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AUDIT SERVICES
CORPORATION

MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT
PROJECT PHASE II
IDA CREDIT NUMBER 54350-ET
MANAGEMENT LETTER
FOR THE YEAR ENDED 7 JULY 2020



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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 2020, 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.

**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)**

Basis for Qualified Opinion

Shown on the balance sheet is outstanding fund balance of Birr 36,664,054 (represented by Receivable of Birr 22,839,823, cash of Birr 31,485,910 and payables of Birr 17,661,679) as at 7 July 2020. Taking into consideration the closing date of the Project being 31 December 2019, the clearance of outstanding receivable and payable balances becomes questionable. In consequence, we were unable to satisfy ourselves that any adjustments might have been found necessary in respect of fund balance shown on the balance sheet at Birr 36,664,054.

Opinion

In our opinion, except for the possible 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 the Urban Local Government Development Project II (ULGDP II) financed under IDA Credit number 54350 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.

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.

8 January 2021

Audit Services Corporation

MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBER 54350 ET
BALANCE SHEET
As AT 7 July 2020

	Notes	Birr	2019 Birr
CURRENT ASSETS			
Advances	3	22,839,823	288,015,066
Cash and bank balances	4	<u>31,485,910</u>	<u>538,090,608</u>
		54,325,733	826,105,674
CURRENT LIABILITIES			
Accounts payable	5	17,661,679	309,808,302
NET ASSET		<u>36,664,054</u>	<u>516,297,372</u>
FINANCED BY			
ACCUMULATED FUND	7	<u>36,664,054</u>	<u>516,297,372</u>

MINISTRY OF FINANCE

URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II

IDA CREDIT NUMBER 54350 ET

STATEMENT OF SOURCES AND USES OF FUNDS

For the YEAR 7 JULY 2020

	Note	Year ended 7 July 2020	Birr	Cumulative	Year ended 7 July 2019
				From 8 July 2014	
SOURCES					
Credit from IDA		-	7,613,151,622		-
Contribution from Regions and cities		6,879,711	4,810,072,188		818,232,044
Gain on foreign exchange	5	4,240,850	505,766,036		29,939,606
Refund for payment made from IDA before approval of Capital Investment Plan (CIP)				<u>13,403,553</u>	
		<u>11,120,561</u>	<u>12,942,393,399</u>		<u>848,171,650</u>
USES					
Works		283,776,994	11,269,070,274		1,690,950,369
Consultancy services		2,257,399	152,664,486		20,953,823
Training		<u>204,719,486</u>	<u>1,483,994,585</u>		<u>348,917,883</u>
		<u>490,753,879</u>	<u>12,905,729,345</u>		<u>2,060,822,076</u>
(DEFICIT)/EXCESS OF FINANCING OVER EXPENDITURE					
		<u>(479,633,318)</u>	<u>36,664,054</u>		<u>(1,212,650,425)</u>

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

For the year ended 7 JULY 2020
 Account number 0100101300487
 Depository bank National Bank of Ethiopia
 Address Addis Ababa, Ethiopia
 Related credit IDA Credit No.54350 ET
 Currency USD

	USD	Birr
Beginning balance – 8 July 2019	1,847,391.27	53,457,776.44
Less: Transfer to Birr account	<u>1,700,000.00</u>	<u>49,474,420.00</u>
	147,391.27	3,983,356.44
Gain on foreign exchange	<u>-</u>	<u>1,181,484.23</u>
Ending balance -7 July 2020	<u>147,391.27</u>	<u>5,164,840.67</u>

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

For the year ended	7 JULY 2020
Account number	0100101040661
Depository bank	National Bank of Ethiopia
Address	Addis Ababa,Ethiopia
Related credit	IDA Credit No. 54350 ET
Currency	Ethiopian Birr
	Birr
Beginning balance 7 July 2019	3,877,587.18
Transfer from USD Designated Account	49,474,420.00
Reinbursement from Benshangul Gumuz	<u>71,549.45</u>
	53,423,556.63
Less: Transfer to beneficiaries	
Ministry of Urban Development, Housing and Construction	51,000,000.00
Ministry of Finance - Adminstration	<u>1,299,500.00</u>
Bank charge	52,299,500.00 <u>123,686.05</u>
Ending balance 7 July 2020	<u>52,423,186.05</u> <u>1,000,370.58</u>

**MINISTRY OF FINANCE
URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II
IDA CREDIT NUMBER 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 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 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 balance sheet date.

