

REF: P.3/VOL.III/13

11 June 2021

The Managing Director
Guma Valley Water Company
4/5 Lamina Sankoh Street
Freetown.

Dear Sir,

AUDIT VERIFICATION REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2018/2019

3.0 BUDGET AND BUDGETARY PROCESS

Findings:

3.1 Ineffective Budgetary Controls

Section 4(a) of the Guma Valley Act, 2017 states: "Subject to this Act, the Board shall have the control and supervision of the Company including-(a) overseeing the sound and proper financial management of the Company." We observed the following when we reviewed the operations of the budget and budgetary process:

- (i) Management did not submit to the audit team, the budgets approved by the Board for the years under review (2018 and 2019).
- (ii) The Company did not have a finance and budget committee charged with overseeing the annual budget and addressing other budget-related issues.

Management's Response:

- (i) There was no constituted Board in 2018. Indeed, the Company had a budget in 2018 and 2019 which was approved by the Chairman at that time, since she was the only member of the Board.
- (ii) Because there was no constituted Board at the time, it was difficult to have a finance and budget committee in place. There is a Committee now.

Auditor's Verification Comment:

- (i) Management's comments are noted. This issue will be kept in view and followed up in subsequent audits.
- (ii) Evidence justifying that a finance and budget committee has been established was not submitted for verification. Our recommendation was not implemented. The issue remains unresolved.

4.0 PROCUREMENT

Findings:

4.1 Irregularities in Procurement Activities Undertaken

The following issues were noted:

- (i) Procurement of similar consumable items amounting to Le316,161,912 was divided. The items were procured from the same suppliers on diverse dates in 2018. Had adequate procurement planning been carried out, Management would have procured these consumables through the National Competitive Bidding method by entering into a framework contract. Instead, Requests for Quotation method was used, thereby evading the procurement threshold as stipulated in section 37 (2) of the Public Procurement Act of 2016.
- (ii) Requests for Quotation (RFQ) and Local Purchase Orders (LPO), etc., were not produced to substantiate procurement amounting to Le268,696,423 and Le130,929,991.00, relating to goods and services procured in 2018 and 2019, respectively.

Management's Response:

- (i) The auditor's comment is noted. We have since 2019 implemented the framework contract as per the Public Procurement Act, 2016.
- (ii) The auditors' comments are noted. Nevertheless, the necessary documents are now available for verification by the auditors.

Auditor's Verification Comment

- (i) Management's comments are noted. This issue will be kept in view and followed-up in subsequent audits.
- (ii) Requests for Quotation and Local Purchase Orders totalling Le268,696,423 and Le 130,929,991 were submitted and verified. Therefore, the issue is resolved.

5.0 REVENUE

Findings:

5.1 Differences in the Revenue Reported in the Financial Statements and EDAMS

Comparison between transactions recorded in the EDAMS revenue software and the financial statements revealed a difference in the reported revenue of Le11,371,866,182.38 for 2018 and Le3,161,357,383 for the 2019 financial years, respectively.

Management's Response:

The auditors' comments are noted. The necessary journal entries have been prepared and posted to correct the error that occurred while posting into the general water rate and unmetered water revenue ledger

Auditor's Verification Comment

Evidence of investigation and correction of discrepancies in the approved journal, revised general ledger and financial statements was provided and verified. Our recommendation was implemented. The issue has been resolved.

6.0 EXPENDITURE

Findings:

6.1 Inadequate Control of the General Processing of Payment Vouchers

A review of the Company's disbursements revealed the following:

- (i) Management failed to submit adequate supporting documents in the form of delivery certificates/notes, receipts, and service level agreements to justify the utilisation of funds totalling Le1,136,761,396 and Le5,935,701,168.97 for the 2018 and 2019 financial years, respectively.
- (ii) Payments totalling Le132,523,000 made in 2019 for international travel were without appropriate report to justify the purpose of travelling.

