PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426

FINANCIAL AND COMPLIANCE AUDIT FOR THE YEAR ENDED 7 JULY 2015

A.W. THOMAS L.P.
CHARTERED CERTIFIED ACCOUNTANTS
January 2016

Ministry of Federal and Pastoral Development Affairs
Pastoral Community Development Program (PCDP) Phase III
Addis Ababa

Dear Sirs,

Re: Audit Reports, Year ended 7 July 2015

We now enclose the audit reports dated 6 January 2016 on the Project Financial Statements comprising the Statement of Financial Position, Statement of Sources and Uses of Funds, and Statement of Designated Accounts, the Internal Control and Compliance of Ministry of Federal and Pastoral Development Affairs Pastoral Community Development Project for the year ended 7 July 2015.

The audit report contains the following sections:

- Report of Independent Auditor on the Project Financial Statements
- The Statement of Financial Position
- The Statement of Sources and Uses of Funds;
- The Statement of Designated Accounts;
- Report of Independent Auditor on Internal Control;
- Report of Independent Auditor on Compliance;

We are grateful to the Ministry of Federal and Pastoral Development Affairs Pastoral Community Development Program’s management and staff for the assistance and courtesy extended to our representatives during the conduct of the audit.

Yours faithfully,

A.W. Thomas L.P.
Chartered Certified Accountants

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E-mail: awthomaslp@gmail.com
Partners: A.W. Thomas, Melaku Abeje and Seid Abdela
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426 FOR THE YEAR ENDED 7 JULY 2015

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FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426
FOR THE YEAR ENDED 7 JULY 2015

1. INTRODUCTION

1.1 BACKGROUND

The Pastoral Community Development Project III (PCDP-3) is the final phase (from May, 2014 to December 31, 2018) of a 15 year program. PCDP-3 is funded by International Development Association (IDA), International Fund for Agricultural Development (IFAD), Regional Governments, and beneficiary community contribution.

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 governments 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 to 113.

PCDP-3 is the third and final project in a 15-year series of operations intended to build effective support structures for pastoralist livelihood systems in the Ethiopian lowlands. PCDP-3’s total Investment Project Financing (IPF) is USD 210.2 million consisting of USD 110 million in IDA credit, USD 85 million in IFAD credit, a USD 1 million GoE contribution and a USD 14.2 million contribution from beneficiary communities.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426 FOR THE YEAR ENDED 7 JULY 2015

1.2 PROGRAM OBJECTIVES AND DESCRIPTION

The Project Development Objective (PDO) for PCDP-3 is to improve access to community demand-driven social and economic services for pastoralists and agro pastoralists of Ethiopia. It is expected to contribute to improved livelihoods of pastoralists and agro-pastoralists in terms of growth and stability of incomes, improvements in their health, nutrition and education status, as well as greater empowerment and decision-making authority in local development initiatives.

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 major components of the program, which in turn constitute sub-components, are broadly categorized into four. These are

Component 1: Community Driven Service Provision

The component 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.

Component 2: The Rural Livelihoods Program

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.
Component 3: Development Learning and Knowledge Management

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.

Component 4: Project Management and Monitoring & Evaluation (M&E)

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.

1.3 ACCOUNTING AND PROJECT MONITORING SYSTEM

The program is led by Project Coordination Units established at Federal and Regional levels. There are also staffs at MSTs and Woreda level. The coordination unit will be guided by MoFPA at federal level, steering committee at regional level and woreda cabinet at woreda level. In this regard, a well-defined monitoring and evaluation (M&E) system is established to regularly assess the program effectiveness, outcomes, impacts and problems, and to strengthen the national monitoring and evaluation of the MoFPA in general.

The financial and accounting records and documents are maintained at a Federal Coordination Office, Regional Coordination offices, MSTs and Woreda Offices. Quarterly reports are sent from Woredas to MSTs and from MSTs to regional coordination offices. The regional coordination office will consolidate all the reports of the MSTs and woredas and send the consolidated report to the federal coordination office.

