Water and Sanitation for the Urban Poor

Project Report and Financial Statements for the

Maputo Peri-Urban Sanitation Project in Mozambique

Period ended 31 December 2014
Contact details

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The contents of this document are for the attention and information of the directors and managers of Water and Sanitation for the Urban Poor and representatives of World Bank. You may only disclose the contents of this document to third parties – with the exception of World Bank – with our permission and we cannot be held liable for any reliance placed on the contents by third parties.
Background information and summary of findings

Background

WSUP is a not-for-profit company, limited by guarantee and incorporated on 9 April 2005 that aims to pioneer new ways of addressing one of the world’s most pressing challenges which is to provide water and sanitation services to the growing numbers of urban poor in the developing world. WSUP achieves this through multi-sector, stakeholder partnerships supporting local service providers to deliver environmentally sustainable, equitable and affordable water and sanitation services to all citizens in a city.

Description of the World Bank programme audited

World Bank, as Administrator of Grant funds provided by Japan under the Japan Social Development Fund, has granted a request from Water and Sanitation for the Urban Poor (WSUP) for financial assistance in the delivery of the Maputo Peri-Urban Sanitation Project in Mozambique.

The objective of the project is to improve the sanitation conditions, services, and practices in unplanned low income peri-urban neighborhoods of Maputo and pilot and develop effective approaches for replication. This will be done through construction, promotion and improvement of sanitation infrastructure in these areas; development of desludging services; and promotion and monitoring of community level sanitation and hygiene.

Period covered by audit

We have audited the funds received by Water and Sanitation for the Urban Poor for the above project for the period 23 August 2013 to 31 December 2014.

Objectives and scope of audit

The objective of the audit is to provide an opinion on whether the project financial statements (PFS) are fairly stated for the period ended 31 December 2014, whether Water and Sanitation for the Urban Poor is operating internal controls that are sufficient to reduce to a low level the risk that the PFS are materially misstated, and to assess whether Water and Sanitation for the Urban Poor has complied in all material respects with the terms of their agreements with the World Bank.

We conducted our audit of the project financial statements in accordance with the Audit Terms of Reference outlined by the World Bank.

The audit of the project was carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC).
Summary of findings

Our findings incorporate our recommendations to the management of Water and Sanitation for the Urban Poor and their comments.

Findings relating to compliance

We noted three compliance issues relating to procurement procedures and policies. Further detail is provided in the schedule of findings on compliance on page 9.

Findings relating to internal controls

We noted no material internal controls weaknesses however, four less significant findings relating to internal controls are outlined below in the schedule of findings on compliance on page 11.

Adjustments to the Project Financial Statements

As a result of the audit process, various adjustments to the PFS were identified. Further details of these adjustments are outlined on pages 13 and 14.

Management letter

All our findings have been included in this report. We have not reported to Water and Sanitation for the Urban Poor separately in a management letter.

Sayer Vincent LLP
Chartered accountants and statutory auditors
London, UK
17 July 2015
Audit report on the Project Financial Statements (PFS)

Independent auditors’ report to:

Board of Directors
Water and Sanitation for the Urban Poor
7th Floor
Fleet House
8-12 New Bridge Street
EC4V 6AL

We have audited the PFS of Water and Sanitation for the Urban Poor Maputo Peri-Urban Sanitation Project in Mozambique for the period ended 31 December 2014. The PFS are the responsibility of Water and Sanitation for the Urban Poor’s management. Our responsibility is to express an opinion on the PFS based on our audit work.

We conducted our audit of the PFS in accordance with the Audit Terms of Reference outlined by the World Bank. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the PFS are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the PFS. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the PFS referred to above present fairly, in all material respects, program revenues, costs incurred and reimbursed by World Bank for the period then ended in accordance with the terms of the agreements and in conformity with the basis of accounting described in note 1 to the PFS.

