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CROSS RIVER STATE
II NATIONAL URBAN WATER SECTION REFORM PROJECT
(WORLD BANK ASSISTED)

FINANCIAL STATEMENTS
AT 31 DECEMBER 2015

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

PRINCIPAL OFFICERS, PROFESSIONAL ADVISERS ETC
FOR THE YEAR ENDED 31 DECEMBER 2014

PRINCIPAL OFFICERS:	**NAME**	
	Engr. Timothy E. Ntamu	Project Engineer
	Mr. Robert A. Arah	Head, Project Financial Management Unit (PFMU)
	Mr. Oscar A. Agbor	Project Accountant
	Engr. James Ekabua	Procurement Officer
	Mr. Dickens Inah Obeten	Internal Auditor

LOCATION	Cross River State Water Board Limited Ndidem Usang Iso Road P. M. B. 1177 Calabar. Cross Rive State. Nigeria.
AUDITORS	John Ndifon & Co, (Chartered Accountants)
BANKERS	Zenith Bank Plc

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

BRIEF HISTORY AND ACTIVITIES OF THE PROJECT

The project was designed as a component to two major supports result packages of the Country Partnership Strategy (CPS) vis (i) improved services delivery for human resources development and (ii) improved environment and services for non-oil growth. These are related to the National Economic Empowerment and Development Strategy (NEEDS) of increasing access to safe water to 70% . The project thus focuses on enhancing the ability of water production and distribution facilities to operate to their full capacities, reducing revenue losses by engaging the services of a Public Private Partnership Operator and instituting policy reforms to encourage the participation of the private sector in provision of water.

The project components were selected on the basis of (i) professional engineering assessment of the water systems' conditions in the respective states: (ii) public opinion polls carried out during preparation that signaled private participation would ensure transparency of the water sector reform while fostering accountability of water delivery to cunsumers; and (iii) the observation by Cross River State that private sector intervention is a proven methodology for restoring financial sustainability. The implrmrnting agencies for the project are (1) Federal Ministry of Water Resources. (2) Lagos State Water Corporation and (3) Cross River State Water Board Limited.

The project's principal development objectives are; (i) to improve the reliability of water supply produced by the water treatment works in Lagos State; (ii) increase access to piped water networks in four cities of Cross River State; and (iii) improve commercial viability of the Cross River State Water Board Limited and Lagos Water Corporation. The project componebts are (1) Rehabilitation and Network Expansion; (2) Public Private Partnership Development ; (3) Service Sustainability and Project Management; (4) Policy Reform and Institutional development.

As at December 31, 2015 the IDA has disbursed a total of NGN16,381,759,178 with the Cross River State Government Counter-part funding of NGN55,000,000. The total expenditure incurred to date is put at NGN16,531,161,223.

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

RESULTS AT A GLANCE

	2015		2014
	CURRENT YEAR N	**CUMULATIVE N**	**CUMULATIVE N**
ACCUMULATED RECEIPTS			
Cross River State Government Counterpart Funding	0	55,000,000	55,000,000
International Development Association Funding	5,521,280,366	16,714,810,486	11,193,530,120
Other income	9,674,836	40,039,192	30,364,356
	5,530,955,202	**16,809,849,678**	**11,278,894,476**
ACCUMMULATED PAYMENTS			
Fixed Assets	**9,995,944**	**275,999,174**	**266,003,230**
Civil Works	**5,030,542,491**	**13,554,529,213**	**8,523,986,722**
Development Capital Expenditure	**177,446,029**	**2,135,124,961**	**1,957,678,932**
Development Operating Expenditure	**71,091,183**	**416,105,830**	**345,014,647**

John Ndifon & Co.
Chartered Accountants
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Federal Housing Estate
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Cross River State. Nigeria
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+234 803 3189 471
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REPORT OF THE INDEPENDENT AUDITORS

TO THE FINANCIERS OF CROSS RIVER STATE II NATIONAL URBAN WATER SECTOR REFORM PROJECT (WORLD BANK ASSISTED)

Report on the Financial Statements

We have audited the accompanying financial statements of **CRS II National Urban Water Sector Reform Project ,** set out on pages 5 to 8 which comprise the balance sheet as at 31 December, 2015, the income statement, statement of cash flows for the year then ended and other explanatory information.

