

Deloitte.

Report of actual findings of the
GGGI Assessment
Ethiopia



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Report of actual findings regarding the GGGI - Ethiopia assessment

Please find attached the final report for the GGGI - Ethiopia assessment project.

REPORT OF FACTUAL FINDINGS

We have performed the procedures agreed with you in our call-of agreement dated 11 November 2013. The agreed-upon procedures engagement was undertaken in accordance with International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by International Federation of Accountants ("IFAC"). The following procedures were performed solely to assist MFA in fulfilling its terms of reference:

A. Budgeted versus actual amounts and activities

1. Obtain the following documentation/reports
 - a) Agreement between the Norwegian MFA and GGGI
 - b) half year accounts/financial statements,
 - c) approved budget and
 - d) budget versus actual analysis for the period in scope
2. Reconcile amounts included in the budget versus actual analysis to half year accounts/financial statements and approved budgets for the period in scope.
3. Conduct a variance analysis of budgeted versus actual amounts/utilization and
 - a) Determine the causes of the significant variances by conducting interview with relevant person and documentation review
 - b) Determine whether all budgeted activities have been performed based on interview with relevant project/program manager and budget versus actual assessment
 - c) Determine the causes of why budgeted activities have not been performed based on interview with relevant person and validate by conducting applicable follow-up procedures
4. Assess the adequacy of the internal control procedures regarding:
 - a) Budget management including: communication, approvals, documentation, monitoring and reporting including reporting of weaknesses and recommended improvement points
 - b) Procurement including: appropriateness of supplier choice, procurements are project related, approvals, documentation etc.
 - c) Cash management including: bank accounts in use for funded project, authorized persons, reconciliations and reviews performed, approval procedures, cash handling etc.
 - d) Other relevant internal controls

B. Adequacy of accounting function and internal control systems

1. Obtain an organizational chart of GGGI including a detailed overview of the accounting/finance organization
2. Assess the adequacy of segregation of duties within the accounting/finance function
3. Assess whether the accounting/finance function includes adequate competence to perform required tasks.
4. Identify the accounting systems determine whether these systems are commonly used accounting systems that are considered to be more than able to perform the accounting tasks required.
5. Obtain half year accounts/financial statements, trial balance, general ledger and main sub-ledgers
6. Reconcile the half year accounts/financial statements, trial balance, general ledger and main sub-ledgers to determine internal consistency.

C. Overview of income received

1. Request list of bank accounts used for the for the donor funded project.
2. Obtain bank account statements for the bank accounts used for the project.
3. Scan bank account statements to determine and report whether the project funded by the MFA has its own separate program bank account or if the accounts are used for multiple projects/purposes
4. Scan income/revenue account details and identify and list all donors related to the donor funded project.

D. Review of expenses and balance sheet accounts

1. Based on professional judgment, select relevant expense and balance sheet accounts for detail testing
2. Perform an analysis of relevant expenses and balance sheet items through reconciliation with relevant supporting documents (invoices, receipts, bank statements, observation etc.)

Because the above procedures do not constitute an assurance engagement made in accordance with International Standards on Auditing, International Standards on Review Engagements, or International Standards on Assurance Engagements issued by the IFAC, we do not express any such assurance on the Financial Information.

Had we performed additional procedures or had we performed an assurance engagement of the GGGI's action plan on BAI's findings in accordance with International Standards on Auditing, International Standards on Review Engagements, or International Standards on Assurance Engagements issued by IFAC, other matters might have come to our attention that would have been reported to you.

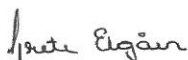
Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be filed with, or referred to (either in whole or in part) or otherwise quoted, circulated or used for any other purpose or to be distributed to any other parties. However, for the avoidance of doubt, all duties and liabilities (including without limitation those arising from negligence) to third parties are specifically disclaimed. This report relates only to the matters specified above and does not extend to any other information, taken as a whole.

Please let me know if you have any questions.

This concludes the Ethiopia part of our GGGI assignment, which is one part of our call-off agreement dated November 11, 2013.

Thank you for the opportunity to support the Norwegian Ministry of Foreign Affairs (MFA) on this important assignment, and we look forward to working together on possible upcoming assignments.

Sincerely,
Deloitte AS



Grete Elg en
Partner

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Executive Summary

Main findings

The Norwegian Ministry of Foreign Affairs (MFA) has a grant agreement with Global Green Growth Institute (GGGI). The agreement is from 2013 to 2015 and amounts to NOK 45.828 million of which NOK 13 million has already been paid.

Before making further disbursements, the MFA wanted to know as to whether GGGI has established a well-functioning financial management system. Accordingly, it requested Deloitte Norway to undertake a review work on the financial statements of GGGI Ethiopia office and also review the internal control systems related to financial management of its funding.

