

Common Market for Eastern and
Southern Africa (COMESA) Secretariat

Financial Statements
for the year ended 31 December 2017

COMESA - Secretariat
Financial Statements
for the year ended 31 December 2017

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COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Details of professional advisors

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COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Transmittal Statement

I am pleased to submit the Financial Statements of the COMESA Secretariat for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, statements of income and expenditure, changes in accumulated funds and cash flows for the year then ended, and the notes to the financial statements, which have been prepared in compliance with the requirements of the International Financial Reporting Standards (IFRS), Treaty and the financial rules and regulations of the COMESA Secretariat.

The Financial Statements have been audited by the Grant Thornton Zambia. Their opinion is included in the Financial Report. A report to Management is separately issued.



Chileshe Mpundu Kapwepwe
SECRETARY GENERAL

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Secretary General's report

Introduction

- 1 I have the pleasure of submitting this report to the Council of Ministers for the financial year 2017, together with the audited financial statements of COMESA Secretariat for the year ended 31 December 2017. This submission is in accordance with Article 169 (4) of the COMESA Treaty.
- 2 These financial statements incorporate resources provided by Member States; Cooperating Partners and other income in accordance with Article 166 (3) and Article 168 (3), of the COMESA Treaty.
- 3 The report of the external auditors and their opinion on the financial statements are submitted in accordance with Article 169 (4) under the Treaty. The external auditors are appointed by the Council of Ministers in accordance with provision under Article 169(2) of the COMESA Treaty.

Strategic context

- 4 The financial statements provide a complete overview of the finances of the Secretariat for the financial 2017 – this includes information on the financial position of the Secretariat, how the budget has been implemented, as well as the financial commitments and obligations that the Secretariat has undertaken.
- 5 In order to reflect the multiannual nature of the Secretariat's activities, the accounts include explanations of the key financial figures and their evolution. The financial year 2017 was characterized by major achievements and some challenges for the Common Market. The Secretariat budget focused on strengthening the COMESA economy, boosting jobs and growth. The labour market conditions, particularly for the youth remain challenging. Job creation and growth of intra-COMESA trade has been less than optimal.
- 6 As the continental FTA kicks-off, it will certainly benefit from the lessons of COMESA FTA, as well as the Tripartite FTA.
- 7 Results of Secretariat's financial operations for the financial year 2017 are reflected in these audited financial statements. The COMESA Treaty and 2016-2020 Medium Term Strategic Plan sets out the strategic context, in particular the following:
 - (i) Activities of Secretariat are intended to contribute towards Member States' pursuit of a more balanced and harmonious development of production and marketing structures; raising standard of living of people; fostering closer relations among Member States; creating of an enabling environment for trade and investment; promoting peace and security and stability; towards the attainment of sustainable growth and development; and strengthening of relations between the Common Market and the rest of the world.
 - (ii) Work programmes are aimed at consolidating the COMESA Free Trade Area, as well as laying the ground work for deeper regional and continental integration

COMESA - Secretariat
 Secretary General's report (continued)
 for the year ended 31 December 2017

8 The impact from the implementation of the 2017 annual plan and budget by the Secretariat should thus be seen from positive trends on the following: -

- (i) Strengthening Market Integration;
- (ii) Attracting Increased Investments;
- (iii) Strengthening the Blue / Ocean Economy;
- (iv) Harnessing the Benefits of Strategic Partnerships;
- (v) Strengthening Development of Economic Infrastructure (Energy, Transport and ICTs);
- (vi) Laying a framework for Industrialization;
- (vii) Fostering Gender Equality & Social Development;
- (viii) Ensuring Regional and Secretariat Readiness; and
- (ix) Strengthening Regional Knowledge and Skills Capacity.

9 COMESA Member States and its Cooperating Partners have from 2005 availed substantial financial resources towards implementation of the COMESA programme, as indicated in Table 1 below:

Table 1: Funds received through the COMESA Secretariat towards implementation of COMESA programmes in the period 2005 to 2017 (in COM\$)

Year	2005-2009	2010-2014	2015	2016	2017	Total
Cooperating Partners	65,027,083	166,689,663	27,442,698	25,184,588	19,093,591	303,437,623
Member States	35,790,887	60,441,517	14,344,207	10,816,301	13,690,729	135,083,641
TOTAL	100,817,970	227,131,180	41,786,905	36,000,889	32,784,320	438,521,265

Source: Report of Council on Funding of COMESA programmes, November 2017

10 Included in the US\$303 million availed by Cooperating Partners is US\$140 million which has been disbursed to Member States of COMESA towards the implementation of programmes. This is in accordance with the implementation framework of COMESA programmes, as stipulated in the Medium Term Strategic Plan.

11 COMESA is in the process of programming additional funds allocated by the European Union (€85 million under 11th RIP/EDF to COMESA programmes) and the United States Agency for International Development (USAID) (US\$77,628,100 under Regional Development Objectives Grant Agreement (RDOAG) towards the implementation of COMESA programmes. These funds will be implemented over the next 3 – 5 years.

12 Secretariat's institutional systems and processes are consistently rated as being in line with global best practice and international standards, where required. This provides a positive assurance to Member States and Cooperating Partners about accountability of funds. Led by the European Union and United States Agency for International Development, a number of Cooperating Partners have accepted use of Secretariat's rules and procedures.

13 Secretariat is increasingly allowed to sub delegate funds from Cooperating Partners to Member States and other partners to support the implementation of COMESA programmes.

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Secretary General's report (continued)
for the year ended 31 December 2017

- 14 The organisation continues to keep its pace with the major stakes of the world economic development, including the international consensus around industrialization as the backbone of responsible socio-economic development, including the provision of necessary added value to the abundant natural resources available in the Common Market and addressing key economic development enablers.

Oversight over operations of the COMESA Secretariat

- 15 In keeping with the principles of good corporate governance, the Council of Ministers provides oversight over the operations of the COMESA Secretariat by giving direction to the COMESA Secretariat through, among other activities:

- (i) Approval of COMESA Secretariat's annual budget and annual financial statements;
- (ii) Enacting of Staff Rules and Regulations and Financial Regulations of the COMESA Secretariat; Review technical reports on the implementation of policy, rules and regulations by the COMESA Secretariat; and
- (iii) Appointing of external auditors and receiving reports of the external auditors.

- 16 In between meetings of the Council of Ministers, the Bureau of Council attends to oversight matters, within the framework of the Treaty and as provided within other specific policies, rules and regulations. Bureau of the Council comprising of Chairman, Vice-Chairman and Rapporteur oversee the functioning of the Secretariat in between meetings of the Council of Ministers. These are rotate among the members of the Council for a term of one year. For 2017, the following Member States constituted the Bureau:

- (i) Madagascar: Chairperson
- (ii) Burundi: Vice Chairperson
- (iii) Ethiopia: Rapporteur

- 17 Administrative and Budgetary Committee and its subcommittee and Intergovernmental Committee undertakes technical work and provides relevant advisory to the Council of Ministers. Auditors General from COMESA Member States were designated as External Auditors of COMESA Secretariat.

2017 Performance overview

Operations

- 18 The Secretariat operations in 2017 focused on programmes and activities which consolidated the COMESA Free Trade Area. These, include support to and consultations with Member States, who are preparing to join the COMESA FTA. The Secretariat is actively working towards addressing constraints, which reduce benefits of the FTA. Instruments being improved and or developed, include the following: -

- (a) Those dealing with Rules of Origin;
- (b) Development of electronic Certificate of Origin;
- (c) Trade and transport facilitation instruments;
- (d) Border and customs instruments
- (e) Elimination of Non-Tariff Barriers;
- (f) Regional Customs Transit Bond;

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Secretary General's report (continued)

for the year ended 31 December 2017

- (g) Work towards roll-out of trade in services programme;
- (h) Payment and monetary programme; and
- (i) Free movement of persons.

19 In the same period, work towards operationalization of Tripartite FTA has continued and negotiations towards Continental Free Trade Area are at an advanced stage.

20 Secretariat has continued to carry out work in the context of preparations of its Customs Union. A number of significant Customs Union instruments have been developed. Some of these are being implemented.

21 Secretariat's operations in 2017 extended to addressing infrastructure challenges, which reduces the benefits of COMESA FTA. Activities were carried out relating to: -

- (a) Identification of priority bankable infrastructure projects;
- (b) Power interconnectivity;
- (c) Post-conflict reconstruction; and
- (d) Transport, energy and communications.

22 In 2017, the Secretariat also carried out activities aimed at promoting COMESA as an investment region. These, included: -

- (a) Facilitating investment promotion activities; and
- (b) Exploring COMESA – China investment linkages.

23 Recognising potential impact of value addition and market linkages, the Secretariat contributed to the development of SME clusters' model, including expanding local sourcing and development of a regional framework on mineral beneficiation.

- (a) Facilitating investment promotion activities; and
- (b) Exploring COMESA – China investment linkages.

24 Being a COMESA Policy Organs mandated to institutionalize decisions of COMESA Policy Organs, the Secretariat continued to facilitate activities of other COMESA Institutions, Entities, Sector and Regulatory Associations towards the objectives of the Common Market.

25 Effective implementation of COMESA programmes is underpinned by: -

- (a) governance, peace and security cooperation that is shared among the Member States of COMESA. In 2017, activities focused on conflict prevention; consolidation of democracy; and regional maritime security, among others;
- (b) a continued commitment to climate change mitigation and adaption programmes, covering not only climate change policy and strategy development and strengthening, but also project development and implementation, technical capacity building and ensuring adequate access to climate finance for its Member States. COMESA also provides a platform to share experiences, best practices and opportunities among Member States, which forms part of the south-south cooperation.

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Secretary General's report (continued)
for the year ended 31 December 2017

- (c) The initiatives increase the resilience of the COMESA region to climate change and achieve the UN's sustainable development goals in particular Goal 13 "Take urgent action to combat climate change and its impacts" in order to reduce poverty and promote sustainable development. The programmes also indirectly contribute to the conservation of biodiversity by applying ecosystem-based solutions to climate change adaptation and disaster risk reduction.
- (d) sustenance of robust and effective controls across management systems and processes, across all operations and support services to enable the Secretary General and the Secretariat fulfill the mandate, as provided for under the Treaty.

Financial results

26 The Secretariat recorded income for the year of COM\$1,831,945 in 2017 (2016: COM\$497,942) as at December 2017.

27 In the year 2017, the Secretariat recognised total income of COM\$14,314,982 which is a increase of 1% from the income of COM\$14,180,493 recognised in 2016.

28 Analysis of the income recognised in the year is presented in Table 2 below:

Table 2: Funds received through the COMESA Secretariat towards implementation of COMESA programmes in the period 1 January to 31 December 2017 (in COM\$)

<i>Income Item</i>	2017	2016	Change %
Member States contributions	13,873,608	13,617,509	2%
Other income	441,374	562,984	-22%
Total income	14,314,982	14,180,493	1%

29 A total expenditure COM\$13,502,963 is reported in 2017 against an amount of COM\$13,152,195 in 2016, i.e. an increase of 2.6%. Against the budget for the year, the Secretariat achieved a utilisation rate of 97% (Budget: COM\$13,841,996; Actual: COM\$13,490,558) on funds provided by Member States.

30 Assets under the control of Secretariat have increased from COM\$58,479,344 in 2016 to COM\$69,795,677 in 2017, i.e. 19%. Included in these funds are outstanding amounts due on assessed annual contribution of COM\$17,992,908 (2016: COM\$15,792,018).

