

## **INSTITUTO LIBERTAD Y DEMOCRACIA**

**Financial Statements of Instituto Libertad y Democracia as of December 31, 2003 and Fund Accountability Statements and their Reconciliation to Cash Balances of the following programs financed through USAID and ECES:**

- **LAG-A-00-98-00047-00 "Formalization of Property in Latin America", for the period January 1 to April 30, 2003.**
- **EEM-A-00-03-00005-00 "Program to create and Promote a Estado de Derecho (Rule of Law) that includes the Majority of Poor People" for the period May 1 to December 31, 2003, and**
- **ECES S/N "Formalization of Bussiness in Egypt", for the period January 1 to September 30, 2003**

# INSTITUTO LIBERTAD Y DEMOCRACIA

FINANCIAL STATEMENTS OF INSTITUTO LIBERTAD Y DEMOCRACIA AS OF DECEMBER 31, 2003 AND FUND ACCOUNTABILITY STATEMENTS AND THEIR RECONCILIATION TO CASH BALANCES OF THE FOLLOWING PROGRAMS FINANCED THROUGH USAID: LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA", FOR THE PERIOD JANUARY 1, TO APRIL 30, 2003; EEM-A-00-03-00005-00 "PROGRAM TO CREATE AND PROMOTE A ESTADO DE DERECHO (RULE OF LAW) THAT INCLUDES THE MAJORITY OF POOR PEOPLE", FOR THE PERIOD MAY 1, TO DECEMBER 31, 2003; AND THROUGH ECES: S/N "FORMALIZATION OF BUSINESS IN EGYPT", FOR THE PERIOD JANUARY 1, TO SEPTEMBER 30, 2003

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US\$ = U.S. Dollar



May 7, 2004

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

Dear sirs:

We are pleased to submit to your cognizance the results of our financial audit of the fund accountability statements and their reconciliation to cash balances of the projects financed with funds granted through cooperation agreements signed with the U.S. Agency for International Development (hereinafter USAID) and The Egyptian Center for Economic Studies (hereinafter ECES), for the periods detailed below, which have been managed by Instituto Libertad y Democracia (hereinafter ILD); as well as the result of our audit of the financial statements of ILD for the year ended December 31, 2003. The programs reviewed and the periods covered are detailed below:

<b>Programs</b>	<b>Periods</b>
• LAG-A-00-98-00047-00 "Formalization of Property in Latin America"	From January 1 to April 30, 2003
• EEM-A-00-03-00005-00 "Program to Create and Promote a Estado de Derecho (Rule of Law) that Includes the Majority of Poor People "	From May 1 to December 31, 2003
• Sub-Agreement ECES S/N "Formalization of Business in Egypt"	From January 1 to September 30, 2003

## 1. BACKGROUND

### THE ENTITY

ILD is a not-for-profit civil association exempt from income tax. Its objective is to become a cultural centre for reflexion, research and scientific discussion in the humanities, social sciences, economics, law and, in general, all the disciplines necessary to understand Peruvian reality and find forms of cultural, social and economic development.

## **THE PROJECTS**

In order to fulfill its objectives, ILD has subscribed cooperation agreements with USAID and research cooperation agreement with ECES, for the execution of the following programs:

a) **With USAID**

**LAG-A-00-98-00047-00 "Formalization of Property in Latin America"**

On August 18, 1998, ILD and USAID signed the cooperative agreement LAG-A-00-98-00047-00 for the execution of the program "Formalization of Property in Latin America". The purpose of the program is to assist ILD to focus its efforts on the formalization of assets of the poorer classes, as a key variable to reduce their marginal situation in developing countries in Latin America.

The initial budget approved by USAID amounted to US\$6 million plus US\$2 million contributed by ILD as shared costs. By means of amendments Nos. 3 and 4, of July 17, 2001 and September 23, 2002, respectively, USAID provided additional financing to the program for US\$1.45 million, the total approved budget reaching US\$7.45 million. The application of indirect cost rates is not included in this cooperative agreement

The agreement began activities on May 1, 1998, which ended on April 30, 2003.

**EEM-A-00-03-00005-00 "Program to Create and Promote an Estado de Derecho (Rule of Law) that Includes Most Poor People"**

On September 24, 2003, ILD and USAID signed the cooperation agreement EEM-A-00-03-00005-00 for the execution of the "Program to Create and Promote an Estado de Derecho (Rule of Law) that Includes the Majority of Poor People". The purpose of the program is to execute the following activities: a) establish training centers, b) ensure programs in course and future programs, c) create awareness and promote the activities of the institution, d) train personnel for the client country, e) improve products and services, and f) expand the service capacity.

The total program budget amounts to US\$45,180,000, of which sum US\$25,379,000 will be financed with USAID funds, US\$5,940,300 through shared costs and US\$13,860,700 through third party resources.

The agreement became effective on May 1, 2003 and is due to expire on April 30, 2008. During the agreement's period of validity, USAID shall disburse to the program US\$5,122,000 in the first year, US\$6,090,000 in the second year, US\$5,050,000 in the third year, US\$5,049,000 in the fourth year and US\$4,068,000 in the fifth year. Under the agreement, USAID is required to disburse up to US\$6,000,000 for program expenses during the period May 1, 2003 to April 30, 2004.

Shared costs have been established in US\$627,000 for the second year, US\$1,391,700 for the third year, US\$1,731,000 for the fourth year, and US\$ 2,190,600 for the fifth year. According to the agreement terms, no shared costs are applied for the first year.

**b) With The Egyptian Center for Economic Studies - ECES**

**Agreement S/N "Formalization of Business in Egypt"**

The sub-agreement began activities on September 1, 1998, and completed its first phase on March 31, 2002.

An Agreement for US\$1,061,376 was signed with ECES on May 1, 2002, for the "Formalization of Business in Egypt". The purpose of this program was to identify manners to reduce administrative costs and increase benefits, so that Egyptian business enter into and remain in the legal system, increasing the advantages of poor people to participate in the economy's legal framework. This Agreement expired on April 30, 2003.

On July 30, 2003, an amendment to the agreement was signed, whereby the program's period of validity was extended from April 30, 2003 to September 30, 2003, and the time-table for the payments ECES had to make to ILD was modified.

**2. AUDIT OBJECTIVES**

We were engaged to perform a financial audit of the fund accountability statements of the programs financed through cooperation agreements signed with USAID and a research cooperation agreement signed with ECES, which are described on page 1 herein, and have been managed by ILD. The periods of review of said programs are also indicated on that page. Additionally, we were engaged to audit the financial statements for the year ended December 31, 2003, of ILD as an institution.

We conducted our audits in accordance with auditing standards generally accepted in Peru, government auditing standards issued by the Comptroller General of the United States of America, and Guidelines for Financial Audits Contracted by Foreign Recipients; accordingly, our audits included selective tests of accounting records and other audit procedures we deemed necessary in the circumstances, to cover the following specific objectives:

**In the financial audit to the programs financed through USAID and ECES**

- a) Express an opinion as to whether the fund accountability statements and their reconciliation to cash balances of the programs financed through USAID and ECES, present fairly, in all material respects, the income received and costs incurred (disbursements made) during the periods audited, in conformity with the terms in the agreements and sub-agreements, and government auditing standards issued by the Comptroller General of the United States.
- b) Evaluate and obtain a sufficient understanding of the internal control structure of ILD, related to the programs financed through USAID and ECES, determine control risk, and identify reportable conditions, including material weaknesses in internal control.
- c) Conduct tests to determine whether ILD complied, in all material respects, with the terms of the agreements and sub-agreement, applicable laws and regulations for the programs financed through USAID and ECES.

- d) Evaluate the actual indirect costs rate applicable to the programs financed by USAID and the adequacy of the distribution base and accounting recording for assigning these costs.
- e) Review the cost sharing cost schedule related to the programs financed by USAID.
- f) Determine whether ILD has taken adequate corrective measures on the recommendations made in prior audits.

We planned our work in order to fulfill these specific objectives, our planning included the preparation of tailored audit programs considering the possibility of errors, irregularities and significant illegal acts, as required by statements AICPA AU 316 and AU 317 (SAS N° 99 and 54, respectively), to detect situations or transactions which could be indicative of fraud, abuse, as well as illegal expenses and acts, provided they are significant and had a major impact on the fund accountability statements and their reconciliation to cash balances of the programs and/or the attainment of their objectives.

#### **In the general purpose financial audit of ILD**

We performed a financial audit of the financial statements for general purposes of ILD taken as a whole, in accordance with auditing standards generally accepted in Peru. The objective of the audit was to express an opinion on the financial statements for general purposes of ILD, which present fairly, in all material respects, the financial position of ILD for the year ended December 31, 2003, the results of its activities and its cash flows for the year then ended, in accordance with accounting principles generally accepted in Peru.

### **3. SCOPE OF THE AUDIT**

The main procedures we conducted to meet the specific objectives mentioned above, are indicated below:

#### **A. Pre-audit steps**

Updating and review of the operations conducted for the programs subject to audit, by means of the review of:

1. Agreements signed with ILD and USAID including the corresponding amendments.
2. Agreement signed by ILD and ECES.
3. Agreements and sub-agreements with third parties.
4. Budgets, implementation letters, and written procedures approved by USAID, ECES and ILD to manage the programs.
5. Circular letter from the Office of Management and Budget (OMB) A-122, "Cost Principles for Non-Profit Organizations".
6. Federal Acquisition Regulations (FAR), Section 31 – Cost and Procedures Principles for Contracts.
7. USAID Acquisition Regulations (AIDAR), that supplement FAR.
8. Obligatory Uniform Clauses for Non-U.S. Donors, Non-Governmental (USAID Automated Instructions System, Series 300).
9. Appendix Uniform Clauses for Loan and Grants Agreements for Programs with Foreign Governments (USAID Automated Instructions System, Series 200).

10. All the financial and program progress reports; catalogue of accounts, organizational charts, descriptions of accounting systems, purchase policies and procedures, and materials receipt, storage and distribution procedures; as necessary to satisfactorily complete the work required.

**B. Fund accountability statement and its reconciliation to cash balances**

The audit of the fund accountability statements and their reconciliation to cash balances of the programs: LAG-A-00-98-00047-00 "Formalization of Property in Latin America", for the period January 1 to April 30, 2003; EEM-A-00-03-00005-00 "Program to Create and Promote an Estado de Derecho (Rule of Law) that Includes the Majority of Poor People", for the period May 1 to December 31, 2003; and Agreement ECES S/N "Formalization of Business in Egypt", for the period January 1 to September 30, 2003, consisted in examining the amounts budgeted by category and main heading, the income received from USAID and ECES for the audited period, the costs reported by ILD as incurred during that period, and the goods and technical assistance acquired directly by USAID for use by ILD, if any.

In this respect, the opinion on the fund accountability statement and its reconciliation to cash balances of the programs considered what is described in the AICPA AU 623 statement (SAS N° 62 and 77). Also, the fund accountability statement and its reconciliation to cash balances showed the USAID assistance funds for each program or specific agreement.

The audit included evaluations of actions for the execution of programs and the achievements, to determine whether the costs incurred are acceptable, assignable and reasonable under the terms of agreements and identify areas where irregularities or illicit acts could have occurred as a result of inadequate controls. Our work in this respect included the following:

1. Selective review of direct and indirect costs charged to and reimbursed by USAID and costs incurred but pending of reimbursement by USAID, identifying and quantifying any questioned cost.
2. Review of the program's ledger and books and determination of whether the costs incurred were adequately recorded. It included the review of the reconciliation of the direct costs charged to, and reimbursed by, USAID versus the program records and ledger.
3. Review of the procedures used to control funds, including their channelling to financial institutions or other executor units contracted. Review of bank accounts and the controls thereon. We conducted a positive confirmation of balances.
4. We determined whether fund advances were justified with documentation, including reconciliations of the funds advanced, disbursed and available. We made certain that all funds received by ILD were appropriately recorded in its accounting records, and that those records were periodically reconciled to information provided by USAID.
5. We determined whether the income and reimbursements of the programs, if any, representing recoveries of direct and indirect costs, are recorded as income or credits to the programs' cost accounts.

