Accelerating Malawi's Economic Growth

Annual Report

2011

The Masauko Chipembere Highway in Blantyre is now the primary link between the two main suburbs of the city

VISION

To be the best agency and authority
in the management of the public road network

MISSION

To develop and maintain the designated public road network infrastructure investment in a cost effective manner with a view to provide an accessible, reliable, efficient, safe, sustainable and most economic transport system in Malawi.

CORE VALUES

In conducting its business the Roads Authority shall:

Be driven by the need to perform effectively, efficiently and economically in the construction and maintenance of roads in Malawi;

Ensure that all work is carried out according to acceptable design standards and specifications;

Conduct its business in an open, transparent, accountable and competitive manner;

Ensure optimum utilisation of local resources;

Ensure compliance with environmental and road safety regulations; and

Assure its managers are given a mandate to manage as partners to achieve its goals and hold them totally accountable for their actions.

ACRONYMS

ADB	African Development Bank
ANRP	Annual National Roads Programme
BADEA	Arab Bank for Economic Development in Africa
CEO	Chief Executive Officer
DoPD	Department of Planning and Design
DoC	Department of Construction
DoM	Department of Maintenance
DLG	Department of Local Government
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
EU	European Union
FYSBP	Five Year Strategic and Business Plan
HDM	Highway Design and Maintenance model
ICT	Information and Communication Technology
IDA	International Development Association
INSTAP	Institutional Support for Transport Public Sector Bodies
JICA	Japan International Cooperation Agency
KFAED	Kuwait Fund for Arab Economic Development
LA	Local Authority(s)
LAN	Local Area Network
M&E	Monitoring and Evaluation
MCCCI	Malawi Confederation of Chambers of Commerce and Industry
MDGs	Millennium Development Goals
MGDS	Malawi Growth and Development Strategy
MEPD	Ministry of Economic Planning and Development
MoF	Ministry of Finance
MoTPI	Ministry of Transport and Public Infrastructure
MPRS	Malawi Poverty Reduction Strategy
MRA	Malawi Revenue Authority
NCIC	National Construction Industry Council
NRSC	National Road Safety Council
NTP	National Transport Policy
OFID	OPEC Fund for International Development
RA	Roads Authority
RFA	Roads Fund Administration
RMI	Road Maintenance Initiative
RTOA	Road Transport Operators Association
SADC	Southern African Development Community
TAMA	Tobacco Association of Malawi
TR	Trunk Roads
UDR	Urban and District Roads
WB	World Bank

Roads Designations: **M** = Main road;
S = Secondary road; **T** = Tertiary road; and **D** = District road

The M1 Road crosses the South Rukuru Bridge

The Magnificent South Rukuru Bridge on the M1 in Rumphi District

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CHAIRMAN'S REPORT 2010/11

INTRODUCTION

It is with great pleasure and honour that I present the Annual Report for the period covering 1st July 2010 to 30th June 2011 which outlines the programmes that were planned and implemented, challenges encountered and progress made in fulfilling the mandate of the Roads Authority (RA).

The year under review was the fourth year of operations of the RA after the road sector reforms aimed at increasing efficiency and transparency in the management of the sector which were implemented and became effective on 1st July 2007. These reforms saw the creation of two institutions; RA being responsible for the management of the public road network and the Roads Fund Administration (RFA) which was given the responsibility of raising and accounting for road funds for construction, maintenance and rehabilitation.

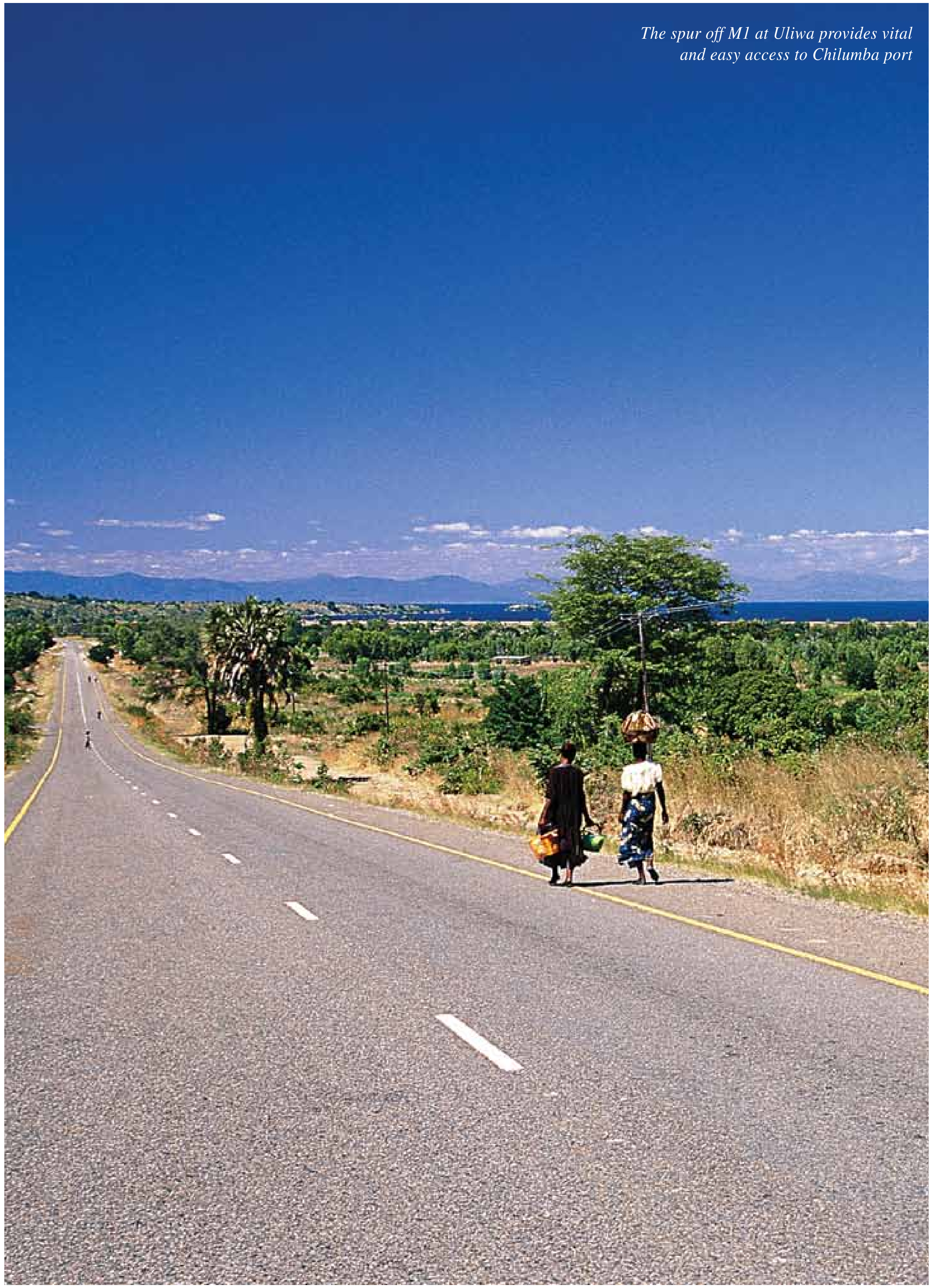
POLICY ENVIRONMENT

RA implements its programmes through short, medium and long term plans. The short term plan is the Annual National Roads Programme (ANRP) while the medium term plan is the Five Year Strategic and Business Plan (FYSBP). The ANRP is an extract of the FYSBP which has been developed in line with guidelines and prioritisation set out by Government in the Transport Sector Investment Programme (TSIP). The TSIP builds on achieving the objectives of the National Transport Policy (NTP). Furthermore, the NTP builds on the Malawi Growth and Development Strategy (MGDS) whose main objective is to create wealth through sustainable economic growth and infrastructure development as a means of achieving poverty reduction. This objective is expected to transform the country from being a predominantly importing and consuming economy to a predominantly manufacturing and exporting economy.

THE ANNUAL NATIONAL ROADS PROGRAMME

The main objective of the 2010/11 ANRP was to contribute to the achievement of the policy objectives stated in the RA FYSBP, as well as those in the NTP, TSIP and the MGDS, by developing road programmes that would ensure improved accessibility and mobility on the public road network. This was in line with Government's strategy on road infrastructure development as one of the main enabling factors in its strategy of economic development for the country.

I am pleased to report that the RA has made its contribution towards the attainment of the MGDS objective through implementation of its various programmes for road maintenance and development. Furthermore road users and the economy have benefited through reductions in transport costs brought about by improved road network condition.



The spur off M1 at Uliwa provides vital and easy access to Chilumba port

OVERVIEW OF THE IMPLEMENTATION OF ANRP

The ANRP consists of the Recurrent Programmes and Development Programmes and their respective budgets, which have been discussed in detail below.

Recurrent Programmes

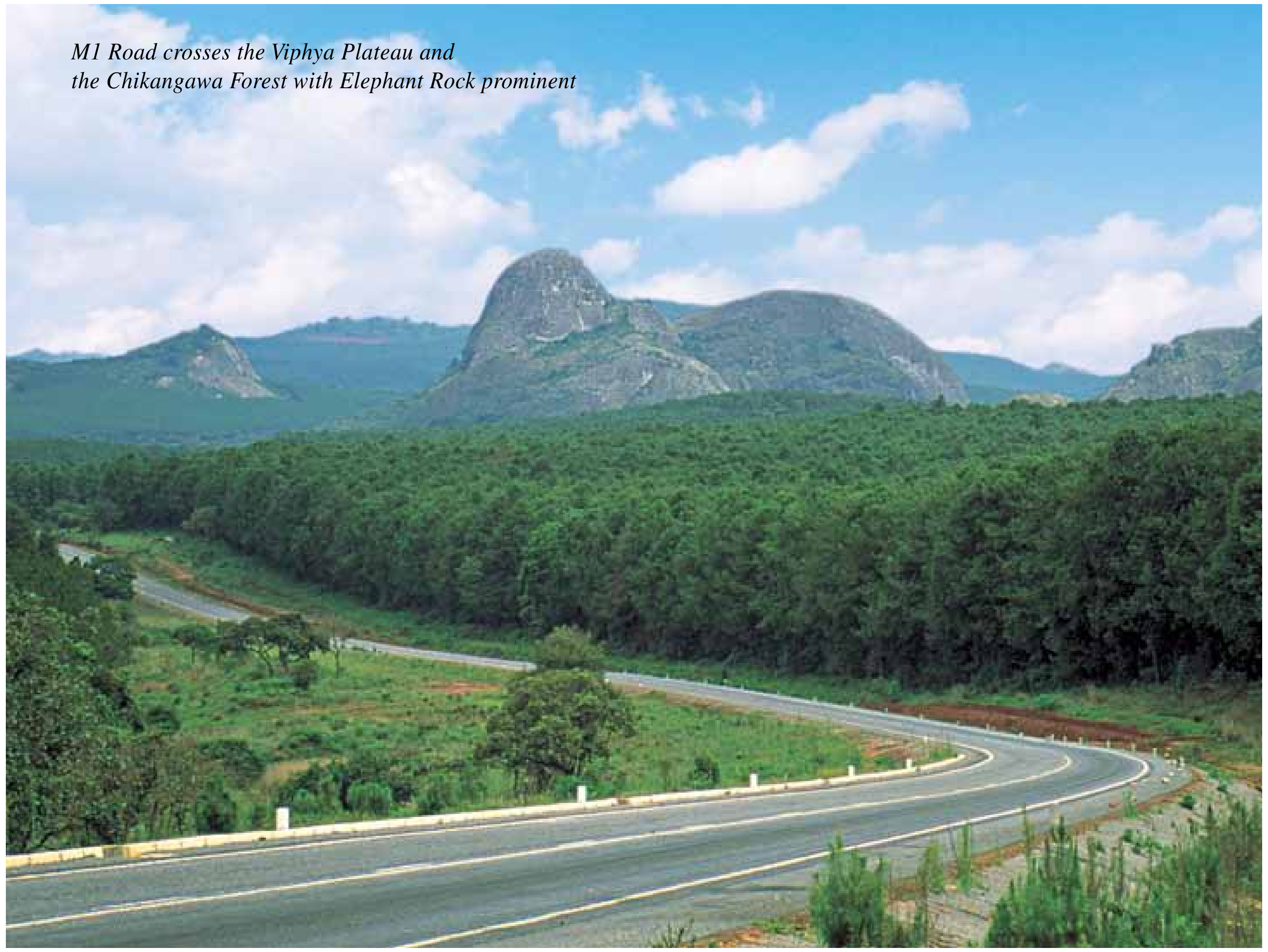
The Roads Authority's responsibility of maintaining all designated public roads in Malawi is achieved through planning and implementation of several recurrent road programmes which include routine road maintenance and planning and design services. I am happy to report that on overall, 85% of planned recurrent programme activities were achieved during the year under review.

This programme included routine maintenance which targeted almost the entire road network. The programme involved execution of mainly labour based maintenance activities that needed to be carried out once or several times per year so that the roads remain open at all times.

Other interventions included grading, reshaping, pothole patching, road markings, accident spot improvements, road signs replacement, and timber-decked bridges replacement with concrete, rehabilitation of washed away road sections, spot repairs and emergency works.

A new programme which targeted tracks and trails (community roads) was introduced in the year. Its primary objective was to improve accessibility at local level. The tracks and trails were selected using the bottom-up approach where the roads were first identified by individual District Councils.

Although community roads are a responsibility of Local Councils, the programme was carried out jointly with the RA in order to build the capacity of the Local Councils.


M1 Road crosses the Viphya Plateau and the Chikangawa Forest with Elephant Rock prominent

Development Programmes

RA's responsibility of developing the road network was achieved through planning and implementation of several programmes which included periodic maintenance, rehabilitation, construction and upgrading of selected designated roads (in the country) through the development budget funded by Malawi Government and/or Development Partners.