Budgeted versus actual amounts and activities

Review of budget versus actual expenditure report for the nine months to September 2013 indicated that there is underspending of 86% as execution of activities is delayed.

With regards to budgeted activities, there is no detailed work plan that is clearly aligned with the approved budget. At present, the budget management system is not integrated with the financial accounting system.

With regards to Budget management there were no written budget management policies and procedures to govern the budget management practices during the period covered by the review. In addition, there was no budgetary control framework in place during the period.

Budget lines in the grant agreement do not have breakdowns to components and/or specific areas of activities in the grant agreement. Budget breakdowns for Travel, subsistence and accommodation and office, vehicles, printing and other were developed by GGGI Ethiopia Country Representative. However, these breakdowns were not reviewed and approved by a budget governing body within GGGI or the donor.

According to the budget report there are expenditures with a total sum of USD 78,856 that are not included in the accounting system and considered in transit. The statement of income and expenditure shows a total expenditure for the nine months of USD 361,376, whilst this could reach USD 440,232.

With regards to procurement, requirements stipulated in the grant agreement are not being fully adhered to. In addition, GGGI Ethiopia does not at present have a contract management process to ensure that procurement contracts are delivered as required.

Adequacy of accounting function and internal control systems

We noted that the finance function is centralized and is managed from Seoul, Korea. Consequently compliance with all local laws and regulations becomes challenging.

We reviewed the qualification and work experience of all finance staff of GGGI and validated that there is a good mix of qualification and experience. However, our findings indicated that there are weaknesses in applying the most basic accounting concepts. Despite their capability, the team may not be getting the support of a robust accounting system.

GGGI has changed its accounting system from I-Flow to E-Max and has transferred all accounting information from the old to the new system. However, there are issues that need to be resolved before placing full reliance on the system. The issues that resulted from the transition include transactions amounting to USD 78,856 not yet captured by the system (in-transit), foreign currency gain/loss resulting from rate variations not shown in the accounts, differences in prepaid income account and bank ledger. Also, the system is not designed to process project/ country office related reports like trial balance, balance sheet, and in some cases sub-ledgers.

In relation to bank transfers, we were informed that the CFO alone can authorize bank transfers. We were not provided with a definitive response for our effort to confirm this.

Review of expenses and balance sheet accounts

The staff regulation stipulates that tax reimbursement to staff should be made on the basis of tax certificates presented by staff members. However, tax reimbursements are being made without obtaining tax certificate.

Relocation Allowance to staff members is made on a lump sum payment to spend at their own discretion rather than being based on actual cost incurred. This procedure seemingly lacks objectivity and is not in line with financial management best practice.

Bank reconciliations to reconcile the bank statement balance with the general ledger balance is not performed. That this is important is confirmed by our high level analysis that indicated differences.

The items; Cash on hand, advance made ^{to a staff members} [REDACTED] bank account, deposits made for car rental in Addis Ababa, are not included in the financial system.

Other findings

Regulatory requirements like tax on staff payroll, consultants earnings from working in Ethiopia and payments made to suppliers are not being complied with at the moment. The main reason for this is that the GGGI office is not officially registered in Ethiopia.

Recommendations

Budgeted versus actual amounts and activities

GGGI should consider developing an approved annual work plan that is aligned with the approved budget to monitoring of budgeted vs execution of activities.

GGGI should integrate budget management with the financial accounting system to avoid differences and enable the system to produce management reports.

Requirements stipulated in the grant agreement should be complied with when undertaking procurement activities. In addition, GGGI should establish contract management procedures.

All transactions should be timely reflected in the accounting system to ensure that reports produced from the system provide an accurate and complete picture of the financial position of GGGI Ethiopia office.

We were informed that a finance policy has been approved on 8th December 2013. We recommend that GGGI ensures that the policy:

- adequately covers good budgetary management and monitoring practices;
- is accessible to all managers;
- is adequately aligned with requirements of the grant agreement;
- adequately passes responsibilities for budget management to appropriate levels of management and ensures accountability;
- requires regular reporting on budget and robust control on budget management;
- requires managers to provide justifications on significant over or underspending and also ensures timely taking of action;
- requires that budget management system is adequately integrated with the financial accounting system; and
- requires production of appropriate management account reports to effectively monitor financial position.

Adequacy of accounting function and internal control systems

GGGI should plan and design its finance function and also its accounting system to accommodate local requirements.

Setting up of a robust accounting system would assist finance staff to make use of their capabilities.

GGGI should ensure that all issues relating to the system transition shall be adequately and timely resolved. Most importantly, we strongly recommend that the system is independently reviewed for complete accounting functionality and also to check as to whether it satisfies GGGI's and donors' expectations in terms of record keeping, control and reporting.