Directors' Responsibility for the Financial Statements

The Directors of the Agency are responsible for the preparation and fair presentation of these financial statements in accordance with the World Bank financial procedures, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion,

1. The expenditures were accurately and properly withdrawn in accordance with the Statement of Expenditure (SOE) procedures and can be relied upon as a basis for loan disbursements. The Special Account reconciliation was in agreement with the books and;
2. The financial statements give a true and fair view of the state of affairs of the **CRS II National Urban Water Sector Reform Project** as at December 31, 2015 and of the Operating Expenditure Account and Cash Flow Statement for the year then end.

John Ndifon, FCA, FCTI
FRC/2014/ICAN/00000005808
For: John Ndifon & Co,
Calabar, Nigeria.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
A0962676

May 24, 2016

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 31 DECEMBER 2015

The following are the summary of significant accounting policies, which have been adopted by the Agency in the preparation of its financial statements.

1. **Basis of accounting**
   The financial statements are prepared under the cash basis of accounting.

2. **Fixed assets**
   Fixed assets are stated at cost and no provision for depreciation is calculated on them.

3 **Foreign currenct Transactions**
   Transactions in foreign currency are recorded in Naira at the rates of exchange ruling at the time such transactions occurred.

   Foreign currency balances are converted to Naira at the official exchange rates ruling at the balance sheet date.

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2015

		2015	2014
EMPLOYMENT OF FUNDS	**Note**	**CUMULATIVE NGN**	**CUMULATIVE NGN**
NON-CURRENT ASSETS			
Non-expendable property	1	275,999,174	266,003,230
Civil Works	2	13,554,529,213	8,523,986,722
		13,830,528,387	**11,092,683,530**
CURRENT ASSETS			
Cash and Cash Equivalent	3	470,948,209	157,580,216
Development Capital Expenditure	4	2,135,124,961	1,957,678,931
Development Operating Expenditure	5	416,105,830	**345,014,647**
		3,022,178,999	**157,580,216**
		16,852,707,387	**11,250,263,746**
FINANCED BY:			
International Development Association (IDA) Credit	9	16,714,810,486	11,193,530,120
Cross River State Government Counterpart Funding	10	55,000,000	55,000,000
Other income	11	40,039,192	30,364,356
Exchange Gain/(Loss)	12	42,857,709	(28,630,730)
		16,852,707,387	**11,250,263,746**

The financial statements on pages 6 to 12 were approved by the SPIU on ---------- 2016 and signed on its behalf by:

} Project Engineeer

} Head, Project Financial Management Unit

} Project Accountant

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 NGN	2014 NGN
Cash flows from operating activities		
Civil works	(2,699,218,188)	(4,305,892,971)
Development capital expenditure	(2,135,124,961)	(278,796,270)
Development operating expenditure	(416,105,830)	(61,052,888)
	(5,250,448,979)	**(4,645,742,129)**
Changes in assets		
Cash flow from financing activities		
State Government funding received	-	-
IDA funding received	5,521,280,366	4,716,054,601
Other income	9,674,841	4,558,864
Exchange gain/(Loss)	42,857,709	32,048,103
Net cash inflow/ (outflow) from financing activities	**5,573,812,916**	**4,752,661,568**
Cash flow from investing activities		
Fixed assests purchased	(9,995,944)	(22,410,510)
Net cash outflow from investing activities	**(9,995,944)**	**(22,410,510)**
Net increase/(decrease) in cash and cash equivalent	313,367,993	84,508,929
Cash and cash equivalent at January 1,	157,580,216	73,071,287
Cash and cash equivalent at December 31,	**470,948,209**	**157,580,216**