The aim of these programmes is to improve mobility, accessibility and preservation of the road asset. Generally, development projects are carried out over a period of more than one financial year as most projects have implementation periods covering between two to four years. Thus most of the projects that were under implementation in the 2010/11 financial year were ongoing from previous fiscal years. I am pleased to report that under construction and upgrading programmes, some of the notable projects executed with full Government funding included:-

- **Goliati - Chiperoni (S150) including Mulanje Mission Hospital and Thyolo boma access roads**
- **Bunda - Mitundu (S125)**
- **Ekwendeni - Ezondweni - Mtwalo(Mzimba) (S107/T309)**
- **Nsanje - Bangula (M1)**
- **Chiringa - Miseu Folo - Chiradzulu**
- **Lumbadzi- Dowa - Chezi**

In the year under review, feasibility studies and detailed engineering designs and tender documentation for projects were also carried out under the development programme. These studies and detailed engineering designs are necessary preparatory activities in readiness for rehabilitation, upgrading and construction, once funding is identified. Some of the projects that were carried out are :

- **Lilongwe Old Airport – Kasiya - Santhe (S117/T342)**
- **Chiringa - Muloza (T415)**
- **Selected Lilongwe and Blantyre roads**
- **Thabwa - Chitseko - Seven (East Bank) (S152)**
- **Chikhwawa - Chapananga -Mwanza (S136)**

ACHIEVEMENTS

Allow me to present some of the notable achievements realised in the 2010/11 Financial Year.

- Overall 85% of the planned activities under recurrent maintenance programmes were carried out
- Completion of the dualisation of the Presidential Way (1.2km) by widening of the road section between Capital Hotel roundabout and Kenyatta drive junction
- Completion of the upgrading of the Mzimba Street (1.8km) to bitumen standard in the City of Lilongwe
- Completion of the upgrading of the Bunda - Mitundu Road (9km) to bitumen standard
- Completion of the upgrading of the Nsanje - Bangula Road (50km) to bitumen standard. The road connects Blantyre to the Nsanje World Inland Port on the Shire Zambezi Waterway
- Completion of rehabilitation of special Backlog Maintenance of roads in the cities of Lilongwe, Blantyre and Zomba (67km)
- Rehabilitation of Chiweta - Mlowe, Chitimba - Livingstonia, Mzuzu – Bula -Usisya, Kasitu – Lupashe - Kakwale, Ntaja - Nayuchi and Chikoko Bay roads
- Completion of construction of the Goliati - Chiperoni road (20.1km) to bitumen standard. This included 16km for Goliati - Chiperoni, 3.1km for Mulanje Mission Hospital road and 1km for Thyolo Market road
- Completion of construction and upgrading of a number of reinforced concrete bridges.

CHALLENGES

The road sub-sector faced a number of challenges that negatively impacted on the delivery of the 2010/11 fiscal year's agreed performance indicators. These included inadequate funding, capacity of the construction industry, supply of imported construction resources, support services and price escalation among others as highlighted below.

ROADS AUTHORITY ANNUAL REPORT 2011

Chambo Bridge on the new Karonga – Chitipa road showing the original and very vulnerable low level bridge on the right below

Inadequate funding
Over the years, budget allocation for road infrastructure programmes has never been sufficient to cover even the basic and immediate requirements on the ground. During the budgeting process, the RA submitted to Government budget proposals depending on achievable maintenance and development needs of the road network for the year under consideration.

It is a common trend that such budget proposals are always scaled down. The 2010/11 fiscal year was no exception.

Inadequate capacity of the construction industry
The local construction industry continued to face problems in terms of equipment, qualified and experienced engineers and technicians for design, supervision and implementation of road infrastructure projects. Furthermore, small to medium contractors who are crucial in the implementation of most of the maintenance programmes seemed to lack capacity for raising working capital.

Inadequate supply of imported construction resources
Performance on major road projects suffered from inadequate supply of construction resources such as fuel, cement, bitumen and other imported products. This had a huge negative impact on most of the projects during the year under review.

Inadequate support services
The response of some service providers and support institutions such as ESCOM, the Water Boards, Councils etc to relocate their services was slow in most cases. This led to considerable delay in the implementation of a number of projects.

Price escalations
Performance targets for planned works were in some cases not fully attained due to price escalations brought about by unstable macro-economic conditions such as inflation, currency depreciation among others which were prevalent during the year. The effect of this was lower coverage of planned targets.

Inadequate Institutional Capacity of Implementing Entities
There are capacity challenges affecting performance of various support institutions due to inadequate trained and experienced staff; RA office space, equipment, supervision vehicles and conditions of service are some of the challenges.

VOTE OF THANKS

In conclusion, let me express my gratitude to the Malawi Government for its continuous support. I would also like to thank our co-operating partners which include: European Union, Government of Japan, the Government of the Peoples' Republic of China, the African Development Bank, Arab Bank for Economic Development, Kuwait Fund, OPEC Fund for International Development, Abu Dhabi Fund, Saudi Fund for International Development, the World Bank and other financial institutions that have, in different ways, assisted the Government in providing the technical and financial resources which have enabled the Authority to successfully carry out its road maintenance programmes and development projects.

Let me also take this opportunity to sincerely thank the Ministry of Transport and Public Infrastructure, relevant Government officials and all our stakeholders for the massive support given to us during the year under review.

Special thanks go to the various road users that are generously contributing to the Roads Fund through fuel levies on petroleum products which have enabled the authority to effectively develop and maintain the nation's public road network to its current level.

To my fellow board members and management and staff of the authority, I wish to congratulate you all for your unflagging efforts to deliver results, even under the serious impacts of the global economic downturn, to ensure that the authority achieves its mandate.

Inkosi Ya Makhosi M'mbelwa IV
CHAIRMAN

Four views of the construction of the newly completed Karonga - Chitipa road was completed in 2012

BOARD OF DIRECTORS

Sitting from left to right

Mrs H Magombo *representing the interests of the general public*
Engineer C Kumangirana *PS for Ministry of Transport and Public Works*
The late Inkosi ya Makhosi M'mbelwa IV *Chairman of the Board, representing the interests of the general public*
Mrs C Mtonda *representing the interests of the general public*
Senior Chief Tsabango *representing the interests of the general public*

Standing from left to right

Mrs E Lwara *representing Statutory Corporations*
Mr C Nakanga *representing Local Government Authorities*
Mr C Thupi *representing the National Road Safety Council*
Engineer P Kulemeka *CEO for the Roads Authority*
Mrs A Msiska *Director of Finance and Administration for Roads Authority*
Engineer W Chirwa *representing the Engineering profession*

CHIEF EXECUTIVE OFFICER'S REPORT

Roads continue to be the country's most dominant mode of transport and handle over 99% of domestic passenger traffic, more than 70% of internal freight traffic and 90% of international freight and passenger traffic. It therefore gives me pleasure to report to you progress made in the management of the country's entire road network in the 2010/11 fiscal year.

I am particularly excited because this year saw the launch of a new programme under recurrent programmes, i.e. the introduction of community roads maintenance programme. This programme, which targeted tracks and trails was aimed at improving accessibility at very local level, mostly in rural areas. The tracks and trails were identified using community participation where the roads were identified, analysed, prioritised and selected by individual District Councils.

In general, the Authority continued to build on successes of previous years in implementing various road programmes under the Annual National Roads Programme (ANRP) which is a comprehensive plan of action for construction, rehabilitation and maintenance of the national road network. The prime objective of the 2010/11 ANRP was therefore to ensure accessibility and improve mobility on the public road network.

Main components of the ANRP include:

- **Road Maintenance (Recurrent) Programme with financing from the Roads Fund; and**
- **Development Programmes with funding from Malawi government and various development partners.**

On recurrent programmes, the Authority successfully implemented MK7.5 billion worth of projects while on development programmes, MK23.5 billion of road works were carried out.

RECURRENT PROGRAMMES

The Roads Authority implements several recurrent road programmes, under road maintenance and planning and design services, in fulfilling its responsibility of maintaining all designated public roads in the country. In 2010/11 overall 85% of planned recurrent activities were achieved.

Routine Maintenance

This programme targeted almost the entire road network. A total of MK1,152.9 million was spent out of which MK651.61 million was for 2010/11 projects and MK501.29 million for projects carried over from the 2009/10 financial year. The programme involved execution of mainly labour-based maintenance activities, needed once or even several times per year so that the roads remain open at all times.

The emphasis was to open blocked drainage structures, minor repairs of road sections and grass cutting in order to sustain the integrity and functionality of the road network. Overall performance rate was at 87%.

Pothole Patching

This programme targeted paved roads to ensure safety to road users and also to protect pavement layers from the effects of water ingress. Implementation of this programme was 95% successful. Funds used amounted to MK745.9 million of which MK570.48 million was for 2010/11 projects and MK175.42 million carried-over projects from the 2009/10 financial year.

Road Markings and Signs Replacement

These programmes were aimed at enhancing safety by re-marking of white centre lines and yellow lines on the edges of the roads and replacing road signs which were vandalised along major roads. The programme cost was MK313.7 million.

Accident Spots Improvement

MK34 million was spent during the year 2010/11 for the improvement of targeted accident-prone areas through construction of speed calming structures such as rumble strips and speed humps. 132% of the planned activities were achieved.

Timber Bridge Replacement with concrete

This programme aimed at replacing some timber deck bridges with reinforced concrete deck bridges.

Rehabilitation of Roads

This is a continuous programme aimed at clearing the backlog of periodic maintenance and rehabilitation activities on the paved roads in the major cities of Blantyre, Lilongwe and Zomba.

Similar projects were completed in Mzuzu city in the previous year. These activities were carried out at a total cost of MK2.8 million. 94% of the planned activities was achieved. This programme also included sectional rehabilitation of rural earth roads.

Emergency Works

This programme targeted works that were urgent in nature. These, among others, included reinstatement of washed away road sections and installation of pipe culverts, launching of bailey bridges and repairs to timber bridges.

Spot Repairs

This programme aimed at drainage cleaning and opening, spot carriageway reshaping and grading on unpaved roads, filling potholes and gullies on unpaved roads, repair of drainage structures, removal of foreign materials from road carriageways, spot trimming and filling of shoulders on paved roads and planting of erosion control vegetation.

Community Roads

This programme targeted tracks and trails (community roads). Its primary goal was to improve accessibility at local level. The tracks and trails were identified using the bottom-up approach where identification was by individual District Councils.

Under the same period, Supervision and Planning and Design services were allocated MK624.3 million? which saw completion of feasibility studies and detailed engineering designs for a number of roads including Lirangwe -Chingale - Machinga (S139/T401), Mtangatanga turn off - Mzarangwe (S107), and Kaphatenga – Nkhotakota - Dwangwa (M5).

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DEVELOPMENT PROGRAMMES

Development programmes which were carried out during the year included periodic maintenance, rehabilitation, construction and upgrading of designated roads in the country through development budgets funded by the Malawi Government and/or development partners.

Construction and Upgrading

The activities under this programme included upgrading of earth roads to bitumen standard and construction of new bridges.

Under this programme, various projects were executed. Some of them are as listed below:

- **Mzimba - Mzarangwe (M22),** funded by the Malawi Government
- **Lumbadzi- Dowa - Chezi (M7/M16)** including St Gabriel Hospital access road (Namitete), funded by the Malawi Government
- **Karonga - Chitipa road (M26),** funded by the Peoples' Republic of China
- A 74m long new **bridge across the South Rukuru river** on the M1 Road in Rumphi district, funded by the Government of Japan
- **Mchinji - Kawere road (S118),** funded by the European Union

Periodic Maintenance and Rehabilitation

Activities under this programme included resealing and reconstruction of failed sections of the paved road network.

- Works were executed on the Game Reserve section of the **Msulira - Nkhotakota road (M18)** under Malawi Government funding
- Rehabilitation and resealing projects on **Lilongwe-Nsipe (M1), Nchalo-Bangula (M1),** funded by the European Union
- Periodic maintenance of **Chikhwawa - Nchalo** also funded by European Union

Supervision, Feasibility Studies and Design

Supervision, economic feasibility studies and designs were carried out for a number of projects including:

- **Lilongwe Old Airport - Kasiya - Santhe (S117/T342)**
- **Thabwa – Chitseko - Seven (East Bank) (S152)**
- **Chikhwawa - Chapananga - Mwanza (S136)**

The African Development Bank also funded economic feasibility studies and designs on the Lilongwe City Western Bypass, Ntcheu –Tsangano - Mwanza and Blantyre - Zomba roads.

