**URBAN PRODUCTIVE SAFETY NET PROGRAM (UPSNP)**

**Financial Management Manual**

***Ministry of Finance and Economic Cooperation***

***August 19, 2016***

Table of Contents

[Abbreviations and Acronyms iii](#_Toc459972636)

[PART I 1](#_Toc459972637)

[1. Background of Urban Productive Safety Net ProGram (UPSNP) 1](#_Toc459972638)

[2. Major Features of the Program 5](#_Toc459972639)

[3. Institutional & Implementation Arrangements 6](#_Toc459972640)

[PART II 14](#_Toc459972641)

[4. UPSNP Accounting System 14](#_Toc459972642)

[4.1. Basis of Accounting 14](#_Toc459972643)

[4.2. BookKeepingMethod 15](#_Toc459972644)

[4.3. AccountingEquation and Elements of the equation 16](#_Toc459972645)

[PART III 18](#_Toc459972646)

[5. Financial Management in UPSNP 18](#_Toc459972647)

[5.1. Key Roles and Responsibilities in Financial Management 19](#_Toc459972648)

[5.2. Budget Lines and Allowable Expenditures 21](#_Toc459972649)

[5.3 Budget Planning 27](#_Toc459972650)

[**5.3.1. Budget Preparation:** 27](#_Toc459972651)

[**5.3.2. Budget Control:** 28](#_Toc459972652)

[**5.3.3. Provision of budget ceilings** 29](#_Toc459972653)

[**5.3.4. Cash Flow Forecasting** 29](#_Toc459972654)

[5.4. Financial Flow 30](#_Toc459972655)

[5.5. Budget Utilization 33](#_Toc459972656)

[5.6. BudgetRevision 33](#_Toc459972657)

[PART IV 35](#_Toc459972658)

[6. Accounting Arrangement 35](#_Toc459972659)

[6.1 CHARTOFACCOUNTS 35](#_Toc459972660)

[**6.2.** **REVENUE& EXPENDITURES** 53](#_Toc459972661)

[6.3. RECEIPTOFMONEY 54](#_Toc459972662)

[**6.3.1. CashReceiptPoliciesandProcedures** 54](#_Toc459972663)

[**6.3.2. Internal Control over Cash Receipt** 55](#_Toc459972664)

[**6.3.3. ControlsoverCashonHand** 56](#_Toc459972665)

[**6.3.4. CashReceiptTransactions** 57](#_Toc459972666)

[**6.3.5. Calculating&RecordingForeignCurrencyExchangeGains & Losses** 60](#_Toc459972667)

[6.4. PAYMENTS 61](#_Toc459972668)

[**6.4.1. BankPayments** 61](#_Toc459972669)

[**6.4.2 CashPayment** 66](#_Toc459972670)

[**6.4.4. SuspensePayments** 72](#_Toc459972671)

[**6.4.5 BankReconciliation** 73](#_Toc459972672)

[**6.4.5. Payroll** 76](#_Toc459972673)

[**6.4.6. OtherPayments** 78](#_Toc459972674)

[6.5 Receivables 81](#_Toc459972675)

[6.6 Payables 83](#_Toc459972676)

[6.7. STOCK 87](#_Toc459972677)

[**6.8. FIXED ASSETS** 90](#_Toc459972678)

[**6.9. GENERALLEDGERANDSUBSIDIARYLEDGERS** 94](#_Toc459972679)

[6.10 TRIALBALANCES 97](#_Toc459972680)

[PART V 103](#_Toc459972681)

[7. FINANCIAL REPORTING 103](#_Toc459972682)

[8. AUDITING 114](#_Toc459972683)

[8.1. InternalAudit 114](#_Toc459972684)

[8.2. ExternalAudit 115](#_Toc459972685)

[PART VI 117](#_Toc459972686)

[9. HUMANRESOURCE 117](#_Toc459972687)

[10. HANDOVERPROCEDURES 118](#_Toc459972688)

[Annex 1: Urban Productive Safety Net Program, Interim Unaudited Financial Reporting Formats 122](#_Toc459972689)

# Abbreviations and Acronyms

**BI** Budgetary Institutions

**BOA** Bureau of Agriculture

**BoFED** Bureau of Finance and Economic Development

**BoLSA** Bureau of Labor and Social Affairs

**BUJC & FS**Bureau of Urban Development

**CAO** City Agriculture Office

**CASNP** City Annual Safety Net Plan

**CIP** City Investment Plan

**CJC** Competitiveness and Job Creation

**CJCFSTF** Community Job Creation and Food Security Task Force

**CMC** Coordination and Management Committee

**COPCD** Channel One Programs Coordinating Directorate

**CPV** Cash Payment Voucher

**CRV** Cash Receipt Voucher

**DPs** Development Partners

**DS** Direct Support

**DSTC** Direct Support Technical Committee

**DSTCC** Direct Support Technical Coordination Committee

**ETB** Ethiopian Birr

**ETST** Employment through Skill Training

**FA** Financing Agreement

**FJC & FSA**Federal job creation & food security agency

**FHH** Female Headed Household

**FM** Financial Management

**FSP** Food Security Program

**GOE** Government of Ethiopia

**GRN** Goods Receiving Note

**GTP**Growth and Transformation Plan

**HIV/AIDS**Human Immunity Virus/Acquired Immune Deficiency Syndrome

**HHs** Households

**IBEX** Integrated budget &Expenditure System

**IDA** International Development Association

**IFRs** Interim Financial Report

**IGA** Income Generating Activities

**JPMCC** Joint Project Management and Coordination committee

**JV** Journal Voucher

**KDC** Kebele Development Committee

**M&E** Monitoring and Evaluation

**MHH** Male Headed Households

**MIS** Management Information System

**MoFEC** Ministry of Finance and Economic Cooperation

**MoLSA** Ministry of Labor and Social Affairs

**MoU** Memorandum of Understanding

**FJC & FSA** Ministry of Urban Development and Housing

**MSEs** Micro and Small Enterprises

**NGO**Non-government Organization

**OFED** Office of Finance and Economic Development

**PAD** Project Appraisal Documents

**PCU**Project Coordination Unit

**PFS**Program Financial Statement

**PIM** Project Implementation Manual

**PPA** Project Preparation Advance

**PW** Public Works

**PWCU**  Public Works Coordination Unit

**RCBD**Region Capacity Building Directorate

**RCMC** Regional Urban Safety Net Coordination & Management Committee

**RJCFSSC** Regional Urban Job Creation and Food Security Steering Committee

**RUJCFSA/B** Regional Urban Job Creation and Food Security Agency/Bureau

**SC** Steering Committee

**SNCC**Safety Net Coordination committee

**SPV**Suspense Payment Voucher

**As** Technical Assistances

**TCC** Technical Coordination Committee

**TOR** Term of Reference

**TVET** Technical and Vocational Education and Training

**UFSD** Urban Food Security Desk

**UFSP** Urban Food Security Program

**UGGCBB**Urban Good Governance & Capacity Building Bureau

**UJCFSA** Urban Job Creation and Food Security Agency

**ULB** Urban Local Body

**ULG** Urban Local Government

**ULGDP** Urban Local Government Development Program

UPSBB Urban Planning, Sanitation & Beautification Bureau

**UPSNP** Urban Productive Safety Net Project

**UTC** Unconditional Transfer Clients

**W/KACs** Woreda/Kebele Appeal Committees

**W/KASNP** Woreda/ Kebele Annual Safety Net Plan

**W/KEP** Woreda /Kebele Environmental Profile

**W/KJCFSTF** Woreda/Kebele Job Creation and Food Security Task Force

**W/KJCFSTF** Woreda/Kebele Job Creation and Food Security Task Force

**WASNP** Woreda Annual Safety Net Plan

**OFED** Office off Finance and Economic Development

**WoLSA** Woreda Labor and Social Affairs Office

# PART I

# 1. Background of Urban Productive Safety Net ProGram (UPSNP)

The Urban Productive Safety Net Program (UPSNP) is launched in 2016 and funded by the Government of Ethiopia (GoE) and Development Partners (DPs). The long term objective of the government Urban Safety Net Strategy and Program framework is to reduce poverty and vulnerability among the urban poor living below the poverty line by implementing productive and predictable urban safety nets and complimentary livelihood interventions among the 4.7 million urban poor over a period of 10 years. Consistent with the poverty reduction and economic development objectives of the GTP and the National Social Protection Policy/Strategy, the Urban Productive Safety Net Strategy seeks to guide implementation of interventions that will alleviate the varying needs of the urban poor. To achieve this longer term objective, the government confirmed that a series of specific phases of up to five years each will be designed and implemented. The first phase project supported by the World Bank will run from 2016 to 2020 and will focus on putting in place basic safety net building blocks including productive and predictable transfers through public works, livelihood interventions and capacity building.

UPSNP has the following components:

**Component 1: Safety Net Support**

This component will support the delivery of a predictable, timely and productive safety net through conditional and unconditional safety net transfers.

**Sub-component 1.1: Conditional cash transfers:** The conditional transfers will target able bodied persons in households eligible for the project support. Transfers will be conditional on participation in public works which could range from small-scale infrastructure projects to provision of beneficial services to communities that are absent in urban areas. These may include urban greenery development, watershed management activities, solid waste management activities, environmental cleaning activities, and other type of public work activities emanate from the community.

**Sub-component 1.2: Unconditional cash transfers.**

Unconditional transfers will target persons who for various reasons are unable to perform work (for example, the chronically ill, the elderly, people with disabilities, and the urban destitute). The urban destitute include the target group who do not have access to a sustainable livelihood and often resort to begging or illicit activities to make a living. The unconditional transfer beneficiaries will reach up to 16 percent of the total program beneficiaries.

**Sub-component 1.3. Capital budgets for Public Works**

The capital budget covers capital inputs and material for public work activities. This sub-component support the purchase of hand tools, material, small cart, equipment etc. required for urban greenery development, water shed management activities, urban agriculture, environmental cleaning activities, social facilities/services projects, construction of cobble stone roads, and building of drainages.

**Sub component 1.4: Sub contracts for clients with special needs:-**

Any sub-contracts awarded for clients with special needs will be financed under this sub-component.

**Component 2: Livelihood Services**

This component will support interventions that will complement the safety nets to facilitate graduation from the program and promote moving out of poverty. The targets of these interventions are selected individuals in households receiving conditional transfers that desire increased access to quality work. This beneficiary group moves between unemployment, marginal self-employment and low-wage employment but at any one point in time, it is estimated that half of these beneficiaries are unemployed or under-employed wage workers, a quarter are in marginal self-employment and a quarter are in full-time low-wage employment. Interventions under this component will focus on activities aimed at enhancing employability skills, facilitating links to employment opportunities and helping the urban poor unleash their productive potential both through wage and self- employment opportunities. The urban poor will largely represent a new set of prospective participants for livelihood interventions in Ethiopia, as such, there will be need to evaluate and tailor approaches and build capacity within existing institutions and systems to undertake the roles being proposed in this component.

**Sub component 2.1: Livelihood skills, training, mentoring, coaching:-**The first phase of livelihoods support will focus on enhancing financial literacy and soft skills that will be useful across a range of livelihood choices: assessing the technical skills of beneficiaries: and providing individuals with information on entrepreneurship and wage opportunities in their location.

**Sub component 2.2: Livelihood transfer:-**This component will support interventions that will facilitate graduation from the program and promote moving out of poverty. The target groups for these interventions are individuals in households receiving conditional transfers who desire more and higher-paid work and a few number of beneficiaries who have a business skill directly involve in livelihood activities .

**Component 3: Institutional strengthening and program management**

This component will support the development and strengthening of program systems for targeting, M&E and MIS, payments, and citizens engagement including social accountability and grievances redress mechanism. It will also finance capacity building (human resource, training, administrative, physical capacity) and strengthening program management (coordination, financial management, procurement, safeguards).

**Sub component 3.1: Operational system development:**

A number of system development activities will be supported by the project. The main ones will include systems for (a)M&E, (b)FM, (c) human resources management, (d) targeting, & (e) MIS.

**Sub-component 3.2. Evaluation and Audit:**

Under these sub-component activities such as public works reviews and impact assessment, implementation review, the annual program audit and other key studies and reviews agreed between the Government and the World Bank will be financed.

**Sub component 3.3: Capacity building, safeguard monitoring & implementation:-**

The UPSNP is being led by an institution which has not been involved in safety nets design and implementation in the past. The program will thus require targeted continuous and fast-tracked capacity development and institutional strengthening as part of implementation. Capacity-building and skills-enhancement activities for the parent and other ministries that will be closely involved, as well as for other institutions at federal, regional, and city levels, are a priority. The capacity-development activities are expected to ensure that the primary managers, implementers, and stakeholders of the UPSNP have the required awareness levels for safety nets in general and urban safety nets in particular and impart them with skills to successfully deliver their roles.

**Sub-component 3.4. Regional and Federal level management budget:**

This sub-component will support the following activities: to hire contract staff, TAs or consultants as needed, to cover costs for bank charges, office equipment and supplies, staff travel and trainings.

**Sub component 3.5. Citizens’ Engagement & Social Accountability:**

The objective is to ensure that the project’s clients are receiving their entitlement promptly, in full, and with dignity and that citizens’ participation in planning and providing feedback on program activities shall be facilitated to allow informed feedback and development of appropriate solutions. To this effect, the program will support efforts to implement citizen engagement activities.

# 2. Major Features of the Program

1. UPSNP is to support urban poor living in cities.
2. The program will be implemented in Addis Ababa, Adama, Semera, Assosa, Dessie, Dire Dawa, Gambella, Hawassa, Harari, JigJiga and Mekelle.
3. In the 1st phase of the program 604,000 beneficiaries (3/4 from Addis Ababa) will be included.
4. Continuous income support will be provided for elderly, disabled living in households with no working age members, street children, homeless and beggars.
5. Income support and service to increase employability will be provided for a maximum of 3 years.
6. The conditional transfer will target able-bodies persons in households eligible for program support.

* They will be about 84% of the total program beneficiaries.
* Conditional transfer will require participation in Public Works.
* Small scale infrastructure, Urban greener, environment & other services.
* Wage rate will be Birr 60/person/day (subject to change)

1. Up to four members of each eligible urban household will be able to work and will be entitled to a transfer over 12 months.
2. Unconditional transfer beneficiaries will receive Birr 170 per person a month or birr 2040 per year
3. There will be payment for specialized service providers tailored to the specific needs of the destitute beneficiary. A support of Birr 600 per person/month for 12 months and additional 30% overhead cost for provision of these services.
4. The unconditional benefit will remain in the program throughout the life of the program.
5. The conditional benefit will be in the program for three years.
6. Livelihood support of Birr 10,000 will be provided to start self-employment or wage employment.

# 3. Institutional& Implementation Arrangements

The institutional arrangement for Urban Productive Safety Net is framed within the overall arrangement set in the Urban Productive Safety Net Strategy of the government. The implementation of the program will be fully streamlined in to the existing government structure at the federal, regional, city and local levels. Additional technical assistances and coordination support will be mobilized through the project to strengthen the implementation of the project.

* 1. **Federal Government level:** At the federal level, the Federal job creation & food security agency(FJC & FSA), in close partnership with the Ministry of Labor and Social Affairs (MoLSA), will be the responsible government body for the management and coordination of the program. Within the Ministry, the overall coordination will be vested in the Urban Good Governance & Capacity Building Bureau (UGGCBB) of FJC & FSA, which is also responsible for coordination of ULGDP-II. UGGCBB will closely work with Urban Planning, Sanitation and Beautification Bureau (UPSBB) of MUDH, Social Welfare Development Directorate (SWDD) of MoLSA, and Regions Capacity Building Directorate (RCBD) of Federal job creation & food security agency (FJC & FSA).

The overall regular management and coordination of the project will be supported by a Project Coordination Unit (PCU) reporting to UGGCBB under the overall management guidance of the State Minister or Minister of FJC & FSA. The PCU will be staffed with appropriate technical and management staff. The PCU will facilitate institutional capacity and system development activities, M&E, regular reporting, Financial Management, Procurement, and Safeguard issues. MoLSA and FJC & FSA will assign staff to constitute the respective sub-units that will closely support the coordination of project activities in both institutions. FJC & FSA, through PCU, will allocate resources to different institutions at the federal level and to the regions and cities based on the approved annual plan.

The Ministry of Finance and Economic Cooperation (MOFEC) will be responsible for overall financial management and reporting and disbursement of the resources at all levels based on the approved plan to be submitted by FJC & FSA. Channel One Programs Coordination Directorate (COPCD) under MoFEC will assign appropriate staff and will be responsible for the coordination of the financial management aspects of the project.

The technical oversight and coordination responsibility for each component is assigned to the relevant institutions. The UGGCBB and UPSBB will coordinate Public Work activities. For livelihoods component, FJC & FSA in close collaboration with MoLSA will play an overall coordination role. MOLSA will be responsible for Direct Support and linking safety net system with social protection policy and strategy, in consultation with FJC & FSA.

Micro-finance institutions and saving and credit cooperatives will have a role in providing financial services including saving, credit and training on financial literacy. TVETs and other technical schools as well as NGOs and the private sector will play an important role in the skill development and capacity building activities.

**Coordination Arrangements**: A National Steering Committee to be chaired by the Minister (FJC & FSA) and co-chaired by Minster or State Minister of MoLSA will be established. Members will include State Ministers of FJC & FSA, MoLSA, MoFEC, MoWCYA, Director General of FJC & FSA, members of the Joint Management and Coordination Committee, representatives of Regional Government bodies, the World Bank and other Development Partners as appropriate. The steering committee will meet once every six month and its roles will include, but not limited to, providing strategic guidance in the project implementation, approve annual plan and budget of the project, takes actions on issues that require high level decision. The UGGCBB/PCU will serve as a secretariat. The steering committee will meet once every six month and the detailed roles and responsibilities will be outlined in a ToR to be developed.

To ensure regular coordination and management of the program, a Joint Project Management and Coordination Committee (JPMCC) will be established. JPMCC will be responsible for the coordination of Technical Committees and implementing agencies and also follow up on regular project management and coordination issues including, capacity building, M&E, planning, system development, financial management, procurement. The JPMCC will meet on Monthly basis and will be chaired by the Director of the Urban Good Governance & Capacity Building Bureau (UGGCBB) of FJC & FSA and co-chaired by Director of Social Welfare Development Directorate (SWDD) of MoLSA. Membership of the committee will include all Directors (or their delegates) of relevant Directorates from Ministries and Agencies involved in the Program (FJC & FSA, MoLSA, FJC & FSA, MWCYA and MoFEC), and UPSNP representatives of the World Bank (the Donor). The PCU will serve as a secretariat.

To ensure regular technical support and guidance for project implementation a Technical Coordination and Implementation Committee (TCIC) for each component will be established. In this regard, MoLSA and FJC & FSA will lead on the safety net systems and Public Works technical committee respectively. MoFEC will also be a member of this joint technical committee. For livelihood technical committee FJC & FSA will take the lead role and MOLSA will be a Co-Chair. Other relevant institution such as TVET and other service providers will be members. The technical committees will meet once in a month and will regularly report to the JPMCC. Similar structures will be established at the regional and city administration levels.

**UPSNP Coordination Arrangement**

* 1. **Regional Governments level**: Similar to the arrangements at Federal level, the UPSNP will involve the same institutions in the coordination of the project and support the cities involved in the implementation of the project. The Regional Cabinet will oversee the UPSNP overall plans and budgets. Head of the Regional Bureau of Urban job creation & Food security (BUJC & FS) will oversees the implementation of the program in coordination with BoLSA. The Head of Urban Infrastructure and Good Governance/ Public Participation Core Process of BUJC & FS will be responsible for the management of UPSNP and chairs the Regional Urban Safety Net Coordination and Management Committee (RCMC), to which three Technical Committees report (Safety Net Transfer and systems, Public Works, and Livelihoods). Similar to that of Federal level, members of the Regional Technical Committee and Regional Coordination Committee will be Heads (or their delegates) of relevant Core processes from Bureaus and Agencies involved in the Program (BUJC & FS, LSA, ReMSEDA, BWCYA and BoFED).

The Urban Infrastructure and Good Governance/ Public Participation Core Process will be responsible for day-to-day coordination of the program and the management of public works component. The Regional Labor and Social Affairs Bureau/Agency (BoLSA) will be responsible for direct support component, targeting and system development aspects of the project in collaboration with BUD and (BWCYA). Regional Micro and Small Enterprise Development agency (ReMSEDA) and regional BoLSA will coordinate livelihood support component of the project and will coordinate different service providers such as CBEs, TVETs, NGOs and the private sector. The Bureau of Finance and Economic Development (BOFED) will be responsible for overall financial management at the regional level and will transfer funds to ULGs.

All these key partners at the regional level will appoint UPSNP Focal Points and have to oversee and provide technical support to ULGs together with the respective Federal Government Bodies. As the current plan is to start the project in one ULG per region, there is no need to establish PCU at regional level. The Current ULGDP-II Project Implementation Support Unit can handle the program in the big regions and the other regions can be supported by Federal PCU to be established.

* 1. **Urban Local Governments level (Cities)**

**Addis Ababa:**

As Addis Ababa is the largest Urban City Government, and directly reports to the Federal Government, its institutional arrangements have to be seen at: 1) City Government Level, and 2) Sub-City Level,

**At City Level:** At City Government level, the city council will oversee the UPSNP annual plans. The council will also decide on the number of beneficiaries of UPSNP under different Sub-Cities by project components, and the city level Project Coordination and Management Committee will coordinate the implementation of the project.

The Mayor of Addis Ababa or his Deputy will oversee the implementation of the project. The City Manager Office in Coordination with BoLSA will be responsible for the overall management of UPSNP. The City Manager will chair the City level Urban Safety Net Coordination Committee (SNCC) with Co-Chair by BoLSA Head. The members of the SNCC will include the heads of relevant Bureaus/Offices involved in the Program (BoFED, BoLSA, BoMSED, BoWCYA, and Office of the City Manager, and others as appropriate). Under the SNCC, different technical committees will be established to lead on the implementation of different components. A focal unite will be established under City Manager Office to coordinate the implementation of the project. The staff of the unit will be from both regular government staff to be supported by contractual staff to be hired by the project. The Federal Project Coordination Unit will provide the necessary technical and managerial support to the city level project Focal Unit.

**At the Sub-City Level:** Similar structure will be followed at the sub-city level. The Sub-City Standing Committee will oversee the UPSNP annual plans and budget which will be prepared by the Project Focal Unit and endorsed by Sub-City Safety Net Coordination Committee (SNCC). The Sub-City Chief Executive will oversee the implementation of the program. The Deputy Chief Executive will be responsible for the overall management of UPSNP in conjunction with Office of Labor and Social Affairs. The deputy Chief Executive will chair the City level Urban Safety Net Coordination Committee, to which three Technical Committees report (Safety Net systems an transfers, Public Works, and Livelihoods). The project focal unit at the sub-city level will constitute the staff from existing structure and will be supported through additional contractual staff as necessary.