Ministry of Federal and Pastoral Development Affairs PCDP III office consolidates all the reports received from the regional coordination units and other federal implementing agencies and submits quarterly interim financial reports to the World Bank. Internal audit is conducted quarterly and annually on the Program’s financial statements. The audit includes a periodic review of effectiveness and compliance with financial and accounting policies and procedures and internal control mechanisms to ensure the overall reliability of the accounting system, data and financial reports.
The general purpose financial statements of the project as a whole are audited by external auditors. A separate financial report was maintained by the Ministry of Federal and Pastoral Development Affairs for the PCDP III project. Accordingly, advances from World Bank were received on a quarterly basis upon submission of withdrawal applications and cash forecasts.

The coordination units at the Ministry of Federal and Pastoral Development Affairs have managed the project through conducting regular meetings with the program coordinators, Regional coordination offices and by conducting field visits to selected implementing woredas.

1.4 AUDIT OBJECTIVES

A.W. Thomas L.P. Chartered Certified Accountants, P.O. Box 1162 Addis Ababa was contracted to perform an audit of the Statement of Financial Position, the Statement of Sources and Uses of Funds and Statement of Designated Accounts of the Ministry of Federal and Pastoral Development Affairs, Pastoral Community Development Project for the year ended 7 July 2015 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 whether the statements are free from material misstatements.

The principal objective was to determine whether costs incurred by the auditee are adequately supported in accordance with the agreement and are allowable, allocable, and reasonable.

With respect to the costs incurred, the objectives of the engagement were to:

- Express an opinion as to whether the programs financial statements in respect of the World Bank funding presents fairly, in all material respects, credit received and expenditures incurred for the year ended 7 July 2015 in accordance with the guidelines on Annual Financial Reporting of the World Bank and in conformity with the basis of accounting described in the project's financial statements.
- Express an opinion as to whether disbursements were made in accordance with the financing agreements.
- Evaluate and obtain sufficient understanding of Ministry of Federal and Pastoral Development Affairs' PCDP III project internal control structure related to the World Bank funded project, assess control risks and identify reportable conditions, including material internal control weaknesses.
- Perform tests to determine whether Ministry of Federal and Pastoral Development Affairs PCDP III project complied, in all material respects, with the Financing Agreement terms and applicable laws and regulations related to the World Bank funded project. Identify and disclose all material instances of non-compliance and all indications of illegal acts.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426 FOR THE YEAR ENDED 7 JULY 2015

- Determine if the recipient has taken adequate corrective action on prior audit report recommendations.
- Examine the overall financial statements' presentation.

1.5 AUDIT METHODOLOGY

We have obtained a full understanding of the accounting system, the overall strength of the internal control system, and the extent of compliance with the financing agreement provisions and pertinent laws and regulations, and the degree to which supporting documents were available to provide an adequate audit trail. We have accordingly developed our detailed audit work plan.

The scope of the audit consisted of the following:-

- Check that World Bank financing (and all external financing where the World Bank is not the only financier) has been used in accordance with the conditions of the relevant financing agreement, with due attention to economy and efficiency, and only for the purposes for which the financing was provided.

- Check that counterpart funds have been provided and used in accordance with the relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided.

- Check that goods, works and services financed have been procured in accordance with the relevant financing agreements including specific provisions of the World Bank Procurement Policies and Procedures, and government procurement rules and procedures.

- Check that all necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Interim Unaudited Financial Reports (IFR) methods of reporting.

- Verify that unaudited interim financial reports issued during the period were in agreement with the underlying books of account.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426
FOR THE YEAR ENDED 7 JULY 2015

- Check that national laws and regulations have been complied with, and that the financial and accounting procedures approved for the project (e.g. operational manual, financial procedures manual, etc.) were followed and used.

- Check that the financial performance of the project is satisfactory.

- Review costs billed to and reimbursed by World Bank and ensure that ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

- Review general and program ledgers to determine whether costs incurred were properly recorded. Reconcile direct costs billed to, and reimbursed by World Bank to the program and general ledgers.

- Review the procedures used to control the funds, including their channeling to contracted financial institutions or other implementing entities. Review the bank accounts and the controls on those bank accounts. Perform positive confirmation of balances, as necessary.

- Review procurement procedures to determine whether sound commercial practices including competition were used, reasonable prices were obtained, and adequate controls were in place over the qualities and quantities received.

- Review direct salary charges to determine whether salary rates were reasonable for that position, and supported by appropriate payroll records. Determine whether allowances and fringe benefits received by employees were in accordance with the agreements and applicable laws and regulations.

