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The Federal Democratic Republic of Ethiopia
Audit Services Corporation

INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS OF
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE
URBAN PRODUCTIVE SAFETY NET PROJECT- P151712

We have audited the accompanying financial statements of Urban Productive Safety Net Project-P151712 of the Federal Democratic Republic of Ethiopia, Ministry of Finance, financed by IDA Credit No.57560-ET, which comprise the balance sheet as at 7 July 2020, and the statement of sources and uses of funds and a Designated Account statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility for the Financial Statements

The Ministry of Finance 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 control as the Ministry 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 qualified audit opinion.

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**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS OF
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE
URBAN PRODUCTIVE SAFETY NET PROJECT- P151712 (continued)**

Basis of Qualified Opinion

Expenditures totaling Birr 136.757.125 were reported to have been incurred by Oromia National Regional State during the year. However, we were unable to verify the expenditure as the supporting documents were said to have been destroyed during the social unrest in the Region towards the end of June 2020.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of Urban Productive Safety Net Project of the Federal Democratic Republic of Ethiopia, Ministry of Finance, financed under IDA Credit No.57560-ET, as at 7 July 2020 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 described in note 2 to the financial statements.

Report on other requirements

As required by the terms of reference and the World Bank guidelines we must report, in addition to our opinion, that

- during the period 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;
- goods, works and services financed have been provided in accordance with the relevant financing agreement and disbursement letters;
- all necessary supporting documents, records and accounts have been maintained in respect of all Project activities;
- Designated Account has been maintained in accordance with the provisions of the financing agreement and funds disbursed out of the Account were used only for the purposes intended in the financing agreement;
- National laws and regulations have been complied with and that the financing and accounting procedures approved for the Project;
- Financial performance of the Project is satisfactory;



**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS OF
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE
URBAN PRODUCTIVE SAFETY NET PROJECT- P151712 (continued)**

- non-expendable equipment procured from Project funds exist and there is a verifiable ownership by the Project implementing beneficiaries in line with the financing agreement;
- we did not come across with any ineligible expenditures included in withdrawal applications; and
- our examination revealed no major weaknesses or irregularities in the system of internal control over financial expenditures other than those reported in the management letter.

Furthermore, with respect to the interim financial reports (IFRs) submitted during the year and listed on page 12, in our opinion, submitted

- i) the reports, together with the procedures and internal controls involved in their preparation, can be relied upon to support the relevant withdrawals;
- ii) adequate supporting documentation has been maintained to support claims to IDA.;
and
- iii) which expenditures are eligible for financing under IDA Credit No.57560-ET.

22 December 2020
Audit Services Corporation

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF FINANCE
 URBAN PRODUCTIVE SAFETY NET PROJECT - P151712
 BALANCE SHEET
 AS AT 7 JULY 2020

| | Notes | Ethiopian Birr | 2019 Ethiopian Birr |
|---------------------------|-------|-----------------------------|-----------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and bank balances | 2b,3 | 2,453,093,134 | 1,778,282,071 |
| Accounts receivable | 4 | <u>59,888,477</u> | <u>44,722,030</u> |
| | | 2,512,981,611 | 1,823,004,101 |
| CURRENT LIABILITIES | | | |
| Accounts payable | 5 | <u>629,401,678</u> | <u>26,280,801</u> |
| NET CURRENT ASSETS | | <u>1,883,579,933</u> | <u>1,796,723,300</u> |
| REPRESENTED BY | | | |
| ACCUMULATED FUND | 6 | <u>1,883,579,933</u> | <u>1,796,723,300</u> |

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF FINANCE
 URBAN PRODUCTIVE SAFETY NET PROJECT- P151712
 STATEMENT OF SOURCES AND USES OF FUNDS
 FOR THE YEAR ENDED 7 JULY 2020