The main audit procedures applied for the evaluation of the internal control structure are detailed below:

We reviewed and evaluated the internal control structure of ILD relating to USAID and ECES programs, to obtain a sufficient understanding of the design of control policies and procedures, and determine whether those policies and procedures have been implemented.

### C. Internal control structure

12. We conducted other procedures deemed necessary in the circumstances.
11. We reviewed the assignment method used to determine that indirect cost groupings and the distribution base included only headings in accord with the terms of the agreements and applicable regulations, when the indirect costs were charged to USAID using provisional rates.
10. We made a selective review of technical assistance and service contracts conducted by ILD, as well as those conducted directly by USAID for ILD. We determined whether the technical assistance and the services were: (a) adequately documented by ILD as required by the terms of the agreements and (b) appropriately recorded in the accounting books.
9. As part of the procedures to determine whether the assets were used for the established purposes, we made selective "final-use" reviews for an appropriate sample of all the assets, based on the control risk evaluation. Said "final-use" reviews included visits to the program site (called field visits), to verify that the assets exist or were used for the established purposes in accordance with the terms of the agreements.
8. We made a selective review of the assets to determine whether the assets were used for the established purposes to adequately safeguard the assets; and (c) the assets have been used for the purposes use by ILD. We determined whether: (a) the assets acquired have been recorded in the accounting books; (b) control procedures are in place and these have been implemented foodstuffs, etc.) purchased by ILD, as well as those directly purchased by USAID for We made a selective review of the assets (supplies, materials, vehicles, equipment, determined whether they are duly documented and approved.
7. We made a selective review of the charges for traveling and transport expenses, and determined whether they are duly documented and approved.
6. We made a selective review of direct charges for salaries and determined whether the rates are reasonable for the positions, in line with those approved by USAID when USAID approval is necessary, and documented with adequate payrolls. We determined whether overtime is charged to the programs and whether it is acceptable under the terms of the agreements. We determined whether bonuses and other benefits received by the employees are in accord with the agreements and applicable laws and regulations.
5. We reviewed the purchase procedures to determine whether healthy internal control practices have been applied, including competition, fair prices, and adequate controls on the quality and quantities received.

1. We obtained a sufficient understanding of the internal control structure so as to plan the audit and determine the nature, opportunity and scope of the tests to be conducted.
2. We assessed the inherent risk and control risk, and determined the combined risk. Inherent risk is the susceptibility of an assertion, to a material mistaken statement, assuming the internal control structure contains neither policies nor procedures related to the assertion. Control risk is the risk that a material mistaken statement may occur in an assertion and not be prevented or timely detected by the internal control structure of ILD, its policies or procedures. Combined risk is the risk of not detecting a material misstatement that exists in an assertion. Combined risk is based on the efficiency of an audit procedure and its application by the auditor.
3. We summarized the risk evaluations for each material assertion in the working papers. The risk evaluations have considered the following general categories under which each assertion should be classified: a) existence or occurrence; b) integrity; c) rights and obligations; d) valuation or assignment; and e) presentation and dissemination.
4. We assessed the control environment, the sufficiency of the accounting system and control procedures. Emphasis was placed on the policies and procedures relating to the capacity of ILD to record, process, summarize and report financial information consistent with the assertions contained in each account in the fund accountability statement and its reconciliation to cash balances.

For these purposes we evaluated, among other aspects, the control systems for:

- a) Ensuring that the charges to the programs are appropriate and duly documented;
  - b) The management of money, in cash and in bank accounts;
  - c) The acquisition of goods and services;
  - d) The management of inventories and the inventory receipt function;
  - e) The management of personnel functions, such as time control, salaries, and benefits;
  - f) The management and disposition of assets (such as vehicles, equipment, and tools, as well as other merchandise) acquired either by the programs or directly by USAID; and
  - g) Ensuring compliance with the terms of the agreements and applicable laws and regulations that collectively have a material impact on the fund accountability statement.
5. We assessed the established control procedures to ensure compliance with shared costs requisites, including both the provision and the administration of the contributions.

In order to comply with the audit requisite related to the understanding of the internal control structure and evaluation of control risk level, we considered the provisions of AICPA AU 319 (SAS N° 55) "Internal Control Consideration in an Audit of Financial Statements", AU 325 (SAS N° 60, 78 and 87) "Communication of Matters Relating to Internal Control Identified in an Audit", and AU 801 (SAS N° 74 and 75) "Audit of Compliance with Considerations Applied to Governmental Entities and Beneficiaries of Governmental Financial assistance".

#### **D. Compliance with the terms of the agreements and applicable laws and regulations**

In order to conduct an evaluation of compliance with the terms of the agreements and applicable laws and regulations, we designed an audit plan that considered, among other aspects, the development of the following procedures:

1. Selective identification of the relevant terms of the agreements and applicable laws and regulations, and determination of which, if not followed, could have a direct and material effect on the fund accountability statement and its reconciliation to cash balances. For these purposes
  - a) We listed all the uniform and specific clauses of the program contained in the terms of the agreements which, if not complied, could have a direct and material effect on the fund accountability statement and its reconciliation to cash balances.
  - b) We assessed the inherent and control risks on the occurrence of a material non-compliance for each compliance requisite listed in 1.a above;
  - c) We determined the nature, opportunity, and extent of the audit procedures and steps to conduct tests to determine whether there are errors, irregularities and illegal acts, that provide a reasonable certainty of detecting cases of intentional or non-intentional non-compliance with terms of the agreements and applicable laws and regulations, which could have a direct and material effect on the fund accountability statement and its reconciliation to cash balances. This determination was based on the risk evaluation described in 1.b above; and
2. We determined, on a selective basis, whether payments have been made in accordance with the terms of the agreements and applicable laws and regulations.
3. We determined, on a selective basis, whether the funds have been spent for unauthorized purposes or do not agree with the applicable terms of the agreements.
4. We identified any costs not considered appropriate, classifying them and explaining why these costs are questioned.
5. We determined, on a selective basis, whether any of the assets directly acquired by USAID has not been recorded in the accounting books or has not been used for the purposes of the agreements.
6. We determined, on a selective basis, whether any technical assistance directly acquired by USAID has not been recorded in the accounting books or has not been used for the purposes of the agreements.
7. We determined, on a selective basis, whether the amount of shared costs contributed was calculated and recorded in the accounting books as required by the agreements or applicable cost principles.
8. We determined, on a selective basis, whether shared costs and technical assistance, as applicable, were provided in accordance with the terms of the agreements.

9. We determined, on a selective basis, whether those who received the services and benefits were eligible to receive them.
10. We determined, on a selective basis, whether the financial reports of ILD (including those on the statement of shared costs) and applications for advances and reimbursements contain information supported by its books and records.

**E. Indirect costs rate**

We determined the real indirect costs rate for the period subject to audit. Our audit plan considered tests to determine whether:

1. The assignment base includes only areas or expenses authorized by the agreements and applicable cost principles.
2. The grouping of accumulated indirect costs includes only costs authorized by the agreements and applicable cost principles.
3. The indirect costs rate obtained by dividing the total indirect costs by the base, has been calculated properly.
4. The costs included in the calculation tie with the total costs shown in the audited financial statements for general purposes of ILD, taken as a whole.

The results of the audit of the indirect costs rate are shown on a specific indirect costs calculation schedule, which contains:

- a) A detail of the costs included in each indirect costs grouping
- b) The distribution base.
- c) The results of the calculation of the indirect costs rate. The costs on the schedule tie with the total costs shown in the financial statements for general purposes of ILD.

**F. Cost sharing schedule**

We reviewed the shared costs schedule of agreements LAG-A-00-98-00047-00 and EEM-A-00-03-00005-00 signed with USAID, to determine whether the shared costs contributions were provided and recorded in the accounting books by ILD in accordance with the terms of the agreement.

**G. Follow-up on prior audits' recommendations**

We reviewed the status of the actions taken on findings and recommendations included in the previous year's audit report of the USAID and ECES programs.

**H. General purpose financial statements**

We have examined the general purpose financial statements of ILD taken as a whole. The audit was conducted in accordance with auditing standards generally accepted in Peru.

The objective of the audit was to express an opinion as to whether the general purpose financial statements present fairly, in all material respects, the financial position of **ILD** as of December 31, 2003, the results of its activities and its cash flows for the year then ended, in accordance with accounting principles generally accepted in Peru.

**I. Other audit responsibilities**

1. We held audit initiation and completion meetings with **ILD**.
2. We established quality control procedures to ensure that sufficient competent evidence was obtained through the inspection, observation, interviews, and confirmations to have available a reasonable basis to issue an opinion on the financial statements under audit. Said procedures ensure that:
  - a) the audit report and the supporting documents to the working papers that back it are reviewed by an auditor of partner level, who was not involved in the audit.
  - b) all the quantities and monetary amounts involving calculations have been duly verified and referenced; and
  - c) all the statements of facts, figures, conclusions and monetary amounts are referenced in the working papers.
3. We obtained a letter of representation from the client, as per SAS No. 85 (AU333) of AICPA, signed by the beneficiary management.

**4. RESULTS OF THE AUDIT**

**a) Fund accountability statements of USAID and ECES programs**

**LAG-A-00-98-00047-00 "Formalization of Property in Latin America"**

In our opinion, the fund accountability statement presents fairly, in all material respects, the program's income and the costs incurred and reimbursed for the period January 1, 2003 to April 30, 2003, in accordance with the terms of the agreement and in conformity with the accounting practices described in note 2 of the respective report.

**EEM-A-00-03-00005-00 "Program to Create and Promote an Estado de Derecho (Rule of Law) that Includes the Majority of Poor People"**

In our opinion, the fund accountability statement presents fairly, in all material respects, the program's income and the costs incurred and reimbursed for the period May 1, 2003 to December 31, 2003, in accordance with the terms of the agreement and in conformity with the accounting practices described in note 2 of the respective report.

## **Cooperative agreement ECES S/N "Formalization of Business in Egypt"**

In our opinion, the fund accountability statement presents fairly, in all material respects, the program's income and the costs incurred and reimbursed for the period January 1, 2003 to September 30, 2003, in accordance with the terms of the agreement and in conformity with the accounting practices described in note 2 of the respective report.

### **b) Internal control structure**

Our audit plan for the fund accountability statements and their reconciliation to cash balances of the programs: LAG-A-00-98-00047-00 "Formalization of Property in Latin America", for the period January 1 to April 30, 2003; EEM-A-00-03-00005-00 "Program to Create and Promote an Estado de Derecho (Rule of Law) that Includes the Majority of Poor People", for the period May 1 to December 31, 2003; and Agreement ECES S/N "Formalization of Business in Egypt", for the period January 1 to September 30, 2003; as well as our audit of the financial statements of ILD for the year ended December 31, 2003, included the study and evaluation of the internal control system of ILD to the extent we deemed necessary to determine the nature, opportunity and extent of the indispensable audit procedures to enable us to express an opinion on its financial statements.

The evaluation of the internal control structure included the following cycles:

- Accounting and financial cycle
- Treasury cycle
- Expenses cycle
- Payrolls cycle
- Fixed assets cycle
- General computer controls

The results of the evaluation are indicated in Appendix I – Recommendations to the Executive Direction of ILD.

It should be indicated that the results of our selective tests did not disclose any matters relating to the internal control structure or its operation that could be considered a material weakness.

### **c) Compliance with the terms of the agreements, applicable laws and regulations**

In order to determine that ILD complied in all material respects, with the terms of the agreements, applicable laws and regulations, we conducted selective audit tests to be certain that ILD had complied with same, obtaining the results indicated below, that affect the Cooperative Agreement LAG-A-00-98-00047-00, relating to the Project "Formalization of Property in Latin America", which ended on April 30, 2003.

Findings:

- There was no compliance with the date established in Standard Provisions, item 3.5 (d) "Termination and Suspension" of the agreement, which states the obligation to refund to USAID the unused funds, which amounted to US\$240,540, in the 30 calendar days after expiry of the agreement. The funds were reimbursed through two

bank drafts, the first of US\$232,164 on January 13, 2004 and the second for the balance of US\$8,376 on February 13, 2004.

- There was no compliance with the date established in appendix 3.23 (d) "Property and Use of Fixed Assets" of the agreement, which states the obligation to provide to USAID a list of the fixed assets acquired for the program, amounting to US\$34,990, within the 30 calendar days after expiry of the agreement. The list was sent on January 23, 2004.

