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ቁጥር. 123/06/1056
ቀን 23/02/2010

The Benishangul Gumuz Regional State
Bureau of Finance & Economic Development
Assosa

Embassy of Finland
Addis Ababa, Ethiopia

Subject: Clarification on the Audit Findings and Mitigation Plan

It is to be recalled that MFA had sent an Independent Auditor company (**KPMG**) to our region from 30/05/2017 to 01/06/2017 to conduct the COWASH II performance audit. Accordingly the audit company has conducted the audit during the indicated time. We have also received the audit report sent to us from the Embassy with a letter dated October 30/2017.

The audit report shows that there are issues some of which are critical and significant needing immediate actions. In this respect the region has conducted a meeting with relevant regional WASH stakeholders including the Embassy and COWASH Federal Team representatives on 31/10/2017 and discussed on the audit findings. For each audit findings, we have developed mitigation plan indicating the relevant responsible organizations and implementation schedule to correct the problems. We have already started rectifying the audit findings even before having this regional meeting. We have also taken the audit findings as an opportunity to look through our gaps and able to carefully manage the COWASH III implementation especially on those critical areas identified by the auditors.

To this end, the Regional BoFED confirms that the region is highly committed to rectify the findings according to the recommendations and mitigation plan and take all the necessary measures to prevent the occurrence of similar problems during the implementation of COWASH-Phase III.

Attached herewith please find the minute of the regional level meeting on Audit findings, and the Mitigation Plan prepared to rectify the issues identified by the audit company. On this occasion we would like to kindly request your esteemed Embassy to schedule the regional COWASH steering committee meeting date to approve the 2010EFY plan in order to start the implementation of this year plan without too much delay.

Sincerely,

CC//

- To Federa COWASH TA
Addis Ababa
- To BGRSWIERDB
Assosa



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SHIFRAW CHELLO NET
የቢሮ ሻሊ
Bureau Head

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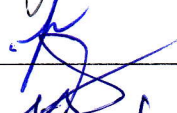
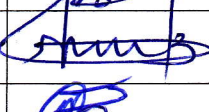
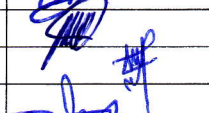
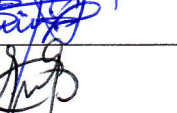
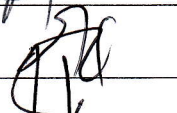
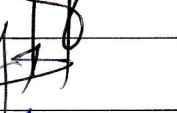


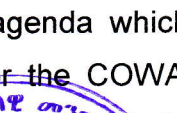



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MINUTES OF DISCUSSION WITH BGRS-BOFED AND WIERDB HEADS ON COWASH-BG EXTERNAL AUDIT REPORT FINDING AND MITIGATION MEASURES

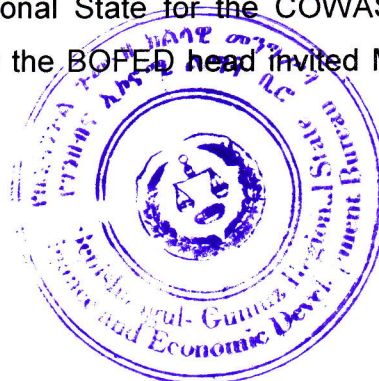
Time: October 31, 2017 from 3:00 to 5:00 pm

Venue: BOFED Bureau Head Office, Assosa, Benishangul-Gumuz

Participants of the meeting:

| Name | Position | Organization | Signature |
|-------------------------|---------------------------------------|--------------------|---|
| Ato Shiferaw Chelibo | Bureau Head | BOFED |  |
| Ato Gezahegn Alemu | Water and agricultural growth Advisor | Embassy of Finland |  |
| Ato Akasha Esmael | Vice Head | BOFED |  |
| Mr. Arto Suominen | CTA | COWASH-FTAT |  |
| Ato Getahun Abdissa | Head | BOWIERDB |  |
| Ato Teferi Abebe | Vice Head | BOFED |  |
| Ato Mussie H/Georgis | FTAT CERWSS | COWASH-FTAT |  |
| Ato Melkamu Dibaba | Team Leader | COWASH-BG RSU |  |
| Ato Ambissa Belay | COWASH-focal person | BOFED |  |
| Ato Melkamu Gameda | Capacity building specialist | COWASH-BG RSU |  |
| Mrs. Genet Argeta | RSU Planning and M&E specialist | COWASH-BG RSU |  |
| Ato Tilahun Abebe | RSU Finance Specialist | COWASH -BG RSU |  |
| Ato Feyera Kebede | RSU Sanitation Specialist | COWASH-BG RSU |  |
| Ato Mohammednur Babeker | COWASH-BG Coordinator | BOWIERDB |  |