- Review travel and transportation charges to determine whether they were adequately supported and approved.

- Determine whether assets procured from project funds exist or were used for their intended purposes in accordance with the terms of the agreements, and whether control procedures exist and have been placed in operation to adequately safeguard the properties and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.

- Review the Financing Agreements between World Bank and Ministry of Federal and Pastoral Development Affairs, the budgets, project implementation manual, all projects financial and progress reports and relevant Government Regulations and other related documents.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426

FOR THE YEAR ENDED 7 JULY 2015

- Review and evaluate Ministry of Federal and Pastoral Development Affairs’ PCDP III project internal control structure and accounting practices to the extent necessary to give an opinion on the Statement of Financial Position, Statement of Sources and Uses of Funds and Statement of Designated Accounts.

- Check receipts are supported with official receipt vouchers and those receipts are obtained following the procedures for applications for withdrawals.

- Review the Programs Financial Statements (PFSs) and check that expenditures reported in the PFSs are:
  - Fully supported by proper documentation
  - Properly authorized and eligible, and
  - Appropriately accounted for

- Check expenditures for procurement of goods and works are made in-line with the provisions in the “Guidelines: Procurement under IBRD loans and IDA credits”

- Check expenditures reported are appropriately classified into their budget categories

- Check expenditures for consultants are made in-line with the provisions in the “Guideline: Selection and Employment of Consultants”

- Determine that Designated Accounts have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the Accounts were used only for the purpose intended in the financing agreement;

- Review Designated Accounts (DA) and check that they are fairly presented and that the balance on the bank statement is reconciled with the leger (including tracking of in-transit items) and that the bank balance is directly confirmed by the bank:

- Check that interest earned on DA is properly treated and that exchange gain or losses are properly computed and treated as required by the financing agreement.

- Check that disbursements from the DA’s are proper and in accordance with the respective financing agreements.

- Examine the financial statements, identifying and quantifying costs which are not supported with adequate documentation or are not in accordance with the agreement terms.

- Inspect journal vouchers, agreements, supplier’s document, etc.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426
FOR THE YEAR ENDED 7 JULY 2015

- Check the correctness of income and expenditure vouchers and supporting documents, the correct use of project funds in compliance with the budget and special conditions thereof and the correct exchange of project funds into local currency.

- Check that expenses incurred for the project are in accordance with local prices and are incurred following the principles of economic and efficient use of funds.

- Review bank statements and accounts of the recipients and other relevant books of account and assess whether they show a complete view of the income received and expenditures incurred in accordance with generally accepted accounting principles.

- Verify that all commitments are genuine, supported with relevant agreements and are for the pursuance of agreed project objectives.

- Check whether other income generated by the project, if any, is accounted for properly and is used properly for the furtherance of the project objectives.

- Reconcile the amounts as “received by the project from the World Bank” with those shown as being disbursed by the Bank and attach as annex to the report a schedule listing individual IFR withdrawal applications by specific reference number and amount.

1.6 AUDIT SCOPE

(a) Audit Report on the Project Financial Statements (PFS)

The audit report covers statement of financial position, statement of sources and uses of funds through the Financing Agreements and movements of designated accounts for the year ended 7 July 2015.

(b) Audit Report on the auditee’s internal control

The audit report covers the internal control structure adopted by Ministry of Federal and Pastoral Development Affairs PCDP III project relevant to the recording of financial transactions under the Financing Agreements.

(c) Audit Report on recipients compliance with applicable laws, regulations and the Financing Agreements

The audit report covers the recipient’s compliance in respect of the Statement of Sources and Uses of Funds under the Financing Agreements.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426 FOR THE YEAR ENDED 7 JULY 2015

1.7 SUMMARY OF AUDIT RESULTS

1.7.1 Audit report on the statement of receipts and expenditures

We have audited the statement of financial position, statement of sources and uses of funds, statement of designated accounts of Ministry of Federal and Pastoral Development Affairs PCDP Program in respect of the World Bank funded activities for the year ended 7 July 2015. Our reports did not identify ineligible costs during the period. The detailed results of our report are set out in section 2.

1.7.2 Review of internal control structure

We have reviewed and evaluated the system of internal control structure of Ministry of Federal and Pastoral Development Affairs in respect of the above program in accordance with International Auditing Standards.

