

THE FEDERAL DEMOCRATIC REPUBLIC  
OF ETHIOPIA

Ministry of Agriculture

Revised Financial Management Manual  
For  
Resilient Landscapes and Livelihoods Project  
(2019-2024)

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## LIST OF ACRONYMS

A/C	Accounts
AWP & B	Annual Work Plan and Budget
BoA	Bureau of Agriculture
CSA	Central Statistics Authority
CF	Community Focal
CWT	Community Watershed Team
DPs	Development Partners
MoR	Ministry of Revenue
FM	Financial Management
FMM	Financial Management Manual
FPS	Focal Person
GAAP	Generally Accepted Accounting Principles
Gov't	Government
GEF	Global Environment Facility
GRN	Goods Receiving Notes
IBEX	Integrated Budget and Expenditure
IFMIS	Integrated Financial Management Information system
IDA	International Development Association
IFAC	International Federation of Accountants
IFRs	Interim Financial Reports
ISA	International Standards on Auditing
KWT	Kebele Watershed Team
L/C	Letter of Credit
MoA	Ministry of Agriculture
MoF	Ministry of Finance
NBE	National Bank of Ethiopia
NRD	Natural Resource Directorate
NRM	Natural Resources Management
NSLMPCSC	National Sustainable Land Management Program Steering Committee
NSLMPU	National Sustainable Land Management Program Unit
OFAG	Office of Federal Auditor General
PAD	Project Appraisal Document
PCU	Project Coordination Unit
PIM	Project Implementation Manual
PIU	Project Implementation Unit
RBoA	Regional Bureau of Agriculture
RTC	Regional Technical Committee
RSLMPCU	Regional Sustainable Land Management Project Coordination Unit
SLMP-II	Sustainable Land Management Project-II
SNNP	South Nation, Nationalities and People
TFs	Trust Funds
TWC	Team for Watershed Committee
USD	United States Dollar

VAT	Value Added Tax
WFP	Woreda Focal Person
WOA	Woreda Office of Agriculture
WOF	Woreda Office of Finance
WTC	Woreda Technical Committee
WSC	Woreda Steering Committee

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# **1. BACKGROUND AND OBJECTIVES OF THE FINANCIAL MANAGEMENT MANUAL**

## **1.1 Overview**

The Project Development objective of the Resilient Landscapes and Livelihoods Project is to improve climate resilient, land productivity and carbon storage, and increase access to diversified livelihood activities in selected rural watersheds. The objective would be achieved through the provision of capital investments, technical assistance and capacity building for small holder farmers in the watersheds and government institution at national and sub national levels.

Ethiopia has been implementing the activities identified in the RLLP which is being financed by International Development Association (IDA), and the a Multi-donor Trust Fund (MDTF) including the Norwegian Ministry of Foreign Affairs and Government of Canada (GAC).. The Ministry of Agriculture hosts the National RLLP Coordination Unit. RLLP has its own Financial Management Manual (FMM) depicting all accounting policies, procedures, internal control issues, financial reporting, fund flow arrangements, budgeting and external audit. However, the lessons learnt under SLMP II and the implementation of the RLLP project so far necessitated the revision of the Financial Management Manual to accommodate the changes related to the opportunities, scope and design issues of RLLP,

## **1.2 Importance of financial management**

Financial management brings together planning, budgeting, accounting, financial reporting, internal control, auditing, procurement, disbursement and the physical performance of the project with the aim of managing project resources properly and achieving the project objectives. Sound financial management is a critical input for decision making and for project success, thus speeding up the physical progress of the project, ensuring the availability of funds and reducing delays and bottlenecks. It also shows development partners that the organization can successfully manage external funds and comply with procedures and reporting requirements.

To this effect, the financial management system should produce timely, relevant and reliable financial information that would allow project managers and government officials to plan and implement the activities, monitor compliance with agreed procedures, and appraise progress toward its objectives. Hence, financial procedures manual, a manual that sets forth the project financial policies and procedures for the guidance of all personnel charged with financial responsibilities, with the aim of ensuring that project resources are properly managed and safeguarded, is of necessity.

## **1.3 Objectives of this manual and its scope**

The broad objective of this manual is to improve project management. It is designed to allow the establishment of a uniform Financial Management (FM) system across the implementing agencies of the RLLP and to provide financial guidelines and procedures specifying how financial transactions are recorded and reported by implementing agencies at federal, regional,

and woreda levels. It discusses the detailed procedures in receiving fund from Development Partners (DPs), keeping the fund, spending it, recording the expenditures, reporting to the appropriate body and safeguarding the acquired project assets. The specific objectives of this financial manual include:

- Outline the various processes to be followed by all staffs involved in the FM of the Project.
- Provide instructions for ensuring that resources to be used are incorporated in the budget and adequate internal controls are in place to safeguard the use of funds during implementation.
- Specify government regulations of relevance to FM and accounting needs of the project.
- Align the project FM to World Bank guidelines.
- Outline fund flow responsibilities of role players in the implementation of the project.
- Serve as a financial management reference document to all involved in the implementation of the project.

#### **1.4 Requisites for its preparation and implementation**

The FM system requires the production of timely, understandable, relevant, and reliable financial information that allows the government, DPs and other stakeholders to plan and implement the project, monitor compliance with agreed procedures, and appraise progress toward its objectives. To meet these requirements, the system should ideally have the following features:

- **Budgeting:** A system to identify the short-term activities necessary to achieve the project objectives and express these activities in financial terms.
- **Accounting:** It refers to a system of tracking, recording, analyzing, and summarizing financial transactions.
- **Funds flow arrangements:** Appropriate arrangements to receive funds from all sources and disburse the funds to the agencies involved in project implementation.
- **Internal control:** Arrangements, including internal audit, to provide reasonable assurance that (a) operations are being conducted effectively and efficiently and in accordance with relevant financing agreements; (b) financial and operational reporting are reliable and useful; (c) applicable laws and regulations are being complied with; and (d) assets and records are safeguarded.
- **Reporting:** A system that would produce sufficient detailed information to manage the project, and provide each development partner with regular consolidated interim financial reports and annual consolidated financial statements.



- **External audit:** Arrangements for conducting annual external audit of the consolidated financial statements for the project on terms of reference acceptable to all the stakeholders and auditing standards. The project interim audit is also conducted on terms agreed/acceptable by the bank/stakeholders.
- **Financial management staffing:** Relevantly qualified financial management staff, including accounting and internal audit staff, with clearly defined roles and responsibilities to conduct financial management activities

Hence this manual is made to include the FM institutional arrangement, budgeting procedures, fund flow mechanism, internal control and audit procedures, accounting and record keeping procedures, chart of accounts, financial reporting, external audit, and institutional oversight arrangements.

### **1.5 Interface with government accounting**

The FM arrangements for the RLLP follows Channel II fund flow arrangement of the government where the parent Ministry of the project (MoA) is responsible for receiving the development partner transfers in to the segregated designated bank account and making transfers to regions and other implementing entities in the project. The project will make adopt government chart of accounts and adapt to the project needs and requirements. It incorporates relevant sections of the government accounting and budgeting system helps to utilize wisely the already built up learning curves of the government's accounting staff. The project seeks to have government approved annual project budget, as part of the government budget proclamation. Project financial statement shall also be reported to the government (to the MoF) as per the government reporting requirements. Therefore, the government accounting system, policies and procedures are the basis of this arrangement.

### **1.6 Need for amendment or revision**

Change occurs everywhere and this project would not begin and end without any change.. Changes could be technological, institutional, or otherwise thereby affecting the way the project is operated in general and the financial management system in particular. This could necessitate amendment or revision of the manual. However, any modification, alteration, or change thereto should be approved by the MoA, as MoA is the owner of this manual.

## **2. IMPLEMENTING AND REPORTING CENTERS AND STAFF RESPONSIBILITIES**

### **2.1. Project based accounting system, its features**

Accounting system gathers, analyzes and organizes accounting data in order to produce useful financial information. Project accounting, in the public sector or project context, is the practice of transactions recording and producing financial reports specifically designed to show utilization of fund appropriated for project activities. It is expected to fulfill the reporting requirements of development partners and the Government. It should reflect project needs and be designed to provide the financial information required by all interested parties (PIU, government (borrower) oversight agencies, co-financiers, the IDA, etc.) and fulfill all the legal and regulatory requirements of the country.

Usually, a project has a limited life. This project is expected to last within five years. Consequently, envisaged activity costs (both direct and overhead) and revenues are allocated to the project only, which may be subdivided into components, activity structures and grouped together into project hierarchies. Project accounting permits reporting at any level and often allows comparison with budgets.

The accounting system is a critical part of the project's financial management system and its design and operation are therefore of great importance.

To understand the project, the following should be considered:

- the project objectives and components as outlined in the PAD; and AF and restructuring Project Papers.
- implementing agencies involved, including the relationship between the main agency and other participating agencies;
- the amount and type of expenditure under each component, summarized under works, goods, consultants' services, etc.;
- component costs by locations, e.g. by regions and woredas;
- physical or other measurable indicators of project progress that relate to the cost of each component or sub-component;
- sources of project financing (bank, government, co-financiers, project partners, project beneficiaries, etc.);
- cost-sharing arrangements as they relate to specific expenditure categories;
- flow of funds arrangements such as the use and management of Special Accounts, other project bank accounts, direct payments, organizations which will be making payments or receiving funding, currency of payments, etc.;
- the procurement profile of project expenditures e.g. the size, number and nature of contracts; the requirements for international or local bidding, and the use of consultants;

- the information the Project Implementation Unit (PIU) will need to manage the project; and which government oversight agencies, other financiers and the Bank will also need to monitor the project, (including the type, format and frequency of such information);
- the laws, rules and regulations of the country that may have an impact on the project.

## **2.2. Basis of accounting**

There are four generally recognized accounting bases used by governments: cash basis of accounting; modified cash basis of accounting; accrual basis of accounting; and modified accrual basis of accounting; the difference being the timing of recognition (or recording and reporting) of a transaction. The Ethiopian Government adopted modified cash basis of accounting. Consistent with the government accounting, the RLLP accounting shall employ modified cash basis of accounting in that the cash basis of accounting applies except for recognition of the following transactions:

- Revenue and expenditure are recognized when aid in kind is received
- Expenditure is recognized:
  - When payroll is processed, based on payroll and attendance sheet
  - At the end of the year when a grace period payable is recognized.
  - When goods are received or services are rendered.
- Intergovernmental transfers are recognized in the absence of actual cash movement.
- Transactions resulting from salary withholdings are recognized in the absence of actual cash movement.

## **2.3. Implementing and reporting centers of the Project**

The implementation of the RLLP takes place in seven regions of the country namely: Amhara, Beneshangul-Gumuz, Gambella, Oromia, Southern Nations, Nationalities and Peoples (SNNP), Tigray and the Sidaama. It covers 170 watersheds to be implemented in 177 woredas and 1299 rular kebeles.

The FM arrangements for the RLLP follow Channel II fund flow arrangement of the government where the parent Ministry of the project (MoA) is responsible for fund transfers. RLLP has a Project Coordination Unit (PCU) at the federal, regional and Woreda levels staffed with a competent financial management person at each level. Therefore, the reporting centers of the Project are the PCU at the federal level at MoA, at regional level at BoA and at woreda level at WOF.

## **2.4. The accounting software**

For regular government funds, MoA uses Integrated Budget and Expenditure (IBEX) accounting system and transitioning to the use of Integrated Financial Management Information System (IFMIS) system. The (IFMS) accounting system is now operational at the

federal level, in regions and in most woredas. The current accounting software in use by RLLP is– Peachtree Accounting Software. The software is installed at Federal, Regional and Wereda RLLP coordination units. All Woredas shall have Peachtree accounting installed and used for project accounting and reporting. The project unit will also train the woreda accountant and install Peachtree accounting system. On the other hand, advanced Peachtree accounting training will be organized for regional and federal level financial management specialist. The software in its reporting capabilities enables quick report generation including IFRs direct from the system.

## **2.5. Structure and finance staff responsibilities**

The following finance staffs are to be positioned at different levels for the RLLP implementation:

*At the federal level:* One senior financial management specialist, two senior accountants (financial management specialists) and two accountants seconded to Ministry, in total five employees are deployed.

*At the regional level:* One financial management specialist is assigned in each of the RLLP regions and three assistant accountants at wider regions of Amhara, Oromia and SNNP regions.

*At woreda level:* A total of 177 accountants are to be assigned including RLLP new woredas. This is subject to change with expansion of water shades/new woredas, as required, going forward.

### **Financial Management Staff Responsibilities**

#### ***The FM unit at the federal level:***

- The FM unit is responsible for the overall financial management aspects of the project. It involves in planning and overseeing of project work plans and budgets for the various institutions, and ensure consistency of the allocation of financial resources.
- It opens Designated Accounts for RLLP at the National Bank of Ethiopia (NBE) for each financing partners. In addition, it opens Birr account for project fund from the development partners designated accounts to be converted and deposited.
- It is responsible for the day-to-day management of the designated accounts and the pooled Birr account.
- It provides guidance, training and support to the various implementing agencies.
- It assists the regional BoAs on financial management, and disbursement and reporting of the RLLP resources to ensure the timely implementation and reporting on the project.
- It facilitates disbursement of resources to implementing institutions, collects reports from these institutions and consolidates and reports on the use of funds to government, project partner, and other stakeholders. It collects and aggregates financial data and information from regions and prepares consolidated quarterly and annual financial reports, and handles the audit of the project financial statements.

- It liaises with the NBE on disbursement of funds to implementing institutions.
- Follow up and monitor agreed action of financial management issues with regional project coordination unit financial management staffs.

### **Senior Financial Management Specialist**

The Senior Financial Management Specialist is responsible for the overall financial management arrangements of the project and will ensure the maintenance of sound arrangements throughout the life of the project consistent with agreements, manuals and project document and works closely with project team and MoA Finance Directorate. The specialist provides the overall supervision and guidance to the financial management staff on FM issues. He/She is the focal person and responsible for FM aspects of the project.

Specific and key duties and responsibilities include:

#### **I. *Ensuring the availability of resources (inputs) including:***

- Adequate and capable financial management: constantly review and ensure the existence of adequate and capable FM staffing including maintaining a complete database/list of accountants with complete profiles educational background, experience, contact information of federal, regional, and woreda accountants.
- Other resources necessary for duties like computers in a safe condition from virus and unauthorized access (and free from unnecessary interaction with external medias including flash disks and CDs); and
- Relevant documentation including Financial Management Manual (FMM); Project documents like PAD, PIM, financing agreements, disbursement letter, etc.; In addition, availability of accounting documents like Payment Vouchers, Cash Receipt Vouchers and Journal Vouchers, Goods Receiving Vouchers, Goods/Store Issue Vouchers, and Goods Return Vouchers; Working formats like store control cards, bin cards and Fixed Assets registration book as well as stationery materials

#### **II. **Recording and reporting functions** including maintaining books of accounts in accordance with RLLP Financial Management Manual and accordingly, he/she is responsible to:**

- Ensure that books of accounts are maintained as per the FMM; If there is a need to change the arrangements or revise FMM, then discuss with the World Bank team for necessary revision of the same;
- Supervise, follow up and provide overall guidance on the financial management aspects of the project;
- Install, implement, and advise on accounts and control thereof;

- Maintain an up-to-date and reliable financial management system-ensure that all implementing agencies have installed the required FM system acceptable to the World Bank;
- Monitor the overall project performance from the financial management point of view including on the fund flow mechanisms of the Project;
- Review payment documents and vouchers;
- Oversee/Handle fund transfers to federal and lower level implementing agencies;
- Follow up on timely receipt of quarterly/monthly reports from project implementing agencies/Regions;
- Ensure strict compliance of budgetary and internal control procedures;
- Following up with Regions to ensure that all advances are settled and accounted on time;
- Ensure that internal and external audits are arranged as per the agreements made with the World Bank;
- Make sure that all accounting information is made available to internal and external auditors and answer queries regarding accounting and financial records and statements;
- Follow up on the preparation of IFR and year-end financial statements accurately and timely as indicated in the Financial Management Manual of RLLP. Review the report to ensure that it complies with the standards and requirements agreed with financiers which are documented in FMM and project documents; Ensure that quarterly reports are sent to the financiers in less than forty five days after the end of the quarter; and
- Ensure that audited statements are sent to financiers within six months after the end of the fiscal period.

**III. Fund flows:** Ensure adequate fund flows from the financiers to the Project and within the project

- Understand and implement World Bank disbursement procedures for the Project; Follow up on disbursement issues timely with the World Bank;
- Ensure that proper withdrawal applications are prepared and submitted to the Bank; Reconcile regularly with the World Bank's and the project's records;
- Review designated accounts and other bank accounts and ensure that Bank reconciliations will be make on time for all accounts;

- Review World Bank disbursement database “client connection” for the project’s disbursement activities;
- Ensure the preparation of acceptable IFRs for disbursement purposes and address queries and questions that may be raised in these reports;
- Ensure in conducting of sound and practical cash forecast based on approved budgets for disbursement purposes;
- Ensure that fund is transferred to Regions/Implementing entities on acceptable basis and ensure on time reporting or accounting or settlement of the advances from these Regions and entities;

IV. Conducting monthly routines including:

- Ensuring monthly bank statements are received and reconciliations are prepared immediately;
- Review payrolls to contract RLLP employees and ensuring that proper payroll records are maintained;
- Ensuring the timely preparation of vouchers and payment to Vendors and other payees;
- Ensuring that of tax obligations including income taxes, withholding taxes, VAT to MoR are complied with;
- Monitoring the reconciliation of advances and prepayments;
- Reviewing and approving monthly report preparation;
- Maintain complete and up to date database of fixed assets procured using the project resources;
- Ensure that all fixed assets acquired are provided with identification number and recorded on the fixed asset registers;
- Reviewing and approving a monthly status report as per the Financial Management Manual of RLLP;
- Following up on receipt of quarterly balance sheet, revenue and expenditure statements from Regions;
- Ensuring count of cash in hand balance at least once in a month to confirm existence of recorded cash balance, and other assets at least once in a year.

V. Planning and budgeting including:

- Participating in the annual budgeting process at the federal level and implementing the same when approved;
- Ensuring that the budget for the project is approved through normal government procedures;
- Ensure that budgets are disseminated to all relevant stakeholders at all levels) on time;
- Ensure maintenance of strict budget discipline;
- Reviewing, justifying, strengthening and approving the monthly budget utilization report;
- Ensuring recording of commitments payable at the end of the fiscal year; and
- Ensuring that unused budgets left over at the end of the year are re-budgeted for the subsequent year.