In accordance with World Bank Audit Terms of Reference, we have also included details of key internal control weaknesses and non-compliance with the financing agreement terms.

This report is intended for the information of Water and Sanitation for the Urban Poor and World Bank.

Sayer Vincent LLP
Chartered accountants and statutory auditors
London, UK
17 July 2015
## Project Financial Statements (PFS)

### Summary of Sources and Uses of Funds
For the period 23 August 2013 to 31 December 2014

<table>
<thead>
<tr>
<th>Source/Activity</th>
<th>US$</th>
<th>US$</th>
<th>US$</th>
</tr>
</thead>
</table>
| **INCOMING RESOURCES**                               | 598,047
| **OUTGOING RESOURCES - Components & Activities**     |       |       |       |
| COMPONENT 1: Sanitation Infrastructure                |       |       |       |
| ACTIVITY A: User Facilities                          | 251,850
| TOTAL COMPONENT 1                                     | 251,850
| COMPONENT 2: Development of Desludging Services       |       |       |       |
| ACTIVITY A: Development of Desludging Services        | 101,964
| TOTAL COMPONENT 2                                     | 101,964
| COMPONENT 3: Community Level Sanitation and Hygiene Promotion and Monitoring |       |       |       |
| ACTIVITY A: Preparation and Training                 | 14,583
| ACTIVITY B: Hygiene Promotion and Monitoring          | 143,100
| TOTAL COMPONENT 3                                     | 157,683
| COMPONENT 4: Monitoring and Evaluation and Project Management |       |       |       |
| A: WSUP PROGRAMME MANAGEMENT COSTS                    | 73,356
| B: WSUP OPERATING COSTS                              | 9,773
| C: BASELINE AND FINAL SURVEYS                         | 39,413
| D: FINAL IMPACT EVALUATION                           | -     |
| E: DISSEMINATION WORKSHOP                             | -     |
| F: AUDIT                                             | 6,300
| TOTAL COMPONENT 4                                     | 128,842
| TOTAL OUTGOING RESOURCES                              | (640,339)
| NET OUTGOING RESOURCES                                | (42,292)
Statement of Designated Account  
For the period 23 August 2013 to 31 December 2014  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>US$</td>
</tr>
<tr>
<td>Amounts transferred during the period</td>
<td>598,047</td>
</tr>
<tr>
<td>Less</td>
<td></td>
</tr>
<tr>
<td>Expenditure reimbursed to WSUP from the designated account</td>
<td>398,072</td>
</tr>
<tr>
<td>Banks charges incurred on designated account</td>
<td>169</td>
</tr>
<tr>
<td></td>
<td>(398,241)</td>
</tr>
<tr>
<td>Balance at 31 December 2014</td>
<td>199,806</td>
</tr>
</tbody>
</table>

Chris Wilde, Director of Finance & Resources
Notes to project financial statements

1. Accounting Policies

a) Basis of preparation
   The PFS have been prepared in accordance with applicable accounting standards. Expenditure has been included in the PFS on an accruals basis. Income is based on actual receipts in the period. Funding for this project has only been received from the World Bank and the agreement included no counterpart funding requirements.

b) Foreign currency
   Transactions in foreign currencies are translated into United States Dollars at the rate prevailing at the date of reimbursement from the designated account.

c) Fixed assets
   Items of equipment are capitalised at cost where the purchase price exceeds £1,000. Depreciation costs are allocated to activities on the basis of the use of the related assets in those activities. Assets are reviewed for impairment if circumstances indicate their carrying value may exceed their net realisable value and value in use.

