



MEMORANDUM

DATE: November 26, 2019

TO: Millennium Challenge Corporation, Chief Risk Officer, Audit, Risk, and Controls Division, Alice Miller

FROM: Acting Director of External Financial Audits Division, Steve Shea/s/

SUBJECT: Financial Audit of Malawi Government Funds Managed by Millennium Challenge Account (MCA) Malawi, Under the Compact Agreement Between MCC and GoM Audit Report for the Period January 1, 2016 to November 30, 2018 (3-MCC-20-004-N)

This memorandum transmits the final audit report on Government of Malawi (GoM) funds Managed by MCA-Malawi for the period ended November 30, 2018. PricewaterhouseCoopers was selected by MCA-Malawi to conduct a financial audit of GoM monies provided to MCA-Malawi to fund the rehabilitation of Nkula A Hydro Power Plant. The Contribution Implementation Letter, together with a Co-Funding Agreement, dated January 7, 2016, between MCA-Malawi and the Electricity Supply Corporation of Malawi Limited (ESCOM), also established procedures and protocols that enabled MCA-Malawi to manage and apply the Government monies to the financing of the Nkula Sub-activity. The Government, acting through ESCOM, satisfied its commitment by depositing an estimated \$10.96 million in total to a segregated MCA-Malawi account and MCA Malawi paid invoices for goods, works, and services procured for the rehabilitation of Nkula A Hydro Power Plant with total approximate value of \$10.36 million using funds from that account.

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards, except that the audit firm did not have an external peer review and did not fully comply with continuing professional education standards as required by generally accepted government auditing standards. The audit firm believes that the effects of this departure from generally accepted government auditing standards is not material, as the firm's engagement leader, manager and audit senior are in compliance with generally accepted government auditing standards' continuing professional education requirements. The audit firm is responsible for the enclosed report and conclusions expressed in it. We do not express an opinion on MCA-Malawi's fund accountability statement; the effectiveness of its internal control; or its compliance with the agreement, laws, and regulations.¹

¹ We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate and obtain an understanding of MCA-Malawi's internal control structure related to Millennium Challenge Corporation (MCC) funded programs; and (3) determine whether MCA-Malawi complied with agreement terms and applicable laws and regulations. To answer the audit objectives, the audit firm conducted an audit of GoM's expenditures towards the rehabilitation of Nkula A Hydro Power Plant in line with requirements for the period from January 1, 2016, to November 30, 2018. Costs incurred for this period were \$10,360,886.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, program revenues, costs incurred, reimbursed, and commodities and technical assistance procured by MCA-Malawi from financing provided by GoM for the period audited. The audit firm did not identify any deficiencies in internal control or material instances of noncompliance.

We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").