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**Audit of USAID Resources Managed by
Alexandria Business Association (ABA)
for Alexandria & Kafr El Sheikh (KES)
Program**

**Under Cooperative Agreement
No. 263-A-00-94-00011-00**

**For the period from January 1, 1997 to
February 29, 2000 (ABA) and from
January 1, 1999 to February 29, 2000**

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Audit of USAID Resources Managed by
Alexandria Business Association
For Alexandria (ABA) and Kafr El Sheikh (KES) Programs
Cooperative Agreement No. 263-A-00-94-00011-00
For the period from January 1, 1997 to February 29, 2000. (ABA)
And from January 1, 1999 to February 29, 2000. (KES)

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August 15, 2000

To: Engineer Nabil El Shami
Executive Director
Alexandria Business Association
Small and Micro Enterprise Project
Alexandria, Egypt

Dear Engineer El Shami:

This report presents the results of our financial audit of United States Agency for International Development (USAID) resources managed and the expenditures incurred by Alexandria Business Association for the Alexandria (ABA) and Kafr El Sheikh (KES) program under Cooperative Agreement No. 263-A-00-94-00011-00, For the period from January 1, 1997 to February 29, 2000 (ABA) and from January 1, 1999 to February 29, 2000 (KES).

Background

The purpose of this Cooperative Agreement (CA) is to support a private, self-sustaining foundation in Alexandria Governorate to manage a credit program and provide technical assistance and training to small and micro enterprises (SMEs) in the metro Alexandria area. This CA provides funds to capitalize the Association's collateral fund staff training, rental/lease or purchase of a main and branch offices, furnish the offices and provide operational support for the operation until the association reaches operational break-even point. Special projects in support of SMEs are also funded by this CA.

ABA has reached its break even point at the end of 1992. They have stopped receiving operational funds from USAID since then. However, amendment No. five was issued to increase the budget to enable ABA to expand the implementation of the small and micro enterprise projects to Kafr El Sheikh Governorate and budget for the branch office.

The dollar budget of the CA finances the international travel and audit expenses while the LE budget finances operational costs, fixed assets, training and special projects. Collateral funds are maintained in interest bearing bank accounts for securing loans. Interest earned from the collateral funds is retained by the organization for use on the project activities.

The Cooperative Agreement was amended ten times through February 29, 2000. The total committed amount was \$8,293,585 distributed as follows:

\$4,222,189 for ABA

\$4,071,396 for KES

Audit Objectives and Scope

The objective of this engagement is to conduct a financial audit of United States Agency for International Development (USAID) resources managed and the expenditures incurred by Alexandria Business Association for the Alexandria (ABA) and Kafr El Sheikh (KES) program under Cooperative Agreement No. 263-A-00-94-00011-00, For the period from January 1, 1997 to February 29, 2000 (ABA) and from January 1, 1999 to February 29, 2000 (KES).

The specific objectives of this audit are to:

1. Express an opinion on whether the Fund Accountability Statement for Cooperative Agreement No. 263-A-00-94-00011-00, for the period under audit in conformity with generally accepted accounting principals or another comprehensive basis of accounting;
2. Determine if the costs reported as incurred under the agreement are in fact allowable, allocable, and reasonable in accordance with the term of the agreement;
3. Evaluate and obtain a sufficient understanding of the internal control structure of the grantee, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether the grantee complied, in all material respects, with the agreement terms and applicable laws and regulations;
5. Determine if the grantee has taken corrective action on prior audit report recommendations, if applicable;
6. Ensure whether the loan funds provided by USAID to the Association were adequately used as collateral to the SME activities in accordance with the terms of the cooperative agreement, and that funds were used for its intended purpose;
7. Check the recipient's audited general purpose financial statement.



The preliminary planning and review procedures started on July 7, 2000 and consisted of the following actions:

- Meeting with the recipient's management to gain an understanding about the project activities and ascertain any concerns that should be addressed in our audit.
- Understanding the recipient's operation, including its organizational structure, and the external and internal factors affecting its operation.
- Identifying significant accounts and accounting applications, the important budget lines items, significant provisions of laws and regulations and relevant controls over the recipient's operations.
- Performing a preliminary risk assessment to identify high-risk areas and sample size and the proper audit procedures.