GGGI should secure appropriate segregation of duties within the payable process, including bank authorizations by at least two people.

Review of expenses and balance sheet accounts

Staff regulations should be adhered to in relation to payment of salaries and allowances. Besides, Relocation Allowance provided to staff should be determined on an objective basis, e.g. based on actual cost incurred by staff.

Bank reconciliations should be performed on a regular basis.

All transactions should be included in the accounting system to ensure completeness of financial information.

Other findings

We suggest that GGGI considers officially registering the Ethiopia office to comply with the country's regulatory tax requirements.

Conclusion

Based on our assessment, we observed that efforts are made to improve the overall accounting system, and related internal controls. However, there are matters such as Ethiopia office registration, setting up of an accounting system with complete functionality, internal controls and overall donor monitoring requires improvement.

Background

A. Introduction

The Norwegian Ministry of Foreign Affairs (MFA) has a grant agreement with Global Green Growth Institute (GGGI). The agreement is from 2013 to 2015 and amounts to NOK 45.828 million of which NOK 13 million has already been paid.

As a result of the South Korean Auditor report on the GGGI head office spending and newspaper articles on the use of GGGI funds The Norwegian ministry of foreign affairs (MFA) wanted to know as to whether GGGI has established a well-functioning financial management system. Accordingly, it requested Deloitte Norway to undertake a review work on the financial statements of GGGI Ethiopia office and also review the internal control systems related to financial management of its funding.

We have conducted the GGGI Ethiopia Program review. The primary objective of the audit was to assess whether internal controls related to financial management of the MFA/embassy funding to GGGI, with respect to the areas covered in the terms of reference, are adequately designed and operating effectively.

B. Scope

The deliverables regarding services performed in Ethiopia included:

1. Project audit of the financial accounts/report for GGGI the project (with a focus on donor funding) for the nine months to end of September 2013.
2. Assessment of current internal control systems and routines related to financial management of the MFA's funding to GGGI including recommendations for improvement.

C. Work Performed

Deloitte had a kick-off meeting with the Country Representative, Deputy Country Representative, Programme Administrator and a Consultant of GGGI in Addis Ababa. During the kick off meeting we discussed a number of issues but mainly included the scope of work, the information and documents the review team would require timetables and staff availability.

Deloitte requested and reviewed relevant information and documentation. Deloitte conducted interviews with the Country Representative, Deputy Country Representative, the Deputy Director of Finance and other staff of GGGI. In addition, GGGI completed an internal control questionnaire on budget management, procurement and cash management.

Based on these interviews, reviews and verifications undertaken, we identified key findings for reporting. Based on the findings, we made relevant and practical recommendations to resolve and improve the issues identified.

D. Limitations

The Deloitte team faced limitations due to the location of the finance and administrative function and key documents (Seoul). Additionally key people such as the Country Representative and the Chief Financial Officer are located outside of Ethiopia limiting us from having direct and prompt contact with them to discuss and clarify issues.

Moreover, because the accounting system in use by GGGI is maintained in Seoul, we were not able to fully understand and assess the system including reports generated from the system. However, to facilitate our work, we have used alternative mechanisms to understand the system and place some level of reliance on the financial reports we received.

Because the accounting process under the new E-Max system was not completed at the time of our review, we were unable to develop a complete picture of the financial position of GGGI Ethiopia and conduct all the procedures we intended to perform.

Detailed Findings

A. Budgeted versus actual amounts and activities

1. **Obtain the following documentation/reports**
 - a) **Agreement between the Norwegian MFA and GGGI**
 - b) **Nine month accounts/financial statements to end of September,**
 - c) **approved budget and**
 - d) **budget versus actual analysis for the period in scope**

Work Performed

Requested and obtained the following documents:

- Grant agreement between the Norwegian MFA and GGGI including the approved budget
- Nine month profit and loss statement (referred to as 'statement of income and expenditure' in the remainder of this report)
- Budget versus actual analysis report for the nine months to end of September 2013.

Findings

- There is no specific balance sheet for the GGGI Ethiopia.

Recommendation

- GGGI should ensure that its accounting system is able to produce project/ office specific trial balance and balance sheet in addition to what is currently produced.

2. **Reconcile amounts included in the budget versus actual analysis to nine month accounts/financial statements and approved budgets for the period in scope.**

Work Performed

For each budget line the amount shown as budget is reconciled to the amount in the grant agreement (approved budget). The figures are made proportionate to make them comparable with the actual spending for the nine months to end of September 2013.

The actual figures shown in the budget versus actual report are reconciled to the statement of income and expenditure.

Findings

Both the budget and actual figures in the report agree with the grant agreement and the statement of income and expenditure.

