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To the Embassy of Finland
Addis Ababa

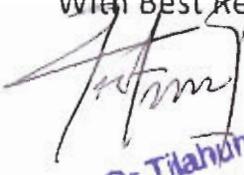
Dear Sir/ Madam

Subject: Audit Mitigation Plan

It is well known that the Embassy of Finland has requested the ANRS Bureau of Finance and Economic Cooperation (BoFEC) to send an official Audit Mitigation Plan of COWASH- Amhara project with the letter dated 27.11.17.

Based on this BoFEC would like to send this attached 7 pages Audit Mitigation Plan which has been prepared based on KPMG Audit Report. And BoFEC on behalf of the Region needs to confirm to your esteemed Embassy as it exert all efforts to follow up the measures for optimistic progress of the project.

With Best Regards,


Dr. Tilahun Mehari
Bureau Head



CC//

ANRS Water Irrigation and Energy Development Bureau
COWASH- Amhara RSU
Bahir Dar

Audit Mitigation Plan for Amhara Region

1 GENERAL

The COWASH Performance Audit objective was to support the risk management and capacity building in the COWASH project, focusing particularly on various management and administration related issues, such as the implementation of the CMP modality. The target was to assess the performance and implementation, the achievement of the objectives and the progress of the results-based management. The objective was also to review the practises for utilisation of funds, internal control and risk management as well as the financial administration.

The audit examined the period of 2 years: July 2014 – July 2016, Ethiopian fiscal years (EFY) 2007-2008.

The audit was conducted by KPMG Finland with the support of A. A. Bromhead & Co. Chartered Accountants. The audit was performed as on the spot at the project's Home Office in Espoo, Finland, Federal Technical Assistance Team Office in Addis Ababa, Ethiopia and in the Project implementation areas in Amhara, Benishangul-Gumuz, Oromia and SNNPR regions, Ethiopia. The field work took place in May-June 2017.

The findings or risks of the audit have been categorized into the following four categories.

Critical Risk	Corrective actions are required immediately.
Significant Risk	Corrective actions are required as soon as possible.
Moderate Risk	Correcting measures are to be carried out within a reasonable time.
Minor Risk	Corrective actions are to be taken simultaneously with other relevant measures.

2 GENERAL OBSERVATIONS, RISKS, RECOMMENDATIONS, CLARIFICATIONS AND MITIGATIONS MADE IN COWASH PHASE III

1. Guagusha Shikudad investment funds control (25)

Observation: In Guagusha Shikudad woreda branch office of ACSI, the GoE funding was not followed separately from the entire ledger of the entire ACSI branch office. The beginning and end balances were followed on a hand-written A4-paper, where none of the transactions were recorded and the beginning and end balances of each fiscal year could not be verified. During the audit mission, at the zonal MFI branch office, the end balance of the Project funds was not yet clear for the EFY 2008.

Risk. There is no bookkeeping or follow-up kept for the Project funds at the Guagusha Shikudad ACSI. **Critical**

Recommendation: The received and used funds need to be recorded into an account ledger or other bookkeeping maintained by the ACSI.



1



Clarification/Comment:

The agreement with ACSI includes keeping of a ledger for each CMP project and to reconcile this annually but not all ACSI woreda branch offices have followed the agreement (some woredas are following the agreement and ACSI fund transfers per CMP project in these branch offices have been reconciled with the woreda water office annually). RSU has not followed the implementation of the agreement thoroughly due to the overburden of the RSU staff and due to the unwillingness of some ACSI branch offices to reconcile with the water office. ACSI HQ has not demanded COWASH woreda ACSI branch offices to reconcile and report as per the agreement. ACSI HQ also claims that their new software does not support reporting of each CMP project separately. ACSI HQ has also not done any efforts to follow up the financial transactions and reconciliations by project manually instead of software. ACSI HQ is not physically sending any money to the woredas as ACSI branch office use their own revenue for the transfers of investment funds to WASHCOs. Anyhow, ACSI HQ is informing zone ACSI and copy to respective sector bureau and RSU by letter how much each ACSI branch office is allowed to transfer funds for CMP projects. Zone ACSI is furthermore informing the woreda ACSI Branch the same. RSU will inform this to the respective woreda water offices. This is one reason why separate CMP account has not been opened at the woreda level to receive the COWASH funds. ACSI branch office report monthly ACSI HQ the total amount transferred to WASHCOs and the total amount returned by WASHCOs. The total amount of funds returned to ACSI woreda branch office from WASHCOs is added as an additional funds received by ACSI from the project because amount paid to WASHCOS has been already reported as an expenditure in the previous reports. Woreda Branch office requests money from Zone ACSI only when their own balance is not adequate to fill the needs from WASHCOs. Furthermore, ACSI HQ and ACSI woreda branch office are not registering the fund transfers to CMP projects by water, health and education separately and they are recording only total receivals and transfers.