Our review and evaluation of the internal control structure was designed to determine the nature, timing and extent of tests to be performed for the purpose of expressing our opinion on the Statement of sources and uses of funds of the Ministry of Federal and Pastoral Development Affairs in respect of World Bank funded activities.

The results of our tests of the internal control structure and its operation indicate that there were some deficiencies in internal control.

The Independent Auditors Report on the Internal Control Structure is given under Section 3 of our report.

1.7.3 Review of Compliance

We have reviewed the Credit Agreement signed between World Bank and Ministry of Federal and Pastoral Development Affairs. Our report indicates that Ministry of Federal and Pastoral Development Affairs Program complied, in all material respects with the provisions referred to above.

The results of our review of Ministry of Federal and Pastoral Development Affairs compliance with the financing agreement, applicable laws, and regulations is set out in Section 4.

1.7.4 Review of Action taken on prior Audit Report Recommendations (Prior year findings actions)

There were no prior year audit findings.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426 FOR THE YEAR ENDED 7 JULY 2015

2. Independent Auditor's Report on the Program financial statements

2.1 The Report

Ministry of Federal and Pastoral Development Affairs
Addis Ababa

We have audited the project financial statements comprising the statement of financial position, the statement of sources and uses of funds and the statement of designated accounts and the accompanying supplementary financial information of Ministry of Federal and Pastoral Development Affairs-Pastoral Community Development Program financed by World Bank Project ID No. P130276, under IDA Credit No. 53350 and IFAD Loan A/C No. 2000000426 for the year ended 7 July 2015. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Auditing Standards. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the project's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- The financial statements referred to above present fairly in all material respects, the financial position of Ministry of Federal and Pastoral Development Affairs' PCDP III project financed by World Bank Project ID No. P130276, under IDA Credit No. 53350 and IFAD Loan A/C No. 2000000426 as at 7 July 2015 and the results of its operations for the year then ended in accordance with generally accepted accounting principles, consistently applied.

- The financial statements referred to above are in agreement with the records maintained by the program.
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426
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- The interim financial reports, together with the procedures and internal controls involved in their preparation, can be relied upon to support the relevant withdrawal applications and the expenditures are eligible for financing under the credit agreement.

- Designated Accounts have been maintained in accordance with the provisions of the relevant financing agreements and funds disbursed out of the accounts were used only for the purpose intended in the financing agreement

This report is intended for the information of Ministry of Federal and Pastoral Development Affairs and the World Bank. However, upon release by the World Bank, this report is a matter of public record and its distribution is not limited.

A. W. Thomas L.P.
Chartered Certified Accountants
Addis Ababa
6 January 2016
## 2.2 STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>Assets/Sources</th>
<th>Notes</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank and on hand</td>
<td>2.5.2</td>
<td>173,818,578.07</td>
</tr>
<tr>
<td>Debtors and prepayments</td>
<td>2.5.3</td>
<td>65,107,069.96</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td></td>
<td><strong>238,925,648.03</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Notes</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables</td>
<td>2.5.4</td>
<td>(238,385.93)</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td></td>
<td><strong>238,687,262.10</strong></td>
</tr>
</tbody>
</table>

### REPRESENTED BY

- Fund balance 2.5.5 | 238,687,262.10
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426 FOR THE YEAR ENDED 7 JULY 2015

Currency: Ethiopian Birr

2.3 STATEMENT OF SOURCES AND USES OF FUNDS

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>Notes</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA credit</td>
<td>2.5.6</td>
<td>214,232,391.69</td>
</tr>
</tbody>
</table>

Other income

| Gain on foreign currency exchange | 2.5.1(d) | 4,788,396.46 |
| Local community contribution | 2.5.7 | 32,217,617.39 |
| Miscellaneous | | 74,190.07 |
| | | **37,080,203.92** |
| | | 251,312,595.61 |

USES

| Community Driven Service Provision | 2.5.9 | 36,522,215.01 |
| Rural Livelihood Program | 2.5.9 | 12,265,642.49 |
| Development Learning and Knowledge Management | 2.5.9 | 5,063,661.86 |
| Project Management and Monitoring & Evaluation | 2.5.9 | 86,124,643.44 | **(139,976,162.80)** |