CHALLENGES

The Authority's main challenge still remains the very high expectations from the public notwithstanding the highly challenging economic environment. Others challenges include:

- There is generally a lack of capacity in the local construction industry in terms of the number of qualified firms and personnel (especially at technician level) and inadequate financial management skills. In particular there are very few contractors in the unlimited category i.e. capable of undertaking contracts above MK500 million. Furthermore, there is inadequate construction equipment in the country

- There is shortage of qualified staff within the Roads Authority to respond to the increasing demand on roads works activities

- Inadequate suitable local construction materials such as natural gravel, hence costly long haulage distances to transport to site. This material is a major component in road construction as it forms the bulk of earthworks

- Since most of the construction materials are imported, the fluctuating prices of such materials are affecting the costs of road works the result of which is that the initial value of contracts are in most cases exceeded

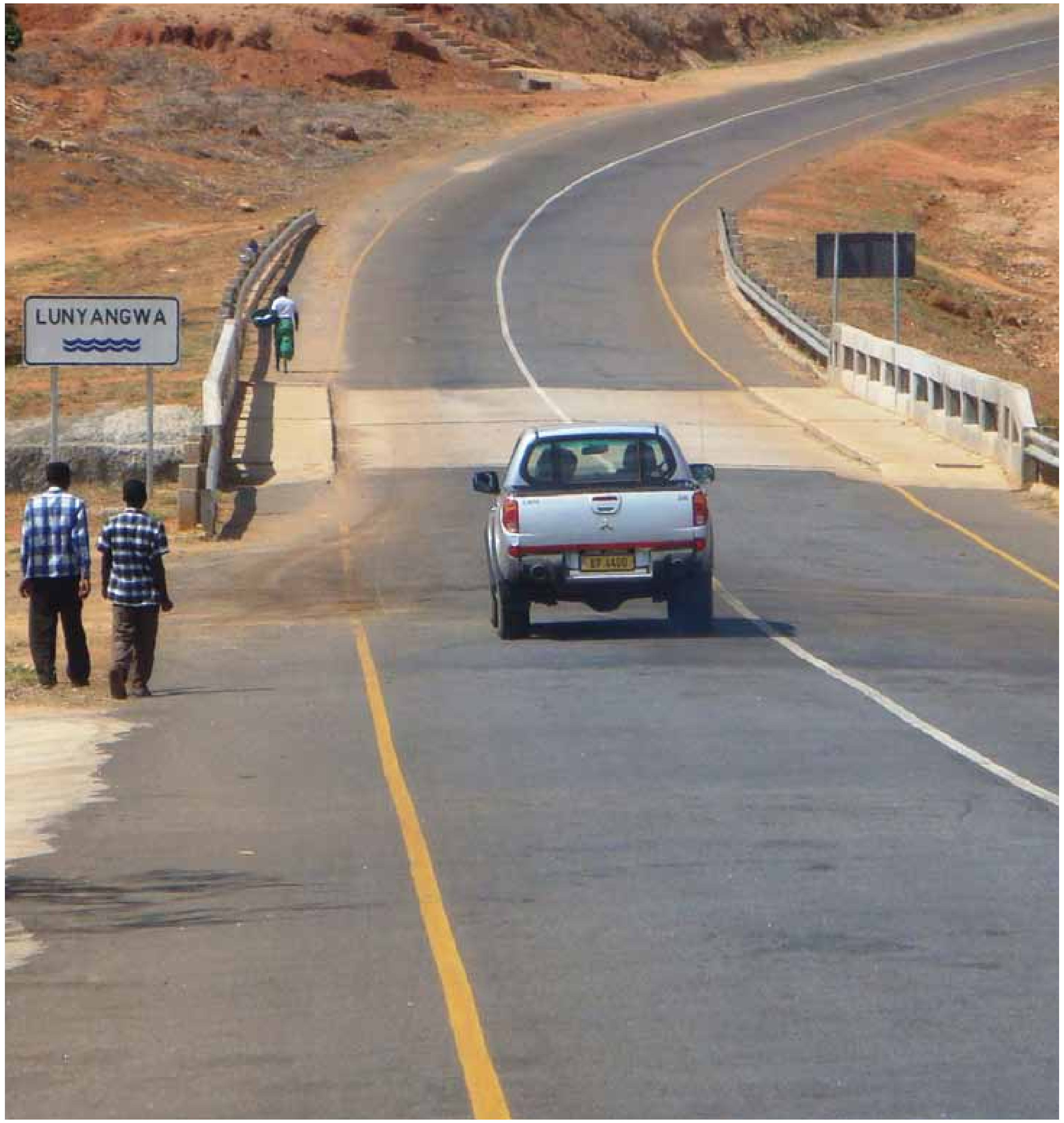
- Inadequate funding and cash flow for programmes resulting in delayed payments to contractors, hence increased costs due to interest claims charged by the contractors

- There is frequent shortage of diesel supply in the country, leading to delays in the progress of works which are equipment intensive

A straight section of the new Mzimba Road (M9)

- There is inadequate foreign exchange for purchase of the imported construction materials, spare parts, and diesel again affecting the progress of work
- Delayed compensation payments which affect the commencement of projects
- Some donor-funded projects were suspended during the year due to lack of additional funding, while others on new construction did not start due to delays in the attainment of the donor conditions precedent to first disbursement of funds
- There is inadequate resources to run the secretariat which include lack of office equipment, vehicle and office space for the Head Office as well as Regional Offices where the rental of private office premises results in huge operating expenses

Lunyangwa Bridge on the newly constructed Ekwendeni - Ezondweni road in Mzimba District



CONCLUSION AND VOTE OF THANKS

The unfolding of the global economic crisis and the pressure it has put on sources of finance threatens to hamper our ability to meet set targets. However, RA will remain positive in fulfilling its mandate of ensuring accessibility to all parts of the country. Development programmes will also continue so as to finalise most of the major projects currently in progress.

I wish therefore to take this opportunity to thank members of the Board of Directors, for the guidance given to me during this year. The support rendered to me by the Honourable Minister for Transport and Public Infrastructure and all officials at the Ministry is also very much appreciated. It assisted the organisation to achieve most of its objectives during the year.

Let me also thank my colleagues for the team spirit displayed throughout the year. We could not have achieved what we have without this spirit.

Finally, my votes of thanks go to our co-operating partners for their financial and technical support, our stakeholders in the construction industry for assisting us in one way or another to achieve our objectives and the general public whom we serve, for all the feedback, comments and suggestions which have helped us to keep improving our service delivery.

Eng. Paul J. Kulemeka
Chief Executive Officer

Different sections of the new Ekwendeni - Ezondweni road in Mzimba District

ORGANISATIONAL SETUP

Mandate of Roads Authority

The Roads Authority was established in 2006 through an Act of Parliament. Under this setup, the Minister of Transport and Public Infrastructure represents the Government as the ultimate owner of the national road network. The RA comes under the Minister, and comprises a Board with a Secretariat. A Board of Directors composed of eleven members representing the private and public sectors governs the Roads Authority. The Board of Directors defines the overall policy of the Authority and sets the general conditions for its operations.

The main objectives of the RA are to:

a) Ensure that public roads are constructed, maintained or rehabilitated at all times;

b) Advise the Minister and, where appropriate, the Minister responsible for Local Government on the preparation and the efficient and effective implementation of the annual national roads programme referred to in section 22 of the Roads Authority Act.

Board of Directors

A Board of Directors composed of eleven members representing the private and public sectors governs the Roads Authority. The Board defines the overall policy of the Authority and sets the general conditions for its operations. The members are from the Road Transport Operators' Association, the Bus and Taxi Operators' Association, the National Road Safety Council, a representative of the Local Government Association, two from the National Construction Industry Council and two members of the public, representing the general interests of the public. The Secretary for Transport and Public Infrastructure and the Secretary for Local Government and Rural Development are *ex-officio* members. Each board member, other than the *ex-officio* members, has a three-year term. The Board of Directors elect a Chairman and Vice Chairman from amongst their number.

Functions and Responsibilities of the Board of Directors

The RA Board has the following functions and responsibilities:

- Advise the Minister on the construction, maintenance and rehabilitation of public roads, and the prohibition of any act that may lead to damage to public works
- Monitor the operations or activities undertaken by any road agency in the construction, maintenance and rehabilitation of public roads
- Advise the Minister on research and studies necessary for promoting the construction, maintenance and rehabilitation of public roads
- Ensure that all tenders for the construction, maintenance and rehabilitation of public roads are conducted through open and competitive bidding in a transparent and fair manner
- Advise the Minister on the specifications, design standards and classification of public roads
- Advise the Minister on the development and training of human resources required for the construction, maintenance and rehabilitation of public roads
- Advise the roads agencies on the construction, maintenance and rehabilitation of the different classes of public roads under their responsibility
- Liaise with the road traffic and road safety authorities on matters relating to safety of persons and animals on public roads
- Advise the Minister on appropriate road signs
- Recommend to the Minister and the Minister responsible for land matters the reservation of land for public roads and for diversions and detours of public roads under construction, maintenance or rehabilitation
- Prescribe measures for preventing damage however caused by any person to any public road or any part thereof and for recovering, in full or any part thereof and for recovering, in full or in part, the cost of repairing the damage from such person or his insurer
- Advise the road traffic and road safety authorities and road agencies, as the case may be, on appropriate and effective methods of enforcing road traffic legislation for the purposes of preventing damage to public roads and promoting road safety
- Ensure that roads agencies carry out effective monitoring of the condition of the public roads for the purposes of timely implementation of road construction, maintenance and rehabilitation programmes
- Publish periodic reports of the activities and achievements of the authority and make the reports available to the general public
- Do all such things as are necessary for achieving the purposes for which the Authority is established.

CORPORATE GOVERNANCE

RA is committed to the principles of Corporate Governance which emphasise understanding and respecting of specific roles of the Board of Directors and management, risk management and internal controls, prevention of fraud and corruption, value for money, transparency, accountability and integrity.

RA adhered to a culture of good governance in the achievement of its mandate through the following:

a) Existence of Board of Directors and Committees
The RA Board operates through two committees with clear Terms of References (ToR). The Committees are Technical Advisory Committee (TAC) and Finance, Administration and Audit Committee (FAAC)

b) Existence of Internal Audit Unit
There is an Internal Audit Unit which reports directly to the FAAC

c) Internal Control Systems
RA operates through strong internal control systems and procedures which are reviewed and audited frequently to ensure their functionality

d) Risk Management
RA has a Risk Management Plan, updated annually

e) Code of Ethics
The RA has a code of ethics which outlines guidelines on the expected standards of behaviour

f) Financial Statements
The Authority prepares Financial Statements in compliance with International Financial Reporting Standards (IFRS) which are audited by external auditors under the supervision of Auditor General. Several other audits took place during the year in accordance with donor requirements.

A board meeting in session

CORPORATE PROFILE

The Board delegates its authority on day-to-day running of the institution to the Chief Executive Officer. The RA has four key departments; Planning and Design which is responsible for the development of short-term and long-term road programmes; Construction which is responsible for the management of periodic maintenance, rehabilitation, upgrading and new road construction projects; Maintenance which is responsible for the day to day management of maintenance activities and Finance and Administration which is responsible for the general administration, human resources and financial management. Other cross-cutting functions such as environmental and social management, procurement, information and communications technology, internal audit and public relations complement day-to-day operations. Further to this, the Authority has three regional offices which are primarily project implementing arms of the maintenance activities.

ADMINISTRATIVE AND HUMAN RESOURCES ESTABLISHMENT

SECRETARIAT

Staff Establishment

The Secretariat has a staff establishment of 102 as outlined below;

Staff establishment for Head Office

Grade	POSITION	Establishment	M	F
G1	Chief Executive Officer	1	1	0
G2	Departmental Directors	4	3	1
G3	Managers	5	4	1
G4	Specialists	7	7	0
G5	Professional /Graduate Officers	14	11	1
G6	Supervisory Staff	4	2	2
G7	Secretaries	5	0	5
G8	Clerks	6	3	3
G9	Drivers	6	6	0
G10	Office Assistants & Guards	5	3	2
	TOTAL HEAD OFFICE	57	42	15

Staff Establishment for the regional offices

Grade	POSITION	Establishment	M	F
G4	Regional Engineer	3	3	0
G5	Maintenance Engineers	7	5	2
G6	Road Inspectors	12	12	0
G7	Administrative Assistants	3	0	3
G9	Drivers	12	12	0
G10	Office Assistants & Guards	8	6	2
	TOTAL REGION	45	38	7

Staff Training and Development

The Authority believes in the development of its personnel to meet performance and growth objectives. During the year it continued to develop its human capital in the critical areas of engineering, environmental management, policy formulation, information technology, financial management and people management.

During the year, the Authority received financial support for training from development partners which helped three regional engineers to acquire training under the INSTAP project, funded by the EU, to enhance their people management and administrative skills. Two engineers and the transport economist were during the year sent to Japan under JICA sponsorship to attend a short course in road planning and management.

Organisational Review

Following the separation of functions from the National Roads Authority into Roads Authority and Roads Fund Administration in 2007 and also the increase in the activities in the roads Industry, Roads Authority procured consultancy services to review the organisation's structure and carry out a job evaluation and grading exercise. This was with the intention of redesigning and implementing a structure befitting a modern road construction and maintenance organisation that is well positioned to face the challenges of a rapidly changing economic environment. The recommendations of the study will be implemented in the 2011 - 12 Financial Year.

THE MALAWI ROAD NETWORK

The Roads Authority (RA) is responsible for construction, rehabilitation and maintenance of the public road network, which is classified into five categories; main roads, secondary roads, tertiary roads, urban roads and district roads. The Public Roads Act of 1962, the Local Government Act enacted in 1998 and the Urban (Public and Private Streets) Act of 1956 define the five categories of roads as follows:

- **Main roads:** Inter-territorial roads outside cities or towns unilaterally designated by Government providing a high degree of mobility connecting provincial capitals and/or serving as international corridors;
- **Secondary roads:** Roads outside cities or towns unilaterally designated by government providing a high degree of mobility, linking main centres of population and production and connecting to the main road network;
- **Tertiary roads:** Roads outside cities or towns unilaterally designated by Government linking collector roads to arterial roads accommodating the shorter trips and feeding the arterial road network;
- **District roads:** Roads outside cities or towns designated by Government after consultation with the District Authorities providing intermediate level of service connecting local centres of population and linking districts, local centres of population and developed areas with the principal arterial system;
- **Urban roads:** Any other road in an urban area other than a designated road including arterial and collector roads crossing city boundaries. Main function is provision of accessibility over relatively short trip lengths at low speeds and providing services to smaller communities.

In functional terms the main, secondary, and tertiary roads effectively make up the country's primary road network, with district and other undesignated roads acting as a feeder system to the primary network. Of the primary network, the North - South portion on both the plateau and the lakeshore is paved providing high quality, all-weather road surfaces. The East to West trunk roads have also been improved to provide better services to communities, linking them to urban centres, where most of the roads are paved. The district roads, which are normally of earth standard, have also been improved and provide access at local level.

Road Network Coverage

The road network is composed of 15,451km of which about 26% are paved. The rest of the road network (74%) is of earth/gravel surface. Roads are the country's most dominant mode of transport, handling more than 70% of internal freight traffic and 99% of passenger traffic. Studies carried out in 2005 have identified about 10,000km of undesignated road network serving rural communities.

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The road transport is also important for international trade as it handles more than 90% of freight and passenger traffic. For detailed road network classification see table 3.1 below.

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Table 3.1: Malawi Road Network (June 2010)

Road Class	Pavement Type: Paved km	Paved % share	Unpaved km	Unpaved % share	Total km	Total % share
Main	2,809	70	548	3%	3,357	13%
Secondary	442	10	2,683	13%	3,125	13%
Tertiary	44	1	4,077	20%	4,121	17%
District	8	0	3,492	14	3,500	14%
Urban	770	19	578	3%	1,348	5%
TOTAL	4,073	100	11,378	55%	15,451	62%
Undesignated Community Roads		-	9,478	45%	9,478	38%
Total Road Network	4,073	100	20,856	100	24,929	100

Source: RA Road Data Management System

Road Condition

The condition of the road network is such that for paved roads 60 percent, 33 percent, and 7 percent are in good, fair and poor conditions, respectively. On the other hand, 48 percent, 26 percent and 26 percent of unpaved roads are in good, fair and poor condition respectively. Thus the total network condition is 33% good, 38% fair and 29% poor.

