

COWASH AUDIT MITIGATION PLAN

1 GENERAL

The COWASH Performance Audit objective was to support the risk management and capacity building in the COWASH project, focusing particularly on various management and administration related issues, such as the implementation of the CMP modality. The target was to assess the performance and implementation, the achievement of the objectives and the progress of the results-based management. The objective was also to review the practises for utilisation of funds, internal control and risk management as well as the financial administration.

The audit examined the period of 2 years: July 2014 – July 2016, Ethiopian fiscal years (EFY) 2007-2008.

The audit was conducted by KPMG Finland with the support of A. A. Bromhead & Co. Chartered Accountants. The audit was performed as on the spot at the project's Home Office in Espoo, Finland, Federal Technical Assistance Team Office in Addis Ababa, Ethiopia and in the Project implementation areas in Amhara, Benishangul-Gumuz, Oromia and SNNPR regions, Ethiopia. The field work took place in May-June 2017.

The findings or risks of the audit have been categorized into the following four categories.

Critical Risk	Corrective actions are required immediately.
Significant Risk	Corrective actions are required as soon as possible.
Moderate Risk	Correcting measures are to be carried out within a reasonable time.
Minor Risk	Corrective actions are to be taken simultaneously with other relevant measures.

2 GENERAL OBSERVATIONS, RISKS, RECOMMENDATIONS, CLARIFICATIONS AND MITIGATIONS MADE IN COWASH PHASE III

1. Role of RSU (1)

Observation: The governmental sector bureaus are responsible for the Project implementation but they have not been involved as agreed. The role of the RSUs has been significant.

Risk : Sector bureaus may not be capable to implement the CMP modality without the RSU support. There is a risk that implementation is not sufficiently incorporated into the Ethiopian governmental structures. **Moderate risk.**

Recommendation: Regional Sector Bureaus must take the responsibility of the Project implementation in order to ensure sustainability.

Clarification/Comment:

Regional Support Units (RSU) have been established to each of COWASH regions under the Water Bureau and RSU's main role as per the project document is to facilitate the regional, zonal and woreda level government bodies to actually implement COWASH project using CMP approach. RSU's role as an advisory and facilitation body only and alone has not been

clearly understood by the regional bureaus and there has been great demand for RSUs to produce direct planning, execution and monitoring of outputs of the project at region level on behalf of the bureaus. In the annual work plans responsibilities of each organization for every activity has been defined. The problem in the implementation is that the bureaus have not responded to their responsibility in actual implementation but they have left their responsibilities to RSU.

It is to be further noted that bureaus have had little interest to implement CMP as it is only COWASH business which operates in limited area of the region. After COWASH withdrawal there is no possibility to implement CMP if funds for this purpose are not made available. This problem actually exists only at the region level. In order to institutionalize CMP into the GoE it requires that more funds from also other donors would be made available, including CWA program. COWASH Project has still not been institutionalized as a government's own project. The GoE employees require additional compensation for the work they do for COWASH. If the COWASH activities are not included into the job descriptions of the responsible government personnel, it is very difficult to require the responsibility from them.

Mitigation:

- a) Take up the issue of regional bureaus' roles and responsibilities in the next Steering Committee meeting and request the Steering Committee to instruct bureaus to take-up their responsibilities.
- b) The upcoming MTR shall assess this issue and provide clear advice what is required in making the regional bureaus responsible to implement COWASH and CMP in Phase III and beyond Phase III.

Time Table:

- a) MTR recommendations to increase regional bureaus responsibilities in COWASH and CMP implementation by April 2018
- b) Steering Committee decisions on the transfer of RSU responsibilities to regional bureaus in each region by June 2018.

2. Commitment to CMP (2)

Observation: The commitment for the CMP implementation modality was not obtained from the Ministry of Finance & Economic Cooperation (MoFEC) in the Phase I nor in the Phase II.

Risk : Lack of commitment may effect on the sustainability of the Project. **Moderate risk.**

Recommendation: The COWASH should continue in cooperation with the Finnish Embassy to solve the problem in commitment for the CMP modality to be gained from MoFEC.

Clarification/Comment:

COWASH Phase III is a three-year project and it ends in June 2019. It is the only major project in Ethiopia implementing WASH using CMP approach. MoFEC's commitment to the CMP implementation cannot be assumed if the CMP is financed only by one bi-lateral financier. Although CMP approach is part of the National WASH Implementation Framework (WIF) the CMP approach is not implemented by any WASH programs or Regional Governments on their own. There is no indication or guarantee that the Federal or Regional Programs or Government bodies continue the CMP implementation after COWASH Phase III terminates. There is also no indication of the CMP approach inclusion into the Consolidated WASH Account Program or Climate Resilient WASH Program in near future.