#### VI. Follow up on Outstanding issues

- Ensure that outstanding audit issues (as per audit findings) and recommendations are well taken and the appropriate corrective actions are taken; and report the action taken to the National Project Coordination Unit and external financiers immediately after the date of receipt of the Audit report.
- Ensure that appropriate actions are taken as appropriate as per the recommendations financial management supervision reports or reviews of quarterly financial reports made by the World Bank/financiers;
- Facilitation and dissemination of financial management information including:
- Coordinating and supervising accounting and financial management related activities at federal, regional, and woreda levels;
- Facilitating the completion of annual audit of project financial statements not later than six months after the close of the fiscal year;
- Assisting the various teams visiting the public bodies or seeking information including External Auditors, Rapid Response Team, regional and federal information centers and other higher level finance offices;
- Ensuring timely replenishments are made to project implementing agencies and the required funds are received from financiers and the Government; and
- Supporting and supervising the Federal and Regional financial management specialists.



- Networking (Having a strong working relationship) including:
- Overseeing the overall acquaintance with bank officers for follow-up on fund arrival and availability, advice, and bank statements;
- Networking with the woreda and regional offices in the Ethiopian Government structure and relevant sector offices within the public body;
- Reading and keeping full understanding of Project Implementation Manual and Financial Management Manual; and
- Liaising with the Government institutions and external financiers and ensuring that accounting records are maintained and financial reports are prepared on schedule, delivered to the Government and to financiers as per legal agreements.
- Handing over report including:
- Handing over report including the action plan and status report as to the overall activities of finance before he/she leaves the office for leave more than 3 days; and
- Preparing comprehensive handover report when he/she resign according to the handing over procedure indicated in the financial management manual of RLLP
- Training and coaching including
- Planning structured training for accountants at all levels;
- Designing the needed training and arranging the pre-requisites; and
- Overseeing and delivering training and coaching support to Regional FM specialists and Woreda level Accountants.
- Other RLLP financial management activities as directed by the National Project Coordinator.

### **Deliverables**

- The Senior Financial Management Specialist is responsible for the outputs of the department/unit pertaining to FM. The following are minimum deliverables in terms or reporting expected by various stakeholders:
- Quarterly Unaudited Interim Financial Report (IFR) to the World Bank as per the requirements of the project agreements;
- Audit reports-Interim audit report as well as final financial audit reports to the World Bank as per the requirements of the project agreements;

- Financial reports as per the requirements of the MoA, MoF and other stake holders (be it ad hoc or regular reports).

### **Reporting Line/Communication**

- The Senior Financial Management Specialist reports to the National Project Coordinator and works closely with MoA Finance Directorate, regional project implementing Bureaus, Woreda Finance Office, and development partners mainly with World Bank Financial Management staff;
- Responsible for central communication with regional financial management specialist.

### **Senior Accountant (Financial Management Specialists)**

The Senior Accountant (Financial Management Specialist) will be responsible for the day-to-day maintenance of the project books of account, records, and the entire data capturing function and accounting under the supervision of the Senior Financial Management Specialist. Specific responsibilities include:

- I. Compliment with senior financial Management Specialist in ensuring the availability of resources (inputs) indicating in the manual
- II. Recording and reporting functions including maintaining books of accounts in accordance with RLLP Financial Management Manual and accordingly, he/she is responsible to:
  - Ensure that all implementing agencies have implemented the required FM system acceptable to the World Bank;
  - Assist the specialist in planning, installing & implementing of accounts control, & other accounting system for the project;
  - Compliment with senior financial management specialist in maintaining an up-to-date and reliable financial management system;
  - Monitor budget performance;
  - Maintain opening balances in the new fiscal year;
  - Preparing Check, Petty cash voucher, Payment voucher, and also Journal voucher for settlement, and debit and credit advices;
  - Make adjustments and closing entries;
  - Reconcile general ledgers and subsidiary ledgers;
  - Ensure transactions are posted to their proper code;
  - Ensure that payments are made as per the budget allocated for each project and expenditure category;
  - Prepare explanations for major budget variances;
  - Monitor the performance of fund flow mechanisms of the Project and ensure that timely replenishments are made to project implementing agencies & the required funds are received from development partner & Governments;

- Ensure compliance of budgetary and internal control procedures;
- Follow up the submission of replenishment requests, monthly bank reconciliation and reports from the Project implementing agencies;
- Consolidate reports of project implementing agencies & submit replenishment request;
- Make sure that all accounting information is made available to internal and external auditors and answer queries regarding accounting and financial records and statements;
- Follow up receipt of periodic financial reports from regions and other implementing agencies;
- Preparation of IFR and year-end financial statements accurately and timely as indicated in the Financial Management Manual of RLLP. This includes:
  - Accounting transaction processed at the Federal level; and
  - Consolidation of the Regional reports.
- Complement and ensure that quarterly reports are sent to the financiers in less than forty five days after the end of the quarter; and
- Compliment and ensure that audited statements are sent to financiers within six months after the end of the fiscal period.

### **III. Conducting monthly routines including:**

- Ensuring monthly bank statements are received and reconciliations are prepared immediately;
- Preparing payrolls to contract RLLP employees;
- Ensuring the timely preparation of vouchers and payment to vendors and other payees;
- Handling of Checks pad, payment documents including withholding Tax and VAT voucher;
- Ensuring that payment of tax obligations including income taxes, withholding taxes, VAT and cost sharing deduction to MoF;
- Reconciling of advances and prepayments;
- Cross referencing procurement files against relevant payment vouchers on time;
- Making sure that all fixed assets acquired are provided with identification number and recorded on the fixed asset registers;
- Making sure that original copy of payment vouchers are detached from pad, attached with supporting documents and filed properly;
- Preparing a monthly report as per the Financial Management Manual of RLLP; and
- Conducting count of cash in hand balance at least once in a month to confirm existence of recorded cash in hand balance and other assets at least once in a year.

### **IV. Planning and budgeting including:**

- Participating in the annual budgeting process at the federal level and implementing the same when approved;

- Ensuring that every payment is supported by budget and that there is no overspending;
  - Producing monthly budget utilization report;
  - Recording commitments payable at the end of the fiscal year; and
  - Ensuring that unused budgets left over at the end of the year are re-budgeted for the subsequent year.
- V. **Outstanding audit issues** (as per audit findings) and recommendations are well taken and the appropriate corrective actions are taken; and report the action taken to the Senior Financial Management Specialist immediately after the date of receipt of the Audit report.
- VI. **Facilitation and dissemination of financial management information including:**
- Coordinating and supervising accounting and financial management related activities at regional and woreda levels as delegated by the Senior Financial Management Specialist;
  - Facilitating the completion of annual audit of project financial statements not later than six months after the close of the fiscal year;
  - Assisting the various teams visiting the public bodies or seeking information including External Auditors, Bank's implementation support missions and other higher level finance offices;
  - Ensuring timely replenishments are made to project implementing agencies and the required funds are received from financiers and the Government; and
- VII. **Networking (Having a strong working relationship) including:**
- Having acquaintance with bank officers for follow-up on fund arrival and availability, advice, and bank statements;
  - Networking with the woreda and regional offices in the Ethiopian Government structure and relevant sector offices within the public body;
  - Reading and keeping full understanding of Project Implementation Manual and Financial Management Manual; and
  - Assisting the senior financial management specialist in liaising with the Government institutions and external financiers and ensuring that accounting records are maintained and financial reports are prepared on schedule, delivered to the Government and to financiers as per legal agreements.
- VIII. **Handing over report including:**
- Handing over report including the action plan and status report as to the overall activities of finance before he/she leaves the office for leave more than 3 days; and
  - Preparing comprehensive handover report when he/she resign according to the handing over procedure indicated in the financial management manual of RLLP.

- IX. **Providing training and coaching support** to regional financial management specialists and woreda accountants
- X. Other RLLP financial management activities as directed by the Senior Financial Management Specialist or National Project Coordinator.

**Deliverable**

Senior Accountant (Financial Management Specialist) submits monthly financial report in the area of his /her work.

**Reporting Line/Communication**

The Senior Accountant (Financial Management Specialist) will report to the Senior Financial Management Specialist and work closely with MoA Finance case team, regional project implementing Bureaus, Woreda Finance Offices.

**Regional Financial Management Specialist**

The Regional Financial Management Specialist will be responsible for the day-to-day maintenance of the project books of account, records, and the entire data capturing function and accounting and will work closely with the project team and regional finance case team under the supervision of the regional Project Coordination Unit (PCU).

Specific responsibilities include:

- I. Ensuring the availability of resources (inputs) including:
  - Financial Management Manual;
  - Accountable for documents like Payment Vouchers, Cash Receipt Vouchers and Journal Vouchers, Goods Receiving Vouchers, Goods/Store Issue Vouchers, and Goods Return Vouchers; working formats like store control cards, bin cards and fixed asset registers
  - Computers in a safe condition from virus and unauthorized access (and free from unnecessary interaction with external medias including flash disks and CDs); and
  - Complete contact list of federal, regional and woreda accountants.
- II. Recording and reporting functions including maintaining books of accounts in accordance with RLLP Financial Management Manual and accordingly, he/she is responsible to:
  - Ensure that all implementing agencies have installed the required FM system acceptable to the World Bank;
  - Install, implement and advise on accounts control and other accounting system for the project;
  - Maintain an up-to-date and reliable financial management system;
  - Monitor budget performance;
  - Maintain opening balances in the new fiscal year;

- Prepare Check, Petty cash voucher, Check Payment voucher, and also Journal voucher for settlement, and debit and credit advices;
- Make adjustments and closing entries;
- Reconcile general ledgers and subsidiary ledgers;
- Ensure transactions are posted to their proper code;
- Ensure that payments are made as per the budget allocated for each project and expenditure category;
- Prepare explanations for major budget variances;
- Monitor the performance of fund flow mechanisms of the Project and ensure that timely replenishments are made to project implementing agencies & the required funds are received from National Project Coordination Unit;
- Ensure compliance of budgetary and internal control procedures;
- Follow up the submission of replenishment requests, monthly bank reconciliation and reports from the Project implementing agencies;
- Consolidate reports of project implementing agencies & submit replenishment request;
- Make sure that all accounting information is made available to internal and external auditors and answer queries regarding accounting and financial records and statements;
- Follow up receipt of periodic financial reports from woredas;
- Preparation of IFR and year-end financial statements accurately and timely as indicated in the Financial Management Manual of RLLP. This includes:
  - Accounting transaction processed at the Regional level,
  - Consolidation of the Woreda reports, and
- Ensure that quarterly reports are sent to the National Project Coordination Unit within the time stipulated in the financial manual;

III. Conducting monthly routines including:

- Ensuring monthly bank statements are received and reconciliations are prepared immediately;
- Preparing payrolls to contract RLLP employees;
- Ensuring the timely preparation of vouchers and payment to vendors and other payees;
- Ensuring that payment of tax obligations including income taxes, withholding taxes, VAT and cost sharing deduction to MoR;
- Reconciling of advances and prepayments;
- Preparing monthly reports;
- Cross referencing procurement files against relevant Payment vouchers on time;
- Making sure that all fixed assets acquired are provided with identification number and recorded on the fixed asset registers;
- Making sure that original copy of payment vouchers are detached from pad, attached with supporting documents and filed properly;

- Preparing a monthly status report as per the Financial Management Manual of RLLP; and
  - Conducting count of cash in hand balance at least once in a month to confirm existence of recorded cash in hand balance and other assets at least once in a year.
- IV. Planning and budgeting including:
- Participating in the annual budgeting process at the regional level and implementing the same when approved;
  - Ensuring that every payment is supported by budget and that there is no overspending;
  - Producing monthly budget utilization report;
  - Recording commitments payable at the end of the fiscal year; and
  - Ensuring that unused budgets left over at the end of the year are re-budgeted for the subsequent year.
- V. Ensuring that outstanding audit issues (as per audit findings) and recommendations are well taken and the appropriate corrective actions are taken; and report the action taken to the Regional Project Coordination Unit immediately after the date of receipt of the Audit report.
- VI. Facilitation and dissemination of financial management information including:
- Coordinating and supervising accounting and financial management related activities at regional, and woreda levels;
  - Facilitating the completion of annual audit of the project within the deadline;
  - Assisting the various teams visiting the public bodies or seeking information including External Auditors, Bank's implementation support missions and other higher level finance offices;
  - Ensuring timely replenishments are made to project implementing agencies and the required funds are received from National Project Coordination Unit; and
  - Supporting and supervising the regional Assistant Accountant and Woreda Accountant.
- VII. Networking (Having a strong working relationship) including:
- Having acquaintance with bank officers at regional level for follow-up on fund arrival and availability, advice, and bank statements;
  - Networking with the woreda offices in the Ethiopian Government structure and relevant sector offices within the public body;
  - Reading and keeping full understanding of Project Implementation Manual and Financial Management Manual; and
  - Liaising with the Government institutions and higher regional level officers and ensuring that accounting records are maintained and financial reports are prepared on schedule, delivered to the Government and to federal coordination unit as per the FM Manual.

VIII. Handing over report including:

- Handing over report including the action plan and status report as to the overall activities of finance before he leaves the office for leave more than 3 days; and
- Preparing comprehensive handover report when he/she resigns according to the handing over procedure indicated in the financial management manual.

IX. Providing training and coaching support to woreda accountants

X. Other RLLP financial management activities as directed by the Regional Finance Head or Project Coordinator.

**Deliverables**

Regional Financial Management Specialist submits monthly payroll, balance sheet, trial balance and progress report to the regional coordinator.

**Reporting Line/Communication**

The Regional Financial Management Specialist will report to Regional Project Coordinator and work closely with regional project implementing Bureaus, Woreda Finance Offices, and Senior Financial Management Specialist.

**Assistant Accountant**

The Assistant Accountant will be responsible for day-to-day accounting transaction and will work closely with project team and Regional Finance Case Team under the supervision of the Regional Financial Management specialist.

Specific responsibilities include:

I. Ensuring the availability of resources (inputs) including:

- Financial Management Manual and relevant project documents;
- Accounting documents like Payment Vouchers, Cash Receipt Vouchers and Journal Vouchers, Goods Receiving Vouchers, Store Issue Vouchers, and Goods Return Vouchers; Working formats like store control cards, bin cards and Fixed Assets registers;
- Keeping computers in a safe condition from virus and unauthorized access (and free from unnecessary interaction with external medias including flash disks and CDs;

II. Recording and reporting functions:

While his/her main duty is to provide support to team he/ she is also responsible to maintain books of accounts in accordance with RLLP Financial Management Manual at the regional level & support Woredas to have the same and accordingly, he/she is responsible to:

- Ensure that all lower level implementing agencies have installed the required FM



system acceptable to Development partners;

- Install, implement, and advise on accounts control, and other accounting system for the project;
- Maintains an up-to-date and reliable financial management system
- Prepare Check, petty cash voucher and check payment voucher and Journal vouchers for settlements and for debit and credit advices;
- Make adjusting entries;
- Reconcile general ledgers and subsidiary ledgers;
- Ensure transactions are coded and posted to their proper code;
- Monitor the performance of fund flow mechanisms of the Project and ensure that timely replenishments are made to project implementing agencies & the required funds are received from development partners & regional Governments;
- Ensures compliance of budgetary and internal control procedures;
- Ensures that payments are made as per the budget allocated for each project and expenditure category;
- Prepare explanations for major budget variances;
- Makes sure that all accounting information is made available to internal and external auditors and answers queries regarding accounting and financial records and statements;
- Follows up receipt of periodic financial reports from implementing Agencies;
- Preparation of IFR and year-end financial statements accurately and timely as indicated in the financial management manual of RLLP program. This includes
- Accounting transaction processed at the federal level and
- Consolidating of the implementing entities reports;
- Ensures that quarterly reports are sent to the Federal Project Coordination financial management specialist Unit within the time stipulated on the FM manual;
- Facilitates the distribution of financial reports from Woreda & Region to Federal.

III. Conducting monthly routines including:

- Follow-up for status of accounts and providing them support through telephone and in person when deemed necessary;
- Conduct count of cash in hand balance at least once a month to confirm existence of recorded cash in hand balance and other assets at least once in a year.

IV. Planning and budgeting including:

- Ensure that every payment is supported by budget and that there is no overspending;
- Ensuring that unused budgets at the federal level which are left over at the end of the year are re-budgeted for the subsequent year;
- Reviews monthly budget utilization report of federal for accuracy and further strengthening.

V. Assists the project in implementing audit recommendations and in taking appropriate corrective actions are taken and of reporting of the action taken to the regional financial management specialist immediately after the date of receipt of the Audit report.

VI. Facilitation and dissemination of financial management information including:

- Facilitates the completion of annual audit of project financial statements within the deadline;
- The assistant accountant is responsible to assist the various teams visiting the public bodies or seeking information including External Auditors, Rapid Response Team, regional and federal information centers, higher level finance offices;
- Ensures that timely replenishments are made to project implementing agencies and the required funds are received from National Coordination Unit;
- Support and supervise the Region Financial Management Specialist and Woreda Accountant respectively

VII. Networking (Having a strong working relationship) including:

- Acquaintance with bank officers for follow-up of fund arrival and availability, advice and bank statements;
- Networking with the Federal and Woreda and regional offices in the Ethiopian Government structure and relevant sector offices within the public body;
- Ensure reading and understanding of Project Implementation Manual and Financial Management Manual

VIII. Handing over report including:

- Handing over report including the action plan and status report as to the overall activities of finance before he leaves the office for leave more than 3 days;
- Comprehensive handover report when he/she resign according to the handing over procedure indicated in the financial management manual of RLLP.

IX. Other RLLP financial management activities as directed by the Regional Financial Management Specialist or Project coordinator

**Deliverables**

The Assistant Accountant submits monthly payroll, balance sheet, trial balance, and progress reports to the Regional Financial Management Specialist.

**Reporting Line/Communication**

The Assistant Accountant reports to Regional Financial Management Specialist and works closely with Regional Finance Case Team, regional project implementing Bureaus and Woreda Finance Office.

*The FM unit in RLLP Woreda office of Finance is responsible for the following tasks:*

- Open new birr bank account for the project into which transfers from BoA is deposited.
- Maintain the project financial records.
- Involve in the planning and budgeting of the project activities.
- Utilize the project fund for planned activities.
- Send financial reports to BoA.

**Woreda Accountant**

The Woreda Accountant will be responsible for the day-to-day maintenance of the project books of account, records, and the entire data capturing function and accounting and will work closely with the project team under the supervision of the regional financial management specialists and Assistant Accountant.