**At Woreda Level:** At Woreda level, Chief Executive will oversee the implementation of the program. The Deputy Chief Executive will be responsible for the overall management of UPSNP and will be the chair of Woreda Project Coordination Committee (WCC). The Woreda level project focal unit will be responsible for day to day coordination of project implementation and will support implementing offices. The project focal until will prepare project annual plan and budget which will be endorsed by the Wereda Project Coordination Committee and be approved by the Woreda Council/Cabinet.

The member of WCC will be Heads (or their delegates) of relevant Offices involved in the Program (WoLSA, WoMSED, WoWCYA, OFED, Woreda Manger, Woreda Office of Public Mobilization &Participation), as well as representatives of Woreda Development Committee, Woreda Women’s Forum, Woreda Youth Forum, Woreda Resident Forum, Woreda Idirs Council, and others as appropriate. The Woreda Coordination Committee will oversee all planning and implementation process of UPSNP including targeting and appeal mechanisms, transfers, public works, livelihood activities etc.

**Other Cities**

**City Level**: In other 10 Urban Local Government (ULG) level, The Mayor of the ULG or his delegate will oversee the implementation of the project and will chair the city level project Coordination Committee (PCC). The Project Focal Untie (PFU) will coordinate and provide technical support to Kebeles in the implementation of the program. The City Council/Cabinet will approve the project annual plan and budget. Similar technical committees will also be operational at the district level (Safety Net systems and transfer, Public works, Livelihoods). The three Technical Committees should report to the SNCC.

At the Kebele level: The Kebele cabinet will present and the Kebele Council will approve the list of beneficiaries of the UPSNP and related plans for the program. The Kebele Chair will oversee the implementation of the project and a Task Force which will include representatives from the community and development committees will be established to facilitate planning, community participation and targeting process. Technical focal staff will be assigned to provide technical support in the implementation of different components of the project.

# PART II

# 4. UPSNP Accounting System

The Urban Productive Safety Net Program accounting system is basically designed in accordance with the Federal Government of Ethiopia’s (FGE) Accounting System. Some of the financial management procedures are customized to suit the specific nature of UPSNP.

To ensure consistency, this manual considers implementation guidelines outlined underthe Program Implementation Manual (PIM) of the UPSNP. These FM arrangements will cover all program funds financed by the Government and all development partners.

The accounting cycle for UPSNP starts when money is received in the designated accounts from development partners and ends when report of expenditures is presented to the MOFEC and MOFEC is closing the accounts and deliver FM reports to DPs. The GoE Budget calendar will be used for planning, budgeting and reporting purposes.

MOFEC, BoFED, City and City/sub-city OFED shall ensure that adequate internal controls are put in place and that the controls are adhered consistently. The internal control system should ensure that all transactions are recorded, and that the recorded transactions have substance. It also ensures that transactions are recorded at correct amounts in the correct period in the correct accounts and that they are posted and summarized correctly, among others. In addition, the finance units of FJC & FSA, MolSA, UJCFSAs and other implementing partners of UPSNP should follow the financial management procedure as applicable.

## 4.1. Basis of Accounting

The accounting system at the Federal, Regional, City and Woreda level employs a modified cash basis of accounting. The modified cash basis of accounting means that cash basis of accounting applies except for recognition of the following accounts:

* Revenue and expenditure are recognized when aid in kind is received.
* Expenditure is recognized:
* When payroll is processed.
* When goods are received or services are rendered if payments for the goods or services were rendered in advance
* Inter-governmental transfer is recognized in the absence of actual cash movement.
* Transactions resulting from salary withholdings, VAT and profit tax withholding from suppliers are recognised in the absence of actual cash transaction.
* All other revenues and expenditures are recognized as per cash basis of accounting i.e revenuesand expenditures are recognized, when cash is received and paid respectively.

## 4.2.BookKeepingMethod

The accounting system uses double-entry bookkeeping at all levels. As the name indicates, this method recognizes two side entries for every transaction or event, in the form of debit and credit. For every debit, there should be an equal credit. In other words, the sum of the debits and credits of a single transaction should always be equal. Likewise, the total debits in all account balances always equals the total credits in all account balances because each transaction is entered in the accounting records as debits and credits of equal amount. By convention debits are recognized in the left columns and credits are recognized in the right columns.

The advantages of double-entry bookkeeping are numerous,including:

* All aspects of the transactions are properly recorded in the accounts.
* The accounts are self-controlling because the total of all debits must be equal to the total of all credits; therefore, many errors will be easily detected and corrected.
* Modified cash basis of accounting can be introduced

## 4.3.AccountingEquation and Elements of the equation

To facilitate the double entry recording, the accounting theory developed the following accounting equation, which is always true:-

**A=L+C => Assets = Liability + Owners Equity (Capital).**

**Elements of the accounting equation:**

Assets are what are owned by the entity. Examples:

* Cash
* Account receivables
* Supplies
* Building, Machinery, Land etc.

Liabilities are debts owed by an entity. Examples:

* Accounts payables as a result of purchasing of goods and services on credit
* Salary payable
* Tax payable
* Rent payable
* Interest payable etc

Owner’s equity is the net residual after all liabilities have been satisfied. It is also called Capital or Net worth.

In case of the UPSNP assets are represented by cash, receivables and stock. Liabilities are represented by accounts payable. Accounts payable can be in the form of purchase payable, salary payable, tax payable, cost sharing payable, retention payable and pension contribution payable. Accordingly, UPSNP accounting system will apply the simplified accounting equation of :-

**Cash+Receivables+Stock=Payables+Net Assets/Equity**

In addition to the above permanent accounts or alternatively called balance sheet accounts, there are temporary accounts. Revenue, transfer and expenditure accounts will be closed to the equity account as an increase or decrease at the end of an accounting period.

By convention, the rules shown in Table below are true for each account category used in modified cash basis of accounting.

**Accounting rules for Debits and Credits**

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Category** | **Normal**  **Balance** | **Increase**  **Recorded as** | **Decrease**  **Recorded as** |
| Permanent accounts |  |  |  |
| Cash | Debit | Debit | Credit |
| Receivables | Debit | Debit | Credit |
| Payables | Credit | Credit | Debit |
| Net assets/ equity | Credit | Credit | Debit |
| Temporary accounts |  |  |  |
| Revenue /Transfer Received | Credit | Credit | Debit |
| Transfer Paid | Debit | Debit | Credit |
| Expenditure | Debit | Debit | Credit |

While increase and decrease in specific account depends on the type of transactions, the normal balance of the accounts should always be as noted above. If the normal account balance differs from the rule, it indicates error, incomplete records, wrong classifications or irregularities. Therefore, it should be duly examined to act timely.

PART III

# 5.Financial Management in UPSNP

A strong financial management system is critical for effective program implementation and for ensuring program accountability. Generally, program implementation is dependent on the need for the timely provision of funds. This is particularly critical for a social safety net, livelihood and public works programs where delays in cash transfers to beneficiaries can undermine the predictability and therefore effectiveness of the intervention. Strong and transparent record keeping, the implementation of effective internal controls and a timely and accurate reporting system all contribute to an accountable and transparent system in which key stakeholders, including development partners, the Government, and citizens, can have trust.

The key elements of this Financial Management and Accounting Systems include:

* Planning and budgeting
* Flow of Funds
* Accounting
* Internal Controls, and
* Reporting& Auditing

## 5.1.Key Roles and Responsibilities in Financial Management

|  |  |
| --- | --- |
| **Ministry of Finance and Economic Cooperation (MoFEC)** | **At Federal Level:**   * MoFEC is responsible for the overall financial management of the UPSNP. Activities include, but are not limited to:   + Manage the designated dollar account and pooled birr accounts   + Transfer funds to BoFEDs, the UJCFSAs and MoLSA   + Manage financial reporting (quarterly and annually)   + Facilitate the interim and annual financial audit of the project account   + Ensure that all financial audit findings are acted upon in a timely manner   + Ensure that acceptable financial management systems are in place as stipulated in the FM manual and Credit/Grant Agreements and well documented in financial management manuals   + Monitor the effective implementation of internal control procedures   + Provide FM technical support to implementers   + Ensure that funds are used for intended purposes.   **At Regional Level:**   * Ensure that a suitable accounting system covering both regional and city/woreda levels is established * Transfer funds to City,CITY/SUB-CITY OFED, UJCFSA/B, BoLSA and Cooperative Promotion Bureau as needed * Collect and aggregate all financial data and information from the BoLSA, UJCFSAs and cities/sub-cities. * Review the effective use of accounting procedures by cities and provide technical support and assistance to them * Prepare quarterly and annual financial reports * Be accountable for and managing the funds transferred to them for implementation * Ensure that all audit findings are acted upon in a timely manner.   **At City Level:**   * Ensure that budgets for UPSNP are received in a timely manner * Avail funds as required according to the annual plan * Undertake timely cash transfers to client households * Exercise the necessary fiduciary controls and prepare monthly and quarterly Interim Financial Reports on fund utilization to regional BoFEDs * Ensure that all audit findings are acted upon in a timely manner |
| **Urban Job Creation and Food Security Agency (UJ CFSAs)** | **At Federal Level:**   * Support the oversight and coordination of the programme * Submit the overall plan and budget for the programme * Management of the funds transferred to it by MoFEC * Transfer funds to PCU * Prepare quarterly expenditure and cash requirement forecasts * Provide resource transfer instructions to MoFEC to the regions * Be accountable for the funds transferred to implementers are used based on their transfer instructions * Prepare quarterly and annual financial report   **At Regional Level:**   * Consolidate annual implementation plans and budgets for the region * Manage the funds transferred to it by BoFED on behalf of all Bureau of urban job creation and food security implementers * Convene an administration and capital budget allocation meeting with all regional level implementers to decide on allocations between implementing and supervising partners * Provide adequate fiduciary control over the transferred funds * Monitor the effective utilization of funds * Prepare quarterly and annual financial report   **At City Level:**   * Consolidate annual implementation plans and budgets for the city * Convene an administration and capital budget allocation meeting with all citylevel implementers and decide on the allocation * Facilitate the timely preparation of attendance and payroll and timely transfer of resources to beneficiaries * Provide adequate fiduciary control over the transferred funds * Monitor the effective utilization of funds * Prepare quarterly and annual financial report |
| **Ministry of Labor and Social Affairs (MoLSA)** | **At Federal Level:**   * Provide input into the overall plan and budget for the program * Manage the funds transferred to it by MoFEC and report on these funds * Ensure that the fund is used for intended purposes * Follow-up on audit findings as required   **At Regional Level:**   * Manage the funds transferred to it by BoFED * Consolidate annual implementation plans and budgets for the region * Ensure that the fund is used for intended purposes   **At City Level:**   * Account for funds received * Prepare an annual budget * Facilitate the timely preparation of the payroll and timely transfer of resources to unconditional transfer beneficiaries. * Follow-up on audit findings as required |
| **Financial Institutions** | * Open accounts for clients, make payment to clients, report on the status of savings and credit of program clients. |

## 5.2.Budget Lines and Allowable Expenditures

**BUDGET LINES**

The main budget lines for the overall program are as follows:

* Permanent direct support transfers
* Public works and temporary direct support transfers
* City administrative budget
* Capital budget for public works and temporary direct support
* City contingency budget
* Federal contingency budget
* Livelihoods transfer
* Livelihoods capacity building
* Regional level management budget
* Federal level management budget
* Key instruments development
* Capacity building
* Evaluation and audit

These budget lines are consolidated into reports according the following reporting lines:

**UPSNP Reporting Lines**

|  |  |
| --- | --- |
| **Components** | **Budget Lines** |
| **Component 1: Safety Net Support** | Conditional Transfers |
| Unconditional transfers |
| Capital budgets for Public works |
| Sub contracts for clients with special needs |
| **Component 2: Livelihood Services**  Productive Safety Nets and Support to Livelihoods StrengtheningSystems Development | Livelihood skills, training, mentoring, coaching |
| Livelihood transfer |
| **Component 3:** Institutional Strengthening and Project Management | Operational systems development |
| Evaluation and Audit |
| Capacity Building, safeguard, monitoring & implementation |
| Regional and Federal level management budget |
| Citizen Engagement & Social Accountability |

The sections below indicate the key budget lines available for implementers at different levels and how the budget ceilings for these headings are calculated.

**City**

**Budget Lines:** There are eight key budget lines available at City level. These are as follows:

* Permanent direct support transfers /Conditional transfer/
* Unconditional transfers
* Capital budgets for Public works
* Sub-contracts for clients with special needs
* Livelihood skills, training, mentoring, coaching
* Livelihoods transfer
* Capacity building, safeguard, monitoring &implementation
* City mmagement/administrative budget

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| --- |
| **Budgeting for the Livelihoods Component**  At City level, livelihoods activities (e.g. client trainings and conditional capacity building of grassroots institutions) and all associated costs (including staffing, transport, equipment, etc.) are covered by the Livelihoods Capacity Building line item.  At regional and federal levels, support to livelihoods implementation will be covered by the Regional Management Budget and the Federal Management Budget.  Hence the Livelihoods Capacity Building line item will be spent at the City level, with the exception of funds transferred to TVETs from the regional levels. |

**ELIGIBLE EXPENDITURES:**

**Eligible Expenditure Items:** The permanent direct support transfer budget, Livelihood transfer budget, public works and temporary direct support transfer budget may only be used to finance direct payments to program clients.

**City Administrative Budget**: The table below presents the eligible expenditures for the City/Sub-city/woreda administrative budget. This table applies to all UPSNP costs with the exception of livelihoods-related costs (as these will come from a separate budget line item):

**City Administrative Budget Eligible Expenditures**

|  |  |
| --- | --- |
| **Expenditure category** | **Allowable expenditure** |
| Human Resources | * Contractual or temporary staff such as cashiers or city level technical assistance |
| Hand tools, equipments and materials | * Hand tools, office equipment’s and supplies required for running UPSNP activities * Replacement of components and parts * Maintenance of vehicles and other equipment’s * Short-term or longer-term rental of vehicles, motorbikes, and other equipment’s (**Large-scale infrastructure development such as IT network installation is not allowable**) |
| Travel and Transport | * Fuel, maintenance, spare parts, per diem expenses, public transport and vehicle hire for any supervision or support visit including for targeting, transfers, public works, grievance redress mechanisms or awareness raising. |
| Training | * UPSNP trainings organized by the cities to train staffs and (e.g. ketena/kebele technical assistance, UJCFST) * On-the-job training for clients * Orientation and critical on-the-job training for foremen/women and team leaders |
| Materials and equipments Management | * Loading and off-loading from trucks * Proper handling, transportation and storage of materials and equipments |
| Payments/wages | * Accounting, internal control, recording, reporting and distribution of public work wages and direct support transfers to UPSNP beneficiaries. |
| Monitoring and Evaluation | * Cit level monitoring and evaluation, including sharing lessons and cross visits, per diems and transport for monitoring visits and social accountability activities |
| Communication | * Telephone and fax bills, email internet service provider (ISP) costs, etc. |
| Outsourcing services | * Any needed outsourced services, such as computer support services |

**Public works and temporary direct support capital budget:** The table below presents the eligible expenditures for the public works and temporary direct support capital budget.

**Capital Budget Eligible Expenditures**

|  |  |
| --- | --- |
| **Expenditure category** | **Allowable expenditure** |
| Skilled and Semi-Skilled Workers | * Temporary contract personnel with knowledge and experience needed for planning, implementation and supervision of public works * Individuals within the communities who can provide semi-skilled labour; these are masons, carpenters, foremen/ forewomen, etc. **They are NOT paid through the UPSNP transfer budget.** |
| Hand Tools | * Spades, shovels, hoes, crow bars, sledge hammer, rakes, pick axes, and mattocks. In addition other hand tools described in the specific operational manuals. |
| Equipment and Materials | * Altimeters, compasses, clinometers, pedometers, theodolites and other equipment can usually serve more than one site, poles, cement, stones or sheeting which may be required at individual work sites and should be provided by the city. * Duplication of Behavioral Change Communication (BCC) materials to support BCC at public works sites * Rental of excavators and other machinery. Rental of machinery and the contracting out of other services by the city. |
| Amenities at Work Sites | * First aid services * Tool repair and maintenance facilities * Child care amenities (e.g. tents or other shelters). Labourers will undertake the management of these amenities with the assistance and close supervision of the implementing agency * Facilities for the regular sharpening and minor repairs of hand tools |
| Transport Facilities | * Transportation of tools and materials |

**Livelihoods Transfer:** The livelihoods transfer budget line is limited to transfers to approved livelihood transfer clients in accordance with their business plan with the ceiling of ETB 10,000 per client.

**Livelihoods Capacity Building:** Livelihoods capacity building refers to the training and support of program clients, and conditional capacity building to key institutions involved in capacity building. These include:

* All costs associated with the provision of training and support to clients of the livelihoods component, such as financial literacy training, technical training, business/marketing skills training, and business plan development. Costs can include curriculum development or adaptation (including by TVETs), preparation of training materials, renting of facilities, trainer fees, per diems, and transport costs, incurred by the UJCFC Agency, Labour and Social Affairs, or TVETs. For trainings provided at TVET institutes, participant room and board will also be covered.
* Transport costs associated with intensive coaching and mentoring for livelihoods transfer clients.
* Conditional capacity building of institutions such as TVETs, MIS, CBEs and Saving as outlined in the table below.

**Federal**

**Budget Lines:** The main budget headings available at Federal level are the following:

* Operational Systems development
* Evaluation and audits
* Capacity building, safeguard, monitoring & implementation
* The Federal level management budget
* Citizens engagement & Social Accountability

**Eligible Expenditure Items:** The following eligible expenditure items should support all components of the UPSNP (social accountability, public works and links to social services and livelihoods). Eligible expenditures include:

* **Human Resources:** The federal-level management budget is used to hire contract staff, Technical Assistances (TAs) or consultants, as needed, to meet any short-term gaps in human resources or to respond to specific needs of the UPSNP. This includes the Information Centre staff, among others.
* **Bank Service Charge:** This covers costs charged by banks for transactions including exchange and transfer of programme funds.
* **Coordination:** Costs for extraordinary UPSNP meetings with regional implementing agencies will be part of this budget.
* **Equipment and Materials:** Small office equipment and supplies should be covered under this budget line. The maintenance of existing vehicles and other equipment can be financed through this budget line and is actively encouraged. Equipment such as vehicles and motorbikes can also be rented on a short-term basis (up to 3 months per financial year) or longer-term basis. This is an efficient use of UPSNP resources when it allows the timely, predictable delivery of transfers to UPSNP clients and creation of quality public works. While large-scale infrastructure development such as IT network installation would not be covered, replacement of component parts and minor computer purchases could be covered.
* **Travel and Transport:** Frequent staff travel to regions and Cities is expected and the management budget will cover a pro-rata based proportion of the total transport needs of federal level implementing agencies. Expenses should include fuel, maintenance, spare parts etc. on a pro-rata basis. In addition this budget is available for subsistence and per diem expenses, public transport and vehicle hire. Staff travel to the city will include travel for awareness raising, training, supervision (including of public works) and lesson learning.
* **Livelihoods related analyses:** Any livelihoods related analyses conducted or commissioned. Livelihoods Related Analyses will be financed through this budget line. This may include the recruitment of local consultants.
* **Training:** Any training including psychosocial and vocational training will be undertaken at federal level along with some overall development of overall training programs and training materials will be financed through this budget line.
* **Monitoring and Evaluation:** Unless included under specified line items, monitoring and evaluation by the federal implementing agencies will be covered by this line item. This may include the recruitment of local consultants. Lesson learning events fall under this item (covering costs such as venue hire, documentation reproduction, etc.).
* **Rapid Response Mechanism:** Costs related to the operation of the federal RRM will be covered under this line item.
* **Communication:** A pro-rata based proportion of communication expenses (telephone and fax bills, email, ISP costs etc.) will be covered.

**Operational Systems Development**budget can be used to finance consulting services and technical assistance to support the development of key instruments such as the program MIS, the poverty map/ indices, the mapped public works data base and single registry. It can also be used to finance the systems’ operating costs, the key equipment to operationalize them (computer, server, network infrastructure etc.), and other costs associated with their establishment.

**Capacity Building, Safeguard, monitoring & Implementation**budget can be used to finance any activities identified in the capacity development strategy, including national training and workshops, international training and workshops, equipment, furniture, the procurement and installation of rub-halls, vehicles and maintenance. Capacity development support is expected to be provided for all implementing agencies of the UPSNP.

**Evaluation and Audits** budget should be used to finance costs associated with the household survey and impact assessment, public works reviews and impact assessment, the Gender and Social Development (GSD) implementation review, the annual audits and other key studies and reviews agreed between the Government and the Bank.

**Citizens Engagement & Social Accountability**budget should be used for activities that create and environment that will facilitate effective delivery of program benefits through promotion of transparency and accountability, citizens’ participation, and a system of registration and resolution of complaints and appeals (grievances).

## 5.3 Budget Planning

### **5.3.1. Budget Preparation:**

The program will follow the government’s budget system, recorded in the government’s budget manual. The budget for the UPSNP will be determined each year based on a formula mainly derived from the number of clients in each program city. The planningprocess also includes the budget (specific purpose grant) estimation for implementing the planned physical activities. At city/municipality level, the project budget for the city will form part of the City Investment Plan (CIP) which will be approved by the city council. For these purposes, the city, regional and federal level the Urban Job Creation and Food Security Agencies ( UJCFSAs) will consolidate the annual work plan and budget of the project at their levels. The federal level UJCFSAs will consolidate the federal level as well as the regional level work plans and budgets and submits it to the FJC & FSA for approval. It will also seek the no objections of the World Bank. The FJC & FSA having it endorsed by the National UJCFS Council will submit to the MoFEC for final endorsement and proclamation. The project budget preparation should be prudent, realistic and made with professional estimates to avoid unrealistic budgets which could lead to wrong conclusions about the project performance. Therefore, all level of approvals must take into account the situation on the ground and their professional abilities before approving budgets for the project.

The budget for the UPSNP will be proclaimed at the federal level under the FJC & FSA but with detailed regional breakdown for UPSNP activities. Although the budget is proclaimed at federal level, regional as well as city cabinets and councils will oversee the planning as well as the execution of the project throughout the year.

### **5.3.2.Budget Control:**

Budgets should be regularly monitored at all levels and for this the coordination of the MoFEC with the FJC & FSA and MoLSA as well as with regional and city level implementers is critical. The budget of the project should be monitored against actual expenditure at least quarterly. The budget variances will be adequately explained and justified through the quarterly IFRs.

Budgeting is structured around a two ways process:

* A downstream process from the federal level down to the regions and then to the City which provides guidance to city/woreda on how to budget and any budget ceilings, and
* An upstream process starting at the ketena/kebele and moving upwards to the cities then to the regions and the federal level.

