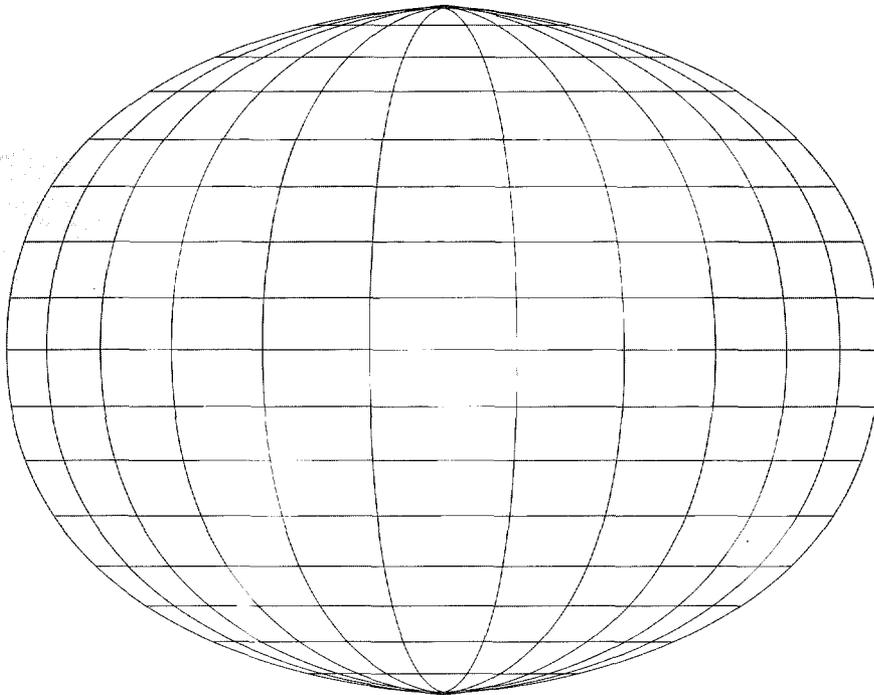


Report of Audit

PD-ABP-252
94392

Financial Audit of the Federation of Egyptian Industries, Expenditures Incurred Under the USAID/Egypt Energy Conservation and Environment Project No. 263-0140

Report No. 6-263-97-025-N
July 7, 1997



FINANCIAL INFORMATION CONTAINED
IN THIS REPORT MAY BE PRIVILEGED.
THE RESTRICTION OF 18 USC 1905 SHOULD
BE CONSIDERED BEFORE ANY INFORMATION
IS RELEASED TO THE PUBLIC.

Regional Inspector General for Audit
Cairo, Egypt

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



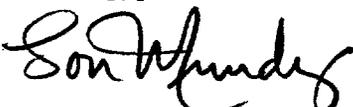
**UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT**

CAIRO, EGYPT

July 7, 1997

MEMORANDUM

TO : ACTING DIRECTOR USAID/Egypt, Toni Christiansen-Wagner

FROM: RIG/A/C, Lou Mundy 

SUBJECT: Financial Audit of the Federation of Egyptian Industries, Expenditures Incurred Under the USAID/Egypt Energy Conservation and Environment Project No. 263-0140

The attached report, transmitted on July 6, 1997 by KPMG Hazem Hassan, presents the results of a financial audit of the Federation of Egyptian Industries (FEI), USAID/Egypt Energy Conservation and Environment Project No. 263-0140, Project Implementation Letter (PIL) No. 5. The purpose of the Project is to improve the energy efficiency of Egyptian firms by identifying energy-conserving technologies not currently being used in Egypt, and by financing and promoting the use of such technologies.

We engaged KPMG Hazem Hassan to perform a financial audit of FEI's incurred expenditures of \$495,939 (equivalent to LE 1,686,191) for the period February 1, 1995 through June 30, 1996 for PIL No. 5. The purpose of the audit was to evaluate the propriety of costs incurred during this period. KPMG Hazem Hassan also evaluated FEI's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit did not identify any questioned costs billed to USAID/Egypt by FEI. Also, the audit did not note any reportable conditions associated with FEI's internal controls nor material instances of noncompliance with applicable laws, regulations and agreement terms. As a result, this report does not contain any recommendations to be included in the Office of the Inspector General's recommendation follow-up system.