**d) Indirect costs rate**

The indirect costs schedule prepared by ILD for the period January 1, 2003 to December 31, 2003, indicates a 36% rate. Said schedule has been subject to the application of audit procedures applied to the examination of financial statements for general purposes, the results of which have been satisfactory, taking the financial statements as a whole.

**e) Cost sharing schedule**

The review of the cost sharing schedule of the program LAG-A-00-98-00047-00 conducted in accordance with auditing standards established by the American Institute of Certified Public Accountants, the scope of which is more limited than an examination in accordance with said norms the objective of which is to express an opinion, did not disclose any material situations related to shared costs contributions not provided or recorded in the accounting books in accordance with the terms of the agreement.

**f) Follow-up on previous audit's recommendations**

We have evaluated the present situation of the recommendations from the previous audit, verifying the actions taken thereon. The result of said evaluation, which is shown in Section VII hereof, disclosed some recommendations pending of implementation.

**g) Financial statements of Instituto Libertad y Democracia**

Our opinion on the audit of the general purpose financial statements as of December 31, 2003 of ILD in accordance with the accounting basis described in the notes to the financial statements, contains an unqualified opinion on the financial position of ILD as of December 31, 2003, and the results of its activities and cash flows for the year then ended.

**5. ADMINISTRATION COMMENTS**

As part of our policy in the firm, this report has been submitted to and commented with the administration of ILD, for its review and comments. The administration has indicated to have read the report and be in agreement with its contents.

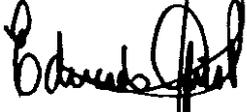
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This report is intended for the information of USAID and ILD. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

We would like to thank the cooperation of ILD executives and personnel who supported us in the course of our work, and would like to take advantage of this opportunity to express to you our greatest consideration.

*Yis Heinaim, Asociado*

Countersigned by:



(Partner)

Eduardo Gris Percovich  
CPC Registration No. 12159

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COOPERATIVE AGREEMENT USAID N° LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA"**

**FUND ACCOUNTABILITY STAMENT AND ITS RECONCILIATION TO CASH BALANCE FOR THE PERIOD FROM JANUARY 1, 2003 TO APRIL 30, 2003**

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US\$ = United States Dollar

## INDEPENDENT AUDITORS' OPINION

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

We have audited the fund accountability statement and its reconciliation to cash balance of the program "Formalization of Property in Latin America", for the period from January 1, 2003 to April 30, 2003, financed by the United States Agency for International Development (USAID) through cooperative agreement N° LAG-A-00-98-00047-00 "Formalization of Property in Latin America", and managed by Instituto Libertad y Democracia (ILD). The fund accountability statement and its reconciliation to cash balance is the responsibility of the ILD Administration. Our responsibility is to express an opinion on the fund accountability statement and its reconciliation to cash balance based on our audit.

Save for what is mentioned in the next paragraph, we conducted our audit of the fund accountability statement and its reconciliation to cash balance in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement and its reconciliation to cash balance are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and its reconciliation to cash balance. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have no quality control review program by any unaffiliated external organization, as required by Chapter 3, paragraph 3.33 of *U.S. Government Auditing Standards*, since such program is not offered by any professional organization in Peru. We believe the effects of this deviation from the *U.S. Government Auditing Standards* are not material because our office participates in the world-wide quality control program of Deloitte Touche Tohmatsu and, under said program, every three years it is subject to a quality control review conducted by partners and managers of other member firms of Deloitte Touche Tohmatsu.

As described in Note 2, the fund accountability statement and its reconciliation to cash balance, was prepared on the basis of cash, which is an accounting system different from that based on accounting principles generally accepted in Peru.

In our opinion, the fund accountability statement and its reconciliation to cash balance referred to above presents fairly, in all material respects, program revenues, costs incurred, and variations in cash balance of the program "Formalization of Property in Latin America", financed through USAID, for the period from January 1, 2003 to April 30, 2003, in accordance with the terms of cooperative agreement N° LAG-A-00-98-00047-00 and in conformity with the basis of accounting described in note 2 to the fund accountability statement and its reconciliation to cash balance.

This report is intended for the information of ILD and USAID. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

*José Hernández y Asociados*  
Countersigned by:



(Partner)

Eduardo Gris Percovich  
CPC Registration No. 12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COOPERATIVE AGREEMENT USAID N° LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA"**

**FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE FOR THE PERIOD FROM JANUARY 1, 2003 TO APRIL 30, 2003**

	<u>Budget</u> US\$	<u>Actual</u> US\$	<u>Questionable costs</u>		<u>Notes</u>
			<u>Ineligible</u> US\$	<u>Not documented</u> US\$	
<b>INCOME</b>					
Beginning balance		14,552			
Funds received	817,142	817,142			
<b>Total</b>	<u>817,142</u>	<u>831,694</u>	<u>-</u>	<u>-</u>	
<b>COSTS INCURRED</b>					
Direct costs					
Personnel	247,294	236,808			
Social benefits	173,700	87,814			
Traveling expenses	(27,643)	46,771			
Audits	7,854	7,843			
Other direct costs	(6,456)	17,761			
<b>Total</b>	<u>394,749</u>	<u>396,997</u>	<u>-</u>	<u>-</u>	
Administrative costs	287,716	154,139			
ILD Conference	149,229	40,018			
<b>Total costs incurred</b>	<u>831,694</u>	<u>591,154</u>	<u>-</u>	<u>-</u>	
<b>AVAILABLE FUNDS</b>		<u>240,540</u>			4
<b>Questionable costs</b>			<u>-</u>	<u>-</u>	

The accompanying notes are an integral part of the fund accountability statement and its reconciliation to cash balance.

## **INSTITUTO LIBERTAD Y DEMOCRACIA**

### **COOPERATIVE AGREEMENT USAID N° LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA"**

#### **NOTES TO FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE FOR THE PERIOD FROM JANUARY 1, 2003 TO APRIL 30, 2003**

##### **1. DESCRIPTION OF THE COOPERATIVE AGREEMENT**

On August 18, 1998, the Instituto Libertad y Democracia (ILD) and the United States Agency for International Development (USAID) signed the cooperative agreement N° LAG-A-00-98-00047-00, whereby USAID undertook to contribute the amount of US\$6,000,000 to assist ILD in focusing its efforts on formalizing the assets belonging to the poorer classes as a key variable to reduce their marginal condition in Latin American developing countries. Also, in virtue of the agreement the share cost contribution of ILD during the length of the program was established in US\$2,000,000. During the development of the program, ILD executed the following activities:

- International conference oriented to the role of leadership in promoting the participation of the community.
- Evaluations of informal property and business conditions in one or two countries in the hemisphere.
- Research program for improving the results and the regional and extra-regional operating programs, in which ILD and other institutions are involved.
- Providing of post-conference follow up to those countries in the hemisphere that may require technical assistance, which could result in additional evaluations and/or the design of an action program to formalize the informal sector in a massive or nation-wide scale.

The agreement did not consider the application of indirect costs rates, expecting that final rates could be established. Until that moment, all imputable costs were considered as direct costs, limits being established for administrative costs and personnel social benefits.

Additional financing for the program was approved by USAID via amendments N° 2 of August 29, 2000 and N° 4 of September 20, 2002, amounting to US\$250,000 and US\$1,200,000, respectively, the total amount of the budget being established in US\$7,450,000.

The agreement began its activities on May 1, 1998 and expired on April 30, 2003.

## **2. ACCOUNTING POLICIES**

The most significant accounting policies used in the preparation and presentation of the fund accountability statement and its reconciliation to cash balance, are the following:

### **a) Recording of transactions**

The program transactions are recorded in nuevos soles in the accounting records. Transactions conducted in U.S. dollars or in other currencies are translated into nuevos soles at the exchange rate in force as of the date of each transaction.

### **b) Accounting basis of modified cash**

The fund accountability statement and its reconciliation to cash balance was prepared on the basis of cash received and disbursed. Also, all expenses made at year's end are based on a pre-established budget.

### **c) Recognition of income**

The funds received are recognized as income on the date they are deposited in a bank account in the name of the program.

### **d) Recognition of costs**

The costs incurred in the program are recognized when disbursed.

### **e) Translation into U.S. dollars.**

The income and costs recorded in nuevos soles, were translated into U.S. dollars at the exchange rates of the date of origin, for the purposes of the presentation of the fund accountability statement and its reconciliation to cash balance.

## **3. EXCHANGE RATE**

The exchange rates used in the period January 1, 2003 to April 30, 2003, to translate balances in nuevos soles into U.S. dollars, varied from S/.3.509 to S/.3.463, respectively, per US\$1.00.

#### 4. AVAILABLE FUNDS

As of April 30, 2003, date of completion of the agreement, the available balance shown in the fund accountability statement and its reconciliation to cash balance comprises:

	<u>US\$</u>
Balance in bank current account in foreign currency	232,164
Plus:	
Accounts receivable from ILD	26
Disbursements to be accounted for	<u>8,350</u>
<b>Total funds pending refund to USAID</b>	<b><u>240,540</u></b>

These funds were refunded to USAID through two bank drafts: the first of US\$232,164 on January 13, 2004, and the second for the balance of US\$8,376 on February 13, 2004.

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COOPERATIVE AGREEMENT USAID N° EEM-A-00-03-00005-00 "PROGRAM TO CREATE AND PROMOTE A ESTADO DE DERECHO (RULE OF LAW) WHICH INCLUDES THE MAJORITY OF POOR PEOPLE"**

**FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE FOR THE PERIOD FROM MAY 1, 2003 TO DECEMBER 31, 2003**

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US\$ = United States Dollar

## INDEPENDENT AUDITORS' OPINION

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

We have audited the fund accountability statement and its reconciliation to cash balance of the "Program to Create and Promote a Estado de Derecho (Rule of Law) that Includes the Majority of Poor People", for the period from May 1, 2003 to December 31, 2003, financed by the United States Agency for International Development (USAID) through cooperative agreement N° EEM-A-00-03-00005-00 "Program to Create and Promote a Estado de Derecho (Rule of Law) that Includes the Majority of Poor People", and managed by Instituto Libertad y Democracia (ILD). The fund accountability statement and its reconciliation to cash balance is the responsibility of the ILD Administration. Our responsibility is to express an opinion on the fund accountability statement and its reconciliation to cash balance based on our audit.

Save for what is mentioned in the next paragraph, we conducted our audit of the fund accountability statement and its reconciliation to cash balance in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement and its reconciliation to cash balance are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and its reconciliation to cash balance. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have no quality control review program by any unaffiliated external organization, as required by Chapter 3, paragraph 3.33 of *U.S. Government Auditing Standards*, since such program is not offered by any professional organization in Peru. We believe the effects of this deviation from the *U.S. Government Auditing Standards* are not material because our office participates in the world-wide quality control program of Deloitte Touche Tohmatsu and, under said program, every three years it is subject to a quality control review conducted by partners and managers of other member firms of Deloitte Touche Tohmatsu.

As described in Note 2, the fund accountability statement and its reconciliation to cash balance, was prepared on the basis of cash, which is an accounting system different from that based on accounting principles generally accepted in Peru.

In our opinion, the fund accountability statement and its reconciliation to cash balance referred to above presents fairly, in all material respects, program revenues, costs incurred, and variations in cash balance of the "Program to Create and Promote a Estado de Derecho (Rule of Law) that Includes the Majority of Poor People", financed through USAID, for the period from May1, 2003 to December 31, 2003, in accordance with the terms of cooperative agreement N° EEM-A-00-03-00005-00 and in conformity with the basis of accounting described in note 2 to the fund accountability statement and its reconciliation to cash balance.

This report is intended for the information of **ILD** and **USAID**. However, upon release by **USAID**, this report is a matter of public record and its distribution is not limited.