| | Year ended 7 July 2020 Ethiopian Birr | Cumulative From 12 January 2016 to 7 July 2020 Ethiopian Birr | Year ended 7 July 2019 Ethiopian Birr |
|---|---|---|--|
| FINANCING | | | |
| Credit from IDA 57560-ET | 1,633,059,451 | 5,812,988,571 | 2,481,718,792 |
| Government contribution | 1,090,936,747 | 1,676,624,556 | 414,371,389 |
| Refund from UNOPS | - | 2,002,049 | 2,002,049 |
| Gain on foreign exchange | 12,897,230 | 43,692,677 | 15,938,032 |
| TOTAL FINANCING | <u>2,736,893,428</u> | <u>7,535,307,853</u> | <u>2,914,030,262</u> |
| PROJECT EXPENDITURES | | | |
| Public works | 1,227,297,161 | 3,193,686,092 | 1,327,418,882 |
| Support transfer | 230,070,794 | 482,426,891 | 179,037,723 |
| Capital expenditure for public work | 268,715,524 | 655,976,343 | 247,893,975 |
| Contracts for clients special needs | 36,384,336 | 36,384,336 | - |
| Livelihood skill training monitoring and coaching | 38,177,327 | 127,521,009 | 60,358,231 |
| Livelihoods transfers | 695,370,320 | 695,370,320 | - |
| Targeting and MIS development | 3,883,405 | 15,154,512 | 1,272,796 |
| Evaluation and audit | 8,565,081 | 19,301,692 | 767,578 |
| Citizen engagement and social accountability | 9,732,223 | 18,887,658 | 5,547,074 |
| Capacity building | 52,645,731 | 156,781,839 | 30,549,173 |
| City Administration | 46,482,700 | 137,821,002 | 55,350,517 |
| Regional and Federal management | 32,712,193 | 112,416,226 | 36,149,351 |
| TOTAL EXPENDITURES | <u>2,650,036,795</u> | <u>5,651,727,920</u> | <u>1,944,345,300</u> |
| EXCESS OF FINANCING OVER EXPENDITURES | <u>86,856,633</u> | <u>1,883,579,933</u> | <u>969,684,962</u> |

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF FINANCE
 URBAN PRODUCTIVE SAFETY NET PROJECT - P151712
 DESIGNATED ACCOUNT STATEMENT

For year ended 7 July 2020
 Account number 0100101300506
 Depository bank National Bank of Ethiopia
 Address Addis Ababa, Ethiopia
 Related Credit IDA Credit 57560-ET
 Currency USD

| | USD | Equivalent in Ethiopian Birr |
|-----------------------------------|------------------------------------|---------------------------------|
| Balance at 7 July 2019 | 2,104,869.07 | 60,908,385.79 |
| IDA Deposit | 48,953,795.39 | 1,633,059,451.17 |
| Refund from UNOPS | 22,187.00 | 773,117.11 |
| Bank error | <u>5,764,071.00</u> | <u>200,851,936.03</u> |
| | <u>54,740,053.39</u> | <u>1,834,684,504.31</u> |
| | 56,844,922.46 | 1,895,592,890.10 |
| Deduct: | | |
| Transfer to pool Birr account | <u>50,000,000.00</u> | <u>1,668,632,400.00</u> |
| | 6,844,922.46 | 226,960,490.10 |
| Gain on foreign exchange | <u>-</u> | <u>12,897,229.27</u> |
| Ending balance 7 July 2020 | <u>6,844,922.46</u> 35.0417 | <u>239,857,719.37</u> |

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF FINANCE
 URBAN PRODUCTIVE SAFETY NET PROJECT - P151712
 SCHEDULE OF MOVEMENTS IN POOL BIRR ACCOUNT

| | | |
|-----------------------------------|---------------------------|---------------------------|
| For year ended | 7 July 2020 | |
| Account number | 0100101040674 | |
| Depository bank | National Bank of Ethiopia | |
| Address | Addis Ababa, Ethiopia | |
| Related loan | IDA Credit 57560-ET | |
| Currency | ETB | |
| Balance at 7 July 2019 | | 305,253,369 |
| Transfer from IDA-57560-ET | 1,668,632,400 | |
| Government contribution | <u>1,090,936,747</u> | |
| | | <u>2,759,569,147</u> |
| | | 3,064,822,516 |
| Deduct; | | |
| Transfer to Implementers | 2,358,886,451 | |
| Service charges | <u>4,171,581</u> | |
| | | <u>2,363,058.032</u> |
| Ending balance 7 July 2020 | | <u>701,764,484</u> |

**THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE
URBAN PRODUCTIVE SAFETY NET PROJECT- P151712
NOTES TO THE FINANCIAL STATEMENTS
7 JULY 2020**

1. BACKGROUND

The Project was established to support the Recipient to improve income of the targeted poor households and establish urban safety net mechanisms. These financial statements reflect the receipts and disbursements of credit given by International Development Association (IDA) Credit No.57560-ET, to finance safety net activities, including public works program sub-projects and support to labor-poor households, and institutional support. This Project will phase out in July 2021.

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 Government's accounting system outlined in the Manual of the Federal Accounting System based on a modified cash basis of accounting.

b) Currency

These financial statements are presented in Birr. Transactions in foreign currency are translated into Birr at the approximate rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Birr at the exchange rate ruling at the date of the balance sheet.

c) Recognition of financial assets and financial liabilities

The Project recognizes a financial asset or a financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. A financial asset is derecognized when, and only when, the control over the contractual rights is lost. A financial liability is derecognized when, and only when, it is extinguished.