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

STATEMENT OF EXPENDITURE (NG NAIRA) DRAW DOWN AS AT DECEMBER 31, 2015

DATE	REFERENCE	PARTICULARS	TOTAL	TOTAL	GOODS	CONSULTANCY	TRAINING	OPERATING COST	CIVIL WORKS
			USD	NGN	NGN	NGN	NGN	NGN	NGN
15-02-2015	CRS/II NUWSRP/020	Re-imbursement	156,999	18,615,819	3,429,376	8,554,708	5,619,510	1,012,225	-
16-03-2015	CRS/II NUWSRP/021	Re-imbursement	78,705	15,394,059	5,698,028	4,805,009	2,889,340	1,031,774	969,908
08-04-2015	CRS/II NUWSRP/022	Re-imbursement	871,619	171,273,053	2,691,653	43,212,482	6,366,761	1,061,409	117,940,748
15-05-2015	CRS/II NUWSRP/023	Re-imbursement	112,590	22,402,798	5,002,147	14,266,169	2,113,932	1,020,550	-
15-05-2015	CRS/II NUWSRP/024	Re-imbursement	2,401,049	471,806,130	-	-	-	-	471,806,130
05-06-2015	CRS/II NUWSRP/025	Re-imbursement	1,886,933	370,782,378	-	-	-	-	370,782,378
05-06-2015	CRS/II NUWSRP/026	Re-imbursement	1,054,085	198,431,024	3,016,306	39,381,907	3,016,282	1,009,644	152,006,886
06-07-2015	CRS/II NUWSRP/027	Re-imbursement	75,807	13,834,014	1,824,949	5,874,750	5,457,632	676,683	-
06-07-2015	CRS/II NUWSRP/028	Re-imbursement	246,660	48,468,684	-	48,468,684	-	-	-
15-07-2015	CRS/II NUWSRP/029	Re-imbursement	810,712	159,304,882	-	-	-	-	159,304,882
27-08-2015	CRS/II NUWSRP/030	Re-imbursement	939,500	184,611,762	-	-	-	-	184,611,762
28-08-2015	CRS/II NUWSRP/031	Re-imbursement	3,697,327	726,524,816	-	-	-	-	726,524,816
05-10-2015	CRS/II NUWSRP/032	Re-imbursement	901,653	177,174,726	-	-	-	-	177,174,726
08-10-2015	CRS/II NUWSRP/033	Re-imbursement	523,158	102,800,466	-	-	-	-	102,800,466
21-10-2015	CRS/II NUWSRP/034	Re-imbursement	246,796	48,495,463	-	-	-	-	48,495,463
09-11-2015	CRS/II NUWSRP/035	Re-imbursement	751,505	147,670,681	-	-	-	-	147,670,681
03-12-2015	CRS/II NUWSRP/036	Re-imbursement	208,829	41,034,946	-	-	-	-	41,034,946
03-12-2015	CRS/II NUWSRP/037	Re-imbursement	794,982	156,213,900	-	-	-	-	156,213,900
10-12-2015	CRS/II NUWSRP/039	Re-imbursement	1,135,547	225,406,024	-	-	-	-	225,406,024
11-12-2015	CRS/II NUWSRP/039	Re-imbursement	5,038,158	989,997,953	-	-	-	-	989,997,953
18-03-2015	CRS/II NUWSRP/124	Re-imbursement	73,971	14,535,380	-	-	-	-	14,535,380
21-07-2015	CRS/II NUWSRP/125	Re-imbursement	232,503	45,686,855	-	-	-	-	45,686,855
29-07-2015	CRS/II NUWSRP/126	Re-imbursement	158,133	31,073,072	-	-	-	-	31,073,072
13-07-2015	CRS/II NUWSRP/127	Re-imbursement	115,936	22,781,400	-	-	-	-	22,781,400
13-07-2015	CRS/II NUWSRP/128	Re-imbursement	1,564,250	307,375,125	-	-	-	-	307,375,125
07-12-2015	CRS/II NUWSRP/129	Re-imbursement	1,797,936	353,294,398	-	-	-	-	353,294,398
14-12-2015	CRS/II NUWSRP/130	Re-imbursement	1,948,810	382,941,212	-	-	-	-	382,941,212
02-12-2015	CRS/II NUWSRP/131	Re-imbursement	368,590	73,349,344	-	-	-	-	73,349,344
Total			**28,192,741**	**5,521,280,366**	**21,662,458**	**164,563,709**	**25,463,457**	**5,812,284**	**5,303,778,457**

