

**VNG INTERNATIONAL**

**ETHIOPIA SOCIAL ACCOUNTABILITY PROGRAM PHASE 3 (ESAP 3)**

**AUDIT REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD 1 JANUARY 2019 TO 31 DECEMBER 2020**

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## Statement of the Management Agency's responsibility

The Management Agency (MA) accept responsibility for the preparation and fair presentation of these financial statements, of Ethiopia Social Accountability Program Phase 3 (ESAP 3) for the period ended 31 December 2020.

The MA accepts responsibility for the financial statements and is of the opinion that the financial statements have been prepared using appropriate accounting policies in conformity with the Terms and Conditions of the ESAP 3 Grant Agreement, ESAP 3 accounting policies as detailed in ESAP 3 Financial Management Manual and generally accepted accounting practices.

The MA further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.



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Peter Knip

Director, VNG International

## **Report of the independent auditor to Management Agency on the audit of the Ethiopia Social Accountability Program Phase 3 (ESAP 3)**

### **Certification of the Financial Statements**

We have audited the accompanying financial statements of the Ethiopia Social Accountability Program Phase 3 (ESAP3) as set out on pages 4 to 11 of this report. These financial statements comprise the statement of income and expenditure for the period ended 31 December 2020, the statement of financial position as at 31 December 2020, a summary of significant accounting policies and other explanatory notes.

### **Management Agency responsibilities**

The Management Agency (MA) is responsible for the preparation and fair presentation of these financial statements in accordance with the Terms and Conditions of the ESAP 3 Grant Agreement and accounting policies set out in Note 2 of this report, this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the preparation of the project's financial statements 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 organization's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by Management Agency, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the accompanying financial statements of the Ethiopia Social Accountability Program Phase 3 (ESAP 3), presents fairly, in all material respects the financial position as at 31 December 2020 and the results of operations for the period then ended, in accordance with the accounting policies set out in Note 2 of this report, and the Terms and Conditions of the ESAP 3 Grant Agreement.

## Independence

We are independent of the organisation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

## Basis of accounting and restriction on distribution and use

Without modifying our opinion, we draw attention to the accounting policies of the ESAP 3 financial statements as set out in Note 2 of this report, which describe the basis of accounting. These financial statements have been prepared for purposes of providing information to the MA, the Government of Ethiopia and the World Bank. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the MA, the Government of Ethiopia and the World Bank and should not be distributed to or used by other parties.

The engagement partner responsible for the audit resulting in this independent auditor's report is **CPA Edwin Kagwi - P/1986**

**KAGO KAGWI & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS  
NAIROBI - KENYA

*Kago Kagwi & Associates*

Kago Kagwi & Associates  
Certified Public Accountants  
Applewood Office Park  
Nairobi, Kenya

30 June 2021

## Statement of income and expenditure

	Notes	Amount in USD
<b>Income</b>		
Opening balance	3	-
Funds received from the World Bank	4	5,248,065
		<hr/>
<b>Total income</b>		<b>5,248,065</b>
		<hr/>
<b>Expenditure</b>		
Grants and support of Sub-Projects	5 (a)	2,147,058
Grants and technical assistance		-
Consulting services Training and Workshops	5 (b)	624,400
Management and Coordination Services Fee	5 (c)	2,016,998
		<hr/>
<b>Total expenditure</b>		<b>4,788,456</b>
		<hr/>
<b>Surplus of income over expenditure</b>		<b>459,609</b>
		<hr/>

## Statement of financial position

	Notes	Amount in USD
<b>Assets</b>		
<b>Current assets</b>		
Bank balances	6	55,007
Prepayments	7	1,520,289
Receivables	8	6,958
		<hr/>
<b>Total assets</b>		<b>1,582,254</b>
		<hr/> <hr/>
		<hr/>
Reserves	9	459,609
		<hr/>
<b>Current liabilities</b>		
Account payables	10	1,111,757
Other Liabilities	11	10,888
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<b>Total current liabilities and reserves</b>		<b>1,582,254</b>
		<hr/> <hr/>

The financial statements above and the accompanying notes on pages 4 to 11 were approved by Management Agency on 30 June 2021 and signed on its behalf by:



Peter Knip  
 Director, VNG International

## Notes to the financial statements

### 1. Project background

#### General overview

The Ethiopia Social Accountability Program Phase 3 (ESAP-3), being part of the Enhancing Shared Prosperity through Equitable Services (ESPES) program, seeks to improve basic public service delivery of local governments in assisting to make services better attuned to the needs and priorities of citizens.