Ato Shiferaw Chelibo, Benishangul Gumuz Regional State Finance and Economic Development Bureau Head opened the session and briefed about agenda which is external Audit report done in Benishangul Gumuz Regional State for the COWASH project phase II (from July 2015-June 2016). Accordingly the BOFED head invited Mr.



Arto Suominen to present and brief about the audit findings, recommendations and appropriate mitigation measures to be taken by the region. Mr. Arto presented the external audit findings in detail based on their significance and critical issues which need due attention by the region. For example, Mr. Arto highlighted boldly the problems of;

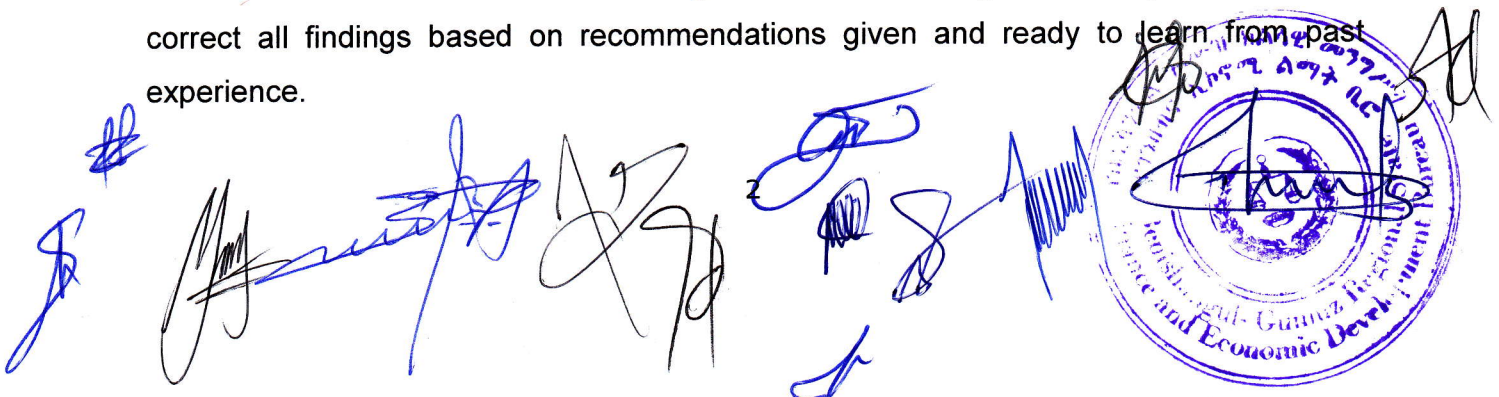
- reconciliation for investment budget in Sampled Woreda (Bambassi) between Water office and Woreda BGCSI,
- a discrepancy between the actual GoF expenditure reported by the Oda Woreda and expenditure captured in the Financial Report of 2008EFY by the region.

Totally 10 findings and recommendations with their mitigation measures were presented for discussion.

Based on the detail presentations by Mr. Arto, a thorough discussion was held by the participants.