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

		2015		2014
		CURRENT YEAR NGN	CUMULATIVE NGN	CUMULATIVE NGN
1.	**NON-EXPENDABLE PROPERTY**			
	Motor vehicles (Note 6a)	-	109,459,083	109,459,083
	Office furniture and equipment (Note 6b)	9,995,944	93,869,377	83,873,433
	Plant and machinery (6c)	-	72,670,714	72,670,714
		9,995,944	**275,999,174**	**266,003,230**
2	**CIVIL WORKS**			
	Network expansion (Note 7a)	238,610,292	5,789,435,658	5,550,825,366
	Rehabilitation of Building/Existing Infrstructure (Note 7b)	4,791,932,199	7,765,093,555	2,973,161,356
		5,030,542,491	**13,554,529,213**	**8,523,986,722**
3.	**CASH AND CASH EQUIVALENT**			
	Zenith Bank Plc Drawdown Account - 1010746212		114,731,567	43,093,775
	Zenith Bank Plc USD Special Account - 5000022382		354,664,100	109,469,059
	Zenith Bank Plc USD Interest Account - 40000283981		1,519,028	1,335,382
	Zenith Bank Plc Naira Interest Account - 1010756195		33,515	3,680,000
			470,948,209	**157,578,216**
4	**DEVELOPMENT CAPITAL EXPENDITURE**			
	Critical Treatment Plant input (Note 8a)	-	969,273,543	969,273,543
	Consultancy Services (Note 8b)	162,579,748	927,644,335	765,064,587
	Training (Note 8c)	14,866,281	238,207,083	223,340,802
		177,446,029	**2,135,124,961**	**1,957,678,932**
5.	**DEVELOPMENT OPERATING EXPENDITURE**			
	Project Inplementation Unit	200,001	20,904,016	20,704,015
	Maintenance of office furniture and fittings	143,250	4,998,829	4,855,579
	Maintenance of office equipment	1,375,855	16,028,465	14,652,610
	Maintenance of motor vehicles	6,077,281	51,435,630	45,358,349
	Maintenance of office building	2,171,147	20,029,570	17,858,423
	Maintenance of heavy duty equipment	1,820,437	11,259,046	9,438,609
	Fuel, oil and lubricants	228,690	17,555,653	17,326,963
	Fax, postages, courier services	387,473	3,463,251	3,075,778
	E-mail/internet services	951,675	12,848,047	11,896,372
	Printing and stationery	1,104,235	30,386,835	29,282,600
	Meeting expenses	-	14,891,818	14,891,818
	Electricity and water charges	-	1,689,029	1,689,029
	Salaries and allowances	2,790,000	22,227,500	19,437,500
	PFMU operating cost	401,625	5,874,063	5,472,438
	Office and general expenses	1,024,745	16,257,796	15,233,051
	Bank charges	2,422	264,827	262,405
	Telephone	-	2,150,850	2,150,850
	Travelling expenses	13,882,604	55,452,413	41,569,809
	Registration of vehicles	-	684,400	684,400
	Newspapers and periodicals	-	184,014	184,014
	Advertisement and promotions	-	28,134,776	28,134,776
	Insurances	26,000	46,628,742	46,602,742
	Taxes	32,756,260	32,756,260	-
		32,587,439	**416,105,830**	**345,014,647**