The development objective of ESAP-3 is to support strengthening the Social Accountability (SA) system and mechanisms for enhanced service delivery in Ethiopia. Thus, the ultimate target is service improvement in any of the five identified basic sectors where SA is considered a critical means to intervene. The more specific objective of ESAP-3 is to enhance the dialogue and feedback loop between basic service users and service providers on the quality and accessibility of services.

ESAP-3 is sub-divided into three separate components:

- Component 1 - Extend and expand the SA process, principles and tools and introduce pilot innovative approaches.
- Component 2 - Institutionalize SA in government institutions and systems.
- Component 3 - Manage, coordinate and monitor ESAP-3 program implementation.

#### Project implementation arrangements

ESAP 3 is managed by VNG International and will be implemented for the next five years, with gradually scaling up to 500 woredas (half of the total woredas in the country). The program funds are secured by Irish Aid, the European Union, the Austrian Development Agency, the Department for International Development and the Embassy of Sweden. This multi donor trust fund is administered by the World Bank and approximately USD 30 Million will be disbursed to over 100 Ethiopian CSO grantees who will be implementing the program at woreda (district) level.

There are 22 Social Accountability Implementing Partners (SAIPs) involved in the project implementation for the period covered by the financial audit, 1 January 2019 to 31 December 2020.

#### Project financing

The current budget envelope for the Project is currently USD 8,965,973.81.

#### Reporting period

The reporting period is for implementation of project activities for the period 1 January 2019 to 31 December 2020.

### 2. Summary of accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

#### *a) Basis of preparation*

The financial statements have been prepared in accordance with the requirements of the ESAP3 accounting policies as detailed in ESAP 3 Financial Management Manual and the Terms and Conditions of the ESAP3 Grant Agreement.

The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.



## Notes to the financial statements (Continued)

### ***b) Income recognition***

Income represents funds received from Multi-Donor Trust-Fund managed by the World Bank. Income is recognized when the funds are received in the VNG International, in The Netherlands bank account.

### ***c) Foreign currency translation***

#### ***Functional and presentation currency***

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in United States Dollars ("USD") which is the Project's functional currency.

#### ***Transactions***

Foreign currency transactions are translated into the functional currency of the MA using the actual exchange rates prevailing at the dates of the transactions for the income and using the average exchange rates of USD for the expenditure items.

### ***d) Expenditure recognition***

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in funds. Expenses are recognized when incurred rather than paid.

In the Interim Unaudited Financial Reports (IFRs), expenses are translated from Ethiopian Birr (ETB) to USD at a quarterly average rate benchmarked by the National Bank of Ethiopia monthly rates.

### ***e) Prepaid expenses***

Prepaid expenses are amounts that are paid in advance to a supplier or creditor for services provided. Prepayments are recognized when the MA pays for goods or services in advance. They are classified as assets, because the entity will receive economic benefits from the amount of expenses paid in advance.

### ***f) Accruals***

Accruals are monies put aside to fund certain activities before the creation or collection of the underlying documents such as invoices, purchase orders, among others and before those committed funds are paid out. Accruals are recognized when the entity issues contracts or purchase orders for the supply of goods or services.

## Notes to the financial statements (Continued)

### 3. Opening balance

There was no opening balance as at 1 January 2019.

### 4. Income

During the period ended 31 December 2020, the following funds were received by VNG International, in The Netherlands, from the World Bank as indicated the table below:

Date received	Withdrawal Application (WA) reference	Amount in USD
22-Apr-2020	WA - 4	366,845
26-Mar-2020	WA - 2	306,866
26-Mar-2020	WA - 3	3,842,783
28-Jan-2020	WA - 1	731,571
<b>Total</b>		<b>5,248,065</b>

The amount received agrees with the with the amount request by the MA. Detailed Withdrawal Applications that have been is provided as Appendix II to this report.