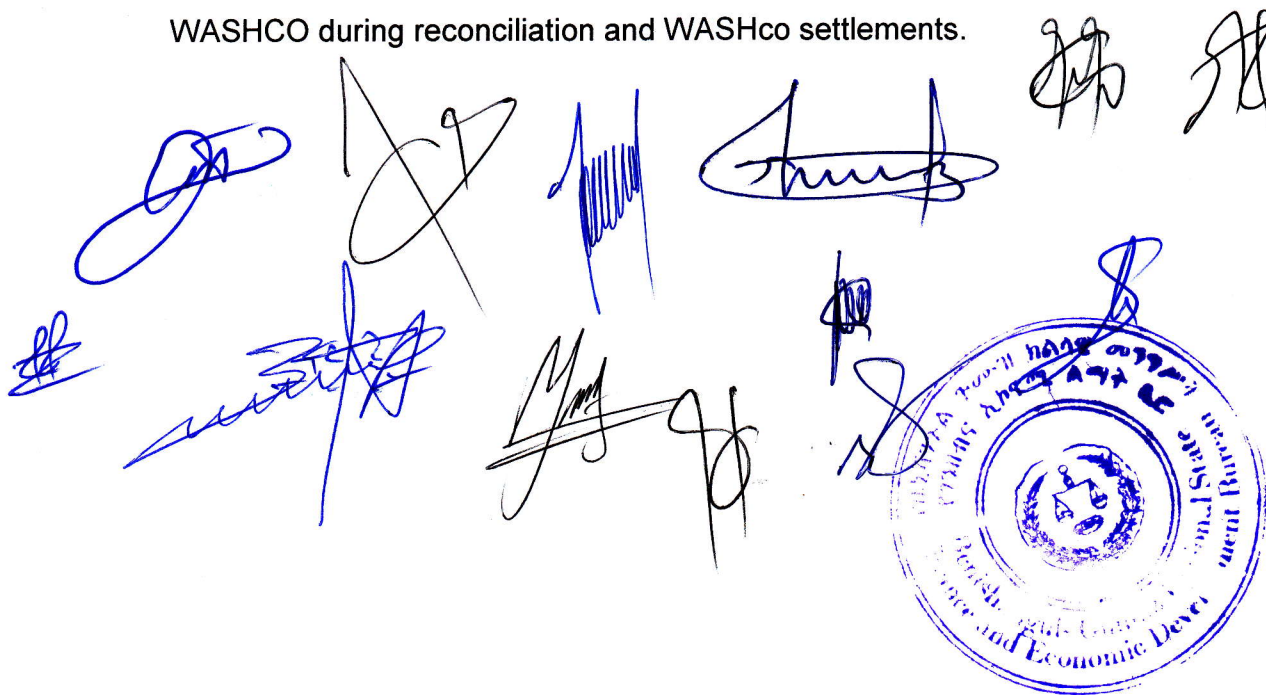
Ato Shiferaw asked the regional support unit, staffs of water bureau and BoFED accountant to give clarification on how the audit performed by external auditors. He also raised about audit principles which needs an entrance and exit conference or debriefing that should be done by auditors. The auditors conducted introduction meetings with the regional officials but the auditors did not done debriefing about audit finding up on completion of their mission. He want to know why this happened?

Based on Ato shiferaw question, RSU and BOFED accountant responded how the audit has been performed. There was misunderstanding by auditors and they were not respectful especially the Ethiopian auditor when collecting financial documents and doing the audit. After completion of the audit, they did not debrief the region about audit findings and their recommendations. All things might have run smoothly and some of the issues identified by the auditors would be resolved on spot if they could have done the exit conference on the audit findings. However, the region is ready and want to correct all findings based on recommendations given and ready to learn from past experience.

The bottom of the page features several handwritten signatures in blue ink. To the right of the signatures is a circular official stamp. The stamp contains the text "Gambella Regional Government" around the top and "Finance and Economic Development" around the bottom. In the center of the stamp is a logo featuring a globe and a torch. The stamp is partially obscured by the signatures.

Finally, the discussion reached on the following conclusions to undertake necessary mitigation measures.

1. GOF and GOE investment money should be reported and reconciled separately;
2. Woreda WOFED accountants should participate and give support to woreda CMP supervisors during investment budget reconciliation and WASHCO settlement. For this purpose supporting letter should be written by BOFED or BOWIERDB to respective programme woredas;
3. The agreement between BGCSI and BOWIERDB should be revised and reach consensus on some discrepancies created at Woreda level;
4. Call the BGCSI officials to BOFED and discuss on the audit findings and appropriate mitigation plan in the presence of BOFED and Bureau of water, irrigation, energy resource development officials; and
5. Strong support, follow up and supervision should be given for Woredas and WASHCO during reconciliation and WASHco settlements.



The block contains several handwritten signatures in blue ink, some of which are crossed out with a large 'X'. To the right, there is a circular official stamp. The stamp features a central emblem with a star and a gear, surrounded by text in Amharic and English. The English text includes 'Ministry of Water, Irrigation and Electric Power' and 'Bureau of Water, Irrigation and Electric Power'. The Amharic text is also present around the perimeter of the stamp.