The fieldwork segment of our audit commenced on July 24, 2000 and was completed on August 3, 2000.

The scope of our work was to audit costs incurred by Alexandria Business Association for the Alexandria (ABA) and Kafr El Sheikh (KES) program under Cooperative Agreement No. 263-A-00-94-00011-00, For the period from January 1, 1997 to February 29, 2000 (ABA) and from January 1, 1999 to February 29, 2000 (KES). Our scope of work also included review of the collateral funds.

Our audit included an examination of costs incurred by ABA during the period under audit. It also included an examination of the funds received from USAID during the same period, and reconciliation of the fund balance as of February 29, 2000 with the recipient's cash balance. This audit is a "close-out" audit.

Within each budget line item, we selected transactions on a judgmental basis to perform a substantive test of details. The total expenditures as follows:

- Total expenditures tested for Alexandria program dollar budget included in our sample was \$14,848 out of total expenditures of \$15,814 which represents a coverage of 94% of the total expenditures incurred during the audited period
- Total expenditures tested for Alexandria program LE budget included in our sample was \$28,770 (equivalent to LE 97,818) out of total expenditures of \$32,219 (equivalent to L.E. 109,546) which represents a coverage of 89% of the total expenditures incurred during the audited period.
- Total expenditures tested for KES program dollar budget included in our sample was \$7,310 out of total expenditures of \$7,310 which represents a coverage of 100% of the total expenditures incurred during the audited period

- 
- Total expenditures tested for KES program LE budget included in our sample was \$78,839 (equivalent to LE 268,054) out of total expenditures of \$92,251 (equivalent to L.E. 313,653) which represents a coverage of 85% of the total expenditures incurred during the audited period

Project costs incurred and tested were converted to U.S. dollars at the applicable exchange rate.

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

1. Reconciling ABA accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness and adequate supporting documentation;
2. Determining whether the costs incurred by ABA and funded by USAID/Egypt were appropriate, consistent with the terms of the agreement and applicable rules and regulations and adequately supported
3. Testing the adequacy of ABA internal controls to reasonably assure that:
 - Assets funded by USAID were safeguarded against loss from unauthorized acquisition, use or disposition;
 - Transactions were executed in accordance with the approved budget and significant provisions of applicable laws and regulations and;
 - Transactions were properly recorded, processed and summarized to permit the preparation of the fund accountability statement and to maintain accountability of the project's assets.
4. Reviewing the collateral funds and determining whether these funds were used by the recipient in accordance with terms of the agreement.
5. Obtaining the audited financial statements and agree the balances with the recipient general ledger and other related accounting records.

Results of Audit

Fund Accountability Statement

Our audit did not identify any questioned costs. However, in the draft report we identified total questioned costs of \$3,702 (equivalent to LE 12,585) which were considered ineligible costs. ABA refunded this amount to USAID during the 30 days period between the draft and final report.



General Purpose Financial Statement

Based on ABA auditor's opinion, the recipient's financial statements present fairly, in all material respects, the financial position of ABA as of December 31, 1999, and the results of its operation and its fund balances for the year then ended in conformity with generally accepted accounting principles.

ABA's general purpose financial statements is prepared on accrual basis and includes funds provided by USAID from inception to December 31, 1999 which represents more than eleven years of operation. However, the funds accountability statement is prepared on cash basis and includes all cash received and expenditures disbursed during the audited period. Accordingly, we were unable to reconcile the USAID funds included in the general purpose financial statements to the fund balance stated in the fund accountability statement as required by USAID's Guidelines for Financial Audits Contracted by Foreign Recipients.

Internal Control Structure

Our audit did not identify any reportable condition related to the recipient's internal control structure.

Compliance with Laws and Regulations

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

Review of Collateral Funds

Our review did not identify any reportable condition related to the recipient's collateral funds.

Follow up on Prior Audit Recommendation

We have reviewed the prior independent auditor's report dated December 21, 1997. The auditors identified \$3,481 as ineligible costs. The auditors also noted one reportable condition related to commingling of USAID funds.

We have considered these findings in performing our audit and we noted that all questioned costs were properly addressed by ABA. Other immaterial internal control and non-compliance weaknesses addressed in the management letter of KES were also properly addressed.

Management Comments

ABA management comments have been obtained and are included in Appendix A of this report. In response to ABA management's comments we have either adjusted the final report or provided further clarification of our position in Appendix B of this report.