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

		2015 CUMULATIVE NGN
6.	**SATEMENT OF NON - EXPENDABLE PROPERTY**	
(a.)	**MOTOR VEHICLES**	
	Balance at January 1, 2015	109,459,083
	Additions during the year	-
		109,459,083
(b)	**OFFICE FURNITURE AND EQUIPMENT**	
	Balance at January 1, 2015	83,873,433
	Additions:	
	Bar code scanner printer	250,000
	Yatch laboratory equipment	3,747,075
	Supply of office equipment	1,668,975
	Fixed assets verification and documentation	4,279,394
	Supply of book shelf	50,500
	Total additions	**9,995,944**
	Balance at December 31, 2015	**93,869,377**
		-
(c.)	**PLANT AND MACHINERY**	
	Balance at January 1, 2015	72,670,714
	Additions:	-
	Balance at December 31, 2015	**72,670,714**
7.	**CIVIL WORKS**	
(a.)	**Network Expansion**	
	Balance at January 1, 2015	**5,550,825,366**
	Additions:	
	Consolidation and expansion wok at Ogoja	9,913,439
	Consolidation and expansion wok at Obudu	60,911,405
	Civil works on ogoja expansion	47,531,203
	Consolidation and expansion wok at Ikom	67,780,501
	Consolidation and expansion wok at Itigidi	52,473,743
	Total additions	**238,610,292**
	Balance at December 31, 2015	**5,789,435,658**
(b.)	**Rehabilitation of buildings and plants**	
	Balance at January 1, 2015	**2,973,161,356**
	Additions:	
	Dam safety enhancement	4,790,962,291
	Advert for 33 kva power ss & alphalstry	508,700
	Advert for 33 kva power ss & road network	461,208
	Total additions	**4,791,932,199**
	Balance at December 31, 2015	**7,765,093,555**

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

		2015 N
8.	**DETAILS OF DEVELOPMENT CAPITAL EXPENDITURE**	
(a.)	**Critical Treatment Plant Input**	
	Balance at January 1, 2015	969,273,543
	Additions:	-
	Balalnce at December 31, 2015	**969,273,543**
(b.)	**Consultancy services**	
	Balance at January 1, 2015	765,064,587
	Additions:	
	Engineering suprvision	109,140,172
	Design and follow-on project	2,883,862
	Private operators fees	42,730,219
	Peormance audit	4,315,495
	Consult-Expert Tech. Asst. on IT	3,510,000
	Total additions	**162,579,748**
	Balanace at December 31, 2015	**927,644,335**
(c.)	**Training**	
	Balance at January 1, 2015	223,340,802
	Additions:	
	Training and workshops	12,544,175
	Other traing and workshops	2,322,106
	Total additions	**14,866,281**
	Balanace at December 31, 2015	**238,207,083**

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT
(WORLD BANK ASSISTED)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

9. INTERNATIONAL DEVELOPMENT ASSOCIATION FUNDING

	2015	2014
	N	N
Balance at January 1,	11,193,530,120	6,477,475,519
Releases during the year	5,521,280,366	4,716,054,601
Balance at December 31,	**16,714,810,486**	**11,193,530,120**

10. CROSS RIVER STATE GOVERNMENT FUNDING

	2,015	2,014
	N	N
Balance at January 1,	55,000,000	55,000,000
Releases during the year	-	-
Balance at December 31,	**55,000,000**	**55,000,000**

11. OTHER INCOME

	2015	2014
	N	N
Balance at January 1,	30,364,351	25,805,492
Additions during the year:		
Interest earned from special account	20,966	352,073
Tender fee-sale of bid documents	9,653,875	4,206,786
Balance at December 31,	**40,039,192**	**30,364,351**

12. EXCHANGE GAIN/(LOSS)

Balance at December 31,	**42,857,709.09**	**(28,630,730.00)**

This represents exchange difference arising from translation of foreign currency balances in USD at the official rates to Naira at the date of transaction.

