ROADS AUTHORITY

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.

ROADS AUTHORITY

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

ROADS AUTHORITY

STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED 30 JUNE 2011

	Deferred income MK'000 *Restated	**Revaluation reserve MK'000**	**Capital grants MK'000**	**General fund MK'000 *Restated**	**Total MK'000**
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.

ROADS AUTHORITY

STATEMENT OF CASHFLOWS
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.

The notes on pages 9 to 25 form part of the financial statements
Auditor's Report - Page 4

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.

Income (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.

Foreign currencies (continued)

(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.

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.

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.

(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.

Deferred taxation (continued)

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.

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

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

		2011 MK'000	2010 MK'000
6	**RECEIVABLES**		
	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.

		2011 MK'000	2010 MK'000
7	**NON CURRENT ASSETS HELD FOR SALE**		
	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.

		2011 MK'000	2010 MK'000
8	**CASH AND CASH EQUIVALENTS**		
	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

		2011 MK'000	2010 MK'000
	CASH AND CASH EQUIVALENTS (continued)		***Restated**
	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.

		2011 MK'000	2010 MK'000
9	**DEFERRED INCOME**		
	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**		
	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**		
	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**		
	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

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		
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.