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



GTI -Mohamed Hilal & Co.,
Cairo, Egypt.

Report on the Fund Accountability Statement
Independent Auditor's Report

To: Engineer Nabil El Shami
Executive Director
Alexandria Business Association
Small and Micro Enterprise Project
Alexandria, Egypt

We have audited the accompanying fund accountability statement of Alexandria Business Association for the Alexandria (ABA) and Kafr El Sheikh (KES) program under Cooperative Agreement No. 263-A-00-94-00011-00, For the period from January 1, 1997 to February 29, 2000 (ABA) and from January 1, 1999 to February 29, 2000 (KES). The fund accountability statement is the responsibility of ABA management. Our responsibility is to express an opinion on this statement based on our audit.

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

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

As described in Note 2, the accompanying fund accountability statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As detailed in the accompanying fund accountability statement and as more fully described in Note 5 thereto, the result of our tests did not identify any questioned costs.

In our opinion, except for the effects of the questioned costs, the fund accountability statement referred to in the first paragraph, presents fairly, in all material respects, ABA fund balance as of February 29, 2000 and its funds received and costs incurred during the audited period, on the basis of accounting described in Note 2.

In accordance with Governmental Auditing Standards, we have issued two separate reports both dated August 3, 2000, the first on ABA internal control structure and the second on their compliance with laws and regulations.

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



GTI -Mohamed Hilal & Co.,
Cairo, Egypt.

August 3, 2000

Audit of USAID Resources Managed by
 Alexandria Business Association
 For Alexandria (ABA) and Kafr El Sheikh (KES) Programs
 Cooperative Agreement No. 263-A-00-94-00011-00
 For the period from January 1, 1997 to February 29, 2000. (ABA)
 And from January 1, 1999 to February 29, 2000. (KES)

Fund Accountability Statement
 LE Budget Expressed in \$

| <u>Budget Elements</u> | <u>ABA</u> Budget | <u>ABA</u> Expenditures | <u>KES</u> Budget | <u>KES</u> Expenditures | Questined Costs | | Finding No. |
|-----------------------------------|----------------------|----------------------------|----------------------|----------------------------|-----------------|-------------|----------------|
| | | | | | Ineligible | Unsupported | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Source Of Funds | | | | | | | |
| Beginning Cash balance | | 30,658 | | 206,368 | | | |
| Funds Provided by USAID / Egypt | | 9,754 | | 4,126 | | | |
| Funds refunded to USAID | | -4,516 | | -122,944 | | | |
| Total Funds Available | | 35,896 | | 87,549 | | | |
| Expenditure : | | | | | | | |
| Office Operational Costs | 220,588 | 0 | 196,851 | 80,070 | | | 1 |
| Training of ABA Staff | 38,153 | 16,356 | 5,123 | 0 | 0 | | |
| Training of New Foundations Staff | 41,408 | 15,863 | 0 | 0 | | | |
| Special projects | 25,029 | 0 | 0 | 0 | | | |
| Audits | 28,304 | 0 | 0 | 0 | | | 2 |
| Fixed Assets | 117,647 | 0 | 559,765 | 11,949 | | | |
| Total | 471,130 | 32,219 | 761,738 | 92,019 | 0 | | |
| Fund Balance | | 3,677 | | -4,469 | | | |

* The accompanying notes are integral part of this fund accountability statement



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 And from January 1, 1999 to February 29, 2000. (KES)

Fund Accountability Statement

US Dollar Budget

| <u>Budget Elements</u> | <u>ABA Budget</u> | <u>ABA Expenditures</u> | <u>KES Budget</u> | <u>KES Expenditures</u> | <u>Questioned Costs</u> | <u>Finding No.</u> |
|-------------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------------|--------------------|
| | \$ | \$ | \$ | \$ | Ineligible | Unsupported |
| | | | | | \$ | \$ |
| Source Of Funds : | | | | | | |
| Beginning Cash balance | | 1,315 | | | | 0 |
| Funds Provided By USAID Egypt | | 17,673 | | 7,310 | | |
| Funds refunded to USAID | | -3,175 | | 0 | | |
| Total Funds Available | | 15,813 | | 7,310 | | |
| Expenditure : | | | | | | |
| International Travel | 31,142 | | 15,813 | 0 | | 0 |
| Audits | 0 | | 0 | 7,310 | | 7,310 |
| Total Expenditures | 31,142 | 15,813 | 7,310 | 7,310 | | 7,310 |
| | | | | | | |
| Fund Balance | | 0 | | 0 | | |

