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Ministry of Peace
Lowlands Livelihood Resilience Project (LLRP)

ቁጥር/Ref No. LLRP/170/12/19
ቀን/Date 24/12/19

Esayas Nigatu (Ato)
Task Team Leader of Pastoral Community Development Project (PCDP III)
World Bank Ethiopia Country Office
Addis Ababa

Re: - **Submission of financial audit report for the year /period from July 8, 2018 up to November 8/2019**

The financial audit for 16 months: - EFY 2011 & 4 months (for the grace/disbursement period) have been conducted by the audit firm. Attached herewith, please find financial audit report for the year/period from July 8, 2018 up to November 8/2019.

Thank you for your usual support.

Seid Omer
Federal Project Coordinator (LLRP)

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MINISTRY OF PEACE LOWLAND LIVELIHOOD RESILIENCE PROJECT

CC

- **H.E Dr. Seyoum Mesfin**
  State Minister for Federalism & Pastoral Affairs
  MoP
- **Finance Unit**
- **Internal Audit Unit**
  LLRP

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26 DEC 2019

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Tel 655 65 77 Addis Ababa

MINISTRY OF PEACE
PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III)

FINANCIAL STATEMENTS AND AUDIT REPORT NOVEMBER 8TH, 2019

Kokeb & Melkamu Audit Partnership
Chartered Certified Accountants (UK)
Authorized Auditors in Ethiopia

P. O. Box 33645 Addis Ababa, Ethiopia
Telephone 251-11-6166956
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MINISTRY OF PEACE
PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III)
FINACIAL STATEMENTS AND AUDIT REPORT
FOR THE PERIOD ENDED 8TH NOVEMBER 2019

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Kokeb & Melkamu Audit Partnership
Chartered Certified Accountants (UK)

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF FDRE MINISTRY OF PEACE
PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III)

Opinion

We have audited the accompanying financial statements of **PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III)** comprising the balance sheet as at 8th November 2019 and the Statement of Sources and Uses of Funds for the period covering July 8, 2018 up to November 8, 2019, and a summary of significant accounting policies and other explanatory information shown from pages 3 to 14.

In our opinion, the financial statements present fairly, in all material respects, the financial position and balance of the Pastoral Community Development Project (PCDP III) Implemented by the FDRE Ministry of Peace, the Statement of Sources and Uses of Funds for period covering July 8, 2018 up to November 8, 2019 in accordance with the financial management policy of Ministry of Peace adopted for the Project. In addition, the Project was, in all material respects, in compliance with the Financing Agreements and Contracts.

With respect to the statements of sources and uses of funds submitted during the period listed on page 4, in our opinion:

(a) The statements, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals;

(b) The funds transferred to communities is properly managed and accounted for the intended purpose.

(c) The funds transferred to pastoralists research groups which are benefiting from the Project under sub component 2.3, were made as per the eligibility criteria outlined on the *Rural Livelihoods Program (*RLP) Manual.

(d) The funds transferred to the Saving and Credit Cooperatives (SAACOs) which are benefiting from the Project under sub component 2.1, were made as per the eligibility criteria outlined on the *Rural Livelihoods Program (*RLP) Manual.

(e) The proceeds of the Designated Fund have been used exclusively for eligible expenditures and provisions and covenants of the Financing Agreement and Separate Agreement have been substantially respected.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing applicable to the audit of financial statements. Furthermore, we have audited the Project's compliance with the provisions and covenants of the World Bank and International Fund for Agricultural Development Financing Agreements,i.e. IDA Credit No. 5335-ET and IFAD Loan No. 2000000426, respectively.

Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accounts (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Ethiopia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting policies of the Project, and for such internal control as management determines is necessary to enable the preparation of a project report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the project report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition, we are required to give special opinion on the fund management by the communities (Project Beneficiaries)

The engagement partner on the audit resulting in this independent auditor's report is Ato Kokeb Moges.