Annual planning and budgeting starts at city level, beginning with participatory community planning exercises. An overall city UPSNP plan and budget is prepared and submitted to the Regional Urban Job Creation and Food Security Agency.

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| **5.3.3. Provision of budget ceilings** |
| Prior to the launch of the planning process, which takes place in March of each year, it iscritical that city/sub-city/woreda/kebele be informed of key budget ceilings to enable them to planaccurately and within the resource envelope available. |

Each region should then prepare a consolidated UPSNP work plan and budget for all components for each budget year based on inputs from lower levels, and submit these to the Federal UJCFSAs for further review, updating and consolidation.

Finally, a consolidated budget will be submitted to MoFEC. Budgets should not be prepared and reported on a lump sum basis. There must be a breakdown, with proper identification of each key budget lines. The completed annual budget should include a quarterly breakdown of the budget to assist with cash flow forecasting

The final approved annual budget will be proclaimed at federal level under the Ministry of Urban Development and Housing, but with detailed regional and sub-component breakdown of activities. The overall budgeting and budget approval process will follow the overall program planning process and calendar.

### **5.3.4. Cash Flow Forecasting**

Accurate cash flow forecasting is critical to achieving timely transfers and to ensuring quality project implementation, by ensuring that resources are in place when they are needed. As indicated above, the annual program budget should be broken into quarters and sub-components to indicate the requirements for the program in each quarter.

Key considerations in cash flow forecasting include:

* The need to frontload capital, city/ssub-city/woreda/kebele administrative budgets
* The most appropriate timing of public work and livelihoodactivities
* The transfers for unconditional cash transfer clients will take place monthly.
* The transfer for special need beneficiaries will be based on the plan.
* The transfers for public works beneficiaries may vary from city to city depending on the approved transfer cycle.
* The timing of any major procurement items.

The table below provides some guidance on how to implement this forecasting:

**Cash Flow Forecasting**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Budget Heading** | **July – Sept** | **Oc.-Dec** | **Jan– March** | **April– June** |
| Unconditional Cash Transfer Clients | 25% | 25% | 25% | 25% |
| Public works | Based on the varying transfer schedules | | | |
| City/Woreda/kebele administrative budget | 50% |  | 50% |  |
| Capital budget for public works and unconditional cash transfer clients | 50% | 50% |  |  |
| Livelihoods transfer | 50% |  | 50% |  |
| Livelihoods capacity building (skills, training, etc.) | 50% |  | 50% |  |
| Regional level management budget | 40% | 40% | 20% |  |
| Federal level management budget | 40% | 40% | 20% |  |
| Operational Systems Development | As needed | | | |
| Capacity building, safeguard, monitoring & imp. | As needed | | | |
| Evaluation and Audit | As needed | | | |

When preparing the above cash flow, implementers should take into consideration the dates that resources will be disbursed by MoFEC to regions. These dates are as follows:

Quarter 1: July 15

Quarter 2: October 25

Quarter 3: January 25

Quarter 4: April 1

As soon as BoFED receives resources from MoFEC, they should transfer the appropriate funds to city and regional implementing agencies within 3 working days. However, cash transfers in subsequent periods may vary from the above transfer table depending on the utilization performance of city and regions whereby instructions to use carry over balances for forthcoming resource requirements.

In preparing cash requirement forecasts, UJCFSAs should take in to account the carryover cash balances of each specific city and major budget categories in order to ensure that the program will not be exposed to different risks caused such as excess or shortage of cash holdings.

## 5.4. Financial Flow

The key steps in the funds flow are as follows:

**Step 1:** Development partners deposit loans and grants into segregated designated foreign currency bank accounts at the National Bank of Ethiopia. These loans and grants are made according to the agreements signed with the Federal Government, and in line with agreed disbursement percentages. Development partners can only deposit loans and grants into the MoFEC account after they have received UPSNP IFRs from MoFEC, as per the agreed format.

**Step 2:** MoFEC transfers money from the segregated designated bank accounts and deposits the equivalent amount in Birr into the pooled Birr bank account at National Bank of Ethiopia for the UPSNP as required. This ensures a continuous cash flow to the Program.

**Step 3:** Once the UPSNP Annual Federal Safety Net Plan has been approved in June, UJCFSAs submits to MoFEC an annual cash resource distribution plan by region and woreda (for Addis Ababa, sub-city), within 3 days of the approval of the Annual Plan. At the same time, federal UJCFSAs send this information to Regional UJCFSAs. Within two days of receiving the Resource Distribution Plan, MoFEC communicates the annual cash resource distribution plan to BoFEDs and MoLSA. This is completed by July 15 of each year.

If MoFEC, MoLSA, Regional Food Security Agencies or BoFEDs note any discrepancies between the annual cash resource plan and the approved Annual Plan, these should be corrected immediately by federal UJCFSAs and MoFEC. Any corrections should be completed within 5 days.

Upon receipt of the annual cash resource plan from federal UJCFSAs, Regional UJCFSAs prepare a regional annual cash resource plan, which is communicated to BoFED and the zones and city/woreda within 3 days. BoFED communicates with the regional branches of the Commercial Bank of Ethiopia 2 days ahead of any planned cash transfer to cities/municipalities.

On a quarterly basis, federal UJCFSAs prepare and submit an expenditure and cash requirement forecast to MoFEC in line with the annual plan. This forecast will be part of the quarterly IFR, which will be submitted to the IDAs within 60 days from end of each quarter for clearance and request for cash advances.

**Step 4:** Federal UJCFSAs requests MoFEC to transfer the frontloading to regions, as per the annual cash distribution plan, by July 15. Federal UJCFSAs also informs MoFEC if there are any changes in the annual cash resource allocation plan. This information is sent to Regional Food Security Agencies at the same time via fax.

Within 2 days of receiving this request, MoFEC instructs the National Bank to transfer the cash resources to BoFED, to be deposited into UPSNP specific bank accounts at regional level. This instruction is copied to BoFED via fax. The National Bank complies with this request within 2 days.

**Step 5:** Upon receipt of the copy from federal UJCFSAs to MoFEC requesting the transfer of cash resources to BoFED, Regional Food Security Agencies writes a letter to BoFED requesting the onward disbursement of resources to City/woreda bank accounts(for Addis Ababa sub-city bank account), and regional department accounts, as per the region’s annual cash resource plan. A copy of this letter is sent by fax to city/woreda/AA sub-city. This letter is prepared within 2 days of receipt of the communication from federal UJCFSAs.

Upon receipt of the notification that MoFEC has instructed the National Bank to transfer resources and the instruction from Regional Food Security Agencies, BoFED prepares a letter to the Commercial Bank instructing the onward disbursement of resources to City accounts, and to regional department accounts. This letter is sent by fax to City finance and economic development.

BoFED follows up with the Commercial Bank by telephone and in person to make sure that the money was received and sent to the city in a timely fashion. If there are delays, BoFED should communicate these to MoFEC, which will follow up with the National Bank.

**Step 6:**City, sub-city finance and economic development office follows up with the Commercial Bank to confirm receipt of the funds in their UPSNP account. City/woreda finance/sub-city and economic cooperation office checks that the amount received in the UPSNP account matches the amount expected as per the annual cash resource allocation plan. If there are any discrepancies, the City/sub-city finance and economic development office communicates this discrepancy immediately to BoFED by telephone.

**Step 7:** The City/sub-city finance and economic development office verifies payment request of all components of UPSNP and transfers to financial institutions, based on requests from the city Urban Job Creation and Food Security office and as per the PASS payroll and attendance sheet. Financial institutions effect payment to different clients as well as implementing sectors offices as per the approved annual safety net plan and approved budget allocations.

**Step 8:**City finance and economic development office maintains a record of the use of UPSNP resources based on the agreed accounting procedures. BoFEDs (and zones) provide assistance to the City finance and economic development office on a regular basis to ensure that these procedures are carried out correctly.

**Step 9:** Any UPSNP cash resources that are not used during the fiscal year are NOT returned to the federal account, and are instead rolled over for use during the next fiscal year.

The above steps are summarized in the diagram below:

**Flow of Funds**

**NBE -**Local Currency Account

MoUDH/UJCFS Agency/ MoLSA

**NBE**- Foreign Currency Account

Regional UD/UJCFS Agency/ BoLSA

BoFEDs

GoE /MoFEC and IDA

City UJCFS, OLSA and Municipality

City OFED

AA sub-city

AA UD/UJCFS Agency/ BoLSA

## 5.5.Budget Utilization

All expenditures must comply with the budget headings and eligible expenditures. Any expenditure contrary to these budget headings is considered ineligible and cannot be charged to the program. If any such expenditure is identified, they will be reimbursed to the program.

## 5.6.BudgetRevision

* Budget revision can be considered during the course of the year (ideally on a semi-annual basis).
* Any budget revision should provide details of the activities for which revisions are required, reasons for the revision, the original budgeted amount and the proposed revised amounts,
* Budget revisions have to be approved by FJC & FSA and MoFEC and should be rolled over to regions and cities/sub-cities.
* The budget ledgers need to be updated for revised budget.
* If the budget has been revised, it should be communicated to implementers of their own revised budgets.
* Work plans should also be revised according to the revised budget.
* Once approved, the revised budget, alternatively named the adjusted budget, will be the basis for the subsequent budget execution.

# PART IV

# 6.Accounting Arrangement

## 6.1CHARTOFACCOUNTS

A chart of accounts is a system of coding used by a financial management system to identify and classify financial transactions and events. The regular government Chart of Accounts will be used with necessary modifications to accommodate the specific needs of the UPSNP.

The chart of accounts used is similar at the Federal, Regional and Woreda levels to record revenue, transfers, expenditures, assets, liabilities and net assets/equity. Some of the accounts such as cash transfer and direct supports are only available at Woreda level and Revenue is recorded at the level of Federal only.

The summary of the account codes for the chart of accounts is as follows:

* Coding starting from 2000-2999 are reserved for external assistance
* Coding starting from 3000-3999 are reserved for external loans
* Coding starting from 4000-4099 are reserved for transfers
* Coding starting from 4100-4999 are reserved for assets
* Coding starting from 5000-5599 are reserved for liabilities
* Coding starting from 5600-5699 are reserved for net assets/equity
* Coding starting from 6000-6999 are reserved for expenditures

Revenue, expenditures and transfers are temporary accounts that begin each year with a zero balance. Assets and liabilities are permanent accounts while balance at the end of a year becomes the balance in the account at the beginning of the next year.

The FGE accounting system provides a Chart of Accounts, which is a system of coding government uses, to identify and classify financial entities and events.The chart of accounts for UPSNP includes some new account (in addition to FGE chart of accounts) titles and code numbers to address additional elements of the program.

The purpose of this chart of accounts is to enable users at all levels to capture and classify the funds received from donors for the programs and to reflect unique features of the Program.UPSNP’s chart of accounts is sufficient to capture transactions in a way that enables the preparation of financial statements which meets the requirements of different users.

The following tables show the budget codes, account category, and the chart of accounts.

**TheBudgetCodes**

|  |  |  |
| --- | --- | --- |
| BudgetaryCategory | BudgetaryUnit | Code |
|  | Economy | 200 |
|  | Construction | 270 |
| Public Body | [Federal Urban Job Creation and Food Security](http://10.0.64.152/budget/bt.do?biCode=1500000278) | 008 |
| Program | Urban Productive Safety Net Program (UPSNP) | 05 |
| Sub-agency | Tigray etc. | 01…11 |
| Sub-program | Mekele | 01 |
| Project | Conditional cash Transfer (1.1) | 001 |
|  | [Unconditional cash transfer(1.2)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101002) | 002 |
|  | [Capital budget for public work(1.3)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101003) | 003 |
|  | [Sub contract for client for special need(1.4)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101004) | 004 |
|  | [Livelihood skills, training, M and C(2.1)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101005) | 005 |
|  | [Livelihood transfer(2.2)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101006) | 006 |
|  | [capacity building (3.4)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101010) | 010 |
|  | [City Admin Mgt./Federal Management budget (3.5)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101011) | 011 |

Budget code for UPSNP is then 278/05//01/01/001. 278/05/02/02/001 etc

**For Example:** A complete budget code can be written for UPSNP Program at federal level and SNNPR as follows:-

|  |  |
| --- | --- |
| FJC & FSA | 15 / 00 / 000 / 278 / 05 / 13 |
| SNNPR | 15 / 00 / 000 / 278 / 05 / 06 |

As noted in the above code, only the last three fields are variable. If the implementing agency is the FJC & FSA, the Program code shall be 278. Note also that 15/00/000 refers to the jurisdiction (referring to Central Government), Zone and Woreda codes. According to the FGE chart of accounts, only 15 has to be mentioned. But what is usually written on the budget proclamations is 15/00/000; regions use “00/000” to identify the Zones and Woredas. The first two characters will represent the zone and the second three characters represent the Woredas. At Federal level this is shown by 00/000.

|  |  |
| --- | --- |
| **Account category** | **Code Number** |
| Revenue | 1000 |
| Assistance | 2000 |
| Loan Accounts | 3000 |
| Asset Accounts | 4100 |
| Liability Accounts | 5000 to 5499 |
| Net Asset/Equity Account | 5601 |
| Expenditure Accounts | 6000 series |

**Table… UPSNP Chart of Accounts**

| **Account Title** | **A/c No.** |
| --- | --- |
| Cashonhand | 4101 |
| CashatBank–US$SpecialA/C–IDA | 4110/01 |
| CashatBank–US$SpecialA/C–CanadianIDA | 4110/02 |
| CashatBank–US$SpecialA/C–BritishDepartmentonID | 4110/03 |
| CashatBank –US$SpecialA/C–ItalyDevt.Coop.Department | 4110/04 |
| CashatBankPooledBirrAccount/BoFED/City/sub-city OFED | 4110 |
| CashatBank-Implementingagencies | 4110 |
| Cashshortage&overage | 4202 |
| AdvancetoStaff | 4211 |
| AdvancetoRegions | 4208 |
| Otheradvancewithingovernment | 4210 |
| AdvancetoContractors | 4251 |
| Advancetoconsultants | 4252 |
| Advancetosuppliers | 4253 |
| OtherReceivables | 4274 |
| AccountsPayable | 5000-5599 |
| Sundrypayables(Incometaxpayable)/DuetoRegionsforFederalPB | 5026 |
| PensionContributionPayable | 5003 |
| WithholdingTaxPayable | 5006 |
| CostsharingPayable | 5007 |
| DuetoStaff | 5021 |
| Payableto UPSNP&Livelihoodclient | 5026 |
| SalaryPayable | 5004 |
| DuetoMoFEC | 5027 |
| Otherpayablewithinthegovernment | 5028 |
| ValueAddedTaxPayable | 5059 |
| RetentionPayable | 5061 |
| Transfers,MOFECtoFJC & FSA | 4006 |
| TransfersMOFECtoBOFED | 4006 |
| Inter-bank transfer within Budgetary Institute | 4010 |
| Transfers,BOFEDtoCITY/SUB-CITY OFED | 4011 |
| Transfer | 4017 |
| NetAssetsEquity | 5601 |
| **RevenueExternalAssistance** | **1000-2999** |
| Canadian | 2257 |
| UnitedKingdom | 2083 |
| Italian | 2269 |
| **RevenueExternalLoan** | **3000-3999** |
| IDA | 3014 |
| **Expenditures** | **6000-6999** |
| PERSONNEL SERVICES | 6100 |
| Emoluments | 6110 |
| Wages to contract Staff | 6113 |
| Wages to casual staff | 6114 |
| Wages to external contract Staff | 6115 |
| Miscellaneous payments to Staff | 6116 |
| Allowances/benefits | 6120 |
| Allowances to contract staff | 6123 |
| Allowances to external contract staff | 6124 |
| GOODS AND SERVICES | 6200 |
| Goods and Supplies | 6210-20 |
| Uniforms, clothing, bedding | 6211 |
| Office supplies | 6212 |
| Printing | 6213 |
| Educational Supplies | 6215 |
| Fuel and lubricants | 6217 |
| Other material and supplies | 6218 |
| Miscellaneous equipment | 6219 |
| Research and development supplies | 6223 |
| Traveling and official entertainment | 6230 |
| Per diem | 6231 |
| Transport fees | 6232 |
| Maintenance and repair | 6240 |
| Maintenance and repair of vehicles and other transports | 6241 |
| Maintenance and repair of plant, machinery and equipment | 6243 |
| Maintenance and repair of building, furnishing and fixtures | 6244 |
| Maintenance and repair of infrastructure | 6245 |
| Contracted Services | 6250 |
| Contracted professional services | 6251 |
| Rent | 6252 |
| Advertising | 6253 |
| Insurance | 6254 |
| Freight | 6255 |
| Fees and charges | 6256 |
| Electricity charges | 6257 |
| Telecommunication charges | 6258 |
| Water and other utilities | 6259 |
| Training Services | 6270 |
| Local Training | 6271 |
| External Training | 6272 |
| FIXED ASSETS AND CONSTRUCTION | 6300 |
| Fixed Assets | 6310 |
| Purchase of vehicles and other vehicles transport | 6311 |
| Purchase of plant, machinery and equipment | 6313 |
| Purchase of buildings, furnishings and fixtures | 6314 |
| Construction | 6320 |
| Pre-construction activities | 6321 |
| Construction of building-non-residential | 6323 |
| Construction of infrastructure | 6324 |
| Other Payments | 6400 |
| Miscellaneous payments | 6419 |

Expenditures are categorized in three major components and the following table shows the components and the details items of expenditures.

|  |  |  |  |
| --- | --- | --- | --- |
| **Components** | **Sub Comp** | **ExpectedExpenditureCategories** | **ExpenditureCode** |
| **Component1: Safety Net Support** |  | Public work | 6114 |
|  | Direct Support | 6417 |
|  | Capital for Public work | 6324 |
|  | Sub contracts for clients with special needs | 6412 |
| **Component 2: Livelihood Services** |  | Livelohood skill training, mentoring and coaching | 6271 |
| Livelihhods transfer | 6412 |
| **Component 3: Institutional Strengthening and Program Management** |  | Office Supplies | 6212 |
|  | Fuel & Lubricant | 6217 |
|  | Per diem |  |
| Target & MIS | Consultant Services | 6251 |
|  | Transportation | 6232 |
|  | Professional fee | 6251 |
| Eval. & Audit | Fees & charge | 6256 |
| Engagement & Socil. Acctability | Per diem | 6231 |
| Transportation | 6232 |
|  | Consultant Services | 6251 |
|  | Office Supplies | 6212 |
| Capacity building | Fuel & Lubricant | 6217 |
| Per diem | 6231 |
|  | Maintenance, Repair of Vehicles & other Transport | 6241 |
| Consultant Services | 6251 |
| Fees | 6256 |
| Operating costs such as running cost & utilit | 6259 |
| Local Training & workshops | 6271 |
| Capacity building | International Training and Workshops | 6272 |
| Vehicles | 6311 |
| Purchase of plant, machinery and equipment | 6313 |
| Buildings, Furnishings and Fixture | 6314 |
| City admin  Budget/regional mangt budget | Wages to Contract Staff | 6113 |
| Pension contribution | 6133 |
| Office Supplies | 6212 |
| Fee & charge (Banck ser.ch.) | 6256 |
| Transportation | 6232 |
| Fuel & Lubricant | 6217 |
| Per diem | 6231 |
| Maintenance | 6241 |
| Operating Costs such as running cost & utilities | 6259 |
| Training & workshop | 6271 |

**UPSNP IBEX BUDGET STRUCTURE**

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(3.5)](http://10.0.64.152/budget/bt.do?biCode=1500000278050101011)  http://10.0.64.152/budget/images/sa_open.gif[**02 - Afar**](http://10.0.64.152/budget/bt.do?biCode=15000002780502)  http://10.0.64.152/budget/images/sp_open.gif[00 - Regional BOFEED](http://10.0.64.152/budget/bt.do?biCode=1500000278050200)  http://10.0.64.152/budget/images/ps_leaf.gif[011 - regional management (3.5)](http://10.0.64.152/budget/bt.do?biCode=1500000278050200011)  http://10.0.64.152/budget/images/sp_open.gif[01 - Semera Urban WOFED](http://10.0.64.152/budget/bt.do?biCode=1500000278050201)  http://10.0.64.152/budget/images/ps_leaf.gif[**001 - Conditional cash transfer (1.1)**](http://10.0.64.152/budget/bt.do?biCode=1500000278050201001)  http://10.0.64.152/budget/images/ps_leaf.gif[002 - Unconditional cash transfer (1.2)](http://10.0.64.152/budget/bt.do?biCode=1500000278050201002)  http://10.0.64.152/budget/images/ps_leaf.gif[003 - Capital for Public work (1.3)](http://10.0.64.152/budget/bt.do?biCode=1500000278050201003)  http://10.0.64.152/budget/images/ps_leaf.gif[004 - 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ethiopian somali BoFED](http://10.0.64.152/budget/bt.do?biCode=1500000278050500)  http://10.0.64.152/budget/images/ps_leaf.gif[011 - regional management (3.5)](http://10.0.64.152/budget/bt.do?biCode=1500000278050500011)  http://10.0.64.152/budget/images/sp_open.gif[01 - Jigjiga Urbban WOFED](http://10.0.64.152/budget/bt.do?biCode=1500000278050501)  http://10.0.64.152/budget/images/ps_leaf.gif[**001 - Conditional transfer (1.1)**](http://10.0.64.152/budget/bt.do?biCode=1500000278050501001)  http://10.0.64.152/budget/images/ps_leaf.gif[002 - Un-conditional transfer (1.2)](http://10.0.64.152/budget/bt.do?biCode=1500000278050501002)  http://10.0.64.152/budget/images/ps_leaf.gif[003 - Capital for Public work (1.3)](http://10.0.64.152/budget/bt.do?biCode=1500000278050501003)  http://10.0.64.152/budget/images/ps_leaf.gif[004 - Sub contracts for clients with special needs (1.4)](http://10.0.64.152/budget/bt.do?biCode=1500000278050501004)  http://10.0.64.152/budget/images/ps_leaf.gif[005 - Livelohood skill training,mentoring and coaching (2.1)](http://10.0.64.152/budget/bt.do?biCode=1500000278050501005)  http://10.0.64.152/budget/images/ps_leaf.gif[006 - 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Hareri**](http://10.0.64.152/budget/bt.do?biCode=15000002780507)  http://10.0.64.152/budget/images/sp_open.gif[00 - Hareri BoFED](http://10.0.64.152/budget/bt.do?biCode=1500000278050700)  http://10.0.64.152/budget/images/ps_leaf.gif[011 - regional management (3.5)](http://10.0.64.152/budget/bt.do?biCode=1500000278050700011)  http://10.0.64.152/budget/images/sp_open.gif[01 - Harar Urbban WOFED](http://10.0.64.152/budget/bt.do?biCode=1500000278050701)  http://10.0.64.152/budget/images/ps_leaf.gif[**001 - Conditional transfer (1.1)**](http://10.0.64.152/budget/bt.do?biCode=1500000278050701001)  http://10.0.64.152/budget/images/ps_leaf.gif[002 - Un-conditional transfer (1.2)](http://10.0.64.152/budget/bt.do?biCode=1500000278050701002)  http://10.0.64.152/budget/images/ps_leaf.gif[003 - Capital for Public work (1.3)](http://10.0.64.152/budget/bt.do?biCode=1500000278050701003)  http://10.0.64.152/budget/images/ps_leaf.gif[004 - Sub contracts for clients with special needs (1.4)](http://10.0.64.152/budget/bt.do?biCode=1500000278050701004)  http://10.0.64.152/budget/images/ps_leaf.gif[005 - 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Dire dawa BoFED](http://10.0.64.152/budget/bt.do?biCode=1500000278051000)  http://10.0.64.152/budget/images/ps_leaf.gif[011 - regional management (3.5)](http://10.0.64.152/budget/bt.do?biCode=1500000278051000011)  http://10.0.64.152/budget/images/sp_open.gif[01 - Dire dawa Urbban WOFED](http://10.0.64.152/budget/bt.do?biCode=1500000278051001)  http://10.0.64.152/budget/images/ps_leaf.gif[**001 - Conditional transfer (1.1)**](http://10.0.64.152/budget/bt.do?biCode=1500000278051001001)  http://10.0.64.152/budget/images/ps_leaf.gif[002 - Un-conditional transfer (1.2)](http://10.0.64.152/budget/bt.do?biCode=1500000278051001002)  http://10.0.64.152/budget/images/ps_leaf.gif[003 - Capital for Public work (1.3)](http://10.0.64.152/budget/bt.do?biCode=1500000278051001003)  http://10.0.64.152/budget/images/ps_leaf.gif[004 - Sub contracts for clients with special needs (1.4)](http://10.0.64.152/budget/bt.do?biCode=1500000278051001004)  http://10.0.64.152/budget/images/ps_leaf.gif[005 - Livelohood skill training,mentoring and coaching (2.1)](http://10.0.64.152/budget/bt.do?biCode=1500000278051001005)  http://10.0.64.152/budget/images/ps_leaf.gif[006 - 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Federal Management (3.5)](http://10.0.64.152/budget/bt.do?biCode=1500000278051301011) | |

* 1. **REVENUE& EXPENDITURES**

**REVENUE:**Only MoFEC shall use this account, in case of cash contribution, as the distinction of revenue by source (donor) in all the implementing agencies is not applicable and impossible because transfer to the agencies will be made from one pooled Birr account. However, if donors contribute in kind, FJC & FSA will account the domination.