Management's Response:

- (i) Supporting documents have been retrieved and now available for verification. We however note the auditor's recommendation, and going forward, we will ensure strict compliance and adherence.
- (ii) Supporting documents have been retrieved and now available for verification

Audit Verification Report:

- (i) The relevant supporting documents for funds amounting to **Le1,136,761,396** and **Le5,935,701,168.97** were submitted and verified. Our recommendation was implemented. Therefore, issues are resolved.
- (ii) Reports in support of international travel totalling **Le132,523,000** were submitted and verified. Our recommendation was implemented. Therefore, this issue is resolved.

6.2 Withholding Taxes not Deducted and Paid to the National Revenue Authority

Withholding taxes totalling **Le2,991,484.38** and **Le10,730,566.00** were not deducted and paid over to the National Revenue Authority (NRA) for the 2018 and 2019 financial years, respectively.

Management's Response:

We have noted the auditors' comments on this issue. Necessary actions would be taken to correct these abnormalities in future. The Guma Valley Water Company would endeavour to retrieve and pay the necessary deducted amounts to the NRA

Auditor's Verification Comment

Management's comments are noted. Documentary evidence in the form of receipt justifying recoverability and payment of 5.5% withholding taxes totalling **Le2,991,484.38** and **Le10,730,566.00** to the NRA was provided and verified. Our recommendation was implemented. Therefore, the issue is resolved.

6.3 Non-Compliance with the GST Act, 2009

Section 31(1) of the GST Act 2009 states: "A GST registered supplier who makes taxable supplies is required, at the time of the supply, to issue the recipient with an original GST invoice, for the supply". Our review of a sample of payment vouchers with an invoice value of **Le500,645,000** and **Le911,170,844** indicated an inputted GST of **Le78,545,100** and **Le123,219,234.78** for 2018 and 2019, respectively. The invoices attached were not GST invoices, which is in contravention of section 31(1) of the GST Act of 2009.

Management's Response:

The suppliers have been contacted to provide the necessary documents in relation to these transactions. The auditors' comments were noted, and going forward; we will ensure full compliance with the relevant sections of the GST Act, 2009

Audit Verification Report:

Management's comments are noted. However, evidence of contacts made with suppliers for the submission of GST receipts justifying GST payments to the National Revenue Authority totalling Le78,545,100.00 and Le123,219,234 were not submitted for verification. Therefore, this issue remains unresolved.

7.0 NON-CURRENT ASSETS

Findings:

7.1 *Inadequate control over the management and security of assets*

We identified the following issues when we reviewed the management and surety of the Company's assets:

- (i) Management did not submit a policy that regulates the use and management of assets owned and controlled by the Company.
- (ii) Except for motor vehicles, the Company's properties, plant and equipment (including office furniture, fittings, computer equipment, and office buildings) did not have insurance cover.
- (iii) Closing balances reported in the 2017 audited financial statements did not agree with the opening balances brought forward in the 2018 financial statements submitted for audit. The difference relates to purchased software with a net book value of Le 462,925,804 that was not included in the 2018 financial statements.

Management's Response:

- (i) The Company is in the process of developing a policy regarding the management and use of its assets for submission to the Board for its approval.
- (ii) The auditors' comment has been noted. The Company shall endeavour to make sure that all its assets are insured accordingly.
- (iii) The necessary adjustments to these omissions have been done. The Journals with respect to this issue will be made available during the verification exercise.

Auditor's Verification Comment

- (i) An asset policy that guides the management of non-current assets is yet to be developed by management of the Company. Our recommendation was not implemented. This issue remains unresolved.
- (ii) Policies/certificates in support of the Company's properties, plant and equipment (including office furniture, fittings, computer equipment, and office buildings) insured in 2021 were not submitted for verification. Our recommendation was not implemented. This issue remains unresolved.

- (iii) Evidence justifying investigation of differences and a revised general ledger were submitted and verified. Our recommendation was implemented. Therefore, the issue is resolved.

8.0 PAYABLE

Findings:

8.1 PAYE Deducted but not Paid, and Inadequate Recording of Payable

- (i) A review of the payable ledger revealed that Le1,336,439,269.45 and Le1,837,090,332.39 were deducted from staff salaries and allowances as PAYE for the years ended 31st December 2018 and 2019, respectively. Management did not remit these deductions to the National Revenue Authority.
- (ii) Comparison between bills received from EDSA and the amount recorded on the general ledger revealed an understatement of payable balance by Le92,728,810 and Le72,718,795 for the 2018 and 2019 financial years, respectively.