Table 3.2: Road Condition 2010

Condition	Paved km	Paved %	Unpaved km	Unpaved %	Total km	Total %
Good	2,426	60	5,000	44	7,426	48
Fair	1,361	33	2,654	23	4,015	26
Poor	286	7	3,724	33	4,010	26
Total	4,073	100	11,378	100	15,451	100

Source: Roads Authority

MANAGEMENT OF THE ROADS NETWORK

As stated in the RA Act number 3 of 2006, the RA is responsible for construction, rehabilitation and maintenance of public roads; and has also responsibility to advise the Minister responsible for roads and, where appropriate, the Minister responsible for Local Government on the preparation and efficient and effective implementation of the annual national roads programme referred to in section 22 of the Roads Act. However, the Local Government Act of 1998 gives responsibility for provision and maintenance of transport infrastructure to the local authorities within the areas of their jurisdiction. On the other hand funding for road programmes is through the Roads Fund which has been set up and administered by the Roads Fund Administration as per RFA Act no. 4 of 2010. These responsibilities are summarised in the Table 4.1 below.

Table 4.1: Management Responsibility for Road Network

Road Class	Km current classification	Km reclassified (un-gazetted)	Organisation responsible for road management	Source of Funding
Main	3,357	4,004	RA	Roads Fund
Secondary	3,125	4,249	RA	Roads Fund
Tertiary	4,121	0	RA	Roads Fund
District	3,500	8,085	RA/ LA	Roads Fund /LA
Urban	1,348	1,580	RA/LA	Roads Fund /LA
Community	0	7,019	LA/ Communities	RF/LA/Donors
TOTAL	15,451	24,929		

It may be pointed out that, as a matter of policy and being practical with the realities on the ground, the responsibility for the Public Road network management currently rests with the Roads Authority with funding from the Roads Funds, Central Government and the donor community. This is so because of a number of factors including but not limited to the lack of capacity for the Ministry of Local Government and Rural Development, and the Local Authorities (LA), inadequate funding for road maintenance, rehabilitation, and construction of new roads, poor organisational structures to handle road management systems. However, efforts are in hand to build the capacity of the Local Assemblies through various donor- and government-funded programmes which are aimed at recruiting qualified technical personnel to take up management positions in the Local Assemblies, procurement of some maintenance equipment for minor works too small to be outsourced from the private sector and broadening the financial base to generate, on a sustainable basis, financial resources for the LA.

BUSINESS AREAS

The main business areas for the Roads Authority consist of the following: Planning and Design Services, Construction, Rehabilitation and Upgrading of roads from earth to paved standard, Procurement and Routine Maintenance. These business areas are supported by Finance, Administration and Human resource services and ICT.

PLANNING AND DESIGN PROGRAMMES

Specific Objectives

The Planning and Design programmes of RA consist of:

- Monitoring road infrastructure network through collection and analysis of road network inventory, condition and traffic data
- Planning and implementation of road infrastructure studies and engineering designs
- Co-ordinating and developing of road infrastructure network development and maintenance plans (short, medium and long term)
- Designing and implementing engineering road infrastructure traffic management measures for improved traffic safety and flow
- Facilitating road infrastructure projects' compliance with prevailing social and environmental regulations

Planned Programmes

The programmes were initially allocated MK400 million under the recurrent budget. This allocation was however revised to MK308 million during the mid-year review process. The revision was in line with absorption levels of ongoing projects at that time. However, as at the end of the financial year, MK336 million worth of outputs on the ongoing contracts was processed representing an 84% utilisation level against the original budget at 9% over-commitment on the revised amount.

The programmes also accessed resources under development budget for various road infrastructure design projects under which a total certification of MK145 million was made during the year.

Summary of Main Activities Executed

With funds from Roads Fund Administration, Government of Malawi and development partners, the following are the main activities executed during the year under the Planning and Design programmes. These activities were divided into recurrent and development programmes.

Activities carried out under Recurrent Programme

The main activities carried out with financing from the recurrent budget included the following:

- Installation of Road Reserve Markers aimed at enhancing public understanding on the limits of road reserves in order to lessen cases of ignorant developments along the reserves of the roads listed below. As may be noted, the programme has initially targeted main paved roads. Depending on the success of this phase, the intention is to eventually extend it to the rest of the designated road network. The works were carried out on the following road sections:
- Blantyre - Zalewa (M001);
- Zalewa - Chingeni (M00);
- Zalewa - Mwanza (M006);
- Mtiti - Kasungu (M001);
- Lilongwe - Mtiti (M001);
- Lilongwe - Linthipe (M001);
- Linthipe - Masasa (M001);

- Masasa - Biriwiri (M001);
- Biriwiri - Chingeni (M001);
- Lilongwe - Namitete (M012);
- Namitete - Mchinji (M012);
- Mzuzu - Bwengu (M001);
- Bwengu - Chiweta (M001);
- Installation of kilometre marker posts on most of the paved trunk road network aimed at equipping road users with distance information to various destinations along the road corridors listed below. The programme initially targeted main paved roads. However, the overall intention is to eventually extend this activity to the rest of the designated road network. These were carried out on the following road sections:
- Chikhwawa - Blantyre - Chingeni (M1);
- Zalewa - Mwanza (M6);
- Limbe - Chisitu (M4);
- Limbe - Muloza (M2);
- Chingeni - Liwonde (M8);
- Zomba - Liwonde - Mangochi - Chiponde (M3) ;
- Liwonde - Chiponde (S131);
- Lilongwe - Kasungu – Jenda (M1);
- Lilongwe - Mchinji (M12);
- Kamwendo - Chinkhoma (M18);
- Kasungu - Nkhotakota (M18);
- Lilongwe - Salima - Senga Bay (M14/S122);
- Salima - Nkhotakota - Dwangwa (M5);
- Salima - M1/M5Junction (M5);
- Bunda - Mitundu (S125);
- Jenda - Mzuzu - Karonga - Songwe (M1);
- Mzuzu - Mukwiya - Dwangwa (M5);
- Mzimba spur (M9);
- Trunk paved roads condition surveys and urban roads inventory and condition surveys as part of the road infrastructure performance monitoring process
- Feasibility and Detailed Engineering Design for Rehabilitation and upgrading of the Kaphatenga – Nkhotakota – Dwangwa (M5) road. This activity has just started and will be continued during the 2011/2012 financial year
- Continuation of Feasibility and Detailed Engineering Design (F and DED) of Liwonde - Mangochi - Chiponde (M3) road section. This activity is expected to be finalised in the 2011/2012 financial year
- Finalisation of F and DED of Nsipe - Chingeni – Mangochi Turn Off (M1/M8) road
- Continuation of F and DED of Lirangwe - Namatunu – Machinga (S139/T401) road. This activity is expected to be finalised in the 2011/2012 financial year
- Finalisation of Baseline Surveys for Mchinji - Kawere (S118) and Blantyre – Zomba (M3) roads
- Finalisation of Detailed Engineering Design (DED) of Nkhata Bay resort roads at the request of Tourism Department of the Malawi Government
- Finalisation of verification setting out on Mchinji - Kawere (S118) road
- Continuation of F and DED of Mkanda - Kapiri (S118) road section. This activity is expected to be finalised in the 2011/2012 financial year
- Finalisation of DED of Salima resort roads at the request of Tourism Department of the Malawi Government
- Continuation of DED of Mtangatanga Turn Off - Mzarangwe (S107) road. This activity is expected to be finalised in the 2011/2012 financial year
- Continuation of F and DED of Mzuzu – Nkhata Bay (M5) road. This activity is expected to be finalised in the 2011/2012 financial year
- Finalisation of setting out on Mchinji - Kawere (S118) road for compensation purposes
- Continuation of Classified Traffic Counts for all designated roads. This activity is expected to be finalised in the 2011/2012 financial year
- Finalisation of installation of Designated Road Network Reference Markers aimed at enhanced management and monitoring of the road network
- Finalisation of unpaved roads' Soil Stabilisation study
- Finalisation of Road and Bridge Condition Surveys on unpaved roads

Activities executed under Development Programme

The following are activities implemented with funding from the development budget:

- Detailed Engineering Design Review for the Construction of Lilongwe Western Bypass road contract in the City of Lilongwe under African Development Bank (AfDB) funding. This activity is expected to be completed during the 2011/2012 financial year
- Feasibility and Detailed Engineering Design Upgrading of Ntcheu - Tsangano - Neno - Mwanza (S135/T396/T397) road contract under African Development Bank (AfDB) funding. This activity is expected to be completed during the 2011/2012 financial year
- Continuation of Feasibility and Detailed Engineering Design (F and DED) of LL Old Airport - Kasiya - Santhe (S117/T342) road under Government funding. This activity is expected to be completed during the 2011/2012 financial year
- Continuation of F and DED of Chiringa - Muloza (T415) road including selected LL and BT cities roads under Government funding. This activity is expected to be completed during the 2011/2012 financial year
- Continuation of Feasibility and Detailed Engineering Design (F and DED) of Thabwa - Chitseko - Seven (East Bank) (S152) road under Government funding. This activity is expected to be completed during the 2011/2012 financial year
- Continuation of Feasibility and Detailed Engineering Design (F and DED) of Chikhwawa - Chapananga - Mwanza (S136) road under Government funding. This activity is expected to be completed during the 2011/2012 financial year
- Continuation of Feasibility and Preliminary Engineering Design of Rumphi - Nyika - Chitipa (M24/M9) road under that Arab Bank for Economic Development in Africa (BADEA) funding. This activity is expected to be completed during the 2011/2012 financial year

PROCUREMENT ACTIVITIES

Specific Objectives

The Roads Authority carries out its core functions of road maintenance, rehabilitation, upgrading and construction using the private sector firms, through competitive bidding. All services are outsourced. Procurement of civil works, goods and services is therefore an important function within the organisation.

The Roads Authority, as a public body, follows the Public Procurement Act in all procurement matters. All procurement operations are regulated by the procurement guidelines, rules and regulations published by Department of Public Procurement.

The specific objectives of the procurement activities are:

- To ensure efficiency and economy in procurement of works, goods and services
- To ensure equal opportunity to all eligible bidders in the procurement of works, goods and services
- To encourage local contracting and manufacturing industries
- To ensure there is transparency and accountability in all procurement

PLANNED PROCUREMENT ACTIVITIES

Activities executed under Recurrent Road Maintenance Programmes

The procurement process continues to be strategically planned in such a way that timing of execution of routine maintenance works corresponds with the optimum period for carrying out maintenance programmes while responding to the cash flow management of the organisation.

The bulk of the expenditure of Road Fund monies is used in the maintenance of the national road network. This financial year the Roads Authority continued with the award of road maintenance contracts that dealt with routine maintenance activities; there were also the timber deck bridge replacement programme and some rehabilitation programmes.

Then there were the emergency works that are normally carried out during the rainy period between November and March when major emergency works are anticipated and dealt with.

During the period from 1st July 2010 to 30th June 2011, the workload in terms of procurement was heavier when compared to the previous year. Most of the work that should have been done by individual departments was still being done by the procurement section. However, the section managed to complete the processes in time, while at the same time sticking to the relevant laws cited earlier.
The table Proc 1 below shows the values and numbers of contracts procured under the recurrent budget in terms of the procurement method used. The Public Procurement Act requires that all procurement should, as much as possible, be done through open public tenders.

Table Proc 1: Number of Works Contracts vs. Procurement Method

Procurement method	No. of Contracts	Value (Kwacha)	%
Open tendering	508	4,323,528,925.90	100
Shortlisting	NIL	NIL	0
Single sourcing	NIL	NIL	0
TOTAL	508	4,323,528,925.90	100

The Engineering services and studies were all carried out by consultants. These were all procured as open tenders using both quality and cost based selection (QCBS) and least cost selection (LCS).

Table Proc 2 below shows the values and numbers of contracts procured in terms of the procurement method used.

Table Proc 2 Number of Consultancy Contracts vs. Procurement Method

Procurement method	No. of Contracts	Value (Kwacha)	%
Open tendering	6	407,157,232.73	100
Shortlisting	0	0	0
Single sourcing	0	0	0
TOTAL	6	407,157,232.73	100

Activities under Development Programmes

One development contract was procured during the year for upgrading of the road detailed below to bitumen standard.

- Reconstruction of Blantyre – Zomba Road

The table Proc 3 below shows the values and numbers of contracts procured under the Development Programmes in terms of the procurement method used.

Table Proc 3: Number of Works Contracts vs. Procurement Method

Procurement method	No. of Contracts	Value (Kwacha)	%
Open tendering	1	5,244,293,038.10	100
Shortlisting	0	0	0
Single sourcing	0	0	0
TOTAL	1	5,244,293,038.10	100

CONSTRUCTION PROGRAMMES

Specific Objective

The objective of the development programmes is to implement road programmes contained in the development budget. The programmes comprise of construction, periodic maintenance, rehabilitation and upgrading of designated roads in the country. These contribute to the RA business plan objective of ensuring improved accessibility and mobility on the Malawi road network. The following is information on planned and implementation of the activities under these programmes during the year.

Planned Programmes

The 2010/11 development budget was MK27.38 billion. The approved programme comprised MK266.88 million for feasibility studies and design projects and MK27.11 billion for the periodic maintenance, rehabilitation, construction and upgrading projects. The funds for development programmes are from Government's local resources and from development partners namely: European Union (EU), Japan International Cooperation Agency (JICA), African Development Bank, World Bank, People's Republic of China, Kuwait Fund for Arab Economic Development (KFAED), OPEC Fund for International Development (OFID), Arab Bank for Economic Development in Africa (BADEA), and Saudi Fund. The funds that were expended in the 2010/11 financial year are presented in Table 3b under item 3.0. In all cases, the Malawi Government has been responsible for compensation and administration costs.