*Gris Hernández Arceles*

Countersigned by:

*Eduardo Gris Percovich*

(Partner)

Eduardo Gris Percovich  
CPC Registration No. 12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COOPERATIVE AGREEMENT USAID Nº EEM-A-00-03-00005-00 "PROGRAM TO CREATE AND PROMOTE A ESTADO DE DERECHO (RULE OF LAW) THAT INCLUDES THE MAJORITY OF POOR PEOPLE"**

**FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE FOR THE PERIOD FROM MAY 1, 2003 TO DECEMBER 31, 2003**

	<u>Budget</u> US\$	<u>Actual</u> US\$	<u>Questionable costs</u>		<u>Notes</u>
			<u>Ineligible</u> US\$	<u>Not documented</u> US\$	
<b>INCOME</b>					
Beginning balance		-			
Approved budget	<u>5,122,000</u>	<u>1,629,370</u>			
<b>Total</b>	<u>5,122,000</u>	<u>1,629,370</u>	<u>-</u>	<u>-</u>	5
<b>COSTS INCURRED</b>					
Direct costs					
Personnel	1,809,000	573,137			
Social benefits	904,000	207,235			
Sub-Contracts	504,000	211,458			
Traveling expenses	397,000	156,460			
Equipment	130,000	16,793			
Other direct costs	<u>180,000</u>	<u>32,659</u>			
<b>Total</b>	<u>3,924,000</u>	<u>1,197,742</u>	<u>-</u>	<u>-</u>	
Indirect costs	<u>1,198,000</u>	<u>431,159</u>			
<b>Total costs incurred</b>	<u>5,122,000</u>	<u>1,628,901</u>	<u>-</u>	<u>-</u>	
<b>AVAILABLE FUNDS</b>		<u>469</u>			6
<b>Questionable costs</b>			<u>-</u>	<u>-</u>	

The accompanying notes are an integral part of the fund accountability statement and its reconciliation to cash balance.

## **INSTITUTO LIBERTAD Y DEMOCRACIA**

### **COOPERATIVE AGREEMENT USAID N° EEM-A-00-03-00005-00 “PROGRAM TO CREATE AND PROMOTE A ESTADO DE DERECHO (RULE IN LAW) THAT INCLUDES THE MAJORITY OF POOR PEOPLE”**

#### **NOTES TO FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE FOR THE PERIOD FROM MAY 1, 2003 TO DECEMBER 31, 2003**

##### **1. DESCRIPTION OF THE COOPERATIVE AGREEMENT**

On September 24, 2003, the Instituto Libertad y Democracia (ILD) and the United States Agency for International Development (USAID) signed the cooperative agreement EEM- A-00-03-00005-00 for the execution of the “Program to Create and Promote a Estado de Derecho (Rule of Law) that Includes the Majority of Poor People”. The purpose of this program is to execute the following activities: a) establish training centers, b) ensure projects in process and future projects, c) create awareness and promote the activities of the institution, d) train personnel for the client country, e) improve products and services, and f) expand the service capacity.

The total program budget amounts to US\$45,180,000, of which US\$25,379,000 will be financed with USAID funds, US\$5,940,300 through shared costs, and US\$13,860,700 through third party resources..

The agreement became effective on May 1, 2003 and is due to expire on April 30, 2008. During the agreement’s period of validity, USAID shall disburse to the program US\$5,122,000 in the first year, US\$6,090,000 in the second year, US\$5,050,000 in the third year, US\$5,049,000 in the fourth year and US\$4,068,000 in the fifth year. Under the agreement, USAID is required to disburse up to US\$6,000,000 for program expenses during the period May 1, 2003 to April 30, 2004; in turn, during this period ILD is to conduct the following activities:

- Establish training centers:
  - Develop work plans in line with the new service model to be provided by ILD.
  - Developed general or customized training courses.
  - Prepare training manuals and materials which should include study cases and other teaching tools.
  - Develop and establish managerial projects, evaluation and monitoring criteria.
  - Develop trainers’ profile.
  - Establish training facilities in Lima and, if required, in the host countries.
- Ensure in course and future projects:
  - Initiate research and develop plans to assist the governments interested in the service, in order to initiate or continue reform programs.
  - Hold conversations with client governments and financing sources to ensure the contracting of the projects.
  - Assist the Mexico and Honduras (and eventually Philippines) governments in conducting their projects in the Design of Reforms stage.

- After completion of the Design of Reforms stage in the Egypt project, assist the Egyptian government in conducting the Reforms program to the implementation stage.
- Create awareness and promote the activities of the institution
  - Define policies with criteria to establish priorities for countries.
  - Consult with country leaders, compile available information and conduct a thorough research, on the problems proper to the host country so that its objectives and expectations may be attained and met.
  - Prepare presentations according to each government's situation, and explain the benefits and advantages of **ILD** programs.
  - Prepare the material to be handed before and after the lectures, meetings, workshops, etc.; including video conferences and Internet.
- Train personnel for the client country.
  - Train the new and present **ILD** trainers to become familiar with the new model of service to be provided, and updated with the new courses, programs and material.
  - Recruit and train the new staff in the countries where the programs are being applied.
  - Train legislators in the present or potential **ILD** client countries.
  - Train the political advisors designated by the client government.
  - Train technical teams to develop the projects.
- Improve products and services
  - Identify the specific areas to be investigated in response to program requisites and opportunities, and the institution's expectations for future work.
  - Provide the **ILD** staff with researchers and consultants, as well as sufficient information resources to respond to specific requirements and significant matters.
- Expand the service capacity
  - Define products and services in accordance with the main business strategy.
  - Define the managerial organization and structure under the new service model.
  - Conduct the recruitment process based on demand and fund availability.

Shared costs have been established in US\$627,000 for the second year, US\$1,391,700 for the third year, US\$1,731,000 for the fourth year, and US\$ 2,190,600 for the fifth year. According to the agreement, no shared costs are applied for the first year.

The agreement considers the application of indirect costs rates, for which purpose the following rates have been established: 31% for the first year, 24% for the second year, 20% for the third year, and 18% for the fourth and fifth years, respectively.

## **2. ACCOUNTING POLICIES**

The most significant accounting policies used in the preparation and presentation of the fund accountability statement and its reconciliation to cash balance, are the following:

### **a) Recording of transactions**

The program transactions are recorded in nuevos soles in the accounting records. Transactions conducted in U.S. dollars or in other currencies are translated into nuevos soles at the exchange rate in force as of the date of each transaction.

### **b) Accounting basis of modified cash**

The fund accountability statement and its reconciliation to cash balance was prepared on the basis of cash received and disbursed. Also, all expenses made at year's end are based on a pre-established budget.

### **c) Recognition of income**

The funds received are recognized as income on the date they are deposited in a bank account in the name of the program.

### **d) Recognition of costs**

The costs incurred in the program are recognized when disbursed.

### **e) Translation into U.S. dollars.**

The income and costs recorded in nuevos soles, were translated into U.S. dollars at the exchange rates of the date of origin, for the purposes of the presentation of the fund accountability statement and its reconciliation to cash balance.

## **3. EXCHANGE RATE**

The exchange rates used in the period May 1, 2003 to December 31, 2003, to translate balances in nuevos soles into U.S. dollars, varied from S/.3.463 to S/.3.464, respectively, per US\$1.00.

#### 4. PROJECT BUDGET

The total cost budgeted for the project may be broken down as follows:

	USAID CONTRIBUTION					<b>Total</b>
	COSTS TO BE REFUNDED					
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Direct costs</b>						
Personnel and social benefits	2,713,000	3,230,000	2,632,000	2,720,000	2,171,000	13,466,000
Sub-Contracts	504,000	704,000	686,000	665,000	482,000	3,041,000
Travelling expenses	397,000	833,000	759,000	758,000	694,000	3,441,000
Equipment	130,000	16,000	10,000	13,000	6,000	175,000
Other direct costs	180,000	144,000	120,000	119,000	96,000	659,000
<b>Total</b>	<u>3,924,000</u>	<u>4,927,000</u>	<u>4,207,000</u>	<u>4,275,000</u>	<u>3,449,000</u>	<u>20,782,000</u>
<b>Indirect costs</b>	<u>1,198,000</u>	<u>1,163,000</u>	<u>843,000</u>	<u>774,000</u>	<u>619,000</u>	<u>4,597,000</u>
<b>General total</b>	<u><u>5,122,000</u></u>	<u><u>6,090,000</u></u>	<u><u>5,050,000</u></u>	<u><u>5,049,000</u></u>	<u><u>4,068,000</u></u>	<u><u>25,379,000</u></u>

The budget established for the first year comprises the period May 1, 2003 to April 30, 2004. As of December 31, 2003, US\$1,628,901 have been executed (Note 5), corresponding to 31.8% of the budget authorized for the first year.

#### 5. BUDGETARY EXECUTION

As of December 31, 2003, the amounts executed and budgeted are as follows:

	USAID CONTRIBUTION		
	<u>Executed</u>	<u>Not disbursed</u>	<u>Approved Budget</u>
	US\$	US\$	US\$
<b>Direct costs</b>			
Personnel and social benefits	780,372	1,932,628	2,713,000
Sub-Contracts	211,458	292,542	504,000
Traveling expenses	156,460	240,540	397,000
Equipment	16,793	113,207	130,000
Other direct costs	32,659	147,341	180,000
<b>Total</b>	<u>1,197,742</u>	<u>2,726,258</u>	<u>3,924,000</u>
<b>Indirect costs</b>	<u>431,160</u>	<u>766,840</u>	<u>1,198,000</u>
<b>General total (Note 4)</b>	<u><u>1,628,902</u></u>	<u><u>3,493,098</u></u>	<u><u>5,122,000</u></u>

**6. AVAILABLE FUNDS**

As of December 31, 2003, the available balance shown in the fund accountability statement and its reconciliation to cash balance comprises:

	<u>US\$</u>
Balance in bank current account in foreign currency	15,476
Plus (less):	
Other accounts receivable from third parties	310
Disbursements to be accounted for	502
Accounts payable to ILD	(955)
Pending transfer to Indirect Costs	<u>(14,864)</u>
<b>Total</b>	<u><u>469</u></u>

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**INSTITUTO LIBERTAD Y DEMOCRACIA**

**CONVENIO COOPERATIVO ECES S/N "FORMALIZATION OF BUSINESS IN EGYPT"**

**FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE  
FOR THE PERIOD FROM JANUARY 1, 2003 TO SEPTEMBER 30, 2003**

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US\$ = United States Dollar

## INDEPENDENT AUDITORS' OPINION.

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

We have audited the fund accountability statement and its reconciliation to cash balance of the program "Formalization of Business in Egypt", for the period from January 1, 2003 to September 30, 2003, financed by The Egyptian Center for Economic Studies (ECES) through cooperative agreement S/N "Formalization of Business in Egypt" and cooperative agreement N° 263-A-00-93-00104-00 entered into by ECES and the United States Agency for International Development (USAID), and managed by Instituto Libertad y Democracia (ILD). The fund accountability statement and its reconciliation to cash balance is the responsibility of the ILD Administration. Our responsibility is to express an opinion on the fund accountability statement and its reconciliation to cash balance based on our audit.

Save for what is mentioned in the next paragraph, we conducted our audit of the fund accountability statement and its reconciliation to cash balance in accordance with *U.S. Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement and its reconciliation to cash balance are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and its reconciliation to cash balance. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have no quality control review program by any unaffiliated external organization, as required by Chapter 3, paragraph 3.33 of *U.S. Government Auditing Standards*, since such program is not offered by any professional organization in Peru. We believe the effects of this deviation from the *U.S. Government Auditing Standards* are not material because our office participates in the world-wide quality control program of Deloitte Touche Tohmatsu and, under said program, every three years it is subject to a quality control review conducted by partners and managers of other member firms of Deloitte Touche Tohmatsu.

As described in Note 2, the fund accountability statement and its reconciliation to cash balance, was prepared on the basis of cash, which is an accounting system different from that based on accounting principles generally accepted in Peru.

In our opinion, the fund accountability statement and its reconciliation to cash balance referred to above presents fairly, in all material respects, program revenues, costs incurred, and variations in cash balance of the program "Formalization of Business in Egypt", financed through ECES, for the period from January 1, 2003 to September 30, 2003, in accordance with the terms of cooperative agreement S/N and in conformity with the basis of accounting described in note 2 to the fund accountability statement and its reconciliation to cash balance.

This report is intended for the information of **ILD, ECES and USAID**. However, upon release by **ECES** or **USAID**, this report is a matter of public record and its distribution is not limited.