COMESA - Secretariat

Secretary General's report (continued)
for the year ended 31 December 2017

Looking beyond 2017

- 31 COMESA will continue to implement the 2016-2020 Medium Term Strategic Plan. Adjustments, taking account achievements made to date, as well as emerging regional, continental and global issues will be proposed to COMESA Policy Organs in 2018-2019.
- 32 I have been welcomed by the Common Market, as Secretary General, taking over from Mr. Sindiso Ngwenya whose ten (10) year tenure came to a successful conclusion in July 2018. I will build on his achievements, as well as implement adjustments that are required by the Common Market, its Member States, Organs, Institutions and Entities.
- 33 As I conclude, I wish to thank their Excellencies, Heads of State and Government for the confidence shown in appointing me to the position of Secretary General of the Common Market. I will greatly benefit from their Excellencies leadership and wise counsel and that of all COMESA Policy Organs.



Chileshe Mpundu Kapwepwe
Secretary General
Lusaka, Zambia

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Statement of responsibility in respect of preparation of financial statements

Pursuant to requirements of the COMESA Treaty, the Secretary General is responsible for overseeing the preparation, fair presentation and overall integrity of the COMESA Secretariat financial statements, comprising the statement of financial position as at 31 December 2017, statements of income and expenditure, changes in accumulated funds and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and the requirements of the COMESA Treaty and financial rules and regulations.

The Secretary General is responsible for establishing and maintaining effective internal control over external financial reporting in conformity with the basis of accounting. The system of internal control contains monitoring mechanisms and actions that are taken to correct deficiencies identified. Internal control for external financial reporting are subject to ongoing scrutiny and testing by Secretary General and internal audit and are revised as considered necessary. The Secretary General believes that such controls support the integrity and reliability of the financial statements.

There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, an effective internal control system can provide only reasonable, as opposed to absolute, assurance with respect to financial statements' preparation and presentation. Furthermore, the effectiveness of an internal control system can change over time

The COMESA Council of Ministers has established an Audit and Budgetary Matters Sub Committee to facilitate the execution of the mandate of COMESA oversight structures, in their responsibility for the soundness of the Secretariat's accounting policies and practices and the effectiveness of internal control. The reports from external auditors and the internal auditors are deliberated upon by the Audit and Budgetary Matters Sub Committee to assess the adequacy of internal controls over financial reporting and any other matter that may require its attention.

The Secretariat's assessment of the effectiveness of its internal controls is based on adherence to the provisions under the COMESA Treaty, COMESA financial rules and regulations and other requirements, all of which establish an Integrated Internal Control Framework for the Secretariat. Based on the results of this assessment, the Secretary General asserts that the Secretariat has maintained effective internal controls over its financial reporting as contained in the financial statements as of 31 December 2017. The Secretary General is not aware of any material control weakness that could affect the reliability of the 2017 financial statements.

The Secretary General has made an assessment of the Secretariat's ability to continue as a going concern and has no reason to believe that the Secretariat will not be a going concern in the year ahead, as explained in note 2 (basis of preparation) of the financial statements.

Grant Thornton is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, as described above.

Approval of the financial statements

The 2017 financial statements of COMESA Secretariat, as identified in the first paragraph, were approved by the Secretary General on 31 October 2019 and signed by:



Cleopent Kanyama
DIRECTOR (BUDGET AND FINANCE)



Dr Dev Haman
ASSISTANT SECRETARY GENERAL (ADMINISTRATION AND FINANCE)

Independent COMESA Auditor's report

To the members of Common Market for Eastern and Southern Africa (COMESA)
Secretariat

Report on the Audit of the Financial Statements**Opinion**

We have audited the financial statements of The Common Market for the Eastern and Southern Africa Secretariat which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in accumulated funds and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the COMESA Secretariat Member funds as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the COMESA Secretariat in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Secretary General is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the COMESA Treaty and financial rules and regulations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Secretary General is responsible for assessing COMESA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the COMESA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the COMESA Secretariat's financial reporting process.

Partners

Edgar Hamuwele (Managing)
Christopher Mulenga
Wesley Beene
Rodia Musonda
Chilala Banda

Chartered Accountants
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Audit • Tax • Advisory

COMESA - Secretariat

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 COMESA Secretariat's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the COMESA Secretariat's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the COMESA Secretariat to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements of The Common Market for the Eastern and Southern Africa Secretariat as at 31 December 2017 have been properly prepared in accordance with the COMESA Treaty and financial rules and regulations and the accounting and other records and registers have been properly kept in accordance with the regulations



Chartered Accountants



Wesley M. Beene (AUD/F000465)
Name of Partner signing on behalf of the Firm

Lusaka

Date: 31 October 2019

COMESA – Secretariat

Financial Statements
as at 31 December 2017

Statements of financial position

<i>In COMESA Dollar</i>	<i>Note</i>	2017	2016
Assets			
Non-current assets			
Property and equipment	5(a)	26,393,545	18,118,301
Capital Work in Progress	5(b)	3,668,032	3,717,233
Investment in equity	6	<u>2,354,953</u>	<u>2,098,965</u>
Total: Non-current assets		<u>32,416,530</u>	<u>23,934,500</u>
Current assets			
Member states contributions receivable	7(a)	17,992,908	15,792,020
Amounts due from Projects and other COMESA Entities	8(a)	3,149,546	2,621,499
Amounts due from Other RECs	8(b)	83,483	65,641
Contributions receivable for Economic Partnership Agreement	9	-	120,000
Other receivables	10	806,871	735,405
Cash and cash equivalents	11	<u>15,346,339</u>	<u>15,210,280</u>
Total: Current assets		<u>37,379,147</u>	<u>34,544,844</u>
Total: Assets		<u>69,795,677</u>	<u>58,479,344</u>
Accumulated funds and liabilities			
Accumulated funds and reserves			
Reserve fund	12	10,100,607	11,844,736
Accumulated funds	13	46,527,754	30,335,426
Revaluation reserve	14	<u>8,676,052</u>	<u>12,396,168</u>
Total: Accumulated funds and reserves		<u>65,304,413</u>	<u>54,576,330</u>
Non-current liabilities			
Capital grants	15	<u>475,381</u>	<u>537,913</u>
Total: Non - current liabilities		<u>475,381</u>	<u>537,913</u>
Current liabilities			
Trade payables	16	283,925	333,622
Amounts due to COMESA entities	17	2,037,859	2,918,469
Trust Creditors	18	919,442	-
Post-employment benefit	19	127,973	33,646
Accruals and provisions	20	<u>646,684</u>	<u>79,364</u>
Total: Current liabilities		<u>4,016,333</u>	<u>3,365,102</u>
Total: liabilities		<u>4,491,264</u>	<u>3,903,015</u>
Total: Accumulated funds and liabilities		<u>69,795,677</u>	<u>58,479,344</u>

These 2017 financial statements of COMESA Secretariat were approved by the Secretary General on 31 October 2019 and signed by:


Clement Kanyama
DIRECTOR (BUDGET AND FINANCE)


Dr. Dev Haman
ASSISTANT SECRETARY GENERAL (ADMINISTRATION AND FINANCE)

COMESA – Secretariat

Financial Statements

for the year ended 31 December 2017

Statement of income and expenditure

<i>In COMESA Dollar</i>	<i>Note</i>	2017	2016
Income			
Member States contributions	7(a)	13,873,608	13,617,509
Other income	23 (a)	441,374	562,984
Total income		14,314,982	14,180,493
Expenditure by function			
Executive management		(1,564,553)	(2,285,507)
Human resources and administration		(4,010,432)	(3,895,359)
Budget and finance		(923,479)	(663,272)
Trade and customs		(938,495)	(806,956)
Infrastructure and logistics		(656,045)	(658,424)
Agriculture, environment and natural resources		(713,020)	(616,052)
Legal and institutional affairs		(610,414)	(419,167)
Gender and social affairs		(436,881)	(512,289)
Information technology		(767,066)	(715,831)
Internal audit		(372,891)	(311,928)
Strategic planning		(233,409)	(238,753)
Resource mobilisation and international Cooperation		(209,936)	(192,335)
Public relations		(344,962)	(273,466)
Resource Centre		(119,075)	(114,983)
Estates Unit		(201,845)	(252,914)
Brussels liaison office		(345,489)	(362,753)
Depreciation on property and equipment		(1,054,971)	(832,205)
Total expenditure: Member States funded	24	(13,502,963)	(13,152,195)
Finance income	25	749,852	706,291
Finance costs	26	(496,805)	(1,236,646)
Operating Surplus		1,065,066	497,942
Other Comprehensive Income	23 (b)	766,879	-
Total Comprehensive Income for the year		<u>1,831,945</u>	<u>497,942</u>

COMESA – Secretariat

Financial Statements

for the year ended 31 December 2017

Statement of changes in accumulated funds and reserves

In COMESA Dollar

	Reserve funds	Accumulated funds	Revaluation Reserve	Total
Balance at 1 January 2016	-	41,261,072	12,817,451	54,078,523
Surplus for the year	-	497,942	-	497,942
Transfer to reserve funds	13,941,861	(13,941,861)	-	-
Net cash transfer from reserve fund	(2,097,125)	2,097,125	-	-
Amortisation of the revaluation reserve	-	421,283	(421,283)	-
Balance at 31 December, 2016	11,844,736	30,335,561	12,396,168	54,576,465
Balance at 1 January 2017	11,844,736	30,335,561	12,396,168	54,576,465
Surplus for the year	-	1,831,945	-	1,831,945
Revaluation amount	-	-	8,932,799	8,932,799
Transfer from revaluation reserve*	-	12,396,168	(12,396,168)	-
Prior year adjustment	-	(3,691)	-	(3,691)
Transfer to reserve fund (Note 12:2)	6,832,218	(6,832,218)	-	-
Transfer to accumulated funds**	-	187,798	-	187,798
Net cash transfer to reserve fund (Note 12:2)	(8,425,444)	8,425,444	-	-
Transfer to income	(150,903)	-	(70,000)	(150,903)
Capital grant	-	-	(70,000)	(70,000)
Amortisation of the revaluation reserve	-	186,747	(186,747)	-
Balance at 31 December 2017	10,100,607	46,527,754	8,676,052	65,304,413

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Statements of changes in accumulated funds *(continued)*

In COMESA Dollar

Reserve fund

The reserve funds are derived from realized surplus of member states contributions over expenditure and other income. These have accumulated over a period. The use of the reserve fund is governed by Financial Rules 45 and 46(A and B) of the COMESA Financial Rules and Regulations. The reserve fund is represented by cash held by banks. Details on reserves are provided in note 12.

Accumulated funds

Accumulated funds are the brought forward recognised income, net of expenses of the Secretariat, plus the current period surplus. Year- end receivables on assessed annual contributions from Member States are part of accumulated funds. Subsequent receipts of prior year assessed annual contributions from Member States are transferred into the reserve fund in line with requirements of the COMESA Financial Rules and Regulations.

**Capital grants represents the value of assets transferred to the Secretariat by the multilateral and bilateral cooperation partners without charge to the Secretariat. Capital grants are deferred and credited to the income statement over the useful life of the related assets.

The unamortised Capital Grant US\$187,798 is credited to accumulated fund to reverse the balance on Capital Grant account on the date of asset revaluation.