However, according to the budget report there are expenditures with a total sum of USD 78,856 that are not included in the accounting system and considered in transit. The statement of income and expenditure shows a total expenditure for the nine months of USD 361,376, whilst this could reach USD 440,232.

Recommendations

All transactions should be timely reflected in the accounting system to ensure that reports produced from the system provide an accurate and complete picture of the financial position of GGGI Ethiopia office.

3. Conduct a variance analysis of budgeted versus actual amounts/utilization and
 - a) Determine the causes of the significant variances by conducting interview with relevant person and documentation review
 - b) Determine whether all budgeted activities have been performed based on interview with relevant project/program manager and budget versus actual assessment
 - c) Determine the causes of why budgeted activities have not been performed based on interview with relevant person and validate by conducting applicable follow-up procedures

Work Performed

- a) The budget versus actual report is reviewed. We verified that explanations are provided for significant variances (underspending or overspending).
- b) Enquired to obtain work plan for year 2013.
- c) Enquired to be provided with explanation for those budgeted activities that were not executed per work plan.

Findings

- a) For significant variances (underspending or overspending) explanations are provided. All budget lines indicate significant underspending.

Budget Lines	Budget for year 2013	Budget for 9 months to 30 Sept 2013	Total Expenditures Per EMAX System	Variance (Budget and actual for 9 months)	%age variance
Salaries	789,600	592,200	197,677	(394,523)	-67%
Consultancy	1,512,000	1,134,000	43,555	(1,090,445)	-96%
Office, vehicles, printing and other	100,000	75,000	50,727	(24,273)	-32%
Travel, subsistence and accommodation	412,975	309,731	69,417	(240,314)	-78%
Monitoring and evaluation	166,300	124,725	-	(124,725)	-100%
Contingency	50,000	37,500	-	(37,500)	-100%
GGGI Administrative costs	<u>299,034</u>	<u>224,276</u>	-	<u>(224,276)</u>	-100%
	3,329,909	2,497,432	361,376	(2,136,056)	-86%

For each budget line with significant underspending, management provided explanation which is summarized as below:

Budget Lines	Management explanation (For each budget line)
Salaries	<p>The project start date was delayed from January to April. While some spending occurred in Q1, it was not possible to begin recruiting in full until the funds were received from Norway.</p> <p>Additionally, the recruitment process has been protracted, with an average length of recruitment being six months and some candidates being lost due to a prolonged contracting process.</p>
Consultancy	<p>The active decision to move away from outsourcing the delivery of the program through large consultancy contracts. Instead, we intend to source more targeted consultancy support using smaller contracts. The specification of this work has been delayed because of the issues with recruitment.</p>
Office, vehicles, printing and other	<p>The underlying reason is fewer than expected staff. However, as many of the office costs are fixed costs (that do not scale with the number of staff) the underspending in this budget line is less than in others.</p>
Travel, subsistence and accommodation	<p>The underlying reason is fewer than expected. In addition this budget line included an expected living expenses allowance which did not materialize when the organization converted to an international organization. Instead, GGGI provides a hardship allowance which is factored into the salary costs rather than subsistence.</p>
Monitoring and evaluation	<p>The underlying reason is fewer than expected staff. GGGI did not yet recruit a Results Adviser which is needed for the process for procuring M&E support which funds in this budget line will be used to pay for.</p>
Contingency	<p>There has been no need to use contingency funds this year.</p>
GGGI Administrative costs	<p>The GGGI budget is not detailed across the year by month but is instead applied across the year. We have given a pro rate calculation of the budget for the first 9 months. The overhead charge is due to be levied by HQ at the end of the year and has not been incurred yet.</p>

- b) Budgeted activities: Though activities are identified in the original proposal submitted to Norwegian MFA, there is no detailed work plan that identified activities to be executed in year 2013.
- c) Because there was no work plan for year 2013, we were not able to formally compare actual activities executed against a work plan. However, we were informed by the GGGI team that execution of activities is delayed.

Recommendation

- We recommend that GGGI Ethiopia develops an annual work plan to ensure timely execution of activities. We also recommend that the work plan is aligned with budget lines to enhance effective monitoring of execution of planned activities.

4. **Assess the adequacy of the internal control procedures regarding:**
- a) **Budget management including: communication, approvals, documentation, monitoring and reporting including reporting of weaknesses and recommended improvement points**
 - b) **Procurement including: appropriateness of supplier choice, procurements are project related, approvals, documentation etc.**
 - c) **Cash management including: bank accounts in use for funded project, authorized persons, reconciliations and reviews performed, approval procedures, cash handling etc.**
 - d) **Other relevant internal controls**

Work Performed

- Obtained explanations for key controls in budgetary management, procurement management and cash management through questionnaire.