13. SATEMENT OF SPECIAL ACCOUNT

	2015		2014	
	USD	NGN	USD	NGN
Balance at January,	7,260,175	1,214,020,738	430,966	68,092,698
IDA Advances during the year	4,353,332	5,521,280,366	6,829,208	1,113,879,937
Interest earned (USD Account)	107	20,966	-	-
Balance at December 31,	**11,613,614**	**6,735,322,070**	**7,260,174**	**1,181,972,635**
Closing balance at December 31,	1,804,906	354,664,100	606,477	109,469,059
Eligible Expenditure paid as at December 31,	9,808,707	1,927,410,998	6,653,698	1,104,551,679
Balance at December 31,	**11,613,614**	**2,282,075,098**	**7,260,175**	**1,214,020,738**

CROSS RIVER STATE
II NATIONAL URBAN WATER SECTOR REFORM PROJECT

(WORLD BANK ASSISTED)

MANAGEMENT REPORT ON THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2015.

John Ndifon & Co.
Chartered Accountants
Suite 6, House 464
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Opp. Industrial Training Fund
Murtala Mohammed Highway
G. P. O. Box 3476. Calabar
Cross River State. Nigeria
Tel: +234 803 2707 392
+234 803 3189 471
E-mail: johndifonco@yahoo.com

May 24, 2016

The Programme Coordinator,
CRS II National Urban Water Sector Reform Project
Calabar.
Cross River State

Dear Sir,

MANAGEMENT REPORT ON THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2015.

We have completed the audit of the accounts of your Project for the year ended 31 December, 2015, and set out in the accompanying management report matters which came to our attention during the audit together with our recommendations thereon for the improvement of the weaknesses observed in the accounting system and internal controls.

It must be appreciated that matters dealt with in this letter came to light during the conduct of our normal audit procedures which are designed primarily to enable us express our opinion on the accounts of the Project and therefore cannot be expected to include all possible improvements in the system of accounting and internal controls which a more extensive examination might reveal.

This report has been prepared solely for use by the Project Management and should not be quoted or referred to in whole or part without our prior written consent.

Recommendations for improvement should be assessed by you for their full benefits before they are implemented.

We shall be obliged to give any assistance you may require in implementing our recommendations.

Yours faithfully
JOHN NDIFON & CO.

JOHN NDIFON & CO.
Sign.....
DATE.....
Chartered Accountants

CRS II NATIOANL URBAN WATER SECTOR REFORM PROJECT

MANAGEMENT REPORT ON THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2015

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CRS II NATIOANL URBAN WATER SECTOR REFORM PROJECT

MANAGEMENT REPORT ON THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2015

1.0 EXECUTIVE SUMMARY

We have completed the audit of the Project's financial statements for the year ended December 31, 2015. In planning g and performing our audit of the financial statements, we considered the Project's internal control structure in order to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

It is the responsibility of the Management to establish and maintain the internal control structure of the Project.

Listed below are highlights of some of the major issues that came to our attention in the course of the audit.

- No Minutes of Meeting of the Project Implementation Unit
- Long Outstanding items in Bank Reconciliation Statement
- Wrong Classification of Transactions

CRS II NATIOANL URBAN WATER SECTOR REFORM PROJECT

MANAGEMENT REPORT ON THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2015

2.0 INTERNAL CONTROLS

2.1 Owner's Responsibility for and the Objectives and Limitations of the Internal Control Structure

The Project Management are responsible for establishing and maintaining the internal control structure. In fulfilling this responsibility, estimates, and judgments by the Management are required to assess the expected benefits and related costs of internal control policies and procedures.