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Garden City, Cairo, Egypt**

AS

Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in Egypt.

Attachment: a/s

B

Financial Audit of the
Federation of Egyptian Industries (FEI)
USAID/Egypt Project No. 263-0140
Project Implementation Letter (PIL) No. 5
for the Period February 1, 1995 Through June 30, 1996

"Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public."

Financial Audit of the
Federation of Egyptian Industries (FEI)
USAID/Egypt Project No. 263-0140
Project Implementation Letter (PIL) No. 5
for the Period February 1, 1995 Through June 30, 1996

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d

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Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

July 6, 1997

Dear Mr. Mundy,

This report represents the results of our financial audit of the Federation of Egyptian Industries (FEI) USAID Project No.263-0140 for Project Implementation Letter (PIL) No. 5 for the period February 1, 1995 through June 30, 1996.

Background

The Energy Conservation and Environment Project is designed to improve the energy efficiency of Egyptian industrial and commercial firms. This objective is accomplished by identifying energy-conserving technologies, not currently being used in Egypt, which offer significant potential for energy saving, financing the initial use of these technologies and promoting their continued use.

USAID/Egypt initiated PIL No. 5 to finance the project. The PIL was amended nine times to increase the total budget to LE5,365,245 and to extend the project completion date to February 28, 1997.

A non federal audit (NFA) was conducted for PIL No. 5 for the period July 1, 1992 through January 31, 1995 and the report was issued on October 1, 1995. During our audit we performed certain follow-up procedures related to the findings and recommendations set forth in the previous NFA report. The procedures included follow-up of previously identified recommendations for improvement related to internal controls. The results of our procedures in this regard are set forth in the section of our report entitled "Follow-up of Previous NFA Report."

Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources managed by the Federation of Egyptian Industries (FEI) USAID/Egypt Project No. 263-0140 for Project Implementation Letter (PIL) No. 5 for the period February 1, 1995 through June 30, 1996. The audit encompassed an examination of FEI's expenses, billed to and reimbursed by USAID/Egypt, in order to determine whether they were in compliance with the terms and conditions of the PIL and USAID/Egypt rules and regulations. We also reviewed internal controls associated with FEI's management of resources funded by USAID/Egypt through the PIL.

The specific objectives were to:

1. express an opinion on whether the fund accountability statement for the USAID financed agreement of FEI presents fairly, in all material respects, project revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive basis of accounting;
2. determine if the costs, reported as incurred under the agreement, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PIL;

3. evaluate and obtain a sufficient understanding of the internal control structure of FEI, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. perform tests to determine whether FEI complied, in all material respects, with the terms and conditions of the PIL and, also, applicable laws and USAID/Egypt rules and regulations; and
5. determine whether FEI has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures started in April 1997 and consisted of:

- discussions with RIG/A/C;
- a review of the PIL;
- interviews and discussions with FEI's key personnel concerning the status of the PIL, accomplishments during the period, the statutory reporting requirements, the PIL's budget, procedures governing actual expenditures incurred by FEI and billed to USAID/Egypt; and
- review of the FEI's organizational structure and FEI's established policies and procedures, and controls related to personnel, procurement, financial accounting and reporting, and billing to USAID/Egypt.

The field work segment of our audit was completed on June 30, 1997. The scope of our work was to audit costs incurred by FEI and reimbursed by USAID/Egypt under PIL No. 5. Within each budget line item, we selected transactions on a judgmental basis in order to perform a substantive test of details. We tested expenditures of \$160,096 (equivalent to LE544,327) out of total expenditures amounting to \$495,939 (equivalent to LE1,686,191).

Our tests of expenditures included, but were not limited to, the following:

1. Reconciling FEI's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation;
2. Determining whether salaries and consultants costs were appropriate and consistent with the terms of the PIL and applicable rules and regulations and were adequately supported and approved;
3. Determining whether costs of travel and per diem, training, materials and supplies, office equipment and renovation, publications, and other direct charges were appropriate and consistent with the terms of the PIL and applicable rules and regulations and were adequately supported and approved; and
4. Checking the adequacy of FEI's control over project equipment funded by USAID/Egypt.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

As part of our examination, we made a study and evaluation of relevant internal controls and reviewed FEI's compliance with applicable laws and regulations.