TherearetwocategoriesofrevenueunderUPSNP:

* The transfer from central treasury being the Government's contribution shall be kept in the first revenue account.
* Income from donors can be either external loan or external assistance. Separate account for each donor shall be maintained according to the nature of the transfer, i.e., either loan or assistance.

**EXPENDITURES**- are the most important section of the chart of accounts.Expenditures are categorized in three stages: Component, Sub-componentand item of expenditures.Woredas andRegions will summarize their expenditures in terms of major components& sub-components as shown below:

* Component1: Safety Net Support
* Sub-component 1.1: Conditional Transfers
* Sub-component 1.2: Unconditional Transfers
* Sub-component 1.3. Capital Budget for Public Work
* Sub-component 1.4. Sub-contracts for clients with special needs
* Component2: Livelihood services
* Sub-component 2.1: Livelihood skills, training, mentoring, coaching
* Sub-component 2.2: Livelihood Transfer
* Component3: Institutional strengthening and Program Management
* Sub-component 3.1. Operational systems Development
* Sub-component 3.2: Evaluation and Audit,
* Sub-component 3.3. Capacity building, safeguard monitoring & implementation
* Sub-component 3.4. Regional and Federal level management budget
* Sub-component 3.5. Citizens engagement and social accountability

The Chart of accounts is subject to revision when the need arises. The responsibility to establish new codes as the need arises shall be of MOFEC. The new codes shall be identified, organized and communicated in writing to all implementing agencies.

## 6.3. RECEIPTOFMONEY

The Program’s main source of cash is budget transfer. In addition, cash may be collected from unclaimed salaries, refunds, sales of scraps. etc.

### **6.3.1. CashReceiptPoliciesandProcedures**

The following policies & procedures should be used by the UPSNP:

Revenue of UPSNP mainly represents the amount of fund being received from each financer; IDA loans and grants, other funding institutions, Federal & Regional Government contributions. All revenues are recognized and recorded in each respective Implementing Entity where the transaction is generated or created;

Fund balance represents the excess balance of (revenue over expenses) of loan and grant.

Each fiscal year, the Fund Balance is carried forward to the following year.

There will be both foreign and local currency accounts at the Federal level. Only local currency accounts will be opened at the Regional and Woreda levels. The opening of foreign currency account shall be made according to prevailing Government policies. The Accounting and finance unit of each implementing agency shall handle all operational arrangements with banks, except those concerning the opening and closure of bank accounts.

### **6.3.2. Internal Control over Cash Receipt**

All cash receipt should be evidenced by Cash Receipt Voucher (CRV) in strict numerical sequence. The budget and account code shall be written on the face of the cash receipts;

Cashier should have no role in the preparations of, or access to, the accounting records other than those related directly to cash. The cashiers’ records should be subject to regular independent verification;

Wherever there are banks at a reasonable distance of the implementing agency, all cash received should be deposited intact to the bank daily and the making of payments or advances out of cash collections should be specifically prohibited;

Cheques received should be deposited on separate deposit slips, each deposit slip being referenced to the receipt to which it relates;

UPSNP funds should be separate from funds held for other purposes.

The cashiers should use secured cash safes to keep money; owing to the risks of managing significant resources at the lower level, cash safes should be purchased for any new city.

The unused CRV pads must be kept in safe custody by a responsible official who is not involved in the handling of cash;

Such documents must be issued to the cashier in strict numerical sequence and the number of pads in the hands of the cashiers restricted to their immediate requirements;

New pads should only be issued against return of the completed ones, which should be carefully scrutinized by the issuing official for apparent correctness, i.e. there have been no alteration or erasures;

Registers of unused receipts should be maintained by the custodian who should be subject to periodic surprise verification by accountant or auditor;

The cashier’s record should be in such a way that all receipts are recorded in numerical sequence so that any omission can easily be spotted;

The deposit of each day collections should be deposited separately so that the resultant nil balance proves that all cash received has been deposited;

The cashier’s records should be independently checked everyday and particular attention made to the integrity of the numerical sequences of the prime documents which should be carefully scrutinized for-evidence of alternation or erasure;

### **6.3.3. ControlsoverCashonHand**

Due to the size of payment to beneficiaries & the absence of banking services in some of the UPSNP Woredas/cities, cashier hold large sum of money in safe boxes. To minimize the potential risk associated to large amount of cash on hand, the following internal control procedures need to be adhered to.

Cash on hand should be counted on a daily basis (at the end of the day) by the senior finance personnel and should be evidenced by a cash certificate. The cash certificate should also be signed by the cashier and the finance officer who undertake the count.

In addition to a regular cash count, cash counts should be made on a surprise basis at irregular intervals

Excess amount of money should be deposited to the bank every day after cash payments are effected.

When the cash payment areas are remote from the bank, the cashier should use appropriate government security coverage;

Restrict cash on hand access to as few peoples as possible;

Regions, as part of their quarterly report, should disclose actions taken to minimize the volume of cash on hand and to safeguard cash on hand;

Regions should ensure that Woredas/cities included actions taken to safeguard cash on hand;

In order to avoid excess cash and cash shortage for payments, the cash management aspect of the program needs further strengthening through better planning and management of cash forecasts in the release of resources to regions and woredas/cities.

### **6.3.4. CashReceiptTransactions**

The cash receipt voucher (CRV) is used to acknowledge and evidence the receipt of cash, cheques, direct deposit of cash into the bank and bank transfer serves as a source document to record the transactions into the Transaction Register screen or voucher screen in IBEX.

**Distribution & Completion of Cash Receipt Voucher**

The receipt Voucher is prepared in three copies and distributed as follows:-

Original to the payer as acknowledgment of the cash receipt,.

Second copy to the accounts,

Third copy is retained in the pad

**Accounting entry**

The following examples show recording cash receipts transactions, at all levels of implementing agencies.

**Transaction:**Equivalent of Birr 20,000,000 is received from IDA

**In the Books of MOFEC:**

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash at Bank-Special Account | 4110/01 | 20,000, 000 |  |
| Loan-IDA | 3014 |  | 20,000, 000 |

This is recorded in IBEX Transaction Register Screen maintained for special foreign currency account. Supporting documents are withdrawal application, bank credit advice and copy of electronics transfer from donors.

**Transaction:** Equivalent of Birr 70,000,000 is transferred to Pooled Birr Account. The cash receipt voucher is recorded as follows:-

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash at Bank | 4110 | 70,000, 000 |  |
| InterBank transfer | 4010 |  | 70,000, 000 |

Supporting documents are CRV, and credit advice.

**Transaction:**Birr 10,000,000 is deposited to the bank account of FJC & FSA-FUJCFSA, Receipt Voucher is prepared based on the bank credit advice and pass the following entries:

**In the Books of FJC & FSA-UJCFSA**

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash at Bank | 4110 | 10,000, 000 |  |
| Transfer | 4006 |  | 10,000, 000 |

In the books of MoFEC when the above Birr 10,000,000 is transferred

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Transfer | 4006 | 10,000, 000 |  |
| Cash at Bank | 4110 |  | 10,000, 000 |

**Transaction:**BOFED receives Birr 15,000,000 from MOFEC based on allotted budget for each region. MoUHD shall prepare timely transfer of money to the regions and send instruction to MOFEC to transfer.

Region “A” prepares Cash Receipt Voucher when the money is received.

In the Books of Regions

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash at Bank | 4110 | 15,000,000 |  |
| Transfer | 4006 |  | 15,000,000 |

From Birr 15,000,000 it received, Birr 3,000,000 was transferred to Woreda “R” Finance Office CITY/SUB-CITY OFED prepares Receipt Voucher when the money deposited in its Bank. CITY/SUB-CITY OFED also confirm receipt of money to the BOFED by a letter.

When the money is received by CITY/SUB-CITY OFED, the following entry will pass:-

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash at Bank | 4110 | 3,000,000 |  |
| Transfer | 4011 |  | 3,000,000 |

In the Books of region when the above Birr 3,000,000 is transferred to the woreda

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Transfer | 4011 | 3,000,000 |  |
| Cash at Bank | 4110 |  | 3,000,000 |

For miscellaneous collections, cash on hand or at bank should be debited and the respective source of cash, unclaimed salaries, advance receivables, other income etc should be credited depending on circumstances. The following examples explain treatments of miscellaneous collections in the books of CITY/SUB-CITY OFED:-

After paying monthly salary of UPSNP permanent staff, Birr 2,300 left in the hand of Woreda ‘R’ cashier

|  |  |  |  |
| --- | --- | --- | --- |
| Accounttitle | AccountNumber | Debit | Credit |
| Cash on Bank | 4110 | 2,300 |  |
| Cash on Hand | 4101 |  | 2,300 |

The cashier should issue cash receipt for Birr 2,300, the entry is:-

As stated in the internal control of cash, all cash receipts should be deposited in the Bank at the same date on which the cash is collected unless there is no bank in the Woreda. If there is no bank in the Woreda, cash may be deposited in one week time depending on the volume of the cash received.

### **6.3.5.Calculating&RecordingForeignCurrencyExchangeGains&Losses**

At the end of the reporting period, the “Cash at Bank in Foreign Currency” ledger card contains an ending balance for cash in Birr and in foreign currency. However, the ending balance of the foreign currency account in Birr may not be equal to the Birr equivalent of ending foreign currency balance, using end of the reporting period exchange rates. The difference is attributable to changes in the exchange rate during the reporting period and represents an exchange gain or loss.

At the end of the reporting period, the foreign exchange gain or loss is calculated as follows:

1. Identify the ending balance of foreign currency on the “Cash at Bank in Foreign Currency” ledger card.
2. Undertake a bank reconciliation and make any necessary adjustments
3. Obtain the exchange rate as of the end of the day for the period
4. Multiply the reconciled ending balance in foreign currency as shown on the cash in bank in foreign currency ledger card by the exchange rate.
5. Identify the ending balance in Birr on the cash in bank in foreign currency ledger card.

If the amount from steps 4 and 5 are equal, there is no foreign currency gain or loss for theperiod. If the amount from step 4 is larger than the amount step 5, the difference is a foreign currency gain. If the amount from step 5 is larger than the amount step 4, the difference is a foreign currency loss.

Recording foreign currency exchange gains or losses: Only the “Cash at Bank” in column on foreign currency IBEX transaction register screen is used to record the exchange gain or losses. No corresponding entry is made in the “Cash at Bank in F.C” column.

The “Other” column of foreign currency IBEX transaction register screen is used to record the other portion of the exchange gain or loss transaction.All amounts are recorded in Birr only as follows:

“Cash at Bank in Birr(...)” column

Debit: If foreign currency exchanges gain

Credit: If foreign currency exchanges loss

“Other” column

Debit: If foreign currency exchanges loss

Credit: If foreign currency exchanges gain

“Cash at Bank in F.C”column

No entry required

## PAYMENTS

Payments may be effected in cash or through banks (in cheque or through bank transfer, mobile payment). Payment in cash may be effected from a petty cash fund, if it is established, or from cash drawn for various payments.

### **6.4.1. BankPayments**

The source documents to record cash paid by an accountant with Cheques or bank transfer which includes mobile payment is the Bank /Cheque/ Payment Voucher. It is used to acknowledge and evidence the payment of Check or Bank transfer and serve as source document to record the transaction in to Transaction Register/ Voucher into IBEX.

The Bank payment voucher is prepared in two copies and distributed as follows:

* Original copy to the accountant
* Second copy is retained in the pad as a file copy.

The accountant prepares the PV form as follows:-

|  |  |
| --- | --- |
| Field | Description |
| Date | Write the date of payment |
| Name of the Organization | Write name of the organization |
| Pay to | Write the name of supplier or individual who received money |
| Address | Complete full address of the receiver |
| Mode of payment | Mark in the box to show the mode payment by cash, Cheque, bank transfer, mobile transfer write also the Cheque no., date and Ref.No., if it is by bank transfer |
| Purpose | Write in short the purpose of payment in figure and words |
| Account Code | Write the correct accounting code |
| Debit | Write the amount in figure in debit column |
| Credit | Write the amount in figure in credit column |
| Total | Write the total amount in figure |
| Budget approved by | Write name & get signature of person who approved the budget |
| Prepared by | Write the name and get signature |
| Checked by | Name and signature of the accountant |
| Authorized by | Name & signature of person who authorized the payment |
| Received by | Name & Signature of a person who received the cash/cheque |

**Policies andProceduresforBank/Cheque Payments**

* The following procedures should be strictly adhered in respect of cheque payments:-
* Separate bank account should be opened for the UPSNP program, which is to be operated by the dual signatories of the finance head and the head of the respective implementation agency.
* To minimize the risk of indispensability, more than two signatories may be delegated as additional signatories in the absence of primary signatories.
* All payments other than transfers and petty cash, at all levels (Federal, Regions and Woreda), should be made by Cheque.
* The minimum single payment limit to pay in cheque will be in accordance with procedures practiced in each of the implementing agencies for the regular government account. Some Woredas/cities may be allowed to pay above the petty cash threshold when bank services are not available in the Woreda/city.
* Bank transfers shall be made in written instructions to bank against approved Payment Request.
* Accountants prepare Bank Payment Voucher for cash paid in cheque or Bank transfer upon receipt of approved Payment Request Form. A requesting unit should fill out a Bank Payment Request Form and get the approval of the designated officials.
* All Cheque payments and bank transfers shall be made via a Bank Payment Voucher and shall be duly authorized by the responsible officer.
* All Bank payments should require dual signatories. The approval procedure and the authorization limits to approve Bank payments shall be as per the existing FGE’s policies. Cheque signatories should also approve payment voucher, supporting documents and the Cheque stubs.
* The numbers of cheques received from the bank should be immediately recorded in a cheques register.

**InternalControlProceduresforBankPayments**

The following internal control shall apply:-

* + - Cheque books collected from bank by designated signatories. The cheque leaves should be counted for completeness at the time of receipt. Any missing leaves are to be reported immediately to the bank for replacement.
    - Only one cheque book at a time is supposed to be issued to the accountant responsible for cheque preparation;
    - Cheque payment voucher is prepared based on the authorized payment requests.
    - Availability of budget and completeness and validity of supporting documentation should be carried out before preparation and submission of the payment voucher and the cheques to the officials for signature;
    - Blank cheques should not be signed by any of the signatories;
    - Cheque stubs are to be completed with the date, name of payee, amount and initials of the authorized officials;
    - When there is an error in the preparation of a cheque, the cheque is cancelled by writing CANCELLED diagonally across the face of the cheque. The cancelled cheque is then retained in the cheque book stapled to the cheque stub;
    - Each Cheque payment should be evidenced by Cheque Payment Voucher. 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 receipt reports;
    - In order to ensure that only the designated beneficiary can receive payment and fraudulent endorsement is not possible, cheques should preferably be made payable to a person company or enterprise and crossed A/C Payee only.
    - Bank accounts should be reconciled on a monthly basis against a bank book or cash at bank ledger.
    - Supporting documents for bank payment should be stamped with a “Paid Stamp”. Paid stamp should be prepared in the name of the Woreda or Region as applicable. The stamp should contain Reference and Date. See figure below:

UPSNP PAID

ተከፍሏል

Region:\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Woreda:\_\_\_\_\_\_\_\_\_\_\_\_\_

Ref.No:\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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

**RecordingofPaymentTransactionsintoTransactionRegister/VoucherEntry/**

The following examples show how payment transactions are recorded in the transaction register:-

**Transaction:**Purchases of machinery Inputs were made for Birr 100,000.

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Machinery Inputs | 6324 | 100,000 |  |
| Cash at Bank | 4110 |  | 98,000 |
| Withholding tax | 5006 |  | 2000 |

Source documents are bank payment voucher, and suppliers invoice.

If in the above transaction the seller is a VAT registered, and since the purchase is more than 10,000.00 birr withholding will be deducted so the recording would be assuming the 100,000.00 is before VAT

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Machinery Inputs | 6324 | 115,000 |  |
| Cash at Bank | 4110 |  | 98,000 |
| VAT | 5059 |  | 15,000 |
| Withholding Tax | 5006 |  | 2,000 |

### **6.4.2 CashPayment**

In some Woredas Cash Payment Voucher may be used to acknowledge and evidence the payment of cash by the cashier in cash other than cheque when bank services are not available in the Woreda. In such Woreda, it may not be possible to apply petty cash system.

The cash payment voucher is prepared in two copies and distributed as follows:

* Original copy to the accountant
* Second copy is retained in the pad as a file copy.

**ProcedureforCashPayments**

* Cashier request for cheque payment based on the approved Payment Request Forms and additional sum as determined by the accounts head for different small payments. The additional sum of money should not exceed fifteen days small payment requirements.
* Idle large sum of cash should not be kept long in the safe box. It should be deposited into bank with the decision of the finance head.
* No cash Payment should be effected other than designated cashier and no officers involved in the preparation of accounts and signing of cheques should be engaged in withdrawing or paying of cash.
* Cash balances should be counted every day, before office closure, by the finance head or designated officer and the count should be evidenced by a cash certificate.

#### 6.4.3. PettyCash

**Procedures for Maintaining Petty Cash Fund**

* Petty cash funds will be authorized and established, under the custody of cashiers, for those payments which are not expedient to be made by cheques. All small payments shall be paid out of the petty cash.
* The Petty cash fund float size will depend on the circumstances of the implementing agencies. The petty cash fund float size should not exceed one month’s petty cash payments.
* Petty cash fund shall be replenished whenever the amount of the cash in safe reach a safety cash level (20%)
* Petty cash payments should be evidenced by Cash Payment Vouchers. Cash Payment Vouchers should be prepared against approved Request for Payment form.
* The cashier should maintain a Petty Cash Book
* The cashier may effect payments from the petty cash fund using a Suspense Payment Voucher when the exact amount of cash to be paid is not known.
* Suspense voucher should be replaced by petty cash payment voucher in 30 days. If the suspense account is not cleared within a period of 30 days, it will be transferred into Cash payment Vouchers and the appropriate staff account will be debited.
* Suspense payment vouchers are not recorded in the petty cash book and should be regarded as cash. These vouchers are prepared in three copies. All copies are retained in the safe and cancelled (made void) when a payment voucher is prepared to settle the suspense account. The cancelled original given to the person settling the suspense item: the second copy is attached to the payment voucher; the third copy is retained on the pad. for sample petty cash book.
* Surprise and periodic cash count should be made on petty cash fund by the head of finance unit or designated officers and counts should be evidenced by a cash count certificate.
* Proper cut-off procedures should be undertaken to ensure that all the source documents are accounted in the period they are applicable. As far as possible, no cash balance should be kept in the hands of cashiers at the end of the fiscal year. The counting team should sign at the back of the last voucher used (CRV and CPV).
* Cashiers should deposit yearend cash on hand before the physical count commences and may withdraw (with approved payment procedures) in the following day (first day of the new fiscal year) if required.

**Maintaining Petty Cash Book**

* The purpose of the petty cash book is to control and monitor the movement of the petty cash fund.
* The source document to record the receipt of petty cash fund is a Bank payment voucher in which Petty cash fund is established or replenished.
* The source document to record payment from petty cash fund is the Cash Payment Voucher.The payment vouchers are given to the accountant to reimburse the cashier with petty cash.

The cashier should fill the following under petty cash register:-

|  |  |
| --- | --- |
| Fields | Description |
| Date | DatethetransactionOccur |
| Descriptions | ShortdescriptionaboutthenatureofTransaction |
| Cheque no | Write the Cheque no. |
| CPV | Write the cash payment Voucher no. |
| Receipt | Write the receipt voucher no. |
| Balance | Running Balance |
| BBF | Write the amount brought forward from previous page as Beginning balance |
| BCO | Write the amount carried over to the next page |

**Internal Control over Petty Cash**

* Conduct surprise cash count of petty cash; and evidence the count by a cash count certificate. Quarterly and Yearend cash count should be undertaken for the petty cash fund as well (even if balance is zero) and reported to regions
* Ensure that a petty cash book is maintained, which shows the daily expenditures and the balance on hand;
* Use a pre-numbered petty cash voucher;
* Petty cashiers should not have role in signing cheques or approving payment vouchers or recording and/or posting functions;
* Check that daily cash on hand reports are delivered by the petty cash custodian to the senior finance officer.
* Supporting documents for petty cash payment should be stamped with a “Paid Stamp”. Paid stamp should be prepared in the name of the Woreda or Region as applicable. The stamp should contain Reference and Date.

