LAGOS WATER CORPORATION
SECOND NATIONAL URBAN WATER SECTOR REFORM PROJECT
(AGENCE FRANCAISE DE DEVELOPPEMENT)
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CREDIT NUMBER – CNG 1007 01 L)

IMPLEMENTED BY LAGOS WATER CORPORATION
SPECIAL PURPOSE FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS’ REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2016

EXTERNAL AUDITORS
OLABISI FAYOMBO AND COMPANY
(CHARTERED ACCOUNTANTS)
152, OBAFEMI AWOLOWO WAY
IKEJA, LAGOS STATE
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1. General Information

1.1 The Project
The letter Agreement No. CREDIT NUMBER - CNG 1007 01 L was concluded on November 26, 2012 between the Ministry of Finance of the Federal Republic of Nigeria on behalf of Lagos State Government and Agence Francaise De Developpement, according to which AFD, acting as administrator of the grant funds under the rehabilitation and network expansion of piped water network in Lagos State.

The grant is provided for the purpose of implementation to improve the reliability of water supply produced by the water treatment works in Lagos State.

The closing date of the financing under AFD CREDIT NUMBER - CNG 1007 01 L shall remain for so long as any amount is outstanding under the agreement.

Contribution from the Lagos State Government under this Credit facility is only for tax payments under the projects.
LAGOS WATER CORPORATION
SECOND NATIONAL URBAN WATER SECTOR REFORM PROJECT
(AGENCE FRANCAISE DE DEVELOPPEMENT)
SPECIAL PURPOSE PROJECT FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CREDIT NUMBER - CNG 1007 01 L)

1.2 Project Objectives

The objectives of the project are as follows as established in the Project Underlining Agreement:

1. To improve the reliability of water supply produced by the water treatment works in Lagos State.
2. To increase access to piped water network in the state
3. To improve the commercial viability of the urban utilities in the state

The project consists of the following parts:

A. Rehabilitation and Network expansion
B. Public Private Partnership Development
C. Service Sustainability and Project Management
D. Policy Reform and Institutional

1.3 Project Budget and Financing

The Project is being financed 100% by Agency Francaise De Developpement exclusive of taxes.

1.4 Project Implementation

The Project is being implemented by Lagos State Water Corporation under Lagos State Government.

The Address of LSWC is Water House, Ijora Police, Ijora, Lagos.

2.0 Summary of Significant Accounting Policies

2.1 Preparation and Presentation of Financial Statements

The Special-Purpose Financial Statements are prepared in accordance with the International Public Sector Accounting Standards: Financial Reporting Under the Cash Basis of Accounting (IPSAS-Cash Basis), issued by the International Public Sector Accounting Standards (IPSASB) within the International Federation of Accountants (IFAC) and presented in accordance with Financial Manual for World Bank Financed Investment Operations (March 2010): RM 5 - Financial Reporting and Auditing.

The principal accounting policies applied in the preparation of these Special Purpose Financial Statements are as set out below. These policies have been consistently applied to all the periods presented.
2.2 Cash Basis of Accounting

Project financing is recognised as a source of project funds when the cash is received. Project expenditures are recognised as a use of funds when the payments are made.

2.3 Reporting Currency

2.3.1 Functional and presentation currency

The reporting currency of these Special-Purpose Financial Statements is Nigeria Naira (N). Except as otherwise indicated, financial information presented in Nigeria Naira (N) has been rounded to the nearest thousand.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in gain or loss.

Transfers to Drawdown account and expenditures are converted into Nigeria Naira based on the exchange rate defined by the Central Bank of Nigeria at the dates of the transactions.

The effect of exchange rate changes on cash held on local currency is reported as separate line item in the statement of cash receipts and payments.

2.4 Taxes

Taxes are paid in accordance with the tax regulations of the Federal Republic of Nigeria.

2.5 Budget

Expenditure is created based on actual accumulated expenditures for the last period plus updated procurement plans for the reporting period.