   No capital assets have been purchased for the project.
Information required under PFS Audit

1. Reconciliation of Funds Received

<table>
<thead>
<tr>
<th>Description</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount received by the Project from the World Bank per PFS</td>
<td>$98,046.55</td>
</tr>
<tr>
<td>Amount disbursed per World Bank Payment Advice documents</td>
<td>$98,046.55</td>
</tr>
<tr>
<td>Difference</td>
<td>-</td>
</tr>
</tbody>
</table>

It was noted during the audit that in the first Statement of Expenditure, and funds request no. 2, WSUP reported expenditure of $114,568.16, however a payment of $114,407.16 was received from World Bank, a difference of $161. Also, in the fourth Statement of Expenditure, and funds request no. 5, WSUP reported expenditure of $163,906.07, however a payment of $163,903.00 was received from World Bank, a difference of $3.07.

WSUP was not able to explain the reasons for these variances between the expenditure reported and the funding received.

2. Accuracy of Statements of Expenditure and Interim Financial Statements

We have noted that there were several errors within the Statements of Expenditure (SoE) which have been reported to World Bank within the period. These are due to the misposting of costs relating to separate projects however, these errors were deemed not to be material either individually or cumulatively and have been corrected during the preparation of the PFS. The systems and controls weaknesses behind this are discussed later in this report in the schedule of findings on internal controls.

We further noted variances between the SoE reported to the World Bank and the Interim PFS. The SoE for the period ending January 2015 totalled $675,153 while the Interim PFS for the same period shows costs of $713,106. These extra costs are due to the reallocations of staff time which have not been previously identified as relating to the project and some late posting of auxiliary expenditure and are deemed reasonable expenditure.

3. Budget

The Summary of Sources and Uses of Funds has been reported within the same cost lines as those which appear on the Interim Financial Statements reported to the World Bank.

We noted that the specific budget line items per the original grant agreement letter did not add to the full amount of the grant costs budgeted, adding to $1,600,750 rather than the full award amount of $1,775,950. WSUP have worked to clarify the project budget with the World Bank and subsequently the budget has been changed to reflect the full amount of the grant and differences in budgeting needs identified from the project so far. These changes are as follows:
<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Amount per original grant agreement US$</th>
<th>Amount per new budget US$</th>
<th>Difference US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>343,850</td>
<td>343,460</td>
<td>(390)</td>
</tr>
<tr>
<td>Training</td>
<td>563,900</td>
<td>554,042</td>
<td>(9,858)</td>
</tr>
<tr>
<td>Goods</td>
<td>88,000</td>
<td>145,252</td>
<td>57,252</td>
</tr>
<tr>
<td>Works</td>
<td>473,000</td>
<td>472,500</td>
<td>(500)</td>
</tr>
<tr>
<td>Other sub projects</td>
<td>132,000</td>
<td>43,895</td>
<td>(88,105)</td>
</tr>
<tr>
<td>Programme management costs</td>
<td>-</td>
<td>155,400</td>
<td>155,400</td>
</tr>
<tr>
<td>Administration</td>
<td>-</td>
<td>61,400</td>
<td>61,400</td>
</tr>
<tr>
<td>Total of budget line items</td>
<td>1,600,750</td>
<td>1,775,949</td>
<td>175,199</td>
</tr>
<tr>
<td>Costs unallocated with budget lines</td>
<td>175,200</td>
<td>1</td>
<td>(175,199)</td>
</tr>
<tr>
<td>Total Project Costs</td>
<td>1,775,950</td>
<td>1,775,950</td>
<td>-</td>
</tr>
</tbody>
</table>

While we have seen email correspondence relating to these changes, we have not seen any official addendum to the grant agreement from the World Bank to agree these new figures. Therefore this report includes no reporting of spend against budget.

4. Designated Account Balance and Net Outgoing Resources

Costs for the project are paid from other local bank accounts held by WSUP and then transferred out of the Designated Account on a regular basis. The last transfer of funds out of the designated account in the period was for expenditure up to the end of September 2014. Therefore, costs relating to the period October to December 2014 have been recognised in the PFS but have not been paid out of the Designated Account, thus explaining the variance between the net outgoing resources in the period and the balance on the Designated Account at period end.

The balance on the Designated Account at period end has been agreed to an external verification letter from the bank.