

**Addendum to Fiduciary Systems Assessment**

**Ethiopia Program for Results (Hybrid) for Strengthening Primary  
Health Care Services Additional Financing**

*December 2023*

## ACRONYMS AND ABBREVIATIONS

ACG	Anti-corruption Guidelines
AF	Additional Financing
AHARI	Armauer Hansen Research Institute
ARM	Annual Review Meeting
BOFED	Bureau of Finance and Economic Development
DLI	Disbursement-Linked Indicator
DPs	Development Partners
EFY	Ethiopian Fiscal Year
EPHI	Ethiopian Public Health Institute
EPSS	Ethiopian Pharmaceutical Supply Service
F & C	Fraud and Corruption
FA	Financing Agreement
FDA	Food Drug Authority
FEACC	Federal Ethics and Anti-Corruption Commission
FSA	Fiduciary System Assessment
GAC	Governance and Anti-Corruption
GMU	Grant Management Unit
HAPCO	HIV/AIDS Program Coordination
HSTP	Health Sector Transformation Program
IAU	Internal Audit Unit
IBEX	Integrated Budget and Expenditure
IDA	International Development Association
IFA	Integrated Fiduciary Assessment
IFMIS	International Financial Management Information System
IFR	Interim Financial Report
ISM	Implementation support missions
JCCC	Joint Core Coordinating Committee
JFA	Joint Financing Agreement
MoH	Ministry of Health
MoU	Memorandum of Understanding
OFAG	Office of Federal Auditor General
PAP	Program Action Plan
PforR	Program for Result
PHC	Primary Health Care Services
PIU	Program/Project Implementing Unit
RHBs/RBoH	Regional Health Bureaus
RBoA	Regional Bureau of Agriculture
RBoE,	Regional Bureau of Education
RBoUDCo	Regional Bureau of Urban Development and Construction
RBoW	Regional Bureau of Water
REACCs	Regional Ethics and Anti-Corruption Commissions
SDGPF	Sustainable Development Goal Performance Fund
TPI	Third-Party Implementation
TF	Trust Fund
UN	United Nations
USD	United States Dollar
XDR/SDR	Special Drawing Right

## I. CONCLUSION

1. **Introduction:** A Fiduciary System Assessment (FSA) for strengthening Primary Health Care Services Program Additional Financing (AF) was carried out on the Program implementing entities consistent with WB Policy, Directive, and Fiduciary Systems Assessment Guidance Note for Program-for-Results (PforR) Financing. Though the parent program become effective recently the assessment tries to capture recent developments. The objective of the AF FSA is to conclude whether the Program fiduciary systems continue to provide reasonable assurance that the financing proceeds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

2. **Reasonable assurance:** The AF FSA concludes that the Financial Management, Procurement and Governance systems' capacity and performance continue to be adequate to provide reasonable assurance that the funds will be used for the intended purposes with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

3. **Risk assessment:** The overall fiduciary risk of the program continues to be substantial. The fiduciary system, built on the lessons learned in the implementation of the health SDG P4R (P123531), has strengthened: financial reporting, external auditing, risk assessment, fraud and corruption reporting, enhanced transparency, tracking of procurement activities, and use of framework contracting in pharmaceutical procurement at EPSS.

4. For Financial Management (FM), the key FM risks identified under the parent financing remain the same. These include the credibility and reliability of the budget for the program; the continued slow moving Program advances at implementing entities; recurring internal control weaknesses in the external audit reports; limited internal audit capacity; unpredictable fund transfers to regional implementers and lack of management action on PAP activity that requires cashflow/disbursement schedules, and continued delays in financial reporting; delays in the Program's work plan and budget preparation and approval; delayed clearances of EPSS's entity financial statements audit backlog; and weak financial transparency. In addition, the conflict in the country continues to be a key risk affecting the implementation of the Program fiduciary management. The risk mitigation measures identified during parent financing assessment and under monitoring by the Bank and since the effectiveness of the Program will continue. These include strengthening collaborative planning process with Regions accompanied by implementation plan and cash forecasts; timely preparation and approval of the Program's comprehensive plan/budget; disclosing key documents such as the Program plan/budget, performance reports and audited financial statement to the public; establishing mechanism of accountability and strengthening the internal control system through capacity building trainings, ensuring accountability through signing of MoUs; strengthening advances liquidation monitoring and follow-up through IFRs, close follow-up with timeliness of financial and audit reports; and strengthening internal audit functions as PAP activities that will be monitored through regular implementation support and supervision missions. activities.