MoFEC's commitment to the CMP implementation cannot be assumed if the CMP is financed only by one bi-lateral financier

Mitigation:

- a) It is suggested that an investigation will be carried out by the Mid Term Review on the major regions' and Federal ministries' interest and commitment to continue the implementation of CMP approach beyond COWASH Phase III.
- b) MTR shall also investigate the commitment level of major donors to finance CMP. If there is no interest or commitment found by the donors, regions or by the Federal Ministries to continue CMP approach with or without COWASH support, COWASH Project should be terminated at the end of Phase III in its current form.

Time Table:

- a) MTR investigation results and recommendations on CMP commitment by ministries and regional bureaus available by April 2018
- b) MTR investigation and recommendations on CMP commitment by major donors available in April 2018

3. Fund flows with MFI (3)

Observation: MFIs and Regional Bureaus have not complied with the agreement in any of the regions visited.

MFI has not systematically accounted fund movements and balances and has not provided statements for use of investment funds per woreda and per WASHCO. Balances brought forward have not been properly followed and reconciled.

Regional MFI accounts have not been reconciled to investment funds bookkeeping in regional level. Reconciliations between woreda level offices (that captures and reports expenditure) and MFI (that operates as a bank) have not been made.

Risk: Failure to reconcile expenses with fund movements constitutes a risk for misappropriation of cash as well as risk of accounting and reporting errors. There is a risk to fail cost monitoring. **Critical.**

Recommendation: The agreement between the Regional Bureaus and the MFIs needs to be complied with.

MFIs must capture all transactions including balances brought forward and provide monthly statements at every level (headquarter, zonal, branch and sub-branch).

MFI accounts must be reconciled to investment funds bookkeeping in regions, woredas and WASHCOs on monthly basis.

Clarification/Comment:

RSU is in the advisory status and cannot present any requirements towards MFI on its own. Negotiations with MFI on the compliance of the agreement should be led by BoFEC and Water Bureau.

Some regions have insisted COWASH to employ a finance person for each woreda to look after the investment funds. COWASH has not agreed to this request because the workload required is very small and is not continuous. Separate investment fund accountant employment is not sustainable solution as it separates the project from the government.

It has been observed that the auditors' remarks focus on the capacity improvement on the different levels of the government (from region to woreda). COWASH has observed that the MFI fund management performance the region's role has not been adequately established. At woreda level the CMP structure is working but the reporting and monitoring has not been up to the standard.

The CMP fund management at the community level has been working very well with minor errors and delays. The external COWASH audit did not reach to that level. The major problems observed are in the region and woreda level control mechanisms.

The improvements for the investment fund management should focus on the fund management system improvements and human capacity development from the region to woreda. The major part of the system development is the development of the formats and review of the weaknesses in the CMP funding agreements. The capacity development should focus on the use of the CMP manual and its formats, documentation, monitoring and reporting and on the implementation of the agreement at region and woreda levels.

COWASH has observed that not enough has been done in the critical follow-up and monitoring of MFI performance during the regular supportive supervisions done by the Federal TA Team and RSUs.

One of the problem identified in the CMP fund reporting is the non-synchronized MFI/Woreda Water Office reporting days. There is a need to make a decision on CMP fund reporting cut-off days. Furthermore, in CMP monitoring and reporting the command lines have been unclear. It is important to mutually agree who is reporting to whom and when and how.

In order to get these mitigation measures implemented it is important that the Regional WASH Steering Committee members understand the importance of the recommended actions. RWSC decision is needed to enforce the recommended mitigation measures in order to make them implemented at region and woreda levels.

Mitigation:

- a) Discuss with each MFI (BoFED and Water Bureau) (Water Bureau, Education Bureau and Health Bureau in Amhara case) with support from RSUs the existing MFI agreements and propose possible and agreeable improvements. After this negotiate and agree with the MFIs the practical and agreeable improvements to the CMP fund management agreements so that the audit requirements on fund movements, reconciliations and reporting will improve. Sign minutes of the meetings on the agreed MFI fund management improvements as an amendment/clarification to the agreement taking into consideration the audit comments on a) Woreda MFI accounts opening, b) use of ledger for each project, c) fund transfers via letters, d) monthly and quarterly reconciliation formats, e) cut-off days based upon EFY, f) MFI reporting.
- b) Employ short term financial management consultant to Federal TA Team to assist in the CMP fund management system and capacity development.
- c) Incorporate the MFI performance monitoring into the Federal TA Team and RSU supportive supervision systems and develop comprehensive check list.
- d) Improve the CMP financial management guidelines by revising the fund management, reconciliation and WASHCO fund settlement formats as may be needed.
- e) Decide the MFIs' CMP fund cut off days so that these are synchronized with the Government of Ethiopia reporting periods.
- f) Include audit mitigation action plan follow-up table into the quarterly reports of COWASH. The table should at least incorporate the audit finding or observation, auditor's comment and action(s) taken.