Revaluation reserve

*As stated in note xxx, the Secretariat undertakes a revaluation of its property and equipment every five (5) years. Prior to 2017, the surplus recognised at revaluation was amortised over five (5), without taking account the remaining useful life of the relevant its property and equipment. The credit into accumulated funds reverses the increased depreciation that had been charged in 2012 to 2016 financial years on the revaluation surplus. US\$12,396,168 is accordingly being reversed.

Effective 2017, the surplus recognised in revaluation reserve is amortised over either five (5) years and or less, whichever is lower based on remaining useful life of the relevant property and equipment.

Any unamortised surplus is reversed at the next revaluation cycle through accumulated fund.. The revaluation surplus recognised in 2017 of US\$8,932,799 shall be amortised over either five (5) years and or less, whichever is lower.

COMESA – Secretariat

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for the year ended 31 December 2017

Statement of cash flows

In COMESA Dollar

	<i>Notes</i>	2017	2016
Operating surplus for the year		1,831,945	497,943
Adjustments for (Income/Expenditure- Non: cash)			
Depreciation	<i>5(a)</i>	1,054,971	832,205
Gain on disposal of property and equipment	<i>23(a)</i>	(14,491)	-
Finance income	<i>25</i>	(493,864)	(434,845)
Dividend income	<i>23(a)</i>	(33,232)	(30,991)
Amortisation	<i>23(a)</i>	(27,955)	(35,907)
Gain on Investment in equity	<i>23(b)</i>	(255,988)	(361,394)
		<u>2,061,388</u>	<u>467,011</u>
Changes in (working capital)			
Amounts due / to from other COMESA Projects and Entities	<i>8(a)</i>	(528,048)	496,168
Decrease/ (Increase) in receivables	<i>8(b)-10</i>	27,582	(178,337)
Increase/ (Decrease) in payables	<i>16-20</i>	588,250	660,338
		<u>87,784</u>	<u>978,169</u>
Interest received	<i>25</i>	218,795	419,579
Net cash generated from/ utilised in operating activities		<u>2,367,968</u>	<u>1,864,760</u>
Cash flows from investing activities			
Increase/(decrease) of property and equipment	<i>5(a)</i>	(337,066)	(298,360)
Dividend received	<i>23(a)</i>	33,232	30,991
Net cashflows in investing activities		<u>(303,834)</u>	<u>(267,369)</u>
Cash flows from financing activities			
(Increase)/decrease in Member States contributions receivables	<i>7(a)</i>	(2,200,889)	(3,049,443)
Reserve fund movement in the year	<i>12</i>	172,979	-
		<u>-</u>	<u>-</u>
Net cash flows from financing activities		<u>(2,027,910)</u>	<u>(3,049,443)</u>
Effect of exchange rate adjustments	<i>25</i>	100,415	15,264
Cash and cash equivalents		136,639	(1,436,787)
Cash and cash equivalents at beginning of the year		<u>15,209,701</u>	<u>16,646,488</u>
Cash and cash equivalents at end of the year		<u>15,346,339</u>	<u>15,209,701</u>

COMESA – Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements

1. Reporting entity

The COMESA - Secretariat ('the Secretariat') was formed in 1992 at the Tenth Authority meeting of the Preferential Trade Area of Eastern and Southern Africa (PTA) when a decision was made to transform the PTA into COMESA. The organisation currently has a membership of nineteen (19) states, namely Burundi; Comoros; Democratic Republic of Congo; Djibouti; Egypt; Eritrea; Ethiopia; Kenya; Libya; Madagascar; Malawi; Mauritius; Rwanda; Seychelles; Sudan; Swaziland; Uganda; Zambia; and Zimbabwe. In July 2018, the COMESA Authority at its meeting held in Lusaka Zambia admitted Somalia and Tunisia as Member States of COMESA.

The Secretariat is domiciled in Zambia. Its registered office is COMESA Centre, Ben Bella Road, P. O. Box 30051, Lusaka.

Operations of COMESA are carried out by its Organs and Institutions.

COMESA Secretariat is established under Article 7 of the Treaty, as an Organ of the Common Market. It is headed by the Secretary General, assisted by Assistant Secretary Generals and staff, as established by the Council of Ministers. The Secretary General responsibilities include, the following: -

- (i) Servicing and assisting the organs of the Common Market in the performance of their functions;
- (ii) Submitting reports in consultation with the Intergovernmental Committee on the activities of the Common Market to the Council and the Authority;
- (iii) Responsibility for the administration and finances of the Common Market;
- (iv) Submitting the budget of the Common Market;
- (v) Acting as the secretary to the Authority and the Council;
- (vi) ensuring that objectives set out in the COMESA Treaty are attained and shall, either on her own initiative or on the basis of a complaint, investigating a presumed breach of the provisions of this Treaty and reporting to the Council in accordance with an investigative procedure to be determined by the Council;
- (vii) keeping the functioning of the Common Market under continuous examination and may act in relation to any matter which appears to merit examination either on his own initiative or upon the request of a Member State where appropriate and report the results of his examination to the Member State or the organ of the Common Market concerned;
- (viii) subject to the provisions of the COMESA Treaty submitting references to the Court concerning the alleged breach of any obligation under this Treaty in relation to the Common Market or as to any action or mission affecting the Common Market;
- (ix) promoting the adoption of joint positions by the Member States in multilateral negotiations with third countries or international organisations;
- (x) on her own initiative or as may be assigned to her by the Authority or the Council, undertake such work and studies and perform such services as relate to the aims of the Common Market and to the implementation of the provisions of this Treaty; and

COMESA – Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

1 Reporting entity (Continued)

- (xi) for the performance of the functions conferred upon him by this Article, collect information and verify matters of fact relating to the functioning of the Common Market and for that purpose may request a Member State to provide information relating thereto.

Operations of the Secretariat are funded in accordance with the provision under Article 166 (3) of the Treaty. Its budget is funded by Member States through annual assessed contribution and such other resources as may be determined by the Council. In accordance a provision under Article 168 (3) of the Treaty, other resources of the Secretariat, include grants, donations, funds for projects and programmes and technical assistance and income earned from activities undertaken by the Common Market.

Pursuant to provisions under Article 169 of the COMESA Treaty, the Secretary General prepares the annual financial statements of the operations of SADC Institutions, which are then audited. Council appoints the external auditors in line with the Treaty.

2. Basis of preparation

2.1 Statement of compliance and basis of preparation

The financial statements of the COMESA Secretariat herein referred to as the Secretariat have been prepared in accordance with and comply with International Financial Reporting Standards and the requirements of COMESA Treaty; COMESA Financial Rules and Regulations. The financial statements have been prepared on historical cost basis, unless otherwise stated. The statement of cash flows is prepared using the indirect method.

Details of the Secretariat's accounting policies are included in note 38.

2.2 Going concern

As a result of the funding activities undertaken and the increased focus on working capital, the Secretariat continues to maintain a good short-term and medium-term liquidity position. The Secretariat's forecasts and projections do take into account reasonableness and possible changes in operations and demonstrate that the Secretariat should be able to operate within the level of its current financing.

The Secretary General as the Chief Accounting Officer of the Secretariat reasonably confirms that the Secretariat has adequate resources to continue in operational existence for the foreseeable future. The Secretariat therefore continues to apply the going concern basis in preparing its annual financial statements.

3. Foreign currency translations

The financial statements are presented in COMESA Dollar (COM \$), as required by the COMESA financial rules and regulations. The functional currency of the Secretariat is USD (1 USD = 1 COMESA Dollar). Unless otherwise indicated, the financial information presented has been rounded off to the nearest Dollar.

COMESA – Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

4. Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Secretariat accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about assumption and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2017 is included in note 27.

COMESA – Secretariat

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for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

5(a) Property and equipment

	Motor Vehicles	Information Technology	Furniture & Fittings	Land & Building	Office Equipment	COMESA Centre OE	COMESA Centre P & E	Total
Cost								
At 1 January 2017	606,153	789,291	490,758	20,562,482	361,049	37,225	5,283	22,852,241
Additions	53,500	104,662	37,478		139,462			335,102
Transfer	77,410	33,541	1,393		13,804			116,850
At 31 December 2017	737,063	927,493	529,629	20,562,482	505,017	37,225	5,283	23,304,192
Transfer out to Rev Reserve	(497,102)	(12,398)	(45,892)	(20,562,482)	(38,575)			(21,156,448)
Disposal	(55,130)	(19,512)	(3,204)		(2,970)			(80,817)
Transfer in from Rev Reserve	280,666	4,885	20,324	26,120,000	13,268			26,439,143
	(271,566)	(27,025)	(28,772)	5,557,518	(28,278)			5,201,878
Cost Revaluation Movement	216,436	7,513	25,568	(5,557,518)	25,307			(5,282,695)
At 31 December 2017	465,497	900,469	500,858	26,120,000	476,739	37,225	5,283	28,506,070
Depreciation								
At 1 January 2017	420,810	610,689	185,173	3,211,900	262,860	37,225	5,283	4,733,940
Transfer		33,512			(979)			32,533
Charge for the period	143,862	141,170	52,321	663,334	54,286			1,054,972
At 31 December 2017	564,672	785,371	237,494	3,875,233	317,146	37,225	5,283	5,821,445
Transfer out to Rev Reserve	(380,330)	(12,127)	(16,774)	(3,211,900)	(27,996)			(3,649,127)
Disposal	(41,919)	(12,956)	(1,949)		(2,971)			(59,795)
Transfer in from Rev Reserve								
	(422,249)	(25,083)	(18,723)	(3,211,900)	(30,967)			(3,708,922)
Depr Revaluation Movement	(380,330)	(12,127)	(16,774)	(3,211,900)	(27,996)			(3,649,127)
At 31 December 2017	142,423	760,288	218,771	663,334	285,200	37,225	5,283	(1,596,398)
Net Revaluation Reserve								
At 31 December 2017	(163,894)	(4,614)	8,793	(8,769,118)	(2,689)			(8,931,821)
Amortisation	(79,307)	(34,449)	(1,154)	(71,190)	(647)			(186,747)
At 31 December 2017	(84,587)	29,835	9,947	(8,698,228)	(2,042)			(8,745,074)
Carrying amount								
At 31 December 2017	323,074	140,181	282,087	25,456,667	191,539	0		26,393,547
At 31 December 2016	185,342	178,602	305,585	17,350,582	98,189	0		18,118,300

COMESA – Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

As recoverable amount of each asset is higher than its carrying value, based on cost less depreciation and or valuation, no impairment loss has been recognized.

In line with its accounting policy, the Council in November 2017 approved the Secretariat's valuation of property, plant and equipment. The opening balances at 01 January 2017 have accordingly been restated at valuation. Depreciation in the years is charged based on this valuation amount over the estimated remaining life of the asset.

5 (b) **Capital work in Progress**

Capital work in Progress relates to expenditure towards the construction of new COMESA Headquarters. The expenditure was incurred in 2015 upon completion and submission of detailed structural and engineering, which were subsequently approved by the COMESA Council of Ministers in June 2015.

At its last meeting held in Lusaka, Zambia in July 2018, the COMESA Authority reaffirmed its commitment to complete the construction of new COMESA Headquarters. Full cost and method of financing the construction of new COMESA Headquarters will be examined and approved in due course. The Authority expressed gratitude to the Republic of Zambia for providing the Sovereign Guarantee for the construction of the New COMESA Headquarters and mandated the Council to take appropriate decisions in relation to this project.