Kokeb & Melkamu Audit Partnership
Chartered Certified Accountants (UK)
Authorized Auditors in Ethiopia

Addis Ababa
November 18, 2019

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PASTORAL COMMUNITY DEVELOPMENT PROJECT(PCDP III)
STATEMENT OF FINANCIAL POSITION
AS AT NOVEMBER 8, 2019

Currency: ETB

	Notes		2018
ASSETS			
CURRENT ASSETS			
Cash at bank and on hand	3	680,397.00	2,324,890
Debtors and prepayments	4	-	35,336,553
Total Assets		**680,397.00**	**37,661,443**
CURRENT LIABILITIES			
Payables	5	-	98,484
REPRESENTED BY			
Restricted Fund	6	680,397.00	37,562,959
Total Liabilities and Fund		**680,397.00**	**37,661,443**

Since the above amount indicated under "Debtors and Prepayments", represented by Cash, Receivables and Payables at Implementing Entities as indicated under Note 4, Fund Balance Shown above can be represented from the IFR as follows

Cash at bank and on hand	680,397
Debtors and prepayments	-
Payables	-
Restricted Fund	**680,397**

PASTORAL COMMUNITY DEVELOPMENT PROJECT(PCDP III)
STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE PERIOD COVERING JULY 8 2018 UP TO NOVEMBER 8, 2019

Currency: ETB

	Notes		2018
SOURCES			
MAIN	7		
IDA Credit	7.1	2,591,023	460,453,593
IFAD Credit	7.2	1,173,038,555	402,259,759
		1,175,629,578	**862,713,352**
OTHER			
Gain on foreign currency exchange		6,443,117	156,035,922
Woreda Matching Fund	7.3	26,589,548	23,900,415
Local community contribution-in Cash	7.4	41,790,517	60,175,718
Local community contribution-in Kind	7.5	78,776,564	122,646,998
Matching Fund Region		-	24,000,627
Miscellaneous		52,018	953,841
		153,651,764	**387,713,521**
		1,329,281,342	**1,250,426,873**
USES	8		
Community Driven Service Provision	8.1	1,156,472,455	1,289,301,771
Rural Livelihood Program	8.2	39,582,188	160,273,057
Development Learning & Knowledge Management	8.3	10,154,852	10,368,805
Monitoring & Evaluation	8.4	159,954,405	142,126,952
		1,366,163,899	**1,602,070,586**
EXCESS OF SOURCES OVER USES		**(36,882,558)**	**(351,643,713)**

PASTORAL COMMUNITY DEVELOPMENT PROJECT(PCDP III)
STATEMENT OF DESIGNATED ACCOUNT- IDA
FOR THE PERIOD COVERING JULY 8 2018 UP TO NOVEMBER 8, 2019

IDA Credit

Account number	**100051300075**
Depository Bank	**National Bank of Ethio**
Related Credit and Grant	**IDA Credit 53350 and Project ID No. P130276**
Address	**Addis Ababa, Ethiopia**
Currency	**USD**

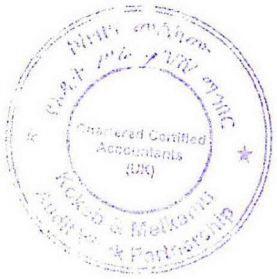
	USD	Birr
Opening balance brought forward,8 July 2018	1,806	49,279
Add:-Transferred from World Bank-Credit	94,432	2,591,023
Reimbursement from advance payment		
	96,238	**2,640,302**
Less:- Transferred to Birr account, to Regions &		
Other expenditures	95,998	2,654,729
Bank charges	240	6,639
	(96,238)	**(2,661,369)**
Add:- Gain on exchange	-	21,067
Ending balance,November 8, 2019	**-**	**(0.00)**

PASTORAL COMMUNITY DEVELOPMENT PROJECT(PCDP III)
STATEMENT OF DESIGNATED ACCOUNT- IFAD
FOR THE PERIOD COVERING JULY 8 2018 UP TO NOVEMBER 8, 2019