**Replenishment of Petty Cash Fund:**

To replenish to the extent of petty cash spent, the cashier surrenders all cash payments vouchers together with the attached supporting documents to the Accountant after completing Petty cash summary sheet.

**Recording Petty Cash Fund:**

Example for Establishment of Petty cash fund: - An implementing agency is authorized to a petty cash fund of Birr 100,000. The accountant will prepare the following entry based on the authorization letter and Bank payment voucher.

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Petty Cash Fund | 4101 | 100,000 |  |
| Cash at Bank | 4110 |  | 100,000 |

Petty Cash Payment Transaction Recording

**Transaction**: Purchase of office supplies for Birr 250.

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Stationery & supplies | 6212 | 250 |  |
| Cash in Safe | 4101 |  | 250 |

**Recording Petty Cash Replenishment:**

The cash in safe account will be debited and cash at bank will be credited for the amount of cash being replenished to the cashier. For example: The cashier spent Birr 10,500 with payment voucher and Birr 1500 in a suspense voucher out of the total Birr 15,000 petty cash fund. As suspense voucher is part of the cash, the replenishment is applied only to those payments evidenced with cash payment vouchers. The entry on theCheque payment voucher on which the replenishment is prepared:

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash in safe | 4101 | 10,500 |  |
| Cash at Bank | 4110 |  | 10,500 |

**Recording of Cash overage/shortage**

**Examples:-**

* On February 15, 2011 a surprise cash count revealed that there was Birr 1000 more in safe compared to the record balance.
* On March 5, 2011 a cash count revealed a shortage of Birr 550 in safe compared to the record balance.

**Cash Overage**

* The one who is in charge of counting (accountant/internal auditor) should ensure that the cashier prepared a cash receipt voucher for Birr 1000 to evidence the overage.
* The accountant shall prepare the following entry on the CRV

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash on hand | 4101 | 550 |  |
| Cash shortage/overage | 4202 |  | 550 |

##### **Cash shortage**:-

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Cash shortage/overage | 4202 | 550 |  |
| Cash on hand | 4101 |  | 550 |

Based on the decision of management, the above balance could be deducted from the payroll of the cashier. Alternatively, management might require the cashier to settle the lost money in cash, in which case coding will be done on CRV.

### **6.4.4. SuspensePayments**

When the suspense is settled or cleared within the prescribed period, the SPV shall be cancelled and the cash payment voucher is prepared to capture the transaction in the transaction register. When SPV is not settled within the prescribed period, the expenditure accountant prepares a cash payment voucher (attaching the SPV as supporting document) and record in the cash book as cash out and directs it to the General Ledger accountant to record it the transaction register as a receivable.

Recording of Suspense Transactions: No accounting recording is required forsuspensevoucher. However,ifanadvancepaidusingasuspensevoucheris notsettledwithin30days,itshouldbetransferredintoPaymentVoucher.TheaccountingrecordingwillbetheninaccordancewithproceduresexplainedaboveinrelationtoCashPaymentVoucherorPettyCashPaymentasthecasemaybe.

**Example**

* Gemechu was paid Birr 450 for the purchase of stationery items from the Petty Cash fund using a Suspense Payment Voucher. Gemechu failed to settle the suspense advance in 30 days time. The cashier issued a memo to the finance head about it. The Finance head order the accountant to prepare the Cash Payment Vocuher, and attach the Suspense Payment Voucher to the Payment Voucher. Gemechu, later on submitted the invoice and the goods receiving voucher, amounting Birr 550. The accountant submits the document for approval, and prepares a Payment voucher for extra Birr 100, as the amount of document submitted by Gemechu is higher than the advance he took.

Journal Entry for effecting payment using Suspense Payment Voucher

No Journal entry required

Journal Entry for transferring the Suspense Voucher into a permanent record (Cash Payment Voucher)

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | AccountNumber | Debit | Credit |
| Purchase advance | 4211 | 450 |  |
| Cash in Safe | 4101 |  | 450 |

Journal Entry for settlement of Birr 450 and affecting the extra Birr 100 using a Payment Voucher

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Office Supplies | 6212 | 550 |  |
| Purchase Advance | 4211 |  | 450 |
| Cash in safe | 4101 |  | 100 |

### **6.4.5BankReconciliation**

* From practice, it is understood that the balance per record of organization’s book may not agree with the balance per bank statement. The most common causes for differences include:-
* Deposits in transit, not shown in the bank statements
* Outstanding Cheques not presented to the bank
* Deposits/payment not recorded on books
* Errors in recording either by the bank or by the implementing agency.
* Bank reconciliation should be prepared on a monthly basis in 5 days time from the end of the month concerned. Bank reconciliation should be made on a monthly basis even if there is no payment or deposit or transfer received during the month.
* Bank reconciliations to be prepared by the following entities to reconcile all bank accounts maintained for the project: - by MoFEC, by BoFED, by City/sub-city OFED, by FJC & FSA, and by others that receive project funds.
* The reconciliation will help us to correct book errors, and to identify bank errors and other fraudulent activities as early as possible before it is too late.
* Documents required to prepare the bank reconciliation are:
* Monthly Bank Statements received from the bank
* Transaction Register/General Ledger, and
* Bank reconciliation report of the previous month.

**Steps required in preparing bank reconciliation includes:**

* Timely obtain monthly bank statements and make sure that items from the prior reconciliation are cleared on the statement by the bank when a bank statement is received.
* Compare the Cheque payments, transfers and deposits listed on the bank statements against entries in the Transaction Register. Put a mark on both the ledger and statements for the transactions which are available in the exact amount at the bank statement and ledger card.
* Note errors, outstanding Cheques and deposit in transit from the transaction register, if any.
* List other items on the bank statement but not recorded in the Transaction register or ledger.
* List transactions (deposits and payments) shown in the bank statements but not in the Transaction register. If there is a cheque payment, shown in the statement but not in your register or ledger, the reasons may be:

1. Youdidnotpostthetransactionintothetransactionregisterorledger,

**Action:findthedocumentandpostitandupdateyourledgerbalance**

1. Thereiserrorinpostingthetransaction

**Action:Makecorrectingentry**

1. Thechequepaymentshowninthebankstatementwasnotissuedbyyourorganizationordoesn’tissuedfrom UPSNP(thatisbankerror)

**Action:Notifythebanktomakeacorrectionandgettherevisedbankstatement**

1. Your cheque may be stolen and cheque payment is issued without theknowledgeoftheaccounts

**Action:Notifythebankandfollow-upseriously**

* If there are debit and credits related to bank transfers and bank charges, make sure that you have all these advices. If these advices are not available, ask the bank to give the copy of these advices to pass the necessary journal entry.
* Banks do not often send advices for cost of cheque books. Make the appropriate entry by referring the bank statement.
* Review and investigate outstanding cheques of the previous month if they are not still cleared in subsequent current months. Make sure that these are not voided cheques but recorded into the Transaction Register and Ledger.
* Follow-up with bank
* if there are deposit in transits which did not appear in 10 and more days before the end of the month
* If you are informed a cash transfer by the BoFED or MoFEC or the next level of Urban Food Security offices that cash was transferred but not yet shown statement.

Prepare the bank reconciliation with a format shown below. Note that the Cash at Bank as per ledger at the date of reconciliation should be equal with that of Adjusted (reconciled bank balance).

Woreda/city / Region Bank reconciliation statement

For the month ended on

|  |  |  |  |
| --- | --- | --- | --- |
| S.N | Description | Birr | Birr |
| (A) | Opening Balance as per ledger (Date) |  | xxxxxx |
|  | Add: Transfer received from during the month |  | xxxxxx |
|  | Total cash available |  | xxxxxx |
| (B) | Less: Total payments for the month (by cheque/Bank transfer/letter) |  | (xxxxxx) |
|  | Cash at Bank as per ledger (Date) |  | xxxxxx |
|  |  |  |  |
| (c) | Bank Balance shown in the Bank statement (Date) |  | xxxxxx |
|  | Add: deposits in transit |  |  |
|  | CRV---- Refund from supplier | Xxx |  |
|  | CRV---- Refund from travel advance | Xxx |  |
|  |  |  | xxx |
|  |  |  | xxxxxx |
|  | Less: Cheques written but not presented for payment |  |  |
|  | Ch No. --------- | Xxx |  |
|  | ChNo. --------- | Xxx |  |
|  |  |  | (xxxx) |
|  | Adjusted (reconciled bank balance) |  | xxxxxx |

Prepared by\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Checked by\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The following reconciliation items do not require journal entries by MoFEC /BoFED /CITY/SUB-CITY OFED. They usually include:-

* Deposits in transit:deposits received by the bank not recorded on the bank statement.
* Bank errors: typical bank errors include transposition errors of Cheque amounts or items recorded in error against the depositor’s account.
* Outstanding Cheques recorded in the accounting records that have not yet been paid by the date of the bank statement.

Items on the books of the implementing agencies side of the bank reconciliation require rectification and normally include:

* A transposition error or error in addition on its deposit slips to the bank and error is recorded in the transaction register. Errors require adjustment to the account balance.
* Service charges: Banks may not issue advices for cost of cheque book. Journalize the transaction by refereeing the statement.
* Insufficient funds Cheques: Cheques deposited by implementing agency that are returned to the bank for insufficient funds. These are illegal in Ethiopia and strictly addressed as and when occur

**6.4.5. Payroll**

**Payroll Public works and direct support:**Cash payment can be effected to clients through Commercial Bank of Ethiopia.

The following procedures for payment to UPSNP clients through the Commercial Bank will be followed.

* + - Ministry of Finance and Economic Cooperation (MoFEC) should make an agreement or Memorandum of Understanding (MOU) with Commercial Bank of Ethiopia to make monthly transfer payment to the UPSNP clients.
    - MoFEC notifies the BoFEDs about the agreement. The CBE will also notifies its branch offices.
    - BoFEDs will notify the City/sub-city OFED.
    - City/sub-city OFED identify clients and transfer their list to the CBE so that Clients open saving account at the CBE
    - The CBE need to notify the City/sub-city OFEDin writing the detail clients who open saving account at the CBE.
    - City/sub-city OFED submits monthly payroll list of clients. The payroll will be submitted in hard copy print out and softcopy to CBE.
    - CBE should transfer to each client account based on the payroll list submitted by City/sub-city OFED. The CBE sent debit advice to City/Sub-city OFED. The CBE report should indicate the amount of cash credited to the accounts of the clients.
    - City/sub-city OFED shall investigate and respond quickly for complaints of clients that their payment has not reached or the amount posted to their saving account is not correct.

### **6.4.6.OtherPayments**

**Travel and per diem:**

* Travels should basically be pre-planned except those unpredictable emergency travels.
* Per Diem rates and other reimbursable expenses are computed in accordance with the administration manual or prevailing approved rate in the implementing agency unless a different rate issued (approved) for UPSNP by COPCD.

**When Travel advance is taken**:

* When a travel advance is required, the traveler should fill the Travel Request and Approval Form with a formatprepared in two copies and get the approval of his unit/department head. The traveler then passes the approved form to accounts for budget checking and processing payment.
* Earlier Travel advance must be cleared (settled) before another travel advance is given.

**When travel advance settled:**

* Traveler should settle the per diem advance in three days from the date of return.
* Traveler should complete and submits a Travel Report and Settlement Form with a format within three days of returning from the travel. The settlement form has to be prepared by the traveler (finance may assist) in two copies, attaching allowable receipts for reimbursable expenses. The form has to be verified by head of the unit or department where the traveler belongs, checked by accountant and should be approved by the Administration and Finance Head.
* The senior accountant has to check the validity of the supporting documents. Where any errors are found, the Travel Report and Settlement Form are returned to the traveler with a memo listing the errors.
* If there is additional payment to be given to the traveler, the appropriate payment voucher will be prepared. If the traveler is supposed to refund for the excess advance, he/she will be informed to return the cash against the cash receipt.
* Finally the senior accountant sign on the settlement form and issue the copy as settlement evidence to the traveler.

##### **Recording Travel Advance & Settlement**

* **Example:-**Travel Advance of Birr 300 was made to staff member, Ato Henock Degefu, from petty cash. The staff submits travel expense report for Birr 120.
* **Payment of travel Advance**-The petty cash should be supported by approved travel advance request and approval form and the receiver signature.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Account title | Account Number | Subsidiary  code | Debit | Credit |
| Travel Advance:- Henock Degefu | 4203 | 01 | 300 |  |
| Cash in safe Safe | 4101 |  |  | 300 |

* Travel Expense- The accountant will pass the following entry on a journal voucher on the basis of approved travel expense report.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounttitle | AccountNumber | Subsidiary  code | Debit | Credit |
| Travel Expense/per diem | 6231 |  | 120 |  |
| Travel Advance:- Henock Degefu | 4203 | 01 |  | 120 |

There should be proper follow-up on the unsettled part of the travel advance. If the purpose of the travel is fulfilled, the employee should repay the remaining Birr 180, through cash receipt voucher.

|  |  |  |  |
| --- | --- | --- | --- |
| Accounttitle | AccountNumber | Debit | Credit |
| Cash in Safe | 4101 | 180 |  |
| Travel Advance:- Henock Degefu | 4203 |  | 180 |

**Purchase Advance**

* Purchase advance may be provided to a purchaser in cash or in cheque in a situation where vendors are not known in advance.
* The appropriate procurement documentations, including purchase requisition, purchase order, approved Request for Payment and others as applicable, need to be fulfilled before preparation of the payment voucher.
* Purchase advances should be settled in 30 daystime from the date of receipt. More days for settlement may be allowed if purchase is to be made distant places outside the Woreda.
* No purchase advance will be provided unless the purchaser settles the earlier advances.
* All purchase advances should be settled immediately up on receiving the goods/services by providing the required invoice. GRN, purchase order, and evaluation minutes and Performa invoice.
* For purchase advance that are not settled after receipts of goods/services, the salary of the purchaser should be suspended until settlement:
* All purchase advances should be settled before closing date of Sene 30 (July 7).
* All advances should be recorded as receivable when the advances are made and as expenditures when they are settled.

## 6.5Receivables

##### **Definition**

Receivables are claims held against customers and others for money, goods or services. Accounts receivable represents the aggregate balance of claims from third parties. Receivables are amounts owing to the program that fall due within one year. Included in this category are cash shortage, advances to staff and suppliers of goods and services, prepayments, project advances, travel advances, purchase advances, deposits, fund receivables and sundry debtors. Other receivable includes other kinds of advances and receivables that will not fall in the above categories.

**Staff advances:**Staff advances represent claims against own employees:- e.g. salary advance. Salary advance will be given on or before the 15th of every month and deducted at once in the month in which it is given.

* + - Request for salary advances must be approved in accordance with organization employment policies and by a responsible official.
    - Salary advances, if any, should not exceed employee’s one third of monthly gross salary. The advance must be deducted from the salary of the current month.

**Travel advances:** Travel and per diem advances are money advanced to the organization’s employees for approved travels. This advance would be settled by presenting appropriate receipts and field trip reports.

* + - Travel advances must be approved only for official business of the organization.
    - Travel advances should be limited to reasonably expected expense such as transport, loading unloading, accommodation, meal and reserve for unforeseen expenses.
    - Travel advances must be cleared in full within one week of the traveler’s return from trip. The traveler must submit travel report together with travel physical report.
    - Additional advance must not be given before the previous advances are liquidated.
    - The daily per diem rate shall be according to the prevailing rate approved by MoFEC.

**Purchase Advances:** Purchase advances are mainly advancesgiven to employees to purchase goods and services required for the Program.

**Prepayments:** Prepayment represents advance that will be reimbursed in the future or partially expensed for the expired portion. Such prepayments need adequate analysis and adjustment at the end of the accounting period. Examples in this category are prepaid rent and prepaid insurance premium, etc. Prepayments can be recorded as assets or expenses and (the expired or unexpired portion) is adjusted at the end of the period.

**ProjectAdvance**

Advance paid to contractor based on contract agreement. This advance is later settled upon submission of payment certificate or performance agreement.

* + - Project advance to other project or government office should be avoided.
    - Project advances should be in writing and authorized based on contract documents.
    - Ensure that any advance, as per the agreement made, given to skilled or semi- skilled contractors for PSNP Public Work related activities should be supported by bank or insurance guarantee from the contractor.
    - Ensure that advances to third parties are made on the basis of written agreements.
    - Ensure and follow up the utilization of the advance is for intended purposes.
    - Ensure timely clearance of project advances.

##### **AccountsRecording**

**Salary Advance –** a cheque will be prepared for the total of approved list of salary advance requests. For example, salary advance of Birr 2,500 was paid to staff members on March 16, 2016. On the basis of the payment voucher and supporting documents, the accountant will pass the following journal entries.

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Staff Advance | 4203 | 2,500 |  |
| Cash at Bank | 4110 |  | 2,500 |

The accountant should post to the respective employees’ subsidiary ledger. The balance will be cleared on the same month where the advance was provided.

## 6.6 Payables

**Definition**

Liabilities are amounts due to third party, organization or individuals. It is payment that accrues as a result of acceptances of money, materials, commodities, services, etc.., carry with them responsibilities that involve financial obligations. It includes accrued expenses, provident fund payable, income tax payable, severance reserve, retention payable and trust fund payable.

In the balance sheet, liabilities are classified as current liabilities, long-term liabilities and deferred charges. The most common type of liability is current liability.

Current liabilities are moneys due within one year. They include-

* + - 1. **Accrued expense**:- These are expenses incurred but not paid at the end of a reporting period.

1. **Tax Liabilities**:- This includes income tax, withholding tax and VAT liabilities which are collected by the PSNP implementing entity and to be paid to the Revenue office. Detail procedures are explained in the subsequent section.
2. **Provident fund payable**:- This is normally the unpaid portion of the contribution towards the provident fund.
3. Amount collected from clients (such as VAT, Withholdings) to be paid to appropriate authority.
4. **Severance reserv**e:- This is a reserve for future severance payment.
5. **Retention payable**:- This is an amount deducted from the amount payable to contractors until final acceptance of the construction is carried out.
6. **Trust fund payabl**e:- This is money payable to donors of restricted funds.

**Tax Liabilities**

**Income Tax:** Income taxes should be withheld from UPSNP employees according to the income tax law (Proclamation No. 286/2002). Based on the income tax proclamation, regulation and circulars issued by the Ethiopian Revenue and Custom Authority, Finance Section should identify those payroll additions which are subject to income tax.

The income tax table is as follows. This table is according to Proclamation no 286/2002. It is the responsibility of the accountant to follow-up changes to this proclamation.

|  |  |
| --- | --- |
| **Salaries** | **Rate** |
| Less than or equal to Birr 585 | Exempted |
| Between Birr 585- Birr1,650 | 10% |
| Between Birr 1,650- Birr 3,145 | 15% |
| Between Birr 3,145- Birr 5,195 | 20% |
| Between Birr 5,195- Birr 7,758 | 25% |
| Between Birr 7,758- Birr 10,833 | 30% |
| Above 10,833 | 35% |

Income tax withheld should be paid to the appropriate Ethiopian Revenue and Custom Authority with in thirty days from the end of the month concerned.

Make sure that the balance of the Income tax payable at the end of each month is only that of the previous month and that there is no unsettled balance due to the Ethiopian Revenue and Custom Authority.

Apart from the payroll, the accountant should make sure that income tax deductions for partial salary and related payments effected on Payment vouchers (for newly employed and leaving staffs) are also accounted when settling income tax liabilities.

##### **WITHHOLDING TAX**: UPSNP implementing entity is required by law to withhold 2% of the gross amount of payment they make to tax payers providing goods and services:

Supply of goods involving above Birr 10,000 in any one transaction or one supply contract;

Rendering of services involving above Birr 500 in one transaction or one service contract (list services is detailed in Proclamation No. 286/2002).

As per Proclamation No. 286/2002, UPSNP implementing entity should collect 30% withholding tax instead of 2% for those service providers or goods or works suppliers with no Tax Identification Number.

UPSNP implementing entities have the responsibility to withhold such taxes with a serially sequenced pre-numbered receipt available at City/sub-city OFED, BoFED and MoFEC. The withhold amount should be remitted to the respective Revenue and Custom Authority Office in ten days from the end of collection month. The details of the withhold amount should be presented in a format supplied by the respective revenue and custom authority.

##### **VALUEADDEDTAX:** WhenUPSNPimplementingentitypurchaseservices,goodsandworksfromaVATregisteredcompany,theVATportionshouldbewithheldandshallberepaidtotherespectiverevenue andcustomofficewithaformatsuppliedbysameoffice.

##### **AccountingforwithholdingtaxandVAT.**

Withholding tax and VAT withheld from a supplier should be recorded as a liability and shall be repaid to the relevant revenue and custom office within the specified period as indicated above.

**Transaction:**Woreda/City X purchased office supplies from ABC stationery which values Birr 13,800 including VAT. The value before value added tax is Birr 12,000.

**Required:** Calculate the net pay and prepare the appropriate journal entries

**Answer:**The value of the purchase exceeds the 10,000 threshold for charging withholding tax. Hence, withholding tax of 2% shall be applicable on the ‘before VAT’ value: which is 12,000 X 2% = Birr 240. The VAT portion, which is 12,000 X 15% = Birr 1,800 will not be paid directly to the supplier. Hence the net pay to the supplier is Birr 11,760.

The Journal entry will be:

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Office Supplies | 6212 | 13,800 |  |
| WH/Tax Payables | 5006 |  | 240 |
| VAT Payables | 5059 |  | 1,800 |
| Cash at Bank | 4110 |  | 11,760 |

The transaction will be recorded using the Payment Voucher Enter window of IBEX

##### **Reports**

The following reports should be prepared and presented to the management onmonthly basis.

* + - * Schedule of repayment
      * Aging analysis of outstanding liabilities with formats..

**Accounts Recording for Payables**

**Accrued payables** – For accruals, goods must be received or services must have been delivered before the yearend date or July 7.

For the purpose of UPSNP, the accountant should have a record of list of Goods Receiving Reports for goods received from the suppliers, but not paid as of the yearend. The same should be identified for services received but not paid to suppliers.

For Example, during the month of Hamle, electric bill of Birr 3,512 received from Ethiopian Electric Power Corporation (EEPCO) and paid. The bills represent electric consumption for the months of Miazia, Genbot and Sene. The provision for electric charges shall be made on Journal Voucher as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Account title | Account Number | Debit | Credit |
| Water and Other Utilities | 6259 | 3,512 |  |
| Payable within the government | 5028 |  | 3,512 |

If there is a difference between estimated accrued expenses and actual expenses in the following year, then it will be adjusted to Equity account. Any adjustment to equity account should be disclosed when IFRs are prepared.

