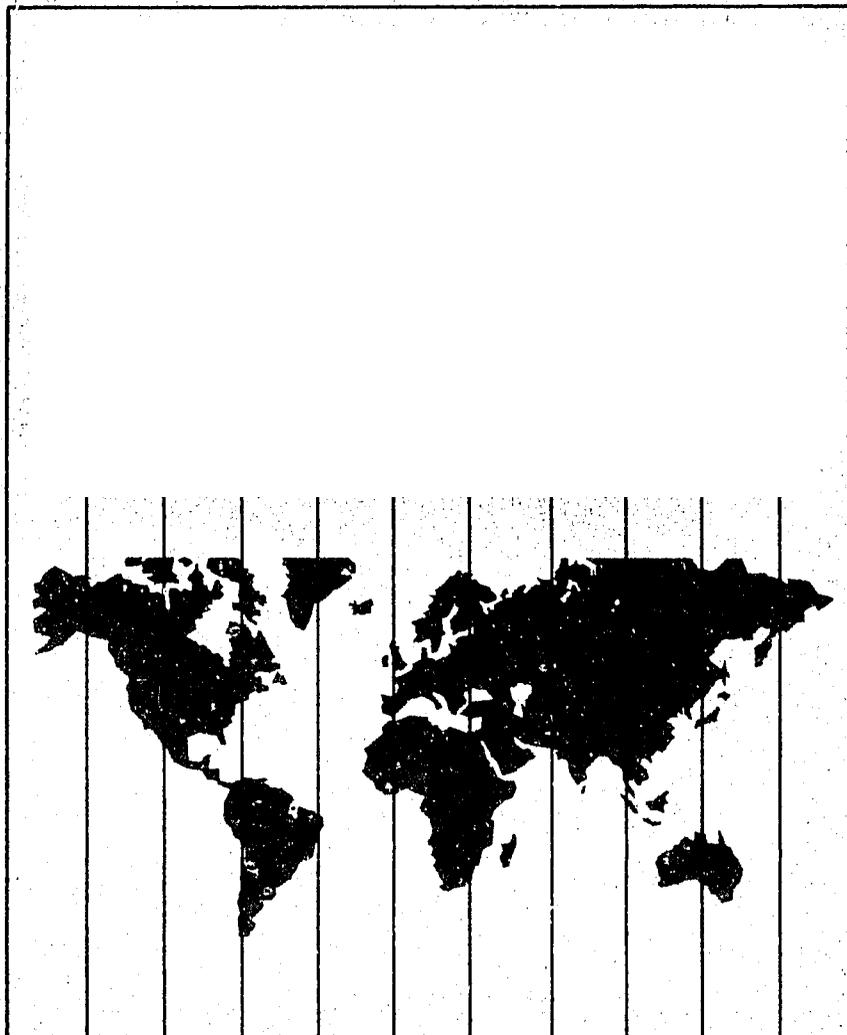


UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
CAIRO

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REPORT MAY BE PRIVILEGED. THE RESTRICTIONS
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**Audit of
Local Expenditures by
Syndicate of Commerce Professions
under USAID/Egypt's Technical
Cooperation and Feasibility Studies
Project No. 263-0102**

**Audit Report No. 6-263-91-03-N
December 31, 1990**

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT

December 31, 1990

MEMORANDUM FOR D/USAID/Egypt, Marshall D. Brown

FROM : RIG/A/C, F. A. Kalhammer 

SUBJECT: Audit of Local Expenditures by Syndicate of Commerce Professions under USAID/Egypt's Technical Cooperation and Feasibility Studies Project No. 263-0102, Audit Report No. 6-263-91-03-N

The attached report dated September 2, 1990 by Arthur Andersen & Co. presents the results of a financial audit of Syndicate of Commerce Professions' expenditures under USAID/Egypt's Technical Cooperation and Feasibility Studies Project (263-0102). Syndicate of Commerce Professions has established the Egyptian Institute for Accountants and Auditors which has the responsibility to strengthen accounting, financial reporting, and auditing in Egypt. The Institute provides professional training, an examination/certifying process, and an initial set of accounting, auditing, and financial reporting standards. The Institute has been charged with designing and implementing a body of ethical and technical standards necessary to upgrade accounting/financial reporting professionalism in Egypt.