1. Reconciliation of MFI accounts (33)

Observation: Reconciliations between the Woreda Water Offices and BGCSIs (as in all regions) were not conducted and the balances brought forward could not be reconciled to financial reporting. In Bambasi Water Office, they had tried to reconcile the balance to bring forward to the EFY 2009 in the Water Office: they had received an amount orally from the woreda BGCSI that there would be ETB 170,000 (EUR 6,800) at the Project bank account. That however did not match to the amount the EFYs income and expenditure would total (ETB 57,838, EUR 2,314) taken account the balance brought forward from the EFY 2007. The end balance was recorded according to the amount received from the BGCSI. At the time of the audit, KPMG observed that the amount that had been in the BGCSI account at the end of the EFY 2008 was ETB 887,688 (EUR 35,508). The bookkeeping does not reconcile in the bank statement.

Risk: In the official reporting of the investment funds, there was a balance of ETB 170,000 even though there were actually ETB 887,688 at the Project BGCSI account. If the Project would have ended after the Phase II, there would have been ETB 717,699 investment funds at the BGCSI account that may have not been refunded from the woreda. There may be balance in BGCSI that is not acknowledged in the Water Office that proceeds in the Project reporting.

Critical.

Recommendation: Reconciliations between BGCSI and Water Office must be made to actual bank statements accordingly and variations to be cleared.

Clarification/Comment: The difference between Gregorian Calendar (GC) and Ethiopian Calendar (EC) is creating confusion in this issue. The MFI is using GC in the closing of their accounts and BoFED is using Ethiopian Calendar (EC) in project accounting. June 30, 2016 in GC is June 23, 2016 in EC. The BGCSI balance on June 30 GC (June 23 EC) is 887,688.10 ETB as indicated in the audit report and verified from the BGCSI bank statement. On June 27 EC (same as July 4 in GC) the balance is 387,688.10 ETB as per the BGCSI bank statement. After three days on the closing date of accounts (July 7 GC) Bambasi water office got information from BGCSI Bambasi woreda office that the BGCSI balance is 170,000 ETB and the same was reported by the Woreda water office to the RSU officially.

It was found from the BGCSI bank statement that on July 25 GC (July 18 EC) the BGCSI Bambasi balance was 182,588.10 ETB. BGCSI was at the same time expecting a payment of 12,588.10 ETB to WASHCO. Therefore, Bambasi BGCSI reported orally to Bambasi woreda water office that the balance is 170,000 ETB. The actual balance transferred to 2009 EFY should be 387,688.10 ETB recorded on July 4 GC and this is the closest BGCSI bank statement to account closing date of July 7 GC and available to verification.

The MFI accounts reconciliation on July 7 GC does not provide the proper information on actual fund usage in the fiscal year as many CMP projects are still ongoing on July 7 GC. It is therefore proposed that the MFI accounts reconciliations in future should be fixed to the July 31 GC in order to get actual use of the investments during the ending Ethiopian Fiscal Year. This date is also convenient as the BGCSI account reconciliation can be verified from the BGCSI bank statements.



Mitigation:

1. RSU Finance Specialist will re-check the BGCSI accounts balances of other 3 woredas (Oda, Agalo and Belo) on the closest date of July 7 GC and reconcile 2008 EFY of all 4 woredas where GOF investment funds were sent.
2. The 2009 EFY reconciliation shall be re-confirmed with all 9 COWASH woredas on the closest possible date of July 7 GC and final balance to 2010 EFY shall be brought forward.
3. BGCSI agreed to use the ledger to separate and report each CMP project financial transactions in all 9 COWASH woredas.
4. BGCSI agreed to reconcile investment funds with each 9 Woreda Water Office. (This was agreed in the meeting on Nov 1, 2017)
5. Woreda Water Office will maintain WASHCO settlement format which indicates the source of fund (GoF/GoE) as per the technology. The WASHCO settlement format to be revised for this purpose and use in BG.
6. The agreement between Water Bureau and BGCSI shall be updated and signed for 9 woredas.
7. RSU will carry out joint quarterly supervision of these actions with BGCSI and with BoFED.