5. The procurement system both at the Federal and Regional remains to be governed by the same federal and regional proclamations. The procurement system gaps, and mitigation measures identified and proposed in the parent assessment remain valid. The PforR program expects to utilize a major part of the budget for the procurement of pharmaceuticals that will be undertaken centrally through the Ethiopian Pharmaceutical Supply Service (EPSS), the mandated central procuring and distributing agency for the country, while procurement through UN Agencies will be handled centrally at the MoH. A certain portion of the budget will also be distributed to regions where procurements for the construction of health centers and health posts are expected to be carried out. The identified procurement risks at EPSS, MoH, and regions identified in the parent assessment remain unchanged. The risk mitigation measures in the form of DLI and PAPs will continue to be effective for the AF. Exclusion of procurement of high-value contracts will also continue to remain in place.

6. Appropriate systems to handle the risks of fraud and corruption, including effective complaint-handling mechanisms, that have been agreed on and established in the parent program will continue in this AF as well.

## II. SCOPE

7. The scope of the FSA is based on the existing boundary of the program and expenditure framework that is established under the parent program as disclosed under the expenditure framework. The expenditure framework of the PforR is defined by the government program and program boundary, which are the HSTP and the SDGPF, respectively. The SDGPF is the Program boundary for the PforR operation which has a strong focus on reproductive, maternal, and child health high-impact interventions through the strengthening of PHC services.

### Implementation Arrangements

8. The AF does not propose changes to the original Program Development Objectives, Program boundary, Program Actions Plan (PAP), Program design and scope, and the institutional arrangement. The Program will continue to use the government system (Federal and Regional level) for FM, procurement, and governance. The AF recommends a program restructuring to adapt to the changes in the implementation arrangement of the Tigray Region, moving from a TPI model to a government-led implementation approach. Both the government and the WB fiduciary team have conducted assessments and have suggested that the transitional government has developed the capacity to implement projects at a regional level. The summary section of the fiduciary readiness Assessment Reports is Annexed as Annex – 1 of this AF FSA Addendum.

9. The fiduciary arrangements from the original Operation will continue to be applicable as the proposed AF does not require modifications to the Program boundary, scope, governance structure, and implementing institutions. The overall fiduciary arrangement of the Program will continue to be the responsibility of the MoH with the oversight of MoF. The overall financial management responsibility of the Program which includes the release of resources, the consolidation of reporting, and auditing of the program will continue to lie with the MoH. Each implementing entity will also continue to be responsible for the budget monitoring, accounting, internal audit, and reporting of their own transactions. At the regional government level, RHBs will continue to have similar responsibilities as MoH in terms of financial management. The Program will continue to have its own annual work plan and budget reviewed by the SDGPF contributing partners, with budget line items identifiable in the system. Expenditures under the Program are identifiable in the government's accounting system and are subject to both internal and external audit reviews.

## III. KEY RISKS

10. The fiduciary risk assessment remains unchanged from the parent program, which is still in the early stages of implementation with no immediate changes anticipated. The overall risk was rated as high due to the security situation of the country particularly in the northern part of the country. Although there is an improvement in the security situation in Tigray following the Pretoria peace agreement, the security situation in Amhara and some parts Oromia and Benishangul Regions are getting worse.

## IV. REVIEW OF FIDUCIARY PERFORMANCE

### Financial Management

#### Budgeting

11. **Budget preparation:** The approval of the annual planning guidelines, priority setting, review and appraisal of draft plans, overall resource allocation among HSTP priorities, and the endorsement of the

comprehensive annual plan is continuing to be decided after consultations between MoH, RHBs and all DPs through the existing joint governance structures. The overall budget of the Program is proclaimed at the federal level under the MoH. The Program budget for EFY 2016 has been finalized and approved by Health SDG contributors/ Joint Core Coordinating Committee (JCCC)/ with significant delay, on December 12/2023. The delay has impacted the timely implementation of the Program activities, budget utilization, and preparation of the interim financial reporting.