*Gris Hernández y Asociados*

Countersigned by:

*Eduardo Gris Perovich*

(Partner)

Eduardo Gris Perovich  
CPC Registration No. 12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COOPERATIVE AGREEMENT ECES S/N "FORMALIZATION OF BUSINESS IN EGYPT"**

**FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE  
FOR THE PERIOD FROM JANUARY 1, 2003 TO SEPTEMBER 30, 2003**

	<u>Budget</u> US\$	<u>Actual</u> US\$	<u>Questionable costs</u>		<u>Notes</u>
			<u>Ineligible</u> US\$	<u>Not documented</u> US\$	
<b>INCOME</b>					
Beginning balance		(33,587)			
Funds received	<u>295,633</u>	<u>295,633</u>			
<b>Total</b>	<u>295,633</u>	<u>262,046</u>	<u>-</u>	<u>-</u>	
<b>COSTS INCURRED</b>					
Direct costs					
Personnel	90,033	115,897			
Social benefits	29,393	42,917			
Traveling expenses	127,958	9,407			
Audits	7,280	4,081			
Other direct costs	<u>(5,552)</u>	<u>13,632</u>			
<b>Total</b>	<u>249,112</u>	<u>185,934</u>	<u>-</u>	<u>-</u>	
Indirect costs	<u>12,934</u>	<u>75,477</u>			
<b>Total costs incurred</b>	<u>262,046</u>	<u>261,411</u>	<u>-</u>	<u>-</u>	4
<b>AVAILABLE FUNDS</b>		<u>635</u>			5
<b>Questionable costs</b>			<u>-</u>	<u>-</u>	

The accompanying notes are an integral part of the fund accountability statement and its reconciliation to cash balance.

## **INSTITUTO LIBERTAD Y DEMOCRACIA**

### **COOPERATIVE AGREEMENT ECES S/N "FORMALIZATION OF BUSINESS IN EGYPT"**

#### **NOTES TO FUND ACCOUNTABILITY STATEMENT AND ITS RECONCILIATION TO CASH BALANCE FOR THE PERIOD FROM JANUARY 1, 2003 TO SEPTEMBER 30, 2003**

### **3. DESCRIPTION OF THE COOPERATIVE AGREEMENT**

An agreement for US\$1,061,376 was signed with ECES on May 1, 2002 for the "Formalization of Business in Egypt". The purpose of this agreement was to identify manners to reduce administrative costs and increase benefits, so that Egyptian business enter into and remain in the legal system, increasing the advantages of poor people to participate in the economy's legal framework. This agreement expired on April 30, 2003.

On July 30, 2003 an amendment to the agreement was signed, whereby the program's period of validity was extended from April 30, 2003 to September 30, 2003, and the time-table for the payments ECES had to make to ILD was modified.

Under this agreement, ILD undertook the following:

- Conduct the necessary research to complete the program.
- Organize and execute the daily operations as per the work plan established.
- Submit to ECES the deliverables agreed, for its review and comments.
- Establish a continuous presence in Cairo until completion of the program.
- Provide world recognition to the research skills, intellectual property rights, abilities and understanding of the program.
- Complete the program in the time agreed, to the satisfaction of ECES.

### **4. ACCOUNTING POLICIES**

The most significant accounting policies used in the preparation and presentation of the fund accountability statement and its reconciliation to cash balance, are the following:

#### **a) Recording of transactions**

The program transactions are recorded in nuevos soles in the accounting records. Transactions conducted in U.S. dollars or in other currencies are translated into nuevos soles at the exchange rate in force as of the date of each transaction.

#### **b) Accounting basis of modified cash**

The fund accountability statement and its reconciliation to cash balance was prepared on the basis of cash received and disbursed. Also, all expenses made at year's end are based on a pre-established budget.

**c) Recognition of income**

The funds received are recognized as income on the date they are deposited in a bank account in the name of the program.

**d) Recognition of costs**

The costs incurred in the program are recognized when disbursed.

**e) Translation into U.S. dollars.**

The income and costs recorded in nuevos soles, were translated into U.S. dollars at the exchange rates of the date of origin, for the purposes of the presentation of the fund accountability statement and its reconciliation to cash balance.

**3. EXCHANGE RATE**

The exchange rates used in the period January 1, 2003 to September 30, 2003, to translate balances in nuevos soles into U.S. dollars, varied from S/3.509 to S/3.483, respectively, per US\$1.00.

**4. BUDGETARY EXECUTION**

The amounts budgeted and executed as of September 30, 2003, completion date of the program, are as follows:

	<b>Budget</b>	<b>Executed from May 1, 2002 to December 31, 2002</b>	<b>Executed from February 1, 2003 to September 30, 2003</b>	<b>Balance</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
		<b>(Unaudited)</b>		
<b>Direct costs</b>				
Personnel	362,600	272,567	115,897	(25,864)
Social benefits	161,560	132,167	42,917	(13,524)
Traveling expenses	292,860	164,902	9,407	118,551
Audit	10,000	2,720	4,081	3,199
Other direct costs	11,500	17,052	13,632	(19,184)
<b>Total</b>	<b>838,520</b>	<b>589,408</b>	<b>185,934</b>	<b>63,178</b>
<b>Indirect costs</b>	<b>222,856</b>	<b>209,922</b>	<b>75,477</b>	<b>(62,543)</b>
<b>General total</b>	<b>1,061,376</b>	<b>799,330</b>	<b>261,411</b>	<b>635</b>

## 5. AVAILABLE FUNDS

As of September 30, 2003, the agreement's completion date, the available balance shown in the fund accountability statement and its reconciliation to cash balance comprises:

	<u>US\$</u>
Balance in bank current account in foreign currency in Peru	417
Balance in bank current account in foreign currency in Egypt	40,814
Less:	
Balance of unused funds from Agreement ECES No. 104-SA-01	(174)
Accounts payable to agreements and suppliers	<u>(40,422)</u>
<b>Total funds pending refund to ECES</b>	<b><u>635</u></b>

The remaining of the program is currently pending refund to ECES.

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**INSTITUTO LIBERTAD Y DEMOCRACIA**

**INTERNAL CONTROL STRUCTURE OF ILD AND THE PROGRAMS FINANCED TROUGH USAID AND ECES: LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA", FOR THE PERIOD JANUARY 1, TO APRIL 30, 2003; EEM-A-00-03-00005-00 "PROGRAM TO CREATE AND PROMOTE A ESTADO DE DERECHO (RULE OF LAW) THAT INCLUDES THE MAJORITY OF POOR PEOPLE", FOR THE PERIOD MAY 1, TO DECEMBER 31, 2003; AND ECES S/N "FORMALIZATION OF BUSINESS IN EGYPT", FOR THE PERIOD JANUARY 1, TO SEPTEMBER 30, 2003**

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

We have audited the financial statements of Instituto Libertad y Democracia (hereinafter **ILD**) as of December 31, 2003, as well as the fund accountability statements and their reconciliation to cash balances of the programs financed with funds granted through cooperation agreements signed with the United States Agency for International Development (hereinafter **USAID**) and through the research cooperation agreement with The Egyptian Center for Economic Studies (hereinafter **ECES**), for the periods:

<b>Programs</b>	<b>Periods</b>
<b>Financed through USAID</b>	
1. LAG-A-00-98-00047-00 "Formalization of Property in Latin America"	From January 1 to April 30, 2003
2. EEM-A-00-03-00005-00 "Program to Create and Promote a Estado de Derecho (Rule of Law) that Includes the Majority of Poor People "	From May 1 to December 31, 2003
<b>Financed through ECES</b>	
3. Agreement ECES S/N "Formalization of Business in Egypt"	From January 1 to September 30, 2003

and have issued our reports thereon dated May 7, 2004.

We conducted our audits in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements of **ILD** and the fund accountability statements and their reconciliation to cash balances are free of material misstatements.

The management of **ILD** 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 the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the financial statements of **ILD**, fund accountability statements and their reconciliation to cash balances in conformity with the basis of accounting described in Note 2 to the financial statements of **ILD** and Note 2 to the fund accountability statements and their reconciliation to cash balances. Because of 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 statements and their reconciliation to cash balances of the programs: LAG-A-00-98-00047-00 "Formalization of Property in Latin America", for the period January 1 to April 30, 2003; EEM-A-00-03-00005-00 "Program to Create and Promote a Estado de Derecho (Rule of Law) that includes the Majority of Poor People", for the period May 1 to December 31, 2003; and convenio ECES S/N "Formalization of Business in Egypt", for the period January 1, to September 30, 2003, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 financial statements of **ILD** and the fund accountability statements and their reconciliation to cash balances of the programs, not to provide an opinion on the internal control structure of **ILD**. Accordingly, we do not express such an opinion.

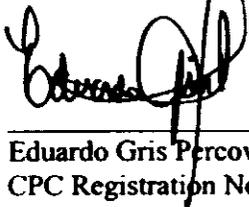
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). A material weakness is a reportable condition 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 or irregularities in amounts that would be material in relation to the financial statements of **ILD**, fund accountability statements and their reconciliation to cash balances of the programs, and the cost sharing schedule 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.

As a result of our review, we noted certain matters involving the internal control structure and its operation that are included in Appendix I hereto. Such matters do not necessarily cover all the weaknesses the present internal control structure could have given that, as explained before, our consideration of the internal control structure was not intended to express an opinion on said internal control structure taken as a whole.

This report is intended for the information of USAID and ILD. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

*Yis Henríquez y Arceles*

Countersigned by:



(Partner)

Eduardo Gris Percovich  
CPC Registration No 12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COMPLIANCE WITH THE TERMS OF THE AGREEMENTS APPLICABLE LAWS AND REGULATIONS OF THE PROGRAMS FINANCED THROUGH USAID AND ECES: LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA", FOR THE PERIOD FROM JANUARY 1 TO APRIL 30, 2003; EEM-A-00-03-00005-00 "PROGRAM TO CREATE AND PROMOTE A ESTADO DE DERECHO (RULE OF LAW) THAT INCLUDES THE MAJORITY OF POOR PEOPLE", FOR THE PERIOD MAY 1 TO DECEMBER 31, 2003; AND ECES S/N "FORMALIZATION OF BUSINESS IN EGYPT", FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30, 2003**

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

We have audited the financial statements of Instituto Libertad y Democracia (hereinafter **ILD**) as of December 31, 2003, as well as the fund accountability statements and their reconciliation cash balances of the programs financed with funds granted through cooperation agreements signed with the United States Agency for International Development (hereinafter **USAID**) and through the research cooperation agreement with The Egyptian Center for Economic Studies (hereinafter **ECES**), for the periods:

<b>Programs</b>	<b>Periods</b>
<b>Financed through USAID</b>	
1. LAG-A-00-98-00047-00 "Formalization of Property in Latin America"	From January 1 to April 30, 2003
2. EEM-A-00-03-00005-00 "Program to Create and Promote a Estado de Derecho (Rule of Law) that Includes the Majority of Poor People "	From May 1 to December 31, 2003
<b>Financed through ECES</b>	
3. Agreement ECES S/N "Formalization of Business in Egypt"	From January 1 to September 30, 2003

and have issued our reports thereon dated May 7, 2004.

We conducted our audits in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements of **ILD** and the fund accountability statements and their reconciliation to cash balances of the programs are free of material misstatement.

Compliance with agreements and sub-agreement terms and laws and regulations applicable to ILD is the responsibility of the management of ILD. As part of obtaining reasonable assurance about whether the financial statements of ILD and the fund accountability statements and their reconciliation to cash balances of the programs are free of material misstatement, we performed tests of ILD compliance with certain provisions of agreements and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of ILD management's compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost sharing contributions.

As a result of our review, we noted certain matters relating to compliance with the terms of the agreements, laws and regulations that affect the cooperative agreement LAG-A-0098-00047-00 "Formalization of Property in Latin America" ended on April 30, 2003 which, although we consider them as immaterial, would like to bring to your attention, and are included in Appendix II hereto.