Findings

- a) Budget management
 - There were no written budget management policies and procedures to govern the budget management practices during the period covered by the review. In addition, there was no budgetary control framework in place during the period.
 - Budget lines in the grant agreement do not have breakdowns to components and/or specific areas of activities in the grant agreement. Budget breakdowns for Travel, subsistence and accommodation and office, vehicles, printing and other were developed by GGGI Ethiopia Country Representative. However, these breakdowns were not reviewed and approved by a budget governing body within GGGI or the donor. Review and approval would have facilitated accountability and better budgetary monitoring.
 - The budget management system is not integrated with the financial accounting system.
 - Management account reports are not produced to enable senior managers to monitor financial position.
- b) Procurement
 - There is no contract management process to ensure that procurement contracts are delivered as required.
 - International labor organization's core conventions are not being considered in procurement processes as required by the grant agreement.
 - Despite being a requirement by the grant agreement to have conflict of interest declaration and evidence of no conviction, these were not checked at time of procuring services of consultants.
- c) Cash management
 - There were no written cash management policies and procedures to govern the cash management practices during the period covered by the review.

Recommendations

- a) Budget management
 - We were informed that a finance policy has been approved on 8th December 2013. We recommend that GGGI ensures that the policy:
 - adequately covers good budgetary management and monitoring practices;
 - is accessible to all managers;
 - is adequately aligned with requirements of the grant agreement;
 - adequately passes responsibilities for budget management to appropriate levels of management and ensures accountability;
 - requires regular reporting on budget and robust control on budget management;
 - requires managers to provide justifications on significant over or underspending and also ensures timely taking of action;
 - requires that budget management system is adequately integrated with the financial accounting system;
 - requires production of appropriate management account reports to effectively monitor financial position.
 - Budget lines should adequately be broken down to sub-budget lines and should also be aligned with the annual work plan.

b) Procurement

- GGGI should establish a contract management system to ensure that procurement contracts are delivered as required.
- Grant agreement requirements in relation to procurement must be adhered including consideration of International Labor Organization's core conventions, declaration of any potential conflict of interest and ensuring consultants are with no conviction for crime and professional misconduct.

c) Cash management

- We were informed that a finance policy has been approved on 8th December 2013. We recommend that GGGI ensures that the policy:
 - takes in to account local circumstances of the GGGI Ethiopia office;
 - is available to all concerned staff.

B. Adequacy of accounting function and internal control systems

1. Obtain an organizational chart of GGGI including a detailed overview of the accounting/ finance organization

Work Performed

Requested organizational chart of GGGI in general which also includes the accounting/ finance function. In addition, we requested the organizational chart of the GGGI Ethiopia office.

Findings

Both the GGGI and GGGI Ethiopia office organization charts were provided to us. We noted that the finance function is centralized and is managed from Seoul, Korea. Consequently compliance with all local laws and regulations becomes challenging.

Recommendations

GGGI should plan and design its finance function and also its accounting system to accommodate local requirements.

2. Assess the adequacy of segregation of duties within the accounting/finance function

Work Performed

Enquired and obtained the roles and responsibilities of the GGGI finance function staff members.

Findings

From the organizational chart we obtained we noted six staff members make up the finance function including a Chief Financial Officer. This staff is assigned responsibility to work in different finance functions namely Budget Monitoring, Accounting & Control, Treasury, Financial Reporting and Asset & Liability (to be operational in 2014).

In relation to bank transfers, we were informed that the CFO alone can authorize bank transfers. We were not provided with a definitive response for our effort to confirm this.

Recommendation

GGGI should secure appropriate segregation of duties within the payable process, including bank authorizations by at least two people.

3. Assess whether the accounting/finance function includes adequate competence to perform required tasks.

Work Performed

We obtained curriculum vitae of all finance staff members and reviewed their qualification and work experience.

Findings

There is a good mix of qualification and experience amongst the staff within the finance function, including professional qualifications such as ACCA, CPA and a Master's Degree.

However, we although qualifications appear satisfactory, we did note that there are weaknesses in the application of several accounting concepts.

Recommendations

We recommend setting up a robust accounting system that can assist finance staff to improve implementation of accounting practices. We also recommend a practice of comprehensive and regular review of the Institutes' financial accounts and position to regularly identify areas for improvement.

4. Identify the accounting systems determine whether these systems are commonly used accounting systems that are considered to be more than able to perform the accounting tasks required.

Work Performed

Enquired to understand the system that is currently in use and the one replaced. Obtained explanations, screen prints of the new system and obtained a system manual (Korean).