We had Arthur Andersen & Co. make an audit of local expenditures totaling \$1,272,716 for the period June 17, 1987 to April 30, 1990 under USAID/Egypt grant Nos. 263-0102-G-00-9012-01 and 263-0159-G-00-7251-00. Arthur Andersen & Co. concluded that reimbursable costs reported as incurred by Syndicate of Commerce Professions were allowable, allocable and reasonable in accordance with the grant terms and other applicable regulations. Accordingly, there are no recommendations for your action.

We appreciate the courtesies extended to the staff of Arthur Andersen & Co. and our office.

SYNDICATE OF COMMERCE PROFESSIONS (SCP)
(EIAA PROJECT)

=====

FINANCIAL AND COMPLIANCE COST INCURRED

AUDIT UNDER USAID/EGYPT

PROJECT NO. 263-0102

SHAWKI & CO.

Member Firm of Arthur Andersen & Co.

Members of the Egyptian Society of Accountants & Aud

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Khaled El Ghanam
Tarek El Menshawy
Rashad Hosny
Hala Rashed

2 September 1990

Mr. F. A. Kalhammer
Office of the Inspector General
United States Agency for International Development
Mission to Egypt
Cairo Center Building
106, Kasr El Aini Street
Cairo - Egypt

Dear Sir:

We have completed the financial and compliance cost-incurred audit of the Syndicate of Commerce Professions Project No. 263-0102. The Syndicate allocates the grants to the Egyptian Institute of Accountants and Auditors (EIAA) which is one of the Syndicate's activities. Our audit covered local and U.S. dollar expenditures incurred by the EIAA from June 17, 1987 (inception) to April 30, 1990 under the USAID grant numbers 263-0102-G-00-9012-00 and 263-0159-G-00-7251-00. Our audit was made in accordance with the requirements in the work order dated July 20, 1990.

Background

The two grants mentioned above were signed between USAID and Syndicate of Commerce Professions on June 17, 1987 and October 26, 1988 respectively. The total budgeted financial plan for the two grants is LE 2,739,400 and U.S. \$ 970,000. The purpose of the Syndicate is to strengthen accounting, financial reporting and auditing in Egypt by establishing the Egyptian Institute for Accountants and Auditors (EIAA) with responsibility to achieve the following objectives:

1. Provide practical professional training.
2. Examine and certify practicing accountants and auditors at all levels.
3. Conduct the research necessary to design and update standards.

4. Exchange views with those affected by accounting and auditing standards to incorporate changing needs.
5. Operate on a self-sustaining financial basis.
6. Formulation of an initial set of basic accounting, financial reporting and auditing standards, and development of effective means to up-date, communicate, and enforce standards within the profession in the future.

Objectives, scope and methodology

We have performed our audit of the Syndicate of Commerce Professions - EIAA project relating to grants No. 0102-G-00-9012-00 and 263-0159-G-00-7251-00 from June 17, 1987 (inception) to September 30, 1988 and for the period from November 1, 1988 to April 30, 1990 (Date of last expenditure report). Our objectives were to determine whether:

1. the costs reported as incurred under the grants are in fact allowable, allocable and reasonable in accordance with the terms of the grants, AID Handbook 13, Chapters 1 and 4 and OMB Circular A-110;
2. the internal control, accounting, and management practices of EIAA are adequate for USAID/Egypt grants;
3. EIAA is in compliance with the grant terms.

The audit includes analytical review procedures, discussions with management and transaction testing considered necessary to assess the control risk and the achievements of the objectives listed above.

Our work consisted of a review of the following areas:

- Assessing the reasonableness, allocability and allowability of the costs incurred under the grant and determining whether they are necessary for the implementation of the project.
- Reviewing EIAA's organizational structure, administrative systems and procedures and the role of management in carrying out the project activity.
- Reviewing the internal accounting and financial control systems and ensuring that they are adequate for government grant accounting.

- Ensuring that internal control recommendations made in the previous preaward survey report have been made.
- Reviewing travel expenses to ascertain compliance with grant provisions.
- Reviewing periodic advances to ascertain compliance with AID standard provision for fund control and accountability.
- Reconciling direct costs billed and reimbursed to the project ledgers and ensuring they are accurate and complete.
- Reviewing salary changes to determine whether salary rates are in accordance with those approved by USAID/Egypt.
- Reviewing the fixed assets purchasing procedures including the computer equipment and apartments and verifying the accuracy of the fixed assets register.
- Reviewing EIAA's operations for compliance with applicable laws and regulations.