3.0 Income

This represents net amount of Interest Income on AFD Special Accounts and gross amount received from sale of bid documents.
4.0 Accumulated Contract Costs
Accumulated contract costs represent costs incurred to date on civil construction and rehabilitation work, material and equipments including fees of consulting services provided by the Consultants employed for the purpose of the Project.
Expenditures are summarised by actual for the period and accumulated to date.
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2016

To the Management of Lagos Water Corporation

We have audited the accompanying special purpose financial statements of the Second national Urban Water Sector Reform Project (Hereafter: the Agence Francaise De Developpement) financed by AFD CREDIT NUMBER – CNG 1007 01 L and implemented by Lagos State Water Corporation, which comprise the statement of cash receipts and payments, and statement of uses of funds by project activity for the year ended December 31, 2016 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Special Purpose Financial Statements

The Management of Lagos Water Corporation is responsible for the preparation and fair presentation of these Special Purpose Financial Statements in accordance with International Public Sector Accounting Standards: Financial Reporting Under Cash Basis of Accounting, (IPSAS-Cash Basis) issued by the International Public Sector Accounting Standards Board (IPSASB) within the International Federation of Accountants (IFAC), and Financial Management Manual for World Bank Financed Investment Operations (WB Guidelines), and for such internal control as management determines is necessary to enable the preparation of these Special Purpose 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 that is generally accepted. 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 auditors' judgment, 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 auditor considers internal control relevant to the entity's preparation of Financial Statements that give a true and fair view 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 Project Implementation Committee, 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. As follows:

Opinion

In our opinion,

1. The Special Purpose Financial Statements present fairly in all material respects the cash receipt and payments of the project for the year ended December 31, 2016 in accordance with IPSAS-Cash Basis and World Bank related guidelines
2. Funds have been used in accordance with the conditions of the AFD CREDIT NUMBER – CNG 1007 01 L dated November 26, 2012 between the Agence Francaise De Developpement and Federal Government of Nigeria on behalf of Lagos State Government for the implementation of Lagos Water Corporation, and Agence Francaise De Developpement related guidelines, with due attention to economy and efficiency, and only for the purposes for which the financing was provided
3. Supporting documents, records and accounts have been maintained to support claims for reimbursement of expenditures incurred. Expenditures included in the withdrawal applications and reimbursed against are eligible for financing under the credit agreement
4. The designated accounts used have been maintained in accordance with the provision of CREDIT NUMBER – CNG 1007 01 L and Agence Francaise De Developpement related guidelines

May 15, 2017

Olabisi Fayombo & Co.
Chartered Accountants
ICAN0002550
# STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>Non Current Assets</th>
<th>2016=N= 000</th>
<th>2015=N= 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Contract Costs</td>
<td>2,611,691</td>
<td>1,132,134</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Account</td>
<td>1,085,010</td>
<td>36,807</td>
</tr>
<tr>
<td>Counterpart Fund Account</td>
<td>35,586</td>
<td>130,680</td>
</tr>
<tr>
<td>Drawdown Account</td>
<td>978</td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>3,733,265</td>
<td>1,299,621</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital Funds</th>
<th>2016=N= 000</th>
<th>2015=N= 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agence Francaise De Development Fund</td>
<td>2,974,122</td>
<td>1,009,124</td>
</tr>
<tr>
<td>Lagos State Water Corporation Contribution</td>
<td>148,816</td>
<td>148,816</td>
</tr>
<tr>
<td>Accumulated Fund</td>
<td>610,327</td>
<td>141,681</td>
</tr>
<tr>
<td>Total Capital Funds</td>
<td>3,733,265</td>
<td>1,299,621</td>
</tr>
</tbody>
</table>

The Financial Statements and notes on pages 11-13 were approved by the Project Implementation Committee on 2017 and signed on its behalf by:

**Engr. Muminu Badmus**

Managing Director/C.E.O.

**Mr. Aro Ibraheem**

Project Accountant

The accounting policies on page 7 and notes on pages 11-13 form an integral part of these Financial Statements.
### SPECIAL-PURPOSE PROJECT FINANCIAL STATEMENTS

#### STATEMENT OF INCOME AND EXPENDITURE

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>=N= 000</td>
<td>=N= 000</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of Bidding Documents</td>
<td>-</td>
<td>800</td>
</tr>
<tr>
<td>Interest Income</td>
<td>10,778</td>
<td>4,260</td>
</tr>
<tr>
<td>Exchange Gains</td>
<td>573,536</td>
<td>84,634</td>
</tr>
<tr>
<td>Other Income</td>
<td>1,069</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>585,383</td>
<td>89,694</td>
</tr>
<tr>
<td><strong>Less: Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Charges</td>
<td>6,491</td>
<td>3,319</td>
</tr>
<tr>
<td>Withholding Tax on Interest Income</td>
<td>1,078</td>
<td>426</td>
</tr>
<tr>
<td>Tax Payments (VAT and WHT)</td>
<td>95,168</td>
<td>14,322</td>
</tr>
<tr>
<td>Contingency Expenses</td>
<td>-</td>
<td>13,955</td>
</tr>
<tr>
<td>Incremental Operating Costs</td>
<td>14,000</td>
<td>4,092</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>116,737</td>
<td>36,114</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) for the Year</strong></td>
<td>468,646</td>
<td>53,580</td>
</tr>
</tbody>
</table>

