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AUDIT SERVICES
CORPORATION

MINISTRY OF FINANCE

URBAN INSTITUTIONAL AND INFRASTRUCTURE

DEVELOPMENT PROGRAM (UIIDP-P4R)

IDA CREDIT No.6196-ET, SUF 6197-ET,IDA GRANT No.D277-ET,AFD1073 01 U

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 INSTITUTIONAL AND INFRASTRUCTURE DEVELOPMENT PROGRAM (UIIDP-P4R)

We have audited the accompanying financial statements of Urban Institutional and Infrastructure Development Program (UIIDP-P4R) financed under IDA Credit number 6196-ET, SUF 6197-ET and Grant No. D2770-ET and ADF 1073 01 U 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.

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**INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS OF
THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE DEVELOPMENT PROGRAM (UIIDP-P4R)**
(continued)

Basis for Qualified Opinion

Expenditures reported by Adama City Administration of Birr 231,883,961 were not substantiated by supporting documents. In consequence we were unable to satisfy ourselves that any adjustments might have been found necessary in respect of expenditures shown in the statement of sources and uses of funds at Birr 4,693,771,130.

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 Institutional and Infrastructure Development Program (UIIDP-P4R) financed under IDA Credit number 6196- ET, SUF 6197- ET, and Grant No. D277-ET and AFD 1073 01 U 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. 6196- ET, SUF 6197-ET, and Grant No. D377-ET and AFD 1073 01 U;
- 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

14 January 2021

MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE
DEVELOPMENT PROGRAM(UIIDP-P4R)
IDA CREDIT NOs. 6196- ET,SUF 6197-ET, AND GRANT
NO. D277-ET AND AFD 1073 01 U
BALANCE SHEET
AS AT 7 JULY 2020

	Notes	Birr	2019 Birr
CURRENT ASSETS			
Advances	3	488,729,869	185,754,301
Cash and bank balances	4	<u>6,218,206,007</u>	<u>784,437,586</u>
		6,706,935,876	970,191,887
CURRENT LIABILITIES			
Accounts payable	5	<u>518,529,037</u>	<u>365,006,357</u>
NET ASSET		<u>6,188,406,839</u>	<u>605,185,530</u>
FINANCED BY			
FUND BALANCE		<u>6,188,406,839</u>	<u>605,185,530</u>

MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE
DEVELOPMENT PROGRAM (UIIDP- P4R)
IDA CREDIT NUMBERS 6196-ET,SUF 6197- ET
AND GRANT No. D277-ET AND AFD 1073 01 U
STATEMENT OF SOURCE AND USES OF FUNDS
FOR THE YEAR ENDED 7 JULY 2020

	Birr	Cumulative from 3 July 2018 to 7 July 2020 Birr	7 July 2019 Birr
SOURCES			
Credit and grant from IDA	8,255,321,906	9,972,116,385	1,716,794,479
AFD Grant	44,845,912	44,845,912	-
Contribution from Regions and cities	1,850,392,553	2,417,491,644	567,099,091
Gain on foreign exchange	<u>123,276,156</u>	<u>175,426,238</u>	<u>52,150,082</u>
	<u>10,273,836,527</u>	<u>12,609,880,179</u>	<u>2,336,043,652</u>
USES			
Works	4,053,475,761	5,701,016,492	1,647,540,731
Consultancy services	40,515,658	53,523,129	13,007,471
Training	<u>596,623,799</u>	<u>666,933,719</u>	<u>70,309,919</u>
	<u>4,690,615,218</u>	<u>6,424,629,252</u>	<u>1,730,858,122</u>
EXCESS OF FINANCING OVER EXPENDITURE	<u>5,583,221,309</u>	<u>6,188,406,839</u>	<u>605,185,530</u>

**MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE
DEVELOPMENT PROGRAM (UIIDP- P4R)
USD DESIGNATED ACCOUNT STATEMENT**

For the year ended	7 July 2020	
Account number	0100101300554	
Depository bank	National Bank of Ethiopia	
Address	Addis Ababa, Ethiopia	
Related credit and grant	IDA Credit No.6196-ET,SUF 6197-ET AND Gran No. D277-ET	
Currency	USD	
	USD	BIRR
Beginning balance - 7 July 2019	11,040.41	319,475.24
Add: IDA Credit and grant during the year	<u>254,949,825.75</u> 254,960,866.16	<u>8,255,321,905.73</u> 8,255,641,380.97
Less: Transfer to Birr account	<u>102,449,460.00</u> 152,511,406.16	<u>3,028,430,451.38</u> 5,227,210,929.59
Gain on foreign exchange	0.00	117,048,011.65
Ending balance -7 July 2020	<u>152,511,406.16</u>	<u>5,344,258,941.24</u>

**MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE
DEVELOPMENT PROGRAME (UIIDP-P4R)
EURO DESIGNATED ACCOUNT**

For the year ended 7 July 2020
 Account number 0100101300562
 Depository bank National Bank of Ethiopia
 Address Addis Ababa, Ethiopia
 Related grant AFD 1073 01 U
 Currency EURO

	EURO	BIRR
AFD Grant during the year	1,392,501.00	44,845,912.46
Less: Transfer to Birr account	<u>1,275,500.00</u> 117,001.00	<u>46,441,975.40</u> (1,596,062.94)
Gain on foreign exchange	-	<u>6,228,144.23</u>
Ending balance - 7 July 2020	<u>117,001.00</u>	<u>4,632,081.29</u>

MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE
DEVELOPMENT PROGRAM (UIIDP- P4R)
SCHEDULE OF MOVEMENTS IN THE BIRR ACCOUNT

For the year ended	3 July 2018 To 7 July 2020
Account number	0100101040692
Depository bank	National Bank of Ethiopia
Address	Addis Ababa,Ethiopia
Related credit and grant	IDA Credit No. 6196-ET, SUF 6197-ET,Grant No. D277-ET and AFD 1073 01 U
Currency	Ethiopian Birr

	Birr
Beginning balance - 7 July 2019	1,046,184
Transfer from USD Designated Account	3,028,430,451
Transfer from EURO Designated Account	<u>46,441,975</u>
Less: Transfer to beneficiaries	3,075,918,611
Oromia	895,912,619
Amhara	758,277,451
Southern Nations, Nationalities and peoples Regional State	576,308,858
Tigray	423,039,321
Ministry of Urban Development, Housing and Construction	139,536,952
Dire Dawa	122,070,346
Somali	56,923,241
Harari	22,474,653
Gambella	21,195,208
Benshangul Gumuz	<u>47,723,953</u>
Afar	3,063,462,602
Bank charge	<u>7,687,181</u>
Ending balance 7 July 2020	<u>3,071,149,783</u>
	<u>4,768,828</u>

**MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE DEVELOPMENT PROGRAM
(UIIDP- P4R)
IDA CREDIT NUMBERS 6196-ET, SUF 6197-ET AND GRANT NUMBER D377-ET AND
AFD 1073 01 U
NOTES TO THE FINANCIAL STATEMENTS**

1. PROJECT INFORMATION

The Urban Institutional and Infrastructure Development Program (UIIDP-P4R) is executed by Ministry of Urban Development, Housing and Construction (MUDCo), and financed by a financing agreement entered between the Government of the Federal Republic of Ethiopia and the International Development Association (IDA) and French Development Agency on 20 March 2018 and 21 June 2018 respectively, under IDA Credit No. 6196-ET, SUF6197-ET, Grant No. D277-ET and ADF 1073 01 U with a Program- for - Results (P4R) financing instrument modality at the regional and ULG levels.

The UIIDP-P4R will be implemented over a period of five years and four months (from March 2018 to July 2023), with four rounds of performance-based grant allocations:

- EFY 2012 (2019/20),
- EFY 2013 (2020/21),
- EFY 2014(2021/22) and
- EFY 2015(2022/23).

Total UIIDP-P4R expenditure over this period are estimated at Ethiopian Birr (ETB) 23.5 billion (US\$ 859.5 Million), of which ETB 16.4 billion (US\$ 600 million)-70% -will be provided by the World Bank and ETB 296 million(US\$10.8 million).1%- will be provided by ADF and ETB 6.8 million (US\$ 248.7 million) -29%- will be provided by regions and ULGs as matching fund contributions. Funding available under the UIIDP-P4R will depend on the performance of each city and RG assessed annually against verifiable results described in the POM.

The UIIDP –P4R will provide Performance Grants (PGs) for investment in infrastructure and services and in capacity building for 117 Urban Local Governments (ULGs) and capacity building in all nine Regional Governments (RGs), MUDHCo and several Federal Ministries/Agencies. Cities and Regional States will contribute to UIIDP investment with their own funds.

Ministry of Finance is responsible for fund flow, disbursement, reporting and arranging program auditing for the operation. The closing date of the Project is July 2023.