Specific responsibilities include:

**I. Ensuring the availability of resources (inputs) including:**

- Financial Management Manual;
- Accountable for documents like Payment Vouchers, Cash Receipt Vouchers and Journal Vouchers, Goods Receiving Vouchers, Goods/Store Issue Vouchers, and Goods Return Vouchers; Working formats like store control cards, bin cards and Fixed Assets registers;
- Keeping computers in a safe conditions from virus and unauthorized access (and free from unnecessary interaction with external medias including flash disks and CDs); and

**II. Recording and reporting functions including maintaining books of accounts in accordance with RLLP Financial Management Manual and accordingly, he/she is responsible to:**

- Install, implement and advise on accounts control and other accounting system for the project;

- Maintain an up-to-date and reliable financial management system;
- Monitor budget performance;
- Maintain opening balances in the new fiscal year;
- Prepare Check, Petty cash voucher, Check Payment voucher, and also Journal voucher for settlement, and debit and credit advices;
- Make adjustments and closing entries;
- Reconcile general ledgers and subsidiary ledgers;
- Ensure transactions are posted to their proper code;
- Ensure that payments are made as per the budget allocated for each project and expenditure category;
- Prepare explanations for major budget variances;
- Monitor the performance of fund flow mechanisms of the Project and ensure that timely replenishments are made to project implementing agencies & the required funds are received from regional project coordination unit;
- Ensure compliance of budgetary and internal control procedures;
- Follow up the submission of replenishment requests, monthly bank reconciliation and reports from the project implementing agencies;
- Consolidate reports of project implementing agencies & submit replenishment request;
- Make sure that all accounting information is made available to internal and external auditors and answer queries regarding accounting and financial records and statements;
- Preparation of IFR and year-end financial statements accurately and timely as indicated in the Financial Management Manual of RLLP;
- Ensure that monthly and quarterly reports are sent to the Regional Coordination Unit within the time stipulated in the financial manual;

### **III. Conducting monthly routines including:**

- Ensuring monthly bank statements are received and reconciliations are prepared immediately;
- Preparing payrolls to contract RLLP employees;
- Ensuring the timely preparation of vouchers and payment to Vendors and other payees;
- Ensuring that payment of tax obligations including income taxes, withholding taxes, VAT and cost sharing deduction to MoR;
- Reconciling of advances and prepayments;
- Preparing monthly reports;
- Making sure that all fixed assets acquired are provided with identification number and recorded on the fixed asset registers;
- Making sure that original copy of payment vouchers are detached from pad, attached with supporting documents and filed properly;

- Preparing a monthly status report as per the Financial Management Manual of RLLP; and
- Conducting count of cash in hand balance at least once in a month to confirm existence of recorded cash in hand balance and other assets at least once in a year.

**IV. Planning and budgeting including:**

- Participating in the annual budgeting process at wereda level and implementing the same when approved;
- Ensuring that every payment is supported by budget and that there is no overspending;
- Producing monthly budget utilization report;
- Recording commitments payable at the end of the fiscal year; and
- Ensuring that unused budgets left over at the end of the year are re-budgeted for the subsequent year.

- V. Ensuring that outstanding audit issues (as per audit findings) and recommendations at the woreda are well taken and the appropriate corrective actions are taken; and report the action taken to the Regional Financial Management Specialist immediately after the date of receipt of the Audit report.

**VI. Facilitation and dissemination of financial management information including:**

- Coordinating and supervising accounting and financial management related activities at woreda levels;
- Facilitating the completion of annual audit of project financial statements within the deadline;
- Assisting the various teams visiting the public bodies or seeking information including External Auditors, Bank's implementation support missions and other higher level finance offices;
- Ensuring timely replenishments are made from regional project coordination unit.

**VII. Networking (Having a strong working relationship) including:**

- Having acquaintance with bank officers at regional level for follow-up on fund arrival and availability, advice, and bank statements;
- Networking with the zonal and regional offices in the Ethiopian Government structure and relevant sector offices within the public body;
- Reading and keeping full understanding of Project Implementation Manual and Financial Management Manual; and
- Liaising with the Government institutions and higher regional level officers and ensuring that accounting records are maintained and financial reports are prepared on schedule, delivered to the region as per the FM Manual.

**VIII. Handing over report including:**

- Handing over report including the action plan and status report as to the overall activities of finance before he leaves the office for leave more than 3 days; and
- Preparing comprehensive handover report when he/she resign according to the handing over procedure indicated in the financial management manual of RLLP.

IX. Other financial management activities as directed by the Regional Financial Management Specialist and Woreda office of finance.

#### **Deliverables**

Woreda Accountant submits monthly progress report to the regional FM specialist.

#### **Reporting Line/Communication**

The Woreda Accountant will report to Regional Financial management Specialist and work closely with regional project implementing Bureaus, and Woreda Finance Offices.

### **3. THE CHART OF ACCOUNTS DESIGNING AND ACCOUNTS REPORTING**

#### **3.1. Chart of accounts**

A chart of accounts is a system of coding used by a financial management system to identify and classify financial transactions and events. The chart of accounts is exactly the same at the federal, regional and woreda levels to record revenues, expenditures, transfers, assets, liabilities and net assets/equity. As the FM arrangements for the RLLP follows Channel II fund flow arrangement of the government and the implementing agencies are government units, the RLLP chart of account is designed by category, financier and component with government chart of accounts being the base.

#### **3.2. Designing chart of accounts structure**

##### ***Reporting features***

The chart of accounts is the base for generating the financial reports required and should reflect the reporting features. Source of funds, implementing/reporting agencies, project components and sub-components, types of accounts, and expenditure categories are features required to be reflected in the reports. The designing of the chart of accounts takes care of these features.

##### ***Source of funds***

As stated in the PAD, and the restructuring Project Papers the RLLP project is financed by IDA, the Norwegian Ministry of Foreign Affairs, GAC and the counterpart financing of the Government of Ethiopia. The accounting system should be capable of producing financial reports by each financier. This is done by assigning Job *ID* for each financier as follows:

Financier	Job ID
<b>IDA</b>	<b>01</b>
<b>Government</b>	<b>02</b>
<b>Trust Fund (MDTF)</b>	<b>03</b>

Figure 1. Job ID by financier

### ***Reporting Centers***

The reporting centers of the project are of three levels: federal, regional and woreda levels and are reflected in the code structure of the chart of accounts. At federal level, the reporting center (implementing agency) is the PCU at MoA, while the PCU at regional BoAs of Amhara, Beneshangul-Gumuz, Gambella, Oromia, Southern Nations, Nationalities and People (SNNP), Sidama and Tigray national regional states are the reporting centers at region level. The centers at woreda level are SPU at WoF. For the sake of familiarity and simplicity, the codes used by the government are used as follows:

Reporting Center	Code
MoA- Federal	0
BoA - Tigray	1
BoA _Amahara	2
BoA- Oromia	3
BoA- Benishangul Gumuz	4
BoA - SNNPR	5
BoA- Gambella	6
RoA Sidaama	7

Figure 2. Reporting center

The code for woredas is also a two digit code next to the regional code.

### ***Project Components and Sub-Components***

The RLLP has four components with a total of eight sub-components listed under each component as follows:

- **Component 1:** Green Infrastructure and Resilient Livelihoods
  - **Sub-Component 1.1:** Land Restoration and Watershed Management
  - **Sub-Component 1.2:** Climate-Smart Agriculture
  - **Sub-Component 1.3:** Livelihood Diversification and Connection to Value Chains
- **Component 2:** Investing in Institutions and Information for Resilience

- **Sub-Component 2.1:**Capacity Building, Information Modernization and Policy Development
- **Sub-Component 2.2:**Impact Evaluation, Knowledge Management and Communication
- **Component 3:** Rural Land Administration, Certification and Land Use;
  - **Sub-Component 3.1:** Second Level Landholding Certification
  - **Sub-Component 3.2:** Participatory Local Land Use Planning and Development Control
  - **Sub-Component 3.3:**National Rural Land Administration Information System
- **Component 4:** Project Management and Reporting

As the financial reports are required to reflect expenditures by components and sub-components, the code structure is made to reflect the components and sub-components of the project as follows:

<b>Component/Sub Component</b>	<b>Code</b>
<b>Component 1</b>	<b>1X</b>
<b>Sub-Component 1.1</b>	<b>11</b>
<b>Sub-Component 1.2</b>	<b>12</b>
<b>Sub-Component 1.3</b>	<b>13</b>
<b>Component 2</b>	<b>2X</b>
<b>Sub-Component 2.1</b>	<b>21</b>
<b>Sub-Component 2.2</b>	<b>22</b>
<b>Component 3</b>	<b>3X</b>
<b>Sub-Component 3.1</b>	<b>31</b>
<b>Sub-Component 3.2</b>	<b>32</b>
<b>Sub-Component 3.3</b>	<b>33</b>
<b>Component 4</b>	<b>4X</b>

Figure 3. Component/sub component

***Types of accounts***

Accounting is a system which identifies, classifies, analyzes and summarizes financial transactions or events. The transactions are identified and classified into account types such as revenues, expenditures, assets, liabilities and net assets/equity or fund accounts. Classification of transactions in their natures or account types is basic in the code structure of chart of accounts and the government chart of accounts is fully adopted for this project. The Government Chart of Accounts is annexed (*Annex-I*).

***Expenditure by Categories***

The Interim Financial Report requires the report of expenditures by components as well as by categories. The categories are Goods, Works, Non-consulting services, Consultants services, Operating Costs and Training. To capture these expenditure categories from the accounting system, codes are assigned to each category which is represented in the chart of accounts.



<u>Expenditure Category</u>	<u>Code</u>
Goods	1
Works	2
Non-consulting services	3
Consultants services	4
Operating Costs	5
Training	6

Figure 4. Expenditure category

### 3.3. Code structure of chart of accounts

Each feature of the project affecting the chart of accounts has been considered in designing the code structure of the chart of accounts as discussed above. Accordingly, the code structure of the chart of accounts of the project is depicted as follows:

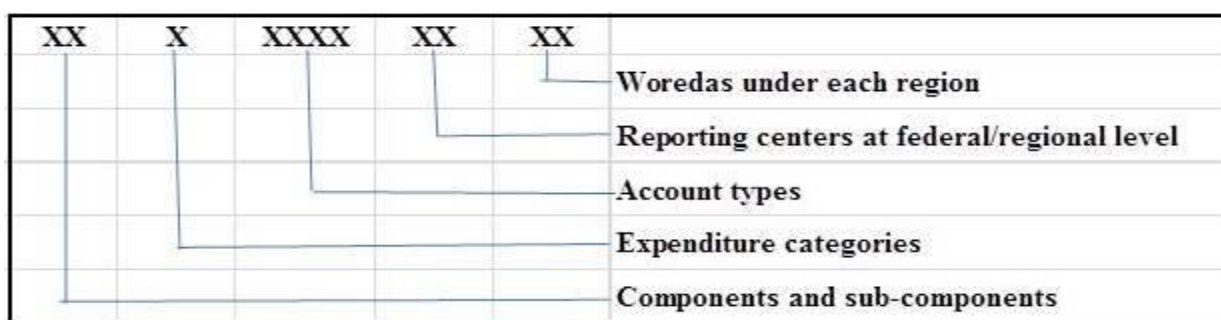


Figure 5. Code structure

Hence, the coding structure begins with components and sub-components which are coded in two digits followed by a single digit code, denoting the six cost/expenditure categories. The next four digit codes represent the account types in which the Government Chart of Accounts is directly adopted. The codes next to account types represent the implementing/reporting entities at federal and regional levels followed by the codes of woredas. The set of codes should be separated with "-" hyphen and the total number of characters used (including the hyphens) is 15, which is the maximum number of digit Peachtree Accounting Software (*Peachtree Quantum 2010-Accountants' Edition*) accommodates.

There are two types of ledgers maintained in the accounting system:

- **General ledgers and**
- **Subsidiary ledgers**

All transactions recorded in the transaction register from the source documents will be posted in to general and subsidiary ledger.

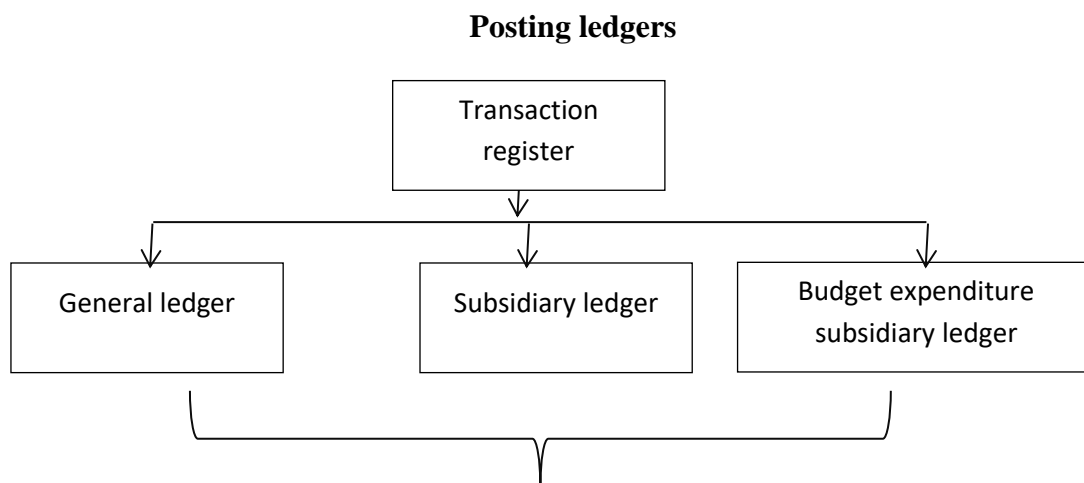


Figure 6 Transaction ledgers

## Ledgers

### General ledger

A ledger is maintained for every account code recorded in the register. Every amount that is entered either as a debit or credit on the register is also entered to the corresponding debit or credit column of the appropriate ledger. The aggregate of all such ledger is the general ledger.

The general ledger is a set of self-balancing ledger because at all time the total debits and the total credits recorded in the general ledger are equal.

### Purpose

The general ledger is maintained to classify information recorded in the register by respective account codes. All transaction amounts recorded in the register are entered on ledger in the general ledger. The balance for all individual accounts is maintained in the general ledger.

The general ledger:

- Classify the transactions in to accounts
- Simplifies and facilitate the report generation process, and
- Serves as a basis to prove that the net cumulative debit and credit balance of all accounts are equal.

**Month end** at the end of each month the total cumulative balances of all debits and credits on all ledgers in the General ledger must be equal.

**Verification of errors** where the net cumulative debits and credits recorded on all ledger are not equal the following should be verified to balance the general ledger:

- An incorrect amount is transcribed into the ledger from the register
- An amount is incorrectly posted into the credit column of a ledger in the general ledger instead of into the debit column, and vice versa.
- Only one side (either debit or credit) of a transaction is posted into the ledger is not posted into the general ledger.
- An arithmetical error has occurred in the computation of the net debit or credit balance of a ledger in the general ledger
- Permanent of a ledger in the general ledger
- Permanent account balances are not carried forward correctly from the previous year.

### **Subsidiary ledgers**

A subsidiary ledger is a ledger that is sub-set of the general ledger and contains transaction details of each control in the general ledger. Any account in the general ledger that requires more detail than simply the total account balance becomes a control account with a subsidiary ledger.

The criteria to determine whether an account requires more detail are:

- Monthly reporting requirements
- Management of the account balance

The woreda is required to report expenditures by activities, components and sub-components at the level of each woreda by source of finance managed by it. Expenditure control accounts are maintained in the general ledger for each item of expenditure and type of budget. The control accounts provide information on total expenditures by item of expenditure and type of budget for the woreda.

In order to track and report expenditure at the level of each woreda managed by the project unit, a subsidiary ledger is maintained for each expenditure control account by Woreda. Transactions recorded in the transaction register posted to budget/expenditure a ledger opened for each woreda by item of expenditure and source of finance.

Expenditure account updates the expenditure record for the budget/expenditure subsidiary ledger from the transactions recorded and prepares expenditure report for each activities notified budget. Accounts in the subsidiary ledger provide information on total expenditures by types of budget and item of expenditure for each activity managed by the woreda.

### **3.4. Accounts recording and reporting**

Once the chart of accounts coding is done, the next task is accounts recording. The recording could be made to the system either directly from primary documents such as receipts, payment vouchers, or via journal vouchers summarizing these receipts and payment vouchers. In cases where posting is made directly from primary documents (which is a preferred way), journal

vouchers are used to record non-cash and other transactions which do not require preparation of receipt or payment vouchers.

Generally, the accounting process involves the following steps:

Step No.	Activity
Step 1	<b>Preparation:</b> Preparation of transaction documents, vouchers and coding.
Step 2	<b>Recording:</b> Recording transactions in the appropriate menus of the computer.
Step 3	<b>Posting:</b> In computerized system, once transactions are entered to the computer (recorded), the system posts them automatically.
Step 4	<b>Report Generation/Preparation:</b> Reports are generated by selecting the report file and by specifying the period etc.

Figure 7. Accounting process

The financial statements should be prepared and filled monthly, thereby facilitating the preparation of quarterly, semi-annual and annual reports. The standard reports include balance sheet and statement of income and expenditure along with schedules supporting them.

## 4. PROCEDURES FOR ACCESSING PROCEEDS AND DISBURSEMENTS

### 4.1. Funds flow arrangement

Development partner funds including the Bank’s funds (IDA and MDTFs) are deposited into a single pooled USD currency “designated Account” at National Bank of Ethiopia on terms and conditions acceptable to IDA. Limit of the initial advance to the designated account are stated in the disbursement letter. Then resources will be transferred to pooled Birr account to be held by MoA. MoA tracks the allocation among the various partners (IDA, MDTFs, government contributions) using appropriate ledger accounts. From the pooled local currency account, MoA transfers funds to the local currency accounts opened by the regions and from regions to woredas as appropriate. The fund flow to each implementing entity is made according to their respective AWP & B. Any implementing entity which does not report on utilization of advances in timely manner will not be provided with additional resources.

Funds flow of the project to the various project institutions which handling project funds, are presented in the diagram below.