This report is intended for the information of USAID and ILD. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

*Yis Henricson y Asociados*  
Countersigned by



(Partner)

Eduardo Gris Parcovich  
CPC Registration No 12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**SCHEDULE OF COMPUTATION OF INDIRECT COST RATE OF ILD AND THE PROGRAMS FINANCED THROUGH USAID AND ECES: LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA", FOR THE PERIOD FROM JANUARY 1 TO APRIL 30, 2003; EEM-A-00-03-00005-00 "PROGRAM TO CREATE AND PROMOTE A ESTADO DE DERECHO (RULE OF LAW) THAT INCLUDES THE MAJORITY OF POOR PEOPLE", FOR THE PERIOD MAY 1 TO DECEMBER 31, 2003; AND ECES S/N "FORMALIZATION OF BUSINESS IN EGYPT", FOR THE PERIOD JANUARY 1 TO SEPTEMBER 30, 2003**

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US\$ = United States dollar

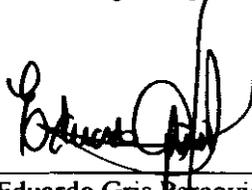
## INDEPENDENT AUDITORS' OPINION.

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

Our audit was made for the purpose of forming an opinion on the basic financial statements of Instituto Libertad y Democracia (hereinafter **ILD**) as of December 31, 2003 taken as a whole. The schedule of computation of indirect cost rate contained on page 46, prepared by the Administration of **ILD**, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gris Hernández y Asociados*

Countersigned by:



(Partner)

Eduardo Gris Percovich  
CPC Registration No 12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**SCHEDULE OF COMPUTATION OF INDIRECT COST RATE  
FOR THE PERIOD FROM JANUARY 1, 2003 TO DECEMBER 31, 2003**

<u>Description</u>	<u>Expenses</u> US\$	<u>Exclusions</u> <u>Ineligible</u> <u>Expenses</u> US\$	<u>Direct</u> <u>Cost</u> <u>Base</u> US\$	<u>Accumulated</u> <u>Indirect</u> <u>Costs</u> US\$
Salaries	1,272,450	-	943,321	329,129
Supplementary benefits	512,417	133	365,599	146,685
Sub-contractors services	291,074	1,841	287,473	1,760
Traveling	279,486	120,085	159,401	-
Per diem amounts	95,803	24,696	71,107	-
Other traveling expenses	14,344	2,748	11,596	-
Offices supplies	22,386	109	16,928	5,349
Printing and reproduction (books, subscriptions)	8,028	788	6,834	406
Communications (courier services, fax, e-mail, postage, telephone charges)	59,665	1,202	27,186	31,277
Translations and other services	21,490	-	19,385	2,105
Audit	11,924	-	11,924	-
Local transportation	14,352	-	-	14,352
Miscellaneous	27,050	4,937	4,938	17,175
Office rental payments	80,000	-	-	80,000
Municipal rates	5,735	-	-	5,735
Security	46,699	-	-	46,699
Electricity and water supply	5,628	-	-	5,628
Office and equipment maintenance and repairs	4,233	-	-	4,233
Insurance	7,082	-	-	7,082
Exchange difference	2,050	2,050	-	-
Depreciation and amortization	6,359	6,359	-	-
Miscellaneous provisions	18,248	18,248	-	-
Furniture and equipment (under US\$5,000)	8,420	-	8,420	-
Equipment (over US\$5,000.00)	8,374	-	8,374	-
<b>TOTAL</b>	<b>2,823,297</b>	<b>183,196</b>	<b>1,942,486</b>	<b>697,615</b>

Calculation of the indirect cost rate:

$$\frac{\text{Indirect Costs}}{\text{Direct Costs Base}} = \frac{697,615}{1,942,486} = 35.91\%$$

To be read jointly with the report of Gris Hernández y Asociados on Internal Controls, dated May 7, 2004.

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COST SHARING SCHEDULE OF COOPERATIVE AGREEMENT USAID N° LAG-A-00-98-00047-00 "FORMALIZATION OF PROPERTY IN LATIN AMERICA", FOR THE PERIOD FROM JANUARY 1 TO APRIL 30, 2003**

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**INDEPENDENT AUDITORS' OPINION ON THE COST SHARING SCHEDULE OF COOPERATIVE AGREEMENT N° LAG-A-00-98-00047-00**

Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

We have reviewed the accompanying cost sharing schedule of cooperative agreement N°. LAG-A-00-98-00047-00 "Formalization of Property in Latin America" prepared by Instituto Libertad y Democracia (ILD) for the period January 1, 2003 to April 30, 2003. Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). The purpose of our review was to determine if the cost sharing contributions were provided and accounted for in accordance with the terms of the cooperative agreement. We also considered the internal controls related to the provision of and accounting for cost sharing contributions.

A review consists principally of enquiries of recipient's personnel and analytical procedures applied to financial data. It is substantially more limited in scope than an examination, the objective of which is the expressing of an opinion on the cost sharing schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that **ILD** has not provided and accounted for cost sharing contributions in accordance with the terms of the cooperative agreement.

This report is intended for the information of **ILD** and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

*Yuri Hernandez Aralado*

Countersigned by:

*Eduardo Gris Percovich*

(Partner)

Eduardo Gris Percovich  
CPC Registration No. 12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**COST SHARING SCHEDULE OF COOPERATIVE AGREEMENT LAG-A-00-98-00047-00  
FOR THE PERIOD FROM JANUARY 1, 2003 TO APRIL 30, 2003**

COOPERATIVE AGREEMENT USAID N°. LAG-A-00-98-00047-00  
PROJECT FORMALIZATION OF PROPERTY IN LATIN AMERICA

COST SHARING SCHEDULE  
FOR THE PERIOD JANUARY 1, 2003 TO APRIL 30, 2003  
(In U.S. dollars)

	Budget (Note 1) US\$	Real US\$	Questioned costs		Ref. Notes
			Ineligible US\$	Not documented US\$	
Funds from the AVINA Agreement (Note 2)	147,789	158,633	-	-	
	<u>147,789</u>	<u>158,633</u>	<u>-</u>	<u>-</u>	

The accompanying notes are an integral part of the cost sharing schedule.

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# INSTITUTO LIBERTAD Y DEMOCRACIA

## NOTES TO THE COST SHARING SCHEDULE FOR THE PERIOD FROM JANUARY 1, 2003 TO APRIL 30, 2003

### 1. COST SHARING BUDGET

According to the terms of the agreement signed by Instituto Libertad y Democracia (hereinafter **ILD**), recipient of the funds and the United States Agency for International Development (**USAID**), **ILD** agrees to contribute an amount not lesser than 25% of the contribution made by **USAID**. During 2003, the **USAID** contribution amounted to US\$591,154, the amount of US\$147,789 corresponding to shared costs.

### 2. COST SHARING EXECUTION

The shared costs correspond to funds from the investment agreement AVINA N° 20000139, the purpose of which is the evaluation of the informal sector in The Philippines and Latin America. The disbursements correspond to:

	<u>2003</u>
	US\$
Direct costs:	
Personnel	88,143
Social benefits	27,633
Fares and per diem expenses	9,250
Other direct costs	7,183
Total direct costs	<u>132,209</u>
Indirect costs	<u>26,424</u>
Total	<u><u>158,633</u></u>

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**INSTITUTO LIBERTAD Y DEMOCRACIA**

**FOLLOW-UP OF RECOMMENDATIONS FROM THE PREVIOUS AUDIT OF ILD AND THE PROGRAMS FINANCED THROUGH USAID AND ECES**

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## **INSTITUTO LIBERTAD Y DEMOCRACIA**

### **FOLLOW-UP ON RECOMMENDATIONS FROM PREVIOUS AUDIT OF ILD AND THE PROGRAMS FINANCED THROUGH USAID AND ECES**

We detail below the recommendation from the previous audit not adopted by Instituto Libertad y Democracia. Said recommendation is shown with the same original numbering.

Letter issued by the former auditors, dated May 26, 2003, related to the evaluation of the internal control structure of the cooperative sub-agreement signed with The Egyptian Center for Economic Studies (ECES) N° 104-SA-01

1. *Accounts receivable for US\$1,009 not refunded in 20 months, deriving from Sub-Agreement ECES N° 104-SA-01 "Formalization of the Informal Urban Sector in Egypt".*

From the examination of the documentation of expenses of the fund accountability statement at closing of the project financed by the Sub-Agreement ECES-Egypt N° 104-SA-01 "Formalization of the Informal Urban Sector in Egypt, for the period January 1 to March 31, 2002, it can be seen that there is an account receivable for US\$1,009 which has not been reimbursed by ECES.

#### **Comments from ILD Administration**

During the period of validity of this program, ILD asked ECES several times to pay this account receivable, without obtaining any positive results. Upon conclusion of the program, all unused balances, including the amount of this accounts receivable (US\$1,009), must be refunded to ECES. In May 2004, ECES was informed that ILD have reversed this account receivable, it being reflected in the financial statements as a refund of unused funds to ECES.

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# **INSTITUTO LIBERTAD Y DEMOCRACIA**

## **GENERAL PURPOSE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003**

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## DICTAMEN DE LOS AUDITORES INDEPENDIENTES

To the Management Council  
Instituto Libertad y Democracia  
Av. Del Parque Norte No. 829  
San Isidro

We have audited the accompanying balance sheets of Instituto Libertad y Democracia as of December 31, 2003, and the related statements of activities, changes in institutional equity, and cash flows for the year then ended (expressed in U.S. dollars). These financial statements are the responsibility of ILD Administration. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for the year ended December 31, 2002, were examined by other auditors, whose report dated May 26, 2003 expressed an unqualified opinion thereon.

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

As described in Note 2(d) these financial statements, were prepared on the modified cash basis, which is a basis of accounting different from accounting principles generally accepted in Peru.

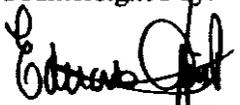
In our opinion, such financial statements present fairly, in all material respects, the financial position of Instituto Libertad y Democracia as of December 31, 2003, and the results of its activities and cash flows for the year then ended, in conformity with the basis of accounting described in note 2(a).

Our audit also included the translation of amounts in Peruvian nuevos soles into U.S. dollar amounts and, in our opinion, said translation has been made in accordance with the basis described in Note 2(b). Such U.S. dollar amounts are shown only for the convenience of the readers.

The accompanying financial statements have been translated into English for the convenience of the readers.

*Gris Hernández y Asociados*

Countersigned by:

 (Partner)

Eduardo Gris Hercovich  
CPC Registration No.12159

May 7, 2004

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**BALANCE SHEETS  
AS OF DECEMBER 2003  
In U.S. dollars**

<u>ASSETS</u>	<u>Notes</u>	<u>2003</u> US\$	<u>2002</u> US\$	<u>LIABILITIES AND INSTITUTIONAL EQUITY</u>	<u>Notes</u>	<u>2003</u> US\$	<u>2002</u> US\$
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and banks	3	336,383	191,505	Obligations payable		28,901	35,285
Accounts receivable from agreements	4	92,977	176,555	Other accounts payable	8	<u>240,518</u>	<u>463,226</u>
Other accounts receivable	5	107,744	152,030				
Prepaid expenses		<u>8,862</u>	<u>8,580</u>	Total current liabilities		<u>269,419</u>	<u>498,511</u>
Total current assets		<u>545,966</u>	<u>528,670</u>	RESPONSIBILITY BEFORE THIRD PARTIES		<u>8,374</u>	<u>-</u>
FURNITURE AND EQUIPMENT, net	6	<u>10,155</u>	<u>15,543</u>	DEFERRED INCOME	9	<u>244,046</u>	<u>23,600</u>
OTHER ASSETS, net	7	<u>49,410</u>	<u>42,431</u>	TOTAL LIABILITIES		<u>521,839</u>	<u>522,111</u>
				INSTITUTIONAL EQUITY			
				Institutional equity		307,119	328,673
				Accumulated results		(243,012)	(281,319)
				Net superavit		<u>19,585</u>	<u>17,179</u>
				Total institutional equity		<u>83,692</u>	<u>64,533</u>
TOTAL ASSETS		<u>605,531</u>	<u>586,644</u>	TOTAL LIABILITIES AND INSTITUTIONAL EQUITY		<u>605,531</u>	<u>586,644</u>

See notes to financial statements.