12. **Budget control:** A reasonable budget control system has been in place at all levels of implementation. The Program checks the availability of the budget at the transaction level using Excel tracking of budget line expenditures and commitments. Transaction requested for payment is checked and ensures whether it is included in the approved budget and availability of sufficient uncommitted budget balance through the budget control team assigned in the grant finance team at MoH to monitor the availability of budget before transfer procurement activity is processed, fund transfer is made to the regions and other implementing entities. EPSS has a funds management team in its structure that controls the budget at the transaction level. Other implementing entities do have assigned staff for budget control at the transaction level. Quarterly interim financial reports continued to include variance analysis at activity levels. Major variances are explained.

13. **Budget utilization:** The parent financing assessment indicated that the budget utilization for the SDG Program over the past five years revealed low utilization ranging from 17 to 42 percent. The AF assessment indicated that the Program's budget utilization for EFY 2015 (as of last quarter IFR ended July 07, 2023) was only 35 percent indicating that the Program's budget utilization performance remains low. The main causes of the significant underutilization of the budget were delays in planning/budgeting, slow-moving procurements, and advance liquidation, and lack of disbursement schedules aligned with the work plans.

### ***Financial Transparency***

14. To enhance the fiscal transparency of the Program, the MoH should disclose the work plan/budget, performance reports, and audited financial statements as required by the government directive (Directive 51/2010 that was enacted to enhance fiscal transparency. The AF assessment indicated that the last fiscal year (EFY 2015) Program performance report was published as part of the sector's Annual Review Meeting (ARM) report. However, the last Program's audited financial statements (EFY 2014) and the EFY 2016 Program's comprehensive plan/budget both have not been publicly disclosed. The Program should make sure that such financial information should be publicly disclosed in the future to ensure the Program's fiscal transparency.

### ***Budget Execution***

15. **Treasury management and fund flow:** The Program is funded by development partners that finance underfunded priority areas within the framework of the HSTP. The Program has one foreign currency-denominated account and one local currency account at MoH. All regional HBs have opened separate local currency accounts to receive resources for the Program. No cash resources will be transferred to zones and woredas. At the Federal levels, EPSS, EPHI, EFDA, AHARI, have separate Program bank accounts. The Parent financing fiduciary assessment revealed that the Program (SDG PF Program) had a significant number of regions that did not receive resources as per the annual plan already prepared indicating that the Program had low predictability of resources transfers. This had been raised as one of the constraints for low implementation and utilization of the Program's budget. The PAP action to request for the ministry to prepare a disbursement schedule along with the Program's annual plan has not been implemented. Though the signing of MoU with major implementers was one of the treasury management and Program's execution risks mitigation measures proposed by the parent financing assessment, the recommended MoU has not been signed by the ministry and RHBs. The assessment noted that 75 percent

of the EFY 2016 Program's budget is planned to be utilized at the federal level for procurement (medical supplies and works), with an increase from 67 percent in the EFY 2015.

16. **Disbursement of Program funds from DPs to Program:** Disbursement from the IDA to the Program continues to be only upon achievement of the DLI. Other DPs contribute to the Program based on their commitment for a fiscal year. Upon achievement of the results, the MoF will inform the World Bank and provide evidence as per the verification protocols, as justification that the results for the DLI have been met. Disbursement requests will be submitted to the Bank using the Bank's standard disbursement forms signed by an authorized signatory. As the Program is at its early stage, no DLI has been achieved and reported to the Bank. The Program however had its DLI advance of XDR 43.54 million (US\$ 58.43 million) from IDA Grant E1210, US\$ 3.6million from TF B9194, and US\$ 2.8 million from TF B9212 totalling US\$ 64.83 million back in April 2023. With this, the Program's funding from 11 contributing DPs reached (US\$ 88.13 million) 107 percent of commitments for EFY 2015. The Program disbursed 94 percent of the funds received for implementation of the Program.