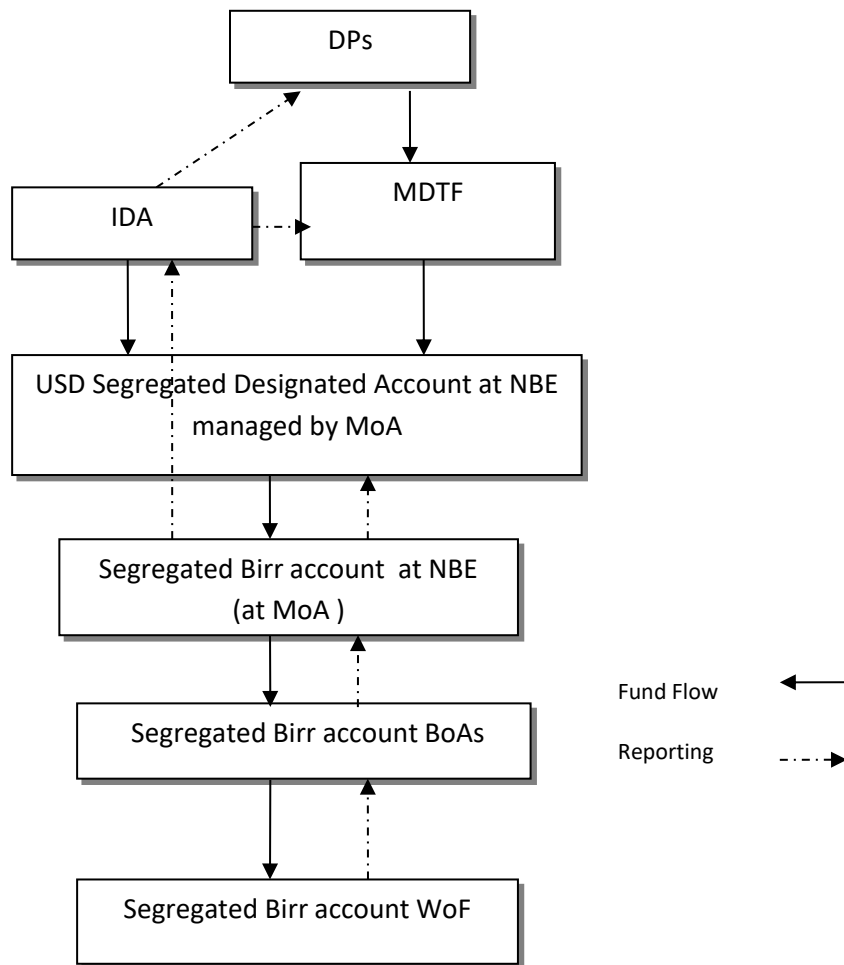


Figure 8. Fund flow and reporting

## 4.2. Disbursement Methods

Disbursements will be made in accordance with procedures and policies outlined in the DPs Disbursement Handbook. One or a combination of the following disbursement methods could be applied to RLLP:

- (a) Advance to Designated Account,
- (b) Direct payment,
- (c) Special commitment, and
- (d) Reimbursement.

The Designated Account disbursement method uses quarterly IFRs while the other methods do not.

### 4.2.1. Advance to Designated Account

Generally, the report based disbursement would be followed for the project, i.e., based on quarterly Interim Financial Reports (IFRs). Disbursement will be made quarterly and would cover cash requirements based on the six months' cash forecasts contained in the IFRs. The

Bank may advance loan proceeds into a Special/Designated Account of the project to finance eligible expenditures incurred and for which supporting documents will be provided at a later date.

#### **4.2.2. Direct payment**

These refer to payments to a third party (e.g., contractor, supplier, and consultant) for the cost of project expenditures. Documentation is provided showing that such expenditures have been incurred at the time a request for payment to the third party is made.

#### **4.2.3. Reimbursement**

These are payments to the borrower for the cost of project expenditures. The borrower provides documentation showing that such expenditures have been incurred and paid from its own resources at the time a request for payment is made.

#### **4.2.4. Special Commitment**

These denote payments to a financial institution for the cost of project expenditures covered by a special commitment. A special commitment is an irrevocable commitment, such as letter of credit, entered into in writing to pay such amounts notwithstanding any subsequent suspension or cancellation.

### **4.3. Accounting Procedures for disbursements**

#### **i) Advance to Designated/Special Account**

When funds are transferred to the Designated/Special Account, cash receipt voucher should be issued and Designated/Special Account is debited and DPs revenue is credited for the amount received in Birr. Disbursements in foreign currency shall be translated to equivalent local currency (Birr) at the prevailing exchange rate. Each DPs fund is identified by the job id number assigned to it.

The cash receipt voucher number will be quoted as a reference for the transaction while the withdrawal application and bank credit advice are attached to it. Fund transfers from the Designated Account to the Special Account should be recorded by debiting the Special Account and crediting the Designated Account.

Amounts are transferred from the USD/Designated account to the Birr/Special account. It is advisable to transfer expenditure requirement for one month only, as the exchange rate has a trend of increasing. The monthly needs are determined by the monthly cash flow requirement schedules prepared by the Project Senior Financial Management Specialist.

An appropriate record of payments through the Designated/Special Account to foreign

suppliers of goods and services shall also be maintained. The following additional information shall be provided to the World Bank when requesting withdrawals.

- Designated Account (DA) activity statement
- Designated Account Bank statement
- Summary statement of DA expenditures subject to prior review with all the necessary supporting documentation including contractors/consultant name, nationality, and amount disbursed under each contract etc.
- Summary statement not subject to prior review,
- Breakdown of aggregate disbursement by disbursement category and disbursement percentages,
- Designated/Special Account reconciliation statement
- Forecast of future cash requirements.

**ii) Direct payment**

Direct payments could be made by IDA based on requests presented to it using the prescribed forms and all required attachments. When evidences are received from IDA for direct payment, the following accounting actions will be taken:

Journal voucher is prepared and supporting documents are attached to it. Entry is passed as follows:

If goods or services are received,

Debit: Expenditure Account

Credit: DPs revenue

If goods or services are not received,

Debit: Receivable Account

Credit: DPs revenue

**iii) Special Commitment**

Special commitments are undertakings to pay in the future a limited amount within a specified period. The commitment could be for *letters of credit* relating to import of goods. When evidences are received for disbursement made for the commitment, the accounting treatments are the same with that of direct payments.

Journal voucher is prepared and supporting documents are attached to it. Entry is passed as follows:

If goods or services are received,

Debit: Expenditure Account

Credit: DPs revenue

If goods or services are not received,

Debit: Receivable Account

Credit: DPs revenue

**iv) Reimbursement**

The other form of disbursement is reimbursement whereby expenditures are incurred and paid from its own resources at the time a request for disbursement is made. The accounting actions required for disbursements received for reimbursements are:

Obtain and file the bank credit advice and issue cash receipt voucher for reimbursement amount by clearly stating that the amount is reimbursement.

Pass the following entry:

Debit: Expenditure Account

Credit: DPs revenue

**Disbursement Register**

- The Project shall maintain a Disbursement Register at MoA RLLP Coordination Unit
- The Disbursement Register shall be used to record and serially number withdrawal applications whether they are for direct payment, reimbursement or Designated/Special Account replenishment.
- The numbering should be in strict numerical sequence and necessary columns filled as when the applications are sent to the development partners.
- As soon as the disbursement advice note for direct payment is received from the development partner, necessary columns in the Disbursement Register shall be completed.

**The Disbursement Register shall provide the following information:**

- The initial loan amount,
- The exchange rate on the initial loan amount,
- The Ethiopia Birr equivalent,
- The exchange rate of any payment by the DPs of any application,
- Details of services being paid for,
- The initial category allocations as per the agreement,
- Withdrawals on the loan/credit and on each category and running balances in Ethiopia Birr and the currency of the agreement.

The Disbursement Register should be reconciled to the statement from the DPs periodically.

In addition to the Disbursement Register, the Project should have:

- Files for copies of the withdrawal applications which should be filed in numerical



order.

- File for payment advices and statements from the development partner.

## 5. ACCOUNTING AND INTERNAL CONTROL

### 5.1. Accounting

Accounting is the basic set of principles and rules employed by the accounting system to determine when and how to record transactions. The government accounting system employs a modified cash basis of accounting at the federal, regional and woreda levels. The modified cash basis of accounting means that cash basis of accounting applies except for recognition of certain defined items. The key considerations used to determine which items to include or exclude in the modified cash basis of accounting are the availability, complexity, practicality and efficiency with which information can be obtained to include other assets and liabilities within the accounting system and the need to keep the basis of accounting consistent with the government's budgeting system.

Consistent with the government accounting system, the RLLP accounting shall employ *modified cash basis of accounting* in that the cash basis of accounting applies except for recognition of the following transactions:

- Revenue and expenditure are recognized when aid in kind is received
- Expenditure is recognized:
  - a. When payroll is processed, based on payroll and attendance sheet
  - b. At the end of the year when a grace period payable is recognized.
  - c. When goods are received or services are rendered.
- Intergovernmental transfers are recognized in the absence of actual cash movement.
- Transactions resulting from salary withholdings are recognized in the absence of actual cash movement.

#### Accounting Cycle

The accounting cycle for the RLLP passes through the following processes:

- Budgeting expenditures,
- Capturing transactions in source documents,
- Journalizing entries to the transaction register,
- Posting to general and subsidiary ledgers, and
- Preparation of monthly financial reports, quarterly IFRs, and annual financial statements.

#### Accounts Recording

Based on the actual source document such as bank and cash payment vouchers, receipt vouchers and journal vouchers, the project transactions should be recorded into *Peachtree accounting software* at Federal, Regional and at woreda level.

## **5.2. Proceeds**

MoA opens a USD Designated Account for RLLP at the National Bank of Ethiopia (NBE). In addition, it opens Birr account for funds from the DPs' designated accounts to be converted and deposited.

The Special Account is used to cover the DP's share of eligible expenditures. The DPs will replenish this special account based on IFRs. Conditions required to qualify for the report-based replenishment are indicated under the reports section of this manual.

Any two of the four officials shall operate the bank accounts and one of the signatories should be from finance (accounts). Implementing entities will be advanced fund sufficient for six months activities initially; and they will be refunded on replenishment basis thereafter. Fund transfers should always be made into the official bank accounts of the implementing entities (regions and woredas). It is strictly forbidden to utilize this fund for any other project even temporarily.

### **Cash Receipt**

In the government accounting system of cash control, the cashier's function and the accountant's function are distinct. Cash consists of currency and checks. The cashier's function is to maintain and control cash in the safe. The accountant's function is to maintain and control cash at bank.

Only the cashier can receive currency and checks (including cash payment orders) and make disbursements in currency. The cashier should count and reconcile ending cash on hand to the cashbook daily.

When cash is received from sources, the cashier should:

- Issue a cash receipt,
- Segregate the cash received from cash available to disburse,
- Deposit the cash received intact in the bank as soon as practical, usually daily, and
- Surrender copies of all cash receipts and a copy of the bank deposit slip to the accountant.

The accountant's responsibility for cash is to maintain a record of the total cash position of the entity, including cash at the bank and cash in the safe. The accountant records cash movements that flow through the cashier and cash movements that flow directly through the bank. Direct cash movements through the bank normally include bank transfers and charges, checks written, and any other transactions that do not require cash handling by the cashier.

### **Recording of Cash Receipts**

- a) For all cash received either through checks or cash, MoA shall acknowledge the receipt by issuing cash receipt voucher. Cash Receipt Voucher is prepared in three copies and the original is passed to the one who effected the payment. The first copy and the bank credit advice shall

be used to pass the accounting entry and the second copy shall be kept in the receipt pad. The cashier will prepare receipts for all cash and checks received.

- b) For deposits by external bodies or transfers into the Project's bank account, the RLLP Accountant will record using the credit advice issued by the bank. The cashier will raise receipts only for the actual cash she or he receives and not for deposits or transfers in the bank account. This will facilitate an easy reference to all receipts and is consistent with Government Accounting procedures.

### **Internal Control for Cash Receipts**

#### **Documentation**

- a) Cash receipt pads shall be issued and used in their numerical sequence.
- b) The RLLP accountant shall maintain a register that indicates the date on which the pads were received, the date the pads were issued to the cashier for use and the date the used pads are received by him when the pads are fully utilized. The range of receipt numbers of the issued pads must also be mentioned in the register unless they can use the government receipt vouchers.

#### **General Control Principles**

- a) The Cashier shall issue pre-numbered and printed cash receipt for all collections made on behalf of the RLLP.
- b) Cash collected shall be deposited intact in bank on a daily basis or in the morning of next day at the latest.

## **5.3. Payments**

### **Payments from the Project Bank account**

The type of disbursement shall be by check or through bank transfer. If disbursement is to be made through bank transfer, the name of the bank and the account number shall be specified in the agreement or if there is no bank account then, it shall be arranged immediately. Bank transfer costs shall be borne by the payee if the payee requests such transfers and the net amount after deducting the transfer cost shall be transferred. However, bank transfer costs shall be borne by the project if the project has preference to effect payment using bank transfers instead of effecting payments by check. Copy of the letter authorizing the bank to transfer the disbursement, shall also be kept with the transfer document. If payment is by check, a bank payment voucher shall be prepared and the recipient has to acknowledge the receipt with an official receipt voucher, a copy of which shall be kept with the disbursement file cross-referenced to the payment voucher. Any withholding tax shall be deducted as per the law. If the individual/firm is a contractor, a supplier, a service provider or a consultant, he should produce a Tax Identification Number.

This shall be ascertained at the time of signing contracts or issuing a purchase order.

### **Payments through Letter of Credit**

When L/C is opened and when the L/C is finally settled after shipment, the accounting treatment follows Government Accounting Procedures as per modified Cash Basis Accounting.

When L/C is opened

Debit: Letter of Credit (Receivable Account)

Credit: Cash at Bank

When L/C is closed

Debit: Expenditure account

Credit: Letter of Credit

### **Payment by check**

#### **Checking Payment Voucher before Authorization**

All vouchers must be checked to ensure that:

- There is an approved payment request or invoice.
- Vouchers are complete and arithmetically correct.
- The coding block is properly completed with an appropriate chart of accounts coding structure.
- The account code given corresponds with details of goods or service rendered.
- Supporting documents such as Invoices, Purchase Order, Goods Received Notes, etc. are attached.
- Bank payment vouchers and supporting documentation should be stamped 'PAID' and the BPV No, Signature and date inserted by the person preparing the check.
- Adequate fund/budget is available to cover the payment.

The payment voucher is then prepared and payment is effected for the intended purpose.

#### **General Internal Control Functions to be observed for check**

- a) Blank check is not supposed to be signed;
- b) Check is not to be made out to 'SELF' or 'CASH';
- c) Checks are to be crossed or the amounts shall be transferred to the beneficiary's bank account, as much as possible;
- d) Check stubs are to be completed with the date, name of payee, amount and initials of authorized officials;
- e) When there is an error in the preparation of a check, the check should be cancelled by writing 'CANCELLED' diagonally across the face of the check;
- f) The cancelled check is then retained in the check book stapled to the check stub.

### **Documentation**

- a) All bank payments should be made using pre-numbered Check Payment Vouchers
- b) Payments to organizations, suppliers and contractors shall be supported with the required documents such as receipts, invoices, contracts, work completion certificates and goods or materials receiving reports.
- c) Check register book should be maintained and check pads shall be issued for use only upon signature on a register.
- d) Check stubs and VOID checks should be kept filed in their date sequence for future reference.
- e) A payment voucher will then be prepared either cash check or bank transfer letter is prepared for payment.
- f) All supporting documents attached to the payment voucher shall be stamped by separate rubber stamping labelled as '*RLLP - PAID*' on the documents indicating the date of payment and voucher number.
- g) All payment vouchers need to be prepared in duplicate and account codes shall be assigned in the spaces provided.

### **Custody**

- a) Check books should be kept safely under lock.
- b) Bank Payment Vouchers and unused check pads are issued only against signature on the register and upon return of the used pads.

### **Authorization**

- a) Upon receipt of a payment request, checking is made for the required authorization and the completeness of the supporting documentation.
- b) After a payment voucher has been prepared and signed by the one who prepared it, then it is submitted for approval and authorization to higher authorities as per authorization limits assigned.
- c) The official signatories will sign the check and initial the check stub after checking the completeness of the attached supporting documents (payment request, invoices, Purchase Orders, Goods Received Notes, etc.)

### **Bank Transfers**

- Bank transfers may be made using letter requests to the bank by mentioning the name of the beneficiary and the name of the bank branch and the bank account (if required).
- The bank notifies the payment action for the requests by sending debit advices specifying the amount charged to the Project Bank account.
- The accountant should check the debit advice against the letter request. And process the transaction using the *Payment window* of Peachtree Accounting.
- Letter requests are to be approved by check signatories.

### **Bank Reconciliation**

- All bank accounts must be reconciled monthly using Peachtree accounting software.
- Reconciliation should be made as soon as the statements are received from bank.
- Bank reconciliations must be printed and checked for correctness by reference to the source documents of items reported as outstanding.
- Reconciling items should be checked for correctness and acted upon accordingly.  
A statement is then drawn up starting with the balance as per the bank statement adding un-reconciled credit items in the ledger and subtracting the outstanding checks to end up with the balance in the ledger. All outstanding items older than two months shall be investigated and cleared. However, outstanding deposits should be cleared immediately.

### **Petty Cash Fund**

- Petty cash should be kept on the imprest system whereby the cashier is advanced a float of a fixed amount, which will always be represented by cash or vouchers.
- The amount of the petty cash float should be reasonable in relation to requirements and should not exceed about one month's normal expenditure but the ceiling is birr 50,000.
- Only payments of up to Br. 5,000 may be made from petty cash.
- Petty cashiers should not have access to the accounting records or check books other than petty cash vouchers, petty cash report and request forms (where cashiers act as petty cashiers then they would also have access to cash receipts, bank deposit slip.)
- Payments from petty cash must be approved by the responsible person. Petty cash payment vouchers and supporting documents must be stamped by separate rubber stamping labelled as '*RLLP- PAID*' on the documents at the time of payment.
- Periodic and surprise cash counts should be made.

## **5.4. Fixed Assets**

Fixed assets are physical items that are expected to have a useful life of longer than one year and have a certain minimum value. Fixed assets are acquired either through purchase or construction or donation. As fixed assets are charged to expense up on purchase, no depreciation shall be charged on the fixed assets. The project should maintain a fixed asset register for items:

- with life expectancy of more than 1 year, and
- Having a value of Birr 2000 and above.

### **Fixed Asset Register**

Fixed assets register which keeps track of all assets acquired under the Project shall be maintained at each implementing agency. The register shall include all necessary information about the assets including:

- Fixed asset description
- Supplier's name
- Unit of measurement
- Serial number
- Document reference number (PV, JV), Goods Receiving Note (Model 19)
- Invoice No. and invoice date
- Original cost and related expenditures
- Identification No., Plate No. (for vehicles & cycles)
- Name of Custodian
- Location, etc., of the assets. Moreover, identification numbers should be affixed on fixed assets with ink or material of permanent nature.

Another consideration in fixed asset management of significance is **Physical Verification**. Fixed assets should be physically checked periodically in order to make sure that the assets exist in good condition. All inventories of fixed assets shall be physically verified against records at least annually. Any identified difference should be communicated to management for decision and action.

## **5.5. Materials and Supplies**

Purchase of materials is recorded only as expenditure based on modified cash basis of accounting. Nevertheless, even under cash basis of accounting, movement of materials shall be recorded in stock cards and their movements shall be controlled.

### **Stock and Other Items in Transit**

These are items purchased and are usually kept in stock. They are issued out of store and are consumed gradually. For such items, stock cards are maintained. Where maintaining a store for project consumable materials is impractical, the materials could be delivered direct to the users and in such cases keeping stock records may not be necessary.