* The accompanying notes are integral part of this fund accountability statement





Audit of USAID Resources Managed by
Alexandria Business Association
For Alexandria (ABA) and Kafr El Sheikh (KES) Programs
Cooperative Agreement No. 263-A-00-94-00011-00
For the period from January 1, 1997 to February 29, 2000. (ABA)
And from January 1, 1999 to February 29, 2000. (KES)

Notes to the Fund Accountability Statement

Note 1 - Scope of Statement:

The fund accountability statement is the representation and the responsibility of ABA management.

The "Budget" columns represent the total budget amounts approved by USAID for ABA, under Cooperative Agreement No. 263-A-00-94-00011-00 from inception to February 29, 2000. The main budget categories are presented for reporting purposes only.

The "Expenditures" columns present cumulative project costs incurred up to February 29, 2000.

The "Questioned Costs" columns represent audit results and are included in the fund accountability statement for presentation purposes only.

Note 2 - Basis of Accounting:

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

Note 3 - Exchange Rate:

The project funds received and expenditures paid in Egyptian pounds (LE) have been converted to U. S. dollars (\$) at the exchange rate of LE 3.4 to \$1. The exchange rate used is the average exchange rate during the period from January 1, 1997 through February 29, 2000.



Note 4 – Fund Balance:

The fund balance represents the difference between funds received from USAID and costs incurred by ABA during the period under our audit.

| | <u>ABA</u> | | <u>KES</u> | |
|--------------------------------------|------------|--------|------------|--------|
| | LE | \$ | LE | \$ |
| | Budget | Budget | Budget | Budget |
| | \$ | \$ | \$ | \$ |
| Total Funds Received | 40,412 | 18,988 | 210,494 | 7,310 |
| Less: | | | | |
| Funds Refunded to USAID | 4,516 | 3,175 | 122,944 | 0 |
| Funds Available | 35,896 | 15,813 | 87,549 | 7310 |
| Less: | | | | |
| Total Costs incurred | 32,219 | 15,813 | 92,019 | 7,310 |
| Fund Balance as of February 29, 2000 | 3,677 | 0 | -4,469 | 0 |


Note 5 – Questioned Costs:

The “Questioned Costs” columns represent the costs questioned during the audited period. Questioned costs are presented in two separate categories. The “Ineligible” column represents the costs that are not program related, unreasonable, or prohibited by the agreement or applicable laws and regulations. The “Unsupported” column represents the costs that are not supported with adequate documentation. All questioned costs are detailed in the “Details of Questioned Costs” section of this report.

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 And from January 1, 1999 to February 29, 2000. (KES)

Details of Questioned Costs

| | Questioned Costs | |
|--|------------------|-------------|
| | Ineligible | Unsupported |
| | \$ | \$ |
| Item Description | | |
| Finding 1 – Training | | |
| Based on the documents and clarifications provided to us in ABA management’s response, we have removed this finding. | | 0 |
| Total Finding 1 – Training | | 0 |
| Finding 2 – Audits | | |
| Based on the documents and clarifications provided to us in ABA management’s response, we have removed this finding. | | 0 |
| Total Finding 2 – Audits | | 0 |



General Purpose Financial Statement
Translation of ABA Independent Auditor's Report

The Board of Directors
Alexandria Businessmen Association
Alexandria, Egypt

We have audited the accompanying balance sheet of Alexandria Businessmen Association (ABA) as of December 31, 1999 and the related statements of revenue and expenditures, and changes in fund balances for the year then ended. These financial statements are the responsibility of ABA management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted international auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABA at December 31, 1999, and the results of its operation and its fund balances for the year then ended in conformity with generally accepted accounting principles.

