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MINISTRY OF WATER AND ENERGY
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13 JAN 2026

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Date
ቁጥር MOWE07/1739/18
Ref .No

The World Bank, Country Office

P.O.Box 5515

Africa Avenue, Bole Road

Addis Ababa, Ethiopia

RE: World Bank Financed Second Urban Water Supply and Sanitation Project

IDA Credit No. 60070-ET, 60080-ET,75320-ET and COFN No. C1860

Subject: Submission of External Audit Report

Enclosed herewith please find Audit Services Corporation Independent Auditor's audited financial statements and Management Letter Report of Tigray National Regional State Bureau of Water and Energy, Mekele and Adigrat Cities for the conflict period from 8 July 2020 to 11 October 2023 of Second Urban Water Supply and Sanitation Project.

Sincerely Yours,

Nuredin Mohammed Beyan
Sanitation Infrastructure Lead
Executive Officer

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA MINISTRY OF WATER AND ENERGY

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- Office of the Minister
- 2nd UWSSP Finance
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AUDIT SERVICES
CORPORATION

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

MINISTRY OF FINANCE

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND ADIGRAT CITIES

SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION PROJECT

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

8 JULY 2020 TO 11 OCTOBER 2023

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Office of the Federal Auditor General
Audit Service Corporation

INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS OF TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND ADIGRAT CITIES SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION PROJECT

Opinion

We have audited the accompanying financial statements of Second Ethiopia Urban Water Supply and Sanitation Project of the Federal Democratic Republic of Ethiopia, Tigray Region Bureau of Water and Energy, Mekelle and Adigrat Cities, which comprise the balance sheet as at 11 October July 2023, and the statement of sources and uses of fund for the period from 08 July 2020 to 11 October 2023 and a summary of significant accounting policies and other explanatory information.

In our opinion the financial statements give a true and fair view of the financial position of Second Ethiopia Urban Water Supply and Sanitation Project of the Federal Democratic Republic of Ethiopia, Tigray Region Bureau of Water and Energy, Mekelle, and Adigrat cities as at 11 October 2023 and of its financial performance and its sources and uses of funds for the period from 08 July 2020 to 11 October 2023 in accordance with the Ethiopian Government's Manual of the Federal Accounting System which is based on a modified cash basis of accounting.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA).

We are independent of the audited entity / Tigray Region Bureau of Water and Energy, Mekelle and Adigrat cities in accordance with the relevant ethical requirements relating to the audit, and have fulfilled the auditor's other ethical responsibilities in accordance with these requirements as per the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code).

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

ASC

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Responsibilities of Management for the Financial Statements

The Ministry of Finance (MoF) in collaboration with Tigray Region Bureau of Water and Energy, Mekelle and Adigrat cities is responsible for the preparation and fair presentation of these financial statements in accordance with the Ethiopian Government's Manual of the Federal Accounting System which is based on a modified cash basis of accounting and for such internal control as the Bureau, and cities determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Reports on other requirements

As required by the terms of reference and the World Bank guidelines we must report, in addition to our opinion, that

(a) Opening balances indicated in the financial statements were accurately taken from the ending balances (07July 2020) as of the cut-off date.

(b) Ending fund balances as of 11 October 2023 were supported with adequate supporting documents (bank statement, breakdown of advances and payables and related documentations, etc.)

(c) Expenditures incurred during the period were supported by adequate supporting documents and were eligible in light of the Bureau of Water and Energy, and Mekelle city, but in light of Adigrat city supporting documents of expenditures of the fiscal year of 08 July 2020 to 07 July 2021 were not made available for audit.

(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 Financial Reports (IFRs) methods of reporting. The respective reports issued during the period were in agreement with the underlying books of account and the expenditures incurred and reported were for eligible activities.

(e) Goods, works and non-consulting services financed have been procured in accordance with World Bank Procurement rules.

(f) Project specific bank accounts have been maintained and funds disbursed out of the accounts were used only for the purpose intended in the financing agreement.

(g) Because of fixed asset registers of Bureau of Water and Energy, Mekelle and Adigrat cities were not made available for our audit, we were unable to verify whether assets procured using project funds existed, were in usable condition and there was verifiable evidence of ownership by the implementing agency or beneficiaries in line with the financing agreement.

(h) An assessment of lost or damaged assets made by the Bureau of Water and Energy, and Mekelle city was not made available for the audit. Consequently, we are unable to check whether actions have been taken to replace project assets which could be claimed to have been lost. However, based on an assessment report of Adigrat city, list of assets that are claimed to have been lost is annexed.

(i) World Bank financing and all other financings under the project have 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.

(j) 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.

(k) 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.

