of mechanisms to mitigate climate change effects and project management

Coastal early warning and maritime security

- Implementation of Coastal Early Warning System - through the acquisition and installation of early warning Systems and fortification of the interaction and coordination of the meteorological forecasts capacity of early warning Systems;
- Improvement of safety conditions for artisanal fishing boats - purchase and installation of equipment to enable increased security on ships as well as increase of rescue ability;
- Training of artisanal fishermen in matters of maritime safety; distribution of marine safety equipment to training target fishermen; and,
- Training of coastal communities to increase responsiveness to disasters of fishing communities

Coastal Protection for Vulnerable Communities

- Develop within vulnerable communities strategies for participatory development plans in the context of climate change;
- To promote the research and the engineering projects to reduce the risk of floods and landslides;
- Development of measures for protection of vulnerable communities through the funding of coastal adaptation activities of medium scale;
- Promotion of pilot small communities to develop activities for climate resilience;
- To supply technical assistance and training to promote the sharing and dissemination of lessons learned; and,
- Developing climate resilience in spatial planning and resource management.

Project Management

- Support the development of the project in terms of communication, reporting, monitoring and evaluation; and,
- Funding the operating costs of the project

PROJECT IMPLEMENTATION UNIT

The project implementation unit is made up of the key people as follow:

- Doctor Arlindo Carvalho (Coordinator)
- M. Jorge de Menezes (Procurement Manager)
- M. Joe Oliveira da Trindade (Finance Manager)
### 3. STATEMENT OF SOURCES AND USES OF FUNDS

<table>
<thead>
<tr>
<th>Note</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$</td>
<td>US$</td>
</tr>
<tr>
<td><strong>OPENING BALANCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD special account</td>
<td>583,478.34</td>
<td>278,533.07</td>
</tr>
<tr>
<td>STD special account</td>
<td>1.18</td>
<td>54.00</td>
</tr>
<tr>
<td>EUR special account</td>
<td>-</td>
<td>320,606.00</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td>583,479.52</td>
<td>599,193.07</td>
</tr>
<tr>
<td><strong>ADD: FUNDS RECEIVED</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World Bank replenishments</td>
<td>325,093.86</td>
<td>1,175,086.65</td>
</tr>
<tr>
<td>Direct payment</td>
<td>-</td>
<td>180,341.43</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td>325,093.86</td>
<td>1,355,428.08</td>
</tr>
<tr>
<td><strong>TOTAL SOURCE OF FUNDS</strong></td>
<td>908,573.38</td>
<td>1,954,621.15</td>
</tr>
<tr>
<td><strong>LESS: EXPENDITURE BY NATURE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td>79,723.71</td>
<td>537,410.52</td>
</tr>
<tr>
<td>Construction</td>
<td>213,909.57</td>
<td>628,679.34</td>
</tr>
<tr>
<td>Consulting fees</td>
<td>109,311.71</td>
<td>109,743.05</td>
</tr>
<tr>
<td>Operating costs</td>
<td>61,846.54</td>
<td>59,411.63</td>
</tr>
<tr>
<td>Training</td>
<td>26,349.82</td>
<td>33,305.88</td>
</tr>
<tr>
<td>Partnership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash compensation under Part B.2.(c) of the Project</td>
<td>2,257.51</td>
<td>2,827.21</td>
</tr>
<tr>
<td>Exchange difference</td>
<td>-</td>
<td>105.58</td>
</tr>
<tr>
<td>Sundry debtors</td>
<td>-</td>
<td>94.62</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td>493,293.28</td>
<td>1,371,141.63</td>
</tr>
<tr>
<td><strong>CLOSING BALANCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank USD special account</td>
<td>414,848.21</td>
<td>583,478.34</td>
</tr>
<tr>
<td>Cash at bank transit account</td>
<td>431.89</td>
<td>1.18</td>
</tr>
<tr>
<td>Cash at bank EUR special account</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub/total</strong></td>
<td>415,280.10</td>
<td>583,479.52</td>
</tr>
<tr>
<td><strong>TOTAL USES OF FUNDS</strong></td>
<td>908,573.38</td>
<td>1,954,621.15</td>
</tr>
</tbody>
</table>
4. RECONCILIATION OF THE USD DESIGNATED ACCOUNT

<table>
<thead>
<tr>
<th>USD special account</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>583,479.52</td>
</tr>
</tbody>
</table>

ADD: FUNDS RECEIVED
| World Bank replenishments | 325,093.86 |

DEDUCT:
| Eligible expense | 491,246.37 |
| Bank charges     | 2,046.91  |
| Eligible expenditure | 493,293.28 |