During our work we were alert to situations or transactions that could be indicative of fraud, abuse or illegal acts.

The total dollar value of expenses under audit was \$ 1,272,716 and was tested as follows:

Grant No. 263-0159-G-00-7251-00

	<u>US\$</u>	<u>%</u>		<u>L.E.</u>	<u>%</u>
Costs tested	294,400	87 %		557,015	82 %
Costs not tested	45,830	13 %		130,011	18 %
	-----	---		-----	---
Total cost as of September 30, 88	340,230	100 %	(1)	687,026	100 %
	=====	===		=====	===

Grant No. 263-0102-G-00-9012-00

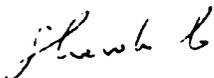
	<u>US\$</u>	<u>%</u>		<u>L.E.</u>	<u>%</u>
Costs tested	161,236	92 %		600,332	58 %
Costs not tested	14,873	8 %		443,285	42 %
	-----	---		-----	---
Total cost as of April 30, 90	176,109	100 %	(1)	1,043,617	100 %
	=====	===		=====	===

- (1) Equivalent to US \$ 312,285 for 7251 at an average exchange rate of LE 2.20 /\$ and US \$ 444,092 for 9012 at an average exchange rate of LE 2.35 /\$.

Results of the audit

The EIAA Project has established appropriate procedures to ensure that expenditures are properly authorized and approved. Limited segregation of duties is achieved even though there are few employees. Although the EIAA Project does not maintain written policies and procedures, the system of internal accounting controls is adequate considering the size of the entity and level of operation. Two minor findings were noted during our examination. However, they do not modify the opinions expressed in our report. We have rendered clean opinions with regard to the statement of expenditures.

Yours faithfully,



Shawki & Co.

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Hala Rashed

2 September 1990

Mr. F. A. Kalhammer
Office of the Inspector General
United States Agency for International Development
Mission to Egypt
Cairo Center Building
106, Kasr El Aini Street
Cairo - Egypt

FUND ACCOUNTABILITY STATEMENT REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statements of the Syndicate of Commerce Professions - EIAA project relating to grant numbers 263-0102-G-00-9012-00 and 263-0159-G-00-7251-00 for the periods from November 1, 1988 to April 30, 1990 and from June 17, 1987 (inception) to September 30, 1988, respectively, under USAID/Egypt's project No. 263-0102.

These fund accountability statements are the responsibility of management. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and government auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fund accountability statements present fairly, in all material respects, the fund position of the Syndicate of Commerce Professions - EIAA Project for periods from November 1, 1988 to April 30, 1990 and from June 17, 1987 (inception) to September 30, 1988 relating to project number 263-0102 in conformity with generally accepted accounting principles.

This report is intended solely for the use of the United States Agency for International Development and may not be appropriate for any other purpose. The restriction is not intended to limit the distribution of this report which is a matter of public record.

Shawki & Co.

Shawki & Co.

**SYNDICATE OF COMMERCE PROFESSIONS (SCP)
(EIAA PROJECT)**

NOTE TO FUND ACCOUNTABILITY STATEMENTS

Basis of presentation

The accompanying fund accountability statements have been prepared on the basis of cash disbursements, consequently, expenditures are recognized when submitted for payment rather than when the liability is incurred. Additionally, the statements have been prepared in accordance with the cost principles for reimbursable expenditures on grants as set forth in "USAID Handbook 13", which prescribes the nature of reimbursable expenditures not specifically defined in the grant.

Total costs incurred by EIAA under the two grants, for dollars and Egyptian pounds were expended in Egypt.