Mitigation:

RSU will intensify the critical and regular follow up of investment fund use at woreda level through the zonal advisors.

It is also proposed that woreda internal auditors shall audit the use of investment funds annually (as the capacity building funds are audited).

It is also proposed that clear agreement with ACSI is done to cut-off the COWASH funds each month as per the Ethiopian Fiscal Year calendar. End of cut-off date annual reconciliation of woreda investment funds will be carried out and balance for following year will be carried forward.

At region level the agreement on the use of the revised control system and annual reconciliations with ACSI HQ will be done with RSU Financial Management Specialist.

Joint ACSI woreda branch office and woreda water office (CMP supervisor) monthly reconciliation format for investment funds (water, health and education) will be developed by COWASH Federal Team and its use will be trained to all CMP supervisors by the RSU staff during other trainings and workshops.

Time table:

WASHCO settlement formats and MFI reconciliation formats have been already revised and ready for utilization by January 2018.



On the use of improved investment fund monitoring and reconciliation format will be agreed with ACSI by January 15, 2018

Zone Advisors have been already trained for the introduction and coaching the use of revised formats.

Woreda CMP supervisors have been already oriented for the improved investment funds control and monitoring practises during the review meetings.

Full use of investment funds control and reconciliation by February 28, 2018.

2. Amhara ACSI agreement (26)

Observation: In Amhara the agreement between Water Bureau and Amhara Credit and Saving Institution (ACSI) was not followed. Separate CMP accounts have not been opened at woreda level and ACSI has not reported to Water Office as stated in the agreement.

Risk: If Water Office does not follow that the agreement is followed, there is a risk to fail monitoring the use of WASHCOs funding. **Significant.**

Recommendation: ACSI need to provide reports on use of CMP funds to Water office.

Clarification/Comment:

The same clarifications for this observation as described in the previous risk under number- 1 above.

Mitigation:

Mitigation as per the previous risk number-1 above.

Process the reconciliation between ACSI and woreda water offices balance with the existence of ACSI responsible person and RSU Planning Monitoring and Evaluation Specialist (PMES) and Financial Management Specialist (FMS).

Time table:

Same as the previous risk time table number-1 above.

Joint field trip to zones and woredas by PMES, FMS and MFI representative to clarify all issues from December 25 to January 10, 2018.

ACSI accounts reconciliation by January 31, 2018.

3. Unused investment funds in ACSI from Phase I (27)

Observation: According to the Financial Report EFY 2008, there are unused GoF investment funds of ETB 811,060 remaining in ACSI from the Phase I.

Risk: There is a risk that unused funds are not properly accounted for/refunded. **Moderate.**

Recommendation: ACSI must refund any unused remaining GoF investment funds remaining at ACSI or WASHCOs to BoFEC



Clarification/Comment:

The unused GoF investment funds in ACSI from Phase I was reported in the 4th quarter financial report of 2008 EFY. In this report the sum is ETB 748,801.09.

Mitigation:

Birr 748,801.09 has been already transferred back to BoFEC COWASH account.

4. Follow up of financial reports from woredas, zones and regional bureaus (28)

Observation: The BoFED in Amhara compiles 55 financial reports from beneficiaries on the GoF capacity building budget every quarter. There is no systematic mechanism to follow up submission and completeness of the reports from beneficiaries.

Risk: Follow-up mechanism of the quarterly reports is time consuming and inefficient. **Moderate.**

Recommendation: The BoFED in Amhara should establish a monitoring table in Excel to follow up timely submission of the reports from beneficiaries.

Clarification/Comment:

The Financial Consolidated Report Format has been used up to now as the mechanism to follow up the status of woreda, zone and bureau financial reporting. It has been easily seen from the format which woredas, zones and bureaus have submitted or have not submitted their financial reports. All accepted financial reports have been filed in folders in the Financial Management Specialist office in BoFEC. Unfortunately this follow-up mechanism does not tell the status or reasons for the non-submitted financial reports.

Mitigation:

Financial Management Specialist of COWASH Amhara RSU will develop a quarterly financial reporting follow up format which indicates the date of submittal, date of returning and date of re-submittal as well as date of approval and relevant comments for returning the report or delay of the reporting. This format is kept in Financial Management Specialist Office.

Time table:

Follow-up table has been already developed and in use from October 16, 2017

5. RSU performance on behalf of Water Bureau (29)

Observation: The Amhara RSU performs many tasks on behalf of WI&ERDB related to gathering and compiling the reporting on the use of the GoE funds.

Risk: It is problematic from the perspective of handing over and sustainability if the GoE staff does not gain experience and know-how in compilation and quality check of reporting. **Moderate**

Recommendation: The WI&ERDB staff should participate in compilation of the GoE reporting.