Objectives

The objectives of an internal control structure are to provide the Project with reasonable but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and those transactions are executed in accordance with management authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Limitations

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also projection of any evaluation of the structure for future periods is subject to the risk that procedures may become inadequate because of change in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate. The major limitations are:

- Controls usually provide reasonable rather than absolute assurance that their objectives will be accomplished. This is primarily because the cost of an internal control should not exceed the benefits expected to be derived from it.

- The effectiveness of the controls is ultimately dependent on the people performing them.

- Any controls designed to ensure the execution and recording of transactions may be ineffective against errors or irregularities perpetrated by management. Because of their authority to establish controls, management can normally override them.

- Procedures may become inadequate due to changes in conditions and compliance procedures may deteriorate.

CRS II NATIOANL URBAN WATER SECTOR REFORM PROJECT

MANAGEMENT REPORT ON THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2015

3.0 WEAKNESSES OBSERVED IN THE ACCOUNTS

3.1 No Minutes of Meeting of Project Implementation Unit (PIU)

Observation

There was no evidence to show that the Project Implementation Unit ever held any Meeting in 2015 as required in the Project Implementation Manual (PIM). The Purpose of PIU meeting is to articulate plans for execution and implementation of Objectives of the project.

Possible Consequence

The project may be poorly implemented and laid down guidelines and procedures may Not be strictly adhered to.

Recommendation

We recommend that the PIU should meet regularly to articulate policy direction for implementation of activities of the project.

Management Response

Observation is noted.

MANAGEMENT REPORT ON THE AUDIT OF THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2015

3.2 Long Outstanding Items in Bank Reconciliation Statement

Observation

We observed during our review of bank reconciliation statement in respect of the Project's Zenith Bank Drawdown Account number 1010746212 that items amounting to N24, 964,276.06 have been outstanding as uncleared wich were brought from 2014 to January 2015 and remained uncleared as at the time audit.

Possible Consequence

The financial report of the Project may not present a true and fair view.

Recommendation

We advise that this difference should immediately be reconciled to ascertain what the items actually represent.

Management Response

Management has given the Project Accountant up to July 2016 to provide Clarification on the unreconciled items.

3.2 Wrong Classification of Transactions

Observation

We noted during our review that there were wrong classification of financial transactions.

Possible Consequence

The financial reports of the Project may not present a true and fair view.

Recommendation

We recommend that PIU in collaboration with the PFMU should organize basic accounting refresher courses for the Project Accountant and Project Finance Officer.

Management Response

Observation is noted and recommendation accepted.

CRS II NATIONAL URBAN WATER SECTOR REFORM PROJECT (WORLD BANK ASSISTED)
REPORT OF INSPECTION OF SOME PROJECTS IMPLEMENTED IN 2015

S/NO.	EFFECTIVE DATE	CONTRACTOR	PROJECT DESCRIPTION	LOCATION	AMOUNT	PERCENTAGE OF COMPLETION	REMARKS
					NGN		
1	17-04-2014	Lileker Brothers Nigeria Ltd/Lilleker Brothers UK	Construction/Extension of the water production River Stateand distribution system for Ikom town, Cross	Ikom	3,863,254,779	96	Water distribution is already test running. Drainage and fencing of treatment plant ongoing
2	01-06-2013	Lileker Brothers Nigeria Ltd/Lilleker Brothers UK	Construction/Extension of the water production River Stateand distribution system for Obudu town, Cross	Obudu	2,473,866,634	95	Distribution network is ongoing.
3	20-01-2015	Lileker Brothers Nigeria Ltd/Lilleker Brothers UK	Construction/Extension of the water production River Stateand distribution system for Itigidi town, Cross	Itigidi	2,576,821,389	85	Phase I completed and in use. Phase Ii is ongoing with network and pressure testing.
4	30-01-2015	CGC Nigeria Limited	Construction/Extension of the water production River Stateand distribution system for Ogoja town, Cross	Ogoja	4,751,736,626	85	Distribution network is ongoing.