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**AUDIT SERVICES
CORPORATION**

MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT NO.5766-ET
MANAGEMENT LETTER
FOR THE YEAR ENDED 7 JULY 2019



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**The Federal Democratic Republic of Ethiopia
Audit Services Corporation**

6 January 2020

The Minister
Ministry of Finance
Addis Ababa

Dear Sir,

**MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
MANAGEMENT LETTER
FOR THE YEAR ENDED 7 JULY 2019**

We hereby submit our findings and recommendations on weaknesses in internal control and other matters which came to our attention during the audit of the financial statements of Ministry of Finance, Public Financial Management Project, financed under IDA Credit No. 5766-ET (hereinafter referred to as the Project) for the year ended 7 July 2019.

We attach the following for reference:

Independent auditor's report
Balance Sheet
Statement of sources and uses of funds
Notes to the financial statements
Designated account statement

As part of our audit of the Project, we have visited:

- Ministry of Finance
- Public Procurement and Property Administration Agency (PPPAA)
- Oromia National Regional State, Bureau of Finance and Economic Cooperation.

It must be appreciated that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily with a view to the expression of our opinion on the financial statements of the Project and therefore our examination cannot be expected to disclose all possible weaknesses in internal control and to uncover all other findings which a more extensive special examination might reveal.

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CASH AND BANK BALANCES

Finding

- 1.1 The bank reconciliation statement for bank account No. 0100101040682 of Public Procurement and Property Administration Agency was noted to have been erroneously prepared as the book balance of Birr 9,548,528 considered for the reconciliation preparation was incorrect while the correct one being Birr 9,880,456.

Management's Response

Corrective action will be taken and the issue will be solved in future.

Implication

Control weakness.

Recommendation

The reconciliation statement should be revised taking the correct details of reconciliation transactions.

- 1.2. In our review of reconciliation statements of bank accounts at the Public Procurement and Property Administration Agency we also noted instances whereby reconciliation statements were not signed for an independent checking and approval.

Implication

Control weakness.

Management's Response

No response.

Recommendation

All reconciliation statements should be checked and approved by an independent person for a better control over the accounts.

GENERAL

Finding

- 2.1 In the books of accounts of Public Procurement and Property Administration Agency and Oromia National Regional State, we noted that some payment vouchers and respective supporting documents were not stamped as having been " PAID".

Management's Response

It will be resolved by discussing with the Agency's accountant.

Implication

Control weakness over payments.

Recommendation

In order to preclude their possible representation for payment, payment documents should be stamped "PAID".

CONCLUSION

We would like to express our appreciation to the management and staff of the Project for the assistance and courtesy extended to our representatives during the course of our audit.

We have discussed this report with the management of the Project who, in general, accept our findings and recommendations. We shall be pleased to provide any further explanations that may be required.

Yours faithfully,

Audit Services Corporation



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**The Federal Democratic Republic of Ethiopia
Audit Services Corporation**

**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS OF
MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET**

We have audited the accompanying financial statements of Ministry of Finance, Public Financial Management Project, financed under IDA credit No. 5766-ET, which comprise the balance sheet as at 7 July 2019, and the statement of sources and uses of funds for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Project's management is responsible for the preparation and fair presentation of these financial statements in accordance with the Ethiopian Government's Manual of the Federal Accounting System which is based on a modified cash basis of accounting and, for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 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 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 management, 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.

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**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS OF
MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET (continued)**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Ministry of Finance, Public Financial Management Project, financed under IDA Credit No. 5766-ET as at 7 July 2019 and of its sources and uses of funds for the year then ended in accordance with the Ethiopian Government's Manual of the Federal Accounting System which is based on a modified cash basis of accounting.

Report on Other Requirements

As required by the World Bank Guidelines and the terms of reference for financial audit, we report that, to the extent we can assess:

- a) All external financing has been used in accordance with the conditions of the relevant financing agreements with due attention to economy and efficiency, and only for the purposes for which the financing was provided;
- b) Goods, works and services financed have been procured in accordance with the relevant financing agreements;
- c) All necessary supporting documents, records and accounts have been maintained in respect of all project activities;
- d) Designated accounts have been maintained in accordance with the provisions of the relevant financing agreements, and funds disbursed out of the accounts were used for the purposes intended in the financing agreement;
- e) National laws and regulations have been complied with, and that the financial and accounting procedures approved for the Project were followed and used; and
- f) Financial performance of the Project is satisfactory.