The MK27.11 billion funding was for projects on 274km of the national road network. The planned scope of works represented 1.8 % of the national designated road network, currently standing at 15,451km. The 274km comprises 116km of periodic maintenance on paved roads, 108km of rehabilitation of paved roads and 50km of upgrading and construction from earth to paved standard. The periodic maintenance and rehabilitation were planned under a combined programme because the projects involved a mix of the two treatments. Similarly, the upgrading and construction were planned under another combined programme. The Tables 1.0 and 2.0 present distribution of the planned budget and scope of the works respectively. In summary the following road projects were executed under these programmes:

Goliati - Chiperoni including Mulanje Mission Hospital road and Thyolo Market road, Bunda - Mitundu, Ekwendeni - Ezondweni, Mzimba - Mzarangwe, Lumbadzi – Dowa - Chezi including Namitete hospital road, Chiringa - Miseu Folo – Chiradzulu, including Migowi – Phalombe and PIM - Nguludi spurs, Nsanje -Bangula, Msulira - Nkhotakota Game Reserve Section, Mzimba Street in Lilongwe City, Presidential Way dualisation and access roads to New Parliament Building, Masasa – Golomoti - Monkey Bay, Mangochi - Monkey Bay, Lilongwe Urban Road, Lilongwe - Nsipe, Mzuzu City roads, Chikwawa - Bangula, Mchinji - Kawere, Karonga - Chitipa, Zomba - Jali - Phalombe - Chitakale, Thyolo - Muona - Bangula, Liwonde - Naminga, South Rukuru Bridge, Lilongwe City West bypass, and Blantyre - Zomba road.

Table 1 Distribution of Budget to Combined Programmes

Programme	Annual Budget Allocation in MKm	Percentage of total budget (%)
Periodic Maintenance and Rehabilitation of paved roads	8,460	31.21
Construction/Upgrading of earth roads to bitumen standard	18,650	68.79
Total	27,110	100

Table 2: Planned Scope of Work

Programme	Target Coverage in kilometres	% of Total Coverage
Periodic Maintenance	116	42
Rehabilitation of paved roads	108	40
Construction/Upgrading earth roads to bitumen standard	50	18
Total	274	100

Periodic Maintenance/Rehabilitation

The objective of the periodic maintenance and rehabilitation is to ensure the provision of an improved condition of the road network.

The paved road network is 26% of the total 15,451km network i.e. 4,017 kilometres. The road condition surveys conducted by RA in 2009 showed 48% to be in good condition i.e. 1,928km. During the period under review 116 km were planned for periodic road maintenance and 108 kilometres for rehabilitation. In total 224 km were planned under this road programme with a budget of MK8.460 billion. This is 11.6% of the paved road network that is in good condition hence the plan was to increase the length of road in good condition with this amount.

Ideally, all roads in fair condition are supposed to receive periodic maintenance to protect them from falling into the poor condition while all the roads in poor condition are supposed to be rehabilitated. The planned scope of the works under this programme was based on the available budget.

Upgrading and Construction

The objective of the upgrading of unpaved roads and construction of new roads to paved standard is to contribute to the development of the road network in order to improve accessibility and enhance transport efficiency resulting in reduction of transport costs.

As at the beginning of 2010/11, there were 4,017km of paved roads on the National Road Network. In the 2010/11 ANRP 50km were planned to be constructed and upgraded to paved standard at a budget of MK18.650 billion. This scope of planned works represents 1.2 % increase to the designated paved road network.

Financial Performance

The financial achievements of the programmes capture the value of all works done up to the end of the financial year as summarised in Table 3a, and detailed in Table 3b below:

Table 3a Financial Performance Summary

Programme	Planned Expenditure In MK million	Actual Expenditure in MK million	Achievement %
Periodic Maintenance and rehabilitation plus supervision and compensation	8,460	4,412	52.15
Construction/Upgrading excluding designs and studies	18,650	18,489	99.14
Total	27,110	22,901	84.47

Table 3b: Detailed Source and Utilisation of Grants (Funds) in MK' 000

Source/ Programme	Periodic maintenance & rehabilitation	Upgrading & construction	Supervision	Design & studies	Compensation	Total
EU	1,815,153	803,656	305,986	-	-	2,924,795
Malawi Govt.	1,535,498	14,961396	608,544		146,580	17,252,017
JICA	-	386,128	-	-	-	386,128
People's Republic of China	-	2,337,388	-	-	-	2,337,388
African Development Bank	-	-	-	127,473	-	127473
Total	3,350,651	18,488,568	914,529	*127,473	146,580	23,027,801

** Design and studies component not part of Construction activities. It belongs to Planning and Design activities; hence excluded in the summary table 3a.*

Physical Performance

The physical achievement is based on the financial achievement percentage in Table 3a multiplied by the planned length of the programme to capture the value of all works done, to the end of the financial year. The achievements are as presented in Table 4 below:

Table 4: Physical Performance Summary

Programme	Planned (km)	Actual (km)	Achievement %
Periodic Maintenance	116	60.32	52
Rehabilitation of paved roads	108	56.16	52
Construction/ Upgrading	50	49.57	99.14
Total	274	166.05	60.6

CHALLENGES

The implementation of the development road programmes faced a number of challenges, some of which have been already highlighted in this report. More specific problems included the following:

- Most of the construction materials are imported, hence the fluctuating prices of such materials affect the cost of road works such that initial contract amounts are in most cases exceeded
- There is frequent shortage of diesel supply in the country, hence delays in the progress of works which are equipment intensive. This results in the extension of the contracts' duration, with associated extra cost to the projects
- There is inadequate foreign exchange for purchase of the imported construction materials, spare parts, and diesel thus affecting progress of works
- Inadequate suitable local construction materials such as natural gravel and rock near the projects area resulting in costly long haulage distances for transport to site
- Inadequate funding and cash flow for programmes resulting in delayed payments to contractors hence increased costs due to interest charged by the contractors
- Delayed compensation payments which negatively affect the smooth project implementation
- Some donor-funded projects were suspended due to lack of additional funding hence no progress and claims raised by the contractor
- There is generally limited number of qualified personnel especially at technician level

The M1 road at the South Rukuru River

Maintenance Programmes

Specific Objectives

The Maintenance Programmes aimed at carrying out maintenance of all designated public roads in Malawi. This is achieved through implementation of several programmes which include routine and periodic maintenance, concrete decking of bridges, grading and reshaping, grass cutting, emergency works and provision of associated supervision services.

A pneumatic tyred roller compacts a section of the Mangochi – Monkey Bay road

Planned Programmes

In the financial year 2010/2011, the road maintenance works were categorised into fourteen (14) major programmes as indicated in Table 1. These are routine maintenance, spot periodic and rehabilitation of paved roads, grading and reshaping, routine pothole patching, routine road marking, Accident spot improvement, routine road signs replacement, routine spot repairs, emergency works, improvements of community roads, and special backlog maintenance in Blantyre, Zomba and Lilongwe Cities and associated works supervision services.

Total initial approved budget for road maintenance for 2010/2011 was MK6.88 billion. This was later revised to MK7.213 billion, to take into account MK324.53 million allocated to community roads in the 2009/10 financial year but carried over to 2012/11 Financial Year and also MK69 million re-allocated from Planning and Design Department.

This budget was planned to carry out routine maintenance on critical road sections of the entire 15,451km of the national road network, rehabilitate and execute periodic maintenance on 10.9km of paved roads, grade and reshape 3,835km of earth roads, carry out periodic and rehabilitation works on 10.90km of selected paved road sections and rehabilitation of 135.4km of selected roads in the cities of Lilongwe, Zomba and Blantyre. The total commitments on the various road maintenance activities, as at the end of June 2011, were MK7.29 billion which is 105 percent of the approved revised budget.

It should be noted that this commitment includes a contingency sum of approximately 15 percent which requires prior approval for its use.

Total respective commitments based on the road type;

- Total commitment for trunk roads (main, secondary, tertiary) is MK2.59 billion representing 38% of the road maintenance budget;
- Total commitment for Urban & District roads is MK3.63 billion representing 62.86% of the road maintenance budget;

Total commitment based on regions was as follows;

- Total regional commitment for the north is MK995.08 million representing 14.46% of the road maintenance budget;
- Total regional commitment for the centre is MK2.79 billion representing 40% of the road maintenance budget; and
- Total regional commitment for the south is MK3.49 billion representing 50.72% of the road maintenance budget.

Note that this commitment includes a contingency sum of approximately 15 percent that requires prior approval for its use hence total commitment was 5% higher than the approved budget.

According to the existing policy of network coverage the maintenance budget is proportioned as follows: 65% for Trunk roads and 35% for Urban and District roads. But this ratio was not achieved during the implementation of the 2010/2011 road maintenance programme because of the backlog rehabilitation in the cities of Blantyre, Zomba and Lilongwe. For details see Table 1 below.

Table 1: 2010/2011 annual road maintenance commitments as of end June 2011

Programme of works	Revised Budget MK million	Overall Commitment MK million	% Commitment to Revised Budget	Commitment Under TR MK million	Commitment Under UDR MK million
Routine Maintenance	651.61	636.56	97.69	455.07	181.49
Periodic & Rehabilitation	581.54	600.92	103.33	581.71	19.20
Grading & Reshaping	208.60	-	-	-	-
Road marking	292.84	291.29	99.47	291.29	-
Concrete bridges	-	-	-	-	-
Road sign replacement	37.78	32.71	86.58	32.71	0
Pothole Patching	601.20	807.88	134.38	570.48	237.39
Backlog city road rehab	3,056.46	2,938.86	96.15	-	2,938.86
Emergency Works	100.63	214.93	213.58	213.58	-
Community roads	579.85	598.66	103.24	0.00	598.66
Supervision backlog Rehab	50.74	68.24	134.49	0.00	68.24
Accident spot improvement	25.75	21.78	84.58	0.00	21.78
Spot repairs	705.69	691.00	97.92	431.66	259.99
Spot rehabilitation of earth roads	-	-	-	0.00	-
Supervision	320.58	387.28	120.81		
Total	7,213.27	7,290.11		2,576.50	4,325.61

Progress of Road maintenance Programmes

The overall certification for all maintenance programmes as at end June 2011 was at MK6.81 billion against commitments of MK7.213 billion, representing 94 percent. Detailed reports are presented below for each of the main maintenance activities. See Table 2 below.

Table 2: 2010/2011 annual road maintenance certificaton as of end June 2011 (MK million)

FINANCIAL PERFORMANCE	Revised Budget Mkm	Expenditure Mkm	% Utilisation
Routine Maintenance	651.61	568.23	87.20
Periodic & Rehabilitation	581.54	584.74	100.55
Grading & Reshaping	208.60	-	0.00
Road marking	292.84	283.31	96.75
Concrete bridges	-		
Road sign replacement	37.78	30.04	79.51
Pothole Patching	601.20	570.48	94.89
Backlog city road rehab	3,056.46	2,848.39	93.19
Emergency Works	100.63	181.25	180.12
Community roads	579.85	646.55	111.50
Supervision backlog Rehab	50.74	68.24	134.49
Accident spot improvement	25.75	34.05	132.23
Spot repairs	705.69	610.61	86.53
Supervision	320.58	387.28	120.81
Total	7,213.27	6,813.17	101.37

Please note that there was a carry-over commitment to 2011/12 of MK687.37 million as of 30th June 2011.

Routine Maintenance Programme

This programme targets almost the entire road network. It involved execution of mainly labour-based maintenance activities that needed to be carried out once or several times per year so that the roads are kept in good to fair condition and remain open year round. The emphasis during the period had been to open blocked drainage structures and reinstatement of washed-away road sections.

The overall certification as of end June, 2011 was MK568.23 million against a revised budget of MK651.61 million representing 87 percent. This covered 14,606.30km which is almost the entire road network by opening blocked drains, installations of concrete pipe culverts and general drainage improvements to make the roads passable through out the year.

Periodic and Rehabilitation Works

This programme was aimed at restoring the original condition of relatively short stretches of paved roads that were characterised by excessive materials loss, deformation and potholing due to such factors as aging, traffic and environmental effects thereby rendering other intervention measures ineffective. Works under this programme included slurry sealing works between Songwe Border - Kaporo on the M1 in the Northern Region, periodic and rehabilitation works on selected sections of the M001 Road from Lumbadzi bridge to Jenda in Kasungu and Dowa districts in the Central Region and rehabilitation of the Bakili Muluzu Highway in the Southern Region.

Certification on periodic and rehabilitation programme was at MK584.74 million representing 97% of a budget of MK681.54 million at the end of the reporting period. Physical progress was 12.58 km against planned kilometre coverage of 10.9.

Grading and Reshaping Programme

Grading is carried out on main, secondary and tertiary roads. Reshaping which is a labour-based operation is carried out on district roads, tracks and trails.

Although grading and reshaping are routine in nature they have been separated from the normal routine maintenance programme because they have to be done during specific months when the soil is still moist. Dry grading is environmentally not acceptable as it results in dust creation and erosion.

MK208.60 million was allocated to this programme. However, due to over commitment under equally demanding programmes, this programme was not implemented.

Road Marking

This programme targets repainting the white lines on the centre of roads and yellow lines at the edges of the roads that might have faded way due to age, wheel action and effects of weather.

At the end of the financial year MK283.31 million was certified against a revised budget of MK292.84 million, representing 97 percent.

Road sign replacement

This programme aims at replacing vandalised and accident damaged road signs in order to enhance safety on the entire road network.

At the end of June, 2011, MK30.04 million had been certified against a revised budget of MK37.78 million representing 80 percent.

Routine Spot Repairs

Since routine maintenance works were carried out continuously depending on need and were intended to cover the entire network where resources were spread over the whole year, any single event intervention would deplete the routine maintenance resources within a short time. This programme was therefore intended to cater for such interventions as drainage cleaning and opening, spot carriageway reshaping and grading on unpaved roads, filling potholes and gullies on unpaved roads, repair of drainage structures, removal of foreign materials from road carriageways, spot trimming and filling of shoulders on paved roads, grass and shrub cutting, pruning of trees within the road reserve and planting of erosion control vegetation.

Certification for routine spot repairs as at end June 2011 was at MK610.61 million, representing 87 percent of the revised budget of MK705.69 million.