In cases where store for the project materials is available, the following steps must be taken:

- The storekeeper should count the items and complete a Goods Received Note (**Model 19**) and forward a copy to the Procurement Specialist and also to the RLLP Finance.
- The RLLP Finance should not settle a credit invoice without receiving a copy of the Goods Received Note from the storekeeper/users confirming that the goods have been received and are satisfactory.
- Materials shall be issued using store issue vouchers.

## **5.6. Procurement of Goods and Services**

Disbursements to be effected for procurement of goods and services shall be executed according to the Government and World Bank Procurement Guideline and Rules. The following issues should be considered while conducting procurement:

- Purchase requisition is properly filled and authorized;
- The thresholds for prior approval and application of the relevant procurement type is applied;
- The related purchase procedure is applied;
- Analysis of offers, minutes and recommendations of the purchasing committee are available and are authentic;
- Authorization of the recommendation by the designated official;
- It is in line with relevant terms of the credit agreement;
- It is in accordance with the relevant sections of the procurement contract.

### **Disbursements Related to Contract Works (Maintenance)**

The RLLP Finance shall keep a copy of the contract document. The contract payment conditions and terms shall be available and shall be verified against the disbursement. When a request for payment is lodged the responsible officer reviews the payment request and passes it for payment with his/her recommendations. Payment to the contractor shall then be processed having considered the following points.

- a) Total Contract Value and any additional contract variations accepted.
- b) Total Value of Work Done.
- c) Deduction for Advance Payment
- d) Retention, if any.
- e) Other Deductions.
- f) The payment = b - (c+d+e).

### **Variations in Contract Works**

- a) The concerned officer should verify quantity variance related to project implementation.
- b) Price variance is not to be considered regarding contracted project unless such variation clauses are included in the contract.
- c) The MoA Project Unit shall approve variation orders in advance if and when required.

## **5.7. Payroll & Per Diem**

### **Internal Control**

The following issues (being main features of a sound system of internal control) should be considered with regard to payroll:



- Salaries and wages are computed only in respect of the project's employees.
- Payrolls are computed accurately from the correct data.
- Time sheets/Attendance sheets should be checked and reviewed for any absenteeism or irregularity so that payrolls are prepared accordingly.
- Payments of the correct amount of salaries/wages to the correct employees.
- Payroll deductions are properly accounted for and paid to the appropriate third parties.
- Transactions relating to salaries/wages are accurately recorded in the financial accounts.
- A personnel record should be kept for every employee containing particulars of such matters as job title, department, date of engagement, salary rate, increments, agreed deductions, specimen signature, photograph, identification number, transfer or dismissal, etc. by the personnel unit.
- Personnel records should be maintained by the Administration Department of MoA.
- Any staff leaving office temporarily or permanently should hand over all projects properties, documents, manuals, reports and files to the person assigned in his position or to Senior Financial Management Specialist before collecting his payments. For this purpose, the finance department of the project should ask clearance from concerned offices before effecting payment for the leaving staff.
- Changes in data required for payroll preparation such as engagements, transfers, increments and discharges shall be notified on designated forms approved by the Administration Department of the Ministry of Agriculture.
- Personnel records must be kept up-to-date at all times; entries only being made with the written approval of the Administration Department of the Ministry.
- Copies of all personnel instruction letters are passed to the accounts, as they arise, and to the payroll database on the computer system immediately
- Updates on payroll should only be made for the changes indicated on the personnel instruction letters. The personnel instruction letters should be filed in chronological order.
- All new appointments must receive budget clearance prior to vacancy announcement.
- Payrolls should be signed by the persons responsible for their preparation and checking and should be finally approved for payment by the project manager or responsible official.
- A good control over payroll correctness is the reconciliation of each month's payroll basic pay with the preceding month, and this should always be undertaken preferably before approval of the payroll. It must, however, be recognized that such reconciliation will not provide any control unless the existence of employees and correctness of basic salaries is regularly verified with the personnel records.
- Payment of salaries/wages should be made by cashiers who have had no part or checking of payrolls or made through Bank transfers to individual bank accounts.
- Only the net amount of cash required for payment of salaries should be drawn from bank, deductions from payrolls being credited to creditor's account (or staff debtors' accounts in case of loan or advance repayments) and subsequently settled by check.
- Payment of salaries should be made direct to each employee against production of

identification and signature on the payroll for receipt. Salaries should only be paid on third parties on the written instruction of the employee concerned.

- The accounts must receive the original as well as the copy receipt prepared for unclaimed wages returned. The cashier must immediately deposit the amount of unpaid salaries returned to the bank, subsequent payment being made from petty cash or by check. The accounts must make enquiry as to the reasons why unpaid salaries were not claimed.

### **Accounts recording for payroll**

When the check is issued to the Cashier, the accounts section passes the following entry:

Debit A/C No 4101 Cash on Hand

Credit A/C No 4103 Cash at Bank

After payment of salary is completed, the Cashier submits the signed payroll to the accounts and the following entry will be passed:

Debit A/C No 6113 Gross Salary Expense

Credit A/C No 5005 Employee Income Tax Payable

Credit A/C No 4101/4103 Cash (for amount of cash paid)

Credit A/C No 5003 Pension Contribution (18%)

Credit A/C No 5004 Salary Payable (for any uncollected salary)

For any uncollected salary by staff, the Cashier will deposit the amount in the Bank and the account section passes the following entry:

Debit A/C No 4103 Cash at Bank

Credit A/C No 4101 Cash on Hand

When the tax liability is cleared by effecting the payments to the respective authorities the account section passes the following entry.

Debit A/C No 5028 Employee Tax withholding

Credit A/C No 4103 Cash at Bank

### **Payments of Per Diem Advance**

Per diem rates both for local and foreign travels are to be set by management. Per diem advances shall be accounted for or settled within seven days after return of the employee from the trip.

- a) In no case per diem advances shall remain outstanding for more than 30 days after return from the trip.

- b) Individuals who have failed to settle the advances within the above stated time would first be requested to settle orally and then with memo sent through their supervisor.
- c) If the advance remains unreported the whole advance will be deducted from the next month salary of the employee and the per diem expenses will be paid by cash based on the field trip report approved by the authorized official at a later date.

### **Per Diem Settlement Recording**

For the total amount of per diem advance given, pass the following entry. Calculations of the amounts to be recorded as expenses shall be based on per diem policies issued by MoA RLLP.

Debit: Staff Advance Account-individual staff debtor account 4203 xxxxx

Credit: Cash in BankAccount 4103 xxxxx

At the end of completion of the trip and based on approved travel reports the following entry will be passed.

Debit: Per diem expenses 6231 xxxxx

Credit: Staff Account- individual staff debtor account 4203 xxxxx

For any difference between the amount taken as an advance and the amount shown in per diem settlement report, the traveler will either pay cash to the project or the project will pay an additional amount to the traveler depending on the approved per diem settlement report. Cash will be received using Cash Receipt Voucher or payment will be effected to the traveler either from petty cash or by check depending on the amount.

## **5.8. Accrual and Settlement**

MoA RLLP should accrue expenses incurred for the year but not paid at the close of the fiscal year. Such expenses should be recognized in the accounts of the project for that fiscal period.

E.g. Audit fee

Entry for Accrual of Audit fee

Debit: Audit fee expense

Credit: Audit fee payable

When the audit function is completed and the audit firm submits an invoice payment is effected and recorded as follows:

Settlement of Audit fee

Debit: Audit fee payable

Credit: Cash at Bank

## **5.9. Fund Balance**

Revenue is the inflow of resources towards the project. It could be in the form of cash or in kind. The main source of income of the project is development partners' fund. The revenue of the project should be recorded in the accounts whether the revenue is in cash or in kind. Revenues are classified by the source of funds, i.e., specific development partner.

The entries are as follows:

When in cash,

Debit: Cash at bank

Credit: Revenue

When in kind,

Debit: Expenditure

Credit: Revenue

## **5.10. Accounting for Revenue and Expenditure of the Project**

In establishing the accounting procedures for revenue and expenditure, the following issues are considered:

- expenditures should be accounted at the implementing unit where the expenditure is incurred and the transaction documents are kept for the purpose of consolidation, expenditures are recorded at regional and Federal level
- the accounting treatment should put a mechanism to follow-up the liquidation of transfers and should enforce the recipients to account for the un-liquidated balances.

Accordingly, revenue/income is accounted at federal level only when receiving fund from development partner. Funds received from federal coordination unit by the regional and woreda levels are recorded under a "Fund Transfer account". The detail accounting treatment for fund transfers and expenditure reports at each level is shown as follows.

### **Accounting for Fund Transfers to Regions and Woredas**

Any fund transferred to Regional Agriculture Bureau of RLLP project Account shall be treated as Advance to region by RLLP Finance Unit in the name of each Regional Agriculture Bureau. Similarly any fund transferred from the Regional Bureau of Agriculture to beneficiary woreda office of finance and economic development shall be treated as receivable with the title advance to woredas by creating a separate ledger in the name of each woreda. The rationale for the treatment of funds transfer to any level as an account receivable is to enforce the recipients of

the fund to submit monthly or quarterly financial reports or IFRs. Financial Management specialists at each level should analyze the age of these advances or receivables at each quarter for subsequent follow ups and taking appropriate action.

**a) Accounting for Fund Transfers received by Regions and Woredas**

Any fund received from the NPCU Finance is recorded under the “Transfer received account” - XXXXXX at regional and woreda levels.

**b) Accounting for Expenditure Incurred**

Expenditure is incurred by the project in carrying out its activities. Expenditures are classified by expenditure account types (salary, per diem, training, etc), project components, sub-components and cost categories (goods, works, consultancy, training, and operating costs). Each implementing agency should record the expenditure it incurred, for which it maintained the transaction documents; i.e., the books of accounts and ledgers of each region reflect the expenditures the regional bureau has incurred. Woreda expenditures are reflected as expenditures at each woreda. The overall expenditure incurred at regional level is reflected in the consolidated statement which consolidates the expenditure incurred by all woredas and the regional bureau. By the same token, the books of accounts and ledgers of the project at federal level reflect the expenditures the project unit has incurred. Regional expenditures are reflected as expenditures at each region. The overall expenditure incurred at national level is reflected in the consolidated statement which consolidates the expenditure incurred by all regions and the project support unit.

The overall accounting treatment of fund transfers, expenditure incurred and expenditure reported at each level of national, regional and woreda is depicted in detail in the following table.

**Table 1. Fund transfer, expenditure incurred and report**

<b>MOA Resilient Landscapes and Livelihoods Project</b>			
<b>Example of Fund Transfer and Settlement of it through IFRs Journal Entries</b>			
<b>At Each Level of the Project Implementation’s</b>			
<b>Nature of the Transaction</b>	<b>NPCU at MOA</b>	<b>Regional Bureau of Agric.</b>	<b>Woreda BOF</b>
When fund is transferred from IDA	Debit: Cash at Bank	N/A	N/A
	Credit: Revenue		
When Fund is transferred to BoA	Debit: Advance to regions	Debit: Cash at Bank	N/A
	Credit: Cash at Bank	Credit: Fund Transfer from NPCU	
	N/A	Debit: Advance to Woredas	Debit: cash at Bank

When Fund is Transferred to Woredas		Credit: Cash at Bank	Credit: Fund transfer from RBoA
When payment is effected for expense	Debit: Expenditures	Debit: Expenditures	Debit: Expenditures
	Credit: Cash at Bank	Credit: Cash at Bank	Credit: Cash at Bank
When report is submitted by Woredas	NA	Debit: Expenditure	N/A
		Credit: Advance to Woredas	
When report is submitted by RBoA	Debit: Expenditure Credit: to Advance to Region.	N/A	N/A
When Report is Submitted to IDA	N/A	N/A	N/A

### 5.11. Trial Balance

Trial balance is the proof of the equality of debit and credit in the ledger. It is extracted from the Peachtree accounting software at federal, regional and wereda levels. Trial balance should be produced at the end of every month and should also be approved by responsible officials.

### 5.12. End of Period Procedures

At the end of reporting period, there are accounting activities that should be carried out by each implementing agency. These activities include:

- Preparation of trial balance,
- Scrutinize balances for irregularity, i.e., abnormal (credit) balances for assets or debit balances for liabilities,
- Conduct cash count and compare against record balance,
- Conduct physical count of fixed assets and compare against fixed assets register,
- Collect bank statements and prepare bank reconciliation (review properness of reconciling items),
- Reconcile between accounts, i.e., general and subsidiary ledger (as applicable), receivable and payable accounts with regard to fund transfer,
- Identify, measure and adjust accruals and commitments,
- Perform budget vs. actual comparisons, including adjustments,
- Prepare final financial reports for the period.

## **6. PLANNING, BUDGETING AND BUDGETARY CONTROL**

### **6.1. Planning and Budgeting**

Budgeting is a process that focuses on planning and controlling the use of resources for achieving the desired objectives during a defined period.

#### **Objectives of Budgeting**

The objectives of budgeting are as follows:

- To enable the project to prioritize and allocate the use of its scarce resources;
- To enable the project take corrective actions on variances of the budget;
- To provide a basis for better planning and controlling in the future;
- To estimate the expected inflows and outflows for a specified period;
- To evaluate the performance of the project; and
- To enable comparison of the actual inflows and outflows with estimates

The planning and budgeting process will be guided by the budget policy guidelines issued by Ministry of Finance (MoF). The budget process is participatory among various implementing agencies. Each BoA at regional level will consolidate and prepare the annual Work Plans & Budget (AWP & B) upon receipt of the AWP&B from the Woredas and submit same to MoA NSLMPCU upon approval of the regional project steering committee. NPCU will consolidate these Annual Work Plans and Budgets and submit them for approval by NRLLPSC.

The program document and further review of the agreement shall determine the program budget for the entire period of the program. This budget of the program is analyzed by category and components. Budgets shall be broken down to quarterly, annual, year-to-date and cumulative analysis. Budget items shall be mapped with the general ledger accounts to facilitate comparison between budget vis-à-vis actual.

The budget classification scheme is how the budget is organized by each budget institution. For accounting purposes, the budget classification scheme as defined in the government's annual budget is tracked to identify expenditure variances between what is budgeted and what is expended by budget institution. The budget classification scheme to classify budget institutions is uniform at the federal and regional levels.

Work plans with costs (budgets) will be prepared and these become the budget for the project. The work plans will be converted into budgets for each quarter. The funds will be allocated for the major components and subcomponents for each year. These budgets are the basis for performance evaluation that will be used in IFRs for comparing planned financial expenditures with actual expenditures. The Interim Financial Report (IFR) requires reporting the following information. The project, however, will require a more detailed report for its internal use and for controlling costs and operations.

Report Period from \_\_\_\_\_ to \_\_\_\_\_

Table 2. IFR reporting information

Description of Expenditure	Budget for FY	Current Quarter			Cumulative to Date			Cumulative for Project Life		
		Plan	Actual	Var.	Plan	Actual	Var.	Plan	Actual	Var.

### Planning Schedule

The RLLP work plan and budget that will be received from regions will adhere to the program budget submitted by MoA to MoF in March. The consistency of the budget will be maintained through providing the approved budget to the regions and strictly following the regions not to exceed that amount. The detail of the planning activities and schedules for regional plans are described in the table below.

Table 3. Planning activities and schedules

No	Activity	Responsible body	Cooperating body	Participants	Deadline
1	Provision of budget information to each Region	NPCU	NRD		Beginning of November
2	Regions provide budget information to each Woreda	RPCU	BoA, Zone, NPCU		Mid November
3	Preparation of AWP at community level	DA, KoA, WWT, CF, KWT	WFP, WTC	CWT, Community members	End of December
4	Preparation of AWP&B at Woreda level	WFP, WTC	Zone focal person and experts, RSLMPCU, Woreda Cabinet	WSC members	First week of January
5	Review of AWP&B of Woredas by Zone Technical Committee and region experts and providing comments to Woreda FP	Zone experts and Regional PCU	RTC,		Mid of January
6	Improving the plans based on the comments received from the region and Zone experts	WFP, WTC	Zonal experts Regional and RPCU		Last week of January



No	Activity	Responsible body	Cooperating body	Participants	Deadline
7	Organizing planning workshop at Woreda level	WFP and accountants	WTC, Zone SLM focal person and experts, RPCU	KWT, Zone, WTC, WSC and Woreda development partner representatives	End of January
8	Approval of the AWP&B at Woreda level	Woreda cabinet	WFP, WTC		First week of February
9	Submission of AWP&B to Region	WFP	WoLAU/WoA		Second week of February
10	Including the regional level activities into the plans and preparation of narration to the summary plans	M&E specialist of RPCU	Other RPCU specialists as well as other technical advisors		Third week of February
11	Conduct Regional Planning workshop	RPCU	RTC, NSLMPCU	WFP, WSC, BoA, Regional Technical Committee, Dev't Partners, Zonal FPs etc.	Third week of February
12	Approval of the AWP&B by the regions	RSLMPCU	RTC, RSLMPCU		Fourth week of February
13	Submission of regional plan to federal SLM-PCU	Reg. SLM Coordinator/Reg. M&E specialist	NSLMPCU		First week of March
14	Integrating the federal level activities into the plans as well as preparation of narration to the summary plans	M&E specialist of NPCU,	experts at federal level, Other specialists of RPCU		second week of March
15	Organizing Federal level planning workshop	NSLM-PCU coordinator and his staffs	Development Partners	NPTC, RPCU, NPPCU, Woreda FPs, Woreda Admin, WoF, WoA/WoLE P, Zonal FPs, DPs	Mid of March

No	Activity	Responsible body	Cooperating body	Participants	Deadline
16	Approval of the AWP&B, Procurement Plan, Training Plan by Federal SC	NSLMPCU	NLMPSC	NPSC, NPCU	Third week of March
17	Submission of package of AWP&B, Procurement Plan, and Training Plan to the Bank to get no-objection	NSLMPCU	Development Partners		Fourth Week /End of March
18	Submission of Approved AWP& B to MoF	NPCU/MoA	-		End of April

## 6.2. Budgeting Procedures

The budget shall be proclaimed at the federal level under the name of Ministry of Agriculture. Once identified and used, the budget code shall remain unchanged throughout the project life.

- i. Budgeting is structured around a two-way process: a downstream process from the federal level down to the regions and then to the woredas, and
- ii. An upstream process starting at Woredas moving upwards to the regions and the federal level.

The annual budget and work plans for RLLP will be prepared through a bottom-up approach (upstream process). It will be important that the timing of budget planning processes is consistent with the government budget cycle. Regional BoAs will collect all the budget requests from woredas consolidate and submit to NPCU. The NPCU will prepare a consolidated budget and submit to the NPSC for approval at the beginning of the fiscal year. After approval of the AWP & B, MoA will send to the regions and subsequently to Woredas through the respective regions. The annual budget for the project will be broken down into quarterly budget by category and components.