AUDIT SERVICE CORPORATION

Date: 09 September 2024

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION
BALANCE SHEET
AS AT 11 OCTOBER 2023

	Notes	11-Oct-23	7-Jul-20
		BIRR	BIRR
Asset			
Cash	3.1f	33,658,826	9,210,498
Advance	3.1g	8,397,582	-
Total Assets	3.1h	42,056,408	9,210,498
Payable	3.1i	252,366	21,100
Fund Balance	3.1j	**41,804,042**	**9,189,398**

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION
STATEMENT OF SOURCES AND USES OF FUNDS
FOR THE PERIOD FROM 08 JULY 2020 TO 11 OCTOBER 2023

	Notes	11-Oct-23	7-Jul-20
		BIRR	BIRR
Accumulated Fund/ Opening Balance	3.1a	44,541,501	10,270,894
Sources			
Income	3.1b	-	10,695,688
Available balance	3.1c	44,541,501	20,966,582
Uses			
Expenditure	3.1d	2,737,459	11,777,184
Excess/Deficit of Source over Uses, Fund Balance	3.1e	**41,804,042**	**9,189,398**

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION
NOTES TO THE FINANCIAL STATEMENTS

1. PROGRAM INFORMATION

The "Second Ethiopia Urban Water Supply and Sanitation" project is a significant initiative aimed at improving urban water supply and sanitation services across various cities in Ethiopia. This project is part of the government's broader efforts to enhance public health, promote sustainable urban development, and improve the quality of life for urban residents.

The primary objectives of the project are:

1. To increase access to improved water supply services for urban populations.
2. To enhance sanitation services in targeted cities and towns.
3. To strengthen the institutional capacity of water and sanitation service providers.
4. To promote sustainable management and financing of urban water supply and sanitation services.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Program, which are consistent with those applied in the previous years, are stated below.

a) Basis of preparation

These financial statements are prepared on a modified cash basis and in accordance with the accounting policy of the Government of the Federal Democratic Republic of Ethiopia.

b) Currency

These financial statements are prepared and presented in Birr. Transactions in foreign currencies are translated into Birr at the approximate rates of exchange prevailing at the dates of the transaction. Balances in foreign currencies at the balance sheet date are translated at the rate of exchange prevailing at the date of the balance sheet.

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION NOTES TO THE FINANCIAL STATEMENTS (continued)

3.1. Source, Use, Cash, Advance, Payable, and Fund Balance of Bureau of water and Energy, Mekelle and Adigrat city

	Notes	11-Oct-23 BIRR	7-Jul-23 BIRR	7-Jul-22 BIRR	7-Jul-21 BIRR	7-Jul-20 BIRR
Accumulated Fund/ Opening Balance	3.1a	44,541,500.92	42,634,405.60	42,789,805.60	9,189,397.68	10,270,894.01
Sources						
Income	3.1b	-	3,737,672.80	-	40,412,000.00	10,695,687.85
Available balance	3.1c	44,541,500.92	46,372,078.40	42,789,805.60	49,601,397.68	20,966,581.86
Uses						
Expenditure	3.1d	2,737,459.06	1,830,577.48	155,400.00	6,811,592.18	11,777,184.15
Excess/Deficit of source over Uses. Fund Balance	3.1e	**41,804,041.86**	**44,541,500.92**	**42,634,405.60**	**42,789,805.50**	**9,189,397.71**
Represented By						
Asset						
Cash at Bank		33,656,026.47	37,070,849.91	35,032,739.95	35,124,439.95	9,210,497.68
Cash on hand		2,800.00	2,800.00	2,800.00	2,800.00	-
Total Cash	3.1f	33,658,826.47	37,073,649.91	35,035,539.95	35,127,239.95	9,210,497.68
Advance	3.1g	8,397,581.69	8,386,037.31	8,326,037.31	8,326,037.31	-
Total Assets	3.1h	42,056,408.16	45,459,687.22	43,361,577.26	43,453,277.26	9,210,497.68
Payable	3.1i	252,366.30	918,186.30	727,171.66	663,471.66	21,100.00
Fund Balance	3.1j	**41,804,041.86**	**44,541,500.92**	**42,634,405.60**	**42,789,805.60**	**9,189,397.68**

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION NOTES TO THE FINANCIAL STATEMENTS (continued)

