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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 LOCAL GOVERNMENT DEVELOPMENT PROJECT II**

We have audited the accompanying financial statements of Urban Local Government Development Project II (ULGDP II) financed under IDA Credit number 54350 ET of the Federal Democratic Republic of Ethiopia, Ministry of Finance, which comprise the balance sheet as at 7 July 2018, the statement of sources and uses of funds and the designated accounts 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 it 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
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II (continued)**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Urban Local Government Development Project II (ULGDP II) financed under IDA Credit number 54350 ET as at 7 July 2018 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.

Reports on other requirements

As required by the World Bank guidelines we report that, to the extent we can assess:-

- during the period IDA funds have been used in accordance with the conditions of the relevant financing agreements and only for the purposes for which the financing were provided;
- counter-part funds have been provided and used in accordance with the financing agreement 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 agreements and disbursement letters;
- all necessary supporting documents, records and accounts have been maintained in respect of all Project's activities;
- the funds disbursed covered expenditure that are eligible for financing under IDA Credit No. 54350 ET;
- there was a clear linkage between the books of account and the financial statements; and
- our examination revealed no major weaknesses or irregularities in the system of internal controls over financial expenditure other than those mentioned in the management letter;

Audit Services Corporation

2 January 2019

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBER 54350 ET
BALANCE SHEET
AS AT 7 JULY 2018**

	Notes	Birr	2017 Birr
CURRENT ASSETS			
Advances	3	511,308,491	503,023,080
Cash and bank balances	4	<u>1,800,571,703</u> 2,311,880,194	<u>2,870,470,331</u> 3,373,493,411
CURRENT LIABILITIES			
Accounts payable	5	<u>582,932,397</u>	<u>551,245,626</u>
NET ASSETS		<u>1,728,947,797</u>	<u>2,822,247,785</u>
FINANCED BY			
ACCUMULATED FUND	6	<u>1,728,947,797</u>	<u>2,822,247,785</u>

The notes on pages 7 to 11 form an integral part of these financial statements.

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBERS 54350 ET
STATEMENT OF SOURCE AND USES OF FUNDS
FOR THE YEAR 7 JULY 2018**

	Note	Year ended 7 July 2018 Birr	Cumulative 8 July 2014 to 7 July 2018 Birr	Year ended 7 July 2017 Birr
SOURCES				
Credit from IDA		777,610,774	7,613,151,622	1,917,107,690
Contribution from Regions and cities		1,236,645,411	3,984,960,432	1,121,718,624
Gain on foreign exchange		352,415,665	471,585,580	60,530,523
Refund for payment made from IDA before approval of Capital Investment Plan (CIP)		-	13,403,553	13,403,553
		<u>2,366,671,850</u>	<u>12,083,101,187</u>	<u>3,112,760,390</u>
USES				
Works		3,085,528,755	9,313,795,418	2,608,616,214
Consultancy services		50,777,229	129,453,262	33,752,780
Training		<u>337,418,432</u>	<u>930,357,216</u>	<u>270,369,865</u>
		3,473,724,416	10,373,605,896	2,912,738,859
(DEFICIT)/EXCESS OF FINANCING OVER EXPENDITURE		(1,107,052,566)	1,709,495,291	200,021,531
PRIOR YEAR ADJUSTMENT	7	<u>13,752,578</u> <u>(1,093,299,988)</u>	<u>19,452,506</u> <u>1,728,947,797</u>	<u>4,174,377</u> <u>204,195,908</u>

The notes on pages 7 to 11 form an integral part of these financial statements.

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
USD DESIGNATED ACCOUNT STATEMENT**

For the year ended	7 July 2018
Account number	0100101300487
Depository bank	National Bank of Ethiopia
Address	Addis Ababa, Ethiopia
Related credit	IDA Credit No.54350 ET
Currency	USD

	<u>USD</u>	<u>BIRR</u>
Beginning balance – 8 July 2017	87,421,976.42	2,021,974,150.42
Add: IDA Grant during the year	<u>28,525,414.85</u>	<u>777,610,773.92</u>
	115,947,391.27	2,799,584,924.34
Less: Transfer to Birr account	83,500,000.00	2,266,429,670.00
Transfer to MoUDH	<u>2,000,000.00</u>	<u>46,835,400.00</u>
	<u>85,500,000.00</u>	<u>2,313,265,070.00</u>
	30,447,391.27	486,319,854.34
Gain on foreign exchange	-	344,485,932.29
Ending balance -7 July 2018	<u>30,447,391.27</u>	<u>830,805,786.63</u>

The notes on pages 7 to 11 form an integral part of these financial statements.

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
SCHEDULE OF MOVEMENTS IN THE BIRR ACCOUNT**

For the year ended	7 July 2018
Account number	0100101040661
Depository bank	National Bank of Ethiopia
Address	Addis Ababa, Ethiopia
Related credit	IDA Credit No. 54350 ET
Currency	Ethiopian Birr
Beginning balance-8 July 2017	11,231,239
Transfer from USD Designated Account	<u>2,266,429,670</u>
	2,277,660,909
Less: Transfer to beneficiaries	
Afar	13,667,096
Tigray	343,581,877
Amhara	538,379,472
Oromia	583,986,049
Southern Nations, Nationalities and peoples	
Regional State	406,314,202
Harari	53,781,931
Dire Dawa	128,945,455
Ministry of Urban Development, Housing and Construction	78,997,566
Ministry of Finance and Economic Cooperation	2,167,300
Somali	76,444,478
Gambella	25,478,486
Benshangul Gumuz	<u>18,397,594</u>
	2,270,141,506
Bank charge	<u>5,666,074</u>
	<u>2,275,807,580</u>
Ending balance 7 July 2018	<u><u>1,853,329</u></u>

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT I
IDA CREDIT NUMBERS 54350 ET
NOTES TO THE FINANCIAL STATEMENTS**

1. PROJECT INFORMATION

The Project was established to implement IDA Credit No. 54350 ET made between the Government of the Federal Democratic Republic of Ethiopia and the International Development Association (IDA) on 6 May 2014. The main objective of the Project is to support improved performance in the planning, delivery and sustained provision of priority municipal services and infrastructure by urban local governments.