### ***Accounting and financial reporting***

17. **The government has financial regulations, manuals, and procedures in place to guide the PFM of the country.** The government uses a modified cash basis of accounting with double entry to record transactions. The accounts at EPSS are prepared under IFRS. To properly guide the overall Program's resource flows, a separate financial management (FM) manual was proposed by the parent financing assessment. The Program has developed the FM manual, provided orientation to all users, and disseminated it to all implementing entities.

18. Concerning the use of accounting software, the Program continued to use Peachtree accounting software for recording transactions and producing reports. The Program's transactions are also captured in IFMIS at MoH. The consolidated expenditure of the program is entered into IFMIS on a daily basis for MoH and as soon as monthly financial reports, using agreed reporting formats, are received for expenditures incurred at other implementing entities.

19. MoH is expected to send quarterly Interim Unaudited Financial Statement (IFR) to all SDG contributing Development Partners within 45 days after the end of the quarter. The first draft is circulated through email to contributing DPs. After incorporating DPs comments, the final one is issued. The reporting template is being used by the regions, but more work is needed to ensure that all regions comply with this template. Significant delays in the submission of the report remain. While the last IFR for the quarter that ended July 07, 2023, was submitted on November 30, 2023, with over three months delay, the IFR for the quarter that ended on October 11, 2023, is already overdue as of this assessment date (December 25, 2023).

20. Clearing the Program's accounts audit backlogs at EPSS had been one of the fiduciary issues raised in the parent financing fiduciary assessment and included in the PAP actions. As of the parent financing Program design, financial statements of only up to EFY 2009 had been audited and that of EFY 2010 was under draft stage. The AF assessment indicated that EPSS has finalized the financial statements audit for EFY 2010 and is under the draft stage for EFYs 2011 to 2014. Financial statements for the EFY 2015 have been prepared and ready for the external audit engagement.

### ***Internal control and internal audit***

21. **Internal controls:** The government's internal control procedures are well embedded in the financial proclamation, regulation, and various directives and manuals and are being adhered to by the Program. Adequate segregation of duties exists to safeguard assets and to prevent fraud or misappropriation.

22. **Internal Audit:** The inspection directorate which is under the MoF continues to have the overall responsibility of ensuring that the internal audit units (IAU) at public bodies are staffed, trained, and monitored. At MoH, EPSS, RHBs, and other implementing entities have their internal audit units prepare their annual work plans to conduct internal audit reviews of their specific institutions. The MoH audit directorate audited the SDG accounts for EFY 2015 and has a plan to conduct one audit review for EFY 2016 accounts. With respect to capacity, the parent financing fiduciary assessment indicated that at both MoH and EPSS, the available number and experience of internal auditors are not adequate to perform the internal audit work effectively. At MoH, however, due to HIV/AIDS Program Coordination (HAPCO) merging with the MoH with its entire staff, the total number of internal audit staff at the ministry is now 18 while the structure requires only 9 staff. Though the capacity in terms of the number of staff is more than sufficient, the quality (staff competence and experience) remains low and requires capacity-building training. At EPSS, the internal audit unit is currently under study/restructuring and the number of staff existing is six (6).

### **External Auditing**

23. The Program is audited annually by an external auditor and is expected to submit its annual audited financial statement within nine (9) months of each fiscal year. The Program's audit work for the accounts of the fiscal year ended July 07, 2023, has not yet been started. Experience in SDG PF program audit indicates persistent delays in submitting the audited financial statements, with the last audit (for the year ended July 07, 2022) submitted with a delay of over six months. The Program should ensure compliance with the reporting deadline dates agreed in the financing agreement. Audit for FY 2021 was submitted with 3 weeks delay. This requires the Program management's attention and close follow-up of the Bank task team.

