

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS OF THE FEDERAL SMALL AND MEDIUM
MANUFACTURING INDUSTRIES DEVELOPMENT AGENCY (FESMMIDA),

SMALL AND MEDIUM ENTERPRISE FINANCE PROJECT (SMEFP)
(P148447, IDA 57930)

FUNDED BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)

FOR THE YEAR ENDED 7 JULY 2017



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GLOSSARY OF TERMS

DBE	Development Bank of Ethiopia
EIB	European Investment Bank
FESMMIDA	Federal Small and Medium Manufacturing Industries Development Agency
IDA	International Development Association
NBE	National Bank of Ethiopia
PMI	Project Management Unit
PIU	Project Implementation Unit
PFI	Participating Financial Institutions
SMEFP	Small and Medium Enterprise Finance Project
SME	Small and Medium Enterprise

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Chartered Certified Accountants and Authorized Auditors
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24 December 2018

W/ro Yemenzwork Girefie
 Project Implementation Unit Coordinator,
 Federal Small and Medium Manufacturing Industries Development Agency,
 Addis Ababa,
 Ethiopia

Dear W/ro Yemenzwork,

**INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS OF THE FEDERAL SMALL AND MEDIUM
 MANUFACTURING INDUSTRIES DEVELOPMENT AGENCY (FESMMIDA), SMALL AND MEDIUM ENTERPRISE
 FINANCE PROJECT (SMEFP) (P148447, IDA 57930)
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We have now completed the audit of the above project funded by the International Development Association and are pleased to present our findings thereon.

Should you require to discuss any of the issues mentioned in this report, please do not hesitate to contact us.

We wish to thank the staff and management of the project for the cooperation and courtesies accorded to us during the audit.

Yours faithfully,

Yonas Harun

Yonas Harun
Partner



FEDERAL SMALL AND MEDIUM MANUFACTURING INDUSTRIES DEVELOPMENT AGENCY (FESMMIDA),
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1. INTRODUCTION

1.1 Background

The Federal Democratic Republic of Ethiopia (FDRE) and the International Development Association made an agreement on 15th June 2016 to implement a program entitled 'increase access to finance for eligible Small and Medium Enterprise in Ethiopia based on eligible criteria (P148447)' Grant No. IDA 57930. The International Development Association has agreed to provide SDR 5,068,000 for the project.

1.2 Project description

The objective of the project is to increase access to finance for eligible Small and Medium Enterprise in Ethiopia based on eligible criteria.

The project consists of the following components:

1. Financial services to SMEs: establishment and operation of a credit facility providing access to finance for:
 - (a) working capital, leasing finance and investment finance for Participating Financial Institutions (PFIs) which in turn on-lend to eligible SMEs; and leasing finance for eligible SMEs.
2. Enabling Environment for SMEs Finance: supporting the improvement of an enabling environment for facilitating SMEs financing through, inter alia:
 - (a) supporting the creation of centralized electronic collateral registry to support both the lending and leasing business; and
 - (b) supporting a diagnostic review on insolvency and debtor/creditor regime aiming to analyse and identify key bottlenecks to SME lending.
3. Business development services to SMEs: supporting SMEs through the provision of tailored business development services to address constraints on the demand side.
4. Project management, communication and impact evaluation:
 - (a) strengthening the capacity of the PIU (Project Implementation Unit) in MOI and the PMT (Project Management Team) in DBE in implementing their respective parts of the project;
 - (b) expanding outreach and understanding of the project among targeted beneficiaries and other stakeholders and carrying out a program of public information disclosure about the project and dissemination of results, lessons learned and good practices; and
 - (c) carrying out impact evaluation of the project.

A project Management team (PMT) will be established in Development Bank of Ethiopia (DBE) with the direct responsibility of managing the credit facility under component 1. A project implementation Unit (PIU) will be established in the FESMMIDA with the mandate of overall project coordination and direct responsibility of component 2,3 and 4. National Bank of Ethiopia (NBE) will assign a focal person that will act as the key technical reference of the PIU for component 2. At the regional level, FESMMIDA offices will serve for marketing the project and coordinating SMEFP's services to clients.

