

OFFICE OF THE AUDITOR GENERAL



THE REPUBLIC OF UGANDA

REPORT OF THE AUDITOR GENERAL
ON THE PROJECT FUND ACCOUNTABILITY STATEMENT OF NATIONAL
WATER AND SEWERAGE CORPORATION - KAMPALA LAKE
VICTORIA WATER AND SANITATION PROJECT
FOR THE YEAR ENDED 30TH JUNE 2017

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CORPORATION - KAMPALA LAKE VICTORIA WATER AND SANITATION
PROJECT FOR THE YEAR ENDED 30TH JUNE 2017

THE RT. HON. SPEAKER OF PARLIAMENT

Opinion

I have audited the Fund Accountability Statement of the Kampala Water Lake Victoria Water and Sanitation (KW-LV WATSAN) Project implemented by National Water and Sewerage Corporation (NWSC), which comprise the Statement of Receipt and Expenditure, Statement of Fund Balances as at 30th June 2017 and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the Project fund Accountability statement gives a true and fair view of the financial position of the Kampala Water Lake Victoria Water and Sanitation Project implemented by National Water and Sewerage Corporation, as at 30th June 2017 and of its Receipts and Expenditure for the year then ended in accordance with NWSC Accounting Policies and the Terms and Conditions of funding.

Basis of Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the project in accordance with the Constitution of the Republic of Uganda (1995) as amended, the National Audit Act, 2008, the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of Financial Statements in Uganda. I have fulfilled my other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing audits in Uganda. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in my audit of the financial statements of the current period.

I have determined that there are no key audit matters to communicate in my report.

Other Matter

I consider it necessary to communicate the following matters other than those presented or disclosed in the financial statements:

- **Water Quality at the Ggaba 1 Water Treatment Plants**

I noted that the Process Expert sent by the consultant was on site from 20th-30th June 2017 carrying out performance testing for the Ggaba Water Treatment Plants (WTP). From a review of his Report about the performance of Ggaba 1 WTP, it was noted the performance of the plant, as far as compliance of the final water quality did not comply with the World Health Organization (WHO) standards. In addition, the average quantity of treated water was 46,986 m³ per day, which was 65.3% of the targeted capacity of 72,000 m³ per day.

The failure to meet the required WHO health standards meant that the water was unsatisfactory, which puts the lives of consumers at risk. Value for money may not be achieved, in case the defects corrections fail. The failure to meet the targeted capacity of 72,000 m³ exposes the public to challenges of water shortages.

Management responded that this project, in accordance with the Project Appraisal Report, was being implemented in five Components of which Component 1 entailed implementation of "Quick - win No Regret Measures" to secure water production capacity in Ggaba and hence reduce dry zones in Greater Kampala Metropolitan Area as an immediate solution while reserving the bulk of the project funds for the development of a new WatSan infrastructure upon having undertaken detailed social, environmental and engineering studies to ensure effective utilization of project funds. It is against this background and coupled with limited budget earmarked for the "Quick - win no regret measures" that the focus in Ggaba Water Treatment rehabilitation was put on optimization of treatment processes through

process re-engineering rather than undertaking major improvements in largely old Ggaba infrastructure. Performance test to ascertain the level of attainment of production output of the rehabilitated Ggaba I Water Treatment Plant in terms of quantity and quality is a key requirement under the project.

Upon performance test, it has been established that whereas the final water from Ggaba 1 WTP is able to meet bacteriological quality parameters, the system is not able to meet the physico-chemical (aesthetic) water quality parameters (color, turbidity etc.) at full production capacity of 72,000m³ per day. The Plant is however able to meet the above quality parameters at water production throughput of 46,986 m³ /day. The outcome of the test results was fully discussed at the MRI project supervision mission held in June 2017 and it was resolved that an independent Technical Auditor be engaged to assess the aesthetic shortfalls and propose measures that would lead to addressing the quality challenges. NWSC is in the final stages of engaging the Technical Auditor. The Contractor and Consultant shall only be discharged of their contractual obligations upon implementation of the recommendations of the Technical Audit.

I await the outcome of the Independent Technical Audit. Meanwhile I advised that the retention money is not paid until the Contractor discharges his obligations towards defects correction.

- **Ggaba II Filters Performance**

I inspected Ggaba II treatment plant and noted that the consumption rate of sand in the two rapid sand filters was higher than expected. I observed the sand being removed from the two affected filters to enable investigations as to why sand consumption rate was higher than expected. The anomalies affect the quality of water and the project completion timelines. **Pictures below refer.**



Management responded that during the operational regime of the rehabilitated Ggaba II Water Treatment Plant filters, it was observed that two filters were experiencing high rate of loss of sand filtration media. Upon investigation, it was found out that the media loss was attributed to a weak bond between the old concrete filter bed material and new concrete material used during the filter bed rehabilitation process. This defect was brought to the attention of the Consultant and the Contractor and as a result of this engagement, all the filter beds have since been redesigned and remedial measures are being done. The Contractor and Consultant shall only be discharged of their contractual obligations upon completion and satisfactory performance test of all the Ggaba II filter beds.