Zakaria El Sadek, Ph.D.
Alexandria, Egypt.
March 18, 2000

Alexandria Businessmen Association
 Cooperative Agreement No. 263-A-00-94-00011-00

Statement of Changes in Fund Balances as of 12/31/99
Balance Sheet as of 12/31/99

| <u>Assets</u> | \$ 1999 | \$ 1998 |
|-------------------------------------|-------------------|-------------------|
| <u>fixed Assets</u> | | |
| Building | 76,184 | 62,206 |
| Furniture | 86,276 | 81,094 |
| Office Equipment | 59 | 59 |
| Photocopiers | 10,838 | 10,838 |
| Computers, Faxes and Others | 12,801 | 5,344 |
| Total Fixed Assets | <u>186,159</u> | <u>159,541</u> |
| Less Accumulated Depreciation | <u>117,838</u> | <u>102,947</u> |
| Net Book Value | 68,321 | 56,594 |
| <u>Current Assets</u> | | |
| Current Account | 70,445 | 2,963 |
| Time Deposit | 461,344 | 422,629 |
| | <u>531,789</u> | <u>425,593</u> |
| Other Debit Balances | 9,088 | 9,353 |
| Small & Micro Enterprise Project | 39,918,869 | 32,757,761 |
| | <u>39,927,957</u> | <u>32,767,114</u> |
| | <u>40,459,747</u> | <u>33,192,706</u> |
| Total Assets | <u>40,528,068</u> | <u>33,249,300</u> |
| <u>Liabilities & Equity</u> | | |
| Accumulated Surplus | 593,904 | 486,978 |
| Other Credit Balances | 15,295 | 4,561 |
| Due to Small & Micro Enterprise | <u>39,918,869</u> | <u>32,757,761</u> |
| Total Liabilities & Equity | <u>40,528,068</u> | <u>33,249,300</u> |

Alexandria Businessmen Association

Statement of Changes in Fund Balances as of 12/31/99
Statement of Revenue & Expenditures
For the year ended 12/31/99

| | \$ 1999 | \$ 1998 |
|----------------------------|----------------|----------------|
| <u>Revenue</u> | | |
| Association Subscription | 93,235 | 92,059 |
| New Members | 19,118 | 38,235 |
| Interest | 44,788 | 38,801 |
| Donations | 154,559 | 6,544 |
| Others | 20,511 | 9,885 |
| Total Revenue | 332,211 | 185,525 |
| <u>Expenditures</u> | | |
| Salaries & Incentives | 39,540 | 23,907 |
| Social Insurance | 3,793 | 2,179 |
| General & Admin. Expenses | 167,061 | 100,339 |
| Depreciation | 14,891 | 14,033 |
| Total Expenditures | 225,285 | 140,458 |
| Surplus | 106,926 | 45,067 |



Alexandria Businessmen Association
Statement of Changes in Fund Balances as of 12/31/99

| | <u>Current Funds</u> | <u>Endowment & Collateral Funds</u> |
|---|----------------------|---|
| | \$ | \$ |
| <u>Revenue received</u> | | |
| Revenue generated from Association activities | 132,864 | 0 |
| Bank Interest | 44,788 | 0 |
| Subscriptions in advance | 11,765 | |
| Other Advances | 2,618 | |
| Donations | 154,559 | 0 |
| Total Revenue Received | 346,593 | 0 |
| Funds received from Doners | | |
| Collateral Funds received | | 2,273,660 |
| <u>Expenditures incurred</u> | | |
| Salaries & incentives | 39,540 | 0 |
| General & Operational expenses | 201,149 | 0 |
| Total Expenditures | 240,689 | 0 |
| Transfers Among Funds | 0 | 0 |
| Net increase/decrease for the year | 105,904 | 0 |
| Fund balance at beginning of the year | 425,884 | 15,623,888 |
| <u>Fund balance at end of the year</u> | 531,788 | 17,897,548 |



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Notes to the Financial Statements

For the year ended December 31, 1999

Note 1 – The Organization:

ABA is a non-governmental organization established under law No. 32/1964 with the Ministry of Social Affairs. The main activity of the organization is the economic, health and social development of the local community by using the following methods:

1. Provide social support by creating job opportunities for newly graduates;
2. Prepare feasibility studies from small and micro loaners;
3. Providing loans to small and micro enterprise projects;
4. Support communication channels between the organization and other international agencies.