EXCESS OF SOURCES OVER USES | **111,336,432.81** |
## 2.4 STATEMENT OF DESIGNATED ACCOUNTS

### 2.4.1 IDA credit

<table>
<thead>
<tr>
<th>Description</th>
<th>USD</th>
<th>Birr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account number</td>
<td>0100051300075</td>
<td></td>
</tr>
<tr>
<td>Depository Bank</td>
<td>National Bank of Ethiopia</td>
<td></td>
</tr>
<tr>
<td>Related Credit and Grant</td>
<td>IDA Credit 53350 and Project ID No. P130276</td>
<td></td>
</tr>
<tr>
<td>Address</td>
<td>Addis Ababa, Ethiopia</td>
<td></td>
</tr>
<tr>
<td>Currency</td>
<td>USD</td>
<td></td>
</tr>
<tr>
<td>Opening balance brought forward, 8 July 2014</td>
<td>6,497,424.99</td>
<td>127,350,829.29</td>
</tr>
<tr>
<td>Add:- Transferred from World Bank-Credit</td>
<td>10,469,206.76</td>
<td>214,232,391.69</td>
</tr>
<tr>
<td></td>
<td>16,966,631.75</td>
<td>341,583,220.98</td>
</tr>
<tr>
<td>Less:- Transferred to Birr account, and other expenditures</td>
<td>8,510,998.73</td>
<td>172,311,139.25</td>
</tr>
<tr>
<td>Bank charges</td>
<td>28,078.09</td>
<td>572,517.91</td>
</tr>
<tr>
<td></td>
<td>8,539,076.82</td>
<td>172,883,657.16</td>
</tr>
<tr>
<td>Add:- Gain on exchange</td>
<td>8,427,554.93</td>
<td>168,699,563.82</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>4,788,396.46</td>
</tr>
<tr>
<td>Ending balance, 7 July 2015</td>
<td>8,427,554.93</td>
<td>173,487,960.28</td>
</tr>
</tbody>
</table>
2.5 NOTES TO THE FINANCIAL STATEMENTS

2.5.1 ACCOUNTING POLICIES

The principal accounting policies adopted and applied by the program are as follows

a. Basis of accounting

The program financial statements are prepared in accordance with International Financial Reporting Standards on a modified cash basis of accounting system.

b. Revenue and expenditure

Revenue is recognised when funds are received into bank accounts, and aid-in-kind when goods or services are received or rendered.

Expenditure is recognised:

- When payroll is processed, based on payroll and attendance sheet
- At the end of the year when a grace period payable is recognised.
- When goods are received or services are rendered.

Inter-governmental transfers are recognised in the absence of actual cash movement. Transactions resulting from salary withholdings are recognised in the absence of actual cash movement.

c. Expenditures of capital nature

Expenditures of a capital nature are directly charged to expenditures upon purchase.

d. Transaction currency

The financial statements are presented in Birr. The reporting currency for the Program is Birr. However, reports on the Designated Accounts shall be provided to DPs in the respective currencies at which the Designated Accounts are maintained.

Transactions denominated in foreign currencies are translated into Birr and shown in the accounts at the rates ruling on the transaction dates.

The balances in the Designated Accounts are translated into local currency (Birr) and shown in the financial statements at the rate prevailing at the end of the reporting period.
e. Direct payments

Foreign currency direct payments made by DPs to goods suppliers and service providers on behalf of the Program are translated into Birr and accounted for as revenue and expenditure in Ministry of Federal and Pastoral Development Affairs Federal Project Coordination Unit accounts using the rate prevailing on the date of transaction.

2.5.2 CASH AT BANK AND ON HAND

CASH AT BANK

Designated Accounts-Federal level
IDA Credit Account USD 173,487,960.28
Birr Account at Federal 330,617.79
173,818,578.07

2.5.3 DEBTORS AND PREPAYMENTS

Advances to implementing partners(Note 2.5.3(a) 46,393,360.25
Staff debtors 109,797.27
Purchase advances 18,603,912.44
65,107,069.96

2.5.3(a) ADVANCES TO IMPLEMENTING PARTNERS(IPs)