KPMG Hazem Hassan

Results of Audit

PIL No. 5 Fund Accountability Statement

Our audit did not identify any questioned costs.

Internal Control

Our audit did not identify any reportable conditions associated with FEI's internal controls.

Compliance with Laws and Regulations

Our audit did not identify any material instances of noncompliance with applicable laws and regulations.

Supplementary Information

A supplementary fund accountability statement, presented in the functional currency, was communicated to FEI's management and is available upon request.

This report is intended for the information of the United States Agency for International Development and FEI's management and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



KPMG Hazem Hassan
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENT

SA

KPMG Hazem Hassan

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Report on the Fund Accountability Statement **Independent Auditor's Report**

Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement of funds received and costs incurred locally in Egypt by Federation of Egyptian Industries (FEI) USAID/Egypt Project No. 263-0140 for Project Implementation Letter (PIL) No. 5 for the period February 1, 1995 through June 30, 1996. This fund accountability statement is the responsibility of FEI's management. Our responsibility is to express an opinion on this fund accountability statement based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall fund

accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

The aforementioned fund accountability statement does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to FEI, nor the total revenues and costs incurred by FEI on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement, referred to above, presents fairly, in all material respects, the amounts received and the costs incurred pursuant to Project Implementation Letter No. 5 for the period February 1, 1995 through June 30, 1996 in conformity with the basis of accounting described in Note 1.



KPMG Hazem Hassan
Cairo, Egypt

June 30, 1997

Federation of Egyptian Industries (FEI)
Fund Accountability Statement
Project Implementation Letter (PIL) No. 5
Under USAID/Egypt Project No. 263-0140
For the Period February 1, 1995 Through June 30, 1996

USAID/Egypt Funds Received \$
477,036

<u>Expenditures</u>	<u>Actual</u> \$	<u>Reclassification</u>	<u>Actual After</u> <u>Reclassification</u>
Salaries	88,790	0	88,790
Consultants	55,965	0	55,965
Travel Costs	28,918	-124	28,794
Training/Workshops	70,737	124	70,861
Materials and Supplies	18,640	0	18,640
Office Equipment and Renovation	28,749	0	28,749
Publications	199,419	0	199,419
Other Direct Costs	4,721	0	4,721
Total Expenditures	<u><u>495,939</u></u>	<u><u>0</u></u>	<u><u>495,939</u></u>

* The accompanying notes are an integral part of the fund accountability statement.

Federation of Egyptian Industries (FEI)
Fund Accountability Statement PIL No. 5
under USAID/Egypt Project No. 263-0140

Notes to the Fund Accountability Statement

Note 1: Accounting Basis

The fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received and expenditures are recognized when they are actually paid.

Note 2: Source of Data

The column labeled "Actual" is the responsibility of FEI management and represents the cumulative costs billed to USAID/Egypt for the period February 1, 1995 through June 30, 1996.

The "Actual After Reclassification" column represents actual project costs, adjusted for project cost reclassification, as explained in Note 4.

Note 3: Translation Rate

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars (\$). The period average exchange rate method was used. This rate was \$1 = LE3.4.

Note 4: Project Cost Reclassification

Certain billed project costs associated with various budget line items were recorded in the project's accounting records in the incorrect budget line item account. These project costs have been reclassified to the proper budget line item to facilitate a better comparison between actual and budgeted project costs.

Note 5: Actual Expenditures

The column entitled "Actual" presents total expenditures incurred by the project for the period February 1, 1995 through June 30, 1996. However, the expenditures for the month June 1996 amounting to \$39,587 (equivalent to LE134,595) was billed to USAID/Egypt but not reimbursed until after the period covered by our audit. Also Revenues reported in the fund accountability statement included an amount of \$ 20,684 (Equivalent to LE70,325) which represents reimbursement of costs incurred by FEI and billed to USAID/Egypt in the period prior to that covered by our audit.