Audit Services Corporation

6 January 2020

MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
BALANCE SHEET
AS AT 7JULY 2019

	Notes	2019 Ethiopian Birr	2018 Ethiopian Birr
CURRENT ASSETS			
Accounts receivable	3	23,716,395	9,235,965
Cash and bank balances	4	<u>114,269,107</u>	<u>125,898,263</u>
		<u>137,985,502</u>	<u>135,134,228</u>
CURRENT LIABILITIES			
Accounts payable	5	689,160	805,971
Taxes payable	6	<u>433,321</u>	<u>25,940</u>
		<u>1,122,481</u>	<u>831,911</u>
NET CURRENT ASSETS		<u>136,863,021</u>	<u>134,302,317</u>
<u>REPRESENTED BY</u>			
FUND BALANCE	7	<u>136,863,021</u>	<u>134,302,317</u>

The notes on pages 7 to 10 form an integral part of these financial statements

MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 7JULY 2019

	2019 Ethiopian Birr	Cumulative from 8 July 2016 to 7 July 2019 Ethiopian Birr	2018 Ethiopian Birr
SOURCES			
IDA - IFR Procedures	147,651,305	463,283,433	173,191,599
Gain on foreign exchange	<u>5,777,054</u>	<u>9,798,458</u>	<u>3,067,032</u>
	<u>153,428,359</u>	<u>473,081,891</u>	<u>176,258,631</u>
USES			
Expenditure Management and information system support	109,257,488	249,895,613	78,135,895
Strengthening Accountability Institution Program Management, Monitoring and Evaluation	31,476,132	73,427,898	18,348,503
	<u>10,134,035</u>	<u>12,895,359</u>	<u>887,322</u>
	<u>150,867,655</u>	<u>336,218,870</u>	<u>97,371,720</u>
EXCESS OF SOURCES OVER USES	<u>2,560,704</u>	<u>136,863,021</u>	<u>78,886,911</u>

The notes on pages 7 to 10 form an integral part of these financial statements

MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
DESIGNATED ACCOUNT STATEMENT

For year ended	7 July 2019
Account number	0100101300538
Depository bank	National Bank of Ethiopia
Address	Addis Ababa, Ethiopia
Related credit	IDA 5766-ET
Currency	USD

	2019		2018	
	USD	Ethiopian Birr	USD	Ethiopian Birr
Beginning balance - 7 July 2018	2,771,773.20	75,632,266.60	1,251,606.03	28,948,270.71
Advance received - IFR Procedures	<u>5,286,011.78</u>	<u>147,651,304.81</u>	<u>6,386,825.64</u>	<u>173,191,598.88</u>
	8,057,784.98	223,283,571.41	7,638,431.67	202,139,869.59
Less:				
Transfer to Birr account	4,800,000.00	135,044,520.00	4,000,000.00	108,549,500.00
Transfer to MoF - Finance	<u>1,277,907.59</u>	<u>35,912,999.04</u>	<u>866,658.47</u>	<u>20,974,978.75</u>
	<u>6,077,907.59</u>	<u>170,957,519.04</u>	<u>4,866,658.47</u>	<u>129,524,478.75</u>
	1,979,877.39	52,326,052.37	2,771,773.20	72,615,390.84
Add:				
Gain on foreign exchange	<u>-</u>	<u>4,965,461.68</u>	<u>-</u>	<u>3,016,875.76</u>
Ending balance - 7 July 2019	<u>1,979,877.39</u>	<u>57,291,514.05</u>	<u>2,771,773.20</u>	<u>75,632,266.60</u>

**MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766- ET
SCHEDULE OF MOVEMENTS IN BIRR ACCOUNT**

For year ended 7 July 2019
 Account number 0100101040680
 Depository bank National Bank of Ethiopia
 Address Addis Ababa, Ethiopia
 Currency Ethiopian Birr

	2019 Ethiopian Birr	2018 Ethiopian Birr
Beginning balance - 7 July 2018	13,563,260	9,154,354
Transfer from USD designated Account	<u>135,044,520</u>	<u>108,549,500</u>
	148,607,780	117,703,854
Less: Transfers to Project implementing agencies - (Regions and other Government offices)		
Tigray	7,096,170	3,443,839
Afar	2,831,824	2,063,851
Amhara	8,927,188	7,386,600
Oromia	16,500,453	11,217,369
Somali	5,003,893	3,820,943
Benshangul Gumuz	1,875,153	1,023,683
SNNPR	7,692,390	6,608,442
Gambella	3,205,774	1,318,618
Harari	1,182,342	491,204
Dire Dawa	1,894,516	786,388
Addis Ababa	5,973,817	3,524,476
Ministry of Finance - Finance	37,448,389	52,914,718
Office of the Federal Auditor General (OFAG)	8,866,003	1,100,000
Public Procurement and Property Administration - Agency (PPPAA)	18,607,296	8,169,090
Accounting and Auditing Board of Ethiopia	<u>4,320,000</u>	-
	131,425,208	103,869,221
Bank service charge	<u>337,611</u>	<u>271,373</u>
	<u>131,762,819</u>	<u>104,140,594</u>
Ending balance – 7 July 2019	<u>16,844,960</u>	<u>13,563,260</u>

**MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
NOTES TO THE FINANCIAL STATEMENTS**

1. PROJECT INFORMATION

The Federal Democratic Republic of Ethiopia and the International Development Association (IDA) entered into an agreement dated 17 March 2016 to finance the Public Financial Management Project. The latter agreed to extend to the former a credit in an amount equivalent to SDR 23,900,000 to assist in financing the mentioned Project.

The objective of the Project is to improve the efficiency, transparency and accountability of Public expenditures of the Government at the federal and regional levels.

The Project consists of the following parts:

- Part A: Improving Expenditure management and Information System
- Part B: Strengthening Accountability Institutions
- Part C: Project Management, Monitoring and Evaluation.

The effective date of the Project is 18 May 2016 and its closing date shall be 7 April 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Project are stated below:

a) Basis of preparation

These financial statements have been prepared in accordance with the Ethiopian Government's Manual of the Federal Accounting System which is based on a modified cash basis of accounting.

b) Currency

These financial statements are presented in Birr. Transactions in foreign currencies are translated into Birr at the approximate rates of exchange prevailing at the dates of the transactions. Foreign currency balances are translated into Birr at the exchange rates ruling at the balance sheet date.

MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
NOTES TO THE FINANCIAL STATEMENTS (continued)

3. ACCOUNTS RECEIVABLE

	2019 Ethiopian Birr	2018 Ethiopian Birr
Advance to Government and Regional Offices	6,106,685	9,207,308
Purchase advance	17,450,040	6,418
Other advances	124,722	-
Staff debtors	<u>34,948</u>	<u>22,239</u>
	<u>23,716,395</u>	<u>9,235,965</u>

4. CASH AND BANK BALANCES

USD Account No.0100101300538	57,291,514	75,632,267
Birr Account No. 0100101040680	16,844,960	13,563,260
Ministry of Finance - Finance	6,275,457	22,133,434
Public Procurement and Property Administration Agency	9,661,377	4,626,717
Office of the Federal Auditor General	9,301,422	1,080,101
Accounting and Auditing Board of Ethiopia	538,747	-
Cash at bank at Regional Offices	<u>14,196,933</u>	<u>8,749,816</u>
Cash on hand	114,110,410	125,785,595
	<u>158,697</u>	<u>112,668</u>
	<u>114,269,107</u>	<u>125,898,263</u>

5. ACCOUNTS PAYABLE

Payable to Government Offices	265,419	513,756
Other payable	<u>423,741</u>	<u>292,215</u>
	<u>689,160</u>	<u>805,971</u>

MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
NOTES TO THE FINANCIAL STATEMENTS (continued)

6. TAXES PAYABLE

	2019 Ethiopian Birr	2018 Ethiopian Birr
Value added tax	424,025	20,559
Withholding tax	<u>9,296</u>	<u>5,381</u>
	<u>433,321</u>	<u>25,940</u>

7. ACCUMULATED FUND

	Ethiopian Birr
Balance at 7 July 2018	134,302,317
Add: Excess of financing over expenditure for the year	<u>2,560,704</u>
	<u>136,863,021</u>

8. DATE OF AUTHORIZATION

The Director, Channel One Programs Coordinating Directorate of the Ministry authorized the issue of these financial statements on 6 January 2020.

MINISTRY OF FINANCE
PUBLIC FINANCIAL MANAGEMENT PROJECT
IDA CREDIT No. 5766-ET
IFR WITHDRAWAL SCHEDULE

for applications submitted during the year ended 7 July 2019

<u>Application</u> <u>No.</u>	<u>Amount requested</u> <u>USD</u>	<u>Amount disbursed</u> <u>USD</u>	<u>Equivalent in</u> <u>Ethiopian Birr</u>
PFM-10	1,862,476.48	1,862,476.48	51,811,488.21
PFM-11	<u>3,423,535.30</u>	<u>3,423,535.30</u>	<u>95,839,816.60</u>
	<u>5,286,011.78</u>	<u>5,286,011.78</u>	<u>147,651,304.81</u>