GRANT NUMBER 263-0159-G-00-7251-00
FUND ACCOUNTABILITY STATEMENT AS OF SEPTEMBER 30, 1988

	<u>BUDGET</u>	<u>ACTUAL</u>	
<u>LOCAL CURRENCY</u>			
Salaries	54,600	59,697	
Office operational cost	254,400	243,747	
Office equipment	200,000	222,710	
Travel & conference	257,400	67,848	
Custom duties	200,000	93,024	
	-----	-----	
	966,400	687,026	(1)
	=====	=====	
<u>U.S. DOLLARS</u>			
Technical advisors	150,000	14,790	
Inter. travel	50,000	-0-	
Professional books	450,000	323,307	
Miscellaneous	-0-	2,133	
	-----	-----	
	650,000	340,320	
	=====	=====	

(1) Equivalent to \$ 312,285 at an average exchange rate of LE 2.20 /\$.

GRANT NUMBER 263-0159-G-00-9012-00
FUND ACCOUNTABILITY STATEMENT AS OF APRIL 30, 1990

	<u>BUDGET</u>	<u>ACTUAL</u>	
<u>LOCAL CURRENCY</u>			
Salaries	463,000	242,907	
Office operational cost	350,000	249,255	
Office equipment	250,000	126,394	
Travel & conference	160,000	17,118	
Aquisition & renovation of new space	550,000	407,943	
Unallowable cost			
	----- 1,773,000 =====	----- 1,043,617 =====	(1)
 <u>U.S. DOLLARS</u>			
Technical advisors	37,400	17,387	
Inter. travel	10,000	-0-	
Professional books	272,600	158,447	
Miscellaneous	-0-	275	
	----- 320,000 =====	----- 176,109 =====	

(1) Equivalent to \$ 444,092 at an average exchange rate of LE 2.35 /\$.

SHAWKI & CO.

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2 September 1990

Mr. F. A. Kalhammer
Office of the Inspector General
United States Agency for International Development
Mission to Egypt
Cairo Center Building
106, Kasr El Aini Street
Cairo - Egypt

REPORT ON INTERNAL CONTROL STRUCTURE REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statements of the Syndicate of Commerce Professions - EIAA project relating to grant numbers 263-0102-G-00-9012-00 for the period from November 1, 1988 to April 30, 1990 and 263-0159-G-00-7251-00 from June 17, 1987 (inception) to September 30, 1988 relating to the USAID/Egypt project No. 263-0102. We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit of EIAA we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of EIAA Project is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by the management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide the management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the EIAA management, and others within the organization and USAID. The restriction is not intended to limit the distribution of this report which is a matter of public record.



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2 September 1990

Mr. F. A. Kalhammer
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REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS
REPORT OF INDEPENDENT ACCOUNTANTS

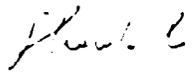
We have audited the fund accountability statement of the Syndicate of Commerce Professions - EIAA project relating to grant numbers 0102-G-00-9012-00 for the period from November 1, 1988 to April 30, 1990 and 0102-263-0159-G-00-7251-00 from June 17, 1987 (inception) to September 30, 1988. Our examination was made in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing standards issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations and the terms of the above mentioned grants, is the responsibility of management. As part of our audit, we performed tests of compliance with certain provisions of laws, regulations, and the grants. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions, and records selected from Federal programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate, are identified in the accompanying schedule of findings.

The result of our tests indicate that with respect to the items tested EIAA complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that EIAA had not complied, in all material respects, with those provisions.

This report is intended for the information of EIAA management, and others within the organization and USAID. This restriction is not intended to limit the distribution of this report which is a matter of public record.



Shawki & Co.

Findings

2.1 International travel airfares

The written approval from the USAID project officer for each international travel, in compliance with the agreement, has not been presented to us.

Recommendation

We recommend obtaining a copy of the approval from USAID for all international travel and be kept on file to satisfy any USAID auditor that the travel cost is in compliance with the grant agreement.

Management comment

We got the approval for the travel according to the program prepared by the Project Manager, however, we will take into consideration to keep the approval documentation on file in the future.

2.2 The EIAA apartments

We have noted that EIAA has not yet registered the two apartments acquired on November 5, 1989 and April 4, 1990 amounting to LE 280,000 and LE 89,540 respectively.

Recommendation

We recommend that EIAA registers the acquisition of the apartments as soon as possible in order to protect the EIAA legal title to the properties.

Management comment

The Institute has already started the registration procedures, however, because we acquired the apartments on November 5, 1989 and April 4, 1990, the procedures have not yet been finalized but will be registered as soon as possible.

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APPENDIX I

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