Time table:

1. Re-checking the 3 woreda MFI balances of 2008 EFY and 2009 EFY by Nov 30, 2017.
2. Re-checking the remaining 5 Metekel zone woreda investment fund balances of 2009 EFY by December 31, 2017. Bring forward the final balance sheets for 2010 EY.
3. Letter from BGCSI HQ to each COWASH woreda BGCSI Branch Office ordering the separate CMP project ledger usage by November 1, 2017 (BGCSI letter 1/11/17 attached)
4. BGCSI letter to each COWASH woreda BGCSI Branch office on November 1, 2017 (BGCSI letter 1/11/17 attached) to instruct all COWASH Woreda BGCSI Branch Office to reconcile COWASH accounts with Woreda Water Office.
5. Revised WASHCO settlement format by November 20, 2017 and training of CMP supervisors for the use of WASHCO settlement formats by December 31, 2017.
6. Revised Water Bureau and BGCSI agreement on COWASH signed by November 15, 2017
7. Joint supervision by RSU, BGCSI HQ and BoFED of woreda BGCSI and Water Office quarterly starting Q3 of 2010 EFY. Joint supervision reports submitted to COWASH Federal quarterly.

2. Alteration of expenditure allocations (34)

Observation: A discrepancy between the actual GoF expenditure reported by the Oda Woreda and expenditure captured in the Financial Report Q4/2008 was observed. The Oda Woreda reported having used ETB 1,454,270, and the Financial Report Q4/2008 captured expenditure of ETB 906,442, difference being ETB 547,828. According to the RSU Financial Specialist, the GoE budget expires at the end of the financial year, and for the reporting purposes, ETB 547,828 of the GoF expenditure was shifted to the GoE expenditure.

Risk: Alteration of expenditure reported leads to incorrect reporting. **Critical.**

Recommendation: Observed mistake must be corrected. Alteration of expenditure allocations must not be made in the future.



Clarification/Comment:The purpose of alteration of investment expenditures from GoF to GoE was to save GoF funds. Anyhow, it is agreed that the way how this alteration was done was not correct.

Mitigation:The RSU has corrected the investment expenditure balances of GoF and GoE funds in the ODA woreda on October 27, 2017 as recommended by the auditing report. The final expenditure report of GoF investment expenditure by 2008 EFY is 906,442.40 ETB and GoE expenditure is 1,022,000.00 ETB. The remaining balance of GoF is 953,557.60 ETB and GoE balance is "zero".

For the future the GoF and GoE investment funds will be recorded and reported separately and alteration of expenses will not be done.

Time table:New balance sheet and letter signed by ODA water office October 26, 2017 is indicating the above-mentioned figures (photo of the letter attached).

3. Investments financial reporting (35)

Observation:Five FinnWASH woredas and two COWASH woredas have only submitted narrative report indicating the total expenditure to Water Bureau. The expenditure was not supported by any bookkeeping records or reconciliation with the records of BGCSI. The opening balance from the EFY 2007, received funds in the EFY 2008 or balance at the end of the EFY 2008 was not recognized in the reports.

Risk:Reliability of financial reporting regarding investment funds submitted by woredas is poor, since consistency cannot be verified by Water Bureau. **Significant.**

Recommendation:Woredas need to submit financial reports. The expenditure is to be supported by bookkeeping records or reconciliation with the records of BGCSI. The opening balance, received funds and ending balance are to be recognized in the reports.

Clarification/Comment:From the five FinnWASH woredas Pawe has submitted narrative report supported with bookkeeping records indicating starting and ending balance. Also Bambasi and Oda woredas have submitted bookkeeping records in table formats indicating start and ending balances. The remaining 6 woredas submitted only narrative financial report without supporting table format book-keeping records. The BGCSI accounts reconciliations in these six woredas were not done properly.

Mitigation:COWASH federal has developed revised investment fund follow-up, settlement, reporting and reconciliation formats for woreda and region levels. From now onwards these formats will be used in the follow-up of investment funds transfers, usage and reconciliation of MFI accounts. Training for the use of the new follow-up formats will be given to woreda CMP supervisors by the RSU staff led by the Financing Specialist and frequent follow-up and on-the-job training of CMP supervisors and WoFED and BGCSI personnel will be given at the woreda level. Regional Water Bureau will negotiate and agree with BGCSI to follow-up the signed agreement in investment fund transfers, recording and reporting. MFI accounts reconciliations will be done quarterly in the following dates: Q1 on October 31, Q2 on January 31, Q3 on April 30 and Q4 on July 31.