## 6.3. Budget Control

The Interim Financial Report (IFR) uses a budget and actual and variance analysis as one of the monitoring mechanisms. In order to facilitate budget control, the budget figures should be assigned the same account codes used for recording accounting transactions. If the budget figures are not shown for each month and are aggregates for the whole year these should be allocated to each month according to the work program prepared. This does not mean that each month should be allocated funds, but months in which the activities will be carried out need to

be indicated. Hence in some months no amount may be shown if there will be no activities to be carried out. Under a computerized system, the monthly figures should be inserted as budget transaction using the budget menu so that the budget figures could be compared with monthly actual transactions recorded. In a manual system a budget ledger shall be maintained for each account and monthly figures shall be inserted on the budget ledgers. Variances between budget and actual are shown using budget and actual comparison report. The budget and actual comparison report shall be produced on quarterly, basis as shown in the annex section of this manual.

#### Outcome of the Budget and Actual Reports

- Every quarter, a report indicating major deviations from the budget shall be prepared.
- If the variance is due to volume, anticipated activity not being performed or being surpassed, proper explanation shall be given as to why the budgeted volume of activity has not been fulfilled or why the accomplishment is in excess of the budgeted volume.
- If the variance is due to price, anticipated price not being near or equal to the assumed price, this will also require explanation with supporting evidences.
- Project monitoring bodies shall then make decisions on the report indicating corrective actions to be taken.
- Overspending is unacceptable and needs approval for supplementary budget.

#### **6.4. Periodic Reviews**

Reviews of performances of each quarter shall be carried out at the end of each quarter by the National Project Management Team in the presence of all stakeholders. This review meeting shall evaluate the performances of the last quarter and shall approve work plans for the next six months (a rolling budget of six months.)

#### **6.5. Annual Work Plan Amendment and Budget Reallocation Procedures**

Amendments to an agreed and approved plan and budget should not be easily allowed. Neither will inter-component budget transfer be permitted in RLLP. However; there could be good causes to consider changes and budget transfers among activities in a given component. It is therefore essential that there should be rules to govern such changes.

When such a change is considered absolutely essential, the revision of work plan and budget together with procurement and training changes that may be required need to be recommended by the woreda cabinet to the regional technical and steering committees for submission to the federal level technical and steering committees through RLLP PCU. Such revision will be allowed only once in a fiscal year. The region has the right to reject the proposition from a Woreda without consultation with the appropriate federal level authority. Budget transfer application for approval is accepted only if the proposal is submitted within the first two quarters of a fiscal year. The AWP& Budget including the Procurement Plan should be cleared

by the Bank before commencement of any disbursement.

Table 4. Budget transfer authority

Level	Authority	Procedure	Remark
Woreda	Deciding maximum of 10% reallocation/transfer from any of the approved budget of an activity to any other activity within the same component but the activity should exist in the approved plan	This transfer need to be approved by the Woreda cabinet or steering committee with minutes. The copy of the minute should be submitted to the regional RLLP Coordination unit	Budget transfer from component to component is not allowed
Region	According to PIM Deciding maximum of 20% reallocation/transfer from any of the approved budget of an activity to any other activity within the same component but the activity should exist in the approved plan Deciding maximum of 20% transfer from any of the approved budget of one Woreda to another Woreda for activities of the same component but the activity should exist in the approved plan of the receiving Woreda	The RPCU should receive transfer request approved by the Woreda cabinet or steering committee with a minute The regional technical committee /RTC/ or the regional steering committee /RTC should approve the request/transfer of the woreda with a minute The minutes should be communicated to the project finance at all level	Budget reallocation transfer from component to component is not allowed
NPCU	The PCU can approve any amount of transfer /and reallocation request coming from the regions as long as the activities for which the additional budget asked are found in the approved work plan. Any amount and activity Component to component transfer is also possible	NSLMPCU should receive minute of transfer /and reallocation request approved by the regional steering or technical committee The transfer should be supported by the approval minute of the federal steering committee	Budget transfer from component to component is allowed

### **Annual Work Plan and Budget (AWPB) Revision:**

Midway during the course of fiscal year annual work plan and budget revision should be considered in respect of implementation progresses, priority changes that necessitates revision of AWP/B and to better align the project progresses and results to the PDO. This AWPB revision shall be done in participatory manner with all implementing regions/woredas and follow the same review and approval procedure at NPCU. The revised AWPB will be submitted to the Bank for no objection and finally to MoF.

## **7. FINANCIAL REPORTING**

Financial reports required for the RLLP project are final accounts (financial statements), interim financial reposts (IFRs), and monthly reports.

## **7.1. Final Accounts**

The objective of the final accounts (annual financial statements) is to provide information about the financial position, performance and cash flows that is useful in making and evaluating decisions about the sources, allocation and uses of financial resources and about how the activities were financed. In addition, the accounts provide users with information about whether resources were used in accordance with the approved budget. Moreover, the final accounts are audited by independent auditors on which opinions on the fairness of the statements are expressed. Project's financial statements would be prepared in respect of each accounting year for the purpose of providing information including the source and use of funds during the year and financial position at the end of the year. The final financial report should be submitted to external auditors within three months after the end of each fiscal year.

The financial statements required for the RLLP, as stipulated in the government accounting manual, shall comprise:

- Balance Sheet,
- Income and Expenditure Statements (Statement of Source and Use of Funds), and
- Accounting Policies and Notes to the Financial Statements.

In addition to the above statements, the Statement of the Movement of the Designated Accounts, and list of materials procured shall be annexed to the Notes to the Financial Statements. A single audit opinion shall be expressed on the final accounts.

NPCU shall be responsible for preparing the final accounts by consolidating the various financial reports received from BoAs. Thus, amounts shown in the final accounts shall equal the aggregate of amounts shown in the quarterly financial reports submitted to the Bank, MoF and MoA. The statutory reporting entails reporting of final accounts to the Office of the Federal Auditor General (OFAG) or other project external auditor, and reporting to DPs. Detail reporting formats will be included in as annex to the FM manual.

### **Accounting Period**

The reporting period of the Project is from July 8 to July 7 of the following year as stipulated in the Bank/DPs and Government program documents.

## **7.2. Interim Financial Report (IFR)**

Management information is required in order to control financial resources. DPs require monitoring based on internationally accepted accounting principles. Likewise, monitoring physical performance in relation to financial disbursement is important in order to establish the value for money. At operational level, reporting is essential to facilitate routine activities of the Project.

The RLLP Project shall prepare and submit Interim Unaudited Financial Reports (IFRs) to the World Bank within 45 days after the end of each quarter.

The IFRs are prepared based on the following principles:

- i) IFRs should provide information that is useful to the borrower while also providing the Bank with sufficient information to establish whether:
  - Funds disbursed to projects are being used for the purpose intended,
  - Project implementation is on track, and
  - Budgeted costs will not be exceeded.
- ii) Financial information should be linked with information on physical progress and procurement, to give assurance that financial and physical progress is consistent. The monitoring of expenditures in relation to physical progress is a key aspect of ensuring that the project is under proper financial control, although in some projects it may be difficult to develop quantitative output indicators.

The IFRs include the following statements/reports:

- A statement of source and uses of funds indicating all the resources and use of project funds for the reporting period and cumulative.
- Statement of Uses of fund (expenditures) by physical component compared with budgets for the reporting period and cumulative
- Statement of Uses of fund (expenditures) by category compared with budgets for the reporting period and cumulative
- Apportionment of the reporting period expenditure by financiers
- List of Contracts subject to Bank prior and post review
- Designated Account activity statements for the reporting period
- Six month Cash forecasts Statement for the next 2 quarter
- Explanatory Notes/narrative statements and variance analysis related to the financial report
- Trial balance
- Balance sheet
- Age analysis of project advances to regions
- Receivable report
- Payable report
- Bank statement & Bank reconciliation

**(a) A Statement of Sources and Uses of Funds**

- Opening balances both in the Designated Account and Local Currency Account will be available from the bank account ledgers
- Check if there are any Receivables that are not yet recorded as expenditures
- Check if there are any payables for which payments are not yet effected.
- Make sure receipts into the Designated Account /DA/ have been recorded
- Make sure transfers to Segregated Loan Birr Account from the Designated

Account have been recorded

- Fund available for use. This is the sum of the beginning balances plus transfers, plus receivables minus payables.
- Make sure that all Program Expenditures have been recorded
- Record any foreign exchange differences
- Total Fund Available less Expenditure plus/minus foreign exchange difference will give net fund available
- Show Ending Balances of the Designated Account and Segregated Local Birr Account, show end balances of receivables less payables

**(b) A Statement of Uses of Fund** that shows actual expenditures, appropriately classified by main project activities (categories, components, and sub-components). Actual versus budget comparisons for the quarter and cumulative will also include.

This report is extracted from the ledger balances of expenditures by components and cost categories such as goods, works, services, training and operating costs. The chart of accounts has been designed to enable production of reports both by components and sub components and cost categories.

**(c) Fund Flow Statement Segregated Local Bank Account**

- Balance Brought Forward (This will be available from the previous period transactions)
- Cash transfers from DA Account This will be available based data recorded under (a) above
- Fund available for use( this is the sum of the above two bullet lines)
- Make sure that all expenditures are from the pooled local currency account have been recorded
- Make sure that all transfers to implementing agencies have been recorded
- Record bank service charge both on outgoing and incoming
- Total Transfers, expenditures and Bank Charge(This is the sum of the above three lines- bullets)
- Cash at Bank ending balance (This is the difference between Fund available for use minus transfers, expenditures and bank charges.

**(d) A Statement on Movements (inflows and outflows) of the Project Designated Account, including opening and closing balances.**

- Balance Brought Forward (This will be available from the previous period transactions)
- Make sure that credit/grant received have been recorded
- Fund available for use( this is the sum of the above two lines-bullets)
- Make sure that Transfer of Fund to segregated Birr Account have been recorded
- Make sure that expenditures affected out of this account in foreign currency have been recorded.

- Total Transfers and expenditures (This is the sum of the above two line-bullets)
- Cash at Bank ending balance (This is the difference between Fund available for use minus transfers and expenditures.)

#### **(e) Consolidated Expenditure Summary**

Data required to fill this report are to be summarized from reports shown in (a) to (d) above.

#### **(f) Details of advances to Regions**

Advances to regions by RLLP Project Office should be reported in total and details are needed and Project Coordination unit has to maintain subsidiary ledgers regarding advances to regions to produce this report and to get other information on advances.

### **7.3. Monthly reporting**

Woredas shall send the financial reports to BoA within 10 days after the end of each month as per the following checklist:

- Statement of Uses of fund (expenditures) by physical component compared with budgets for the reporting period and cumulative
- Statement of Uses of fund (expenditures) by category compared with budgets for the reporting period and cumulative
- Consolidated Statements of Fund Flow
- Trial balance
- Balance sheet
- Bank statement & Bank reconciliation
- Explanation of variances
- Copy of cash count certificate
- Copy of fixed asset registration at the end of the year
- Completeness of the report Signed by authorized Signatory

### **7.4. Quarterly reporting**

Regional Bureaus of Agriculture should consolidate the monthly reports received from woredas and its report for the month and send the consolidated financial reports to MoA within 30 days after the end of each quarter as per the following checklist:

- Statement of Uses of fund (expenditures) by physical component compared with budgets for the reporting period and cumulative
- Statement of Uses of fund (expenditures) by category compared with budgets for the reporting period and cumulative
- Trial balance



- Balance sheet
- Age analysis of woreda advances
- Receivable report
- Payable report
- Bank statement & Bank reconciliation
- Copy of cash count certificate
- Expenditure report
- Explanation of variances
- Copy of fixed asset registration at the end of the year
- Completeness of the report Signed by authorized Signatory

## **8. AUDITING**

### **8.1. Internal Audit**

The internal auditing generally checks and reviews the efficiency of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. The internal auditor of each of the implementing agencies (i.e., MoA, BoAs, and WoF) shall perform the internal audit activities on the RLLP fund. Thus, all the internal audit units of these agencies shall routinely include the Project into their work plan and conduct post audit reviews on its funds. As best practice suggests, the internal audit units of each implementing agency should produce quarterly audit report. Such reports shall be addressed and submitted to the head of the agencies. However, major findings during audit shall be communicated to the respective RLLP stakeholders within a month after the internal audits are undertaken. The internal audit reports should be disclosed to Bank supervision missions, external auditors, or consultants assigned by the Bank or RLLP Coordination Unit to review the financial management system of the Project.

### **8.2. External Audit**

Annual audit for the RLLP shall be performed by an independent audit firm nominated by the Office of Federal Auditor General (OFAG) and the audit report shall be submitted to the World Bank within 6 months after the end of each fiscal year.

The audit report shall be addressed to MoA. The audit of the whole project shall be conducted in accordance with the terms of reference to be provided by MoA. Terms of reference for audit and financial reporting formats for IFR are attached in Annex-II.

In addition, the auditor shall in general perform the following:

**Audit of Statement of Source and Uses of Funds:** The objective of this audit is to ensure that all source of the Project funds are included in the statement and that payments there from are properly included in the accounts.

**Audit of Interim Financial Reports:** The objective of this audit is to ascertain that the individual expenditures, which comprise the IFR totals, are fully supported by documentation kept in the Project files kept at different locations, and are properly authorized and eligible under the Project document.

**Audit of Designated Accounts:** The objective of such audits are to verify that the Designated Accounts bank statements are reconciled with the Project books of accounts and what has been withdrawn or deposited from designated accounts is traceable in the Project books and records.

### 8.3. Interim Audit

An interim audit should be conducted semi-annually (for the period ending on the second quarter of each fiscal year). The external auditor will audit the financial statements of the RLLP at all levels and submit interim audit reports within 90 days after end of the second quarter of each fiscal year.

## 9. ANNEXES

### Annex-I Government Chart of Account /Account Code for Account Types/

<u>Account Title</u>	<u>Account Code</u>	<u>Category</u>
Revenue/Assistance/Loan	1000-3999	
Items of Domestic Revenue	1000-1999	
Tax Revenue	1000-1399	
Tax on Income, Profit and Capital Gain	1100-1119	
Wages and Salaries	1101	
Rental Income	1102	
Profits to Individuals	1103	
Profits to Corporations	1104	
Dividend and Chance Winnings	1105	
Capital Gains	1106	
Royalties	1108	
Withholding Tax on Imports	1109	
Interest Income Tax	1111	
Others	1119	
Domestic Indirect Taxes	1120-1299	
Value Added Tax on Domestically Manufactured Goods and Services	1120-1199	
Vaule Added Tax /VAT/	1120-1169	
Petroleum and Petroleum Products	1121	
Sugar	1122	
Salt	1123	
Soft Drink	1124	
Mineral Water	1125	
Alcohol and Alcoholic Products	1126	
Beer	1127	

Tobacco and Tobacco Products	1128
Leather and Leather Products	1129
Plastic Products	1131
Cotton, Yarns and Fabrics	1132
Textile and Cloths	1133
Chemical and Chemical Products	1134
Non Metallic Mineral Products	1135
Iron and Steel	1136
Vehicles and Spare Parts	1137
Machines, Fixtures and Spare Parts	1138
Wood and Wood Products	1139
Food	1141
Electric Goods and Spare Parts	1142
Stationary and Printing Machineries	1143
Agriculture and Forestry Products	1144
Other Goods	1169
Value Added Tax On Services	1170-1199

<u>Account Title</u>	<u>Account Code</u>
Telecommunication	1171
Commission Agent	1172
Tourism	1173
Lodging	1174
Professional Services	1175
Works Contract	1176
Rent of Goods	1177
Garage	1178
Other Services	1199
Excise Taxes on Locally Manufactured Goods	1200-1219
Sugar	1202
Soft Drinks	1204
Mineral Water	1205
Alcohol and Alcoholic Products	1206
Beer	1207
Tobacco and Tobacco Products	1208
Textiles	1209
Other Goods	1219
Sales Turnover Tax On Locally Manufactured Goods	1220-1239
Petroleum and Its Products	1221
Soft Drinks	1224
Beer	1227
Leather and Leather Products	1229
Iron and Steel	1232
Non Metallic Mineral Products	1233
Stationery	1234
Plastic Products	1235
Stationery	1236
Farm and Farm Products	1237

Wood and Wood Products	1238
Other Goods	1239
Service Sales Tax	1240-1269
Lodging	1249
Commission Agent	1252
Barbers and Beauty Salon	1254
Rent of Goods	1256
Pesticide Service	1258
Finance Service	1259
Petroleum and Its Products	1261
Mineral Water	1265
Rent of Goods	1266
Alcohol and Alcoholic Products	1267
Other Services	1269
Stamp Sales and Duty	1270-1279
Cotton, Yarn and Fabrics	1276

<u>Account Title</u>	<u>Account Code</u>
Non Metallic Mineral Products	1279
Stamp Sales and duty	1290-1299
Stamp Sales	1291
Stamp Duty on Vehicle sales	1292
Other Services	1299
Tax On Foreign Trade	1300-1399
Customs Duty on Imported Goods	1300-1329
Motor Vehicles and Accessories	1301
Machineries, Capital Goods and Accessories	1302
Building Materials and Metals	1303
Electrical Equipment and Appliances	1304
Household, Office Goods and Appliances	1305
Films, Film Recorders and Reproducers and Musical Instruments	1306
Stationery, Calculating Machines and Appliances	1307
Personal Goods and Appliances	1308
Pharmaceutical Equipment and Drug Supplies	1309
Cotton, Yarns and Fabrics, Textiles and Clothing	1311
Tobacco and Tobacco Products	1312
Alcohol and Alcoholic Beverages	1313
Wood and Wood Products	1314
Food	1315
Other Goods	1329
Excise Tax on Imported Goods	1330-1349
Petroleum	1331
Automobiles	1332
Textiles	1333
Tobacco and Tobacco Products	1334
Alcohol and Alcoholic Beverages	1335
Other Goods	1349
Sales Tax on Imported Goods	1350-1379

Motor Vehicles and Accessories	1351
Machineries, Capital Goods and Accessories	1352
Building Materials and Metals	1353
Electrical Equipment and Appliances	1354
Household, Office Goods and Appliances	1355
Films, Film Recorders and Reproducers and Musical Instruments	1356
Stationery, Calculating Machines and Appliances	1357
Personal Goods and Appliances	1358
Pharmaceutical Equipment, Drugs and Chemical	1359
Cotton, Yarns and Fabrics, Textiles and Clothing	1361
Tobacco and Tobacco Products	1362
Alcohol and Alcoholic Beverages	1363
Wood and Wood Products	1364
Food	1365
Food	1366