Clarification/Comment:

Regional Support Units (RSU) have been established to each of COWASH region under the Water Bureau and RSU's main role is to facilitate the regional, zonal and woreda level government bodies



who should actually implement COWASH project using CMP approach. RSU's role as an advisory and facilitation body only and alone has not been clearly understood by the regional bureaus and there has been great demand and pressure for RSUs to produce direct planning, execution and monitoring outputs of the project at region level in order to get the project outputs achieved. At zone and woreda levels all actual implementation is carried out by the relevant government bodies and not by RSU. Anyhow at region level the practise has been different than the theory. All WASH sector bureau staff (including water bureau) are engaged and busy with their regular activities. It is therefore very difficult to engage the WASH sector bureau staffs in the practical COWASH reporting. The only way to get the project done by the regional government staff is to include COWASH activities into their regular job descriptions. This has not been possible.

Mitigation:

It is suggested that an investigation will be carried out by the coming Mid Term Review (MTR) on the possibility to transfer some of RSU staff tasks to the regional WASH sector bureaus in the remaining period of Phase III.

Time table:

Recommendation of the transfer of RSU responsibilities to the regional bureaus by the MTR by March 2018.

6. RSU accounts approval (30)

Observation: The bank reconciliations of the RSU Amhara are prepared but not duly documented and approved.

Risk: Internal control weakness may lead to inaccuracies in financial reporting. **Moderate**

Recommendation: Bank reconciliation needs be duly documented and approved on a monthly basis.

Clarification/Comment:

Bank reconciliations have been done. The reconciliations should be approved by the Team Leader and co-signed by RSU account keeper. The reconciliations were not signed and attached with the quarterly financial report of Amhara RSU submitted to BoFEC. It has been misunderstandings on the needs in signing these documents.

Mitigation:

From now onwards the RSU bank reconciliation reports will be duly signed by the Team Leader and attached with the Amhara RSU financial quarterly report to BoFEC.

Time table:

Starting from the Q2 report of 2010 EFY, latest on January 31, 2018

7. Systematic Filing of Monitoring Data (31)

Observation: In the RSU Amhara, there are some deficiencies in systematic filing of the monitoring data obtained in diverse formats (hard copy, soft copy and verbal format).



Risk: Accuracy of progress reported cannot be ensured without access to complete source of information = monitoring data. **Moderate.**

Recommendation: All monitoring data collected must be filed into logical and easy to find categories.

Clarification/Comment:

The source data of each report was requested by the auditors. It was found that this source data was in hard copies, some in computers and some in note books. The source data is collected from woredas and zones by the Zone Advisors either by visiting the woreda or by telephone. Most of the Woredas do not have possibility to send the data via e-mail. Due to virus problems, electricity problems and capacity problems the source data from woredas is provided in hard copy and re-entered into the database by the Zone Advisors and Specialists. In many cases the source data provided contains mistakes or there is missing data. This requires more communication with the woreda via telephone by the Zone Advisors in order to complete the data. Woreda, zone and region staff miss sometimes the understanding of the purpose of the data and also the pressure is more for the physical achievements than data collection, quality, management and reporting.

Mitigation:

It is proposed that Zone Advisors will provide coaching and on-the-job training to woreda level staff in collecting data and filling the tables. In this coaching important is also to explain the importance and necessity of the data and its use.

Time table:

The coaching will start from the review and planning meeting planned to be organized in November and December 2017 and will continue in the quarterly supportive supervisions throughout the Phase III.

8. Fixed assets register in woredas (32)

Observation: No proper fixed assets register is maintained in all woredas.

Risk: Internal control relating to the fixed assets may not be efficient. **Moderate.**

Recommendation: Fixed assets registers should be kept and maintained systematically.

Clarification/Comment:

The COWASH project is a project of the Regional Government of Ethiopia. The project is implemented by the regional bureaus, zones and woredas. Therefore, all fixed assets procured by the project are handed over to the relevant government sector bureaus and offices. In this handing over process the fixed assets become assets of the government and are registered in the Government fixed assets register. The project on its own has not kept separate project fixed assets register at all levels of the government.

Mitigation:

In order to improve the project fixed asset registration and follow-up in the region, zone and woreda government it is proposed to use the existing Government fixed assets registration format by using code remark used by the government store keepers. This have been already informed to



zones and woredas staffs in the review meeting in November and December 2017. From this forward store keepers at all levels are requested to fill the code remarks based on the procured fixed assets by COWASH. COWASH Financial Management Specialist will follow up the practical use of remark coding in the list of all fixed assets procured in COWASH Phase I, II and III to all regional bureaus, zones and woredas. In the next internal audit the status of COWASH fixed assets registration in each bureau, zone and woreda will be checked and reported in the audit report.

Time table:

Remark coding in existing Government fixed assets registration format, January- February, 2018

Fixed assets registration checking by internal audit in Quarter III (March- April 2018) of 2010 EFY