Somali Region 18,780,786.53
Afar Region 7,199,388.13
Oromia Region 13,934,733.72
SNNP Region 6,249,345.35
Ministry of Federal Affairs 154,106.52
Federal Cooperative Agency 75,000.00
46,393,360.25
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROJECT (PCDP III) MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK LOAN IDA PROJECT ID NO. P130276, UNDER IDA CREDIT NO. 53350 AND IFAD LOAN A/C NO. 2000000426 FOR THE YEAR ENDED 7 JULY 2015

2.5.4 PAYABLES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withholding tax payable</td>
<td>62,352.38</td>
</tr>
<tr>
<td>Income Tax payable</td>
<td>55,192.28</td>
</tr>
<tr>
<td>VAT payable</td>
<td>51,854.37</td>
</tr>
<tr>
<td>Provident fund payable</td>
<td>2,539.58</td>
</tr>
<tr>
<td>Sundry</td>
<td>66,447.32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>238,385.93</strong></td>
</tr>
</tbody>
</table>

2.5.5 FUND BALANCE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 8 July 2014</td>
<td>127,350,829.29</td>
</tr>
<tr>
<td>Excess of sources over uses</td>
<td>111,336,432.81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>238,687,262.10</strong></td>
</tr>
</tbody>
</table>

2.5.6 SOURCES OF FUNDS

During the year the program has received funding from the following donors.

<table>
<thead>
<tr>
<th>Sources</th>
<th>USD</th>
<th>Rate</th>
<th>Birr</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA-Credit</td>
<td>721,103.03</td>
<td>20.1794</td>
<td>14,551,426.48</td>
</tr>
<tr>
<td>IDA-Credit</td>
<td>3,468,130.35</td>
<td>20.4013</td>
<td>70,754,367.71</td>
</tr>
<tr>
<td>IDA-Credit</td>
<td>6,279,973.38</td>
<td>20.5298</td>
<td>128,926,597.50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,469,206.76</td>
<td></td>
<td><strong>214,232,391.69</strong></td>
</tr>
</tbody>
</table>

2.5.7 LOCAL COMMUNITY CONTRIBUTION

This represents the value that the local community has 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.

2.5.8 COMPARATIVE FIGURES

Comparative figures are not available as the current year is the first year of PCDP III.
2.5.9 USES OF FUNDS BY PROJECT COMPONENTS AND CATEGORY