Note 2 - Significant Accounting Policies:

- A. ABA accounts for revenue and expenditures based on accrual basis. However, reporting to USAID is on cash basis due to USAID requirements.
- B. Fixed assets are recorded at historical costs. Depreciation of the fixed assets is calculated on the basis of estimated useful life using the straight-line method depreciation however reporting to USAID does not require depreciation expenses. The following annual rates are being used by ABA:

| | |
|-------------------------|-----|
| Machinery and Equipment | 20% |
| Telephone and Fax | 20% |
| Computers | 20% |
| Photocopiers | 20% |
| Furniture | 10% |
| Fixtures | 5% |



Note 3 – Exchange Rate:

ABA records all transactions in Egyptian pounds. The dollar transactions are evaluated at the exchange rate of LE 3.4 to \$1. The exchange rate used is the average exchange rate during the period from January 1, 1999 through December 31, 1999.

Note 4 – Current Assets:

Current assets as of December 31, 1999 are as follows:

| | |
|----------------------------------|----------------|
| | \$ |
| Association Current Bank Account | 9,100 |
| Community Services Fund | 3,378 |
| Donations & Zakah Fund | 37,463 |
| Mubarak/Gore Fund | 20,504 |
| Time Deposits | 461,344 |
| Total | <u>531,789</u> |

Note 5 – Other Debit Balances:

Other debit balances as of December 31, 1999 are as follows:

| | |
|-------------------|--------------|
| | \$ |
| Imprest Fund | 1,147 |
| Subscriptions Due | 7,941 |
| Total | <u>9,088</u> |

Note 6 – Fixed Assets:

| Description | Cost | Accumulated Depreciation | NBV |
|----------------|----------------|-----------------------------|---------------|
| | \$ | \$ | \$ |
| Building | 76,184 | 31,161 | 45,023 |
| Furniture | 86,276 | 77,015 | 9,262 |
| Equipment | 59 | 47 | 12 |
| Photocopier | 10,838 | 7,384 | 3,454 |
| Computer & Fax | 12,802 | 2,231 | 10,570 |
| Total | <u>186,159</u> | <u>117,838</u> | <u>68,321</u> |



Note 7 – Other Credit Balances:

| | |
|------------------|------------------------|
| | \$ |
| Deferred Revenue | 2,647 |
| Imprest Funds | 882 |
| Members Deposits | 11,765 |
| Total | <u>15,294</u> ===== |

Note 8 – Small & Micro Enterprise:

This amount represents assets and collateral funds provided by donors such as USAID, City Corp. , CGC and others to ABA to manage the small and micro enterprise projects. It also represents loans, bank balances and other assets. Details of the amount are as follows:

| | |
|----------------------|----------------------------|
| | \$ |
| Fixed Assets - Net | 1,719,481 |
| Work In Progress | 101,665 |
| Bank Balances | 13,605,709 |
| Loans - Net | 24,449,088 |
| Other debit balances | 42,926 |
| Total | <u>39,918,869</u> ===== |

Note 9 – Due to Small & Micro Enterprises:

| | |
|--------------------------------------|----------------------------|
| | \$ |
| Amount Received by ABA Head Office | 12,068,086 |
| Amount Received for Kafr El Sheikh | 2,108,010 |
| Medical Program | 66,451 |
| Credit Guarantee Company | 3,378,770 |
| Surplus | 276,211 |
| Accrued Interest & Other Liabilities | 3,232,735 |
| Credit Facilities | 18,788,606 |
| Total | <u>39,918,869</u> ===== |

Note 10 – USAID Funds:

USAID funds represent total amount provided by USAID for SME project as collateral funds and other costs necessary for project operation from inception to December 31, 1999.

| Description | Alexandria | KES | Total |
|-------------------------------|------------|-----------|------------|
| | \$ | \$ | \$ |
| Collateral Funds | 7,500,000 | 1,361,552 | 8,861,552 |
| Interest Earned on Collateral | 2,847,093 | 105,227 | 2,952,320 |
| Operational Funds | 1,116,126 | 753,144 | 1,869,270 |
| Total | 11,463,219 | 2,219,923 | 13,683,142 |

Report on the Internal Control Structure
Independent Auditor's Report

To: Engineer Nabil El Shami
Executive Director
Alexandria Business Association
Small and Micro Enterprise Project
Alexandria, Egypt

We have audited the accompanying fund accountability statement of Alexandria Business Association for the Alexandria (ABA) and Kafr El Sheikh (KES) program under Cooperative Agreement No. 263-A-00-94-00011-00, For the period from January 1, 1997 to February 29, 2000 (ABA) and from January 1, 1999 to February 29, 2000 (KES) and issued our report thereon dated August 3, 2000.