## 6.7.STOCK

Stocks are goods that are expected to be consumed within one year. The stock items maintained at the stores of UPSNPs are consumable items, tools, materials for public works such as cement, sand, steel etc,

#### Valuation

Stock balances are not recognized in the accounts as assets. They are expensed as and when purchases or transfers are made. Therefore, memorandum records should be adequate and strictly followed.

The value to be charged to stock should include the purchase price, handling, freight insurance, customs duty and other charges.

#### InternalControl

* Purchased goods shall be inspected by the store and independent inspector (a staff member from audit and inspection department) before receiving. Inspection is made to check the goods brought to store are as per order and that they are received in good condition. The concerned user should check specialist items as the storekeeper might not have the appropriate knowledge of the items.
* After the items are checked, receipt for articles or property received – Good Receiving Note (commonly known Model -19 shall be prepared to receive the goods in the store. One copy of the voucher shall be sent to the accounts section.
* The receiving voucher should be cross-referenced to the payment vouchers, through which the payments to the supplier are made.
* Goods receiving reports and purchase orders for which suppliers invoices have not been received should be kept in pending files and regular follow up made as to the reasons for the delays. This is particularly significant at the yearend in order to ensure that purchases include the cost of all goods that have been received and taken into stock and vice versa.
* At the time of receipt of goods, the accountant shall reverse all advance payments kept as debtors, if any, to the appropriate expense account using journal voucher. This is an important step as expenses incurred might otherwise be only partly reported.
* The user shall request issuance of stock through Store Requisition -Model 20. The Stores Head shall check the existence of stock and authorizes the issuance on a Delivery Order-Model 21. The stores clerk shall issue the requested item to the user through Receipt for Articles of Property Issued Model 22.
* Stock cards having details of quantity and price (value) should be maintained by the store.Each receipt and issuance of goods shall be entered in the stock card Model 70C. In addition to a stock card, the storekeeper may maintain registers of stock (stock Ledger Card - Model 70A ).
* All entries to stock records should be supported by prescribed accounting documentation, priced if appropriate, all such documents should be pre-numbered and appropriately controlled to ensure that numerical sequences are intact and all are recorded.
* Adequate custodian controls should be exercised over stock which should be kept in areas protected against access by unauthorized personnel.
* Any movement of stock (that is any increase or reduction of stock) must be recorded immediately on the stock record cards.
* The stock record cards must be checked against the actual stock movement. Stock entering or leaving the warehouse must be checked against the stock record cards by the gate keeper. The gatekeeper must ensure that no product enters or leaves the warehouse compound without him receiving a basic stock document (receipts or issues). These documents should have the signature of the authorized personnel.
* Summary report for the monthly stock movements should be prepared.
* Internal auditors should review from time to time adequacy and adherence to these control procedures.

#### PhysicalCount

* Stock taking instructions and programs should be prepared periodically and extensive and all inclusive physical count of all items should be made at least once in a year.
* Only authorized personnel or counting teams, as assigned by the implementing agencies should conduct the physical count of stock in the warehouse.
* The count sheets (source document) for conducting the physical count is the stock record cards maintained by finance. The team should sign on the counting sheet.
* Stocks should be marked as counted to avoid omission or duplication in the count.
* Damaged or obsolete items should be specifically noted and adjustments should be done on the stock cards based on management decision.
* The physical count should be compared with the stock card balance and any variance reported to the attention of management.
* Appropriate measures should be taken for any discrepancy found between the stock record and physical count.

#### Disposal

* Obsolete and deteriorated or damaged stocks should be disposed timely with the decision of management. Finance is responsible for the identification and submission of reports of the list of stocks for disposal to the supervising authority every year subsequent to annual physical count.
* Based on the decision of the Management on the disposal of obsolete stock, adjustments should be made on the stock record and bin cards.

**6.8. FIXED ASSETS**

#### Definition

* Fixed assets in this manual mean those assets that are defined as fixed assets by the Federal Government of Ethiopia Financial Administration Proclamation. Currently it covers all assets that have a cost of more than Birr 1000 and have a useful economic life of a year or more. Fixed assets include the following among others. Furniture and fixtures, computers, heavy equipment, vehicles, ships and aircrafts, buildings, roads, sewers, bridges, irrigation systems, dam etc.
* When the proclamation is revised and this minimum amount is changed in the future, the fixed assets register is also amended accordingly.
* There are some assets that definitely serve for more than a year but have a value of less than Birr 1000. If such assets are not considered as fixed assets and are not controlled like the other fixed assets, there could be misuse of the asset. For example, a stapler could be considered a stationary item and a new one could be requested whenever stationary is requested.
* To avoid such misunderstandings and to make the control over assets of permanent nature complete, an internal control system with the necessary records need to be designed. This manual provides procedures necessary to manage this second category of assets in the stock control section.

#### Valuation

* Valuation of fixed asset means finding the cost of the asset and assigning that value to it.
* The cost at which fixed assets should normally be valued is the historical cost; the cost incurred at the time the fixed asset was purchased or constructed.
* The cost of an item of fixed asset comprises its purchase price, including import duties and other non-refundable taxes or levies and any directly attributable cost of bringing the asset to its working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price.
* When fixed assets are acquired by a a different entity (example when the region buys fixed assets behalf of the woreda or if the federal entity buys behalf of the regions or woredas, the detail invoice and cost information should be forwarded to the receiving entity

#### AccountsRecording

* Fixed assets should be treated as an expense of the period in which they are purchased.
* Purchased or donated fixed assets are recorded in IBEX system as expense in the accounts module of transaction register screen.

**Transaction:** Purchase of Computer, furniture and vehicles for ETB 25,000,35,000 and 58,000 respectively including VAT. A cheque payment was effected for ETB 97,940.00 after deducting a withholding of 2% (ETB 2,360.00) and VAT (ETB 17,700.00)and 15% VAT is recorded as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Accounttitle** | **AccountNumber** | **Debit** | **Credit** |
| Purchase of Plant, Machinery and Equipment | 6313 | 25,000.00 |  |
| Purchase of Buildings, Furnishings and Fixtures | 6314 | 35,000.00 |  |
| Purchase of Vehicles and Other Vehicular Transport | 6311 | 58,000.00 |  |
| W/Tax Payables | 5006 |  | 2,360.00 |
| VAT Payables | 5059 |  | 17,700.00 |
| Cash at Bank | 4110 |  | 97,940.00 |

* Purchase or receipt of fixed asset should be evidenced by Goods Receiving Note..
* Fixed assets acquire by the project should be recorded in a fixed assets register card. This register should be strictly maintained. Assets acquired (donated) in kind should also be recorded.
* The register should have details such as acquisition date, the specifics of the asset, type, reference of goods receiving note reference locations, identification number, acquisition cost, warranty details, inspection data, and other specific fields such as vehicles plate number, chassis no etc as applicable.
* Asset accounting should encompass the entire lifetime of the asset from the initial acquisition through its retirement. It involves recording of accounting transactions relating to assets, managing their values and monitoring and processing them in special asset accounts.

#### InternalControl

* All assets owned by the Government, Movable or immovable should be recorded in a fixed asset register identified with location and custodianship.
* Separate Fixed Asset register should be maintained by custodian to determine the number and type of assets under custodianship of the respective staff and to facilitate asset controls, handovers and staff clearance.
* Each asset should have a tag number. The asset tag number is affixed on to the physical asset during acquisition and each tag number should be unique. This is helpful to verify the physical asset.The Government Fixed Asset Coding scheme will be adopted for UPSNP fixed assets with addition prefix of UPSNP.
* Movements of assets from one location to the other should be documented clearly specifying where it was originally registered and to which department and location it is transferred using Fixed Asset Transfer Form.
* Returned assets should be evidenced using Receipt for Article of Property Returned.
* The role of the property asset management unit responsible for property management in each agency is to:
* Make sure that ownership certificates are up to date
* Update the UPSNP fixed assets register and subsidiary records
* Undertake UPSNP annual physical count of fixed assets and reconcile
* Prepare the Annual Summary Schedule of fixed assets and report
* Communicate with the government property administration

#### AnnualPhysicalCount

* On an annual basis, there must be reconciliation between asset accounting records on any acquisitions, disposals and transfers during the year against the physical asset assigned to each department.
* Each implementer will be responsible for locating assets with its tag number attached that are recorded as assigned to their department whenever requested by internal or external auditors.
* When there are survey reports, damage, accident, flooding and inundation, loss should be well recorded and the register needs to be updated.
* Any asset that is missing or has been stolen will be reported in writing to the responsible person in the finance department. The description, serial number, and other information about the lost item should be included in the report.
* Finance department should follow-up for the decision of the head of the office.

#### DisposalofFixedAssets

* + - The Government-Owned Fixed Asset Management Manual details the full procedures to be followed in the disposal of vehicles and other assets. Some of the key information is summarized below, but the full procedures should be read and followed when disposal is being considered.
    - Assets should be disposed of when:
      * They have suffered extensive un-repairable damage, or need cost-prohibitive repairs
      * The vehicle attains the stipulated mileage or years for disposal
      * The vehicle is no longer economically sustainable
      * The vehicle or other property is no longer required
      * The property can no longer maintained
      * The usability of the property decreases and becomes obsolete
      * The property owner cannot be easily identified
    - The department responsible for the taking care of disposal of property will assist the disposal process in line with the Government Fixed Asset Management Manual.
    - Sales proceeds earned from the disposal of fixed assets acquired from the UPSNP fund shall be recorded as other income to the UPSNP project and evidenced by cash receipt voucher.
    - Fixed Assets are disposed with the decision of the highest level of public body (executive) when proposed by a committee established for the disposal of Fixed Assets.
    - After completion of the disposal, the Asset Disposition form will be submitted to finance for deletion of the item from the asset register.

**6.9. GENERALLEDGERANDSUBSIDIARYLEDGERS**

A ledger is the entire group of accounts maintained by an accounting unit. Two Types of ledgers are maintained General ledgers and Subsidiary ledgers. Subsidiary ledgers are details of General ledger. Subsidiary ledger is required to certain General Ledger account where detail sub ledger is essential for control purposes. In UPSNP Integrated Budget and Expenditure system (IBEX) should be used by all regions.

**GeneralLedger**

* General ledger is a group of accounts that is used as a second step in the process of recording and summarizing transactions. The primary book of record is the transaction register in IBEX. It is between the register and the financial reports and as such prepares information that goes into the reports.
* The general ledger card is a multi-columnar card. It can be automatically created in the IBEX system for each and every account code in the transaction register.
* Transactions are posted to the General Ledger using the Transaction Register.

**GeneralLedgerRoutinesattheMonthEnd**

The General Ledger must balance at the end of each month. The net cumulative balances of all debits and credits on all ledgers cards in the General Ledger must be equal. This can be easily checked by looking the trial balance. Unlike the manual system, when using IBEX, the Trial Balance will remain equal (balanced) at all times.

Before posting transaction into the General Ledger, the following monthly/daily routine should be undergone. Print the transaction register for to use it as edit list.

* + - All Payment vouchers, Receipt Voucher, Journal Vouchers, other vouchers and transactions which are supposed to be processed through transaction registered are taken into account.
    - Ensure that no incorrect amount is entered.
    - Journal entries are properly accounted: the right chart of account, description, reference, date, debit or credit etc.
    - An arithmetical error has occurred in the computation withholding and VAT transactions.
    - After ensuring that all transactions are entered for the month and all are correct, then post the transaction.

##### **GeneralLedgerRoutinesattheYearEnd**

* + - At the end of each year, a transfer of the debit or credit balances to the Net assets/equity account is required to close the temporary accounts in the General Ledger. IBEX will manage it through the closing process. The temporary accounts are accounts in the following account categories:-
    - Revenue, assistance and loan items comprising account codes 1000 to 3999
    - Expenditure items comprising account codes 6000 to 6999.
    - The General Ledger begins a new fiscal year with carry forward balances in the permanent accounts (cash on hand, cash at bank, receivables and payables and the assets/equity) from the previous year.

**SubsidiaryLedgerRoutinesatthemonthend**

* + - At the end of each month, the net cumulative debit or credit balance for each ledger card in the subsidiary ledger should be generated from IBEX. The total net cumulative debit or credit balances for all Ledger cards in the subsidiary Ledger must be equal to net cumulative debit or credit balance on the respective control accounts ledger cards in the general ledger.
    - Where totals net cumulative debit or credit balance for all ledger cards in the subsidiary ledger is not equal to the net cumulative debit or credit balance on the respective control account’s ledger card in the General Ledger, an error exists.
    - The following types of errors should be verified to balance the subsidiary and General Ledgers:
    - The amount posted to the general ledger is different to the amount posted in the subsidiary ledger
    - An amount is incorrectly posted into the credit column in the subsidiary ledger instead of into the debt column, and vice versa
    - An arithmetical error has occurred in the computation of the net debit or credit balance in the subsidiary ledger.
    - Permanent account balances are not carried forward correctly from the previous year.

**SubsidiaryLedgerRoutinesattheyearend**

* + - At the end of each year, the temporary accounts in the General Ledger are closed to the Net Assets/Equity account as described above. Any subsidiary Ledger corresponding to a temporary account in the General Ledger also is considered closed. A new subsidiary Ledger is started each year for each temporary control account. All accounts in the new subsidiary Ledger begin the year with a zero balance.
    - All budget/ expenditure subsidiary ledger card maintained by the expenditure account are temporary accounts. All budget/Expenditure subsidiary Ledger Cards should be field at the end of the fiscal year. A new fiscal year should begin with a new act of budget/expenditure subsidiary ledger cards.
    - Balance sheet accounts (asset, liabilities and equity accounts) are permanent account and are not closed each year. These permanent accounts carry their previous year’s balance forward to the next fiscal year. Any subsidiary ledgers corresponding to permanent accounts in the General Ledger also carry forward to the next year.
    - The accountant should use Journal voucher as a source document to record the closing entry of all temporary accounts against Net Asset/Equity.

## 6.10TRIALBALANCES

* + - Trial Balance is the summary of the net cumulative year-to-date debit and credit balances contained in the General Ledger at the end of reporting period for each account code represented by a General Ledger. The Trail Balance proves the arithmetical accuracy of General Ledger. The total amount of the debit column must equal the total amount of credit column.
    - In a manual (non-automated) accounting procedure, trial balances preparation is a process between completing of posting to General Ledger and preparation of financial statements. Trial balance is a basis for the preparation of financial reports. With the use of computerized accounting system, including IBEX, updated Trial balance is available to the extent that transactions are recorded and posted.
    - Trial Balance can be extracted from the IBEX, report tree by different category of report filtering options.
    - The trial balance report should be checked if all balances of the accounts are reasonable and known. Though transactions are supposed to be checked before posting of transaction, it is essential to look into the trial balance whether the accounts indicated are correctly presented.
    - Odd balances should be verified (credit balance to asset accounts including to cash on hand, cash at bank, staff advances, advance to suppliers etc or debit balances to liability accounts)
    - The cash at bank balance is in agreement with the bank reconciliation report
    - Permanent account balances are not carried forward correctly from the previous year.
    - Correcting entry will be passed and posted for rectifying errors identified during the review of the trial balance.
    - Once trail balance is verified for correctness, the next step is generation of the various financial reports including supporting schedules and notes to the accounts from IBEX. IBEX generate reports in Excel and pdf formats.

**YEAR END PROCEDURES**

Yearend procedure involves ensuring of the completeness of data entry into IBEX and also ensuring of all transactions are accounted properly and reconciled as applicable so that the financial report generated from the system to be reliable and accurate.

The following procedures are carried out prior to closure of accounts in IBEX

##### **Step1GeneratetheSene30 MonthlyReports**

**Reconcile cash balance**

* + - Count cash in safe
    - Transfer all suspense payment vouchers from the cashier to the accountant Convert all suspense payment into receivable by using cash payment voucher by the name of the staff member.

**Reconcile the Bank Balance**

* + - Obtain the bank statement as at 30 Sene
    - Update the bank balance by passing entries for interest, bank charges, credit and debit advices in the General Ledger generated from the IBEX system.
    - Reconcile the bank balance ledger per bank statement.
    - Make sure that the outstanding cheques are genuine (that they are not voided or duplicate entries)
    - Make sure that deposit in transits are genuine and that are not result of error in posting.

**Reconcile transfers**

* + - Obtain transfer details from source/destination reporting units
    - compare details with general ledger
    - Make necessary adjustments using journal vouchers.
    - Communicate balances to source/destination reporting units.
    - Ensure transfer account balances agree to balances per source/destination reporting units.

**Accrue for commitments/payables(committed payables from prior year’s budget):**

* + - Identity amounts paid for in the month of Hamle (during the grace period) for goods/series received/rendered in the month of Sene
    - Identify goods and services received in the month prior to end of Sene but no payment is effected.
    - Use Journal vouchers to accrue for these commitments.

**Reconcile receivables and payables general ledger balances to subsidiary ledger**

* + - For each general ledger account that has subsidiary ledgers, obtain the total of all the subsidiary ledger accounts.
    - Ensure that the total of the subsidiary ledger balances is equal to the general ledger balance and there are no differences.
    - If there is a difference, review the subsidiary ledger accounts and the general ledger account for omission and errors.
    - If the error/omission is in the general ledger, make a correction entry
    - If the error/omission is in the subsidiary ledger, make adjustments directly in the subsidiary ledger.

**Reconcile intra-governmental receivable and payables balances:**

* + - The amount receivable/payable in the books of the reporting unit should be equal to the amount shown as payable/receivable in the books of the related reporting unit.
    - obtain the balance per the other reporting unit
    - Compare the balance with General Ledger
    - Make necessary adjustments using journal voucher
    - Communicate balance to the reporting unit and ensure it makes necessaryadjustments so that balances agree.

**Verify irregular balances by generating exception reporting detailing**

* + - Debit balances in revenue accounts
    - Credit balances in expenditure accounts
    - Credit cash in hand and cash at bank balances
    - Credit receivables balances
    - debit payables balances

**Rectify balances at each step by passing the appropriate correction entries**

* + - Enter and Post the correcting and adjusting entries from IBEX
    - Print the Sene Monthly report from IBEX
    - Review once again the report for the month of Sene to ensure that no more adjustment and correction is required.

#### Step2PrepareBudgetVSExpenditure

* + - Verify that the budgetary institution exists by agreeing the BI code to the budget notification.
    - Ensure the amount of the approved budget is accurate by agreeing the amount to the budget notification.
    - Verify that all budget transfers have been recorded by comparing records with the file of Be/Ma 1s.
    - Verify and resolve any unbalanced budget transfers.
    - Record any omitted budget transfers.
    - Verify that all budget supplements have been recorded by comparing records with the file of Me/Be/Ma 6s and Ke/Be/Ma 6s.
    - Record any omitted budget supplements into IBEX
    - Reporting the budgets vs expenditure report
    - Review the report for reasonableness.
* Review the report for over expenditures and investigate and resolve over expenditure.
* Explain in detail reasons for over and under spends including action taken and to be taken
* Make adjustments to expenditure accounts if there has been an error in posting to wrong expenditure accounts resulting in an over expenditure.

##### **Step3AccountClosing**

* + - Year end balances of temporary accounts, revenue/transfer and expense ledgers should be closed to Net Assets/Equity ledger. A closing entry must be recorded at the end of the year after the last monthly report is prepared. As a result the balances of these temporary accounts will be zero while the account balances of permanent accounts, assets, liabilities and equity) are carried forward as a beginning balance of the next year.
    - The accounts closing procedures in IBEX are performed at the end of or after the completed execution of an accounting fiscal year as the final step in reconciling a fiscal year’s accounts and moving the appropriate account balances to the new fiscal year.The process of closing accounts is integrated with the process of posting the final (twelfth) accounting period’s monthly report for a given reporting unit and bank account. In this manner, as each final monthly report set is accepted for a reporting unit, the accounts for that reporting unit are reconciled, zeroed and prepared for the subsequent fiscal year.
    - The account closing procedures are initiated when the user attempts to post the final account period monthly reports at which point they are taken through the steps necessary to confirm the proper completion of accounts processing for that reporting unit and bank account in that fiscal year. This includes the verification of the processing of final account items, display (and possible printing) of accounts closing reports, validation of expenditure items, the zeroing of temporary accounts, and finally the generation of the subsequent year’s opening balances.

**OpeningBalanceProceduresforSupplies**

The ending balance in stock at a public body is charged as reduction the next year’s budget. This deduction is made on Ge/Be/We 11/2 or Ge/Be/We 11/3. The reduction is treated as a non-cash transfer and as a reduction to the amount of cash that can be requested and committed for a particular budgeted item. Entries are made on the budget ledger card for the stock item. The value of stock remaining at year-end, as stated on Ge/Be/We 11/2 or Ge/Be/We 11/3, should be recorded in the “payment received” column of the budget ledger card even though no payment was received from Treasury Department.

# PARTV

# FINANCIALREPORTING

As indicated in various section of this manual the financial recording and reporting system, IBEX for accounting and reporting will be used for recording and reporting of UPSNP expenditure on a standalone basis. Consolidation of IBEX records at5City/sub-city OFED, BOFED and MOFEC level will be done on a standalone procedure without mixing with the main treasury database.

The previous section explained the accounting cycle from the preparation of chart of account, transaction processing, journalizing / Data entry, and posting to the ledger and finally generation of trial balance report. Yearend and beginning of year procedures are also explained. Once transaction are posted, financial reports will be extracted from the system based on the required filtering criteria.

The program envisages to use the Government of Ethiopia's financial recording and reporting system, IBEX, for accounting and reporting on UPSNP expenditure on a standalone basis. However, at regional and federal level, all BOFEDs and MOFEC will use IBEX to consolidate and produce the financial reports and all UPSNP expenditures should be entered into the system and reports are automatically generated.

The timely submission of quality financial reports is a must to ensuring that cash resources flow to the UPSNP as required by the Annual Plan. Financial reports trigger the replenishment of the UPSNP pooled account at Federal-level by development partners and also determine whether or not deductions will be made to transfers from Federal to Regions to account for carry-over balances. Because of this, it is vital that CITY/SUB-CITY OFEDs, BOFEDs, and MOFEC work diligently to submit quality reports on time.

If IFRs are not received on or before the due date and are of insufficient quality, disbursements from the Development Partners may be delayed to all regions, until reports of adequate quality are received. This means the entire program and its million clients will be affected.

**Financial Statement Reporting standards**

The responsibility for the preparation of financial statements of the program including adequate disclosure is that of MOFEC. City/sub-city OFEDs and BoFEDs are also responsible for the timely dissemination of quality financial reports to MoFEC. MOFEC is also responsible for the selection and application of accounting policies. MOFEC would prepare the Project Financial Statements in accordance with IPSAS (International Public Sector Accounting Standards) – Cash basis or equivalent national accounting standards as promulgated by the International Federation of Accountants (IFAC). The Government’s accounting system outlined in the Manual of the Federal Accounting System – based on modified cash basis of accounting can be used.

The Program’s accounting statements would be prepared in respect of each accounting period for the purpose of providing complete financial information including the operating results, status of assets and liabilities of the activities financed under the Urban Safety Net program during that accounting period.