1.3 Audit objectives

The objective of the audit is to express an opinion on the financial statements for the project for the year ended 7 July 2017. The audit includes but not limited to the following tasks:

1.4 Audit scope

The audit scope required us to carry out sufficient audit steps and procedures to ensure that the audit objectives were met for the year ended 7 July 2017. Details of the steps and procedures are given below.



1. INTRODUCTION (continued)

1.5 Audit Methodology

We conducted the 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 whether the statement of income and expenditure is free from material misstatement.

1.5.1 Internal controls

We evaluated the Project's significant internal controls to obtain a sufficient understanding of the design of relevant controls, policies and procedures and whether they have been in operation during the period under review.

1.5.2 Compliance with agreement terms and applicable laws and regulations

We reviewed, assessed and reported on compliance with the terms and conditions of the agreement.

1.5.3 Representations by grantees

We obtained specific written representations from management.

1.5.4 Contractual obligations

- a) We appraised relevant documents such as agreement between the Federal Democratic Republic of Ethiopia and the International Development Association as well as documents concerning rights and obligations with a view to providing a comprehensive appraisal of the Project;
- b) we verified compliance of project expenditures with relevant terms of agreements as well as all the applicable rules;
- c) we verified compliance of the recipient with the terms and conditions of the agreement with the donor; and
- d) we ensured timely submission of interim unaudited financial reports for the Project as stipulated in the agreement.

1.5.5 Receipts and disbursements

We verified compliance with the disbursements and procurement procedures set up for the Project.

1.5.6 Implementation

- a) We examined whether the expenditures are classified in accordance with the budget;
- b) we reviewed bank statements and accounts of the recipient and other relevant books of accounts and assessed whether they show a complete view of the income received and expenditure incurred in accordance with generally accepted principles;
- c) we verified and confirmed that all commitments are genuine, with the relevant agreements disclosed within the financial records and are for the pursuance of agreed Project objectives;
- d) we examined a representative sample of payments transactions of and within the Project including accuracy and completeness of records; and
- e) we verified individual Project accounts and gave an opinion and/ or advice regarding the manner they are operated.



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1. INTRODUCTION (continued)

1.5 Audit Methodology (continued)

1.5.7 Other income sources

- a) Established whether other income generated by the Project, such as interest, in-kind/local contributions, exchange gains, etc. have been used in furtherance of the Project's objectives.
- b) Verified that contributions made towards project activities were made and used in accordance with relevant agreement.

1.6 Results of the audit

1.6.1 Summary of results by audit objectives

- (a) Reach an opinion as to the validity of the statement of income and expenditure.

In our opinion, the financial statement referred to above show a true and fair view of the source and use of funds in accordance with the accounting policies set out on note 3.4 and in conformity with the grant agreement.

- (b) Report on the financial management and internal controls findings

We reviewed the internal control structure and concluded that the system was adequate to meet the needs of the program. We have not observed significant deficiency on the internal control of the Project.

- (c) Report on the compliance with agreement terms and applicable laws and regulations.

The results of our tests disclosed no instances of non-compliance as discussed in Section 5.1 of this report.



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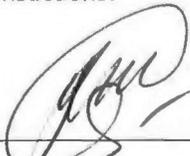
2 STATEMENT OF MANAGEMENT'S FINANCIAL REPORTING RESPONSIBILITIES

The management of the Federal Small and Medium Manufacturing Industries Development Agency (FESMMIDA) are responsible for preparing the financial statements for each financial period which gives a true and fair view of the state of affairs of the financial position as at the end of the period and of the Project's operating results for that period. Management is required to ensure the Project keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Project. They are also responsible for safeguarding the assets of project.

The management of the FESMMIDA accept responsibility for the financial statements which has been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the accounting polices stated in note 3.4 to the financial statements and in the manner required by the accounting policies of the Project and for such internal controls as the management determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

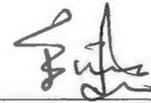
The management of FESMMIDA are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Project and of the results of its activities. The management of FESMMIDA further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

The management certify that, to the best of their knowledge, the information furnished to the auditors for the purpose of the audit was correct and is an accurate presentation of the Project's financial transactions.