Given the commitment made by the COMESA Authority towards the construction of new COMESA Headquarters, which under Article 8 (2) is the supreme Policy Organ of the Common Market and is responsible for the general policy and direction and control of COMESA, the expenditure incurred in 2015 meets the conditions of capitalization under IAS 16, specifically that future economic benefits associated with the specific costs towards structural and engineering design of new COMESA Headquarters will flow to COMESA. The Secretary General re-assesses continued compliance with the capitalization requirements of IAS 16, on a yearly basis and at the time of preparation of annual financial statements.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

6 Investment in equity

	2017	2016
PTA Reinsurance Secretariat Limited	2,254,953	1,998,965
African Trade Insurance Agency **	100,000	100,000
Total: Investments in equity	2,354,953	2,098,965
PTA Reassurance		
At fair value		

Year	Number of share/share price	Opening balance	Shares purchased	Dividend Capitalised	Share disposal	Fair value adjustment	Closing balance
2017	PTA Reinsurance 376453 ordinary shares at US \$5.99	1,998,965	-	-	-	255,988	2,254,953
2016	PTA Reinsurance 376,453 ordinary shares at \$5.31	1,637,571	-	-	-	361,394	1,998,965

**The unquoted shares relate to ordinary shares held in African Trade Insurance Agency. As there is no reliable measure of fair value of these investment, the fair value of ordinary shares held in African Trade Insurance Agency was assessed to be equal to its cost.

7. Contributions

7 (a) Member states contributions receivable

See accounting policy note 35 (i)

Contributions by Member States are remitted to the Secretariat. Article 166 (6) requires that Fifty percent of the contributions due from a Member State be paid into the budget of the Secretariat within one month from the beginning of the financial year to which they relate and the remainder be paid within six months from the beginning of that financial year.

Due to significance of Member States' contributions, the COMESA Authority of Heads of State and Government oversees their remittance to the Secretariat. The Authority reviews progress regarding the remittances on an annual basis and makes relevant directions, approving arrears repayment plans.

Member States yet to settle outstanding amounts continue to receive full benefits of COMESA membership, unless they are under sanction as stipulated in Article 171 of the COMESA Treaty.

Based on the above, the Secretariat concludes that the amount receivable by the Secretariat will be remitted in full. These receivables would be considered impaired if their carrying amounts (i.e. value in the books of accounts) exceeds recoverable amounts (i.e. what will eventually be received by COMESA Secretariat) in line with IAS 39.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

7 (a) Member states contributions (continued)

See accounting policy note 35 (i)

2017	Opening balance at 1 January 2017	Contributions assessment for 2017	Payments made in 2017	1% interest on late contributions	Impairment	Closing balance at 31 December 2017
Burundi	599,688	473,928	(264,085)	8,942	26,558	845,031
Comoros	1,239,220	158,293	(60,261)	14,391	(15,371)	1,336,272
Democratic Republic Of Congo	1,069,973	1,220,436	(1,719,588)	9,758	90,692	671,272
Djibouti	592,769	232,690	0	7,114	(101,030)	731,543
Egypt	1,869,647	1,899,511	(1,865,465)	19,182	(2,566)	1,920,308
Eritrea	132,750	158,293	(316,808)	-	25,765	-
Ethiopia	-	954,504	(954,504)	-	-	-
Kenya	613,786	1,899,511	(2,406,622)	1,070	283	108,028
Libya	4,729,980	1,899,511	(1,797,129)	55,578	(28,299)	4,859,641
Madagascar	535,907	622,090	(897,945)	2,612	840	263,504
Malawi	197,528	644,726	(334,450)	5,090	1,230	514,124
Mauritius	-	913,981	(913,981)	-	-	-
Rwanda	-	597,396	-	5,974	-	603,370
Seychelles	-	242,188	(242,188)	-	-	-
Sudan	2,918,238	777,217	(1,446,653)	28,642	602,809	2,880,253
Swaziland	-	533,763	-	5,338	(1,264)	537,837
Uganda	1,283,797	815,365	-	26,037	(230,672)	1,894,528
Zambia	-	970,492	(970,492)	-	-	-
Zimbabwe	8,735	815,365	-	8,241	(5,145)	827,196
Total	15,792,018	15,829,260	(14,190,171)	197,969	363,831	17,992,908
Less Budgets for Institutions		(1,955,652)				
2017 Secretariat Budget		13,873,608				

Funds disbursed to COMESA Institutions	Budget	Amount Disbursed	Balance
COMESA Competition Commission (CCC)	910,198	(681,945)	228,253
Federation of National Association Women in Business (FEMCOM)	504,036	(442,893)	61,143
Regional Investment Agency (RIA)	541,418	(500,550)	40,868
Total	1,955,652	(1,625,388)	330,264

The Secretariat budget incorporates budgetary allocation of other COMESA Institutions, namely; COMESA Competition Commission, Federation of National Association of Women in Business and COMESA Regional Investment Agency. These Institutions have a reporting framework outside that of the Secretariat, accordingly, the funds disbursed to the COMESA Institutions and related expenditure thereon are excluded from the Financial Statements of the COMESA Secretariat.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

7 (a) Member states contributions (continued)

See accounting policy note 35 (i)

2016	Opening balance at 1 January 2016	Contributions assessment for 2016	Payments made in 2016	1% interest on late contributions	Impairment	Closing balance at 31 December 2016
Burundi	490,069	465,433	(300,000)	6,776	(62 590)	599,688
Comoros	1 090,954	155,455	-	13,278	(20 467)	1,239,220
Democratic Republic of Congo	-	1,198,561	-	11,986	(140 574)	1,069,973
Djibouti	431,875	228,519	-	7,358	(74 983)	592,769
Egypt	-	1,865,465	-	18,655	(14 473)	1,869,647
Eritrea	148,338	155,455	(149,088)	1,569	(23 524)	132,750
Ethiopia	-	937,396	(937,396)	-	-	-
Kenya	1,346,172	1,865,465	(2,603,639)	6,080	292	613,786
Libya	3,210,866	1,865,465	-	54,014	(400 365)	4,729,980
Madagascar	1,453,531	610,940	(1,532,772)	5,317	(1 109)	535,907
Malawi	48,448	633,170	(484,828)	1,968	(1 230)	197,528
Mauritius	-	897,599	(897,599)	-	-	-
Rwanda	572,171	586,689	(1,159,664)	-	804	-
Seychelles	-	237,847	(237,847)	-	-	-
Sudan	3,005,507	763,286	(763,286)	34,987	(122 256)	2,918,238
Swaziland	-	524,196	(524,196)	-	-	-
Uganda	875,793	800,751	(86,119)	17,707	(324 335)	1,283,797
Zambia	68,851	953,097	(1,021,978)	-	30	-
Zimbabwe	-	800,751	(792,092)	86	10	8,735
	12,742,575	15,545,540	(11,490,504)	179,781	(1,185,374)	15,792,018
Less budgets for Institutions		(1,928,031)				
2017 Secretariat Budget		13,617,508				

Funds disbursed to COMESA Institutions	Budget	Amount Disbursed	Balance
COMESA Competition Commission (CCC)	920,032	(806,552)	113,480
Federation of National Association Women in Business (FEMCOM)	490,609	(349,330)	141,279
Regional Investment Agency (RIA)	517,390	(500,703)	16,687
Total	1,928,031	1,656,585	271,446

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

In COMESA Dollar

8(a) Amounts due from other COMESA Entities

<i>See accounting policy note 35 (vi)</i>	2017	2016
COMESA Institutions		
COMESA Competition Commission - Merger Fees	305,885	268,163
Yellow Card	232,452	170,703
ACTESA	124,000	164,000
COMESA Court of Justice	5,182	-
COMESA Monetary Institute	2,492	5,669
COMESA Business Council	150	150
Brussels Liaison Office	-	8,774
Sub Total	670,162	617,460
COMESA Grant Funded Programmes		
Africa Peace Security Architecture	1,044,043	727,409
Regional Integration Support Mechanism	732,298	56,351
USAID - Integrated Partnership Assistance Agreement	233,609	410,184
TCF Project	171,764	-
Tripartite Capacity Building Project	140,890	160,630
Regional Integration Support Programme (RISPII)	139,001	160,299
Africa Peace Facility CA 2	124,277	124,277
Regional Association of Energy Regulators for ESA	45,000	-
Short Term Projects	32,155	40,749
Climate Change - DFID	24,885	-
COMESA AfDB 50 Million Women Speak Platform Project	5,334	-
IRCC Support Programme	4,937	-
Capacity of COMESA to Support Econ. & Trade Policy	2,568	-
Statistical Capacity Building 4.2	500	645
Hubs and Spokes	126	5,245
Statistical Capacity Building - ICP	11	304,675
Maritime Security Programme	-	1,099
RPIHSSPS	-	10,241
Trading For Peace AfDB	-	-
Great Lakes Trade Facilitation Project	-	1,169
AU-IBAR/VET-GOV Project	-	1,067
Sub Total	2,701,397	2,004,039
Total	3,371,559	2,621,499
Provision for bad debts		
Africa Peace Facility CA 2	(124,277)	-
USAID - Integrated Partnership Assistance Agreement	(97,736)	-
Total after Provision	3,149,546	2,621,499

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

COMESA Institutions: Amounts due to and or from COMESA Institutions and Entities represent arm's length exchanges. Secretariat has a responsibility of collecting assessed annual Member States contributions due to COMESA organs and other COMESA Institutions receiving funding from Member States, as well as processing and paying employee remuneration.

COMESA projects funded by Cooperating Partners' grants: amounts due to and or from other projects implemented at the Secretariat. These prepare own financial statements and are separately audited, with the audited financial statements submitted to both COMESA Policy Organs, as well as Cooperating Partners.

Provisions for bad debts

EU signed an Africa Peace Facility (APF) with the AU, which provided support to COMESA, EAC, ECOWAS and SADC which was effective May, 2007 - April 2011. At the end of this facility, COMESA had received a total amount of US\$1,969,760. The provision on APF represents the allocation of amount attributed to differences between the EURO/USD rate on the date funds were disbursed by the EU and received by the AU and the EURO/USD rate on the date when funds were transferred from AU to participating Regional Economic Communities (RECs), being COMESA, EAC, ECCAS, ECOWAS and SADC. The governing Contribution Agreement does not provide for reimbursement of such exchange rate movements. The exchange rate loss was therefore prorated among the participating RECs. COMESA's share of this exchange loss is US\$124,277, as certified by independent audit.

USAID signed an Integrated Partnership Assistance Agreement (IPAA) which was effective 31 August, 2009 - 30 September, 2018. Under this agreement, COMESA received US\$21.94 million. The provision on IPAA represents unclaimable VAT, as well as amounts spent prior to IPAA, previously considered reimbursable, but to proposed for write-off as the relevant grant ended prior to IPAA. Total provision and amount removed from debtors in respect of USAID grant is therefore US\$97,736.

8(b) Amount due from other RECs

<i>See accounting policy note 35 (vi)</i>	2017	2016
East African Commission	83,483	65,641
Total	83,483	65,641

COMESA signed Regional Integration Support (RISP1) with the EU which was effective 15th June 2005 - 30 June 2010. The project was implemented jointly between COMESA and EAC but the Contribution Agreement was signed between COMESA and EU. Under this agreement COMESA received EU 31,438,749.00. The amount due from EAC represents ineligible amount arising from Unsupported contracts and non-compliant contracts activities carried by EAC as identified by EU Court of auditors.