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

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

The management of ABA, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and in accordance with the terms and agreements; and transactions are recorded properly to permit the preparation of fund accountability statement in conformity with the basis of accounting described in Note 2 to the fund accountability statement.



Because of the inherent limitations in any internal control structure, errors or irregularities may, nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement described in the first paragraph, 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 fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weakness under the standards established by the American Institute for 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 fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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

GTI -Mohamed Hilal & Co.,
Cairo, Egypt.

August 3, 2000

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

To: Engineer Nabil El Shami
Executive Director
Alexandria Business Association
Small and Micro Enterprise Project
Alexandria, Egypt

We have audited the accompanying fund accountability statement of Alexandria Business Association for the Alexandria (ABA) and Kafr El Sheikh (KES) program under Cooperative Agreement No. 263-A-00-94-00011-00, For the period from January 1, 1997 to February 29, 2000 (ABA) and from January 1, 1999 to February 29, 2000 (KES) and issued our report thereon dated August 3, 2000.

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


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

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

The results of our tests indicated that, with respect to the items tested, ABA complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that ABA had not complied, in all material respects, with those provisions.

Our audit did not identify any reportable instance of noncompliance with agreement terms, however we noted other immaterial instances of noncompliance with applicable laws and regulations.

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



GTI -Mohamed Hilal & Co.,
Cairo, Egypt.

August 3, 2000

Report on the Collateral Funds
Independent Auditor's Review Report

To: Engineer Nabil El Shami
Executive Director
Alexandria Business Association
Small and Micro Enterprise Project
Alexandria, Egypt


We have reviewed the accompanying collateral fund schedule of Alexandria Business Association (ABA) under USAID/Egypt Cooperative Agreement No. 263-A-00-94-00011-00 for Alexandria (ABA) and Kafr el Sheikh (KES) programs as of February 29, 2000.

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 funds provided by USAID to the association were adequately used as collateral to the small and micro enterprise credit activities in accordance with the terms of the agreement. We also considered the internal controls related to the provision of and accounting for these funds.

A review consists principally of inquiries of recipient 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 collateral fund schedule. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that funds provided by USAID to the association were not adequately used as collateral to the small and micro enterprise credit activities in accordance with the terms of the agreement.

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


GTI -Mohamed Hilal & Co.,
Cairo, Egypt.


August 3, 2000

Audit of USAID Resources Managed by
 Alexandria Business Association
 For Alexandria (ABA) and Kafr El Sheikh (KES) Programs
 Cooperative Agreement No. 263-A-00-94-00011-00
 For the period from January 1, 1997 to February 29, 2000. (ABA)
 And from January 1, 1999 to February 29, 2000. (KES)

Collateral Fund Schedule
As of February 29, 2000.

| | Funds Received | Interest Earned | Total Funds |
|------------------------|----------------|-----------------|-------------|
| Alexandria Program | 7,500,000 | 2,973,322 | 10,473,322 |
| Kafr El Sheikh Program | 3,298,060 | 126,500 | 3,424,560 |
| Total as of 2/29/2000 | 10,798,060 | 3,099,822 | 13,897,882 |

* The accompanying notes are integral part of this collateral fund schedule



Audit of USAID Resources Managed by
Alexandria Business Association
For Alexandria (ABA) and Kafr El Sheikh (KES) Programs
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And from January 1, 1999 to February 29, 2000. (KES)

Notes to the Collateral Fund Schedule

Note 1 - Scope of Statement:

The collateral fund schedule is the representation and the responsibility of ABA management.

The "Funds Received" column represents the total funds provided by USAID as collateral funds for ABA and KES under Cooperative Agreement No. 263-A-00-94-00011-00 from inception to February 29, 2000.

The "Interest Earned" column represents the cumulative interest earned from inception to February 29, 2000.

The "Total Funds" column represents the balances of all bank accounts as of February 29, 2000.

Note 2 - Basis of Accounting:

The collateral funds schedule was prepared on cash basis. Consequently, interests earned as of February 29, 2000 are recognized when they are actually earned and added to the principal amount.