Works in progress on the Lumbadzi - Dowa road

Pothole Patching

This programme targets all paved roads which are in good and fair condition to ensure safety to road users and also to protect pavement layers from the effects of water ingress. As at the end of June 2011 overall certification for the pothole patching programme was at MK570.48 million, which represents 95 percent of the MK601.20 million budgets.

An extra MK175.43 was certified for contracts carried over from the 2009/10 financial year. This brings total certification on the programme to MK745.91 million. Physical progress in terms of pothole patching in kilometres was 4073 which is the entire paved road network for Malawi.

Special backlog maintenance in the cities

For the past several years the paved roads in the cities of Malawi received very little or no maintenance at all. This resulted in a huge accumulated backlog of periodic and rehabilitation maintenance. These high levels of maintenance, however, come with high unit rates per kilometre. With the upward revision of fuel level in February 2009, fortunately, the Roads Authority diligently packaged contracts for periodic and rehabilitation and associated drainage works. This programme had a budget of MK6.5 billion to be disbursed within three fiscal years from 2008/09 to 20010/11. The year under review had an allocation of MK2.94 billion for civil works and MK68.24 million for supervision. As of the end of June 2011, the department had certified MK2.85 billion representing 94 percent of the annual allocation. Physical progress in terms of kilometres was 89.74 against a planned distance of 135.4km.

Emergency Works

This programme targets works that are urgent in nature. These, among others, include reinstatement of washed-away road sections and installation of pipe culverts, launching of bailey bridges and repairs to timber-decked bridges. Certification for emergency programme was at MK181.25 million representing 180% of MK100.63 million budgets.

PHYSICAL PERFORMANCE	Planned (km)	Actual (km)	% Achieved
Routine Maintenance	15,451.00	14,606.30	94.5
Periodic & Rehabilitation (paved)	10.90	12.58	115.4
Rehabilitation of unpaved roads	100.00	73.00	73.0
Grading & Reshaping	3,835.00		
Concrete bridges	-		
Backlog city road rehab	135.40	89.74	66.3
Community Roads	4,000.00	3,106.46	77.7

Financial progress

Overall financial result shows that of the total financial resources allocated for the various road maintenance activities expenditure has been at 82 percent by the end of the planning period. This expenditure indicates that construction firms are finally coping with the work allocated to them within the financial year. Details are contained in Table 3 below.

Table 3: Expenditure against budget (MK million)

FINANCIAL PERFORMANCE	Revised Budget Mkm	Expenditure MKm	Carryover Expenditure (Mk)	% Utilisation
Routine Maintenance	651.61	568.23		87.20
Periodic & Rehabilitation	581.54	584.74		100.55
Grading & Reshaping	208.60	-	175.48	0.00
Road marking	292.84	283.31		96.75
Concrete bridges	-		343.03	
Road sign replacement	37.78	30.04		79.51
Pothole Patching	601.20	570.48		94.89
Backlog city road rehab	3,056.46	2,848.39		93.19
Emergency Works	100.63	181.25		180.12
Community roads	579.85	646.55		111.50
Supervision backlog Rehab	50.74	68.24		134.49
Accident spot improvement	25.75	34.05		132.23
Spot repairs	705.69	610.61		86.53
Supervision	320.58	387.28	168.86	120.81
Total	7,213.27	6,813.17	687.37	101.37

CHALLENGES AND LESSONS LEARNT DURING IMPLEMENTATION

The major challenges encountered during the implementation of the recurrent maintenance contracts are summarised below:

- The construction industry is still facing capacity problems in terms of personnel in technical and managerial skills, equipment and financial. In terms of personnel there are few qualified and well experienced people on the ground such that it is a major challenge to cope with maintenance demands
- In terms of equipment most of the contractors still rely on hiring from PVHO. PVHO does not have sufficient graders to match the number of awarded grading contracts
- Contractors who have no own earth-moving equipment have struggled to complete the contracts within the specified periods. The way forward is to award such contracts to those firms that have in-house equipment as a priority
- Scarcity of fuel had a negative effect on the contracts performance periods
- Shortage of foreign currency also negatively affected the management of contracts. Contracts that depended on imported materials, such as periodic and rehabilitation, suffered delayed completion. Contractors were not able to access foreign currency in time for the purchase of petroleum products

ROADS AUTHORITY MALAWI

FINANCIAL STATEMENTS

30 June 2011

FOR THE YEAR ENDED 30 JUNE 2011

DIRECTOR'S REPORT

The Roads Authority Board of Directors presents this report together with Annual Financial Statements for the year ended 30th June 2011.

Nature of Business

The Roads Authority was established to ensure that public roads are constructed, maintained, rehabilitated at all times, and advise the Minister of Transport and Public Infrastructure and where appropriate, the Minister responsible for Local Government on the preparation and the efficient and effective implementation of the Annual National Roads Programme.

Achievements and implementation of the Annual National Roads Programme (ANRP)
Annual National Roads Programme is a comprehensive plan of action for construction, rehabilitation and maintenance of the national road network. The prime objective of the 2010/2011 ANRP was to address the maintenance backlog and bring the entire road network into maintainable condition. We are happy to report that this year's objective, especially on recurrent programme has been achieved as reflected in the improved condition of roads throughout the country and completion of rehabilitation of a number of roads in the cities of Blantyre, Zomba and Lilongwe. On development programmes, MK23 billion of works were successfully implemented as compared to MK22 billion works in the 2009/2010 financial year. On Recurrent Programmes, MK7.5 billion worth of projects were successfully implemented in comparison to MK7.3 billion projects in the 2009/2010 programmes.

The Roads Authority has planned to carry out more programmes in the coming financial year to progressively reduce the percentage of roads that are classified as being in poor condition at the same time to make sure that the roads which are presently in good condition do not deteriorate into fair condition.

Financial performance

Financial performance of the Roads Authority has substantially improved over the years of its existence. Improvement has continued to be recorded in the recurrent programme income which went up by 6%. The income has increased from MK7 billion in 2009/2010 to MK7.6 billion in 2010/2011.

Recurrent expenditure increased from MK7.3 billion to MK7.5 billion to cover civil works for routine maintenance and the major rehabilitation of several roads in the cities of Blantyre, Lilongwe and Zomba.

On the other hand, income from development projects was MK23.5 billion during the year from previous year's income of MK22.4 billion. Expenditure for development programmes was MK23 billion to cover for various construction, upgrading and periodic maintenance projects.

Detailed financial results and state of affairs of the Roads Authority are set out in the accompanying Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Funds and Statement of Cash Flows and accompanying policies and other explanatory notes.

Challenges

The major challenges that need to be addressed include inadequate capacity of the human resources, plant and equipment and project management in road construction. There is also a huge gap between available key human resources and requirements within the Roads Authority to respond to the growing needs of improved service delivery; the Roads Authority Board is working hand in hand with Government to address these challenges. Other challenges include delayed payments to service providers and growing backlog maintenance which will require huge financial resources. Lack of fuel and foreign currency, vandalism of roads furniture and encroachment of road reserves are other major challenges which need immediate attention.

Board of directors

The following directors, appointed in terms of the Roads Authority Act, served in office during the year:

Inkosi ya Makhosi M'mbelwa IV	-	Chairperson	Full Year
Eng. Hutchson Mthinda	-	Vice Chairman	Full Year
Eng. Wilson Chirwa	-	TAC Chairperson	Full Year
Mrs. Catherine Mtonda	-	FAAC Chairperson	Full Year
Senior Chief Tsabango	-	Member	Full Year
Mr. Charles N. Makanga	-	Member	Full Year
Mr. Randison.Mwadiwa	-	*Ex-officio* Member	From April 2011
Mr. Kester Kaphaizi	-	*Ex-officio* Member	Full Year
Mrs. Esther Lwara	-	*Ex-officio* Member	Full Year

<u>Registered office</u>
Roads Authority
Functional Building
Paul Kagame Road
Private Bag B346
LILONGWE 3

<u>Independent Auditors</u>
Graham Carr
Taurus House
Off Convention Drive
P.O. Box 898
LILONGWE

<u>Bankers</u>
First Merchant Bank
National Bank of Malawi
Ned Bank Malawi
Standard Bank of Malawi

<u>Attorneys</u>
Mvalo and Company
104 CIL House
Kamuzu Procession Road
P.O. Box 30107
LILONGWE 3

BOARD CHAIRMAN

FINANCE, AUDIT AND ADMINISTRATION COMMITTEE CHAIRPERSON

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required under the Roads Authority Act No. 3 of 2006 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Authority as at the end of the financial year and of the operating results for that year.

The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Authority and enable them to ensure that the financial statements comply with financial agreements and statutes.

In preparing the financial statements the Directors accept responsibility for the following:

- maintenance of proper accounting records
- selection of suitable accounting policies and applying them consistently
- making judgment and estimates that are reasonable and prudent
- compliance with applicable accounting standards, subject to any material departures being disclosed and explained in the financial statements
- preparation of financial statements on a going concern basis, unless it is inappropriate to presume that the Authority will continue in business

The Directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Authority and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

The Directors are of the opinion that the financial statements give a true and fair view of the financial affairs of the Authority and of its operating results.

The financial statements were authorised for issue by the Board of Directors on 30th September 2011 and are signed on their behalf:

BOARD CHAIRMAN

FINANCE, AUDIT AND ADMINISTRATION COMMITTEE CHAIRPERSON

INDEPENDENT AUDITORS' REPORT

GRAHAM CARR
Certified Public Accountants
NEXIA INTERNATIONAL

TO THE MINISTER OF TRANSPORT AND PUBLIC INFRASTRUCTURE

We have audited the accompanying financial statements of Roads Authority, which comprise the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control 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.

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 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, the financial statements give a true and fair view of the financial position of Roads Authority as of 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Roads Authority's Act No.3 of 2006.

Graham Carr

Graham Carr

22 December 2011

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Graham Carr is a member of Nexia International, a worldwide network of independent accounting firms.
Partners: C.M.C. Banda, D.E.Z. Mhango - Lilongwe, D. Ngwira (Mrs), J.K. Ndovi, - Blantyre.
Offices in Lilongwe and Blantyre.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

		Notes	2011 MK'000	2010 MK'000 *Restated
Income				
Grants	Appendix I	3.3	23,506,672	22,461,176
Recurrent programmes	Appendix I	3.3	7,595,262	7,149,843
Operating income	Appendix I	3.3	870,799	823,273
Total income			31,972,733	30,434,292
Expenditure				
Utilisation of grants	Appendix III		23,506,672	22,461,176
Recurrent programmes	Appendix II		7,539,768	7,379,539
Operating expenses	Appendix II		616,011	504,468
Administration expenses	Appendix IV		274,016	218,451
Total expenditure			(31,936,467)	(30,563,634)
Surplus/(deficit) for the year			36,266	(129,342)
Other comprehensive income			-	-
Total comprehensive income/(loss)		12	36,266	(129,342)

** The 2010 figures have been restated as a result of a change in accounting policy for mobilisation advances to contractors which are now deferred and taken to statement of comprehensive income over the life of the project.*

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Notes	2011 MK'000	2010 MK'000 *Restated
ASSETS			
Non current assets			
Property, plant & equipment	4	333,488	350,330
Current assets			
Inventories	5	7,711	11,623
Receivables	6	15,522,767	10,911,995
Non current assets held for sale	7	-	10,327
Cash and cash equivalents	8	77,957	98,131
Total current assets		15,608,435	11,032,076
Total assets		15,941,923	11,382,406
FUNDS AND LIABILITIES			
Funds			
Deferred income	9	2,248,018	4,125,618
Revaluation reserve	10	58,395	59,004
Capital grants	11	74,210	73,356
General fund	12	(38,300)	(685,990)
Total funds		2,342,323	3,571,988
Non current liabilities			
Deferred tax	13	25,549	25,549
Employee benefits	14	45,258	45,258
		70,807	70,807
Current liabilities			
Bank overdraft	8	14,999	12,339
Payables	15	13,502,003	7,689,988
Provisions	16	11,791	37,284
Total current liabilities		13,528,793	7,739,611
Total funds and liabilities		15,941,923	11,382,406

** The 2010 figures have been restated as a result of a change in accounting policy for mobilisation advances to contractors which are now deferred and taken to statement of comprehensive income over the life of the project.*

The financial statements were authorised for issue by the Board of Directors on 30th September 2011 and are signed on their behalf by:

Board Chairman

Finance, Audit and Administration Committee Chairperson

STATEMENT OF CHANGES IN FUNDS

FOR THE YEAR ENDED 30 JUNE 2011

	Deferred income MK'000	Revaluation reserve MK'000	Capital grants MK'000	General fund MK'000	Total MK'000
	*Restated			*Restated	
Balance as at 1 July 2009	-	85,162	84,142	4,808,827	4,978,131
Deferred income-prior year adjustment	6,161,739	(6,161,739)	-		
Prior year adjustment	-	-	-	795,655	795,655
Deferred taxation	(25,549)	-	-	(25,549)	
Released to statement of comprehensive income	(2,036,121)	-	-	-	(2,036,121)
Capital grant released	-	-	(10,786)	-	(10,786)
Depreciation on revaluation	-	(609)	-	609	-
Deficit for the year	-	-	-	(129,342)	(129,342)
Balance as at 30 June 2010	4,125,618	59,004	73,356	(685,990)	3,571,988
Prior year adjustment	-	-	-	610,815	610,815
Capital grants released	-	-	10,937	-	10,937
Released to statement of comprehensive income	(1,877,600)	-	(10,083)	-	(1,887,683)
Depreciation on revaluation	-	(609)	-	609	-
Surplus for the year	-	-	-	36,266	36,266
Balance as at 30 June 2011	2,248,018	58,395	74,210	(38,300)	2,342,323

** The 2010 figures have been restated as a result of a change in accounting policy for mobilisation advances to contractors which are now deferred and taken to statement of comprehensive income over the life of the project.*

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	2011 MK'000	2010 MK'000
		*Restated
Cashflows from operating activities		
Surplus/(deficit) for the year	36,266	(129,342)
Loss on disposal of property, plant and equipment	4,602	494
Capital grants released to statement of comprehensive income	(10,083)	(10,786)
Advances and retentions recoveries released to statement of comprehensive income	(1,266,785)	(2,494,269)
Depreciation of property, plant and equipment	49,374	42,628
	(1,186,626)	(2,591,275)
Movements in working capital		
Increase in receivables	(4,610,772)	(3,467,122)
Reinstated assets held for sale	3,912	(8,285)
Decrease in inventories	3,696	-
Decrease in provisions	(25,493)	(19,580)
Increase in payables	5,812,015	6,205,145
Net cash (used)/generated by operating activities	(3,268)	118,883
Cashflows from investing activities		
Payments for property, plant and equipment	(39,526)	(115,261)
Capital grants released	10,937	-
Proceeds from disposal of property, plant and equipment	9,023	5,602
Net cash used in investing activities	(19,566)	(109,659)
Net (decrease)/increase in cash and cash equivalents	(22,834)	9,224
Cash and cash equivalents at the beginning of the financial year	85,792	76,568
Cash and cash equivalents at the end of the financial year (note 8)	62,958	85,792

** The 2010 figures have been restated as a result of a change in accounting policy for mobilisation advances to contractors which are now deferred and taken to statement of comprehensive income over the life of the project.*

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

1 GENERAL INFORMATION

The Roads Authority was established by an Act of Parliament no. 3 of 2006 and took over operations from National Roads Authority in July 2007. The Act specifically provides for the Authority to be a body corporate with perpetual succession, under the responsibility of the Minister of Transport and Public Infrastructure.