Yemenzwork Girefie Mardos
SMEFP Implementation
Unit Coordinator

W/ro Yemenzwork Girefie
Project Implementation Unit Coordinator



Enegeg Zegeye
Financial Management Specialist





FEDERAL SMALL AND MEDIUM MANUFACTURING INDUSTRIES DEVELOPMENT AGENCY
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FOR THE YEAR ENDED 7 JULY 2017

3.1 INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the accompanying financial statements of SMEFP (P148447) GRANT No. IDA 57930, funded by the International Development Association (IDA) set out from page 10-12, which comprise the Statement of Financial Position as at 7 July 2017, the Statement of Income and Expenditure for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements show a true and fair view of the financial position of the Project as at 7 July 2017, and its statement of income and expenditure for the year then ended in accordance with the financial reporting provisions the accounting policies as set out in note 3.4.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organisation in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Managements' Responsibilities for the Financial Statements

Management are responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions the accounting policies as set out in note 3.4. of this report and for such internal control as management determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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.



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Auditors' Responsibilities for the Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

The engagement partner on the audit resulting in this independent auditors' report is Yonas Harun.



Yonas Harun
Partner
Registered Auditor

24 December 2018

HST General Partnership, Chartered Certified Accountants and Authorized Auditors

(Auditors' of SMEFP)

Addis Ababa, Ethiopia

FEDERAL SMALL AND MEDIUM MANUFACTURING INDUSTRIES DEVELOPMENT AGENCY (FESMMIDA),
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3.2 STATEMENT OF INCOME AND EXPENDITURE

FOR THE YEAR ENDED 7 JULY 2017

	Notes	2017 ETB
Income		
Cash received from IDA	3.4.5	11,287,550
Gain from foreign exchange transactions		223,590
		<u>11,511,140</u>
Expenditure	3.4.6	576,505
Surplus for the year		<u>10,934,635</u>
Fund balance at 8 July 2016		-
Fund balance at 7 July 2017		<u>10,934,635</u>



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3.3 STATEMENT OF FINANCIAL POSITION

AS AT 7 JULY 2017

	Notes	7 July 2017 ETB
Assets		
Cash and bank balances	3.4.7	<u>10,936,131</u>
Total assets		<u>10,936,131</u>
Liabilities and fund balance		
Withholding tax Payable		176
VAT payable		1,320
Fund balance		<u>10,934,635</u>
Total Liabilities and fund balance		<u>10,936,131</u>

The financial statements on page 10-12 were approved by the Project's management on 24 December 2018 and signed on its behalf


 W/ro Yemanzwork Girefie
 Project Implementation unit Coordinator

Yemanzwork Girefie
 SMEFP Implementation
 Unit Coordinator


 Enegeg Zegeye
 Financial Management Specialist





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3.4 NOTES TO THE FINANCIAL STATEMENTS

3.4.1 Basis of preparation

The financial statements have been prepared on a modified cash basis i.e. Cash receipts and disbursements modified to accrue for outstanding payables and receivables.

3.4.2 Income and expenditure recognition

Income and expenditure are recognized on a modified cash basis of accounting, i.e., Income is recognized when cash is received, and expenditures are recognized when incurred.

3.4.3 Foreign currency transactions

Cash receipts and payments arising from transactions are recorded in the income statements at the exchange rates prevailing on the dates the transactions take place. Monetary items denominated in functional currencies (ETB) and or other currencies are retranslated in to the reporting currency, at the balance sheet date using the closing rate, differences that arise due to exchange rate fluctuations being recognized as gain or loss.

3.4.4 Currency

The financial statements are presented in Ethiopian Birr (ETB).

3.4.5 Cash received from IDA

	Amount received USD	Amount received ETB
Transfer from IDA	<u>500,000</u>	<u>11,287,550</u>

3.4.6 Expenditure

	2017 ETB
Salary and pension	521,850
Advertising	48,635
Bank service charge	5,649
Stationery and office supplies	<u>371</u>
	<u>576,505</u>

3.4.7 Cash and bank balances

Bank account No.	Bank name	2017 ETB
0100401300010	National Bank of Ethiopia (USD)	9,251,560
0100401040045	National Bank of Ethiopia (ETB)	<u>1,684,571</u>
		<u>10,936,131</u>

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