INTERNAL CONTROL STRUCTURE

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Internal Control Structure Independent Auditor's Report

Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement of the Federation of Egyptian Industries (FEI) pursuant to Project Implementation Letter (PIL) No. 5 under USAID/Egypt Project No. 263-0140 for the period February 1, 1995 through June 30, 1996, and have issued our report thereon on dated June 30, 1997.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

The management of FEI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of fund accountability statement in accordance with the cash basis of accounting. Because of the inherent limitations in any internal control structure, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of FEI related to funds received and costs locally incurred under USAID/Egypt Project No. 263-0140 for Project Implementation Letter (PIL) No. 5 for the period February 1, 1995 through June 30, 1996, we obtained an understanding of the internal control structure associated with FEI's operations. With respect to the internal control structure associated with FEI's operations, we obtained an understanding of the design of relevant polices and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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 one or more of the specific internal control structure elements does

KPMG Hazem Hassan

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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted other matters, involving the internal control structure and its operation, that we have reported to the management of FEI in a separate letter dated June 30, 1997.

This report is intended for the information of FEI's management and others within the organization and the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'H. Hassan', with a horizontal line underneath.

KPMG Hazem Hassan
Cairo, Egypt

June 30, 1997

COMPLIANCE WITH LAWS AND REGULATIONS

KPMG Hazem Hassan

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Report on Compliance with Laws and Regulations Independent Auditor's Report

Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement of the Federation of Egyptian Industries (FEI) pursuant to Project Implementation Letter (PIL) No. 5 under USAID/Egypt Project No. 263-0140 for the period February 1, 1995 through June 30, 1996 and have issued our report thereon on dated June 30, 1997.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program

requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

Compliance with laws, regulations, contracts and grants applicable to FEI is the responsibility of FEI's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of FEI's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no material instance of noncompliance that are required to be reported herein under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that have been reported to FEI's management in a separate letter dated June 30, 1997.

This report is intended for the information of FEI's management and others within the organization and the United States Agency for International Development. However this report is a matter of public record and its distribution is not limited.



KPMG Hazem Hassan
Cairo, Egypt

June 30, 1997

FOLLOW-UP ON THE PREVIOUS NFA REPORT

ISA

Follow-up on the Previous NFA Report

We have followed up on the findings and recommendations identified in the previous NFA report for the period July 1, 1992 through January 31, 1995, as required by paragraph 10 of Chapter 4 of Government Auditing Standards.

The following schedule identifies the current status of internal control weaknesses, noted in the previous NFA report, which required corrective action on the part of FEI:

Summary of Findings Related to the Previous Audit Report	Current Status	KPMG Hazem Hassan Comments
1. FEI does not prepare the bank reconciliations on a regular basis.	During our audit, we noted that bank reconciliations are prepared on a monthly basis by the financial manager, and approved by the project director.	Therefore, this finding is deemed to be resolved and has not been mentioned in this report.
2. The attendance records are not approved by the project director.	During our audit, we noted that the project director approves the attendance records on a regular basis.	Therefore, this finding is deemed to be resolved and has not been mentioned in this report.

APPENDIX I
MISSION'S COMMENTS

USAID



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

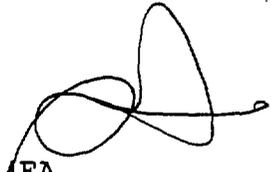
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02 JUL 1997

M E M O R A N D U M

DATE : July 1, 1997

TO : Lou Mundy, RIG/A/C

FROM : Shirley A. Hunter, Division Chief/FM/FA 

SUBJECT : Financial Audit of the Federation of Egyptian Industries (FEI), USAID/Egypt Project No. 263-0140, Project Implementation letter (PIL) No. 5 for the period February 1, 1995 Through June 30, 1996

With reference to the RIG/A/C E-mail dated June 30, 1997 regarding the subject audit, it was stated that the draft report for subject audit has been issued with no recommendations. Accordingly, it was suggested that an exit conference is not required.

Mission agrees with your suggestion and requests that the final report be issued.

Thank you for your cooperation.