The functions of the Roads Authority, whose principal place of business is in Functional Building Paul Kagame Road, Private Bag B346, Lilongwe 3, are to ensure that public roads in Malawi are constructed, maintained, rehabilitated at all times, drawing up the Annual National Roads Programme and obtaining the requisite ministerial approval and advising the Minister of Transport and Public Infrastructure and where appropriate the Minister responsible for Local Government on the preparation and the efficient and effective implementation of the Annual National Roads Programme.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS/ (IFRSs)

2.1 New and revised IFRSs affecting amounts reported in the current year (and or prior years)

The following new and revised IFRS have been applied in the current period and have affected the amounts reported in these financial statements. Details of other new and revised IFRSs applied in these financial statements that have no material effect on the financial statements are set out in section 2.2

New and revised IFRSs affecting presentation and disclosure only

- IAS 1 presentation of financial statements. The adoption of IAS 1 has introduced terminology changes, the changes include comprehensive revision of primary statements and include the requirement to introduce a statement of comprehensive income. There are some limited presentation changes as a result of introduction of this standard but no changes in measurement or recognition.

2.2 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs have also been adopted in these financial statements. The application of these new and revised IFRSs have not had any material impact on the amounts reported in the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 7 - statement of cashflow - The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cashflows.

- Amendments to IFRS 7 - financial instruments: Disclosures
  The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding negotiated loans.

- Amendments to IAS 39 financial instruments: Recognition and measurement - The amendment provide clarification on two aspects of hedge accounting, identifying inflation as a hedge risk or portion, and hedging with options.

- IFRIC 17 Distribution of Non cash Assets to owners - The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
  New and revised IFRSs applied with no material effect on the financial statements (continued)

- IFRIC 18 Transfers of Assets from customer - The interpretation addresses the accounting by recipients for transfers of property, plant and equipment from customers and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 Revenue.

- Improvements to IFRSs issued in 2009 - Except for the amendment to IAS 1 described earlier in section 2.1, the application of improvements to IFRSs issued in 2009 have not had any material effect on amounts reported in the financial statements.

2.3 New and revised IFRSs in issue but not yet effective

The Authority has not applied the following new and revised IFRSs that have been issued but are not yet effective.

- IFRS 7(as amended in 2010) - Disclosures - Transfer of financial assets - effective 1 July 2011.

- IFRS 9 (as amended in 2010) financial instruments - effective 1 January 2013.

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Authority, which are set out below, have been consistently followed in all material respects.

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Boards (IASB) Interpretations issued by the International Financial Reporting and Interpretations Committee and the requirements of the Roads Authority Act 2006.

3.2 Basis of measurement

The financial statements have been prepared on the historical cost convention except for the following:-

(i) Property is measured at fair value; and
(ii) Financial assets at fair value through profit/loss are measured at fair value.

The methods used to measure fair values are discussed further in note 3.11.

3.3 Income

Income of the Roads Authority comprise of:-

(a) Local income consisting principally of funding from Roads Fund Administration
(b) Government of Malawi funding and counter part funding and
(c) Grants received.

Income for operating and capital expenses is recognised when funds have actually been transferred by Roads Fund Administration and received at the Roads Authority's bank account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income for recurrent programmes works is recorded when interim certificates (excluding mobilisation advance certificates) or invoices are approved and submitted to Roads Fund Administration for payment.

Income for recurrent programmes mobilisation advances is deferred and thereafter recognised systematically upon the advance recoveries in the subsequent accounting periods.

Income for development programmes works is recorded when interim certificates (excluding mobilisation advance certificates) or invoices are approved, submitted for payment and when payment to the contractor is confirmed.

Income for development programmes mobilisation advances is deferred and thereafter recognised systematically upon the advance recoveries in the subsequent accounting periods.

Grants that compensate the Authority for the cost of an asset are recognised as income on a systematic basis over the useful life of the assets by the annual depreciation of the same.

3.4 Grants to Ministry of Transport and Public Infrastructure

Grants are allocated to the Ministry of Transport and Public Infrastructure for emergency road works. Payments are made based on approved estimates by Regional Engineers.

3.5 Capital grants

Capital grants represent the cost of assets transferred from the Government of Malawi and other agencies to the Authority. Capital grants are released to the income statement at the equivalent of depreciation expense of the related assets.

3.6 Deferred income

Deferred income represents income for both recurrent and development programmes in respect of mobilisation advances which is recognised only when the advances are recovered in the subsequent accounting periods.

3.7 Property, plant and equipment

(i) Initial recognition
Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure
Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefit embodied in the item of property, plant and equipment. All other expenditure is recognised in the statement of comprehensive income as an expense when incurred.

(iii) Depreciation
Depreciation is charged on straight line basis at rates estimated to write off the assets over their anticipated useful lives. The rates are as follows:-.

Buildings	50 years
Senior management motor vehicles	4 years
Other motor vehicles	5 - 10 years
Office equipment	3 - 5 years
Computers	3 - 5 years
Furniture and fittings	5 - 8 years

The determination of useful lives also takes into account the Authority's policies for disposal of specific types of assets. The Authority does not depreciate items of property, plant and equipment if its residual value is estimated to exceed its cost.

The gain or loss arising on the disposal or retirement of an item or property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in statement of comprehensive income.

(iv) Revaluation
Revaluations of property, plant and equipment are carried out with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values as at reporting date as economic conditions dictate, by independent valuers. The basis of valuation used is income approach. Surpluses on revaluations are transferred to revaluation reserve. On realisation of the asset ,the appropriate portion of the reserve is transferred to general fund. Revaluation decreases are charged to the statement of comprehensive income except to the extent that they relate to revaluation surpluses previously transferred to the revaluation reserve. An amount equivalent to the additional depreciation arising from revaluations is transferred annually, net of deferred tax, from the revaluation reserve to general fund.

(v) Impairment
At each reporting date, the Authority reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

3.8 Foreign currencies

(a) Functional and presentation currency
Items included in the financial statements are measured using Malawi Kwacha, as functional currency of the primary economic environment in which the Authority operates. The financial statements are presented in Malawi Kwacha, which is the Authority's functional and presentation currency.

(b) Transactions and balances
Transactions in currencies other than Malawi Kwacha are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the reporting date. Profits or losses arising on retranslation are dealt with in the statement of comprehensive income.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), ' held-to-maturity investments', 'available for sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3.9.1 Effective interest method

The effective interest method is a method of calculating the amortised cost of financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

3.9.2 Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3.9.3 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the recent value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3.10 Non financial assets

The carrying amounts of the Authority's non-financial assets, other than biological assets, investments property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash - generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

3.11 Determination of fair values

A number of the Authority's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

3.11.1 Property, plant and equipment

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

3.11.2 Receivables

The fair value of receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

3.11.3 Non derivatives financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

3.12 Financial liabilities and equity instruments

3.12.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

3.12.3 Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

3.12.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- It is a part of an identified portfolio of financial instruments that the Authority manages together and has a recent.

Financial liabilities at FVTPL (continued)

(i) Actual pattern of short-term profit-taking; or
(ii) It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Authority's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

3.12.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method (see 3.9.1), with interest expense recognised on an effective yield basis.

3.13 Financial risk management objectives

The Authority has exposure to the following risks from its transactions in financial instruments:-

- Capital risk
- Foreign currency risk
- Price risk
- Interest rate risk
- Credit risk
- Liquidity risk

The board of directors has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Internal Audit section of the Authority was established to identify and analyse the risks faced by the Authority, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Authority's Finance, Administration and Audit Committee oversees how management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority.

(a) Capital risk management
The Authority manages its capital to ensure that it will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance.

Its policy is to maintain a strong capital base so as to maintain the confidence of contractors to sustain the operations of the Authority.

In addition to the Finance Agreement with the Roads Fund Administration, the Authority ensures that conditions set in financing agreements with various other donors are strictly adhered to ensure the smooth flow of funding.

(b) Foreign currency risk management
In the normal course of business, the Authority enters into transactions denominated in foreign currencies especially for construction projects. Foreign exchange risk arises from these commercial transactions and recognised assets and liabilities denominated in foreign currencies.

At 30 June 2011, the Authority had no financial assets and financial liabilities denominated in foreign currencies and therefore, the Authority's income and operating cash flows are substantially independent of changes in foreign exchange rates.

(c) Price risk management
As the Authority had no significant publicity-traded equity and commodity securities, the Authority's income and operating cash flows are substantially independent of changes in market security prices.

(d) Interest rate risk management
Cash flow interest rate risk is the risk that the future cash flows of financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Authority's interest rate risk arises from cash deposits held at banks and staff loans. Cash at variable rates expose the Authority to cash flow interest rate risk whereas staff loans issued to staff at off-market rates expose the Authority to fair value interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Credit risk management
Credit risk refers to the risk that a counter party will default on its contractual obligations, resulting in financial loss to the Authority. The Authority's exposure is continuously monitored and is spread over many approved counter parties.

A provision for doubtful receivables is made where there is an identified loss event which based on previous experience, indicates a reduction in the recoverability of future cash flows.

The Authority's principal financial assets are bank balances and receivables. The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses; represents the Authority's maximum exposure to credit risk. The credit risks on bank balances are limited because the counter parties are banks with high credit ratings in Malawi.

(f) Liquidity risk management
Ultimate responsibility of liquidity risk management rests with management, which has built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity requirements. The Authority manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows on a daily, weekly and monthly basis and matching the maturity profiles of financial assets and liabilities.

3.14 Related party transactions

The Authority transacts a proportion of its business on arm's length basis with related parties and these are disclosed separately in the notes to the financial statements. The Authority discloses the nature of related party relationships, type of transaction(s) and the element of the transactions necessary for a proper understanding of the financial statements.

3.15 Provisions

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, which it is probable that the Authority will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.16 Employee service benefits

The Authority contributes towards a defined pension scheme for permanent employees, which is administered by National Insurance Company Limited. The Authority's contributions are recognised as an expense in the statement of comprehensive income. The Authority and the employees contribute 10% and 5% of the basic pay respectively. 1% administration costs of the pension fund are expensed directly in the statement of comprehensive income in the month they are incurred.

3.17 Taxation

(i) Income tax
The Authority is exempted from income tax in accordance with the First Schedule of the Taxation Act.

(ii) Deferred taxation
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences arising from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3.18 Trade and other receivables

Known bad debts are written off and specific provisions made for those considered to be doubtful.

3.19 Cash and cash equivalents

Cash and cash equivalents consists of cash in hand and balances with bankers.

3.20 Trade and other payables

Payables are measured at armotised cost using the effective interest method, less any impairment losses.

3.21 Retentions on development contracts

Retentions on development contracts are not a financial obligation of the Authority as an implementing agent of government contracts.

3.22 Critical accounting judgments and key sources of estimation uncertainty

(a) Critical judgments in applying the Authority's accounting policies
No critical judgments were made by the Board of Directors during the current year which would have a material impact on the financial statements.

(b) Key sources of estimation uncertainty
The key assumption concerning the future, and the key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below.

(i) Valuation of properties
Management has reviewed the remaining useful lives and the residual values used for the purposes of depreciation calculations in the light of the requirements for an annual review under the International Accounting Standard 16 Property, Plant and Equipment.

(ii) Provision of severance pay allowance
In terms of the Employment Act, severance allowance is payable to employees on termination of employment by mutual agreement, death, retirement, voluntary retirement, retrenchment or redundancy. A full provision has been included in the financial statements as a long term liability in accordance with the Employment Act Section 35(1), 35(6) and 59.

A total provision of MK45.3m had been made as at 30 June 2011. During the current year no additional provision has been made as a result of the current Pension Act legislation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The severance computation was based on each employee's gross remuneration package inclusive of all entitled benefits both in cash and in kind. The employees who have been in service for over 10 years had their severance allowance computed based on a full monthly gross remuneration package multiplied by the number of years in service. For employees with less than 10 years in service but above one year, the computation is two weeks pay multiplied by number of years in service.

The provision reflects the Authority's estimated liability to employees in respect of severance allowances as per Section 35 of the Employment Act. The provision includes years of employment under the defunct National Roads Authority.

(iii) Pension provision

The pensions bill which effectively mandates employers to maintain pension funds was passed in parliament was given the presidential assent and gazetting. The bill mandates the employer to pay to the pension fund accrued amounts of the severance pay to the extent that the employer's accumulated pension contributions is lower than the severance pay. This is to be accounted for prospectively in line with IAS 37: Provisions, Contingent Liabilities and Contingent Assets. At the reporting date, the Authority had not yet ascertained the accumulated pension for each employee.

3.23 Exchange rates and inflation

The average of the year-end buying and selling rates of the major foreign currencies affecting the performance of the organisation are stated below, together with the increase in the National Consumer Price Index, which represent an official measure of inflation.