Note 3 – Fund Analysis:

The total funds analysis are shown in dollars as follows:

| Bank Name | ABA | KES | Total |
|------------------------------------|------------|-----------|------------|
| El Ahly Bank , Alex. Branch | 4,733,886 | 2,402,495 | 7,136,381 |
| Alexandria Bank, Alex. Branch | 1,726,407 | 791,283 | 2,517,690 |
| Misr Bank, Talaat Harb Branch | 715,930 | -0- | 715,930 |
| Banque Du Caire, Cezostrees Branch | 1,345,997 | 230,782 | 1,576,779 |
| Abou Dahbi Bank | 653,295 | -0- | 653,295 |
| El Mashrek Bank | 1,297,807 | -0- | 1,297,807 |
| Total | 10,473,322 | 3,424,560 | 13,897,882 |

Appendix A

Audit of USAID Resources Managed by
Alexandria Business Association
For Alexandria (ABA) and Kafr El Sheikh (KES) Programs
Cooperative Agreement No. 263-A-00-94-00011-00
For the period from January 1, 1997 to February 29, 2000. (ABA)
And from January 1, 1999 to February 29, 2000. (KES)

Management's Response



September 14th, 2000

Mssrs Mohamed Hilal & Co.
 87 Ramsis Street
 Cairo, Egypt
 Fax # 202- 576 0915

Dear Mr. El Beshir,

Attached please find a copy of the refund check # 505671 (Export Development Bank). We have forwarded this check to USAID as our response to findings No 1 and No 2 of your report dated August 15, 2000. We have also attached a copy of the USAID cash receipt # 19487 as an evidence of receipt.

Thanking you,
 Sincerely,
 For ABA-SME Project

Ahmed Mokhtar
 Deputy Executive Director

Handwritten notes and scribbles in the top left corner.

USAID CASH RECEIPT

Date 4/9/00

Receipt No. 19487

Received From Alexandria Basis Association

Amount Received: LE 12585, \$

Cash Check 15056718

Amount Received, (Written Out) Twelve thousand five hundred eighty five

For: Telephone Bill

Bill No. _____
Bill No. _____
Bill No. _____
Bill No. _____

Bill No. _____
Bill No. _____
Bill No. _____
Bill No. _____
Date: _____

Other Describe: _____

Received by: [Signature]
(Signature)

Cashier - USAID / CAIRO, EGYPT

Stamp: RECEIVED BY THE OFFICE OF THE ATTORNEY GENERAL, EGYPT

30/08/2000 التاريخ



EXPORT DEVELOPMENT BANK OF EGYPT
10230/3 SUB/1
مصرف تنمية الأعمال الخارجية

5056718

شركة خالص التنمية
ورئيس التنمية
ادموا

هيئة رجال أعمال
BUSINESS ASSOCI.
تنمية المنشآت
ENTERPRISE PF

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
ONLY TWELVE THOUSAND FIVE HUNDRED EIGHTY FIVE::: مئتا وخمسة وعشرون

AMOUNT / المبلغ بالأرقام

LE 12585.00

Signature of the cashier

الشيك رقم
نوع العملة

10230 3 1006 1000 201

محمد عثمان وشركاه
محاسبون قانونيون
عضو جرائد شورتنون، متروناشيوناز
وارد رقم ٢٣
بتاريخ ١٠ / ١
توقيع



Audit of USAID Resources Managed by
Alexandria Business Association
For Alexandria (ABA) and Kafr El Sheikh (KES) Programs
Cooperative Agreement No. 263-A-00-94-00011-00
For the period from January 1, 1997 to February 29, 2000. (ABA)
And from January 1, 1999 to February 29, 2000. (KES)

Auditor's Comments

The ABA management provided comments related to the draft report. In response to their comments, we reviewed additional supporting documents provided by ABA management. Please note that the finding references used below correspond to those used in our draft and final report.

I. Questioned Costs

Finding 1 – Training

ABA management presented a copy of the refund check for \$25 (equivalent to L.E. 85). This ineligible amount was for sales taxes paid from USAID funds. Based on the documents and clarification provided we have removed this finding.

Finding 2 – Audits

ABA management presented a copy of the refund check for \$3,676 (equivalent to L.E. 12,500). This ineligible amount was billed to USAID erroneously twice. Based on the documents and clarification provided we have removed this finding.