<u>Account Title</u>	<u>Account Code</u>
Other Goods	1369
Motor Vehicles accessory	1371
machinery. Capital & Accessories	1372
Building Materials & metal	1373
Electric Equipment	1374
House holding & Office Goods	1375
Film; film records & producers Musical instruments	1376
Stationary calculating Machines & Appliances	1377
Personal Goods& Appliances	1378
Other Goods	1379
Export Duties	1380-1389
Coffee	1381
Alcohol & Alcoholic Beverages	1382
Wood & Wood products	1383
Pharmaceutical Equipment ,Drug & Chemical	1384
Others	1389
Non-Tax Revenue	1400-1499
Administrative Fees and Charges	1410-1429
Passports and Visas	1411
Registration of Foreigners	1412
Work Permits	1413
Court Fines	1414
Court Fees	1415
Forfeits	1416
Hunting License	1417
Business and Professionals Registration and License Fees	1418
Warehouse Fees	1421
Television License Fees	1422
Charges for Official Copies of Documentation	1423
Standards Charges	1425
Other Fees and Charges	1429

<b>Sales of Public Goods and Services</b>	<b>1430-1459</b>
Sales of Government Newspapers, Magazines and Publications	1431
Media and Public Relations	1432
Advertising Revenue	1433
Veterinary Services	1434
Health Services	1435
Sales of Medicines and Medical Supplies	1436
Medical Examinations and Treatments	1437
Handicrafts	1438
Printed Forms	1439
Prisons Administration Revenue	1441
Research and Development Services	1442
Vocational and Educational Institutions	1443
Entertainment	1444

<u>Account Title</u>	<u>Account Code</u>
Engineering Industry	1445
Cultural Services	1446
Meteorological Services	1447
Mapping Services	1448
Civil Aviation Services	1449
Road Transport Services	1451
Science and Technology Services	1452
National Examination Services Fee	1453
Agricultural Products	1455
Forestry Products	1456
Cost Sharing	1457
Other Goods and Services	1459
<b>Government Investment Income</b>	<b>1460-1469</b>
Residual Surplus	1461
Dividend Income from Government Assets	1462
National Lottery Surplus	1463
Interest on Loan to Government Agencies	1464
Interest on Loan to Government Employees	1465
Interest on Government Bank Accounts	1466
<b>Miscellaneous Revenue</b>	<b>1480-1489</b>
Other Miscellaneous Revenue	1485
Other Miscellaneous Revenue	1489
<b>Capital Revenue</b>	<b>1500-1599</b>
Sales of Movable and Immovable Properties	1501
Privatization Proceeds	1504
Collection of Principal from On-Lending	1505
<b>External Assistance</b>	<b>2000-2999</b>
<b>Multilateral Institutions</b>	<b>2000-2199</b>
<b>Multi-lateral Institution</b>	<b>2000-2049</b>
African Development Bank /ADB/	2001
African Development Fund /ADF/	2002
European Union /EU/	2008

International Development Association /IDA/	2014
International Fund for Agricultural Development /IFAD/	2016
International Labour Organization /ILO/	2017
International Union for the Conservation of Nature /IUCN/	2019
Nordic Development Fund /NDF/	2021
United Nations Children's Fund /UNICEF/	2025
United Nations Development Program /UNDP/	2027
United Nations Fund for Population Activity /UNFPA/	2029
World Food Program /WFP/	2033
World Health Organization /WHO/	2034
Global Environment Facility /GEF/	2041
Center for Diseases Control /CDC/	2042
Global Fund	2043

<u>Account Title</u>	<u>Account Code</u>
GALAXO SMITH	2046
Others	2199
<b>Bilateral Assistance</b>	<b>2200-2399</b>
Austria /AUS/	2253
Canadian International Development Agency /CIDA/	2256
China /CHINA/	2258
Finland /DIDC/	2261
Germany /KFW/	2264
Ireland /IRE/	2267
Italy /ITALY/	2269
Spain /SPAIN/	2277
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<b>External Loan</b>	<b>3000-3999</b>
<b>External Loan</b>	<b>3000-3099</b>
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African Development Fund /ADF/	3002
Arab Bank for African Development /BADEA/	3003
European Investment Bank /EIB/	3007
Public Sector Capacity building Program	3010
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Recurrent Salary and Allowances	4001

Recurrent Operating Expenditure	4002
Capital Salary and Allowances	4003
Capital Expenditure	4004
SSDP Funds	4006
Grace Period Payables	4007
Other Cash Transfers	4009
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Cash on Hand	4101
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Cash at Bank	4103
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Account Receivables	4200-4202
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Cash Shortage	4202
Advance	4203-4249
Advance to Staff	4203
Advance for SSDP	4204
Advance for Staff from Next Year's Budget	4205
Advance for Recurrent Expenditures from Next Year's Budget	4206
Advance for Capital Expenditures from Next Year's Budget	4207
Advance to Regions	4208
Other Advances to BI	4209
Other Advances Within Government	4210
Purchase Advance	4211
Prepayments	4250-4269
Advances to Contractors	4251
Advances to Consultant	4252
Advances to Supplier	4253
Other Advances Outside Government	4254
Other Receivable	4270-4299
Peasant Associations	4271



Cooperatives	4272
Individuals and Private Organizations	4273
Other	4274
Stocks	4400-4499
Other Materials and Supplies	4418
Payables	5000-5599
Payables	5000-5099
Accounts Payable	5000-5019
Grace Period Payables	5001
Sundry Creditors	5002
Pension Contribution Payable	5003

<u>Account Title</u>	<u>Account Code</u>
Salary Payable	5004
Other Payroll Deductions	5005
Withholding Tax Payable	5006
Cost sharing	5007
Medical contribution Payable	5009
Payables with Government	5020-5039
Due to Staff	5021
Due to MoF for SSDP	5022
Due to MoF for Recurrent Expenditures from Next Year's Budget	5024
Due to MoF for Capital Expenditures from Next Year's Budget	5025
Due to Regions/Federal Public Bodies	5026
Other Payables to MoF	5027
Other Payables Within Government	5028
Family Pay	5029
War Veterans Payable	5033
Due to MOF Revolving Fund	5035
Government Payables	5040-5049
Direct Advance	5041
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National Defense and Public Order	5502
General Service	5503
Agriculture and Natural Resources	5504
Mines and Energy	5506
Transport and Communication Sector	5508
Construction	5509
Education and Training	5511
Sport and Culture	5512

<u>Account Title</u>	<u>Account Code</u>	<u>Category</u>
Health	5513	
Others	5516	
Net Assets/Equity	5600-5699	
Net Assets/Equity	5601	
Items of Expenditure	6000-6999	
Personnel Services	6100-6199	
Emoluments	6110-6119	
Salaries to Permanent Staff	6111	
Salaries to Military Staff	6112	
Wages to Contract Staff	6113	Consultancy
Wages to Casual Staff	6114	Non-Consulting
Wages to External Contract Staff	6115	
Miscellaneous Payments to Staff	6116	
Allowances/Benefits	6120-6129	Consultancy
Allowance to Permanent Staff	6121	
Allowance to Military Staff	6122	
Allowance to Contract Staff	6123	
Allowance to External Contract Staff	6124	
Pension Contributions	6130-6139	Consultancy
Government Contribution to Permanent Staff Pension	6131	
Government Contribution to Military Staff Pensions	6132	
Goods and Services	6200-6299	Goods
Goods and Supplies	6210-6229	Goods
Uniforms, Clothing, Bedding	6211	Goods
Office Supplies	6212	Operating Costs
Printing	6213	Operating Costs
Medical Supplies	6214	Operating Costs
Educational Supplies	6215	
Food	6216	
Fuel and Lubricants	6217	Operating Costs
Other Materials and Supplies	6218	Operating Costs
Miscellaneous Equipment	6219	Goods
Agriculture, Forestry and Marine Inputs	6221	Goods
Veterinary Supplies and Drugs	6222	Goods
Research and Development Supplies	6223	Goods
Ammunition and Ordinance	6224	

<b>Travelling and Official Entertainment Services</b>	<b>6230-6239</b>	Training/ Operating costs
Per Diem	6231	Operating costs
Transport Fees	6232	Operating costs/ Training
Official Entertainment	6233	Operating costs/ Training
<b>Maintenance and Repair Services</b>	<b>6240-6249</b>	Operating costs
Maintenance and Repair of Vehicles and Other Transport	6241	Operating costs
Maintenance and Repair of Plant, Machinery and Equipment	6243	Operating costs
Maintenance and Repair of Buildings, Furnishings and Fixtures	6244	Goods
Maintenance and Repair of Infrastructure	6245	
<u>Account Title</u>	<u>Account Code</u>	<u>Category</u>
Maintenance and Repair of Military Equipment	6246	
<b>Contracted Services</b>	<b>6250-6259</b>	Consultancy
Contracted Professional Services	6251	Consultancy
Rent	6252	Non-consulting
Advertising	6253	Operating costs
Insurance	6254	Operating costs
Freight	6255	Goods/non-consultancy
Fees and Charges	6256	Consultancy / Operating costs
Electricity Charges	6257	Operating costs
Telecommunication Charges	6258	Operating costs
Water and Other Utilities	6259	Operating costs
<b>Training Services</b>	<b>6270-6279</b>	Training
Local Training	6271	Training
External Training	6272	Training
<b>Stocks of Emergency and Strategic Goods</b>	<b>6280-6289</b>	
Stocks of Food	6281	
Other Stocks	6283	
<b>Fixed Assets and Construction</b>	<b>6300-6399</b>	
<b>Fixed Assets</b>	<b>6310-6319</b>	Goods
Purchase of Vehicles and Other Vehicular Transport	6311	Goods
Purchase of Plant, Machinery and Equipment	6313	Goods
Purchase of Buildings, Furnishings and Fixtures	6314	Works
Purchase of Livestock and Transport Animals	6315	Goods
Purchase of Military Equipment	6316	
<b>Construction</b>	<b>6320-6329</b>	Works
Pre-Construction	6321	Consulting service
Construction of Buildings - Residential	6322	Works
Construction of Buildings - Non-Residential	6323	Works
Construction of Infrastructure	6324	Works
Construction for Military Purposes	6325	
Construction Supervision	6326	consulting service
<b>Other Payments</b>	<b>6400-6499</b>	
<b>Subsidies, Investments and Payments</b>	<b>6410-6419</b>	
Subsidies to Regions and Administrative Councils	6411	
Grants, Contributions and Subsidies to Institutions and Enterprises	6412	
Contributions to International Organizations	6414	Operating costs

Compensation to Individuals and Institutions	6416
Grants and Gratuities to Individuals	6417
Miscellaneous Payments	6419
<b>Debt Payments</b>	<b>6430-6439</b>
Payments on the Principal of External Public Debt	6431
Payments of Interest and Bank Charges on External Public Debt	6432
Payments on the Principal of Domestic Public Debt	6433
Payments of Interest and Bank Charges on Domestic Public Debt	6434

## **Annex-II Terms of Reference for the Audit of MoA RLLP**

### **1. BACKGROUND**

The Project Development Objective of Resilient Landscapes and Livelihoods Project is to improve climate resilience, land productivity and carbon storage, and increase access to diversified livelihood activities in selected rural watersheds. The objective would be achieved through the provision of capital investments, capacity building and technical assistance and for small holder farmers in the watersheds and government institutions at national and sub-national levels.

The Project will build on the wealth of technical, operational and institutional experiences and lessons learnt through the implementation of GoE's SLM Program, including the Bank-financed RLLP and similar initiatives supported by other bilateral and multilateral partners in the country and the region.

It will be implemented through four components: (i) Investment in Green Infrastructure and Resilient Livelihoods; (ii) Investing in Institutions and Information for Resilience; (iii) Rural Land administration, Certification and Use; and (iv) Project Management and Reporting.

The implementation of the RLLP takes place in seven regions of the country. These are: Amhara, Beneshangul-Gumuz, Gambella , Oromia, Southern Nations Nationalities, Sidaama and People (SNNP) and Tigray.

The proposed Project is a 5-years Investment Project Finance of US\$113.5 million, consisting of a US\$100 million IDA and contribution by the government and MDTF funds totaling US\$ 13.5 million. The MDTF is subject to change with ongoing additional solicitation of fund for the project.

According to the agreement between the IDA and the MoA, the program will conduct an annual and one interim external audit to ensure that there have been properly maintained

records, adequate, effective, and accurate records in compliance with established concepts, principles, and accounting standards, and provide a true and reasonable view of the financial statement. The accounting period of the project is as per the Ethiopia Government budget year from July 8 to July 7 of each year.

## **2. OBJECTIVE OF THE PROJECT AUDIT**

The objective of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the PFSs in general and on the financial position, in particular, of the project at the end of each fiscal year, and on funds received and expenditures incurred by the project for the relevant accounting period.

## **3. PREPARATION OF FINANCIAL STATEMENTS**

The implementing agency (MoA) is responsible for the selection and application of accounting policies, preparation of financial statements including adequate disclosure and would prepare the financial statements in accordance with the Ethiopian Government's accounting policies and applying modified cash basis of accounting.

The responsibility of the auditor will be forming and expressing opinions on the financial statements and would carry out the audit of the project in accordance with the International Standards on Auditing (ISA), as promulgated by the International Federation of Accountants (IFAC). As part of the audit process, the auditor may request from the implementing agency written confirmation regarding representations made in association with the audit.

## **4. SCOPE OF THE AUDIT**

As stated above, the audit of the project will be carried out in accordance with International Standards on Auditing (ISA) promulgated by the International Federation of Accountants (IFAC), and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. Special attention should be given by the auditor as to whether the:

- (a) 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.

- (b) 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;
- (c) Goods, works and non-consulting services financed have been procured in accordance with the "World Bank Procurement Regulations for IPF Borrowers", dated July 2016, revised November 2017 and August 2018.
- (d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using Statements of Expenditure (SOE) or Interim Unaudited Financial Statements (IFS) methods of reporting. The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;
- (e) 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;
- (f) 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;
- (g) Financial performance of the project is satisfactory.
- (h) Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.
- (i) Ineligible expenditures included in withdrawal applications are identified and reimbursed to the Designated Accounts. These should be separately noted in the audit report.

In complying with International Standards on Auditing, the auditor is expected to pay particular attention to the following matters:

- a) ***Fraud and Corruption***: Consider the risks of material misstatements in the financial statements due to fraud as required by ISA 240: The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements. The auditor is required to identify and assess these risks (of material misstatement of the financial statements) due to fraud, obtain sufficient appropriate audit evidence about the assessed risks; and respond appropriately to identified or suspected fraud;

- b) **Laws and Regulations:** In designing and performing audit procedures, evaluating and reporting the results, consider that noncompliance by the implementing agency with laws and regulations may materially affect the financial statements as required by ISA 250: Consideration of Laws and Regulations in an Audit of Financial Statements;
- c) **Governance:** Communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity as required by International Standards on Auditing 260: Communication of Audit Matters with those Charged with Governance.
- d) **Risks:** In order to reduce audit risk to an acceptable low level, determine the overall responses to assessed risks at the financial statement level, and design and perform further audit procedures to respond to assessed risks at the assertion level as required by Internal Standard on Auditing 330: the Auditor's Procedures in Response to Assessed Risks.

## **5. PROJECT FINANCIAL STATEMENTS (PFSs)**

The auditor should verify that the project FSs have been prepared in accordance with the agreed accounting standards and give a true and fair view of the financial position of the project at the relevant date and of resources and expenditures for the financial year ended on that date.

The Project Financial Statements should include:

- a) A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;
- b) A summary of the activity in the Designated Account;
- c) A Balance Sheet (if deemed necessary);
- d) A Summary of the principal accounting policies that have been adopted, and other explanatory notes;
- e) A list of material assets acquired or procured to date with project funds

As an Annex to the PFSs, the auditor should prepare a reconciliation of the amounts as “received by the Project from the World Bank”, with those shown as being disbursed by the Bank.

## **6. UNAUDITED INTERIM FINANCIAL REPORTS (IFRs)**

In addition to the audit of the FSs, the auditor is required to verify IFRs used as a basis for the submission of loan withdrawal applications to the World Bank. The auditor will apply such

tests and auditing procedures as considered necessary under the circumstances. Annexed to the PFSs should be a schedule listing individual IFR withdrawal applications by specific reference number and amount.

## **7. DESIGNATED ACCOUNT**

In conjunction with the audit of the Project FSs, the auditor is also required to review the activities of the Designated Account associated with the project. The Designated Account usually comprises:

- Advance deposits received from World Bank;
- Replenishments substantiated by withdrawal applications;
- Interest that may have been earned on the accounts, and which belong to the recipient; and
- Withdrawals related to project expenditures

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year (or period). The auditor should examine the eligibility of financial transactions during the period under examination and fund balances at the end of such a period, the operation and use of the DAs in accordance with the relevant general conditions, relevant financing agreements and disbursement letter, and the adequacy of internal controls for this type of disbursement mechanism.

The auditor should also examine eligibility and correctness of:

- Financial transactions during the period under review;
- Account balances at the end of such a period;
- The operation and use of the Designated Account in accordance with the financing agreement; and
- The adequacy of internal controls for the type of disbursement mechanism.

## **8. AUDIT REPORT**

The auditor will issue an opinion on the project financial statements (PFSs). The interim audit report of the project accounts should include a separate paragraph highlighting key internal control weaknesses and non-compliance with the financing agreement terms.



## **9. MANAGEMENT LETTER**

In line with the audit report, the auditor will prepare a management letter, in which the comments and observations on the accounting records, systems and controls that were examined during the course of the audit;

- (a) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;
- (b) Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the project;
- (c) Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
- (d) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures;
- (e) Give comments on previous audits' recommendations that have not been satisfactorily implemented;
- (f) Bring to the recipient's attention any other matters that the auditor considers pertinent, including ineligible expenditures and
- (g) Give comments and observations on the accounting records, systems, and controls that were examined during the course of the audit.
  
- (h) Provide special opinion on the expenditure accounting and reporting for woredas implementing both RLLP I and RLLP II in parallel to ensure no double dipping of project expenditures.
  
- (i) Include responses from the implementing entity's management to the issues highlighted by the auditor.

## **10. AVAILABLE INFORMATION**

The auditor should have access to all legal documents, correspondences, and any other information associated with the project and deemed necessary by the auditor. The auditor will also obtain confirmation of amounts disbursed and outstanding at the Bank. Available information should include copies of the relevant: project appraisal document; financing agreement; financial management assessment reports; supervision mission reports and implementation status reports.