	2011 MK	2010 MK
Kwacha/GB Pound	243.04	229.16
Kwacha/US Dollar	150.80	150.80
Kwacha/Rand	23.28	20.08
Inflation rate	7.1%	8.4%

At the time of signing the financial statements the exchange rates were as follows:-

Kwacha/GB Pound	257.63	243.96
Kwacha/US Dollar	164.84	150.80
Kwacha/Rand	19.94	22.44

4 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings MK'000	Motor vehicles MK'000	Office furniture & equipment MK'000	Total MK'000
Cost				
At 01/07/09	146,227	188,770	88,504	423,501
Additions	-	71,349	43,912	115,261
Disposals	-	(39,814)	(14,435)	(54,249)
At 01/07/10	146,227	220,305	117,981	484,513
Additions	-	11,397	28,128	39,525
Reinstated	-	12,985	-	12,985
Disposals	-	(9,973)	(6,127)	(16,100)
At 30/06/11	146,227	234,714	139,982	520,923
Depreciation				
At 01/07/09	413	76,426	52,542	129,381
Charge for the year	797	28,767	13,064	42,628
Depreciation eliminated on disposal	-	(26,541)	(11,285)	(37,826)
At 01/07/10	1,210	78,652	54,321	134,183
Charge for the year	797	32,159	16,419	49,375
Reinstated	-	9,297	-	9,297
Depreciation eliminated on disposal	-	(665)	(4,755)	(5,420)
At 30/06/11	2,007	119,443	65,985	187,435
Carrying amounts				
At 30/06/11	144,220	115,271	73,997	333,488
At 30/06/10	145,017	141,653	63,660	350,330

The leasehold land and buildings were handed over to the Roads Authority in 2006 at cost.

The land and buildings were revalued by Lipimbi Property Services (Chartered Property Valuers, Managers and Consultants) in June 2009 using the income approach basis. Under this method, the revalued costs were treated as new gross amount and accumulated depreciation was restated. The resultant surplus was taken to revaluation reserve.

The breakdown of property is as follows:-

	Valuation MK'000	Carrying amount MK'000
Land	10,500	-
Buildings	135,727	59,893
	146,227	59,893

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011 (CONTINUED)

	2011 MK'000	2010 MK'000

5 INVENTORIES

	2011 MK'000	2010 MK'000
Office stationery	3,509	3,949
Fuel	4,202	7,298
Office consumables	-	376
	7,711	11,623

6 RECEIVABLES

	2011 MK'000	2010 MK'000
Development projects	11,469,374	5,229,247
Mobilisation advances	2,248,018	4,125,618
Retention receivable - RFA	1,486,467	1,253,804
Materials on site	278,747	252,457
Salary advances	18,458	15,373
Other receivables	2,922	25,251
Staff loans	9,833	9,297
Prepayments	8,948	948
	15,522,767	10,911,995

The directors consider that the carrying value of receivables approximates to their fair value.

7 NON CURRENT ASSETS HELD FOR SALE

	2011 MK'000	2010 MK'000
Cost	-	41,290
Accumulated depreciation	-	(30,963)
	-	10,327

Non current assets held for sale comprised motor vehicles MK7.3 million and furniture and fittings MK3.0 million.

These assets were earmarked for sale as a result of the acquisition of new assets by the Roads Authority. The board approved the sale of these assets and the disposal took place during the year.

8 CASH AND CASH EQUIVALENTS

	2011 MK'000	2010 MK'000 *Restated
7 Day call account	27,428	37,747
DFID Funding - Ned Bank	5,601	22,424
Road fund - Ned Bank	27,869	-
Gratuity fund - Standard Bank	8,738	30,943
Central Region - current account - FMB	1,837	1,565
Northern Region - current account - FMB	1,562	1,862
Southern Region - current account - FMB	4,841	3,509
Cash in hand	81	81
	77,957	98,131
Overdraft		
Road fund - Ned Bank	-	(358)
Road fund - NBM	(14,999)	(11,974)
ISP account - Standard Bank	-	(6)
Word Bank Part II - Standard Bank	-	(1)
	(14,999)	(12,339)
Total cash and cash equivalents	62,958	85,792

The bank overdraft was a book balance only since the Authority has no formal bank overdraft facility.

9 DEFERRED INCOME

	2011 MK'000	2010 MK'000 *Restated
Balance brought forward	4,125,618	6,161,739
Released to statement of comprehensive income	(1,877,600)	(2,036,121)
Balance carried forward	2,248,018	4,125,618

10 REVALUATION RESERVE

	2011 MK'000	2010 MK'000 *Restated
Balance brought forward	59,004	85,162
Deferred tax on revaluation surplus	-	(25,549)
Transfer to general fund	(609)	(609)
Balance carried forward	58,395	59,004

11 CAPITAL GRANTS

	2011 MK'000	2010 MK'000 *Restated
Balance brought forward	73,356	84,142
Capital grants received	10,937	-
Release to statement of comprehensive income - Appendix I	(10,083)	(10,786)
Balance carried forward	74,210	73,356

12 GENERAL FUND

	2011 MK'000	2010 MK'000 *Restated
Balance brought forward	(685,990)	4,808,827
Deferred income - mobilisation advances	-	(6,161,739)
Prior year adjustment	610,815	795,655
Transfer from revaluation reserve	609	609
Surplus/(deficit) for the year	36,266	(129,342)
Balance carried forward	(38,300)	(685,990)

* The 2010 figures have been restated as a result of a change in accounting policy for mobilisation advances to contractors which are now deferred and taken to statement of comprehensive income over the life of the project.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

13 TAXATION

Income Tax

The Authority is exempted from income tax in accordance with the 1st Schedule of the Taxation Act.

Deferred tax

Deferred tax has been calculated in relation to the revaluation surplus that arose in 2009 when land and buildings were revalued.

	2011 MK'000	2010 MK'000

14 EMPLOYEE BENEFITS

	2011 MK'000	2010 MK'000
Balance at the beginning of the year	45,258	64,838
Paid during the year	-	(8,515)
Over provision in prior years	-	(11,065)
Balance at the end of the year	45,258	45,258

These benefits are in relation to severance allowance as detailed in note 3.22(b) (ii)

15 PAYABLES

	2011 MK'000	2010 MK'000
Contractors outstanding certificates	11,469,374	5,229,247
Retentions payable	1,486,467	1,253,804
Accrued expenses	532,394	1,194,966
PAYE payable	12,423	11,522
Withholding tax	996	449
Other creditors	349	-
	13,502,003	7,689,988

The directors consider that the carrying value of payables approximates to their fair value.

16 PROVISIONS

	2011 MK'000	2010 MK'000
Balance at the beginning of the year	37,284	18,092
Additions during the year	19,376	19,192
Paid during the year	(44,869)	-
Balance at the end of the year	11,791	37,284

The provision is in respect of staff gratuities as at 30 June 2011.

17 RELATED PARTIES

In the context of the Authority, related party transactions are considered by the directors to include any transactions made by any of the following persons:-

- The Chief Executive Officer, the Director of Finance and Administration, the Director of Construction, the Director of Planning and Design and the Director of Maintenance.
- The Chairman of the Board and the Board members
- Senior Government Officers
- Ministry of Transport and Public Infrastructure
- Cabinet Ministers and Head of State
- Spouses and children of the above persons
- Roads Fund Administration

Transactions with directors and key management personnel

The transaction to be reported are those that affect the Authority in making financial and operational decisions. Examples of such transactions include:-

- Procurement of contracts
- Awarding of contracts
- Disposal of assets

During the year MK116.9 million (2010 MK61.9 million) was paid to key management personnel in respect of salaries and benefits .
The Board of directors were paid MK19.5 million (2010: MK11.1 million) in respect of directors fees and expenses.
Other related party transactions

The Authority undertakes to disclose the nature of related party relationships, type of transaction(s) and the element of the transactions necessary for a proper understanding of the financial statements.

Compensation of key management personnel

During the year loans totalling to MK 9.3m (2010:MK1.09m) were advanced to employees in key positions. At 30 June 2011 the total advances outstanding balance from employees in key positions was MK5.9m (2010: MK0.72m). These advances were granted on the same interest and repayment terms as advances to other staff members. Furthermore, emoluments paid to the employees in key positions during the year were as follows:-

	2011 MK'000	2010 MK'000
Compensation of key management personnel	132,259	128,500

18 CONTINGENT LIABILITIES

The Government of Malawi enters into agreements with development partners and contractors in respect of development projects, which are administered by Roads Authority. The non-fulfilment of conditionalities in respect of these contracts may give rise to liabilities.

19 CAPITAL COMMITMENTS

The Authority is committed to an amount of MK25.0m in respect of refurbishment of the Authority's head office building. The Authority is further committed to MK38.0m for procurement of motor vehicles.

20 SUBSEQUENT EVENTS

There were no significant subsequent events which needed disclosure or adjusting the financial statements.

APPENDIX TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Appendix I

RECURRENT PROGRAMMES INCOME

	2011 MK'000	2010 MK'000 *Restated
Recurrent Programmes income		
RFA Funding - recurrent programmes	6,430,509	5,600,752
RFA Funding - recurrent programmes carry overs	1,164,753	1,549,091
Total Recurrent Programmes income	7,595,262	7,149,843
Operating income		
RFA funding - operating	810,474	778,299
Interest received	1,165	2,613
Other income	49,077	31,575
Grants released during the year	10,083	10,786
Total operating income	870,799	823,273
Total recurrent programmes operating expenses income	8,466,061	7,973,116
Grants		
Funds for development of roads		
EU Development funding	2,924,795	1,685,077
Peoples Republic of China funding	2,337,388	3,166,811
Malawi Government funding	17,730,888	16,720,412
JICA	386,128	-
African Development Bank funding	127,473	-
Kwait/BADEA funding	-	863,362
Total funds for development of roads	23,506,672	22,435,662
Other		
INSTAP funding	-	2,627
DFID funding	-	22,887
Total other	-	25,514
Total grants	23,506,672	22,461,176

The grants are obtained by the Government of Malawi for road maintenance and rehabilitation and paid in respect of the Authority's development programmes. The National Construction Industry Council, the Ministry of Transport and Public Infrastructure and the Ministry of Local Government work together in implementing the projects.

* The 2010 figures have been restated as a result of a change in accounting policy for mobilisation advances to contractors which are now deferred and taken to statement of comprehensive income over the life of the project.

APPENDIX TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Appendix II

RECURRENT PROGRAMMES EXPENSES

	2011 MK'000	2010 MK'000
Civil Works		
Routine Works		
Routine maintenance	1,152,973	1,175,433
Grading & reshaping	-	596,363
Pothole patching	745,909	326,560
Road marking	283,308	72,317
Accident spots improvement	34,045	32,604
Road signs replacement	30,410	65,888
Spot repairs	610,612	560,168
Timber bridge replacement	343,032	505,639
Community roads	646,554	-
Rehabilitation		
Rehabilitation of earth roads	38,906	29,702
Rehabilitation of paved roads	2,848,390	3,286,900
Emergency Works	181,250	94,606
Supervision and studies	624,379	633,359
Total civil works expenses	7,539,768	7,379,539
Operating expenses		
Salaries, wages and benefits	442,023	369,143
Motor vehicle fuel and oils	54,048	43,244
Motor vehicle repairs and maintenance	22,243	18,916
Subsistence allowances	29,368	17,060
Hotel accommodation	44,307	41,050
Chairman's expenses	3,536	105
Board committees' expenses	3,610	2,239
Main board expenses	11,168	8,268
Directors fees	1,164	505
Advertising and publications	4,544	3,938
Total operating expenses	616,011	504,468
Total Recurrent Programmes and operating expenses	8,155,779	7,884,007

APPENDIX TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

APPENDIX III

DETAILED SOURCE AND UTILISATION OF GRANTS

	EU Development Funding MK'000	Malawi Government Funding MK'000	JICA Japanese Funding MK'000	Republic of China Funding MK'000	ADF Funding MK'000	Total 2011 MK'000	Total 2010 MK'000 *Restated
Operating income	2,924,795	17,730,888	386,128	2,337,388	127,473	23,506,672	22,461,176
Expenditure							
Civil works							
- Rehabilitation	1,815,153	1,776,327	-	-	-	3,591,480	2,620,540
- Upgrading	803,656	14,961,396	386,128	2,337,388	-	18,488,568	16,831,189
Supervision, design and studies							
- Supervision	305,986	846,585	-	-	-	1,152,571	1,348,489
- Design and studies	-	-	-	-	127,473	127,473	-
Other project expenditure							
- Compensations	-	146,580	-	-	-	146,580	1,655,063
- Training	-	-	-	-	-	-	5,895
Total expenditure	2,924,795	17,730,888	386,128	2,337,388	127,473	23,506,672	22,461,176
Surplus/(deficit) for the year	-	-	-	-	-	-	-

* The 2010 figures have been restated as a result of a change in accounting policy for mobilisation advances to contractors which are now deferred and taken to statement of comprehensive income over the life of the project.

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APPENDIX TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

APPENDIX IV

ADMINISTRATION EXPENSES

	2011 MK'000	2010 MK'000
Depreciation	49,375	42,628
External training expenses	31,100	23,784
Insurance	26,485	19,662
Printing and stationery	13,941	9,666
Loss on disposal of property, plant and equipment	4,602	494
Public relations	15,572	14,326
Computer system maintenance	13,382	12,707
Office rent and rates	13,864	11,977
Medical expenses	11,463	8,450
Legal fees	10,516	6,334
Subscription and donations	9,650	10,649
Audit fees - entity	7,836	5,150
Consumables	8,132	6,085
Telephone, fax and email	8,729	6,586
Staff costs and HIV Aids expenses	5,896	2,940
Workshop expenses	5,469	5,086
Travel - foreign	10,103	8,553
Staff welfare expenses	4,836	3,256
Uniforms	3,315	12
Staff training and local training expenses	3,022	2,185
Tevet payroll levy	3,444	3,674
Security	2,181	2,127
R & M equipment	2,452	1,535
Water	1,947	1,765
Electricity	1,922	1,517
Postage	1,525	1,126
Bank charges	1,154	1,004
Hired transport	614	659
Entertainment	396	395
Travel - local	384	348
Licenses	370	346
Repairs and maintenance - equipment	254	3,042
Recruitment expenses	85	383
Total administration expenses	274,016	218,451