9 Contribution receivable for Economic Partnership Agreement

In COMESA Dollar

	2017	2016
Comoros	36,000	36,000
Eritrea	36,000	36,000
Sudan	36,000	36,000
Ethiopia	12,000	12,000
Total	120,000	120,000
Provision for bad debts	(120,000)	0
Closing balance	0	120,000

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

The balance relates to contribution by Member States towards the cost of the office of the Chief Technical Advisor (CTA). The office of the Chief Technical Advisor was created in order to facilitate negotiations between the COMESA region in the Economic Partnership Agreement (EPA) and the European Union. The contribution allocated to the above Member States represents costs already incurred by COMESA on their behalf. These Member States are yet to reimburse COMESA as per the agreement. The allocation for contribution by each Member State was COM\$12,000 per annum for a period of 3 years towards the budget as per agreement.

10 Other receivables

See accounting policy note 28(f)

	2017	2016
Staff Loans	186,196	174,377
Staff Advances	88,852	134,122
Imprest	3,662	11,118
Bank Interest Receivable	157,969	195,211
Dividends Receivable	33,232	64,423
VAT Receivable	0	0
Rentals Receivable	82,474	72,470
Other receivables	62,500	35,618
Unused Tickets	1,975	0
Other Member States receivable	49,201	0
Prepayments	144,500	48,648
	<u>810,562</u>	<u>735,986</u>

11. Cash and cash equivalents

See accounting policy note 28(f)

	2017	2016
11.1 Term deposits		
COMSEC Barclays Bank USD	5,000,000	8,000,000
COMESA SEC ECO bank USD A/C	1,194,674	1,145,878
	<u>6,194,674</u>	<u>9,145,878</u>

The COMESA financial rules and regulations allow the Secretariat to place on Term deposit balances on its reserve fund which will not be required in the short to medium term. Competitive rates are obtained for these investments. These balances are part of the reserve fund of the Secretariat.

11.2 Unrestricted balances - Member States Funds

Operational current account - SCBZ Receipting USD	1,153,908	455,418
Operational current account - SCBZ Operational USD	335,516	-
Operational current account - SCBZ COMESA Fund USD	1,720,490	1,720,490
Operational current account - Citibank USD	1,551,425	592,394
Operational current account - Euro	344,787	516,365
Local currency operational account - Operational	3,388	9,886
Cash in transit	-	673,286
Petty cash	204	-
	<u>5,109,718</u>	<u>3,967,839</u>

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for the year ended 31 December 2017

Notes to the financial statements *(continued)*

In COMESA Dollar

Funds which do not have contractual restrictions on their applications fall under this category. These balances are part of the accumulated funds of the Secretariat.

11.3 Restricted balances

Reserve Fund - Member States	3,122,504	2,095,983
Trust Creditors - ARICEA Funds	919,442	-
	<u>4,041,947</u>	<u>2,095,983</u>
Total: Cash and cash equivalents	<u>15,346,339</u>	<u>15,209,700</u>

Use of these funds is restricted to the terms and conditions of the relevant instrument, namely, COMESA financial rules and regulations for the Reserve Fund and Grant Agreements for the funds availed by Cooperating Partners.

12. Reserve fund

12.1 Movements on Reserve Fund

	2017	2016
Opening balance	11,844,736	13,941,861
Receipts	6,611,042	4,461,725
Withdrawals	(8,576,327)	-
Interest	221,156	(6,558,850)
Closing balance	<u>10,100,607</u>	<u>11,844,736</u>

COMESA - Secretariat

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Notes to the financial statements (continued)

12.2 Schedule of withdrawals and receipts in the year

Description	Item	Reserve Fund Bank Statements	Reserve Fund Bank - ledger account Debit End Result / After Journals	Reserve Fund Liability-ledger account Credit End Result / After Journals
Col 1	Col 2	Col 4	Col 5	Col 6
Opening balance	Standard Chartered Bank: 31 Dec 2016	2,095,982.72		
	Barclays Bank: 31 Dec 2016	8,000,000.00		
	Eco bank: 31 Dec 2016	1,145,878.28		
	Sudan: 31 Dec 2016	673,286.00		
	Total	11,915,147.00	11,915,147.00	11,844,736.00
Receipts (Financial Rules 45)	Arrears contributions from Members States [Annex I]	6,197,620.15	6,197,620.15	6,356,098.15
	Excess contributions of Member States	n/a	n/a	172,959
	Interest earned -Eco bank	48,795.32	48,795.32	48,795.32
	Interest earned -Barclays Bank	172,361.11	172,361.11	172,361.11
	Monetary donations	n/a	n/a	n/a
	Proceeds from services rendered by the Secretariat and its Institutions	81,984.42	81,984.42	81,984.42
Cash in Transit / Re-allocation		(673,286.00)	(673,286.00)	
Withdrawals (Financial Rule 46A)(1)	Payment of recurrent expenditure at the beginning of the year, pending receipt of contributions from member States. Upon receipt of contribution the amount shall be transferred back to the reserve;	(8,425,444.00)	(8,425,444.00)	(8,425,444.00)
	Unbudgeted for but urgent and unforeseen expenditure, which cannot be deferred to the following financial year without adversely affecting the operations of the COMESA subject to the approval of the Bureau	-	-	(122,000.00)
	Unbudgeted for but urgent and unforeseen expenditure, which cannot be deferred to the following financial year without adversely affecting the operations of the COMESA subject to the approval of the Bureau			(28,883.00)
	Incurrence of capital expenditure in respect of which covering policy has been previously approved by the Council;	n/a	n/a	n/a
	Payment of expenditure on approved supplementary budget; and	n/a	n/a	n/a
	Investment subject to the approval of the Bureau.	n/a	n/a	n/a
	Closing balances		9,317,178.00	9,317,178.00

Reserve Fund closing balance reconciled to balance at the bank

Reserve Fund closing fund balance	10,100,607	11,844,736
Less: Amounts not transferred to Reserved Fund account at 31 December 2017	(783,429)	
Add: Over transfer from Operations A/c		70,411
Reserve Fund closing bank balance	9,317,178	11,915,147

COMESA - Secretariat

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for the year ended 31 December 2017

Notes to the financial statements *(continued)*

In COMESA Dollar

13. Accumulated funds

	2017	2016
Opening balance	30,335,562	41,261,072
Transfer from revaluation reserve	12,396,168	(13,941,861)
Transfer from capital grants	187,913	
Withdrawal from reserve funds	(6,832,218)	2,097,125
Amortisation	186,747	421,283
Net cash transfer from reserve fund	8,425,444	
Prior year adjustment	(3,691)	
Surplus for the year	1,831,945	497,943
Closing balance	<u>46,527,754</u>	<u>30,335,562</u>

14. Revaluation funds

	2017	2016
Opening balance	12,396,168	12,817,451
Valuation	8,932,799	
Transfer to accumulated fund	(12,396,168)	
Amortisation	(186,747)	(421,283)
Capital grant	(70,000)	
Closing balance	<u>8,676,052</u>	<u>12,396,168</u>

15. Capital grants

See accounting policy note 35(vii)

	2017	2016
Opening balance	537,913	573,820
Addition	186,850	0
Transfer to accumulated fund	(187,913)	0
Amortisation for the year	(61,469)	(35,907)
Closing balance	<u>475,381</u>	<u>537,913</u>

Capital grants represents the value of assets transferred to the Secretariat by the multilateral and bilateral cooperation partners without charge to the Secretariat. Capital grants are deferred and credited to the income statement over the useful life of the related assets.

COMESA - Secretariat

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Notes to the financial statements (continued)

In COMESA Dollar

16 Trade Payables *See accounting policy note 35(vii)*

	2017	2016
Airlines	(69,292)	(32,309)
Operational Payables	(92,487)	(197,935)
Consultants and Interpreters	(122,147)	(99,550)
Total	(283,925)	(329,795)

17 Amount due to COMESA Institutions and Entities *See accounting policy note 35(vi)*

	2017	2016
COMESA Court of Justice	-	269,238
COMESA Leather and Leather Products Institute	-	200,000
COMESA Virtual Trade Facilitation System	151,545	57,449
Brussels Liaison Office	5,099	-
COMESA Fund	1,849,018	1,849,018
Maritime Security Programme	1,271	-
IRCC Support Programme	-	29,605
Trading For Peace AfdB	1,050	1,050
Capacity of COMESA to Support Econ. & Trade Policy	2,568	2,568
Climate Change - Norwegian	17,841	-
COMESA Voluntary Funeral Scheme	3,824	3,564
COMESA Make A Difference	3,100	2,500
Closed Project	2,543	2,543
	2,037,859	2,417,535

COMESA Secretariat's systems and processes are applicable to operations that are fully reimbursed by financial resources other than Member States contributions.

COMESA Secretariat obtains inputs, namely goods and services from third parties based on its internal controls. Financial liability is then ultimately settled based on the relevant source of funding. Accordingly, stringent expenditure controls are in place aimed at matching each expenditure against an existing source of funding as well as ensuring compliance with expenditure eligibility requirements, including prior objection for the spending where necessary.

The amounts due from related institutions and entities are thus fully receivable by the COMESA Secretariat, as they relate to expenditure that is fully reimbursable. Management has concluded that no impairment has occurred on these amounts.

COMESA - Secretariat

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Notes to the financial statements *(continued)*

In COMESA Dollar

18 Trust Creditors

See accounting policy note 35(vii)

Due to its mandate, COMESA Secretariat holds funds in trust for entities under the process of development. These funds are not part of operations of the COMESA Secretariat. At the of 31 December, 2017, the Secretariat held Trust Creditors of US\$ 919,442 (31 December, 2016: US\$907,522).

19 Post-employment benefit

See accounting policy note 35(vii)

	2017	2016
Provident control account	(6,141,307)	(7,488,345)
Staff Pension Fund - Zurich	6,013,334	7,454,699
	(127,973)	(33,646)

COMESA - Secretariat

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Notes to the financial statements *(continued)*

In COMESA Dollar

20 Accruals and provisions

See accounting policy note 35(vi)

	2017	2016
Staff Payables	536,925	60,668
Creditor Clearing	560	0
Provisions	<u>109,199</u>	<u>18,696</u>
	<u>646,684</u>	<u>79,364</u>

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Notes to the financial statements *(continued)*

In COMESA Dollar

23 (a) **Other income**
See accounting policy note 35 (i)

	2017	2016
Amortisation of Capital Grant	27,955	35,907
Other Non Exchange Revenue*	231,789	32,278
Dividend Income	33,232	30,991
Rental Income	133,908	97,344
Disposal of assets - Profit or Loss	14,491	5,070
Increase in value of investments		361,394
	441,374	562,984

*Other income relates to the following:

- (i) Reversal of unfulfilled prior year commitments

23 (b) **Other Comprehensive Income**

	2017	2016
Unutilised budget for Institutions	330,264	-
Increase in value of investments	255,988	-
Prior year refund of unfulfilled contract	172,959	-
Prior year amortisation on disposed assets	7,668	-
	<u>766,879</u>	<u>-</u>

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Financial Statements
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Notes to the financial statements (continued)
In COMESA Dollar

