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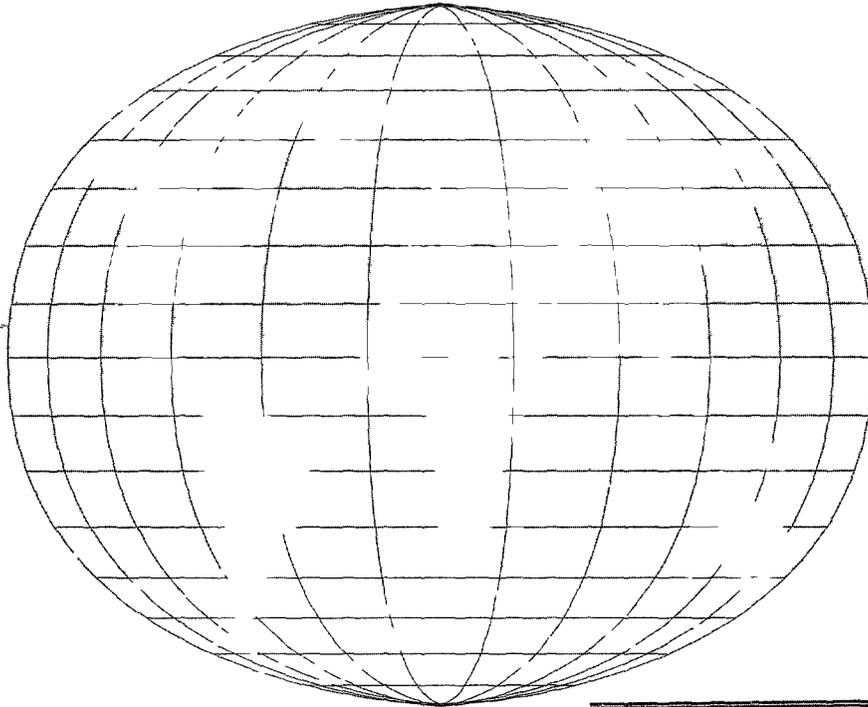
# Report of Audit

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

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Report No. 6-263-98-020-N  
March 17, 1998



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

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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

Report No 6-263-98-020-N  
March 17, 1998

**MEMORANDUM**

TO DIRECTOR USAID/Egypt, John R Westley  
FROM RIG/A/Cairo, Lou Mundy *Lou Mundy*  
SUBJECT Financial Audit of the Federation of Egyptian Industries, Costs Incurred Under the USAID/Egypt Energy Conservation and Environment Project No 263-0140

The attached report, transmitted on February 19, 1998 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 \$307,064 (equivalent to LE 1,044,017) for the period July 1, 1996 through June 30, 1997 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 material weaknesses 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 Inspector General's recommendation follow-up system

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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 July 1, 1996 Through June 30, 1997

"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 July 1, 1996 Through June 30, 1997

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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

February 19, 1998

Dear Mr Mundy,

This report represents the results of our financial audit of the Federation of Egyptian Industries (FEI), USAID/Egypt Project No 263-0140 under Project Implementation Letter (PIL) No 5 for the period July 1, 1996 through June 30, 1997

## 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 eleven times to increase the total budget to LE5,935,825 and to extend the project completion date to September 30, 1998.

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 under Project Implementation Letter (PIL) No 5, for the period July 1, 1996 through June 30, 1997. 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 bases of accounting,
- 2 determine whether 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 January 1998 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 February 19, 1998. 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 \$94,168 (equivalent to LE320,170) out of total expenditures amounting to \$307,064 (equivalent to LE1,044,017).

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.

#### 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

Follow-up on the Previous Audit Report

The previous audit report did not include any questioned costs nor any internal control and compliance matters requiring follow-up

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



# 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 under Project Implementation Letter (PIL) No 5 for the period July 1, 1996 through June 30, 1997. 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 July 1, 1996 through June 30, 1997 in conformity with the basis of accounting described in Note 1.



KPMG Hazem Hassan  
Cairo, Egypt

February 19, 1998

**Federation of Egyptian Industries (FEI)**  
**Fund Accountability Statement**  
**Project Implementation Letter (PIL) No 5**  
**Under USAID/Egypt Project No 263-0140**  
**For the Period July 1, 1996 Through June 30, 1997**

<b>USAID/Egypt Funds Received</b>			<u>\$</u> <u>339,156</u>
			<u>Actual After</u>
<u>Expenditures</u>	<u>Actual</u>	<u>Reclassification</u>	<u>Reclassification</u>
	<u>\$</u>		
Salaries	75,483	0	75,483
Consultants	45,456	0	45,456
Travel Costs	19,839	1,708	21,547
Training/Workshops	63,330	(1,708)	61,622
Materials and Supplies	19,958	0	19,958
Office Equipment and Renovation	16,756	0	16,756
Publications	63,442	0	63,442
Other Direct Costs	2,800	0	2,800
<b>Total Expenditures</b>	<u><u>307,064</u></u>	<u><u>0</u></u>	<u><u>307,064</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 July 1, 1996 through June 30, 1997.

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 July 1, 1996 through June 30, 1997. However, the expenditures for the month of June 1997, amounting to \$10,224 (equivalent to LE34,761), were 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 \$39,586 (equivalent to LE134,594) which represents the 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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# Hazem Hassan

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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 July 1, 1996 through June 30, 1997, and have issued our report thereon dated February 19, 1998

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 the 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 July 1, 1996 through June 30, 1997, 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 policies 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 not reduce to a relatively low level the risk that errors

 Hazem Hassan

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 operation 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 February 19, 1998.

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

February 19, 1998

COMPLIANCE WITH LAWS AND REGULATIONS



# 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 July 1, 1996 through June 30, 1997 and have issued our report thereon dated February 19, 1998

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 February 19, 1998.

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

February 19, 1998

APPENDIX I  
MANAGEMENT COMMENTS



FEDERATION OF EGYPTIAN INDUSTRIES  
ENERGY CONSERVATION & ENVIRONMENT PROJECT  
6 El Gezira El Wosta St Zamalek, Cairo Tel & Fax 340-3674

Mr Thomas Malone  
Engagement Partner  
KPMG Hazem Hassan

Dear Mr Malone,

The audit of FEI was completed on February 19, 1998. The close-out meeting for the audit was held at the same date, during which we have discussed all findings identified during your audit.

FEI has concurred with your findings and recommendations and has refunded questioned costs noted during your audit to USAID. Accordingly, since all matters noted during the audit have been resolved and do not require any further follow-up, we kindly request that the requirement for an audit exit conference be waived.

Therefore, would you please contact the representatives from USAID on our behalf and inform us if it is possible to issue the final report without an audit exit conference.

Sincerely,

Eng Mohamed Kamal  
Executive Director

APPENDIX II  
MISSION'S RESPONSE

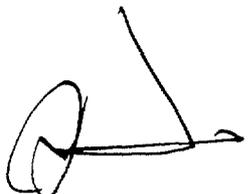


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

17 MAR 1998

M E M O R A N D U M

Date : March 17, 1998  
To : Lou Mundy, RIG/A  
From : Shirley Hunter, Division Chief, FM/FA   
Subject: Request for Exit Conference Waiver for Federation of Egyptian Industries (FEI) Financial Audit, under USAID/Egypt Project No 263-0140, Project Implementation Letter (PIL) No 5 for the period July 1, 1996 Through June 30, 1997

The first draft audit report did not include any material findings

Based on FEI management's request, we hereby ask you to waive the Exit Conference, and to issue the report in final.

Thank you for your assistance

CC:

G Kinney, Proc  
S Wahba, EI/EE