Time table:

1. Training of CMP supervisors, WoFED personnel and BGCSI staff for the use of new follow-up and reconciliation formats during the up-coming review meeting but latest on December 31, 2017
2. Starting using new investment fund follow-up formats from January 1, 2018



4. Improper financial transactions (36)

Observation:Regional Water Bureau paid and reported expenditure amounting to ETB 624 thousand for the vehicle purchase for RSU. Procurement and payment not planned and budgeted for Regional Water Bureau.

Risk:Improper use of funds and reporting between entities. **Significant.**

Recommendation:Improper financial transaction is to be rectified in bookkeeping and reporting, and the respective amount is to be transferred from RSU to Regional Water Bureau. In the future, improper use of funds between the entities is not allowed.

Clarification/Comment:In Benishangul Gumuz (BG) the Water Bureau and COWASH RSU are not different entities. The RSU is not an independent entity in BG. RSU and Water Bureau accounts are signed by the same signatories of Water Bureau. The purchase of the car by Water Bureau was planned in the annual plan and car was procured for the use of RSU under the umbrella of Water Bureau.

Mitigation:No actions

Time table:No actions



5. Keeping and storing the petty cash books (37)

Observation:The petty cash ledger of Bambasi woreda from the EFY 2008 was missing at the time of the audit and KPMG could not review whether there had been petty cash balance at the end of the EFY 2008.

Risk:The petty cash balance could not be verified. **Moderate.**

Recommendation:The petty cash books should be securely stored also from previous Ethiopian fiscal years.

Clarification/Comment:It is understood that there was probably confusion between "petty cash balance" and "cash book ledger" during the time of audit. The woreda cashier is keeping cash book ledger rather than petty cash balance book. There is no separate project petty cash but a general cash book ledger for the woreda.

The cash book ledger and its ending balance on June 30, 2008 EFY has been re-checked by the RSU. The RSU Financial Specialist found the cash book ledger with the ending balance. Unfortunately, the woreda cashier could not show the petty cash balance during the audit due to the confusion between petty cash book and cash book ledger.

Mitigation:The official letter was written by the Bambasi WoFED Head on October 27, 2017 confirming the COWASH ending cash balance from the cash book ledger of 43,905.99 ETB at June 30, 2008 EFY. This was reconfirmed by BoFED Financial Focal person. (WoFED letter annexed)

Time table:October 27, 2017

6. Final and draft physical and financial reports to be clearly marked (38)

Observation:During the KPMG audit visit, BoFED and the RSU had different views which version of the Financial Report Q4 2008 was final. There were major differences in expenses between the versions.

Risk:Decisions might be made based on draft versions. **Moderate.**

Recommendation:Draft and final versions should be clearly named and dated. Final version (approved by the Regional Steering Committee) must include final versions of the progress and financial reports.

Clarification/Comment:In general, the report stamped and dated by BoFED is the final report. There was a confusion during the audit as the auditors took the Water Bureau report stamped by the Water Bureau and sent to BoFED as the final Financial Report. The BoFED report dated on 04/02/09 is the correct final report. The correct expenditure figures in the Financial Report are: RSU expenditures 2,598,185.97 ETB and FinnWASH expenditures 9,146,431.24 ETB.

Mitigation:From now on the stamped final BoFED reports should be used as final and will be clearly named and dated in order to avoid any confusion in future.

Time table:October 31, 2017



7. Financial reports in excel (39)

Observation: Financial report to the MFA is prepared in Word, numbering of annexes does not follow the outline and some of the annexes defined in the outline were missing or information provided was incomplete.

Risk: Financial report prepared in Word is vulnerable for calculation errors. Different numbering of annexes and incomplete information provided adversely affect compilation of reports at federal level. **Moderate.**

Recommendation: Financial report should be prepared in Excel. Numbering of annexes should follow the outline. All annexes defined in the outline should be included in the report and contain sufficient information.

Clarification/Comment: The RSU Financial Specialist find it difficult to compile excel tables in the word document and therefore tables were changed to word. Now Financial Specialist has got the training in the use of excel tables.