### **Procurement processes and procedures**

24. As stated in the parent document, the program will have an annual work plan and budget preparation process in consultation with development partners. Accordingly, the MOH shall submit quarterly and annual procurement tracking reports to the World Bank and development partners (DPs). However, as the project implementation is at an initial stage, the expected annual report on procurement and contract performance undertaken based on the agreed data collection format report for the program has not yet been submitted for WB and DPs. However, as informed during the appraisal mission, financial and procurement preparations at the Federal and Regional levels are progressing and the MOH is ready to submit the report for disbursed funds for the program as soon as possible.

### **Governance and Anticorruption**

25. There is a robust legal framework and institutional setup for addressing F & C risks in the parent program. Based on the PforR operation guideline and the application of ACG of the Bank (which is the requirement of PforR operations) the parent program has continued to submit a bi-annual verified complaint handling as well as fraud and corruption report from the beneficiary government institutions to the Bank through FEACC on time. At the Regional level, REACCs play a coordinating role while the Ethics officers assigned at the Branch offices level also play a crucial role in recording and reporting the complaint cases. This process will continue in the AF program as well in a more strengthened way.

## **V. STATUS OF RISKS AND MITIGATION MEASURES**

26. This addendum is to assess (i) whether there are any new fiduciary risks not originally envisaged manifested during the implementation of the ongoing project (ii) whether the original mitigation measures effectively mitigated the risk and (iii) how any risk mitigation measures that were not implemented such as those in the PAP affected the performance of the Program and if additional actions are needed to address

the risk. In this regard, the FSA notes in the program expenditures framework section that there are no new expenditure and procurement profiles.

27. As far as the risks and mitigation measures are concerned, for financial management, more or less the same risk profiles that had been revealed during the parent program preparation are noted. There are continued challenges related to the credibility and reliability of the budget for the Program; the continued slow moving Program advances at implementing entities; recurring internal control weaknesses in the external audit reports; limited internal audit capacity; unpredictable fund transfers to regional implementers and lack PAP action requested cashflow/disbursement schedules, and continued delays in financial reporting; delays in the Program's work plan and budget preparation and approval; delayed clearances of EPSS's entity financial statements audit backlog; and weak financial transparency. In addition, the conflict in the country continues to be a key risk affecting the implementation of the Program fiduciary management. The risk mitigation measures identified during parent financing assessment and under monitoring by the Bank and since the effectiveness of the Program and reinforced by the AF assessment include strengthening collaborative planning process with Regions accompanied by implementation plan and cash forecasts; timely preparation and approval of the Program's comprehensive plan/budget; disclosing key documents such as the Program plan/budget, performance reports and audited financial statement to the public; establishing mechanism of accountability and strengthening the internal control system through signing of MoUs; strengthening internal audit functions as PAP activities. Likewise, the procurement management risks identified in the initial assessment will remain valid and need to be addressed through the agreed PAPs and DLI. Under the parent PforR program assessment, some of the key procurement risks identified are gaps in procurement planning, lengthy procurement process, limitation in contract management and inadequate procurement tracking system limitations in contract management, and inadequate audit coverage and oversight at Regional Health Bureaus (RHBs). The MOH and EPSS reported to have initiated working on some of the mitigation actions while more effort is needed to deliver on the mitigation actions to improve the overall program implementation and enhance the effectiveness of proper procurement management for the program.

28. As indicated above, on the governance aspect (fraud and corruption and complaint handling mechanism) the system is strengthening progressively starting from the parent program through the additional financing stage. Accordingly, during the parent program implementation, the PAP is focusing on assigning ethics officers at the Branch office level. Under the proposed additional financing period strengthening of the system will continue.

29. *Implementation support:* The Bank fiduciary team will follow up implementation progress of the program by reviewing quarterly financial reports and annual Program audit reports, conducting the six-monthly implementation support mission (ISM), and reviewing the relevant progress reports on the implementation of the PAP and DLIs.