At MoFEC level, two types of financial statements produced in relation to UPSNP program based on the end users specific requirements. These are FGE reporting and the Project reporting (IFR)

Financial statements required by the FGE. These statements are prepared based on the Government Financial Statement Manual. The FGE accounting system shall produce the following set of financial statements. The reports are imbedded in IBEX.

Statement of Financial Position

* Statement of Financial performance
* Statement of Changes in Net Asset/Equity
* Cash flow statement
* Accounting Policies and Notes to Financial Statements
* Statement of Comparison of Budget and Actual Amount-Domestic Revenue
* Statement of Comparison of Budget and Actual Amount-External Assistance
* Statement of Comparison of Budget and Actual Amount-Expenditures
* Comparison of Original and Adjusted Budget and Actual Amounts
* Statement of Expenditures by Functional Classification

At Woreda level, IBEX can generate all the above reports. However, to the minimum the following reports are required to be generated to compile the IFR and annual reports.

* Trial Balance
* Expenditure report by components
* Receivables report
* Payables report
* Transfer report

At MOFEC, Central government account directorate prepares and consolidates UPSNP program financial statements with the overall FGE financial statements.

The annual project financial statements will adopt the same format as the quarterly reports and may also include other issues. However, the annual financial statements do not need to include a statement of cash forecast/ requirement. The report should be submitted in 60 days from the end of the fiscal year.

This manual will focus on the statements required by financiers of the program. The financial statement formats used by the program are agreed formats between the FGE and financiers. Therefore, they are subject to change if specific need will arise to modify the formats but prior agreements should be reached between FGE and financiers.

#### Interim Financial Reports (IFR)

In addition to standard government reporting, the project should prepare consolidated quarterly Interim unaudited Financial Report (IFR). This will be submitted to the World Bank and other DPs within 60 days of the end of the quarter..

IFR in general covers sources and uses of funds, transfer to regions, expenditures incurred and apportioned to donors’ funds, budget versus actual expenditure comparison and status of ending balances. In addition to the financial report, various supporting tables and explanations are also incorporated in the report.

**Sources & Uses of Funds**

Summary information on opening cash balances; sources of funds, uses of funds and closing cash balance will be contained in this form. This report is prepared both at regional (BOFED) and federal level (MOFEC).

In this statement BOFED shall include all opening balances of woredas and region, cash transfer from MOFEC and donor direct transfer if any, expenditures of reporting period with major components level and ending balance with detail breakdown(cash on hand, cash at bank, advances, payables).

Report prepared at MOFEC level include all opening balances of donors account & regions, sources or collection from donors and government, expenditures total of the reporting period with components details(Urban Safety Net Activities:- public works, direct support, capital, administrative & management,), ending balance with sufficient breakdown ( Regions, MOFEC, FJC & FSA, UJCFSAs’ and MOFEC finance department).

All donors account balance kept in foreign currency are converted to Birr using the prevailing exchange rate. The statements shall be prepared every quarter and once in a year.

**Balance Sheet**

Balance sheet is prepared at federal level only. MOFEC shall prepare balance sheet after preparing sources & uses of funds. It shows the overall financial position of the program.

Major consolidated items included in this statement are current assets, currents liabilities and accounted fund. The statements shall be prepared every quarter and once in a year.

Woredas shall prepare a summary of balance sheet items including cash, receivables, payables and Net assets. IBEX generates balance sheet.

**Statement of Special (Designated) Accounts /FUND FLOW/**

This is a statement showing summary of the movements of each of the financers’ special foreign bank accounts.

The statement includes receipts, transfer to pool Birr account, service charge apportioned expenditures of the period, closing balance, and foreign exchange gain or loss.

Calculation of exchange rate gain or loss shall follow governments accounting procedures. The statements shall be prepared every quarter and once in a year.

**Fund Flow Statement of Pooled Bank Account**

Just like statement of special account, fund flow statement of pooled account shows a summary of cash movement of the pooled account. It includes transfer from special foreign account, fund transfer to regions & other sector offices, bank service charges, incoming and outgoing and audit fee.

Similar statements shall be prepared for MOFEC held accounts that shows cash movements of the accounts during the reporting period. . The statements shall be prepared every quarter and once in a year.

**Fund Utilization Report**

Statement of uses /fund utilization/ shows actual expenditures, which are appropriately classified by main project activities (categories, components and sub-components) and includes actual versus budget comparisons for the quarter and cumulative and percentage of utilization.

The statement is prepared both at regional and woerdas/city levels. The regions are consolidating each woredas/cities actual utilization report and compare with their allocated budget.

**Consolidated Expenditures Summary**

Summary of expenditures consolidated at federal level. Each region expenditures should be presented with major components and sub component details.

Both annually and quarterly reports should be prepared and compared with respective period budgets. The statements show fund utilization percentage per each region and major components.

**Expenditures Forecasts & Cash Requirements**

A statement of cash forecast or requirement covering for six month period.This report should be worked with maximum due diligent to get accurate forecast figure which reflect the correct future expenditure and source of funds.

**Notes and Explanations**

These include Note to the accounts and narrative for financial performances that happened during the reporting period. The narratives should include the following:-

* Discussion on budget utilization and Variance Analysis-Budget vs actual comparison and explanation of major variances by region, by components and by line items..
* Explanation on balance sheet items and especiallyadvances/receivables and cash at hand at woreda, etc
* Discussion on major achievements in FM and challenges encountered
* Discussion on prior period Adjustments if any
* Updates on action plans
* Expenditure apportionment tables to financiers
* Other narrations as appropriate eg Exchange rate calculations- refer to comments made above,Bank Reconciliation and bank statement (woreda to region), Region to MoFEC
* Aging report for receivables and Payables
* Staff turnover information
* Major achievements, (field visit, training, quality report, support to woreda/city and sector office, timely submission of report, provision of adequate explanation on IFR.
* challenges and cop up mechanisms
* Prior period Adjustments if any – adequate explanation and supporting JV/ reason for adjustment.
* No objection from FJC & FSA for procurement above the threshold limit.
* About woredas who didn’t submit quarterly reports (for regions).

**Other Supporting Schedules and Documents**

To supplement the report and better inform the reader various tables and explanations that indicate number of beneficiaries, number of manpower deployed and number of implementing woredas/cities are presented and ageing of accounts receivables and payables.

**Replenishment of UPSNP Pooled Account at Federal-level**

MOFEC will submit the following to the World Bank and other DPs for replenishment of the UPSNP account:

* Interim (un-audited) financial reports (IFRs), prepared for actual expenditures;
* Withdrawal Application;
* Cash forecast for the next six months.

Any delays in the submission of these reports or the submission of low quality reports will result in delays in the replenishment of the UPSNP pooled accounts, and will therefore affect delivery of transfers in all Regions. In this way all regions are accountable to other Regions for the timely delivery and quality of their IFR.

**Verification on Reports**

Before signing the reports to evidence its verification, the accounts team leader will:-

* Verify the suspense payment Vouchers in the cash box to ensure that the Suspense Vouchers are not more than 30 days old.
* Verify that the General Ledger balances are correctly carried forward to each balance included in the Revenue/Assistance/Loan Report, Receivables report, and payable report-100% checked.
* Verify that the Budget Expenditure Subsidiary Ledger Card balances are correctly carried forward to each balance included in the expenditure report 100% Bank
* Verify mathematical accuracy of each report-100% checked
* Verify that totals in the Revenue Report, Expenditure Report, Receivables Report, and Payable Report are carried forward to the Trail Balance-100% checked.
* Verify that the Net Asset/Equity, cash and Bank balances in the General Ledger are correctly carried forward to the Trail Balance.
* Verify that all fields in report are completely filled
* Verify that the account balances included in report are reasonable and there is no cause for any investigation/follow up actions.
* Verify the monthly bank reconciliations prepared for all bank accounts.
* Checking the narrative part of the report in terms of completeness, understandability, reliability, relevance, consistency, timeliness, comparability and usefulness.

Sign the report only after completing the above tasks-on a 100% basis of verification-NOT a sample basis of verification.

**Reporting Flow / Procedures**

Government and Development Partners are concerned with the efficient use of resources in the UPSNP implementation, which will require the provision of accurate financial reports. These reports should be brought to the attention of all concerned bodies through periodic reports in the following manner;

**Step 1:** Each CITY/SUB-CITY OFED prepares a monthly financial statement and submits a quarterly procurement report, to the BOFED within 20 days after the quarter has ended. The financial reporting formatsdescribed above. The procurement report content and format is indicated in the UPSNP procurement manual.

CITY/SUB-CITY OFED submits a copy of the final report to the Woreda/City Urban Job Creation and Food Security Agency, which reconciles the financial report with the physical progress reports. In regions where the zonal system is active, CITY/SUB-CITY OFEDs could send their quarterly financial reports to the ZOFED (the UPSNP accountants) who will in turn submit them to BOFED.

**Step 2:** BOFED consolidates and analyses the financial report it receives from the woredas (via the zones), as well as reports coming from regional implementing agencies. BOFED reviews the quality of the reports, ensuring that they are complete and meet all expected standards. BOFED follows up with CITY/SUB-CITY OFED if there are discrepancies in the reports, any gaps or incomplete information. If required, BOFED staff travel to the woredas to work with CITY/SUB-CITY OFED staff to produce a complete report that meets the expected standards.

BOFED analyses its own records and discusses the findings with Regional Urban Job Creation and Food Security Agency on key aspects of the reports and balances, etc.

BOFED submits the final Regional Financial Report to the Regional Urban Job Creation and Food Security Agency (which analyses it together with the physical progress report), the regional agencies involved in the implementation of the UPSNP and to MOFEC, as per the reporting format indicated above quarterly within 40 days after the end of the quarter. In addition, FSCD and MOLSA prepare and submit their quarterly financial reports to MOFEC within 40 days from the end of the quarter. FJC & FSA’s quarterly financial report should include the six months expenditure and cash requirement forecast.

BoFED will submit quarterly financial reports to regional level implementing agencies to review their own narrative reporting.

**Step 3:**MOFEC reviews the reports it receives from the BOFEDs, UJCFSA and FJC & FSA to verify the quality and completeness of the information. MOFEC then analyses the information it receives from regions and the accounts held at federal level.

It discusses this report withFJC & FSA. The final consolidated interim financial report is then submitted to development partners within 60 days after the end of the quarter. A copy of the report is also submitted to JJCFSA. Delays in submission or issues related to quality may mean that future disbursements arecompromised for the entire program.

**Step 4:** As part of the quarterly IFRs, BOFEDs analyse the dates CITY/SUB-CITY OFEDs received the cash resources to determine if there are any delays in the system and, if so, how these can be fixed. This information is submitted to MOFEC, which analyses the reports from all the BOFED and takes steps to address any delays.

**Step 5:** On an annual basis, MOFEC prepares annual financial statements, which are submitted to external auditors within 90 days after the end of the budget year. The following chart shows the report flow.

**Development**

**Partners**

**MOFEC**

**BOFED**

**ZOFED**

**CITY/SUB-CITY OFED**

**MoUDH**

**BoUD**

**MOLSA**

**WUDO**

**BOLSA**

**WOLSA**

**Quarterly Report in 20 days**

**Quarterly Report in 60 days**

**Quarterly Report in 40 days**

**8.AUDITING**

## 8.1. InternalAudit

The Internal Audit is responsible for an independent, objective assurance and consulting activity designed to add value and improve the UPSNP operations. It helps the public body accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**ScopeofWorkforInternalAudit**

Internal audit should fulfil its duty by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations in place to:

* monitor the achievement of the UPSNP’s objectives;
* Identify, asses and manage the risks in achieving the UPSNP’s objectives;
* Ensure the economical, effective and efficient use of resources;
* Ensure compliance with established policies (including behavioral and ethical expectations), procedures, laws and regulations;
* Safeguard the Program’s assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
* Ensure the integrity and reliability of financial reports.
* Ensure that adequate internal controls are in place.
* Internal audit should devote particular attention to any aspects of the risk management, control and governance affected by material changes to the Program’s risk environment. The following areas are among the priority concern in the UPSNP program
* Financial transaction audit, including cash audit
* Budget execution
* Procurement audit
* Payroll audit
* Performance audit on cash transfer cycle to the scope of their respective public bodies including follow-up of cash and food transfer in, transfer out, withdrawal and follow-up from bank, attendance processing, payroll payments and reporting.

## 8.2. ExternalAudit

MOFEC will have the project financial statements audited by the Office of the Federal Auditor General (OFAG) or an auditor assigned by OFAG.

Should OFAG decide to assign an independent audit firm to handle the financial audit, efforts should be made to ensure that the auditors are recruited or appointed within two months of effectiveness.

##### **ObjectiveoftheExternalAudit**

The objectives of the audit of the Project Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the project at the end of the fiscal year, and on funds received and expenditures incurred for the relevant accounting period. The accounting system, books and records provide the basis for preparation of the PFSs by the project implementing agency and are established to reflect the financial transactions in respect of the project.

##### **ScopeoftheAudit**

* The auditor is responsible for forming and expressing opinion on the financial statements. The audited financial statement will include all sources of funds for the program, including other development partners and the Government.
* The auditor will prepare a work plan to ensure adequate coverage of the various institutions that receive project funds and cover all the major risk areas. 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 to relevant World Bank guidelines, and will include such tests and auditing procedures as the auditor will consider necessary under the circumstances. In complying with International Standards on Auditing, the auditor is expected to pay particular attention to fraud and corruption, laws and regulations, governance and risks.
* The audit report should include follow up on the audit recommendations noted by audit reports at different ministries and sector bureaus.
* In addition to the audit of the Project Financial Statements, 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.

#### TimingofAuditReports

* MOFEC shall submit quarterly IFRs to the World Bank and other DPs 60 days after the end of the quarter period. In addition, reports on the findings noted during the semi-annual interim audit will be submitted to the World Bank and other DPs within 90 days of the end of the quarter.
* Audit Report on the Interim Audit – The auditor shall submit interim audit reports (summary of Findings) to MOFECand Development partners (DPs) with recommendations for improvements. It will be submitted, on semi-annual basis, to IDA and DPs within 90 days.
* MOFEC shall submit audited program accounts to the World Bank and other DPssix months after the end of each fiscal year, which ends on July 7.
* The auditor will submit the audit report in line with the revised TOR and content satisfactory to the World Bank and other DPs within six months of the end of the Ethiopian Fiscal Year. The TOR is attached in annex 2.

**PART VI**

**9. HUMANRESOURCE**

The UPSNP’s human resources in relation to financial management consist of permanent government staff and contract staff (i.e. non-permanent employees working within government implementing the UPSNP). As indicated in the PIM, program managers should hire all the staff required to ensure that they meet the performance targets in their areas based on their assessment of the program requirements.

**Manpower Requirements**

The minimum Financial Management staffing capacity for effective UPSNP implementation is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Senior Accountant | Accountant | Total |
| Federal |  |  |  |
| MoFEC | 2 |  | 2 |
| FJC & FSA |  | 1 | 1 |
| MolSA |  | 1 | 1 |
| UJCFSA | 2 |  | 2 |
| Region |  |  |  |
| BoFED |  | 10 | 10 |
| BUJC & FS |  | 1 | 1 |
| BoLSA |  | 1 | 1 |
| City Finance |  | 10 | 10 |
| Addis Ababa BoFED |  | 2 | 2 |
| AA Sub-city |  | 20 | 20 |
| **Total** | **4** | **46** | **50** |

All Job positions should be provided with job description. The job description need to be revised as deemed necessary by MoFEC. In addition to ensuring that sufficient staff is in place to implement the UPSNP, these staff must have the skills and knowledge to carry out their tasks efficiently. They also need access to work in an environment that enables them to carry out their jobs. For staff to be effective their responsibilities and areas of accountability must be well articulated and their performance routinely monitored.

On job training should be provided regularly. Training will also be delivered frequently to address the high rates of staff turnover. The following trainings should be given at the minimum and can be financed out of the administrative or management budgets.

|  |  |  |
| --- | --- | --- |
|  | **Timing** | **Responsible** |
| Training on PIM | Annual | FJC & FSA |
| Procurement | Annual | FJC & FSA |
| Training on FM | As required | MOFEC |
| IBEX training | As required | MoFEC |
| Field-based FM support to woredas/cities | As required | MoFEC |

The following documents are important for the implementation of the program.

* Project Appraisal Document
* Project Implementation Manual
* Financial Management Manual
* Procurement Manual

All personnel at all levels should comply with the relevant ethical requirements in discharging their responsibility. Accordingly, staffs need to ensure their compliance with ethical requirements including integrity, objectivity, confidentiality and independence to enhance the effectiveness of internal control system

**10. HANDOVERPROCEDURES**

Various studies show that staff turnover seriously affected project implementation. Hence, it is essential to ensure that the outgoing staff transferred his/her wisdom, knowledge, status of activities and issues to the incoming staff.

##### **Preparationofthehandoverreport**

* Handover reports should be prepared by a staff members who are about to leave their positions, either temporarily (illness, maternity leave etc) or permanently, to assist their successor carry out their duties.
* Handover report should be integrated in staff clearance process. The supervisor should indicate that they received a handover report from the leaving staff member during the checkout process.
* The purpose of a handover note is to provide the new staff with key knowledge and information regarding the position so that the transition period is as short and smooth as possible and ensure continuity of operations.
* In case of a temporary absence, particularly if the absence is longer than four weeks, it is strongly suggested that the staff member shall agree with his supervisor on whether a handover note should be written and if so, how detailed it needs to be.
* A staff member who was temporarily covering the functions due to a colleague’s absence shall also write a handover note to ensure a smooth transition back.
* Handover report shall be finalized during the week before the staff member leaves his/her position. If this is not possible, the staff member should send the handover note to his/her successor before departing and supplement the note with phone conversations or by email. If the successor has not yet been appointed, the staff member should leave a handover note with his/her supervisor.
* One copy of the handover report shall be submitted to the immediate supervisor and one copy should be filed to archive.
* The staff required to prepare handover report should also attached working and training manuals which he received in the past because of his position in the project. These include training manuals, procedure manuals and guidelines, software, working templates and formats.

##### **Checklistsforthecontentofthehandoverreport**

1. Name and job title of the outgoing staff (report writer)
2. Date of Handover report;
3. Duration of Assignment (include start and end date);
4. Brief description of duties
5. Supervisor and reporting procedures
6. Regular/re-occurring meetings, reports or procedures
7. Key documents/reference material to read
8. Status of recent and current projects, reports and, meetings

* Name of the project/report/meeting
* Status
* Action needed
* Partners
* Budget (if applicable)
* Critical issues, challenges and priorities
* etc

1. Where to find files (hardcopy and electronic).
2. Calendar of major activities and/or events.
3. Contacts (internal and external) suppliers, customers, donors, regional and federal offices etc.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name** | **Organization** | **Phone** | **E-mail** | **Comments** |
|  |  |  |  |  |

1. Contact information of the leaving employee (phone, email, fax etc).

**FILINGANDRETAININGOFDOCUMENTS**

1. Vouchers should be sequentially filed in a box file. Supporting documentation should be provided with numbering which shows the total page length. For instance, If the voucher has five page supporting documents, the first page will be numbered as ‘1/5’, the second one will be labelled as ‘2/5’ and so on.
2. Box files should be dedicated by type of vouchers. Petty cash payments, Cheque payments, cash receipts and deposits, bank statements, journal vouchers should be filed in a separate box file and the box file should be marked with the name of the document, box file number, and the date or month ranges of the documents.
3. Financial documents should be kept safely with the appropriate physical security to prevent unauthorized access, fraudulent actions and other damages.
4. According to Financial Documents Preservation Guideline No 5/1999 of MoFEC, financial documents shall be preserved for ten years from the date they were created or up to two years after the audit by the Auditor General is completed, whichever comes last. For further detail please refer the guideline.
5. Documents refer to all the ledger cards, registers and supporting documents and procurement files. The UPSNP documents shall be kept separately and shall be filed in a way that makes referring to the documents very easy. The filing system should enable the auditors of UPSNP and anyone who is authorized to check the documents of UPSNP to easily and systematically trace the documents and information they are looking for.
6. Completed procurement files should be transferred to archive with formal hand over procedure between the procurement personnel and the person in charge of archiving financial documents. The procurement personnel is responsible to provide appropriate referencing to the documents and the number should be cross referenced with the procurement register which is to be prepared by the procurement personnel.
7. Permanent financial files like financial management manual, FM rules & regulations, PAD, PIM, Agreements, vouchers, personnel files etc should be kept both in soft and hard copy that enables users to access easily.
8. Current and recent reports like IFRs, regional reports, correspondences on IFRs, checklist, budget amendments, variation, explanations, variance analysis should updated and filed properly to maintain smooth flow information for new comers.