I await the outcome of the remedial measures. If the anomaly is not rectified liquidated damages may be sought from the Contractor. In future Project engineers and consultants should always closely monitor the performance of the contractors to ensure that contractor's performance meets the expectations of the clients.

- **Payment of unjustified Claims**

Sub-clause 4.17 of the conditions of contract (Contractor's Equipment) recommends the Project Executing Agency to assist the contractor with customs in order to exempt the goods and materials to be used on permanent works from taxes and revenue, but does not exempt the contractor from bearing all other expenses in connection with documentation, making all necessary arrangements for the import and re-export and shall bear all expenses in connection with the documentation,

loading charges, port dues and shipping costs thereof. The assistance provided by the project executing agency shall be limited to guidance and certification of reasonable need, but shall not relieve the Contractor from obligation to employ sufficient number of advisers and assistants knowledgeable with local laws and customs procedures.

During audit I noted approved and paid claims worth EUR 89,204.67 for connection of outlet pipes at Namasuba Reservoir in respect of claim for hiring of a crane truck due to delay in appointment of Atlas Cargo as authorised clearing agents for imported Doka Formwork, claim for Demurrage costs (delay by the ship to load and deliver materials) for imported project cars for use due to delay and rejection of tax exemption, claim for taxes paid for safety materials and project equipment due to rejection of tax exemption, interest on delayed payment, late custom clearance, and interest on delayed payments of IPC 1-18.

Such claims lead to avoidable wastage of funds which in turn affects implementation of other project items hence affecting service delivery.

Management in response stated GOU was required to ensure that financing from Development Partners is not used for the payment of duties and taxes. GOU under Schedule Five of the East African Customs Union as such categorized the imported items under this project as "Donor Funded Items" that are exempted from taxes. GOU therefore had the responsibility to ensure that these material inputs were cleared in a timely manner to ensure smooth execution of the works. The failure of GOU (URA) to issue tax exemptions on time resulted into the contractor incurring unnecessary costs. i.e. Demurrage charges, taxes and sourcing for alternative project inputs. Subsequently, the contractor was entitled for compensation.

I reminded management that taxes were to be paid by the contractor and not NWSC on behalf of the contractor. Additionally I advised NWSC should task the consultant to revisit the payment and recover what the contractor was not entitled to.

- **Clarifiers Performance at Ggaba I**

During audit I inspected works done at Ggaba I. From the inspection I observed that the clarifiers were not functioning according to expectations as most of the suspended solids (flocules) were not settling hence fed into the sand filters that

kept clogging them. This in turn led to constant air blowing and backwashing of the filters which may lead to constant loss of filter sand, water and electricity. The same observation was noted from the April 2017 internal audit report implying that nothing had changed since then. **Pictures refer.**



There is risk that value for money was not achieved. The delay to implement the internal audit recommendation indicates the laxity the consultant and the project-executing agency have towards execution and completion of the project.

Management acknowledged that the non-compliances relating to water quality was attributed to inadequate clarifier performance.

I advised that the executing agency should task the consultant to scale up the necessary interventions in Ggaba 1 to attain the targeted results.

Responsibilities of Management and those charged with Governance for the Fund Accountability Statement

Management is responsible for the preparation and for the fair presentation of the Fund Accountability statement in accordance with NWSC project accounting guidelines and CPTA and the respective financing agreement terms and conditions of funding and in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of Fund Accountability Statement that is free from material misstatements, whether due to fraud or error.

In preparing the Fund Accountability statement, management is responsible for selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibilities for the audit of the Financial Statements

My objectives as required by Article 163 of the Constitution of the Republic of Uganda, 1995 (as amended) and Sections 13 and 19 of the National Audit Act, 2008, are to obtain reasonable assurance about whether the Fund Accountability statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of 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 aggregate, they could reasonably be expected to influence the economic decisions of users, taken on the basis of the Fund Accountability statement.

As part of an audit in accordance with ISAs, I exercise professional judgement and maintain professional scepticism throughout the audit. I 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 my 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 project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of Directors' 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 project's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A handwritten signature in black ink, appearing to read 'J. Muwanga', with a large, stylized flourish extending to the right.

John F.S. Muwanga
AUDITOR GENERAL

20th December 2017