The accounting policies on page 7 and notes on pages 11-13 form an integral part of these Financial Statements.
### CASH FLOW STATEMENT

<table>
<thead>
<tr>
<th></th>
<th>2016 (₦= 000)</th>
<th>2015 (₦= 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flow from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus for the Year</td>
<td>468,646</td>
<td>53,580</td>
</tr>
<tr>
<td>Operating income before working capital changes</td>
<td>468,646</td>
<td>53,580</td>
</tr>
<tr>
<td><strong>Cash-flow From Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Expenditure</td>
<td>(1,479,557)</td>
<td>(1,132,134)</td>
</tr>
<tr>
<td>AFD Contribution</td>
<td>1,964,998</td>
<td>-</td>
</tr>
<tr>
<td>LWC Contribution</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in Cash &amp; Cash Equivalent</td>
<td>954,087</td>
<td>(1,078,554)</td>
</tr>
<tr>
<td><strong>Cash &amp; Cash Equivalent at the Beginning of the period</strong></td>
<td>167,487</td>
<td>1,246,041</td>
</tr>
<tr>
<td>Changes in Cash &amp; Cash equivalent</td>
<td>954,087</td>
<td>(1,078,554)</td>
</tr>
<tr>
<td><strong>Cash &amp; cash Equivalent at the end of the period</strong></td>
<td>1,121,574</td>
<td>167,487</td>
</tr>
</tbody>
</table>

**Represented By:**
- Cash at Bank as at the end of the year

1,121,574

167,487

The accounting policies on page 7 and notes on pages 11-13 form an integral part of these Financial Statements.
NOTES TO THE ACCOUNTS

NOTE 1 ACCUMULATED CONTRACT COST

<table>
<thead>
<tr>
<th></th>
<th>WORKS</th>
<th>CONSULTANCY SERVICES</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>=N=000</td>
<td>=N=000</td>
<td>=N=000</td>
</tr>
<tr>
<td>Cost at 1st January, 2016</td>
<td>1,058,466</td>
<td>73,668</td>
<td>1,132,134</td>
</tr>
<tr>
<td>Addition during the year</td>
<td>1,352,088</td>
<td>127,469</td>
<td>1,479,557</td>
</tr>
<tr>
<td>Cost at 31st December, 2016</td>
<td>2,410,554</td>
<td>201,137</td>
<td>2,611,691</td>
</tr>
<tr>
<td>Balance at 31st December, 2016</td>
<td>2,410,554</td>
<td>201,137</td>
<td>2,611,691</td>
</tr>
<tr>
<td>Balance at 31st December, 2015</td>
<td>1,058,466</td>
<td>73,668</td>
<td>1,132,134</td>
</tr>
</tbody>
</table>

Accumulated contract costs represent costs incurred to date on civil construction and rehabilitation work, material and equipments including fees of consulting services provided by the Consultants employed for the purpose of the Project. Expenditures are summarised by actual for the period and accumulated to date.
NOTE 2 STATEMENT OF CASH POSITION

<table>
<thead>
<tr>
<th>IDA SPECIAL ACCOUNT</th>
<th>COUNTERPART FUND</th>
<th>DRAWDOWN ACCOUNT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1771507180</td>
<td>1771387489</td>
<td>1771441499</td>
<td>N=000</td>
</tr>
<tr>
<td>=N=000</td>
<td>=N=000</td>
<td>=N=000</td>
<td>N=000</td>
</tr>
</tbody>
</table>

Balance as at January 1, 2016: 36,807 130,680 167,487

ADD WORLD BANK REPLENISHMENTS
Deposit from AFD 1,964,998 - - 1,964,998
Total Interest Earnings 10,778 - - 10,778
Exchange Gain 573,536 - - 573,536

ADD LWC IGR
Other Income - 78 991 1,069

DEDUCT

DIRECT PAYMENTS FOR:
Works 1,352,088 - - 1,352,088
Consultants Services 127,469 - - 127,469
Incremental Operating Costs 14,000 - - 14,000
Tax Payments (VAT&WHT) - 95,168 - 95,168