A**nnex 1: Urban Productive Safety Net Program, Interim Unaudited Financial Reporting Formats**

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| **Urban Productive Safety Net Program**  **Interim Unaudited Financial Report**  **Content**  **Discussion of Financial performance, Notes & Explanations**  **Consolidated Statement of Sources and Uses of Fund**  **Statement of Uses of Funds by Sub programs**  **Statement of Cash Forecasts**  **Statement of Designated accounts by account/donor**  **Supporting schedules** |

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| **FINANCIAL PERFORMANCE** | | |  |  |  |  |  |  |  |
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| This will include: | |  |  |  |  |  |  |  |  |
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| 1. Narration of financial performance | | | |  |  |  |  |  |  |
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| 2. Expenditure allocation/apportionment tables- showing apportionments by donors of program expenditures reported | | | | | | | | | |
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| 3. Variance analysis | |  |  |  |  |  |  |  |  |
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| 4. Etc |  |  |  |  |  |  |  |  |  |
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**Ministry of Finance and Economic Cooperation**

**Urban Productive Safety Net Program**

**Consolidated Sources & Uses of Funds (in Ethiopian Birr)**

**For The Quarter Ended \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

| **Particulars** | **Current Quarter (In ETB )** | **Cumulative (Year to date)  (In ETB )** | **Cumulative Program life (in ETB)** |
| --- | --- | --- | --- |
| **Opening Balance** |  |  |  |
| Designated Accounts |  |  |  |
| IDA Credit Account |  |  |  |
| Government Account |  |  |  |
| Pooled Birr Account at Federal |  |  |  |
| Federal job creation & food security agency |  |  |  |
| Ministry of Labor and Social Affairs |  |  |  |
| Urban Food security and Job creation Agency |  |  |  |
| Bank Balance at Regional governments |  |  |  |
| Tigray Region |  |  |  |
| Afar Region |  |  |  |
| Amhara Region |  |  |  |
| Oromia Region |  |  |  |
| Somali Region |  |  |  |
| Benishangul Gumuz |  |  |  |
| SNNP Region |  |  |  |
| Gambela Region |  |  |  |
| Harari Region |  |  |  |
| Dire Dawa City Admin. |  |  |  |
| Addis Ababa City Admin. |  |  |  |
| Cash On Hand Balance at Regional |  |  |  |
| Advance at Regions and implementers |  |  |  |
| Payables at Regions and implementers |  |  |  |
| **Total Opening Balance** |  |  |  |
| **Add: Sources** |  |  |  |
| IDA |  |  |  |
| Government fund |  |  |  |
| **Total Source For the Period** |  |  |  |
| **Total Available Fund For The Period** |  |  |  |
| **Less :Expenditures(Applications)** |  |  |  |
| Category 1: Goods, works, non-consulting services, consultants’ services, Training and Operating Costs for the Program. |  |  |  |
| Category 2: Conditional Cash Transfers, Unconditional Cash Transfers and Livelihood Grants. |  |  |  |
| Category 3: Program Preparation Advance |  |  |  |
| **Total Expenditures** |  |  |  |
| **Total Available Fund less Total Expenditures** |  |  |  |
| **Foreign Exchange Difference** |  |  |  |
| **Net Fund Available** |  |  |  |
| **Ending Balance** |  |  |  |
| Designated Accounts |  |  |  |
| IDA Credit Account |  |  |  |
| Pooled Birr Account at Federal (see annex 1a) |  |  |  |
| Federal job creation & food security agency |  |  |  |
| Ministry of Labor and Social Affairs |  |  |  |
| Urban Food security and Job Ccreation Agency |  |  |  |
| Bank Balance at Regional governments |  |  |  |
| Tigray Region |  |  |  |
| Afar Region |  |  |  |
| Amhara Region |  |  |  |
| Oromia Region |  |  |  |
| Somali Region |  |  |  |
| Benishangul Gumuz |  |  |  |
| SNNP Region |  |  |  |
| Gambela Region |  |  |  |
| Harari Region |  |  |  |
| Dire Dawa City Admin. |  |  |  |
| Addis Ababa City Admin. |  |  |  |
| Cash On Hand Balance at Regional |  |  |  |
| Advance at Regional and implementers |  |  |  |
| Payables at Regional and implementers |  |  |  |
| **Total Ending Balance** |  |  |  |

**Note:- (a) Sources of fund is converted at the exchange rate of prevailing at the collection date .**

**(b) The gain or loss on exchange rate is determined by the rate prevailing at the reporting date.**

**(c) For donations in-kind please refer to the annex…. Page…..**

**Prepared by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Approved by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

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

**Ministry of Finance and Economic Cooperation**

**Urban Productive Safety Net Program**

**Sources & Uses of Funds (in USD)**

**For The Quarter Ended\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

| **Particulars** | **Current Quarter (InUSD )** | **Cumulative (Year to date)  (In USD)** | **Cumulative Program life (in USD)** |
| --- | --- | --- | --- |
| **Opening Balance** |  |  |  |
| Designated Accounts |  |  |  |
| IDA Credit Account |  |  |  |
| Government |  |  |  |
| Pooled Birr Account at Federal (see annex 1a) |  |  |  |
| Federal job creation & food security agency |  |  |  |
| Ministry of Labor and Social Affairs |  |  |  |
| Urban Job Creation &Food Security Agency |  |  |  |
| Bank Balance at Regional governments |  |  |  |
| Tigray Region |  |  |  |
| Afar Region |  |  |  |
| Amhara Region |  |  |  |
| Oromia Region |  |  |  |
| Somali Region |  |  |  |
| Benishangul Gumuz Region |  |  |  |
| SNNP Region |  |  |  |
| Gambela Region |  |  |  |
| Harari Region |  |  |  |
| Dire Dawa City Admin. |  |  |  |
| Addis Ababa City Admin. |  |  |  |
| Cash On Hand Balance at Regional |  |  |  |
| Advance at Regional & implementers |  |  |  |
| Payables at Regional and implementers |  |  |  |
| **Total Opening Balance** |  |  |  |
| **Add: Sources** |  |  |  |
| IDA |  |  |  |
| Government |  |  |  |
| **Total Source For the Period** |  |  |  |
| **Total Available Fund For The Period** |  |  |  |
| **Less :Expenditures(Applications)** |  |  |  |
| Category 1: Goods, works, non-consulting services, consultants’ services, Training and Operating Costs for the Program. |  |  |  |
| Category 2: Conditional Cash Transfers, Unconditional Cash Transfers and Livelihood Grants. |  |  |  |
| Category 3: Program Preparation Advance |  |  |  |
|  |  |  |  |
| **Total Expenditures** |  |  |  |
| **Total Available Fund less Total Expenditures** |  |  |  |
| **Foreign Exchange Difference** |  |  |  |
| **Net Fund Available** |  |  |  |
| **Ending Balance** |  |  |  |
| **Designated Accounts** |  |  |  |
| IDA Credit Account |  |  |  |
| Pooled Birr Account at Federal |  |  |  |
| Ministry of Urban Development& Housing |  |  |  |
| Ministry of Labor and Social Affairs |  |  |  |
| Urban Job Creation &Food Security Agency |  |  |  |
| Bank Balance at Regional governments |  |  |  |
| Tigray Region |  |  |  |
| Afar Region |  |  |  |
| Amhara Region |  |  |  |
| Oromia Region |  |  |  |
| Somali Region |  |  |  |
| Benishangul Gumuz Region |  |  |  |
| SNNP Region |  |  |  |
| Gambela Region |  |  |  |
| Harari Region |  |  |  |
| Dire Dawa City Admin. |  |  |  |
| Addis Ababa City Admin. |  |  |  |
| Cash On Hand Balance at Regional |  |  |  |
| Advance at Regional& implementers |  |  |  |
| Payables at Regional & implementers |  |  |  |
| **Total Ending Balance** |  |  |  |
| **Note:- (a) Sources of fund is converted at the exchange rate of prevailing at the collection date .**  **(b) The gain or loss on exchange rate is determined by the rate prevailing at the reporting date.**  **(c) For donations in-kind please refer to the**  **Annex…. Page…..**  **Prepared by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Approved by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**  **Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**  **Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |

|  |  |  |  |
| --- | --- | --- | --- |
| **Ministry of Finance and Economic Cooperation** | | | |
| **Urban Productive Safety Net Program** | | | |
| **Consolidated expenditure summary (in Birr/USD)** | | | |
| **For The Quarter Ended\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | |
| **Components** | **Current Quarter (In Birr/ USD)** | **Cumulative (Year to date)  (In Birr/ USD)** | **Cumulative Program life (in Birr/ USD)** |
| **Component One: Safety Net Support** |  |  |  |
| * 1. Conditional transfers |  |  |  |
| * 1. Unconditional transfers |  |  |  |
| * 1. Capital budgets for PWs |  |  |  |
| * 1. Sub contracts for clients with special needs |  |  |  |
| **TOTAL Component one** |  |  |  |
| **Component two: Livelihood Services** |  |  |  |
| 2.1. Livelihood skills, training, mentoring, coaching |  |  |  |
| 2.2. Livelihood transfer |  |  |  |
| **TOTAL component two** |  |  |  |
| **Component three: Institutional strengthening and Program management** |  |  |  |
| 3.1. operational systems development |  |  |  |
| 3.2. Evaluation and Audit |  |  |  |
| 3.3. Capacity building, safeguard, monitoring & implementation |  |  |  |
| 3.4. Regional and federal level management budget |  |  |  |
| 3.5. Citizens engagement and social accountability |  |  |  |
| **TOTAL component three** |  |  |  |
| **GRAND TOTAL** |  |  |  |

**Prepared by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Approved by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

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

**Ministry of Finance and Economic Cooperation**

**Urban Productive Safety Net Program**

**Consolidated Expenditures Summary (in Ethiopian Birr)**

**For The Quarter Ended \_\_\_\_\_\_\_\_\_\_\_\_\_**

| **Particulars** | **Annual Budget** | **1st Quarter Expenditure** | **2nd quarter expenditure** | **3rd quarter expenditure** | **4th quarter expenditure** | **Cumulative expenditure** | **Variance** | **Utilization rate %** |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** | **6=2+3+4+5** | **7=1-6** | **8=6/1** |
| **Expenditures(Applications)** |  |  |  |  |  |  |  |  |
| **I. Safety Net Support** |  |  |  |  |  |  |  |  |
| **Tigray Region** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Afar Region** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Amhara Region** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Oromia Region** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **SomaliRegion** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Benishangul-Gumuz Region** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **SNNPRegion** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Gambella Region** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Harari Region** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Dire Dawa City Admin.** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Addis Ababa City Adm.** |  |  |  |  |  |  |  |  |
| Conditional transfers |  |  |  |  |  |  |  |  |
| Unconditional transfers |  |  |  |  |  |  |  |  |
| Capital budget for PWs |  |  |  |  |  |  |  |  |
| Sub contracts for clients with special needs |  |  |  |  |  |  |  |  |
| **Total Safety net support(Component 1.)** |  |  |  |  |  |  |  |  |
| **II. Livelihood Services** |  |  |  |  |  |  |  |  |
| **Tigray Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Afar Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Amhara region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Oromia Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Somali Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Benishangul-Gumuz Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **SNNP Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Gambella Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Harari Region** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Dire Dawa City Admin.** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **Addis Ababa City Ad.** |  |  |  |  |  |  |  |  |
| ***Component 2 : Livelihood Services*** |  |  |  |  |  |  |  |  |
| Livelihood skills, training, mentoring coaching |  |  |  |  |  |  |  |  |
| Livelihood transfer |  |  |  |  |  |  |  |  |
| **UJC&FSA** |  |  |  |  |  |  |  |  |
| **FJC & FSA** |  |  |  |  |  |  |  |  |
| **TOTAL LIVELIHOOD SERVICES ( COMPONENT II)** |  |  |  |  |  |  |  |  |
| **III. Institutional strengthening and Program management** |  |  |  |  |  |  |  |  |
| **Tigray Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Afar Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Amhara Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **OromiaRegion** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Somali Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Benshangul-Gumuz Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **SNNP Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Gambella Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Harari Region** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Dire Dawa City Admin.** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **Addis Ababa City Admin.** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **UFS&JCA** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring and implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **MoLSA** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring & implementation |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| **MOFED** |  |  |  |  |  |  |  |  |
| Operational systems development |  |  |  |  |  |  |  |  |
| Evaluation and audit |  |  |  |  |  |  |  |  |
| Capacity Building, safeguard monitoring & implementation |  |  |  |  |  |  |  |  |
| City Admin Budget |  |  |  |  |  |  |  |  |
| Regional and Federal Management Budgets |  |  |  |  |  |  |  |  |
| Citizens engagement and social accountability |  |  |  |  |  |  |  |  |
| **TOTAL COMPONENT III** |  |  |  |  |  |  |  |  |
| **GRAND TOTAL** |  |  |  |  |  |  |  |  |

**Foot note** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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

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Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Ministry of Finance and Economic Cooperation**

**Urban Productive Safety Net Program**

**Expenditures Forecasts & Cash Requirements (In Ethiopian Birr & USD)**

**For The 6 Month From --------------------- to ----------------------------**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **3 months** | | **3 months** | | **Total 6 months** | |
| **ETB** | **USD** | **ETB** | **USD** | **ETB** | **USD** |
| **Expenditures for the next Six Months** |  |  |  |  |  |  |
| Component 1 |  |  |  |  |  |  |
| Sub component 1 |  |  |  |  |  |  |
| Sub component 2 |  |  |  |  |  |  |
| Sub component 3 |  |  |  |  |  |  |
| Sub component 4 |  |  |  |  |  |  |
| Component 2 |  |  |  |  |  |  |
| Sub component 5 |  |  |  |  |  |  |
| Sub component 6 |  |  |  |  |  |  |
| Component 3 |  |  |  |  |  |  |
| Sub component 7 |  |  |  |  |  |  |
| Sub component 8 |  |  |  |  |  |  |
| Sub component 9 |  |  |  |  |  |  |
| Sub component 10 |  |  |  |  |  |  |
| Sub component 11 |  |  |  |  |  |  |
| **Total Expenditures for the next Six Months** |  |  |  |  |  |  |
| **Ending cash Balance** |  |  |  |  |  |  |
| Undocumented Designated account balance |  |  |  |  |  |  |
| Pooled Birr Account undocumented government balance |  |  |  |  |  |  |
| **Total Ending Balance** |  |  |  |  |  |  |
| **Cash Requirements for The Next Six Months** |  |  |  |  |  |  |
| **Contribution from Donors** |  |  |  |  |  |  |
| IDA |  |  |  |  |  |  |
| Government |  |  |  |  |  |  |
| **Total Contribution from contributors** |  |  |  |  |  |  |

Note:- The Exchange rate used is the rate prevailing at the reporting date

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

Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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| **Urban Productive Safety Net Program** | | | | |
| **Fund flow statement Pooled Bank a/c \_\_\_\_\_\_\_\_\_\_\_\_\_\_ (Birr)** | | | | |
| **As of ……………………………..** | | | | |
|  |  | | *Birr* | *Birr* | |
| **Balance Brought Forward** | |  | |  | |
| Cash Transfer From IDA Credit Account | |  | |  | |
| Cash Transfer From Government Account | |  | |  | |
| Cash Transfer From Other Account | |  | |  | |
|  | **Fund available for us**e |  | |  | |
| **Fund transfer** | |  | |  | |
|  | FJC & FSA | |  |  | |
|  | MoLSA | |  |  | |
|  | MoFEC | |  |  | |
|  | UFS&JCA | |  |  | |
|  | Tigray | |  |  | |
|  | Afar | |  |  | |
|  | Amhara | |  |  | |
|  | Oromiya | |  |  | |
|  | Somali | |  |  | |
|  | Benishangul-Gumuz | |  |  | |
|  | SNNP | |  |  | |
|  | Gambella | |  |  | |
|  | Harari | |  |  | |
|  | Dire Dawa City Administration | |  |  | |
|  | Addis Ababa City Administration | |  |  | |
|  | **Total Transfer** | |  |  | |
| Bank service charge, Incoming and Outgoing | |  | |  | |
| **Total Transfer & bank service Charge** | |  | |  | |
| **Cash at Bank** | |  | |  | |
|  | Prepared By\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | Approved By \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | |
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| **URBAN PRODUCTIVE SAFETY NET PROGRAM** | | | |
| **STATEMENT OF FUND FLOW (IDA Credit)** | | | |
| **DESIGNATED DOLLAR ACCOUNT NO.** | | | |
| **For THE PERIOD, FROM ……………………………...** | | | |
|  |  | **USD** | **BIRR** |
| **OPENING BALANCE** |  |  |  |
| Add :Receipt |  |  |  |
| Credit Fund Received AS AT |  |  |  |
| **Fund Available for use** |  |  |  |
|  |  |  |  |
| **Less :Transfer and Expenditure** |  |  |  |
| **Transfer to pool birr account as at** |  |  |  |
|  |  |  |  |
| **Expenditures** |  |  |  |
| **Bank services Charges** |  |  |  |
| **Total transfer & expenditure** |  |  |  |
|  |  |  |  |
| **CLOSSING BALANCE** |  |  |  |
|  |  |  |  |
| **Actual exchange rate of ……………** |  |  |  |
| **closing balance /Leger birr account/** |  |  |  |
| **Add gain or (Loss) on Foreign exchange Gain** | |  |  |
| **Balance After Gain of foreign exchange** | |  |  |
|  |  |  |  |
| Prepared By\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Approved By \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | | | |
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| **Ministry of Finance and Economic Cooperation** | | | | | |
| **Urban Productive Safety Net Program IV** | | | | | |
| **Expenditure Apportionment Worksheet** | | | | | |
| **For The Quarter Ended\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | | | | |
|  |  |  |  |  |  |
| **IDA** |  |  |  |  |  |
| **Category** | **Allocation** | **Total Documented so far** | **Current quarter expenditure allocated** | **Total Documented** | **Remaining undocumented balance** |
| Category 1 (Goods, works, non-consulting services, consultants’ services, Training and Operating Costs for the Program.) |  |  |  |  |  |
| Category 2 (Conditional Cash Transfers, Unconditional Cash Transfers and Livelihood Grants.) |  |  |  |  |  |
| **Total** |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| **Government** |  |  |  |  |  |
| **Category** | **Allocation** | **Total Documented so far** | **Current quarter expenditure allocated** | **Total Documented** | **Remaining undocumented balance** |
| Category 1 (Goods, works, non-consulting services, consultants’ services, Training and Operating Costs for the Program.) |  |  |  |  |  |
| Category 2 (Conditional Cash Transfers, Unconditional Cash Transfers and Livelihood Grants.) |  |  |  |  |  |
| **Total** |  |  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **MINISTRY OF FINANCE & ECONOMIC COOPERATION** | | | |
| **URBAN PRODUCTIVE SAFETY NET PROGRAM** | | | |
| **STATEMENT OF CASH MOVEMENT \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_REGION** | | | |
| **THE PERIOD, FROM ……………………………...** | | | |
|  | **At City** | **At Regional office** | **TOTAL in the region** |
|  | **Birr** | **Birr** | **Birr** |
| **Opening Balance** |  |  |  |
| **Add :Cash transfers** |  |  |  |
| **Transfers from MOFED** |  |  |  |
| **Fund Available for use** |  |  |  |
| **Less :Expenditure** |  |  |  |
| **Component I** |  |  |  |
|  |  |  |  |
| **Component II** |  |  |  |
| Sub component 2(a)  Sub component 2(b)  Subcomponent (3) |  |  |  |
|  |  |  |  |
| **Component III** |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Total expenditure** |  |  |  |
| **Closing balance** |  |  |  |
| **Breakdown of closing balance** |  |  |  |
| **Cash and Bank balances** |  |  |  |
| **Receivables** |  |  |  |
| **Payables** |  |  |  |
| **Others** |  |  |  |
| **Total Closing Balance Balances** |  |  |  |
|  |  |  |  |
| Prepared by\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Approved by\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |
| Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Signature\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |
| Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Date\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | |  |

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|  | |  | **MINISTRY OF FINANCE & ECONOMIC COOPERATION** | | | | | | | | | | | | | | | | | | | | | |
|  | |  | **URBAN PRODUCTIVE SAFETY NET PROGRAM** | | | | | | | | | | | | | | | | | | | | | |
|  | |  | **Fund Utilization Report of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_REGION** | | | | | | | | | | | | | | | | | | | | | |
|  | |  | **FOR THE PERIOD, FROM ……………………………...** | | | | | | | | | | | | | | | | | | | | | |
|  | |  | **Currency- Birr** | | | | | | | | | | | | | | | | | | | | | |
| No | Name of implementer | | Beginning balance | Total transferred during the period | Total Available | **Component 1** | | | | **Component 2** | | **Component 3** | | | | | Total Expenditure | Ending Balance | Ending Cash balance in Bank | Ending cash balance at hand | Advances /receivables | Payables | Total ending balance |
| Conditional transfer | Unconditional transfers | Capital budget | Sub cntracts | Livelihood skills training | Livelihood transfer | Systems development | Citizens engagement | Capacity building | | Regional /city admin budget |
|  |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  | |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |
| **Grand Total** |  | |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |
|  |  | |  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |

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

Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Signature \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Annex 2: TERMS OF REFERENCE (TOR) FOR THE FINANCIAL AUDIT

1. **Objective**

The objectives of the audit of the program Financial Statements (PFSs) is to enable the auditor to express a professional opinion(s) on the financial position of the program at the end fiscal year, and on funds received and expenditures incurred for the relevant accounting period. The accounting system, books and records provide the basis for preparation of the PFSs by the program implementing agency and are established to reflect the financial transactions in respect of the project. MOFEC and the rest of the implementing agencies maintain adequate internal controls and supporting documentation for transactions.

1. **SCOPE OF THE AUDIT**

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 paid 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 services financed have been procured in accordance with the relevant financing agreements including specific provisions of the [World Bank Procurement Policies and Procedures](http://www.ifac.org/Members/DownLoads/2007_A005_Scope.pdf);

(d) All necessary supporting documents, records, and accounts have been maintained in respect of all project activities, including expenditures reported using 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;

1. 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;
2. 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;
3. Financial performance of the program is satisfactory.
4. Assets procured from project funds exist and there is verifiable ownership by the implementing agency or beneficiaries in line with the financing agreement.
5. 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:

1. ***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](http://www.ifac.org/Members/Source_Files/Auditing_Related_Services/2007_Handbook/2007_A080_ISA_240.pdf). 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;
2. ***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](http://www.ifac.org/Members/Source_Files/Auditing_Related_Services/2007_Handbook/2007_A085_ISA_250.pdf);
3. ***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.
4. ***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 PFSs have been prepared in accordance with the agreed accounting standards (see paragraph 3 above) 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 Program Financial Statements (PFSs) should include:

1. A statement of funds received, showing funds from the World Bank, project funds from other donors and counterpart funds separately, and of expenditures incurred;
2. A summary of the activity in the Designated Account;
3. A Balance Sheet (if deemed necessary);
4. A Summary of the principal accounting policies that have been adopted, and other explanatory notes;
5. 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 Financers”, with those shown as being disbursed by these Financers.

1. **Interim Financial Report (IFRs)**

In addition to the audit of the PFSs, the auditor is required to verify all 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.

The total withdrawals under the IFR procedures should be part of the overall reconciliation of Bank disbursements described in paragraph 5 above.

1. **DESIGNATED ACCOUNT**

In conjunction with the audit of the Project PFSs, 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.

For this Program, the Designated Accounts are referred to in the general conditions, the Financing Agreement and Disbursement Letter.

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.

1. **AUDIT REPORT**

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

1. **MANAGEMENT LETTER**

In addition to the audit report, the auditor will prepare a management letter, in which the auditor will:

(a) Give comments and observations on the accounting records, systems and controls that were examined during the course of the audit;

(b) Identify specific deficiencies or areas of weakness in systems and controls, and make recommendations for their improvement;

(c) Report on the degree of compliance of each of the financial covenants in the financing agreement and give comments, if any, on internal and external matters affecting such compliance;

1. Communicate matters that have come to his/her attention during the audit which might have a significant impact on the implementation of the program;
2. Give comments on the extent to which outstanding issues/qualifications issues have been addressed;
3. Give comments on previous audits’ recommendations that have not been satisfactorily implemented; and
4. Bring to the recipient’s attention any other matters that the auditor considers pertinent, including ineligible expenditures.

Ideally, the management letter should also include responses from the implementing agency to the issues highlighted by the auditor.

1. **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.

1. **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.

It is highly desirable that the auditor becomes familiar with the Bank’s Guidelines on Annual Financial Reporting for World Bank-Financed Activities, June 30, 2003, which summarizes the Bank’s financial reporting and auditing requirements. The auditor should be familiar with World Bank Procurement Guidelines, which can be obtained from the project implementing agency. The auditor should also be familiar with the Bank’s Disbursement Handbook for World Bank Clients, Disbursement Guidelines for Projects: May 2006. These documents are available on the Bank’s website and could be obtained from the Task Team Leader.