Findings

GGGI currently uses a system called E-Max. This system replaced the old system (I-Flow) since mid-October 2013. The old system had issues and also uses only one currency, KRW. Though all transactions are transferred to E-Max, there are still un-reconciled differences, which are being reviewed by the GGGI team.

E-Max is a standalone system that has accounting modules to process trial balance, ledger, and financial statements.

However, there are key issues that should be considered in relation to the new system which are explained as below. It should be noted that issues may not be limited to the ones listed below:

- The accounting procedures are not designed to process trial balances, financial statements and in some cases ledgers for individual offices like GGGI Ethiopia. GGGI considers GGGI Ethiopia as project. Even if GGGI Ethiopia is considered as a project, it should be possible to produce the reports mentioned as long as the accounting system is designed accordingly.
- As can be seen from the findings in the sections to follow, there are a number of issues that resulted from the transition to the new system including transactions that are not yet captured by the new system (USD 78,856, according to the budget versus actual report), foreign currency exchange gain/ loss, differences between the bank ledger and bank statements, differences relating to income.
- Salary and allowances ledgers are not generated as part of the rest of the expenses ledgers. As a result we have come across two Housing Allowance balances amounting to USD 11,664.21 and USD 8,250 coming from two sources.

Recommendations

We recommend that:

- GGGI ensures that the designing of the chart of account and also the reports from the system enables it to have a complete reporting for GGGI Ethiopia.
- GGGI ensures that all issues relating to the transition to the new system are adequately and timely resolved.
- GGGI ensures that once the system transition is finalized and issues are resolved, GGGI performs an independent review of the system and also as to whether the system fits the Institute's and donors' expectations in terms of record keeping, control and reporting.

5. Obtain nine month accounts/financial statements, trial balance, general ledger and main sub-ledgers

Work Performed

We enquired for the financial statements, trial balance, general ledger and sub-ledgers.

Findings

We were provided with statement of income and expenditure, general ledger and sub-ledgers which we reviewed.

We were not provided with a trial balance and balance sheet for GGGI Ethiopia.

Recommendations

GGGI has to ensure that its accounting system produces a project/ office specific trial balance and balance sheet in addition to what is currently produced.

6. Reconcile the nine month accounts/financial statements, trial balance, general ledger and main sub-ledgers to determine internal consistency.

Work Performed

We reviewed the statement of income and expenditure, general ledger and sub-ledgers for internal consistency.

Findings

- We were not provided with the trial balance and balance sheet for GGGI Ethiopia. Due to this we were unable to determine internal consistency between the various records.
- However, the outcome of the review we performed indicates that there are differences in a number of areas. Some of the examples include: unaccounted expenses, prepaid income difference, foreign exchange gain/loss not accounted, advance to Adam Ward not accounted and cash on hand not accounted. All these indicate a lack of internal consistency in the accounting system.

Recommendations

Due to the nature of the identified weaknesses in the accounting system, it is highly recommended that the system is reviewed for completeness, accuracy, and as to whether it does have full functionality to record and report different transactions of GGGI. GGGI is recommended to ensure that the system produces project/ office specific trial balance, balance sheet, Income and expenditure, ledgers, sub-ledger and other reports as required.

C. Overview of income received

1. Request list of bank accounts used for the donor funded project.

Work Performed

Enquired and obtained the details of the bank account used for the Norwegian MFA funded project.

Findings

Only one bank account is used for the Norwegian MFA funded project.

2. Obtain bank account statements for the bank accounts used for the project.

Work Performed

Enquired and obtained the bank statement for the bank account used for the project.

3. Scan bank account statements to determine and report whether the project funded by the MFA has its own separate program bank account or if the accounts are used for multiple projects/purposes.

Work Performed

We have reviewed the bank statement obtained.

Findings

The GGGI Ethiopia office project funded by the Norwegian MFA has its own separate bank account. However, in the general ledger of GGGI the amount of funding from Norwegian MFA is pooled together with other donor funds in the general ledger and a subsidiary ledger is established to record bank related transaction of the MFA. While this practice is not something to be described as weak, it requires reconciliation of sub-ledgers to the general ledger. Hence, it doesn't facilitate direct reconciliation.

Recommendations

We recommend a separate general ledger for the Norwegian MFA funding and this general ledger is regularly reconciled with the bank balance.

4. Scan income/revenue account details and identify and list all donors related to the donor funded project.

Work Performed

Requested and obtained the list of donors and checked with the revenue ledger account and also the bank statement.

Findings

- a) The following is the list of donors relating the GGGI Ethiopia project.
1. The Norwegian Ministry of Foreign Affairs
 2. The United Kingdom's Department for International Development (DFID)
 3. The Federal Republic of Germany, represented by the Federal Minister for the Environment, Nature Conservation and Nuclear Safety (BMU)

No funding from DFID and BMU went in to the specific bank account set up for the MFA.