30. Based on the above reasons, the fiduciary risk assessed for this operation remain to be rated as **“Substantial”**.



## **Annex-1 (of this AF FSA Addendum): Financial Management Readiness Assessment \_for Re-engagement in Tigray Region After the Peace Agreement**

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### **I. Introduction**

Following the peace agreement in November 2022 to end the two years long armed conflict<sup>1</sup> in Tigray Regional State, the World Bank team has been discussing with Government counterparts on the approaches and timing of re-engagement of World Bank-financed operations in the region. The discussions covered the identification and planning of urgent activities to be carried out as part of the operation's re-engagement. These include the design of a fit-for-purpose pragmatic FM arrangement that ensures minimum fiduciary readiness for the envisaged quick re-engagement, conducting a quick assessment by both the government and the Bank to understand existing capacity and risks to ensure the agreed minimum fiduciary arrangements are in place before resumption of operations. Accordingly, the government has conducted a quick assessment at the regional level and reported it to the Bank, and currently cascading the assessment to structures at the subregional level. The Bank FM team visited the Region from May 22- 26, 2023 as part of the Bank team to support the government efforts to assess and ensure operational readiness for re-engagement of the Bank-financed operations and provide handhold support on the project's FM aspects. The assessment reviewed the status of FM of Bank-financed operations at the regional level with a focus on assessing the minimum FM readiness arrangements agreed to be in place before disbursement happens to the region and include – setting up of projects regional coordination and implementation units (PCIUs); staffing the PCIUs and entities fiduciary functions; the opening of new bank accounts for the projects; assigning authorized signatories; and maintaining accounting documents and systems. The FM readiness assessment is limited to the regional level and does not include the subregional level entities as the government counterpart is yet to conduct and report on the situations at the subregional level. The team visited RBoFED and sector offices/other regional entities including RBoA, RBoLA, RBoW, RHBoH, RBoE, RBoUDCo, Environmental Protection Agency, Regional Revenue Authority, Mekelle City BoF, Mekelle utility, ORAG and Regional Ethics and Anticorruption commission were visited.

### **II. Assessment Summary**

The mission covered key FM readiness aspects: (a) status of financial records, assets, accounting, and reporting systems; (b) FM staffing status of each project; (c) banking and fund flow arrangements; (d); status of AWP&B for EFY 2015 and 2016; (e) readiness of accountability institutions including ORAG and Regional Ethics and Anti-Corruption Bureau. The mission aimed to collect as much information as possible on the situation on the ground, discuss their FM implications, and agree on a plan of action for remaining FM activities.

It is the conclusion of this mission that almost all programs/projects appear to have ensured a reasonable level of FM readiness at the regional level. In this regard, the mission recommends that there is no

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<sup>1</sup> The conflict lasted for two years from its first eruption on November 03/2020 and peace agreement date on November 03/2022

objection from the FM perspective if all, but one project resumes operation at the regional level. The exception is UWSSP II which is recommended to resume implementation subject to addressing of recommended measures (Annex 2, under the project) by the MoWE/BoW before disbursement of the project funds to the regional PIUs. However, the mission strongly advises new bank accounts to be opened by all the projects/PIUs as we observed that bank accounts are not yet opened for UIIDP (at Mekelle city), UPSNP (BoUDCo), SUWSSP (BoW & Mekelle utility), WEDP (Mekelle city), AGP II (at BoW), and COVID -19 ERP (BoH). MOF in coordination with the sectoral Ministry and BoFED should ensure the opening of the respective projects' new bank accounts.

The assessment also identified the following key issues/gaps in the process and outlined a plan of action with respective regional PIUs to ensure fast re-engagement of operations.