24 (a) Expenditure by function – Member States funds
Year 2017

Function	Staff emoluments	Staff Welfare and Insurance	Staff training and development	Staff Recruitment and Repatriation	Travel, Meetings and Workshops	Consultancies	Publication and visibility	Grant counterpart funding
Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8	Col 9
Executive management	579,370	-	-	-	813,486	-	-	-
Budget and finance	596,398	-	41,584	-	61,034	-	-	60,133
Human resources and administration	2,505,057	82,509	56,886	68,976	209,793	350,585	30,908	-
Trade and customs	538,717	-	-	-	285,993	113,354	-	-
Infrastructure and logistics	431,544	-	-	-	164,709	58,651	-	-
Agriculture, environment and natural resources	389,093	-	-	-	192,450	130,707	-	-
Legal and institutional affairs	280,319	-	-	-	131,791	96,205	-	-
Gender and social affairs	346,438	-	-	-	30,091	59,971	-	-
Information technology	452,430	-	-	-	39,862	124,654	-	-
Internal audit	329,852	-	4,587	-	24,306	8,000	-	-
Strategic planning	191,669	-	-	-	17,951	237	-	-
Resource mobilisation and international Cooperation	195,702	-	-	-	37,555	-	-	-
Public relations	168,861	-	-	-	53,625	29,584	88,390	-
Resource Centre	96,379	-	-	-	5,635	-	-	-
Estates Unit	175,348	-	-	-	-	-	-	-
Brussels liaison office	300,070	3,848	-	-	32,470	-	-	-
Depreciation on property and equipment	-	-	-	-	-	-	-	-
Total expenditure:	7,577,246	86,357	103,057	68,976	2,100,751	971,946	119,298	60,133
Member States funded								

COMESA - Secretariat

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for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

Year 2017 (Expenditure by function – Member States funds (continued))

Function	Election Monitoring	IT re-current costs	Administration and general costs	Audit costs	Finance Charges	Depreciation	Legal Costs	Total
Col 1	Col 10	Col 11	Col 12	Col 13	Col 14	Col 15	Col 16	Col 17
Executive management	83,486	-	77,610	-	-	-	-	1,553,951
Budget and finance	-	39,668	883	134,381	-	-	-	934,081
Human resources and administration	-	34,286	688,494	-	-	-	-	4,010,432
Trade and customs	-	-	431	-	-	-	-	938,495
Infrastructure and logistics	-	-	1,142	-	-	-	-	656,045
Agriculture, environment and natural resources	-	-	770	-	-	-	-	713,020
Legal and institutional affairs	-	-	2,100	-	-	100,000	-	610,414
Gender and social affairs	-	-	381	-	-	-	-	436,881
Information technology	-	146,862	3,258	-	-	-	-	767,066
Internal audit	-	6,146	-	-	-	-	-	372,891
Strategic planning	-	-	79	-	-	-	-	209,936
Resource mobilisation and international Cooperation	-	-	152	-	-	-	-	233,409
Public relations	-	-	4,501	-	-	-	-	344,962
Resource Centre	-	-	-	-	-	-	-	119,075
Estates Unit	-	-	26,497	-	-	-	-	201,845
Brussels liaison office	-	-	9,102	-	-	-	-	345,489
Depreciation on property and equipment	-	-	-	-	-	1,054,971	-	1,054,971
Total expenditure: Member States funded	83,486	226,961	815,399	134,381	-	1,054,971	100,000	13,502,963

COMESA - Secretariat
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for the year ended 31 December 2017

Notes to the financial statements *(continued)*

for the year ended 31 December 2016

25	Finance income <i>See accounting policy note 35(i)</i>	2017	2016
	Bank interest received	184,049	230,279
	Interest on late contributions (note 7)	197,969	179,781
	Interest on staff loans	4,002	9,519
	Impairment gain	363,831	-
	Exchange gain	-	15,264
		749,852	434,843
26	Finance costs		
	Bank charges	54,377	51,271
	Provision for bad debts	342,013	
	Impairment loss		1,185,374
	Exchange movement	100,415	
	Finance costs	496,805	1,236,645

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

for the year ended 31 December 2016

27 Financial instruments - Fair values and risk management

27.1 Accounting classifications and fair values

A number of the Secretariat's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

(i) Valuation models

The fair values of financial assets and financial liabilities that are traded in active markets that the Secretariat can access at the measurement date are obtained directly from an exchange on which the instruments are traded. For all other financial instruments, the Secretariat determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Secretariat measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

COMESA - Secretariat

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for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

27. Financial instruments - Fair values and risk management (continued)

(i) Valuation models (continued)

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, equity prices, foreign currency exchange rates, equity indices, depreciation and amortisation multiples and revenue multiples and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Organisation uses widely recognised valuation models for determining the fair value of common and simple financial instruments that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(ii) Fair value hierarchy – Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

31 December 2017	Level 1	Level 2	Level 3	Total
Equity investments	2,254,953	-	-	2,254,953
31 December 2016	Level 1	Level 2	Level 3	Total
Equity investments	2,098,965	-	-	2,098,965

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

27. Financial instruments - Fair values and risk management (continued)

27.1 Accounting classifications and fair values (continued)

The financial instruments not measured at fair value through profit or loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and, for the financial assets, high credit quality of counterparties.

The fair values of the Secretariat's financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

2017	Note	Total fair value	Total carrying amount
Financial assets			
Member states Contribution receivable	7	17,992,908	17,992,908
Amounts due from other COMESA entities	8(a)	3,149,546	3,149,546
Amounts due from Other RECs	8(b)	83,483	83,483
Other Receivables	10	806,871	806,871
Cash and Cash equivalents	11	15,346,339	15,346,339
Total		37,379,147	37,379,147
Financial Liabilities			
Trade payables	16	283,925	283,925
Amounts due to COMESA entities	17	2,037,859	2,037,859
Trust Creditors	18	919,442	919,442
Post-employment benefit	19	127,973	127,973
Accruals and provisions	20	646,684	646,684
Total		4,015,883	4,015,883
Net Financial assets		33,363,264	33,363,264

COMESA - Secretariat

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for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

27. Financial instruments - Fair values and risk management (continued)

27.1 Accounting classifications and fair values (continued)

2016	Note	Total fair value	Total carrying amount
Financial assets			
Member states Contribution receivable	7	15,792,020	15,792,020
Amounts due from other COMESA Entities	8(a)	2,621,499	2,621,499
Amounts due from other RECs	8(b)	65,641	65,641
Contribution receivable for EPAs	9	120,000	120,000
Other Receivables	10	735,985	735,985
Cash and Cash equivalents	11	15,209,700	15,209,700
Total		34,544,844	34,544,844
Financial Liabilities			
Trade payables	16	333,622	265,389
Amounts due to COMESA entities	17	2,918,469	2,067,464
Trust Creditors	18	-	-
Post-employment benefit	19	33,646	33,646
Accruals and provisions	20	79,364	79,364
Total		3,365,102	3,365,103
Net Financial assets		31,179,742	31,179,742

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

Financial instruments - Fair values and risk management *(continued)*

27.2. Financial risk management

The Institute has exposure to the following risks from its use of financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk
- (iv) Currency risk
- (v) Interest rate risk
- (vi) Counter – party credit risk

The Secretary General has overall responsibility for the establishment and oversight of the Secretariat risk management framework.

The Secretariat risk's management policies are established to identify and analyse the risks faced by the Secretariat, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Secretariat activities. The Secretariat, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Secretary General oversees how management monitors compliance with the Secretariat risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the company. The Secretary General undertakes both regular and ad hoc reviews of risk management controls and procedures.

(i) Credit risk

Credit risk is the risk of financial loss to the Secretariat if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Member State contributions and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. These risks are managed in the integrated framework of the COMESA Treaty, Financial Rules, Debtors Policy and Implementation Procedures.

The Secretariat exposure to credit risk is influenced mainly by individual characteristics of each Member State. The demographics of the Secretariat customer base, including the default risk of the country in which Member States operate, has less of an influence on credit risk. However, geographically there is no concentration of credit risk.

No collateral is required in respect of financial assets. COMESA has a policy in place and the exposure to credit risks is monitored on an on-going basis through duly mandated COMESA Policy Organs, namely the COMESA Authority and Council of Ministers.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

27. Financial instruments - Fair values and risk management (continued)

27.2 Financial risk management (continued)

Reputable financial institutions are used for cash handling purposes. At reporting date, there was no significant concentration of credit risks.

The Secretariat establishes an allowance for impairment that represents its estimate of incurred losses in respect of contribution and other receivables in accordance with IAS 39.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Carrying amount	
	Note	2017	2016
Member states Contribution receivable	7	17,992,908	15,792,020
Amounts due from other COMESA entities	8(a)	3,149,546	2,621,499
Amounts due from other RECs	8(b)	83,483	65,641
Contributions receivable – Economic partnership Agreement	9	-	120,000
Other receivables	10	806,871	735,985
Cash and cash equivalents	11	15,346,336	15,209,700
		<u>37,379,147</u>	<u>34,544,844</u>

Impairment losses

The movement in the allowance for impairment for the Secretariat in respect of the contributions receivable during the year was as follows:

	2017	2016
Balance at 1 January	2,365,788	1,180,414
Increase/(decrease) in allowance	<u>(363,831)</u>	<u>1,185,374</u>
Balance at 31 December	<u>2,001,957</u>	<u>2,365,788</u>

COMESA - Secretariat

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for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

27. Financial instruments - Fair values and risk management (continued)

27.2. Financial risk management(continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Secretariat will not be able to meet its financial obligations as they fall due. The Secretariat approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute reputation.

The Secretariat ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Ultimate responsibility for liquidity risk management rests with the COMESA Council of Ministers, which has built an appropriate liquidity risk management framework for the management of the Secretariat short, medium and long-term funding and liquidity management requirements. The Secretariat manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Non-derivative financial liabilities

31 December 2017	Carrying amount	Contractual cash flows	12 months or less
Current Financial Liabilities	<u>4,015,883</u>	<u>4,015,883</u>	<u>4,015,883</u>
Total	<u>4,015,883</u>	<u>4,015,883</u>	<u>4,015,883</u>
31 December 2016	Carrying amount	Contractual cash flows	12 months or less
Current Financial Liabilities	<u>3,365,102</u>	<u>3,365,102</u>	<u>3,365,102</u>
Total	<u>3,365,102</u>	<u>3,365,102</u>	<u>3,365,102</u>

COMESA - Secretariat

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for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

27. Financial instruments - Fair values and risk management (continued)

27.2 Financial risk management (continued)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Secretariat income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk

(iv) Currency risk

The Secretariat is exposed to currency risk on purchases that are denominated in a currency other than the functional currency of the Secretariat. This risk arises due to transactions in a currency other than the source of funding currency.

This risk is mitigated by contracting liabilities in the currency of source of funding.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Secretariat ensures that its net exposure is kept to an acceptable level by transaction in foreign currencies at spot rate where necessary to address short term imbalances.

The currency risk expressed in COM \$ at 31 December 2017 was as follows:

2017	COM\$	EURO Exposure	GBP Exposure	ZMW Exposure	Total
Financial assets					
Cash and cash equivalents	14,998,164	344,787	-	3,388	15,346,339
Net exposure	14,998,164	344,787	-	3,388	15,346,339

2016	COM\$	EURO Exposure	GBP Exposure	ZMW Exposure	Total
Financial assets					
Cash and cash equivalents	14,683,449	516,365	-	9,886	15,209,700
Net exposure	14,683,449	516,365	-	9,886	15,209,700

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

27. Financial instruments - Fair values and risk management (continued)

27.2 Financial risk management (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date	
	2017	2016	2017	2016
COM \$	<u>9.28</u>	<u>10.1</u>	<u>10.11</u>	<u>9.9</u>

A 10% strengthening/(weakening) of the USD, as indicated below against the ZMW at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This computation is based on the foreign exchange rate variance that the Secretariat considered reasonably possible at the reporting date. The computation assumes all the other variables remain constant.