- b) The funding received by GGGI for Ethiopia office project for year 2013 amounts to NOK 13 million (USD 2,235,163). However, the income reported in the statement of income and expenditure and loss statement shows USD 686,794. This was due to the accounting treatment of GGGI by which money received is kept in prepaid income account and transferred to Income when spent.
- c) Prepaid income account shows difference of USD 37,997, which is shown as below.

	USD	USD
Norwegian MFA transfer		2,235,163
Prepaid income	1,586,336	
Add: Recognized as Income	<u>686,794</u>	
		<u>2,273,130</u>
Difference		<u>37,997</u>

- d) Acknowledgment of receipt was not issued to Norwegian MFA in the form of receipt or other appropriate document.

Recommendations

- The difference seen in income related accounts should be reviewed.
- Receipt of funds should be acknowledged by issuing receipt or other appropriate document.

D. Review of expenses and balance sheet accounts

1. Based on professional judgment, select relevant expense and balance sheet accounts for detail testing

Work Performed

Using the statement of income and expenditure we selected the following expense accounts for review:

- Salary and wages
- Dispatch Allowance
- Housing Allowances
- Other Allowances
- Outsourcing (Consultancy) costs
- Travel (Air Ticket) and DSA
- Rental (Vehicles)
- Commission (Other)
- Supply

We were not provided with balance sheet for the GGGI Ethiopia office. However, we considered to review the following elements of a balance sheet.

- Cash on hand
- Cash at bank
- Advances to staff

2. Perform an analysis of relevant expenses and balance sheet items through reconciliation with relevant supporting documents (invoices, receipts, bank statements, observation etc.)

Work Performed

We reviewed the following expenses for accuracy and completeness. We vouched the expenses against supporting documents like invoices, receipts, contracts and GGGI regulations. We also reviewed the expenses for compliance against grant agreement and other regulatory requirements.

Because we were not supplied with the balance sheet and also ledger accounts for 2 of the accounts below, we were not able to undertake a complete review of the accounts. However, based on the available information we enquired on the key controls that were expected on the following balance sheet accounts:

- i. Cash on hand
- ii. Cash at bank
- iii. Advances to staff

Findings

Expenses:

a) Salary and wages

- Staff salary - [REDACTED]

In relation to the above staff, salary and wages amounting to USD 40,705 is coded in the month of March. Per response obtained the components making up this amount are salary (USD 17,666), Relocation allowance (USD 10,000) and tax reimbursement (USD 13,306).

We noted the following:

- Per staff regulation, tax reimbursement is effective from April 2013, whilst this reimbursement happened for March 2013. In addition, the Letter of Appointment of the staff requires Director General’s authorization for tax reimbursement. However, despite our request, we were not provided with this.
- No tax certificate provided to check the tax reimbursement though it is a requirement by the staff regulations.
- We were not satisfied by the explanation given that the tax gross-up for the month amounts to USD 13,306, as the gross salary is USD 17,666 we consider this gross-up higher than expected.
- Relocation Allowance of USD 10,000 was paid. The relocation invoice provided equates around USD 6,878. The excess of about USD 3,122 cannot be justified by the staff regulations. It was explained that Relocation Allowance is a lump-sum payment, which is provided to staff members without receiving receipts. It is a benefit to staff members and it is their own discretion to use the money.
- Salary allocation:

Salary and allowances of the following staff of GGGI are allocated to the GGGI Ethiopia in the following manner:

Staff	Allocation rate
[REDACTED]	50%
[REDACTED]	10% (5% for January to March 2013)
[REDACTED]	2% (10% for March 2013),

We were not provided with sufficient information on how the basis of allocation is determined and whether or not the basis of allocation has been reviewed and approved by an appropriately authorized GGGI person.

- b) Dispatch Allowance – No exceptions noted.**
- c) Housing Allowances – No exceptions noted.**
- d) Other Allowances**

- This is mainly composed of tax reimbursements to staff. Despite the requirements of the staff regulation, tax certificates are not obtained from staff before making reimbursement.

e) **Outsourcing (Consultancy) costs**

- Salary of Consultants for the month of September 2013 amounting to about USD 17,671 is not included in the statement of income and expenditure.
- Amount paid to Programme Administrator and Office Administrator is charged as Consultancy Cost.
- Work permit for foreign staff and consultants working in Ethiopia was not provided.

f) **Travel (Air Ticket) and DSA – No exceptions noted.**

g) **Rental (Vehicles)**

- ETB 5,000 paid as advance in relation to car rental is not included in the financial records of GGGI Ethiopia office.

h) **Commission (Other) – No exceptions noted.**

i) **Supply – No exceptions noted.**

Balance Sheet

i. **Cash on hand**

- Cash on hand at the GGGI Ethiopia office is not included in the financial records of GGGI Ethiopia.

ii. **Cash at bank**

Bank reconciliations, to agree the balance per bank statement with the balance in the ledger is not performed following the standard format of reconciliation. A bank reconciliation shall agree the balance per bank statement with the balance per ledger. Instead, we were provided with an excel spreadsheet which shows payments made and debited from the bank account are recorded and matched with the same movements on the bank statement.