TOTAL SERVICE CHARGES
Withholding Tax on Credit Interest 1,078 - - 1,078
Bank Charges 6,474 4 13 6,491

Balance at 31st December, 2016: 1,085,010 35,586 978 1,121,574

2.1 Project payments have been compared and agreed to Bank Financing shown in the Project Financial Statements

2.2 Special Account has been treated as part of the Project Financial Statements since it is the Bank Account of the Project
**NOTES TO THE ACCOUNTS (Continued)**

<table>
<thead>
<tr>
<th>NOTE</th>
<th>RECONCILIATION OF PROJECT SPECIAL ACCOUNT</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$</td>
<td>2016</td>
<td>2015</td>
</tr>
<tr>
<td></td>
<td></td>
<td>=N=000</td>
<td>=N=000</td>
</tr>
<tr>
<td>3</td>
<td>Balance at January 1, 2016</td>
<td>187,308.79</td>
<td>36,807</td>
</tr>
<tr>
<td></td>
<td>World Bank Replenishments</td>
<td>9,999,989</td>
<td>1,964,998</td>
</tr>
<tr>
<td></td>
<td>Total Interest Earnings</td>
<td>43,560.00</td>
<td>11,159</td>
</tr>
<tr>
<td></td>
<td>Exchange Difference</td>
<td>-</td>
<td>573,536</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>10,230,858</strong></td>
<td><strong>2,586,500</strong></td>
</tr>
</tbody>
</table>

**Less**

| Transfer to Drawdown Account | 1,440,286.00 | 354,836 | 269,955 |
| Direct Payments to Contractors and Consultants | 5,198,253.00 | 1,139,102 | 874,152 |
| Bank Charges | 31,995.00 | 7,552 | 3,744 |
| **Total** | **6,670,534.00** | **1,501,490** | **1,147,851** |

Balance as at December 31, 2016 | **3,560,323.79** | **1,085,010** | **36,807** |

4 **Agence Francaise De Development Fund**

Balance As At January 1, 2016 | 1,009,124 | 1,009,124 |
World Bank Replenishments through IDA Special Account | 1,964,998 | - |
| **Total** | **2,974,122** | **1,009,124** |
This represents the naira equivalent of the total funds received up to the end of December, 2015 from Agence Francaise De Development

5 **Lagos State Water Corporation Contribution**

Balance As At January 1, 2016 | 148,816 | 148,816 |
Lagos State Government Replenishment | - | - |
Balance as at December 31, 2016 | 148,816 | 148,816 |
This represents the cumulative amount received from the Lagos State Water Corporation into Counterpart Fund Account

6 **Accumulated Fund**

Balance brought forward | 141,681 | 88,101 |
Surplus/(Deficit) for the Year | 468,646 | 53,580 |
Balance carried forward | 610,327 | 141,681 |
LAGOS WATER CORPORATION  
SECOND NATIONAL URBAN WATER SECTOR REFORM PROJECT  
AGENCE FRANCAISE DE DEVELOPPEMENT  
SPECIAL-PURPOSE PROJECT FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31ST DECEMBER, 2016

STATEMENT OF SPECIAL ACCOUNT

<table>
<thead>
<tr>
<th>Part</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depository Bank</td>
<td>Agence Francaise De Developpement</td>
</tr>
<tr>
<td>Address</td>
<td>No 3, Udi Hills Street, Off Aso Drive, Maitama, Abuja</td>
</tr>
<tr>
<td>Credit Number</td>
<td>CNG 1007 01 L</td>
</tr>
<tr>
<td>Currency</td>
<td>Converted to Naira</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IDA SPECIAL ACCOUNT</th>
<th>N=000</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA SPECIAL ACCOUNT</td>
<td>1771507180</td>
</tr>
</tbody>
</table>

Balance as at January 1, 2016 36,807

ADD WORLD BANK REPLENISHMENTS

<table>
<thead>
<tr>
<th>Part</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit from AFD</td>
<td>1,964,998</td>
</tr>
<tr>
<td>Total Interest Earnings</td>
<td>10,778</td>
</tr>
<tr>
<td>Exchange Gain</td>
<td>573,536</td>
</tr>
</tbody>
</table>