Mitigation: From now onward the financial reports will be prepared in excel.

Time table: October 31, 2017

8. Transparent planning, budgeting and reporting (40)

Observation: In the Bureau of Education, the total expenditure of the GOF Capacity Building budget was ETB 182,540 in the EFY 2008. ETB 51,406 was recorded under cost category "Entertainment". The amount consists of one purchase invoice for refreshments. Based on the supporting documentation and interview, a training was organized for 21 woredas, out of which four COWASH, five FINNWASH woredas and 12 non-COWASH related woredas. All refreshment costs were covered by the GoF COWASH funds. COWASH did not pay for any other costs for the training, which were covered by other sources of funding. Cost allocation arrangements were not detailed in the Annual Work Plan. Inclusive report of the total costs of the training was not prepared.

Risk: Ineligible expenses may be funded by COWASH. **Moderate.**

Recommendation: Planning, budgeting and reporting must be transparent and inclusive, in case COWASH funds are used to cover part of the expenses belonging to itself and costs belonging to others.

Clarification/Comment: The School Improvement Program (SIP) training was conducted for 21 BG woredas including Assosa town. This training budget, as part of One WASH, was planned by Bureau of Education to be provided from five different financiers namely GoE, CWA Program, UNICEF, GEEQIP and COWASH. School Improvement Program covers ALL BG woredas including COWASH and FinnWASH woredas. This training support was planned in COWASH annual plan of 2008 EFY for BoE (reference: activity number 11214 with total budget of 90,000 ETB). The training was given in clusters. It was decided by BoE that COWASH will cover only the entertainment costs of Kamashi zone cluster which includes 5 woredas. All the remaining costs of the training were covered by other financiers. Assosa zone woreda training (2 COWASH woredas) costs were covered by other financiers. The total expenditures of the entire SIP training of 21 woredas were 749,922.46 ETB (reference: BoFED vouchers 137475 and 137474 attached). From this total expenditure COWASH covered 51,406.00 ETB for entertainment in Kamashi Zone woredas only. This COWASH share represent 6.8 % from the total training costs used for SIP training.



Mitigation: In future in such kind of One WASH capacity building participation COWASH RSU will clearly and in detail agree on how to cover their share and COWASH support should be focused on the COWASH woredas only.

Time table: Immediate October 31, 2017

9. Improper financial transactions (41)

Observation: Regional Water Bureau paid and reported expenditure amounting to ETB 624 thousand for the vehicle purchase for RSU. Procurement and payment not planned and budgeted for Regional Water Bureau.

Risk: Improper use of funds and reporting between entities. **Moderate.**

Recommendation: Improper financial transaction is to be rectified in bookkeeping and reporting, and the respective amount is to be transferred from RSU to Regional Water Bureau. In the future, improper use of funds between the entities is not allowed.

Clarification/Comment: This comment has already been discussed with comment 36 where it was considered **Significant**.

Mitigation: As in comment 36

Time table: As in comment 36

10. Execution of internal audits (42)

Observation: Internal Audit of the COWASH funds has been carried out for the EFYs 2007 and 2008 by the BG National Regional State Bureaus of Finance & Economic Development. The Audit Report for the EFY 2007 was submitted to the MFA on 4 April 2016, which is nine months after the end of the Ethiopian financial year. The Audit Report for the EFY 2008 was submitted on 19 May 2017.

Risk: Late delivery of audit report reduces the relevance of information provided in the audit report. The auditees cannot take reconciliations into account without delay and readers of the audit reports cannot use information in decision making. **Moderate.**

Recommendation: Preparation of financial report and execution of audit and reporting should take place without any delays.

Clarification/Comment: The agreement between BoFED and MFA stipulates that the audit report should be submitted within 6 months after the end of the Ethiopian Fiscal Year. The delays were caused by the delay in starting the field audit and in writing the audit report with support from the RSU as the report is written directly into English. Furthermore, there is no specific guideline for the audit and audit report. The audit is conducted by the BoFED Inspection Directorate. Auditing is covering GoF and GoE funds use.

Mitigation: Federal COWASH shall prepare audit guideline and audit report template in order to harmonize all audits in 5 COWASH regions. BoFED shall conduct the audit in time to leave enough time also for the report writing and analysis.