Management's Response:

- (i) The Company is in dialogue with the Ministry of Finance for a cross debt settlement arrangement of the debt owed by MDAs to the Guma Valley Water Company (including withholding and PAYE) to the Government of Sierra Leone.
- (ii) The necessary reconciliation exercise has been carried out, and the adjustment is made to reflect the correct balances in the financial statements. The journals and correct ledgers are available for verification.

Auditor's Verification Comment

- (i) Management's comments noted. Evidence in official letters between the Company and the Ministry of Finance for a cross debts arrangement was seen and verified. However, negotiation on the cross debts is ongoing and yet to be finalised. Follow-up will be done in subsequent audit to determine whether a conclusion has been reached. This issue remains unresolved.
- (ii) Evidence justifying investigation of differences and journal entries were submitted and verified. Our recommendations were implemented. Therefore, the issue is resolved.

9.0 Internal Audit

Findings:

9.1 Ineffective Management of Controls over the Internal Functions

A review of the operations of the Internal Audit Department revealed the following:

- (i) The Internal Audit Control & Policy dated 20th August 2019, utilised by the Internal Audit Unit, was in the draft stage at the time of the audit.

- (ii) Execution of planned activities as per the Annual Audit Plan for both 2018 and 2019 was not effective because the Unit was understaff with only three members available to review operations of the Company, which spans from various locations.

Management's Response:

- (i) The Draft Audit Plan has been submitted to the Audit & Finance Committee for review, for it be finalised.
- (ii) The Unit has been strengthened with two contract workers who are graduates. Upon successful completion of their performance during the contract period, their status will be made permanent.

Auditor's Verification Comment

- (i) Evidence justifying that the draft Internal Audit and Control Policy has been submitted to the Board of Directors for approval was not submitted for verification. Our recommendation was not implemented. The issue remains unresolved.
- (ii) The issue of staff being recruited to augment the work of the Internal Audit Unit will be followed up in subsequent audits.

10 HUMAN RESOURCES MANAGEMENT

Findings:

10.1 *Ineffective Management of Controls over the Human Resources Management*

A review of the operations of the Human Resources Department revealed the following:

- (i) Twenty-two personnel were recruited during the period under review. Management did not produce recruitment documents such as job advertisements, application letters, interview score sheets, and reference letters to confirm that the recruitment process was open, fair and credible.
- (ii) Training and development is a critical activity in the Human Resources Development that aims to enhance employees' skills and competence to increase productivity. Members need the training to improve their capacities with respect to the work they perform. There was no evidence of annual training plans nor any needs assessment submitted during the audit.
- (iii) Staff register to justify attendance at work was not submitted for audit review.
- (iv) Evidence in the form of staff appraisal justifying that performances of personnel were evaluated for the period under review was not submitted for audit inspection.

Management's Response:

- (i) The auditors' comments were noted. The necessary documents are available for verification.

- (ii) At the time of audit, this document was not available for submission to the auditors, since it was under review, but it is now available for verification.
- (iii) These registers are all available for verification.
- (iv) A new appraisal system has now been adopted and to be implemented in the 2020 financial year. Evidence of such document is available for the auditors to verify.

Auditor's Verification Comment

- (i) Adverts for recruitment, application letters, invitations to attend interviews, interview score sheets, references, etc to support the effectiveness of the recruitment process were not provided. Therefore, this issue remains unresolved.
- (ii) Training policy and staff attendance register were provided and reviewed. Hence, these issues have been resolved.
- (iii) No evidence of staff appraisal was provided for review. Hence, this issue remains unresolved.

Yours faithfully,



Selvin Bell
F/AUDITOR GENERAL

I hereby acknowledge receipt and agree to the details of the verification report above.

Name: **MAADA S. KPENGE**

Designation: **MANAGING DIRECTOR**

Date: **11th JUNE 2021**

Sign: 