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF FINANCE
 URBAN PRODUCTIVE SAFETY NET PROJECT- P151712
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 7 JULY 2020

3. CASH AND BANK BALANCE

| | Ethiopian Birr | 2019 Ethiopian Birr |
|---|-----------------------------|-----------------------------|
| IDA Credit No. 57560-ET | 239,857,719 | 60,908,386 |
| Balance in Pool Birr account | 701,764,484 | 305,253,368 |
| Tigray National Regional State | 13,026,758 | 33,530,250 |
| Amhara National Regional State | 13,956,282 | 48,806,038 |
| Oromia National Regional State | 3,668,736 | 70,340,329 |
| Southern Nations, Nationalities and Peoples Regional State | 70,102,077 | 110,039,884 |
| Harari National Regional State | 1,570,260 | 29,909,012 |
| Afar National Regional State | 1,162,583 | 1,737,468 |
| Somali National Regional State | 9,882,561 | 16,078,291 |
| Dire Dawa City Administration | 85,615,034 | 190,549,855 |
| Benishangul Gumuz National Regional State | 2,749,371 | 6,701,681 |
| Gambela National Regional State | 6,283,944 | 22,670,877 |
| Addis Ababa City Administration | 1,243,230,350 | 776,543,135 |
| Balance at Federal Job Creation and Food Security Agency | 57,804,279 | 100,242,983 |
| MOLSA | 2,330,500 | 4,639,954 |
| MOF-Finance | 22,885 | 208,583 |
| Cash on hand | 65,311 | 121,977 |
| | <u>2,453,093,134</u> | <u>1,778,282,071</u> |

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF FINANCE
 URBAN PRODUCTIVE SAFETY NET PROJECT- P151712
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 7 JULY 2020

4. ACCOUNTS RECEIVABLE

| | Ethiopian Birr | 2019 Ethiopian Birr |
|-------------------------------|--------------------------|--------------------------|
| Advance to contractors | 3,644,059 | 24,793,395 |
| Advance to staff | 168,255 | 3,453 |
| Receivable with in Government | 26,138,160 | 19,365,605 |
| Purchase advance | 1,135 | 126,970 |
| Others | 29,936,868 | 432,607 |
| | <u>59,888,477</u> | <u>44,722,030</u> |

5. ACCOUNTS PAYABLE

| | Ethiopian Birr | 2019 Ethiopian Birr |
|----------------------------|---------------------------|--------------------------|
| Pension payable | 108,668 | 264,435 |
| Salary payable | 947,295 | - |
| Income tax payable | 1,214,046 | - |
| Withholding tax payable | 181,839 | 654,922 |
| Payable to beneficiaries | 361,275 | 23,514,295 |
| VAT payable | 84,683 | 290,695 |
| Sundry creditors | 81,878 | 1,444,224 |
| Other payroll deductions | 115,967 | 28,565 |
| Payable with in Government | 626,306,027 | 83,665 |
| | <u>629,401,678</u> | <u>26,280,801</u> |

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE
URBAN PRODUCTIVE SAFETY NET PROJECT- P151712
NOTES TO THE FINANCIAL STATEMENTS (continued)
7 JULY 2020

6. ACCUMULATED FUND

| | Ethiopian Birr |
|--|-----------------------------|
| Balance at 7 July 2019 | 1,796,723,300 |
| Excess of financing over expenditures of the current year | <u>86,856,633</u> |
| Balance at 7 July 2020 | <u>1,883,579,933</u> |

7. DATE OF AUTHORIZATION

The Channel One Programmes Coordinating Directorate of Ministry of Finance authorized the issue of these financial statements on 22 December 2020.

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
 MINISTRY OF FINANCE
 URBAN PRODUCTIVE SAFETY NET PROJECT- P151712
 IFR WITHDRAWAL SCHEDULE
 for applications submitted during the year ended 7 July 2020

| 8. | <u>Application</u> <u>No.</u> | <u>Reference No.</u> | <u>Amount</u> <u>requested</u> <u>USD</u> | <u>Amount</u> <u>disbursed</u> <u>USD</u> | <u>Equivalent in</u> <u>Ethiopian</u> <u>Birr</u> |
|----|----------------------------------|----------------------|---|---|---|
| | 22 | IDA Credit 57560-ET | 48,953,795 | 48,953,795 | 1,633,059,451 |