The Ministry of Finance (MoF) is the administrator of the Credit while the Ministry of Urban Development and Construction (MUDC) is the executing agency for the Project. The closing date of the Project is 31 December 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Project, which are consistent with those applied in the preceding year, are stated below:-

a) Basis of preparation

These financial statements have been prepared in accordance with the Ethiopian Governments 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. Cash balances denominated in foreign currencies are translated into Birr at the exchange rates ruling at the date of statement of financial position.

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBERS 54350 ET
NOTES TO THE FINANCIAL STATEMENTS (continued)**

3. ADVANCES

	Birr	2017 Birr
Advance payment to:-		
Contractors	273,826,634	251,067,315
Suppliers	117,320,345	180,583,720
Co-operatives	30,150,097	25,809,170
Purchase advance to staff	8,084,275	4,587,903
Other advances within government	70,813,767	34,597,208
Others	<u>11,113,373</u>	<u>6,377,764</u>
	<u>511,308,491</u>	<u>503,023,080</u>

4. CASH AND BANK BALANCES

	Birr	2017 Birr
USD Designated account	830,805,787	2,021,974,150
Ethiopian Birr Designated Account	1,853,329	11,231,239
Ministry of Urban Development and Construction	135,757,785	126,120,125
Ministry of Finance and Economic Cooperation	2,256,010	1,353,209
Other Birr Account	829,456,111	709,229,375
Cash on hand	<u>442,681</u>	<u>562,233</u>
	<u>1,800,571,703</u>	<u>2,870,470,331</u>

5. ACCOUNTS PAYABLE

	Birr	2017 Birr
Retentions	213,172,862	164,093,577
Contractors	212,566,879	164,695,154
Other payable within government	46,539,034	65,762,164
Taxes payable	16,996,976	21,880,224
Others	<u>93,656,646</u>	<u>134,814,507</u>
	<u>582,932,397</u>	<u>551,245,626</u>

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBERS 54350 ET
NOTES TO THE FINANCIAL STATEMENTS (continued)**

6. ACCUMULATED FUND

	Birr
Balance at 8 July 2017	2,822,247,785
Prior year adjustment	<u>13,752,578</u>
	2,836,000,363
Deficit of financing over expenditure	<u>(1,107,052,566)</u>
Balance at 7 July 2018	<u>1,728,947,797</u>

7. PRIOR PERIOD ADJUSTEMENT

	Birr	2017 Birr
Grace period payable in excess of actual expenditure	3,795,638	3,618,946
Adjustment for overstatement of expenditures	5,487,504	-
Refund for retention payable that was paid from the Project on behalf of the regular budget	1,819,016	-
Refund for payment of purchase of motor vehicle	645,000	-
Others	<u>2,005,420</u>	<u>555,431</u>
	<u>13,752,578</u>	<u>4,174,377</u>

8. DATE OF AUTHORIZATION

Channel One Programs Coordinating Directorate Director of the Federal Democratic Republic of Ethiopia, Ministry of Finance authorized the issue of these financial statements on 2 January 2019.

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBERS 54350 ET
WITHDRAWAL APPLICATION SCHEDULE
Submitted during the
YEAR ENDED 7 JULY 2018**

Withdrawal Application No.	USD	Equivalent in Birr
ULGDP-II-05	3,279,214.95	89,376,643.07
ULGDP-II-06	<u>25,246,199.90</u>	<u>688,234,130.85</u>
	<u>28,525,414.85</u>	<u>777,610,773.93</u>

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBERS 54350 ET
RECONCILIATION OF SEMI ANNUAL REPORTS DURING THE YEAR ENDED
7 JULY 2018 WITH THE YEAR ENDED STATEMENT OF SOURCE AND USES
OF FUND AND BALANCE SHEET**

Sources	1 st Semi Annual Birr	2 nd Semi Annual Birr	Cumulative 7 July 2014 to 7 July 2018 Birr
Opening Balance 8/7/17			2,822,247,785
Prior year adjustment			<u>13,752,578</u>
			<u>2,836,000,363</u>
IDA Contribution	-	777,610,774	777,610,774
Regional Contribution	330,685,448	193,842,964	524,528,412
ULGs Contribution	353,026,096	359,090,903	712,116,999
Gain on foreign exchange	<u>350,475,328</u>	<u>1,940,337</u>	<u>352,415,665</u>
Total Sources	1,034,186,872	1,332,484,978	2,366,671,850
Expenditures			
Program expenditures	<u>594,080,585</u>	<u>2,879,643,831</u>	<u>3,473,724,416</u>
	<u>440,106,287</u>	<u>(1,547,158,853)</u>	<u>(1,107,052,566)</u>
Excess/(Deficiency) of sources			
Over expenditures			<u>1,728,947,797</u>
Cash at bank			1,800,129,022
Cash on hand			442,681
Advances			511,308,491
Payables			<u>(582,932,397)</u>
			<u>1,728,947,797</u>