3.1.1. Source, Use, Cash, Advance, Payable, and Fund Balance of Mekelle

Mekelle City						
		11-Oct-23	7-Jul-23	7-Jul-22	7-Jul-21	7-Jul-20
	Notes	BIRR	BIRR	BIRR	BIRR	BIRR
Opening balance	3.1 a	20,769,682.61	20,030,272.29	20,030,272.29	52,559.22	10,013,274.28
Source						
Income	3.1b	-	2,262,847.80	-	21,129,000.00	135,687.85
Available fund	3.1c	20,769,682.61	22,293,120.09	20,030,272.29	21,181,559.22	10,148,962.13
Uses						
Expenditure	3.1d	1,483,224.47	1,523,437.48	-	1,151,286.93	10,096,403.01
Excess / Deficit of Source over uses, Fund Balance	3.1e	**19,286,458.14**	**20,769,682.61**	**20,030,272.29**	**20,030,272.29**	**52,559.12**
Represented By						
Cash at Bank	3.1f	13,762,493.98	15,864,255.42	14,898,525.10	14,898,525.10	73,659.12
Advance	3.1g	5,523,964.19	5,507,547.19	5,447,547.19	5,447,547.19	-
Total Asset	3.1h	19,286,458.17	21,371,802.61	20,346,072.29	20,346,072.29	73,659.12
Payable	3.1i	-	602,120.00	315,800.00	315,800.00	21,100.00
Fund Balance	3.1j	**19,286,458.17**	**20,769,682.61**	**20,030,272.29**	**20,030,272.29**	**52,559.12**

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION NOTES TO THE FINANCIAL STATEMENTS (continued)

3.1.2. Source, Use, Cash, Advance, Payable, and Fund Balance of Bureau of water and Energy

Bureau of water and Energy						
		11-Oct-23	7-Jul-23	7-Jul-22	7-Jul-21	7-Jul-20
	Notes	BIRR	BIRR	BIRR	BIRR	BIRR
Opening Balance	3.1a	374,199.17	374,199.17	529,599.17	250,000.00	-
Source						
Income	3.1b	-	-	-	963,000.00	250,000.00
Available fund	3.1c	374,199.17	374,199.17	529,599.17	1,213,000.00	250,000.00
Uses						
Expenditure	3.1d	12,155.00	-	155,400.00	683,400.83	-
Excess / Deficit of Source over uses	3.1e	**362,044.17**	**374,199.17**	**374,199.17**	**529,599.17**	**250,000.00**
Represented By						
Cash at Bank	3.1f	362,044.17	433,026.67	433,026.67	524,726.67	250,000.00
Advance	3.1g	-	4,872.50	4,872.50	4,872.50	-
Total Asset	3.1h	362,044.17	437,899.17	437,899.17	529,599.17	250,000.00
Payable	3.1i	-	63,700.00	63,700.00	-	-
Fund Balance	3.1j	**362,044.17**	**374,199.17**	**374,199.17**	**529,599.17**	**250,000.00**

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY,
MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION
NOTES TO THE FINANCIAL STATEMENTS (continued)

3.1.3. Source, Use, Cash, Advance, Payable, and Fund Balance of Adigrat city

Adigrat City						
		11-Oct-23	7-Jul-23	7-Jul-22	7-Jul-21	7-Jul-20
	Notes	BIRR	BIRR	BIRR	BIRR	BIRR
Opening Balance	3.1a	23,397,619.14	22,229,934.14	22,229,934.14	8,886,838.56	257,619.73
Source						
Income	3.1b	-	1,474,825.00	-	18,320,000.00	10,310,000.00
Available fund	3.1c	23,397,619.14	23,704,759.14	22,229,934.14	27,206,838.56	10,567,619.73
Uses						
Expenditure	3.1d	1,242,079.50	307,140.00	-	4,976,904.42	1,680,781.14
Excess/Deficit of Source over uses	3.1e	**22,155,539.64**	**23,397,619.14**	**22,229,934.14**	**22,229,934.14**	**8,886,838.59**
Represented By						
Asset						
Cash on hand		2,800.00	2,800.00	2,800.00	2,800.00	-
Cash at Bank		19,531,488.32	20,773,567.82	19,701,188.18	19,701,188.18	8,886,838.56
Total Cash	3.1f	19,534,288.32	20,776,367.82	19,703,988.18	19,703,988.18	8,886,838.56
Advance	3.1g	2,873,617.62	2,873,617.62	2,873,617.62	2,873,617.62	-
Total Asset	3.1h	22,407,905.94	23,649,985.44	22,577,605.80	22,577,605.80	8,886,838.56
Payable	3.1i	252,366.3	252,366.3	347,671.66	347,671.66	-
Fund Balance	3.1j	**22,155,539.64**	**23,397,619.14**	**22,229,934.14**	**22,229,934.14**	**8,886,838.56**

4. DATE OF AUTHORIZATION

The Channel One Programmes Coordinating Department Head of the Ministry of Finance authorized the issue of these financial statements on09 September 2024.

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND AGIRAT CITIES
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION
NOTES TO THE FINANCIAL STATEMENTS (continued)

I. Annex: A list of assets that are claimed to have been lost or damaged

Based on an assessment of lost or damaged assets made by each implementer, a list of assets that are claimed to have been lost or damaged in each implementer stated here under.