	Strengthening		Weakening	
	Equity	Profit or loss	Equity	Profit or loss
31 December 2017				
COM \$	<u>(338)</u>	<u>(338)</u>	<u>338</u>	<u>338</u>
31 December 2016				
COM \$	<u>(988)</u>	<u>(988)</u>	<u>988</u>	<u>988</u>

(v) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument or the future cash flows will fluctuate due to changes in market interest rates. The Secretariat is not exposed to interest rate risk as none of its financial liabilities are held on a variable rate basis.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

In COMESA Dollar

27. Financial instruments - Fair values and risk management *(continued)*

27.2 Financial risk management *(continued)*

(vi) Counter party credit risk

In the normal course of business, the COMESA Secretariat utilizes various financial instruments to meet needs of actions under this control that are resourced by Cooperating Partners. COMESA Secretariat also supports operations of other COMESA Organs and Secretariat Institutions and Entities with arrangements with COMESA established under Article 182 of the Treaty.

COMESA Organs and Institutions facilitated in the reporting period are COMESA Court of Justice; Competition Commission; Federation of National Associations of Women in Business in Eastern and Southern Africa and Regional Investment Agency.

Entities with arrangements with COMESA established under Article 182 of the Treaty facilitated in the reporting period are Yellow Card; COMESA Business Council; COMESA Virtual Trading Facilitation System; and Alliance for Commodity Trading in Eastern and Southern Africa.

The above counterparties, being actions funded under Cooperating Partners; COMESA Organs and Institutions; and Entities established under Article 182 of the Treaty, are all related to the COMESA Secretariat and any transfer of resources to them is subject to internal approval processes.

Prior approvals from duly mandated structures are also obtained for transfer of resources to these counterparties. Accounts are settled on a continuous monthly basis.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

In COMESA Dollar

27. Financial instruments - Fair values and risk management *(continued)*

27.3 Operational risk management

The COMESA Secretariat is exposed to operational risks arising from its systems and processes.

Operational risks include the risks of losses resulting from inadequate or failed internal processes, people, and/or systems, and from external events which could have a negative financial or adverse reputational impact. Operational risk is present in virtually all the COMESA Secretariat's transactions and includes losses attributable to failures of internal processes in operations.

The Secretary General assisted by Assistant Secretary Generals has oversight on operational risk activities across the COMESA Secretariat. This includes the implementation of an Integrated Internal Control Framework covering, an Internal Control over Financial Reporting based on the COMESA Secretariat Risk Management Framework established by the Council of Ministers.

The Risk Management Framework ensures a structured and well-coordinated approach to risk identification and assessment, risk mitigation and control as well as risk reporting across the COMESA Secretariat.

It is the primary responsibility of the management of each division and unit to implement adequate controls in their respective business processes based on the prevailing institutional standards. Management is required to sign attestation of compliance annually.

Compliance with institutional standards is verified through periodic reviews undertaken by the Internal Audit Unit of the COMESA Secretariat. The results of internal audit reviews are discussed with the Management of the relevant business unit(s), with summaries submitted to the collective management team comprising of Secretary General, Assistant Secretary Generals and Heads of Divisions and Units and a Technical Committee on Audit and Budgetary Matters, whose reports are transmitted through other structures to the Council.

The COMESA Secretariat is developing on a contingency and business continuity plan which aims to ensure the continuity of its operations and protect the interests of all its key stakeholders namely, the Member States and other creditors as well as employees and their families, in the event of any disturbance in its office locations.

Other elements of the COMESA Secretariat's operational risk management practices include compliance with the Code of conduct and staff rules.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

28. Contingent liabilities

The Secretariat had known material contingent liabilities as at 31 December 2017: COMS (2016: Nil).

- (i) Case 1: Indigo Logistics and Procurement Limited vis-à-vis Common Market: The Secretary General was sued in his capacity as Secretary General for the Common Market in a case involving the Yellow Card Scheme. The Court ruled against COMESA and the Compensation award of US\$160,434 plus interest was settled by Yellow Card. Yellow Card is negotiating costs of US\$50,000 plus interest. No provision has been made in the Secretariat accounts as the primary responsibility is with the Yellow Card.
- (ii) Case 2: Malawi Mobile Limited vis-à-vis Common Market: The Secretary General was sued in his capacity as Secretary General for the Common Market in a case concerning the appointment of Judges of the COMESA Court of Justice. The Court ruled in favour of COMESA, however, COMESA is to bear the costs 2/3 of costs. An US\$ 46,573.60 [US\$ 39,977.34 on 01 March 2019 and US\$ 6,596.26 on 18 April 2019] was paid in respect of this judgment. This amount is fully included in the 2017 Financial Statements.
- (iii) Case 3: The Secretary General, in his capacity as Chief Executive Officer of the Common Market issued a letter on [27 November 2017], guaranteeing an amount of US\$3 million, in respect of a letter of credit, which CVTFS Limited obtained from Stanbic Bank Zambia Limited. CVTFS Limited were to liquidate this letter of credit from proceeds of the tracking devices, delivered and sold to participating COMESA Member States. Insurance on the letter of credit was provided by ATI.

The maturity date of the letter of credit was 30 March 2019.

At date of maturity of the letter, the participating COMESA Member States:-

- (i) Had taken delivery of the tracking devices
- (ii) Had acknowledged and made a commitment to settle the liability; and
- (iii) were yet to pay for the tracking devices.

Post 31 December 2017, DRC has remitted the following amounts: -

Date	USD
18 December 2018	1,001,000
16 September 2019	2,000,000
Total	3,001,000

From the above receipts, CVTFS Limited has transferred US\$2,814,000 towards the letter of credit.

In accordance with IAS 37.86, management has concluded that no provision should be made in the 2017 COMESA Secretariat financial statements, as the guarantee made by COMESA Secretariat is a possible obligation, but its payment by COMESA Secretariat is assessed as remote, based on the insurance of the risk by ATI, as well as positive progress made by CVTFS in reducing the amount owed to Stanbic Zambia Limited.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

29. Contingent assets

The Secretariat had no known material contingent assets as at 31 December 2017: COM\$ (2016: Nil).

30. Reclassification and Restatement

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current year. These reclassifications did not affect prior year's reported result.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

31 Budget Performance Report by Function - Member States funding

	2017 Budget	2017 approved Budget Reallocation	2017 Revised Budget	2017 Actual	2017 Budget Utilisation	2016 Actual
Expenditure						
Member States						
Executive management	2,288,521	(140,200)	2,148,321	(1,564,553)	73%	(2,285,502)
Budget and finance	1,102,541	(114,000)	988,541	(923,479)	93%	(663,273)
Human resources and administration	4,457,219	301,950	4,086,871	(4,010,432)	98%	(4,263,261)
Trade and customs	861,753	22,000	883,753	(938,495)	106%	(806,956)
Infrastructure and logistics	749,127	(50,750)	698,377	(656,045)	94%	(658,424)
Agriculture, environment and natural resources	735,916	51,000	786,916	(713,020)	91%	(616,052)
Legal and institutional affairs	471,405	28,000	499,405	(610,414)	122%	(419,167)
Gender and social affairs	587,339	(63,000)	524,339	(436,881)	83%	(512,289)
Information technology	916,302	46,000	962,302	(767,066)	78%	(715,830)
Internal audit	376,261	5,000	381,261	(372,891)	98%	(311,928)
Strategic planning	207,532	-	207,532	(209,936)	101%	(192,335)
Resource mobilisation and international Cooperation	243,347	-	243,347	(233,409)	96%	(238,753)
Corporate Communications	383,586	(12,000)	371,586	(344,962)	93%	(273,466)
Resource Centre	156,116	-	156,116	(119,075)	76%	-
Estates Unit	516,182	(100,000)	416,182	(201,845)	48%	-
Brussels liaison office	431,147	(14,000)	417,147	(345,489)	83%	(362,753)
Add: Depreciation on property and equipment	-	-	-	(1,054,971)	-	(832,205)
Total Expenditure	13,811,996	(40,000)	13,771,996	(13,502,963)	98%	(13,152,194)
Add: Finance Costs	30,000	40,000	70,000	(496,805)	-	(1,236,645)
	13,841,996	-	13,841,996	(13,999,768)	103%	(14,388,839)

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

In COMESA Dollar

32 Budget Performance by Cost Type - Member States funding

	2017 Budget	2017 approved Budget Reallocations	2017 Revised Budget	2017 Actual	2017 Budget Utilisation	2016 Actual
Expenditure						
Staff Emoluments	8,621,813	(673,750)	7,948,063	(7,577,246)	95%	7,882,820
Staff Welfare and Insurance	112,500	15,000	127,500	(86,357)	68%	114,991
Staff Training and Development	91,000	52,000	143,000	(103,057)	72%	66,797
Staff Recruitment and Repatriation	181,000	-	181,000	(68,976)	38%	175,331
Travel, Meetings and Workshops	2,271,800	113,000	2,384,800	(2,100,751)	88%	2,376,525
Consultancies	496,500	480,750	977,250	(971,946)	99%	-
Support to Member States	40,000	-	40,000	-	0%	-
Publication and Visibility	165,000	-	165,000	(119,298)	72%	158,557
Grant Counterpart Funding	90,000	(26,000)	64,000	(60,133)	94%	63,692
Election Monitoring	75,000	10,000	85,000	(83,486)	98%	71,794
IT Recurrent Costs	276,000	(12,000)	264,000	(226,961)	79%	276,626
Administration and General Costs	1,220,500	1,000	1,221,500	(815,399)	67%	1,081,584
Audit Costs	170,883	-	170,883	(134,381)	-	-
Legal Costs	-	-	-	(100,000)	100%	-
Depreciation	-	-	-	(1,054,971)	-	832,205
	13,811,996	(40,000)	13,771,996	(13,502,963)	98%	13,100,922
Finance Costs	30,000.00	40,000	70,000.00	(496,805)		1,287,917
	13,841,996	-	13,841,996	(13,999,768)	103%	14,388,839

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

In COMESA Dollar

33. Events subsequent to the reporting date

There were no subsequent events requiring disclosure or adjustment of these financial statements.

34. Significant accounting policies

The Secretariat has consistently applied the following accounting policies to all periods presented in these financial statements, unless otherwise stated.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow:

Note

- (i) Revenue recognition
- (ii) Expenditure
- (iii) Income tax
- (iv) Property and equipment
- (v) Provision
- (vi) Financial instruments
- (vii) Capital grants
- (viii) Employee benefits
- (ix) Foreign currency
- (x) Related party transactions
- (xi) Segment reporting

(i) Revenue recognition

(a) Contributions

1. Member States contribution income represents contribution receivable from Member States. Contributions receivable are recognised as income in the year that assessments are raised and are based on the assessments approved by the Council of Ministers.
2. Grants contribution income is recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it recognised as income systematically over the expected useful life of the related asset.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

In COMESA Dollar

- (b) **Rental income**
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.
- (c) **Interest income**
Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.
- (d) **Dividend**
Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the entity and the amount of income can be measured reliably).
- (e) **Deferred income**
Deferred income are grants received from Cooperating Partners, which have not been utilised in the period. Income is only recognised when there is reasonable assurance that it will be received and all attached conditions have been complied with.
- (f) **Income from investments**
Income from investments includes realised and unrealized gains and losses on financial instruments measured at fair value through profit or loss.
- (g) **Donations**
Resources whether cash and or in kind donated without any restrictions are recognized as income in the year of donation.
- (ii) **Expenditure**
For Member States funding, expenditures are recognised in the year in which they are incurred. For grants, recognised when all attached conditions have been complied with.
- (iii) **Income tax**
The Organisation is exempt from income tax under paragraph 4b of Part II of Second Schedule to the Income Tax Act 1966 (as amended), Cap 323 of Laws of Zambia.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

34. Significant accounting policies (continued)

(iv) Property and equipment

(a) Recognition and measurement

Leasehold land and buildings are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent impairment losses.