Closing balance | 415,280.10 |

5. COMMITMENTS ON FUNDS AVAILABLE AS AT 31 DECEMBER 2016

<table>
<thead>
<tr>
<th>SUPPLIERS OVERDUE BALANCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>HLB PREMUS (Financial Audit)</td>
</tr>
<tr>
<td>ANTONIO ABREU (Environmental Monitoring)</td>
</tr>
<tr>
<td>MARAPA (Project Training)</td>
</tr>
<tr>
<td>SIROCO (Safety Equipments)</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
6. ACCOUNTING POLICIES

A) Basis of Accounting

These special purpose financial statements are prepared in accordance with the International Public Sector Accounting Standard ("IPSAS") Financial Reporting under the Cash Basis of Accounting issued by the International Public Sector Accounting Standard Board ("IPSASB"), an independent standard-setting body within the International Federation of Accountants ("IFAC") and incorporate the following principal accounting policies, which have been consistently followed in all material respects and comply with the "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities" issued by the World Bank’s Financial Management Sector Board. Project Financing is recognised as a source of project funds when the cash is received. Project expenditure is recognised as a use of project funds when payment is made.

B) Period of accounts

These special purpose financial statements cover the period from 1st January 2016 to 31 December 2016.

C) Transactions and balances in foreign currencies

The Project is domiciled in the Republic of Sao Tomé where the local currency is the Dobras ("Db"). Because the majority of the Project's transactions are funded and expended in United States dollars and in accordance with the requirements of the World Bank, these special purpose financial statements are presented in United States dollars ("US$" or "USD") which is the reporting currency of the Project. Transactions in other currencies are treated as transactions in foreign currencies. Cash receipts and payments arising from transactions in a foreign currency are recorded in the Project's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of receipt and payment. Cash balances held in a foreign currency are reported using the closing rate, which is the spot exchange rate at the reporting date. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash receipts and payments. However, the effect of exchange rate changes on cash held in a foreign currency is reported in the statement of sources and uses of funds and other statements in order to reconcile cash at the beginning and the end of the period. These amounts are presented separately from cash receipts and payments and include the differences, if any, had those cash receipts and payments and balances been reported at end-of-period exchange rates.

D) Bank accounts

USD special bank account. The USD Special Account is a bank account with no 350012310002 opened and kept in Dollars of the United States of America (USD) by the Borrower with the BISTP (International Bank of Sao Tome and Principe). This is the account project or designated account into which the World Bank makes advances and replenishments.

STD special bank account. The STD special account designated as transit account is a bank account with no. 350012310001 open and kept in Dobras (STD) by the Borrower with the BISTP (International Bank of Sao Tome and Principe). It is use for cash payments in local currency.

EUR Special bank account. The EUR special account, designated as suspense account is a bank account with no. 350012310003 open in Euros (EUR) by the Borrower with the BISTP (International Bank of Sao Tome and Principe). The balance on this account was cleared in March 2015 to pay via letter of credit for imported equipments. Although still opened the account has not recorded any transaction in 2016.
7. NOTES TO THE FINANCIAL STATEMENTS

Note 1&2

The project received funding from the World Bank of US$325k in two instalments paid into the designated account. The first one of US$27.5k made on 23 June 2016 which represents the balance of the year 2015 allocation and the second transfer on 24 June 2016 of US$297.5k for the year 2016 allocation.

Note 3

Assets purchased include payments made to Midiatel Lda of US$44.5k on contract n°22/G/2016 for IT equipment, to HM Móveis of US$3.6k on contract n°23/G/2016 for office furniture, to Audimobil of US$15k under contract n°21/G/2015 for lanterns for maritime security, and Sirococ for US$10.4k for life saving equipment.

Note 4

Construction works relating to the component Coastal Protection for Vulnerable Communities have continued in 2016 with the payments totalling US$209k made to JAA CONSTRUÇÕES for the contract N° 03/W/2015 for coastal protection of Burra beach which started and was completed in 2016.

Note 5

Consulting fees mainly include monthly salaries of staff (US$3.7k/month), HLB Premus financial audit fees US$9k, Consulting fees of US$12.9k to José Bettencourt for project evaluation (contract C.02/2016), Consulting fees of US$5k to Aguiar & Pedronho for supervision of construction works, Consulting fees of US$8k to Olivio Diogo for project evaluation indicators, and US$2k to Antonio Abreu for environmental management plan.

Note 6

Operating costs mainly include salary of the project’s coordinator US$2.5k/month, travel costs of US$13.5k and miscellaneous expenses.

Note 7

Training costs include a payment of US$11.5k to MARAPA (in partnership with the project for training in artisanal fishing).