IFAD- Loan

Account number	**100051300076**
Depository Bank	**National Bank of Ethiopia**
Related Credit and Grant	**IFAD LOAN No. 2000000426 and Project ID No. P130276**
Address	**Addis Ababa, Ethiopia**
Currency	**USD**

	USD	Birr
Opening balance brought forward,8 July 2018	23,296.49	635,682
Add:-Transferred from World Bank-Credit	42,206,198.03	1,173,038,555
Refunds	3,305.00	93,933
	42,232,799.52	**1,173,768,170**
Less:- Transferred to Birr account, to regions &		
Other expenditures	42,144,512	1,177,726,572
Bank charges	88,287.24	2,463,648
	42,232,800	**(1,180,190,220)**
Add:- Gain on exchange	-	6,422,050
Ending balance,November 8, 2019	-	-



MINISTRY OF PEACE
PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III)
FOR THE YEAR ENDED 8th NOVEMBER 2019

Currency: Ethiopian Birr

1. BACKGROUND

The Federal Democratic Republic of Ethiopia (GoE) and the International Development Association (IDA) have signed a Financing Agreement (FA) on January 16/2014 for Pastoral Community Development Project III (PCDP 3). Under PCDP-III, Ethiopia will invest US $210,200,000. Four budget sources are used for financing the project. Of the total amount IDA will contribute US$ 110,000,000 (52.33%) in terms of credit. In addition, the project will receive US $ 85,000,000 (40.44%) soft loan from IFAD, while the GoE and the beneficiary communities will contribute US $ 1,000,000 (0.47%) and US $14,200,000 (6.76%) respectively.
(PCDP-3) is the final phase of a 15-year program that will be implemented from May, 2014 to July 7, 2019.
PCDP-3 will follow the overall program approach of empowering communities and woreda governments to better manage local development among pastoralists and agro-pastoralists. It will promote a Community Demand Driven (CDD) process of development linked to a Community Investment Fund (CIF) and a Rural Livelihoods Program (RLP), the funding for which flows through local governments. By adopting a CDD approach, PCDP-3 aims to promote association among pastoralists, empower them to actively engage in local development (particularly the delivery of basic services and promotion of strengthened and diversified productive systems), and also promote self-monitoring and learning. This is in line with and upholds the GoE's decentralization policy that has pushed decision making authority for basic service delivery to lower levels of government and has sought effective participation of communities in planning and project implementation.

In addition to promoting a CDD planning process linked, the project seeks to institutionalize this approach within the Woreda Government's regular planning and budget development processes. It also complements community based initiatives with support to policy dialogue and strategic thinking around pastoralist development issues.

At the end of the 15-year period, the program would have supported significant increase in access to public services by pastoral and agro-pastoral communities and widespread ownership of local development initiatives by such communities. It would enable local governments and pastoral/agro pastoral communities to lead development work in close partnership. The project, during its two phases has developed significant experience and capacity to implement a CDD approach to local development. PCDP -3 takes the program to scale and is expected to reach all accessible pastoral and agro-pastoral woredas of Somali, Afar, Oromiya and the Southern Nations Nationalities and Peoples Region (SNNPR). Accordingly, PCDP-3 will support about 90 additional new woredas, which would bring the total number of beneficiary woredas about 113.
PCDP-3 will scale up achievements of the past two phases geographically whilst also deepening and institutionalizing the CDD approach. It will help targeted communities to think through their development issues more comprehensively, proactively target the priorities of the most vulnerable sections of their societies, particularly in terms of improving livelihoods of the poorest households and those falling out of the traditional livestock-based livelihood systems, ensure inclusiveness in their consultation processes, promote accountability among their representatives, and promote self-monitoring and learning.
It will also seek to integrate the CDD modality within the GoE's regular planning and budget development processes, and will include institution-building interventions to enhance the capacity of local government and community stakeholders to take over project activities. The development objective of phase-3 of the project is to expand access to community demand-driven social and economic services for pastoralists and agro-pastoralists of Ethiopian. PCDP-3 has four components

namely; (i) Community Driven Service Provision; (ii) Rural Livelihoods Program; (iii) Development Learning and Knowledge Management (DLKM) and (iv) Project Management and M&E.