## Notes to the financial statements (Continued)

### 5. Expenditure

The table below outlines the expenditure (by MA headquarters, MA Branch office and SAIPs) during the period 1 January 2019 to 31 December 2020:

Project Components		Amount in USD
<b>5 (a)</b>	<b>Grants and support of Sub-Projects</b>	
	Goods	37,218
	Training and Workshops	45,032
	Grants - (As detailed in Appendix IV)	2,064,808
	<b>Total</b>	<b>2,147,058</b>

<b>5 (b)</b>	<b>Consulting services Training and Workshops</b>	
	Per diem and travel - reimbursable costs	105,408
	Consultants' Services	303,117
	Training and Workshops	158,128
	Operating costs	57,747
	<b>Total</b>	<b>624,400</b>

<b>5 (c)</b>	<b>Management and Coordination Services Fee</b>	
	Goods	15,940
	Consultants' Services	1,319,725
	Operating Costs	677,591
	Training and Workshops	3,742
	<b>Total</b>	<b>2,016,998</b>

### 6. Cash and bank balances

Details	Amount in USD
The amount represents the closing bank balance at the ABN-AMRO Bank, VNG International, in the Netherlands, as at 31 December 2020.	<b>55,007</b>

## Notes to the financial statements (Continued)

### 7. Prepayments

Prepayments represent the amounts disbursed to SAIPs, as detailed in Appendix V, that had not been accounted for as at 31 December 2020 as presented in the table below:

No.	Name of the SAIP	Amount in USD
1	Hiwot Integrated Development Association	54,794
2	Union of Ethiopian Women Charitable Association	45,076
3	Rohi Weddu Pastoral Women Development Organization	21,818
4	Mothers and Children multi-sectoral Development Organization	25,304
5	Women Support Association	241,944
6	Amhara Development Association	120,971
7	Migbare-Senay Children and Family Support Org.	40,878
8	Ethiopian Catholic Church - Social and Development Commission Nekemte	140,071
9	Hope For Children	44,946
10	Ogaden Welfare and Development Association	58,127
11	Ilu Women and Children Integrated Development	115,445
12	Love in Action	12,656
13	Ethiopian Orthodox Church Development and Inter-Church Aid Com	44,312
14	Rift Valley Children and Women Development Org	85,442
15	HUNDEE Oromo Grassroots Development Initiative	34,545
16	Cheshire Foundation Action for Inclusion	40,147
17	Action For Development	51,259
18	Action for Self Reliance Organization)	49,612
19	Oromia Development Association	62,459
20	KMG Ethiopia	50,561
21	Addis Development Vision	104,473
22	Alliance of Civil Society Organizations of Tigray	75,450
	<b>Total</b>	<b>1,520,290</b>

## Notes to the financial statements (Continued)

### 8. Receivables

The receivables amount is represented by:

Details	Amount in USD
VNG International – YEM monthly Administration fee – covered by Management fee	6,958

### 9. Reserves

The reserves amount is represented by:

Details	Amount in USD
Surplus of income over expenditure for year ended 31 December 2020	459,609

### 10. Account payable

The account payable amount is made up of mainly quarter No.4, Financial Year 2020 expenditure and cross charges incurred by the MA Branch Office and was paid in quarter No.1, Financial Year 2021:

Details	Amount in USD
Total per the payable listing as at 31 December 2020	1,111,757

### 11. Other liabilities

Other liabilities amount is represented by:

Details	Amount in USD
MA office rent	10,888

## Appendix I – A summary of activity in the Project Designated Account

	Amount in USD
Opening balance as at 1 January 2019	-
Funds received from the World Bank during the year	5,248,065
<b>Total funds available for use</b>	<b>5,248,065</b>
<b>Expenditure</b>	
Grants and support of Sub-Projects	2,147,058
Grants and technical assistance	-
Consulting services Training and Workshops	495,295
Management and Coordination Services Fee	2,146,103
<b>Total expenditure</b>	<b>4,788,456</b>
<b>Closing balance as at 31 December 2020</b>	<b>459,609</b>