Woreda Second UWSS Assets' Damage Assessment Report				
Woreda	Fixed asset	Not Available	Unit Cost /Birr	Action taken
1. Adigrat City	Desk top computer	3	89,930	Not replaced
	Laptop computer	4	112,412.5	Not replaced
	Photo copy//canon	1	108,445	Not replaced
	Laser jet pro M404-405	1	63,480	Not replaced
	Fax machine	1	70,092.5	Not replaced
	EXC shelf with four door	1	-	Not replaced
	EXC Management chair	3	-	Not replaced
	4G/LTE Mobile Router	1	-	Not replaced

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AUDIT SERVICES CORPORATION

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

MINISTRY OF FINANCE

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY, MEKELLE AND ADIGRAT CITIES

SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION PROJECT

MANAGEMENT LTTER

FOR THE PERIOD FROM 08 JULY 2021 TO 11 OCTOBER 2023

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Office of the Federal Auditor General
Audit Service Corporation

TIGRAY NATIONAL REGIONAL STATE BUREAU OF WATER AND ENERGY,MEKELLE CITY, AND ADIGRAT CITY
SECOND ETHIOPIA URBAN WATER SUPPLY AND SANITATION PROJECT
MANAGEMENT LETTER
FOR THE PERIOD FROM 08 JULY TO 11 OCTOBER 2023

I.INTRODUCTION

We have pleasure in submitting our findings and recommendations on weaknesses in internal control and other matters which came to our attention during the audit of the accounts of the Bureau of Water and Energy, Mekelle city, and Adigrat city (here in after referred to as the Program) for the period from 08 July 2020 to 11 October 2023.

As part of our audit of the Programme, we have visited:

I. Ministry of Finance

II. Ministry of Water and Energy

III. Tigray National Regional State Bureau of Water and Energy

IV. Mekelle City

V. Adigrat City

It must be appreciated that the matters dealt within this report came to our attention during the conduct of our normal audit procedures which are designed primarily with a view to the expression of our opinion on the financial statements of the program and therefore our examination cannot be expected to disclose all possible weaknesses in internal control and to uncover all other findings which a more extensive special examination might reveal.

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II. FINDINGS AND RECOMMENDATIONS

Finding

2.1. As per the Terms of reference for the Special Audit of the Programme, a fixed asset register was required to be maintained for all fixed assets procured using the Programme resources. However, during our audit the fixed asset register (Hard Copy or Electronic Governmental Property Management System) in the Bureau of Water and Energy, Mekelle city, and Adigrat city was not made available for the audit. The reason for not maintaining fixed asset register is because of the Electronic Governmental Property Management Software was not functional. Consequently, we were unable to verify whether assets procured using programme funds existed, were in usable condition, and there was verifiable evidence of ownership by the implementing agency or beneficiaries in line with the financing agreement.

Management Response

Recording of fixed asset using the software was interrupted.

Recommendation

The responsible Official of the bureau should exert efforts to update or replace the software in collaboration with the concerned stakeholders.

Finding

2.2. The Terms of Reference for this audit also requires that assets (including their values) and accounting documents reported to have been lost are properly documented along with the processes followed, actions taken to replace assets lost, and alternative mechanisms used to recoup/obtain accounting documents/supporting documents are documented. During our audit it was noted that there is no an assessment report of lost or damaged assets made by the Bureau of Water and Energy and Mekelle city, and fixed asset register and supporting documents such as good receiving notes were not made available for the audit. Consequently, we are unable to check whether assets procured using the fund was lost during the conflict.

Management Response

The finding accepted

Recommendation

The responsible Official of the bureau should make sure that there is an assessment report of assets damaged or lost during the conflict

Finding

2.3. Expenditure reports are expected to be supported with evidences. However, during the audit of Adigrat city, supporting documents for expenditure of Birr 4,976,904.42 in the fiscal year of 08 July 2020 to 07 July 2021was not made available for audit. Consequently, we are unable to verify whether the expenditure amount is used for the intended purpose.

Management Response

The expenditure supporting documents were destroyed during the conflict.

Recommendation

The responsible Officials of the city should exert efforts to recoup or obtain accounting documents or supporting documents by alternative mechanisms.

III.CONCLUSION

We would like to express our appreciation to the management and staff of the Program for the assistance and courtesy extended to our representatives during the course of our audit.

We have discussed this report with the appropriate officials of your Ministry, who, in general, accept our findings and recommendations. We shall be pleased to provide any further explanations that may be required

Yours faithfully,

AUDIT SERVICE CORPORATION

Date: 09 September 2024