Total 2,586,119

DEDUCT

<table>
<thead>
<tr>
<th>Part</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIRECT PAYMENTS FOR:</td>
<td></td>
</tr>
<tr>
<td>Works</td>
<td>1,352,088</td>
</tr>
<tr>
<td>Consultants Services</td>
<td>127,469</td>
</tr>
<tr>
<td>Incremental Operating Costs</td>
<td>14,000</td>
</tr>
</tbody>
</table>

TOTAL SERVICE CHARGES

<table>
<thead>
<tr>
<th>Part</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withholding Tax on Credit Interest</td>
<td>1,078</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>6,474</td>
</tr>
</tbody>
</table>

Total 1,501,109

Balance at 31st December, 2016 1,085,010

Project payments have been compared and agreed to Bank Financing shown in the Project Financial Statements

Special Account has been treated as part of the Project Financial Statements since it is the Bank Account of the Project
SECOND NATIONAL URBAN WATER SECTOR REFORM PROJECT
(AGENCE FRANÇAISE DE DEVELOPPEMENT)
SPECIAL PURPOSE MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 2016
(CREDIT NUMBER - CNG 1007 01 L)

IMPLEMENTED BY LAGOS WATER CORPORATION
SPECIAL PURPOSE MANAGEMENT LETTER
FOR THE YEAR ENDED
DECEMBER 31, 2016

EXTERNAL AUDITORS
OLABISI FAYOMBO AND COMPANY
(CHARTERED ACCOUNTANTS)
152, OBAFEMI AWOLOWO WAY
IKEJA, LAGOS STATE
May 26, 2017

The Managing Director/CEO
Lagos Water Corporation
Ijora Police
Ijora
Lagos

Dear Sir,

AUDITORS’ OBSERVATIONS AND COMMENTS ON THE SPECIAL PURPOSE FINANCIAL STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2016

We have audited the Project’s special purpose financial statements of the Second national Urban Water Sector Reform Project (Hereafter: the Agence Francaise De Developpement) financed by AFD CREDIT NUMBER – CNG 1007 01 L and implemented by Lagos State Water Corporation, which comprise the statement of cash receipts and payments, and statement of uses of funds by project activity for the year ended December 31, 2016 and a summary of significant accounting policies and other explanatory notes.

NOTE TO THE SPECIAL-PURPOSE FINANCIAL STATEMENTS
Appropriate notes in respect of the Project’s policies have been incorporated into the Financial Statements. Kindly confirm that our understanding of these policies is in order, and that our wording of the rest of the Notes is acceptable to the Management of the Project.

LETTER OF REPRESENTATION
In compliance with the requirements of International Public Sector Accounting Standards (IPSASB) within the International Federation of Accountants (IFAC) and presented in accordance with Financial Manual for World Bank Financed Investment Operations (March 2010): RM 3 – Financial Reporting and Auditing., we require a letter of representation to be assured of your agreement with the information and opinion given to the examination of your Special-Purpose Financial Statements for the year ended 31st December, 2016.

AFD CREDIT NUMBER – CNG 1007 01 L
OBJECTIVES OF THIS REPORT

The objectives of the report include the following:

i. To assist Management in improving the Project’s present system and also put right, matters that may otherwise affect the reliability of your financial records and statements.

ii. To enable us give our comments on the accounting system and internal control system of the Project.

iii. To enable us to bring to the attention of Management, areas of weakness that might lead to material errors or even frauds in future.

iv. To enable us communicate to your management, matters that may impact on future audits in compliance with professional guidelines.

EXECUTIVE SUMMARY

We have completed the audit of the Project’s Special-Purpose Financial Statements for the year ended 31st December, 2016. In planning and performing our audit, we considered the Project’s internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the Financial Statements and to provide assurance on the effectiveness of internal control structure.

It is the responsibility of the Project Implementation Committee to ensure that the Project establishes and maintains a proper internal control structure. For emphasis, we have presented a description of this responsibility, its objectives and inherent limitations in this Domestic Letter.

PROFESSIONAL COMPETENCE

We have prepared the Special-Purpose Financial Statements in such a manner that all items prior to this period, have been treated in accordance acceptable standard of accounting practice and in agreement with International Public Sector Accounting Standards.

It must be appreciated that the 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 Special-Purpose financial statements of the Project and therefore cannot be expected to include all possible improvements in the system of accounting and internal control which a more extensive examination might reveal.

During the course of our audit, we maintained close contact with your officers and briefed them of our findings and recommendations as and when they arose.