In addition, it is clear from our findings shown in the above sections that expenses are not up to date in their respective ledger accounts. This demonstrates that there are reconciling items between the balances per bank statement and the bank ledger.

We have used two approaches to undertake a high level analytical comparison of the balances per bank statement and bank ledger as follows:

	NOK	USD
Bank balance per bank statement – 30/09/2013	10,647,266	1,776,617
Balance per ledger – 30/09/2013		<u>1,685,438</u>
Difference (potential reconciling items)		<u>91,179</u>

	USD
Initial Credit – Norwegian MFA	2,235,163
Add: Interest earned	1,026
	2,236,189
Less: Expenditures per Ledger (P/L)	361,377
Remaining balance	1,874,812
Bank ledger balance	<u>1,685,438</u>
Difference (potential reconciling items)	<u>189,374</u>

iii. **Advances to staff**

- Advance being made to *a staff member's* private bank account to facilitate payments for operational activities of GGGI Ethiopia office is not included in the financial records of GGGI. As at 30th September 2013 the bank statement of the personal account of Adam that is used for this purpose shows a balance of GBP 3,486.11.

Recommendations

Expenses

a) Salary and wages

- GGGI should undertake a complete review of all its salary and allowance payments and ensure issues such as the above are examined and corrected and the internal control relating to these areas is strengthened. Example:
 - Obtain tax certificates from staff before actually reimbursing tax as required by the staff regulations.
 - Payment of Relocation Allowance is recommended to be a refund of the actual cost incurred by staff and accordingly is suggested to be based on receipt.
- We recommend that salary and wages allocations are made on the basis of formal analysis of staff time for office or projects. In addition, the basis of allocation should be reviewed and approved by an authorized body of GGGI.

b) Dispatch Allowance – Not applicable.

c) Housing Allowances – Not applicable.

d) Other allowance

- We recommend that tax reimbursements are made on the basis of tax certificates presented by staff.

e) Outsourcing (Consultancy) costs

- Expenditures should be timely captured in the accounting system so that accounts show an up to date balance.
- GGGI Ethiopia office should ensure compliance with regulatory requirements of the country.

f) Travel (Air Ticket) and DSA – Not applicable.

g) Rental (Vehicles)

- We recommend that the deposit of ETB 5,000 is recorded in the accounting system as receivable (collectible).

h) Commission (Other) – Not applicable.

i) Supply – Not applicable.

Balance Sheet

i. Cash on hand

- Cash on hand account should be established and the balance on hand at GGGI Ethiopia office is accounted for in the financial records.

ii. Cash at bank

- Bank reconciliation is one of the key controls that help to ensure all transactions that went through the bank are captured in the accounting system. Therefore, bank reconciliation should be undertaken on a regular basis by agreeing the balance per bank statement with balance per ledger. Reconciling items should be identified on a timely basis and necessary action is taken on them.

iii. Advance to staff

- Account should be set up for cash advances made to staff and is accounted for in the financial records.

E. Other Findings

Work Performed

We performed documentary review, interview and observation. This section also includes those issues that we came across but for which we were not provided with either satisfactory response or were not provided with any response.

Findings

- a) There are multiple currencies in use (USD, ETB, NOK, KRW and GBP), the exchange rate difference (gain or loss) that arises during conversion of these currencies to the other is not captured in the accounting system.
- b) Applicable taxes on payments made to staff and consultants for work done in Ethiopia, example employee income tax, withholding tax and VAT are not being deducted and transferred to the relevant tax authority. Alternatively, we were not also provided with a tax exemption certificate.
- c) There is room for improving donor monitoring with respect to budget management and financial reporting.

Recommendations

- a) We recommend that gain/ loss resulting from the foreign currency exchange variations is correctly captured in the accounting system of GGGI.
- b) We understand that the GGGI Ethiopia office is not officially registered. Due to this, it is unable to practice in compliance with the regulatory requirements of the country. However, we recommend that the registration process is completed.
- c) In addition to what is expected from the grant agreement, Norwegian MFA shall introduce some specific requirements in areas of for instance, breaking the budget lines to further sub-budget lines to facilitate budget monitoring, require a detailed work plan that is aligned with the budget lines and more frequent reporting – programme activity and financial.