The closing balance consists of cash and bank balances of USD 55,007, balances with SAIPs of USD 1,520,289 and a net liability of USD 1,115,687. We reviewed the activities of the Designated Bank Account No. NL98ABNA0535182813 held at ABN AMRO Bank associated with the project and confirmed that:

- Advance deposits were received from the World Bank.
- Replenishments substantiated by Withdrawal Applications.
- No interest that has been earned on the account.
- Withdrawals related to project expenditures.

## Appendix II – A listing of withdrawal applications

During the course of our financial audit, we verified all Statements of Expenditures (SOEs) used as a basis for the submission of withdrawal applications to the World Bank. We applied such tests and auditing procedures as considered necessary under the circumstances. Below is a schedule listing individual SOE withdrawal applications by specific reference number and USD amount paid to VNG International bank account number NL98ABNA0535182813:

WB/ Trans No	Application Borrower Reference	Application Payment / Documented	Deducted Amount USD	Paid / Documented Amount USD	Date Received	Value Date	Date Closed
4	WA - 4	366,845	0.00	366,845	22-Apr-2020	04-Jun-2020	04-Jun-2020
2	WA - 2	306,866	0.00	306,866	26-Mar-2020	27-Mar-2020	27-Mar-2020
3	WA - 3	3,842,783	0.00	3,842,783	26-Mar-2020	30-Mar-2020	30-Mar-2020
1	WA - 1	731,571	0.00	731,571	28-Jan-2020	19-Feb-2020	19-Feb-2020
	<b>Total</b>	<b>5,248,065</b>	<b>0.00</b>	<b>5,248,065</b>			

### Appendix III – Summary of the World Bank Designated account by category

The summary below presents status of the designated account at the World Bank (TF0A9293), extracted from the 'Client Connection' system. The analysis provides the disbursed amount which tallies with the amount received by that MA.

Category	Category Description	Allocated in USD	Disbursed in USD	Undisbursed in USD
1A	Grants for Sub-Projects	5,641,390	1,867,027.05	3,774,362.95
1B	Grants and technical assistance	769,280	-	769,280.00
2	Consulting services Training & Workshops	986,257	572,191.42	414,065.58
3	Management and Coordination Services Fee	1,569,046.81	1,804,278.24	-235,231.43
DA-AA	Designated Account	-	3,140,765.29	-3,140,765.29
	<b>Total</b>	<b>8,965,973.81</b>	<b>7,384,262.00</b>	<b>1,581,711.81</b>



## Appendix IV – Grants for sub-projects

No.	Name of the SAIP	Amount in USD
1	Hiwot Integrated Development Association	139,162
2	Union of Ethiopian Women Charitable Association	142,933
3	Rohi Weddu Pastoral Women Development Organization	77,366
4	Mothers and Children multi-sectoral Development Organization	59,472
5	Women Support Association	55,267
6	Amhara Development Association	39,887
7	Migbare-Senay Children and Family Support Org.	148,435
8	Ethiopian Catholic Church - Social and Development Commission Nekemte	84,910
9	Hope For Children	105,597
10	Ogaden Welfare and Development Association	237,491
11	Illu Women and Children Integrated Development	91,682
12	Love in Action	42,253
13	Ethiopian Orthodox Church Development and Inter-Church Aid Com	56,538
14	Rift Valley Children and Women Development Org	120,672
15	HUNDEE Oromo Grassroots Development Initiative	62,507
16	Cheshire Foundation Action for Inclusion	74,485
17	Action For Development	56,751
18	Action for Self Reliance Organization)	70,904
19	Oromia Development Association	93,507
20	KMG Ethiopia	113,622
21	Addis Development Vision	23,211
22	Alliance of Civil Society Organizations of Tigray	168,158
	<b>Total</b>	<b>2,064,810</b>