- g) Organize RWSC meeting in each region to enforce the mitigation measures and organize RWSC follow-up meetings where the mitigation updates are reported and discussed.

Time table:

- h) Minutes of meetings with clarifications to comply with the signed MFI agreement in each region signed by March 2018.
- i) Short term financial management consultant to Federal TA Team employed by November 2017.
- j) Supportive supervision check list developed by January 2018.
- k) MFI reconciliation and WASHCO fund settlement formats developed by December 2017.
- l) CMP fund cut off days agreed by December 2017.
- m) Audit mitigation action plan follow-up table in use for Q3 report in April 2018.
- n) RWSC meetings in each region to follow up the audit mitigation measures organized by June 2018.

4. Woreda Water Office Financial Management (4)

Observation: The level on financial management knowledge in the Woreda Water Offices is not adequate. The Project has already considered options to solve the problem.

Risk: The bookkeeping and financial reporting of the investment funds contain errors and is not reliable. **Significant.**

Recommendation: The Project must select and implement an appropriate option/s to improve the financial management capacity for the investment funds. KPMG recommends intensifying the financial training of the CMP supervisors to manage the CMP fund monitoring in order to improve control functions and reliability of financial management.

Clarification/Comment:

The CMP supervisors in Woreda Water Office has the main responsibility to follow-up the use of the investment funds. It is also important that other Woreda Water office staff is aware of this responsibility and all Water Office staff should assist the CMP Supervisor in this task. Especially the Woreda Water Office Head should allocate adequate time and resources for the investment fund follow-up and support CMP supervisor in the execution of this task. Each WASHCO file in the Woreda Water Office should be kept and updated regularly.

Furthermore, the CMP Supervisors need additional financial management training and on-the-job coaching.

Mitigation:

- a) Develop comprehensive supervision checklist by federal TA Team that will be used by RSU for supportive supervision.
- b) Improve the CMP financial management guidelines by revising the fund management, reconciliation and WASHCO fund settlement formats as may be needed.
- c) Organize Woreda level Financial Management training
- d) Provide on-the-job coaching to CMP supervisors

Time table:

- a) Supportive supervision check list developed by January 2018.
- b) MFI reconciliation and WASHCO fund settlement formats developed by December 2017.
- c) Financial Management Trainings organized in all COWASH woredas by April 2018

- d) On-the-job coaching of CMP supervisors conducted in each quarterly supervision starting from Q3 of 2010 EFY.

5. Financial reporting and internal audit (5)

Observation: The scope and reporting of the audits carried out by the BoFED's internal auditors varied between the regions.

The auditor's report issued by the BoFED's internal auditor did not capture audit measures related to investment funding (GoE source).

Risk: There is a risk that not all funding of the Project is audited. Level of cost monitoring may vary and be ineffective. **Moderate.**

Recommendation: The Project audits carried out by the BoFED's internal auditors should cover all the funding related to the Project. The particular financial report under audit should be attached to the audit report.

The audits should be performed with similar standards and scope in all regions to an appropriate extent.

Clarification/Comment:

The scope and style of internal audits carried out by BoFED's internal auditors has varied from regions to regions and reports submitted by the internal auditors to Embassy of Finland have not followed any generic standard. In some regions Government of Finland funds only has been audited and in some regions the audit of GoF funds has been part of the larger internal audit event covering all ongoing development projects and therefore capturing the special problems of COWASH fund management has been extremely difficult.

Mitigation:

- a) CTA with the newly employed Financial Management Specialist will conduct Tigray Financial Management Assessment
- b) As a result of the Tigray Financial Management Assessment; Tigray Financial Management Mitigation plan will be prepared and implemented as audit mitigation plans similar to other regions.
- c) COWASH FTAT will develop generic Internal Audit Guideline for COWASH projects that captures all costs.
- d) Once the generic internal audit guideline for COWASH is finalized ToT training for all 5 region relevant staff will be organized
- e) The training for the use of these COWASH internal audit guidelines will be cascaded to Zone and Woreda levels.

Time table:

- a) Tigray Financial Management Assessment conducted by February 2018
- b) Tigray Financial Management Mitigation Plan prepared by March 2018
- c) Generic Internal Audit Guideline for COWASH developed by February 2018
- d) ToT training on Internal Audit Guideline for all 5 region relevant staff organized by April 2018
- e) The training for the use of Internal Audit Guideline cascaded to Zone and Woreda levels by August 2018.