<table>
<thead>
<tr>
<th>Component Component</th>
<th>Disbursement Category</th>
<th>Annual Budget</th>
<th>Annual Cumulative Actual Utilization</th>
<th>Annual Budget Variance</th>
<th>% Age of Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.5.9.1 COMPONENT 1- COMMUNITY DRIVEN SERVICE PROVISION</td>
<td>CIF</td>
<td>700,000.00</td>
<td>364,000.00</td>
<td>336,000.00</td>
<td>0.52</td>
</tr>
<tr>
<td></td>
<td>Consultant's services</td>
<td>700,000.00</td>
<td>364,000.00</td>
<td>336,000.00</td>
<td>0.52</td>
</tr>
<tr>
<td></td>
<td>Training and workshops</td>
<td>30,403,593.11</td>
<td>27,277,242.15</td>
<td>3,126,350.96</td>
<td>0.90</td>
</tr>
<tr>
<td></td>
<td>operating costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Goods</td>
<td>178,840,672.00</td>
<td>8,880,972.86</td>
<td>169,959,699.14</td>
<td>0.05</td>
</tr>
<tr>
<td>Component Sub total</td>
<td>209,944,265.11</td>
<td>36,522,215.01</td>
<td>173,422,050.10</td>
<td>0.17</td>
<td></td>
</tr>
<tr>
<td>2.5.9.2 COMPONENT 2- RURAL LIVELIHOOD PROGRAM</td>
<td>Category 1-Goods</td>
<td>22,885,000.00</td>
<td>2,169,928.49</td>
<td>20,715,071.51</td>
<td>0.09</td>
</tr>
<tr>
<td></td>
<td>Category 2-Consultant's services</td>
<td>2,500,000.00</td>
<td>-</td>
<td>2,500,000.00</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Category 3-Training and workshops</td>
<td>4,787,517.00</td>
<td>3,509,885.31</td>
<td>1,277,631.69</td>
<td>0.73</td>
</tr>
<tr>
<td></td>
<td>Category 4-Grants to SACCOs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Category 5-Innovation grants</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Operating costs</td>
<td>11,520,000.00</td>
<td>6,585,828.49</td>
<td>4,934,171.51</td>
<td>0.57</td>
</tr>
<tr>
<td>Component Sub total</td>
<td>41,692,517.00</td>
<td>12,265,642.49</td>
<td>29,426,874.51</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>2.5.9.3 COMPONENT 3- DEVELOPMENT LEARNING AND KNOWLEDGE MANAGEMENT</td>
<td>Category 1-Goods</td>
<td>500,000.00</td>
<td>504,245.00</td>
<td>(4,245.00)</td>
<td>1.01</td>
</tr>
<tr>
<td></td>
<td>Category 2-Consultant's services</td>
<td>6,495,000.00</td>
<td>18,973.00</td>
<td>6,476,027.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>Category 3-Training and workshops</td>
<td>10,372,400.00</td>
<td>4,540,443.86</td>
<td>5,831,956.14</td>
<td>0.44</td>
</tr>
<tr>
<td>Component Sub total</td>
<td>17,367,400.00</td>
<td>5,063,661.86</td>
<td>12,303,738.14</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>2.5.9.4 COMPONENT 4- PROJECT MANAGEMENT AND MONITORING &amp; EVALUATION</td>
<td>Category 1-Goods</td>
<td>36,686,968.00</td>
<td>446,805.46</td>
<td>36,240,162.54</td>
<td>0.01</td>
</tr>
<tr>
<td></td>
<td>Category 2-Consultant's services</td>
<td>7,514,000.00</td>
<td>-</td>
<td>7,514,000.00</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Category 3-Training and workshops</td>
<td>8,531,432.00</td>
<td>4,931,176.58</td>
<td>3,600,255.42</td>
<td>0.58</td>
</tr>
<tr>
<td></td>
<td>operating costs-Project mgmt</td>
<td>87,264,935.00</td>
<td>80,746,661.40</td>
<td>6,518,273.60</td>
<td>0.73</td>
</tr>
<tr>
<td>Component Sub total</td>
<td>139,997,335.00</td>
<td>86,124,643.44</td>
<td>53,872,691.56</td>
<td>0.62</td>
<td></td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>409,001,517.11</td>
<td>139,976,162.80</td>
<td>269,025,354.31</td>
<td>0.34</td>
<td></td>
</tr>
</tbody>
</table>
FINANCIAL AND COMPLIANCE AUDIT OF THE PASTORAL COMMUNITY DEVELOPMENT PROGRAM (PCDP)
MANAGED BY MINISTRY OF FEDERAL AND PASTORAL DEVELOPMENT AFFAIRS FINANCED BY WORLD BANK
GRANTS UNDER IDA GRANT NO. P130276, UNDER IDA CREDIT NO. 5335 AND IFAD LOAN A/C NO. 2000000426
NOTES FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2015

Currency: Ethiopian Birr

2.5.10 RECONCILIATION OF AMOUNTS RECEIVED BY THE PROJECT FROM THE WORLD BANK AND THOSE DISBURSED BY
THE BANK

Summary of receipts

<table>
<thead>
<tr>
<th>Type of Grant/Credit</th>
<th>Received by the program</th>
<th>Disbursed by World Bank - as confirmed by the bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA Credit</td>
<td>14,551,426.48</td>
<td>14,551,426.48</td>
</tr>
<tr>
<td>IDA Credit</td>
<td>70,754,367.71</td>
<td>70,754,367.71</td>
</tr>
<tr>
<td>IDA Credit</td>
<td>128,926,597.50</td>
<td>128,926,597.50</td>
</tr>
<tr>
<td></td>
<td><strong>214,232,391.69</strong></td>
<td><strong>214,232,391.69</strong></td>
</tr>
</tbody>
</table>

Summary of withdrawals

<table>
<thead>
<tr>
<th>Withdrawal application number</th>
<th>53350</th>
<th>IDA credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDA002</td>
<td>14,551,426.48</td>
<td></td>
</tr>
<tr>
<td>IDA004</td>
<td>70,754,367.71</td>
<td></td>
</tr>
<tr>
<td>IDA005</td>
<td>128,926,597.50</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>214,232,391.69</strong></td>
<td></td>
</tr>
</tbody>
</table>