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

3 ADVANCES

	Birr	2019 Birr
Advance payment to:-		
Contractors	1,007,086	89,061,226
Suppliers	-	91,519,734
Co-operatives	6,258,062	12,304,971
Purchase advance	92,550	2,797,781
Other advances within government	33,696	77,886,705
Others	<u>15,448,429</u>	<u>14,444,649</u>
	<u>22,839,823</u>	<u>288,015,066</u>

4 CASH AND BANK BALANCES

	Birr	2019 Birr
USD Designated account	5,164,841	53,457,777
Ethiopian Birr Designated Account	1,000,370	3,877,587
Ministry of Urban Development and Construction	11,072,707	84,088,908
Ministry of Finance	<u>750,220</u>	<u>908,008</u>
Other Birr Account	17,988,138	142,332,280
Cash on hand	13,492,295	395,441,128
	<u>5,477</u>	<u>317,200</u>
	<u>31,485,910</u>	<u>538,090,608</u>

5 GAIN ON EXCHANGE RATE FLUCTUATION

	Birr	2019 Birr
Ministry of Finance	1,181,484	27,083,499
Ministry of Urband Development and Construction	<u>3,059,366</u>	<u>2,856,107</u>
	<u>4,240,850</u>	<u>29,939,606</u>

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

6 ACCOUNTS PAYABLE

	Birr	2019 Birr
Retentions	512,175	146,698,878
Contractors	-	74,626,695
Other payable within government	-	36,607,198
Taxes payable	8,271,311	16,303,911
Others	<u>8,878,193</u>	<u>35,571,620</u>
	<u>17,661,679</u>	<u>309808301.8</u>

7 ACCUMULATED FUND

	Birr
Balance at 7 July 2019	516,297,372
Deficit of financing over expenditure	<u>(479,633,318)</u>
Balance at 7 July 2020	<u>36,664,054</u>

8 DATE OF AUTHORIZATION

Channel One Programs Coordinating Directorate Director of the Ministry authorized the issue of these financial statements on 8 January 2021.

MINISTRY OF FINANCE

URBAN LOCAL GOVERNMENT DEVELOPMENT PROJECT II

IDA CREDIT NUMBER 54350 ET

**RECONCILIATION OF SEMI ANNUAL REPORTS DURING THE YEAR ENDED
7 JULY 2020 WITH THE YEAR ENDE STATEMENT OF SOURCES AND USES OF FUNDS
AND BALANCE SHEET**

SOURCES	1st Semi Annual Birr	2nd Semi Annual Birr	Cumulative 7 July 2014 to July 7,2020 Birr
Opening Balance 7 July 2019			516,297,372
ULGs Contribution	4,956,209	1,923,502	6,879,711
Gain on foreign exchange	<u>1,767,376</u>	<u>2,473,474</u>	<u>4,240,850</u>
Total Sources, current	<u>6,723,585</u>	<u>4,396,976</u>	<u>11,120,561</u>
Total sources inclusing opening			527,417,933
USES			
Program expenditures	<u>365,886,700</u>	<u>124,867,179</u>	<u>490,753,879</u>
EXCESS OF SOURCES OVER EXPENDITURES			<u>36,664,054</u>
Cash at bank			31,480,433
Cash on hand			5,477
Advances			22,839,823
Payables			(17,661,679)
			<u>36,664,054</u>