**INSTITUTO LIBERTAD Y DEMOCRACIA****STATEMENTS OF ACTIVITIES AND CHANGES IN INSTITUTIONAL EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

In U.S. dollars

	<u>Notes</u>	<u>2003</u> US\$	<u>2002</u> US\$
<b>INCOME</b>			
Cooperative agreements	10	2,631,940	3,275,373
Donations		188,027	111,340
Translation income		1,277	3,340
Miscellaneous income		<u>13,262</u>	<u>1,052</u>
<b>TOTAL</b>		<u>2,834,506</u>	<u>3,391,105</u>
<b>EXPENSES</b>			
Personnel expenses		1,546,713	1,916,184
Third party services		615,956	648,826
Taxes		30,703	37,252
Sundry management charges		435,357	555,384
Exceptional charges		55,294	64,372
Finance charges		11,971	10,245
Provisions for the year		116,975	138,345
Translation loss	2	<u>1,952</u>	<u>3,318</u>
<b>TOTAL</b>		<u>2,814,921</u>	<u>3,373,926</u>
<b>NET SUPERAVIT</b>		<u>19,585</u>	<u>17,179</u>
<b>NET ASSETS</b>			
Balance at beginning of year		64,533	52,494
Removals of fixed assets		(21,553)	(19,192)
Adjustment to accumulated superavit		21,127	14,052
Net superavit		<u>19,585</u>	<u>17,179</u>
<b>Balance at year's end</b>		<u>83,692</u>	<u>64,533</u>

See notes to financial statements.

**INSTITUTO LIBERTAD Y DEMOCRACIA**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
In U.S. dollars**

	<u>2003</u>	<u>2002</u>
	US\$	US\$
<b>OPERATING ACTIVITIES:</b>		
Income from cooperative agreements	2,755,697	3,089,821
Other income	201,328	-
Payment to suppliers	(1,057,035)	(1,260,223)
Payment of remunerations and social benefits	(1,657,329)	(2,065,303)
Taxes paid	(30,703)	(37,252)
Other operating payments	<u>(67,080)</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>144,878</u>	<u>(272,957)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>144,878</b>	<b>(272,957)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<u>191,505</u>	<u>464,462</u>
<b>CASH AT YEAR'S END</b>	<u><u>336,383</u></u>	<u><u>191,505</u></u>
<b>RECONCILIATION OF NET SUPERAVIT TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net superavit	19,585	17,179
Adjustments to net superavit:		
Depreciation and amortization	6,358	11,885
Social benefits	110,615	125,064
Prior years' adjustments	-	(8,322)
Decrease (increase) in assets:		
Accounts receivable from agreements	83,578	(16,692)
Other accounts receivable	44,286	(5,243)
Prepaid expenses	(282)	(5,440)
Increase (decrease) in liabilities:		
Obligations payable	(6,384)	35,285
Other accounts payable	(333,324)	19,032
Deferred income	<u>220,446</u>	<u>(445,705)</u>
Net cash provided by (used in) operating activities	<u>144,878</u>	<u>(272,957)</u>

**See notes to financial statements.**

## **INSTITUTO LIBERTAD Y DEMOCRACIA**

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

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#### **1. IDENTIFICATION AND PURPOSE OF THE INSTITUTE**

Instituto Libertad y Democracia (hereinafter **ILD**) is a not-for-profit entity, registered in the Register of Entities Exempt from Income Tax and in the Register of Non-Governmental Development Organizations recipient of International Cooperation. It was constituted on September 30, 1980 and its main objective is to become a cultural centre for reflexion, research and scientific discussion in the fields of the humanities, social sciences, economics, law, and in general all the necessary disciplines to understand the Peruvian reality and find forms of cultural, social and economic development. To attain its main objective, the **ILD** may perform the following functions:

- a. Promote and organize meetings, round-table conferences, symposia, seminars, workshops, and in general all kinds of events in which there is an interchange of ideas relating to the matters usually addressed by **ILD**.
- b. Conduct studies and research, directly or through third parties, on Peruvian reality in all its aspects, and cooperate in making known such studies, so they can have a true cultural significance in the country and could attain their objective to contribute to a better understanding of the problems, and the solutions Peru requires.
- c. Send Peruvian specialists abroad, to offer them better training and permit the interchange of ideas, knowledge and research methods with foreign specialists.
- d. Edit and finance the publication of books, booklets, magazines, and any other materials resulting from activities developed by **ILD**.
- e. Organize a documentation centre on Peruvian themes, developing a library, magazine library, and any other manner of preserving information.

The **ILD** has received the recognition as a not-for-profit cultural centre extended by the Instituto Nacional de Cultura.

In order to fulfill its objectives, the **ILD** has signed cooperation agreements with the United States Agency for International Development (**USAID**) and the **AVINA** Foundation (**AVINA**), and a research cooperation agreement with the Egyptian Center for Economic Studies (**ECES**), for the execution of the following programs:

With **USAID** funds:

- Cooperative agreement N° **LAG-A-00-98-00047-00**, intended for the program "Formalization of Property in Latin America".

- Cooperative agreement N° EEM-A-00-03-00005-00, intended for the “Program to Create and Promote a Estado de Derecho (Rule of Law) that includes the Majority of Poor People”

With AVINA funds:

- Cooperative agreement N° 20000139, intended for the program “Formalization and Capitalization of the Poor People’s Property”

With ECES funds:

- Agreement ECES S/N, intended for the program “Formalization of Business in Egypt”.

## 2. ACCOUNTING POLICIES

The significant accounting policies used by ILD for recording the transactions and the preparation of the financial statements are as follows:

### **(a) Basis of preparation and presentation**

The financial statements are prepared and presented using the basis of accounting of modified cash; i.e. on the basis of cash received and disbursed. Additionally, all expenses made at year’s end are based on a pre-established budget, even if paid subsequently, as well as the estimates described in note 2(c).

In Peru, financial statements are prepared and presented in accordance with accounting principles generally accepted in Peru, which comprise the International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASC) and authorized by the Consejo Normativo de Contabilidad (CNC) to be in force and applied in Peru. Supplementary, and as established by CNC, U.S. generally accepted accounting principles may be used. In the case of not-for-profit organizations the “Financial Accounting Standards No. 117-Financial Statements of Not-For-Profit Organizations” is applicable in the preparation and presentation of financial statements.

Additionally, in Peru financial statements prepared based on historical cost have been adjusted to constant currency to reflect the effect of the changes in the purchasing power of the Peruvian currency (Nuevo Sol S/.), using the adjustment factors derived from the Nation-wide Wholesale Price Index (WPI). The WPI accumulated percentages for 2003 increased in 2% while in year 2002 increased in 1.67%. The Administration has not used this accounting practice, since its accounting policies and practices establish: “Because it is a not-for-profit institution, ILD does not record in the accounting books the effects of price variations, as required by accounting principles generally accepted in Peru, for commercial and other for-profit entities”. Additionally, it considers the effects are not significant.

### **(b) Translation basis**

ILD keeps its accounting records in nuevos soles.

The assets, liabilities and net assets as of December 31, 2003 and 2002, as well as the results of its activities for the years then ended, have been translated from nuevos soles into U.S. dollars for convenience of the readers. To such effect, the financial statements in nuevos soles have been translated into U.S. dollars as follows:

- The monetary asset and liability balances and non-monetary asset and liability balances have been translated at the exchange rate of the date of the origin of the transaction.
- The activities result accounts have been translated at the exchange rates in force on the dates they were incurred.
- The translation difference is shown in the account "difference in translation", in the statement of activities.

**(c) Use of estimates**

The preparation of financial statements requires the Administration of ILD to make estimates and assumptions, for the determination of certain asset balances as of the date of the financial statements. If in the future, the circumstances on which the estimates and assumptions are based were different, the corresponding estimates would be modified and their effects would be included in the determination of institutional equity for the year in which such change occurred, and of future years, if it were the case. The most significant estimates relating to the financial statements are the depreciation of furniture and equipment, and the amortization of intangibles.

**(d) Financial instruments**

The main financial assets and liabilities shown in the balance sheet are: cash and banks, accounts receivable from agreements, other accounts receivable, obligations payable, and other accounts payable. The accounting policies for their recognition and measurement are described herein, in the corresponding notes.

The classification of a financial instrument as a financial liability or as a net assets instrument is made in conformity with the contract that originated this financial instrument. The interests, losses and gains relating to a financial instrument classified as a financial liability are recognized as expense or income.

**(e) Furniture and equipment**

Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method, based on the useful life of the assets, represented by equivalent depreciation rates. When exceeding US\$5,000, fixed assets acquired for programs are recorded in "other assets" and are not subject to depreciation; should the program donors decide to transfer said assets to ILD upon completion of the project, they are recorded as fixed assets, at market value, their useful life being estimated for their depreciation. Lower value assets are recorded as cost of each program.

Disbursements after fixed assets are being used are capitalized as additional cost of the assets, only when it is likely that such disbursements will contribute to the generation of future economic benefits beyond the originally assessed standard performance of the assets. Disbursements for repairs or maintenance are recognized as an expense when incurred. The cost and related accumulated depreciation of assets sold, or permanently withdrawn from use, are eliminated from their respective accounts and any resulting loss is recognized as expense.

**(f) Intangible assets**

Intangible assets are stated at acquisition cost and are shown net of accumulated amortization. The annual amortization is determined using the straight-line method, based on the estimated useful life of the assets. The annual amortization is recognized as expense.

**(g) Compensation for time of service (social benefits)**

Employees' compensation for time of service is calculated in accordance with current legal regulations, and deposited in a financial institution elected by the employee.

**(h) Recognition of income**

Donations received for the execution of projects are deposited in the program's bank account and recorded in a liability account called "deferred income", and are imputed to the results of the activities as the project expenses are incurred. Donations received and not contingent on the execution of projects, are recognized as income on the date they are deposited in the institution's bank account.

**(i) Provisions**

Provisions for social benefits, vacations, and others proper to ILD activities, are recorded charged to accounts receivable from agreements, and are imputed to expense as the disbursements occur.

### 3. CASH AND BANKS

Cash and banks comprise:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Fixed funds	900	900
Current accounts:		
Instituto Libertad y Democracia	45,392	20,979
Cooperative agreement LAG-A-00-98-00047-00	232,164	106,280
Cooperative agreement ECES S/N in Peru	417	42,333
Cooperative agreement ECES S/N in Egypt	40,814	4,797
Cooperative agreement EEM-A-00-03-00005-00	15,476	-
Cooperative agreement AVINA	-	8,222
Cooperative agreement EMT-A-00-01-00016-00	-	6,762
Cooperative sub-agreement ECES No. 104-SA-01	<u>1,220</u>	<u>1,232</u>
<b>Total</b>	<b><u>336,383</u></b>	<b><u>191,505</u></b>

The balance in the account corresponding to the cooperative agreement LAG-A-00-98-00047-00 as of December 31, 2003, should be transferred to USAID as established therein; accordingly it is not considered by the entity as free-availability funds.

### 4. ACCOUNTS RECEIVABLE FROM AGREEMENTS

This account comprises:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Cooperative agreement EEM-A-00-03-00005-00	44,480	-
Cooperative agreement LAG-A-00-98-00047-00	-	48,306
Cooperative sub-agreement ECES N° 104-SA-01	4,116	33,633
Cooperative agreement AVINA	-	38,412
Indirect costs	30,215	-
ILD	<u>14,166</u>	<u>56,204</u>
<b>Total</b>	<b><u>92,977</u></b>	<b><u>176,555</u></b>

Accounts receivable from agreements correspond to obligations applicable to year 2003 expenses, paid in 2004 (vacations and payments to suppliers).

5. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable comprise:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Agreement	16,118	98,102
Deposits in guarantee	7,500	7,500
Personnel	103	350
ILD loans to Indirect Costs	20,000	
ILD loans to cooperative agreement ECES S/N	24,015	296
Sub-agreement ECES No. 104-SA-01	1,009	1,009
Cooperative agreement AVINA	-	63
Indirect Costs	35,509	6,634
Sundry	<u>3,490</u>	<u>38,076</u>
Total	<u>107,744</u>	<u>152,030</u>

6. FURNITURE AND EQUIPMENT

The movement in the cost and accumulated depreciation of furniture and equipment was as follows:

	<u>Beginning</u>				<u>Ending</u>	<u>Depre-</u>
	<u>Balances</u>	<u>Additions</u>	<u>Removals</u>	<u>Others</u>	<u>Balances</u>	<u>ciation</u>
	US\$	US\$	US\$	US\$	US\$	<u>Rates</u>
						%
Cost:						
Equipment	151,301	-	(18,905)	-	132,396	
Furniture and fixtures	53,823	-	(2,648)	-	51,175	
Miscellaneous equipment	<u>7,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,200</u>	
Total	<u>212,324</u>	<u>-</u>	<u>(21,553)</u>	<u>-</u>	<u>190,771</u>	
Accumulated depreciation:						
Equipment	143,488	2,427	(18,682)	-	127,233	10 and 25
Furniture and fixtures	46,093	2,536	(2,446)	-	46,183	10
Miscellaneous equipment	<u>7,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,200</u>	10
Total	<u>196,781</u>	<u>4,963</u>	<u>(21,128)</u>	<u>-</u>	<u>180,616</u>	
Net	<u>15,543</u>				<u>10,155</u>	

As of December 31, 2003, this account includes fully depreciated assets for US\$146,846, which are still in use.

## 7. OTHER ASSETS

The movement in the cost and accumulated amortization of other assets was as follows:

	Beginning Balances US\$	Additions US\$	Removals US\$	Ending Balances US\$	Amorti- zation Rates %
<b>Cost:</b>					
Software	13,956	-	-	13,956	
Responsibility before third parties	<u>34,990</u>	<u>8,374</u>	<u>-</u>	<u>43,364</u>	
<b>Total</b>	<u>48,946</u>	<u>8,374</u>	<u>-</u>	<u>57,320</u>	
<b>Amortization:</b>					
Software	6,515	1,395	-	7,910	10
Responsibility before third parties	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total</b>	<u>6,515</u>	<u>1,395</u>	<u>-</u>	<u>7,910</u>	
<b>Net</b>	<u>42,431</u>			<u>49,410</u>	

Responsibility before third parties correspond to acquisitions of assets for over US\$5,000, made by the donors to execute the programs.

Additions in responsibility before third parties correspond to acquisitions made on account of program EEM-A-00-03-00005-00 recorded against the account "responsibility before third parties".

8. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Vacations	62,039	75,383
Indirect costs suppliers	81,861	129,553
ILD suppliers	38,019	2,162
Cooperative agreement LAG-A-00-98-00047-00	-	156,930
Cooperative agreement EEM-A-00-03-00005-00	955	-
Pending transfer to Indirect Costs of agreement EEM-A-00-03-00005-00	14,864	-
Cooperative agreement ECES S/N	40,422	65,422
Balance of unused funds of sub-cooperative agreement ECES No. 104-SA-01	174	358
Cooperative agreement AVINA	-	33,418
Compensation for time of service (social benefits)	2,078	-
Sundry	106	-
	<u>240,518</u>	<u>463,226</u>
<b>Total</b>	<b><u>240,518</u></b>	<b><u>463,226</u></b>

Accounts payable correspond to expenses paid in 2004.

9. DEFERRED INCOME

Deferred income comprises:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
To be refunded to donor:		
Sub-agreement ECES No. 104-SA-01	2,402	2,415
Cooperative agreement ECES S/N	635	-
Cooperative agreement LAG-A-00-98-0047-00	240,540	14,552
Cooperative agreement EMT-A-00-01-00016-00	-	6,633
To be applied to results of activities:		
Cooperative agreement EEM-A-00-03-00005-00	469	-
	<u>244,046</u>	<u>23,600</u>
<b>Total</b>	<b><u>244,046</u></b>	<b><u>23,600</u></b>

## 10. COOPERATIVE AGREEMENTS

Cooperative agreements comprise:

	<u>2003</u>	<u>2002</u>
	US\$	US\$
Cooperative agreement 521-A-00-97-00042-00	-	239,816
Cooperative agreement LAG-A-00-98-00047-00	591,154	1,582,759
Cooperative agreement EEM-A-00-03-00005-00	1,620,527	-
Cooperative agreement AVINA	158,633	617,492
Cooperative agreement EMT-A-00-01-00016-00	202	25,047
Cooperative sub-agreement ECES No. 104-SA-01	13	10,929
Cooperative agreement ECES S/N	<u>261,411</u>	<u>799,330</u>
Total	<u>2,631,940</u>	<u>3,275,373</u>

## 11. TAX SITUATION

The ILD was constituted with not-for-profit purposes and, under Law 27386 and its amendments, the revenues destined to specific purposes in Peru, of taxable foundations and not-for-profit associations the instrument of constitution of which comprises exclusively one or several of the following purposes: beneficence, social assistance, education, cultural, scientific, artistic, literary, sporting, political, trade union and housing, provided not distributed, directly or indirectly, to the associates and the by-laws of which state that their equity will, in case of dissolution, be destined to any of the purposes referred to above, will be exempt from Income Tax until December 31, 2006.

It should be mentioned that ILD is within the scope of application of fourth- and fifth-category income tax, extraordinary solidarity tax and ESSALUD contributions. Therefore, the ILD monthly tax returns for said taxes not lapsed, are pending of review by the tax authorities. Because of the possible interpretations the tax authorities may have of current legal norms, it is not possible to determine whether liabilities for ILD will arise or not from the reviews pending if conducted, thus any eventual major tax or overcharge which may arise from fiscal reviews would be applied to expenses of the fiscal year in which it is determined. However, in the opinion of the ILD Administration there should not be any additional tax or overcharge.

**SUMMARY OF FINDINGS ARISING DURING THE EXECUTION  
OF OUR EXAMINATION, RELATING TO THE INTERNAL CONTROL  
STRUCTURE**

**1. Finding**

We have noticed that the account "other assets" is included as part of the assets in the balance sheet as of December 31, 2003, the balance of which as of such date (US\$43,364) comprises assets not property of ILD. These assets were acquired as part of the programs, using funds from USAID; an amount of US\$34,990 corresponds to fixed assets of program LAG-A-00-98-00047-00 which ended on April 30, 2003 and was reported to USAID on January 23, 2004, and the other amount of US\$8,374 corresponds to fixed assets of program EE-A-00-03-00005-00 currently in force.

**Criterion**

As established in Circular No. 122 "Cost Principles for Non-Profit-Organizations" (revised), issued by the "Office of Management and Budget", as equipment and other capital disbursements are considered all those exceeding the capitalization limit established by the entity or exceeding the amount of US\$5,000, having to be reported as such in the program's fund accountability statement.

**Cause**

The ILD Administration mentioned that the situation observed occurs because they accepted the former auditors' suggestion, to control the assets acquired under the programs within the balance sheet accounts. Hence, the account, "other assets" was used to record those assets purchased under the program, the ownership of which is conditioned by the donor to the completion of the program.

**Effect**

This situation causes the balance sheet of ILD as of December 31, 2003, to contain assets not of its property.

**Recommendation**

Eliminate from the accounts in the balance sheet of ILD, those assets acquired for programs which have not yet been transferred to the entity. Simultaneously, we suggest to open memoranda accounts so as to control said assets, off the balance sheet.

**2. Finding**

We have noticed that as of December 31, 2003, an amount of US\$8,350 corresponding to the disbursement made to Capitol Service in October 2002 was included as part of the balance in the account "disbursements to be accounted for". This amount, because of its age and not having been liquidated in due instance, did not affect the result of activities in its corresponding period.

**Criterion**

It is a healthy internal control practice in an entity, to liquidate disbursements to be accounted for in a reasonable period of time, for example three months.

**Cause**

According to the Administration of ILD, this advance was due to services in the organization of the international conference established in the program's plan of activities, which was postponed for several months.

**Effect**

The situation observed causes the balance sheet as of December 31, 2003, to include in the account "prepaid expenses" an amount of US\$8,350 for expenses which should have been charged to results of activities in 2003, and not be deferred to the next year because of the lack of an adequate account analysis.

**Recommendation**

Establish written policies indicating reasonable periods for the liquidation of disbursements to be accounted for.

**3. Finding**

We have noticed that the balance as of December 31, 2003 of the account "compensation for time of service" (CTS) of US\$2,078, corresponds to an amount not timely deposited, belonging to several employees who worked in the program LAG-A-00-98-00047-00 which expired on April 30, 2003.

**Criterion**

As established in articles 6 and 7 of the Labor Competitiveness and Productivity Law and its amendments, CTS must be deposited monthly, within the 10 days in the month following that in which the benefit accrues; otherwise, the employer is obligated to pay the interests generated as from the non-compliance.

**Cause**

According to the Administration of **ILD**, this situation is due to an error in the calculation of the compensation for time of services related to the program **LAG-A-00-98-00047-00**, which shows a lack of supervision by the person responsible and lack of supervision by an accountant, due to the personnel reduction that took place at that time. When this situation was detected, the pending balance was recorded, which was paid in March 2004.

**Effect**

The situation described above causes the balance sheet as of December 31, 2003 to include an amount not financed as part of the balance of the account "compensation for time of services".

**Recommendation**

Instruct the person responsible for processing the account "compensation for time of services", so that all the concepts considered in the calculation are contemplated.

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**SUMMARY OF FINDINGS ARISING DURING THE EXECUTION OF OUR  
EXAMINATION RELATED TO COMPLIANCE WITH THE AGREEMENTS AND SUB-  
AGREEMENT, LAWS AND REGULATIONS**

**1. Finding**

On January 23, 2004, the list of fixed assets acquired for the program LAG-A-00-98-00047-00 "Formalization of Property in Latin America" was sent to USAID, which program according to the terms of the agreement ended on April 30, 2003. As of December 31, 2003, the total amount of fixed assets acquired for the program was US\$34,990.

**Criterion**

Appendix 3.23 "Ownership and Use of Fixed Assets", paragraph (d) of the Cooperation Agreement signed by ILD and USAID, establishes that 30 days after completion of the program, ILD must report to USAID, a list of all assets with values higher than US\$5,000. It should be indicated that in case USAID failed to issue an answer within the 120 calendar days, said assets should be transferred as fixed assets of ILD.

**Cause**

As stated by the Administration of ILD, the failure to timely communicate to USAID the list of the program's fixed assets, was due to the fact that until September 2003, the Administration of ILD was negotiating the obtaining of new financing with USAID, and according to the conversations, the finding obligation would be by means of an extension amendment to said program.

**Effect**

The situation described above causes the non-compliance with the provisions of Appendix 3.23 "Ownership and Use of Fixed Assets", paragraph (d) of the Cooperation Agreement signed by ILD and USAID, by having elapsed 268 days from expiry of the agreement and 121 since September 24, 2003, when the new cooperation agreement was signed. Also, the delay in the sending of information, prevented USAID from determining the final destination of the program fixed assets as of December 31, 2003.

**Recommendation**

Comply with the periods established in the cooperation agreements signed with the donors.

## **2. Finding**

On February 13, 2004, the remaining of the funds assigned to program LAG-A-00-98-00047-00 "Formalization of Property in Latin America" was sent to USAID; which program according to the terms of the cooperation agreement, ended on April 30, 2003. As of December 31, 2003, the remaining of the funds assigned to the program is US\$240,540.

### **Criterion**

Appendix 3.5 "Termination and Suspension", paragraph (d) of the Cooperation Agreement signed by ILD and USAID, establishes that 30 days after completion of the program, ILD must communicate and refund to USAID, the program funds not spent.

### **Cause**

As stated by the Administration of ILD, the failure to timely communicate to USAID the program funds not used, was due to the fact that until September 2003, the Administration of ILD was negotiating the obtaining of new financing with USAID. According to the conversations with USAID, this would be by means of an extension amendment to said program, thus the balance was used to cover operating expenses during the months of negotiation. These funds were reimbursed upon the signing of the new agreement and regularization of the flow of funds.

### **Effect**

The situation described above causes the non-compliance with the provisions of Appendix 3.5 "Termination and Suspension", paragraph (d) of the Cooperation Agreement signed by ILD and USAID, by having elapsed 121 days since September 24, 2003, when the new cooperation agreement was signed. Also, this situation causes the inclusion of US\$240,540 as part of the bank balance of ILD as of December 31, 2003, which are not of free availability for ILD.

### **Recommendation**

Comply with the periods established in the cooperation agreements signed with the donors.