- **Records, assets, accounting, and reporting statuses:** Financial documents and records (PVs, RVs, & JVs) are all confirmed and available in sufficient quantity at all visited entities. The inspection directorate from MoF are deployed and taking cut-off on records and balances. The mission noted some project assets are damaged/looted and identified those that require replacements urgently and subsequently during implementation. Accounting recording has not been started for all projects due to damages on IBEX connectivity where the main server computer at BoFED requires spare parts replacement and system maintenance to enable end-user computers at sectors and subregional entities to be linked to this server computer. The procurement of the spare parts is delayed at MoF. We recommended that MoF should urgently speed up procurement of the IBEX server spare parts and provide the necessary support to ensure linkages between entities' computers and the server computer are restored. Key experts should be deployed from MoF to support the region on this as appropriate. The understanding is that there will be new sets of accounts to be maintained for activities or transactions after the conflict or after the setup of the new/current interim administration. The mission also discussed with the IT/IBEX team that brief orientation should be provided to all the accountants to help them set up new/ separate ledger accounts related to the newly opened bank accounts. If IBEX system installation/activation is delayed, then there should be preparation to start manual record keeping for recording transactions that may happen or already happened before the system setup is finalized. We also recommend that as soon as IBEX is activated transaction recordings are resumed and that the next IFR for the fourth quarter ending July 07/2023 be submitted to the federal level (PIUs or Ministries at the federal level like MoF or sectorial Ministries as relevant) timely (by July 30/2023). It was identified that there are transactions that happened after the setup of the new/current administration using the old accounts (i.e., for those accounts that were not frozen) which are not recorded. These transactions should be carefully identified separately, analyzed, and recorded in the accounts (most probably in the old accounts); efforts should be made to support these with documents (any payments made but unsupported need to be identified); and most importantly these need to be audited by inspectors or and external auditors as part of the normal annual audit.
- **Cutoff and Action on Balances-** It is important to identify balances these are (a) regional balances appearing in MoF records at the start of the conflict (Nov 3, 2020, and balances per regional records at the start of the conflict, which should obviously be reconciled; and (b) balance at the point of set up of the current regional interim administration (March 23, 2023); and (c) identify transactions that happened in between these two dates. All these are to be audited by external auditors. The reports should be sent to us along with the damage assessment report by September 30, 2023. As noted above, transactions that happened after the setup of the interim administration need to be recorded in the accounting records (either in the new or old accounts)

and reported to MoF to be incorporated with the specific projects IFR and audited by inspectors and external auditors as part of the normal annual audit.

- **Reporting** -The Bank expects the report of the 4<sup>th</sup> quarter of EFY 2015 to include regional transactions that happened after the setting up of interim administration. However, it is expected that this will not be complete as sub-regional level transactions are yet to be included, and that there are also transactions that happened during the conflict that need to be audited/verified. The IFR formats of the region may need to be updated/revised to accommodate the two sets of accounts that are going to be maintained one for the old (before the conflict) and one for the new one after the conflict which includes the new bank account opened/to be opened. Consolidation tables/schedules may be required that clearly show how the old and new accounts are combined to produce regional-level IFRs.
- **Banking/Fund Flow Arrangements:** New bank accounts have been opened at the regional level for most projects (84%) and seven (7) bank accounts are remaining out of the forty-five (45) accounts. The remaining accounts are for UIIDP (at Mekelle City), UPSNP (BoUDCo), SUWSSP (BoW & Mekelle utility), WEDP (Mekelle City), AGP II (at BoW), and COVID-19 ERP (BoH). These projects(entities) were recommended to open the bank accounts without any further delays. The mission also noted that several old bank accounts (52 accounts (66%) out of the total 79 old bank accounts) were not frozen and most of the accounts are showing movements since the pauses on November 03/2020 and June 29/2021. The mission also noted the transfer of salary for RPSNP staff at 27 implementing woredas and 5 zonal offices though almost all records and systems were reportedly damaged and paused significant accounting and reporting risks. These need special consideration and efforts to ensure that they are eligible especially those transfers to woredas especially if payments are made by the woredas. As noted above those that happened before the setup of the new/current administration are treated differently from those that happened after the setup (which are all discussed above). MoF has the intention of transferring the old bank balances to the new ones. We however caution that this process is well planned to have a proper audit trail. It is also suggested that since there are currently movements in the accounts, a reasonable future date be fixed for transfer (like the start of the new fiscal year). The balances in the frozen accounts however are recommended to be transferred to the new accounts and used for the new plan/budget implementations.
- **FM Staff Supporting the Programs:** Almost all FM staff (98.31%) supporting the programs are back to their respective PIUs at the regional level (see annex 3). While three months' salaries are paid for all channel-1 programs/projects, staff supporting channel-2 have not yet been paid. The PIUs all have planned refresher training for staff towards the end of the fiscal year or early during the next fiscal year.
- **Readiness of Annual Work Plan and Budget (AWPB):** - Most programs/projects in the region have prepared and submitted their work plan and budget (WP&B) for EFY 2015 with a focus on emergency provisions, agricultural inputs, educational materials, rehabilitation activities, and refresher training to staff most of which can be implemented at the regional level. Nine projects (64%) have submitted their AWPB for their federal coordination units. While one program (GEQIP) has finalized and received approved AWPB for EFY 2015, two projects (UWSSP II and ESPS-IPF) have not yet initiated planning. The mission also noted the EFY 2016 AWPBs are under preparation for 10 projects, would prepare at federal level for three projects and not initiated for two projects (UWSSP II and ESPS-IPF).
- **Readiness of Accountability Institutions and Oversight Functions:** The mission visited the Office of Regional Auditor General (ORAG) and Regional Ethics and Anti-Corruption Bureau to