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 INSTITUTIONAL AND INFRASTRUCTURE

DEVELOPMENT PROGRAM (UIIDP- P for R)

IDA CREDIT Nos. 6196-ET, SUF 6197-ET , Grant No. D277-ET And AFD 1073 01 U

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 ADVANCES

	Birr	2019 Birr
Advance payment to:-		
Contractors	328,965,314	137,083,857
Consultants	2,231,462	-
Suppliers	80,745,689	11,474,318
Co-operatives	27,956,210	14,219,174
Purchase advance to staff	5,180,691	1,177,164
Other advances within government	35,567,496	16,014,679
Others	<u>8,083,007</u>	<u>5,785,109</u>
	<u>488,729,869</u>	<u>185,754,301</u>

4 CASH AND BANK BALANCES

	Birr	2019
USD Designated account	5,344,258,941	319,475
EURO Designated account	4,632,081	-
Ethiopian Birr Designated Account	4,768,828	1,046,185
Ministry of Urban Development and Construction	47,815,466	58,243,332
Other Birr Account	815,849,926	724,574,067
Cash on hand	<u>880,764.00</u>	<u>254,526</u>
	<u>6,218,206,007</u>	<u>784,437,586</u>

5 ACCOUNT PAYABLE

	Birr	2019 Birr
Retentions	162,497,823	51,645,271
Contractors	128,480,006	162,615,072
Other payable within government	89,041,082	113,539
Taxes payable	22,956,301	76,492,766
Others	<u>115,553,825</u>	<u>74,139,708</u>
	<u>518,529,037</u>	<u>365,006,357</u>

MINISTRY OF FINANCE

URBAN INSTITUTIONAL AND INFRASTRUCTURE

DEVELOPMENT PROGRAM (UIIDP- P for R)

IDA CREDIT Nos. 6196-ET, SUF 6197-ET , Grant No. D277-ET And AFD 1073 01 U

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 ACCUMULATED FUND

Birr

Balance at 7 July 2019	605,185,530
Excess of financing over expenditure	<u>5,583,221,309</u>
Balance at 7 July 2020	<u>6,188,406,839</u>

7 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 14 January 2021.

**MINISTRY OF FINANCE
URBAN INSTITUTIONAL AND INFRASTRUCTURE
DEVELOPMENT PROGRAM (UIIDP-P4R)
IFR BASED WITHDRAWAL SCHEDULE
FOR APPLICATIONS SUBMITTED DURING THE
YEAR ENDED 7 JULY 2020**

Withdrwal Application No.		EQUIVALENT IN USD ETHIOPIAN BIRR
UIIDP 002	43,354,155.58	1,255,211,189.43
UIIDP 003	59,154,267.17	1,712,663,920.24
UIIDP 004	52,613,853.30	1,825,863,812.46
UIIDP 005	56,429,144	1,955,523,770.75
UIIDP 006	<u>43,398,405.70</u>	<u>1,506,059,212.85</u>
	<u>254,949,825.75</u>	<u>8,255,321,905.73</u>

MINISTRY OF FINANCE

URBAN INSTITUTIONAL AND INFRASTRUCTURE

DEVELOPMENT PROGRAM (UIIDP- P for R)

IDA CREDIT Nos. 6196-ET, SUF 6197-ET , Grant No. D277-ET And AFD 1073 01 U

RECONCILIATION OF SEMI ANNUAL REPORTS DURING THE YEAR ENDED

7 JULY 2020 WITH THE YEAR ENDED STATEMENT OF SOURCE AND USES OF

FUND AND BALANCE SHEET

	1st Semi Annual Birr	2nd Semi Annual Birr	Cumulative 29 June 2018 to 7 July 2020 Birr
SOURCE			
Opening Balance 7 July 2019			605,185,530
IDA Contribution	3,012,721,022	5,287,446,796.00	8,300,167,818
Regional Contribution	362,643,383	432,724,754	795,368,137
ULGs Contribution	478,527,881	576,496,535	1,055,024,416
Gain on foreign exchange	<u>65,608,191</u>	<u>57,667,965</u>	<u>123,276,156</u>
Total Sources	<u>3,919,500,477</u>	<u>1,066,889,254</u>	<u>10,273,836,527</u>
Total sources including opening			10,879,022,057
USES			
Program expenditures	<u>440,495,460</u>	<u>4,250,119,758</u>	<u>4,690,615,218</u>
EXCESS OF SOURCES OVER USES			<u>6,188,406,839</u>
Cash at bank			6,217,325,243
Cash on hand			880,764
Advances			488,729,869
Payables			(518,529,037)
			<u>6,188,406,839</u>