Fixed and movable plant and machinery, fixtures and fittings and motor vehicles are stated in the statement of financial position at cost less depreciation.

Assets under construction are carried at cost, less any identified impairment loss. Such assets are initially shown as capital work in progress and transferred to the relevant class of assets when commissioned. Cost includes professional fees and where necessary, borrowing costs.

(b) Depreciation

Land is not depreciated. Depreciation is charged directly to statement of income and expenditure. Depreciation is charged to write off the cost of property and equipment over their estimated useful economic lives on a straight-line basis. Residue value is reviewed at least annually and is the amount the entity would receive currently if the asset were already of the age and condition expected or at the end of its useful life. Useful life is also reviewed annually through the Board of Survey. The following rates have consistently been used in prior years: -

Leasehold properties	2%	
Motor vehicles	20%	or 33 1/3%
Office equipment	20%	
Furniture and fittings	10%	
Computers and software	33 1/3%	
Capital work in progress is not depreciated		
Land is not amortised		

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

At each reporting date, the Secretariat reviews the carrying amounts of its tangible and other 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.

Recoverable amount is the higher of fair value less costs to sell and or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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. An impairment loss is recognised immediately in profit or loss.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

Property and equipment *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(c) Revaluation of property and equipment

An external, independent valuation expert, having appropriate recognised professional qualifications and expertise is engaged to conduct valuation every 5 years. The fair values are based on market values, being the estimated amount for which a property and equipment could be exchanged on the date of the 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

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property and equipment. A market yield is applied to the estimated rental value, adjustments are made to reflect actual rentals as follows;

current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The surplus arising on the revaluation of property and equipment is initially credited to a revaluation surplus, which is a non-distributable reserve. A transfer is made from this reserve to retained earnings each year, for a 5-year period and or over a shorter period, if the appropriate asset is disposed-off.

If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset, thereafter the remaining decrease is recognised in profit or loss.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

(v) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Secretariat has a present obligation as a result of a past event, and it is probable that the Secretariat will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date taking into account the risk and uncertainties surrounding the obligation. When a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is the present value of the cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivables can be measured reliably.

A contingent liability arises when:

- (a) there is a possible obligation to be confirmed by a future event that is outside the control of the entity;
- (b) present obligation may, but probably will not, require an outflow of resources; and
- (c) sufficiently reliable estimate of the amount of a present obligation cannot be made (this is rare).

Contingent liabilities are not recognized but require disclosure unless the possibility of outflow is remote, then no disclosure is required.

A contingent asset arises when the inflow of economic benefits is probable, but not virtually certain, and occurrence depends on an event outside the control of the entity. Contingent assets require disclosure only. If the realisation of income is virtually certain, the related asset is not a contingent asset and recognition is appropriate.

(vi) Financial instruments

Financial assets and financial liabilities are recognised in the Secretariat's statement of financial position when the Secretariat becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

Financial instruments *(continued)*

(a) Financial assets

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, financial assets and 'receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

1. *Effective interest method*

"The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instrument

2. *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables (including trade and other receivables, bank balances and cash) 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 when the recognition of interest would be immaterial.

Financial assets are classified into the following specified categories: Contributions receivable and other receivables and cash and cash equivalents. The classification depends on the nature and purpose of the financial assets and it determined at the time of the initial recognition.

3. *Impairment of financial assets*

"Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 affected.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment."

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

4. Impairment of financial assets *(continued)*

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or breach of contract, such as a default or delinquency in interest or principal payments; or it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Secretariat's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Secretariat's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

Financial assets *(continued)*

The carrying amount of the financial asset 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."

When a financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

"For financial assets measured at amortised cost, 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.

In respect of equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss."

5. Derecognition of financial assets

"The Secretariat derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Secretariat neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Secretariat recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Secretariat retains substantially all the risks and rewards of ownership of a transferred financial asset, the Secretariat continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

Financial assets *(continued)*

On derecognition of a financial asset other than in its entirety (e.g. when the Secretariat retains an option to repurchase part of a transferred asset), the Secretariat allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. “

The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

6. Cash and cash equivalent

Cash and cash equivalents comprise of cash at hand, term deposits and other short term highly liquid instruments that are readily convertible to a known amount of cash subject to insignificant risk of changes in value.

(b) Financial liabilities

Financial liabilities are classified as ‘other financial liabilities’. *Other financial liabilities*

“Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.”

1. Derecognition of financial liabilities

The Secretariat derecognises financial liabilities when, and only when, the Secretariat’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

(vii) Capital grants

Capital grants represents the value of assets vested in the Secretariat by the multilateral and bilateral cooperation partners without charge to the Secretariat. Capital grants are deferred and credited to the surplus and deficit in equal annual instalments over the expected useful life of the related assets. Separate financial statements are prepared for the specific projects funded by cooperation partners.

(viii) Employee benefit

1. Post-employment benefits

The Secretariat contributes to a defined contribution plan for qualifying employees. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Secretariat operates defined contribution retirement benefit plan for all qualifying employees. The assets of the plans are held in an investment fund managed by Zurich Provident Fund. The funds are withdrawn when making payments to employees at the end of their contract when the retirement benefits are due. Where employees leave the plan prior to full vesting of the contributions, the contributions payable by the Secretariat are reduced by the amount of forfeited contributions.

Contributions of 15% and 10% of the basic pay are made by the employer and employee, respectively.

As such the amounts accrued to this account, approximate the fair value of the Secretariat's post-employment obligations.

2. Short-term employee benefits

The Secretariat has recognized liabilities for the following short-term benefits, the value of which is based on the amount payable to each staff member at the reporting date.

Accumulated leave: staff members are eligible for 30 days' annual leave. Annual leave is a short-term employee benefit, as staff have the right to accumulate unused annual leave and receive payment in lieu thereof to the maximum of 60 days on separation from service and is treated as a current liability.

Home Leave: internationally recruited staff members are eligible for home leave for themselves and their dependents being spouse an up to four dependent children to the country of their origin every second year.

Education cost for dependent children: staff members are reimbursed up to 75% of cost of education of dependent children. Limits apply based on age of dependent children, as well as based on category of staff.

Medical cost: staff members are reimbursed up to 80% of medical cost for the staff, spouse and dependent children. Limits apply based on age of dependent children, as well as based on category of staff

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

(ix) Foreign currencies

In preparing the financial statements, transactions in currencies other than the Secretariat's functional currency (foreign currency) are recorded at the rates of exchange prevailing at the date of the transactions.

At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences are recognised in profit or loss in the period in which they arise except for:

exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and

exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

(x) Related party transactions

Related parties are defined as those parties that directly or indirectly through one or more intermediaries, the party that:

- (a) controls, is controlled by, or is under common control with, the entity; and
- (b) has an interest in the entity that gives it significant influence over the entity.

All dealings with related parties are transacted on an arm's length basis and accordingly included in income statement

(xi) Segment reporting

Segment reporting is based upon the financing agreements between the Secretariat and Cooperating Partners.

Accordingly, separate general ledgers are maintained for each agreement. Revenue and expense incurred by the Secretariat is accounted for within each general ledger in accordance with the conditions of the unexpired financial agreements.

COMESA - Secretariat

Financial Statements

for the year ended 31 December 2017

Notes to the financial statements *(continued)*

34. Significant accounting policies *(continued)*

The methodology allocates revenue and expense to each program and then to each Cooperating Partners based on a combination of direct revenue and expense and re-imbursements based on financing agreement. The Secretariat's assets and liabilities are not allocated to individual segments, since ownership rests with the Secretariat as a whole; however, each business unit's share of the Secretariat's net assets including accumulated fund balances, revaluation surplus and working capital funds is recognized by segment.

35. Reclassification and Restatement

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current year. These reclassifications did not affect prior year's reported result.

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Financial Statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

36 New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018 and have not been applied in preparing these financial statements. Those which may be relevant to the COMESA Secretariat are set out below.

The COMESA Secretariat has elected not to “early adopt” any of the IFRS / interpretations not yet effective as at 31 December 2017.

These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation	Summary of requirements
Standard		
1 January 2018	IFRS 7 Additional disclosures (and consequential amendments) resulting from IFRS 9	<p>In December 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which:</p> <p>amends the effective date of IFRS 9 Financial Instruments to annual periods beginning on or after 1 January 2015; and modifies the relief from restating comparative periods and the associated disclosures in IFRS 7 Financial Instruments Disclosures.</p> <p>The impact of the adoption of the standard on the financial statements for the Secretariat has not yet been quantified.</p>
1 January 2018	IFRS 9 Financial Instruments	<p>In July 2017, the IASB issued the <i>final IFRS 9 Financial Instruments Standard</i>, which replaces earlier versions of IFRS 9 and completes the IASB’s project to replace <i>IAS 39 Financial Instruments</i>.</p> <p>The impact of the adoption of the standard on the financial statements for the Secretariat has not yet been quantified.</p>
1 January 2018	IFRS 15 Revenue from contracts with customers	<p>Amendments were issued in April 2016, adding guidance on (i) determining whether promised goods or services are distinct, (ii) principal versus agent considerations and (iii) licensing. The amendments also add two optional practical expedients and are effective 1 January 2018 with earlier application permitted.</p> <p>The requirements of this IFRS supersede IAS 11 Construction Contracts, and IAS 18 Revenue and related Interpretations, including IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue—Barter Transactions Involving Advertising Services.</p> <p>The impact of the adoption of the standard on the financial statements for the Secretariat has not yet been quantified.</p>

Effective date	Standard, Amendment or Interpretation	Summary of requirements
1 January 2019	IFRS 16 Leases	<p>Issued in January 2016 and effective for annual periods beginning on or after 1 January 2019.</p> <p>Earlier application is permitted if IFRS 15 Revenue from Contracts with Customers has also been applied.</p> <p>It was developed with the FASB, but the IASB and FASB diverged on some aspects of their new standards.</p> <p>The impact of the adoption of the standard on the financial statements for the Secretariat has not yet been quantified.</p>
Interpretation		
1 January 2018	IFRIC 22 Foreign Currency Transactions and Advance Consideration	<p>Issued in December 2016 and effective for annual periods beginning on or after 1 January 2018.</p> <p>The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance.</p> <p>Clarifies the accounting for transactions that include the receipt and or payment of advance of advance consideration</p> <p>The impact of the adoption of the standard on the financial statements for the Secretariat has not yet been quantified.</p>
Disclosure Initiative		
1 January 2018	Disclosure Initiative (Amendments to IAS 1)	<p>The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.</p> <p>The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.</p>