i. Community Driven Service Provision Component

The project will support the Community Driven Service Provision that aims to expand access of pastoral communities to public services as prioritized by beneficiary communities and to institutionalize the CDD approach. It will strengthen decentralized and participatory planning procedures at the community/kebele and woreda levels by providing a community investment fund, building community based institutions and pertinent capacities at both the community and local government levels.

ii. The Rural Livelihoods Program Component

The component will assist pastoralist/agro-pastoralist households to improve their economic livelihood systems by promoting enhanced access to financial services (through the promotion of grassroots financial institutions) and supporting improved advisory services that will enable them to identify viable investment opportunities, technically support them to strengthen and/or diversify their production systems and encourage innovation.

iii. Development Learning and Knowledge Management Component-

This component comprises a set of interventions to complement community level development by focusing with policy dialogue, strategic thinking around pastoralist development issues and enhanced transparency and learning within the Project.

iv. Project Management and M&E Component

Although PCDP-3 implementation will be carried out through community institutions assisted by relevant government offices at the federal, regional and woreda levels, its implementation and oversight will be supported by project coordination units and MSTs. PCDP-3 will therefore cover the cost of federal and regional coordination units, MSTs and woreda level support staff. This component will also include regular review meetings for woreda leadership. M&E activities will include regular monitoring of implementation performance, independent process monitoring (including inter alia regular assessments of community level planning and review of the effectiveness and quality of capacity building efforts), outcome/impact evaluations at midterm and end of project, and annual thematic studies.

The project is being handled by the Ministry of Peace, which now amalgamates the responsibility of the former Ministry of Federal and Pastoralist Development and Affairs.
The Project was completed on November 8. 2019.

2. ACCOUNTING POLICIES

PCDP follows the government's accounting policy of modified cash basis of accounting system with double entry recording taking into account the decentralized accounting structure of the project. In preparation and presentation of the financial statement, the project uses the government accounting standard.

Federal Project Coordination Unit (FPCU), Regional (RPCU) and Project Woredas will keep the original book of accounts for their own financial transactions and posts to the general ledger, Project woreda keeps all financial documents and prepare monthly financial statements using Peachtree accounting program and submit to RPCU; RPCU will prepare quarterly financial statement for its own financial transactions and woreda expenditures and submit to FPCU;
FPCU prepares a consolidated financial report and submit to the World Bank and Ministry of Finance.

PASTORAL COMMUNITY DEVELOPMENT PROJECT(PCDP III)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD COVERING JULY 8 2018 UP TO NOVEMBER 8, 2019

Currency: ETB

		2018
3. CASH AT BANK		
Designated Accounts-Federal level		
IDA Credit Account USD	-	49,279
IFAD Credit Account USD	-	635,682
Birr Account at Federal	680,397	1,639,929
	680,397	**2,324,890**
4. DEBTORS AND PREPAYMENTS		
Advances to implementing partners (Note 4.1)	-	35,272,569
Staff debtors	-	63,984
	-	**35,336,553**
5. PAYABLES		
Withholding tax payable	-	8,239
Employees' Income tax payable	-	67,977
VAT payable	-	17,777
Pension & indeminity payables	-	4,491.42
	-	**98,484**
6. FUND BALANCE		
Balance as at 8th July,2018	37,562,959.12	389,206,672
Adjsutment	(4.40)	
Excess of Sources Over Uses	(36,882,558)	(351,643,713)
Balance as at November 8, 2019	**680,397**	**37,562,959.12**

7. SOURCE OF FUNDS

Sources	USD	Rate	ETB
7.1 IDA Credit			
15-Aug-18	94,432.25	27.4379	2,591,022.63
	-		-
	94,432.25		**2,591,022.63**

PASTORAL COMMUNITY DEVELOPMENT PROJECT(PCDP III)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD COVERING JULY 8 2018 UP TO NOVEMBER 8, 2019