## **11. AUDITOR'S QUALIFICATION AND EXPERIENCE**

(a) The auditor must be completely impartial and independent from all aspects of management or financial interests of the organization;

(b) The auditor shall not, during the period covered by the audit nor during the undertaking of the audit, be employed by, serve as advisers or mentors for, or have any financial or business relationships with the organization; and

(c) The auditor shall be registered with the Accountancy Council and must demonstrate that he employs adequate staff with appropriate professional qualifications and suitable experience in accounting and auditing the accounts of entities comparable in size and complexity to the entity being audited;

(d) Curriculum Vitae (CVs) must be provided to the client by the Partner of the firm of auditors who shall be responsible for signing the opinion, together with the CVs of managers, supervisors and key personnel proposed as part of the audit team. The CVs shall include details of audits carried out by the concerned staff, including ongoing assignments indicating capability and capacity to undertake the audit.

## **12. GENERAL**

The financial statements, including the audit report, management letter and management response should be received by the Bank no later than six months after the end of the accounting year to which the audit relates.

The auditor should submit the report to the recipient's designated agent rather than to any staff member of the project entity. The agent should then promptly forward two copies of the audit report and accompanying statements to the Bank together with the management letter and management response.

Disclosure- In accordance with the Bank's disclosure policy, the project audit report (excluding management letter) should be disclosed by implementing entity (AUC). The World Bank also make the report available for public disclosure through the Bank website.

It is highly desirable that the auditor reviews the Bank's financial reporting and auditing requirements contained in [OP 10.00 Investment Project Financing](#), The auditor should also be familiar with the [Disbursement Guidelines for Investment Project Financing](#) (February 2017), the [Loan Handbook for World Bank Borrowers](#) (February 2017), and the [World Bank's Procurement Framework](#) (July 2016).

**Annex-III Voucher formats**

**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**BANK PAYMENT VOUCHER**

Date \_\_\_\_\_

No. \_\_\_\_\_

PAID TO \_\_\_\_\_

AMOUNT IN WORDS: \_\_\_\_\_

BR. \_\_\_\_\_

PURPOSE \_\_\_\_\_

BANK A/C \_\_\_\_\_

CK NO. \_\_\_\_\_

A/C No.	Debit		Credit	
	Birr		Birr	

\_\_\_\_\_  
Receiver's Signature

\_\_\_\_\_  
Prepared By

\_\_\_\_\_  
Checked By

\_\_\_\_\_  
Approved by

**Distribution: Original - Accounts Copy - Pad**

MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT

PETTY CASH PAYMENT VOUCHER

Date \_\_\_\_\_

No. \_\_\_\_\_

PAID TO \_\_\_\_\_

AMOUNT IN WORDS: \_\_\_\_\_

PURPOSE \_\_\_\_\_

BR. \_\_\_\_\_

A/C No.	Debit		Credit	
	Birr		Birr	

Receiver's Signature \_\_\_\_\_

Prepared By \_\_\_\_\_

Checked By \_\_\_\_\_

Approved By \_\_\_\_\_

**Distribution:**

Original - Accounts    Copy -    Pad

MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT

CASH RECEIPT VOUCHER

Date \_\_\_\_\_

No. \_\_\_\_\_

RECEIVED FROM \_\_\_\_\_

AMOUNT IN WORDS: \_\_\_\_\_

BR. \_\_\_\_\_

PURPOSE \_\_\_\_\_

A/C No.	Debit		Credit	
	Birr		Birr	

\_\_\_\_\_  
Cashier's Name & Signature

**Distribution:**

**Original - Payee**

**1<sup>st</sup> Copy - Accounts**

**2<sup>nd</sup> Copy - Pad**

**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**Journal Voucher**

**No.** \_\_\_\_\_

**Date:** \_\_\_\_\_

Trans. No.	Description	A/C No.	Debit		Credit	
Total						

Prepared by:

Checked by:

Approved by:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Distribution:**  
           **Original - Accounts**  
           **Copy - Pad**

**MOA-RESILENT LANDSCAPES AND LIVELIHOODS PROJECT  
GOODS RECEIVING VOUCHER**

Date \_\_\_\_\_

No. \_\_\_\_\_

Received From: \_\_\_\_\_ Reference: \_\_\_\_\_

NO.	DESCRIPTION	ITEM CODE	UNIT	QTY	UNIT COST	TOTAL COST	REMARK
<b>TOTAL</b>							

Inspected by:

\_\_\_\_\_  
Name

\_\_\_\_\_  
Signature

Received by:

\_\_\_\_\_  
Name

\_\_\_\_\_  
Signature

Dist    1<sup>st</sup> Copy-Deliverer    2<sup>nd</sup> Copy-Accounts    3<sup>rd</sup> Copy-Store    4<sup>th</sup> Copy-Pad



**MOA-RESILENT LANDSCAPES AND LIVELIHOODS PROJECT**

**STORE ISSUE VOUCHER**

Date \_\_\_\_\_

No. \_\_\_\_\_

Issued To: \_\_\_\_\_

Reference:

NO.	DESCRIPTION	ITEM CODE	UNIT	QTY	UNIT COST	TOTAL COST	REMARK
<b>TOTAL</b>							

Prepared by: \_\_\_\_\_

Approved by \_\_\_\_\_

Signature

Signature

Received by:

\_\_\_\_\_

\_\_\_\_\_

Name

Signature

Dist 1<sup>st</sup> Copy-Deliverer

2<sup>nd</sup> Copy-Accounts

3<sup>rd</sup> Copy-Store 4<sup>th</sup> Copy-Pad

**Annex-IV Non-voucher formats**

**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**TRAVEL REQUEST & APPROVAL**

Date \_\_\_\_\_ Budget line -----

Name of Traveling Person .....

Title/Position.....Department/Section.....

Basic Salary: ..... Duty Station.....

Traveling From ..... to ..... Duration .....

Purpose of Travel .....

Travel Requested by..... Signature .....

Travel Recommended by..... Signature .....

Travel Approved by ..... Signature .....

<b>Type of Expenses</b>	<b>No. of Days</b>	<b>Per diem Rate</b>	<b>Amount (Birr)</b>
Per diem advance			
Transport Advance			
Fuel Advance			
Other			
<b>Total Advance</b>			

I the undersigned have received Birr .....) and promised to settle the above advance with proper documentation or in cash, in case of unused advance, within five days of my return from field trip.

Name of the traveler: ..... Signature .....

Checked By.....Signature.....

**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**TRAVEL REPORT & SETTLEMENT FORM**

Date \_\_\_\_\_

Name of Traveling Person: .....

Department: .....Salary.....

Place of Travel: From..... to .....

Duration of Travel: From ..... to .....

Travel advance taken as per PV no. ....dated .....Birr .....

Purpose of travel: .....

1	2	3	4	5	6	7	8		9
Departure from (place)	Arrival At (Place)	Date of Departure	Time of Departure	Date of Arrival	Time of Arrival	No. of Travel days	Per diem Rate		Total Amount (Birr) (7x8)
							Hardship	Normal	
Total Per diem Expense									
Accommodation Expenses .....									
Fuel Expenses .....									
Total Expenses .....									
Less: Advance Taken .....									
Net Difference payable to or (receivable) from traveler (CRV No.....)									

\_\_\_\_\_  
Traveler's Name  
& Signature

\_\_\_\_\_  
Checked by  
Accountant

\_\_\_\_\_  
Approved by

MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT

**PAYMENT REQUEST**

Pay to .....

Address .....

Check

Cash

Transfer

Receiver's Bank account .....

Budget line .....

SLM Bank account to be charged.....

Amount in figure Birr .....

Amount in Words Birr.....

Purpose of Payment: .....

Reference: .....

I hereby certify that payment is to meet expenses for goods and services that are to be received by the project.

Name

Signature

Requested by: .....

Recommended by: .....

Approved by: .....



MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT

**Acknowledgement**

S.N	DESCRIPTION	AMOUNT	

I the undersigned have received amount Birr ----- /-----/ from -----.

Name: \_\_\_\_\_

Signature \_\_\_\_\_

**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**Fixed Asset Register Motor Vehicles and Motor Cycles**

<p><b>FIXED ASSET REGISTER</b></p> <p><b>Motor Vehicles/Motor Cycles</b></p>												
Type Of Vehicle	Supplier	Date Purchased	P.O. Number	GRR Number	GRR Date	Total Value	Property Number	Plate Number	Chassis Number	Engine Number	Place Of Assignment	Remarks

**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**Fixed Asset Register Machinery, Equipment and Furniture**

Form 11 FARG

**FIXED ASSET REGISTER**

**Machinery, Equipment and Furniture**

Type of Office Equipment	Supplier	P.O. Number	GRR Number	GRR Date	Total Value	Property Number	serial Number	Place Of Assignment	Remarks



**Annex-V Report formats**

**MINISTRY OF AGRICULTURE (MoA)**  
**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**  
**STATEMENT OF SOURCES AND USES OF FUND**  
**for the quarter ending -----**

(To be prepared both in ETB and USD)

	Total amount for the			This Quarter ending			Cumulative amount up to			Requirements: Next Six months
	Previous Quarter ending ---			-----			ending -----			
	Actual	Planned	Variance	Actual	Planned	Variance	Actual	Planned	Variance	
<b>Opening Fund Balance</b>										
USD-Designated account										
Local Account										
Advance to Region										
Advance to Other										
Payables										
<b>Total</b>										
<b>Add Receipts</b>										
IDA										
Community Contribution										
Other development partners (MDTFs)										
Government										
<b>Total</b>										
<b>Total Financing</b>										
<b>Less: Expenditure by Component</b>										
Component 1: Integrated Watershed and Landscape Management										

FINANCIAL MANAGEMENT MANUAL FOR RLLP

Component 2: Institutional Strengthening, Capacity Development and Knowledge Generation and Management											
Component 3: Rural Land Administration, Certification and Land Use											
Component 4: Project Management											
<b>Grand Total Expenditure</b>											
<b>Closing Fund Balance before ex rate</b>											
Gain or Loss on Exchange rate											
<b>Closing Fund Balance</b>											
<b>Closing Balance represented by:</b>											
USD-Designated account											
Local Account											
Receivable/Advance to Region											
Receivable/Advance to Others											
Account Payable											
<b>Total Closing Fund Balance</b>											

Note:- The exchange rate used is as follows:.....

MINISTRY OF AGRICULTURE (MoA)

MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT

STATEMENT OF USE OF FUND- by physical component

for the quarter ending .....

(To be prepared both in ETB and USD)

Project Component	Total amount for the			This Quarter ending			Cumulative amount up to		
	Previous Quarter ending -----			-----			ending -----		
<b>Component 1 - Integrated Watershed and Landscape Management</b>	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>	<b>Actual</b>	<b>Planned</b>	<b>Variance</b>
Sub component 1.1									
Sub component 1.2									
Sub component 1.3.....									
Sub Total									
<b>Component 2: Institutional Strengthening, Capacity Development and Knowledge Generation and Management</b>									
Sub component 2 .1									
Sub component 2.2									
Sub component 2.3.....									
Sub Total									
<b>Component 3: Rural Land Administration, Certification and Land Use</b>									
Sub component 3.1									
Sub component 3.2									
Sub component 3.3.....									
Sub Total									
<b>Component 4: Project Management</b>									

FINANCIAL MANAGEMENT MANUAL FOR RLLP

<b>Grand Total Expenditure</b>								
--------------------------------	--	--	--	--	--	--	--	--

**Cost Apportionment/Financing:**

(To be prepared both in ETB and USD)

IDA Grant (Grant no.....)								
IDA Credit (Credit no.....)								
Trust Funds (TF no.....)								
Other development partner s (Name)								
Gov't								
Total								

**MINISTRY OF AGRICULTURE (MoA)  
MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT  
STATEMENT OF USE OF FUND- by Category  
for the Quarter ending .....**

(To be prepared both in ETB and USD)

Project Components & Category	ANNUAL BUDGET	CURRENT QUARTER			CUMMULATIVE CURRENT			CUMMULATIVE PROJECT LIFE		
		Planned	Actual	Variance	Planned	Actual	Variance	Planned	Actual	Variance
		USD	USD	USD	USD	USD	USD	USD	USD	USD
<b>Component 1</b>										
Category 1-Goods										
Category 2-Consultant's services										
Category 3-Training and workshops										
Etc										
<b>Sub total</b>										
<b>Component 2</b>										
Category 1-Goods										
Category 2-Consultant's services										
Category 3-Training and workshops										
Etc										
<b>Sub total</b>										
<b>Component 3</b>										
Category 1-Goods										
Category 2-Consultant's services										
Category 3-Training and workshops										
<b>Sub total</b>										
<b>Component 4</b>										
Category 1-Goods										
Category 2-Consultant's services										
Category 3-Training and workshops										
Etc										
<b>Sub total</b>										
<b>TOTAL</b>										

**MINISTRY OF AGRICULTURE (MoA)**  
**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**Interim Financial Report**  
**STATEMENT OF DESIGNATED ACCOUNT**

**Period covered -From .....to.....**

**Loan/ Credit /PPF /Co financier Number -----**

--

USD

Account Number: ----- with **National Bank of Ethiopia**

OPENING BALANCE: -----

1	----				-
2	ADD RECEIPTS:				
	* IDA			-	
	* Trust Funds			-	
	* Other development partner			-	
				-	
	Sub total				- -----
3	LESS PAYMENTS				
	* Transfer to Birr a/c		-		
	* Travel advance		-		
	* Bank service charge		-		
	Sub total				- -----
	CLOSING BALANCE: -----				
4	-----				- =====

**DESIGNATED ACCOUNT (SPECIAL ACCOUNT) RECONCILIATION STATEMENT**

Loan/ Credit /PPF /Co financier Number **IDA:.....**

Account Number: ..... with **National Bank of Ethiopia**

1	Total Advance by World Bank	USD	
2	Less total amount recovered by World Bank	USD	
3	Equals present outstanding amount advanced	USD	

to the Special Account (No. 1 less No. 2)

---

4	Amount in Special Account at July 7,2011 as per Bank Statement	USD	
5	Add amount of eligible expenditure documented in attached IFR	USD	

No. MoA 10

6	Plus: amount claimed in previous application not yet credited	USD	
	at date of Bank Statement		

7	Total advanced accounted for	USD	
---	------------------------------	-----	--

8	Explanation of any discrepancy between total appearing on line		
	3 & 7		
	above		
	1. Local account	USD	
	2. Advance to Region	USD	
	3. Advance to Others	USD	
	4. Payable to Others	USD	
	5. Loss on exchange rate	USD	

	Sub total:	USD	_____ -
--	------------	-----	---------

	<b>Total</b>	<b>USD</b>	<b>_____ -</b>
--	--------------	------------	----------------

9 Date		Prepared by :	
		Signature:	



<b>MINISTRY OF AGRICULTURE (MoA)</b> <b>MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT</b> <b>Interim Financial Report</b> <b>Statement of Cash Forecast for the next six months from -----to-----</b> (To be prepared both in ETB and USD)					
Particulars	Annual Budget	QRT1	QRT2	Total 6 month	Remark
<b>Expenditure for the next Six month</b>					
• <b>Component 1 - Green Infrastructure and Resilient Livelihoods</b>					
<b>Sub component 1.1</b>					
<b>Sub component 1.2</b>					
<b>Sub component 1.3.....</b>					
<b>Sub Total</b>					
<b>Component 2: I Investing in Institutions and Information for Resilience</b>					
<b>Sub component 2 .1</b>					
<b>Sub component 2.2</b>					
<b>Sub Total</b>					
<b>Component 3: Rural Land Administration, Certification and Land Use</b>					
<b>Sub component 3.1</b>					
<b>Sub component 3.2</b>					
<b>Sub component 3.3.....</b>					
<b>Sub Total</b>					
<b>Component 4: Project Management</b>					
<b>Grand Total Expenditure for the next 6 months</b>					
<b>Less Direct payments</b>					
<b>Expenditure for the next 6 months to be financed by DA</b>					
<b>Less Ending balances</b>					
Ending balance Designated account					
Ending balance Local account					
Ending balance Receivable from region					
Ending balance Receivable from other					
Ending balance Payable to other					
<b>Net Amount Requested to be paid in to Designated account</b>					

***FINANCIAL MANAGEMENT MANUAL FOR RLLP***

Represented by –Financing					
IDA Grant (Grant no.....)					
IDA Credit (Credit no.....)					
Trust Funds (TF no.....)					
Other Donors (Name)					
Gov't					
<b>Total</b>					

**MINISTRY OF AGRICULTURE (MoA)**  
**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**  
**Expenditures subject to Post Review From ..... to .....**

Expenditure Category	Amount In USD by financier			Remark
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	

**MINISTRY OF AGRICULTURE (MoA)**  
**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**  
**Expenditures subject to Prior Review From .....to .....**

Expenditure Category	Amount In USD			Remark
<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	

**MINISTRY OF AGRICULTURE (MoA)**  
**MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**  
**Payments Made during Reporting Period**  
**Against Contracts Subject to the World Bank's Prior Review**

<b>Contract Number</b>	<b>Supplier</b>	<b>Contract Date</b>	<b>Contract Amount</b>	<b>Date of WB's Non Objection to Contract</b>	<b>Amount Paid to Supplier during Period</b>	<b>WB's Share of Amt Paid to Supplier during Period</b>

**Annex-VI Statement formats**

**Ministry of Agriculture- MOA-RESILENT LANDSCAPES AND LIVELIHOODS PROJECT**

**Balance Sheet**

**As at July 7, 201..**

	Notes	Current Period	Previous Period
<b>ASSET</b>			
<b>CURRENT ASSETS</b>			
Cash and Equivalents			
Cash at Bank Designated Account			
Cash at Bank Birr Account			
Accounts Receivables			
Prepayments			
Other Current Assets			
Total Current Assets			
<b>NON-CURRENT ASSETS</b>			
Other non-current assets			
Total Non-current Assets			
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable			
Accrued Expenses			
Taxes Payable			
Retention			
Letter of Credit			
<b>NON-CURRENT LIABILITIES</b>			
Other Non-Current Liabilities			
<b>NET ASSETS</b>			
Excess of Revenue over Expenditure			
Previous Period			
Current Period			
<b>TOTAL LIABILITIES AND NET ASSETS</b>			

**Ministry of Agriculture- MOA-RESILIENT LANDSCAPES AND LIVELIHOODS PROJECT**

**Income Statement**

**For the Period Ended July 7, 201\_**

	Notes	Current Period	Previous Period
IDA Revenues			
Cash Revenue			
Non Cash Revenue			
Total Revenues			
Expenditures			
Component 1 - Green Infrastructure and Resilient Livelihoods			
Sub component 1.1			
Sub component 1.2			
Sub component 1.3.....			
Sub Total			
Component 2: Investing in Institutions and Information for			
Sub component 2 .1			
Sub component 2.2			
Sub Total			
Component 3: Rural Land Administration, Certification and Land Use			
Sub component 3.1			
Sub component 3.2			
Sub component 3.3.....			
Sub Total			
Component 4: Project Management			
Sub Total			
Total Expenditures			
Excess of Revenue over Expenditure for the Year			