This report has been prepared solely for the use by the designated representatives on the Project. No responsibility to any third party is accepted as the report has not been prepared and is not intended, for any other purpose.
SECOND NATIONAL URBAN WATER SECTOR REFORM PROJECT
(AGENCE FRANCAISE DE DEVELOPPEMENT)
SPECIAL PURPOSE MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 2016
(CREDIT NUMBER – CNG 1007 01 L)

We seize this opportunity to express our appreciation for the co-operation and assistance we received from both Management and the Project’s Unit in the course of our audit exercise.

We oblige to give any assistance you may require in implementing our recommendations.

Yours faithfully,

FOR: OLABISI FAYOMBO & Co.
(Chartered Chief Accountants)
OGUNSOLA OLUSINA
PARTNER
SECON National Urban Water Sector Reform Project
(Agence Francaise de Developpement)
Special Purpose Management Letter
For the Year Ended December 31, 2016
(Credit Number - CNG 1007 01 L)

CORPORATE GOVERNANCE ISSUES
We submitted that:

I. The Project’s status and mandate should be properly defined
II. True business philosophy should drive the Project’s operations; by tailoring the
    Project’s expenses towards direct revenue boost of the Lagos Water Corporation
III. Sources and Uses of Fund should be tabled to reflect actual, budget and variance
     on both Financing and Expenditures activities so that the Project’s activities
     will be further summarised beyond SAR Special Account Report

MANAGEMENT’S RESPONSIBILITY, THE OBJECTIVES AND LIMITATIONS
OF THE ACCOUNTING AND INTERNAL CONTROL STRUCTURE

Project Implementation Committee’s responsibility
The Project Implementation Committee is responsible for the designing of the
Accounting and Internal Control Structure and overseeing the effectiveness and adequacy
while management implements same. In planning this responsibility, estimates and judgments,
Management is required to assess the expected benefits and related costs of internal control
policies and procedures.

Objectives
The objectives of well properly staffed Accounting and Internal Control Structure are
to provide management with reasonable, but not absolute, assurance that assets are
safeguarded against loss from unauthorised use or disposition and that transactions are
executed in accordance with Management’s authorisation policy and recorded properly
to permit the preparation of the Special-Purpose Financial Statements in accordance
with Generally Accepted Accounting Principles (GAAP).

Limitations
Due to inherent limitations in any Accounting and Internal Control Structure, errors or
irregularities may occur and not be detected. Also, projection of any evaluation of the
structure to future periods is subject to the risk that procedures may become inadequate
because of changes in conditions or the effectiveness of the design and operation of policies,
and procedures may deteriorate. The major limitations are:

   a) 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.
   b) The effectiveness of the controls is ultimately dependent on the people operating
      them.
   c) Any control designed to ensure the execution and recording of transactions
      may be ineffective against errors or irregularities perpetrated by Management.
      Management can normally override controls because of their authority in establishing
      them.
   d) Procedures may become inadequate due to changes in conditions and compliance with
      procedures may therefore deteriorate.
Issues for Consideration

**STATING MANAGEMENT’S AND THE AUDITOR’S RESPONSIBILITY**

AGENCE FRANCAISE DE DEVELOPPEMENT CREDIT NUMBER – CNG 1007 01 L requires that the auditor’s report state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:

(a) maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

(b) selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework; and

(c) making accounting estimates that are reasonable in the circumstances.

AGENCE FRANCAISE DE DEVELOPPEMENT CREDIT NUMBER – CNG 1007 01 L requires that the auditor’s report include a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. The auditor’s report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs and explain that those standards require that the auditor plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatement, whether due to fraud or error.

The Credit Facility Agreement requires that the auditor’s report include a statement of the responsibility of the Project’s management and the responsibility of the auditor.

**Recommendation:**

This report’s recommendation is in agreement with revised ISA 800 which provides for the following to be included in the auditor’s report on other historical financial information:

(a) Identification of the responsible party and a description of the responsible party’s responsibility for:

(i) In the case of other historical financial information prepared for the special purpose, determining that the applicable financial reporting framework is acceptable in the light of the other engagement circumstances, including the needs of the intended users;

(ii) Preparing and presenting the other historical financial information in accordance with the applicable financial reporting framework;

(iii) Designing, implementing and maintaining internal control relevant to the preparation and presentation of the other historical financial information that is free from material misstatement, whether due to fraud or error;