Currency: ETB

7.2 IFAD Credit

8-Aug-18	45,121.87	27.4484	1,238,523.14
3-Sep-18	12,432,260.68	27.4907	341,771,548.68
13-Oct-18	1,430,760.00	27.6525	39,564,090.90
1-Nov-18	19,014,201.67	27.7422	527,495,785.57
15-Feb-19	8,348,184.00	28.2751	236,045,737.42
31-May-19	919,386.72	28.7739	26,454,341.54
31-May-19	591.29	28.7739	17,013.72
31-May-19	15,691.80	28.7739	451,514.28
	42,206,198.03		**1,173,038,555.25**
	42,300,630.28		**1,175,629,577.88**

7.3 MATCHING FUND

This represents the value that the Woreda governments contributed in terms of cash deposited to bank during the year. It has been reflected in the financial statements based on quarterly reports submitted by the regional coordination units.

7.4 COMMUNITY CONTRIBUTION

This represent woreda level community contribution in terms of cash deposited to bank and in kind which is reflected in the financial statements based on quarterly reports submitted by the regional coordination units.

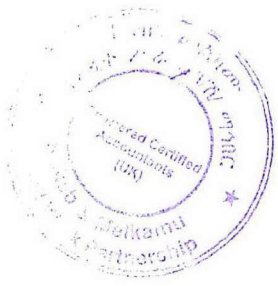
Community Contribution in Cash	41,790,517	60,175,718
Community Contribution in Kind	78,776,564	122,646,998
Total	**120,567,081**	**182,822,717**

PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III)
LIST OF CURRENT FIXED ASSET ACQUISITION
FOR THE PERIOD COVERING JULY 8 2018 UP TO NOVEMBER 8, 2019

NO	Date	Description	QTY	Amount in Birr	
				Unit Price	Total Price
1	31/10/18	Purchase of Laptop Computer	3	28,000.00	84,000.00
2	10/5/2019	Purchase of External Hard Disk2TB With Bag	2	3,949.99	7,899.99
3	5/8/2018	Digital Voice Recorder & Rechargeable Battery 2A& 3A	1	20,240.00	20,240.00
		Total			112,139.99

PASTORAL COMMUNITY DEVELOPMENT PROJECT(PCDP III)
LIST OF ACCOUNTING ENTITIES COVERED IN THE AUDIT OF 2018/2019
FOR THE PERIOD COVERING JULY 8 2018 UP TO NOVEMBER 8, 2019

There are 49 accounting entities covered during the audit work
These are,

- Federal Pastoral Coordination Unit
- Federal Cooperative Agency
- RPCUs, MSTs and Woredas as follow

RPCU	*MST*	*Woreda*
Somali	Gursum MST	Gursum woreda
		Araarso
		Baabili
		Goljano
	Fik MST	Salahad woreda
		Mayumuluqa
		Gorobaqaqsa
	Awbarre MST	Awbarre Woreda
		Erer
		Hadhagala
		Gashaamo
	K/dahar MST	Elweyne Woreda
		Dhobaweyn
	Dh/bour MST	Dhagahmadow woreda
		Sagag Woreda
		Dhuhun
		Bareey woreda
		Dolo-bay
		Dheekasuf
		Mubarek
		Hudet
	Godey MST	Adaadle
Afar	Awash MST	
		Awash
		Amibera
		Dulecha
		Gela'alo
		5)Erabti
		6) Megalla
	Afdera MST	7)Afdera
		8)Bidu
	Hadela'ela MST	9)Semurobi
		10)Hadela'ela
OROMIA		
	Negelle MST	Liban
		G/dola
	Robe MST	D/mena
		H/Buluk
		G/Dhamole
	Yabello MST	Teltele
		Yabello Woreda
		D/Dawa
	Ginnir MST	L/Hidha
		Mi'esso
		Girja
		S/Boru
SNNP	Jinka MST	1. Malle
		2. Salamago
		3. Dasenech