understand their readiness to provide oversight support to programs in the region, any bottlenecks/challenges they might hinder them from supporting the regional implementation of the program in general and the Bank-financed projects, in particular. Out of the total 186 auditors at ORAG including audit managers and team leaders, 160 staff (86%) have been returned to their work and the remaining 26 (involved in the armed forces) are confirmed they will soon resume their jobs. The office has prepared its plan for EFY 2016 to conduct audit and investigation works in the region (both at regional and subregional levels) including development partners (DPs) funded programs. Out of 120 staff the Regional Ethics and Anti-corruption Bureau used to have at the regional level, 108 have been returned to their job. There are about 30 staff on average at each zonal office and almost all of them have reported back. The bureau's mandates include corruption prevention, investigation, and law enforcement and the bureau is currently handling over 150 cases most of which are conflict-borne cases, and the bureau is hence in active engagement to deliver on its mandate. Both entities demand capacity-building support for staff and for the replacement of damaged/looted assets.

### **III. Conclusion**

In general, FM readiness to support aimed fast reengagement is in good standing at the regional level for most of the programs. Subsequent assessments are required to determine FM readiness at sub-regional implementations. We believe that engagement can start at the regional level but not below the regional level. In this regard, the mission recommended that there is no objection from the FM perspective if all but one project resumes operation at the regional level. The exception is UWSSP II which is recommended to resume implementation subject to addressing of recommended measures (Annex 2, under the project) by the MoWE/BoW before disbursement of the project funds to the regional PIUs. However, the mission strongly advises new bank accounts to be opened by all the projects/PIUs as we observed that bank accounts are not yet opened for UIIDP (at Mekelle city), UPSNP (BoUDCo), SUWSSP (BoW & Mekelle utility), WEDP (Mekelle city), AGP II (at BoW), and COVID -19 ERP (BoH). MOF in coordination with the sectoral Ministry and BoFED should ensure the opening of respective projects' new bank accounts.

Key FM next actions include (i) Fast-tracking EFY 2015 and 2016 AWP&Bs processing and rollout; (ii) the project coordination units (at federal and regional) to address the identified critical support needs for projects requiring urgent needs/replacements of assets; (iii) Opening new accounts for the remaining projects; (iv) MoF should speed up procurement of the IBEX server spare-parts and provide necessary support to ensure transactions recording are timely resumed; (v) providing quick orientation to regional project accountants to set up separate ledger on IBEX for the newly opened bank accounts; (vi) the internal audit units to take cut-off of the project vouchers and balances to identify and the project managements to inspect/audit accounts and balances at the start of conflict (Nov 3, 2020) and at the point of set up of the current regional interim administration (March 23, 2023) and transactions that happened in between these two dates including reconciliation between regional accounts as appeared on the respective federal and regional coordination units and report to the World Bank; (vii); ensuring timely preparation and submission of the next projects IFRs (for the 4th quarter ending July 07,2023) to the respective federal coordination by July 30,2023; and (viii) transferring balances in the frozen bank accounts to the new accounts for use of the resources to implement the new plan; (viii) the MoF and the regional project coordination to finalize assessment of the effect of the conflict in the region and audit and submit the report by September 30 2023. (ix) submit MoU between MoF and the region.