

# *Egypt Sustainable Rural Sanitation Services Program.*

Financial audit of project cash receipts and disbursements for “Egypt Sustainable Rural Sanitation Services Program”, project no. P154112 for the period from July 1, 2017 to June 30, 2018

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Director of Project Management Unit  
Ministry of Housing, Utilities, and Urban Communities  
Cairo, Egypt

Dear Ms. Randa Elmenshawy,

This report presents the results of our financial audit of project cash receipts and disbursements prepared by project management unit (PMU) of the ministry of housing, utilities, and urban communities (MHUUC), under “Egypt Sustainable Rural Sanitation Services Program”, project No. P154112 for the period from July 1, 2017 to June 30, 2018

### **Background**

On October 4<sup>th</sup>, 2015 loan agreement no. P154112 was signed between Arab republic of Egypt represented by minister of international cooperation Ms. Sahar Nasr and International Bank for Reconstruction and Development, to implement the “Egypt Sustainable Rural Sanitation Services Program”

The MHUCC got the presidential ratification on December 31<sup>st</sup>, 2015 and the received first withdrawal (advance payment) on May 23<sup>rd</sup>, 2016

The objective of the program is to strengthen institutions and policies for increasing access and improving rural sanitation services in the governorates of Beheira, Dakahliya and Sharkiya in the Arab Republic of Egypt.

The Program is a part of the Borrower's National Rural Sanitation Program and consists Of the following activities:

#### **Part A: Improved Sanitation Access**

1. Provision of access to sanitation to about 833,000 people living in highly polluted villages and satellite areas within the program area in the three participating governorates of Dakahliya, Sharkiya, and Beheira, through the construction by the respective WSCs of about 167,000 new connections from household to a sewer network that is linked to a wastewater treatment facility or other effective wastewater treatment system.
2. Constructing or upgrading of wastewater treatment facilities to appropriate standards.
3. Utilization of performance-based capital grants made by MHUUC to WSCs to carry out priority rural sanitation investments identified through the master plans and included in the annual capital investment plan of the WSCs.

#### **Part B: Improved Operational Systems and Practices of WSCs**

1. Strengthening the capacities of the WSCs to improve their performance in the operational, financial, institutional, and citizen engagement areas, including in the planning and implementation of infrastructure investments and in their operational and maintenance requirements, improving efficiency and reducing costs, and designing and implementing performance improvement plans.

**Part C: Strengthened National Sector Framework**

1. Carrying out a program of activities for strengthening the enabling environment for more efficient and accountable rural sanitation service delivery including: (i) the development of a tariff structure for sanitation services that would enable cost recovery; (ii) the formulation of a National Rural Sanitation Strategy; and (iii) the finalization of the standard operating procedures for land acquisition for rural sanitation services.
2. Carrying out policy and analytical studies to inform the policy making process in the rural sanitation sector including, building and sustaining an effective regulatory and oversight Framework, and improving the capacity to conduct regular and timely financial and Performance audits of WSCs, aimed at providing a strong enabling framework for empowering the WSCs to become efficient and accountable service delivery institutions.

**Loan settlement**

The loan will be settled as the below:

| Principal Payment Date  | Installment Share<br>(Expressed as a<br>Percentage) |
|---|---|
| On each September 15 and March 15<br>Beginning September 15, 2020 through<br>September 15, 2049 | 1,67%   |
| On March 15, 2050   | 1,47%   |

## **Independent auditor's report**

**To: Program Management Unit (PMU) of the Ministry of Housing, Utilities, and Urban Communities (MHUUC)**

### **Report on the audit of the project statements of cash receipts and disbursements**

#### **Our opinion**

In our opinion, the project statement of cash receipts and disbursements present fairly, in all material respects, the cash receipts and disbursement for "Egypt Sustainable Rural Sanitation Services Program (SRSSP- Project No. P154112) for the period from July 1, 2017 to June 30, 2018 in accordance with cash basis of accounting.

#### **What we have audited**

##### **The project statements comprise:**

- Statements of project cash receipts and disbursements
- Statement of project cash balance reconciliation

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the project statement of cash receipts and disbursements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the project management unit "PMU" in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). and other independence requirements relevant to our audit of the project statement of cash receipts and disbursements in Egypt We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

#### **Other matters**

We draw attention to note (2) to the project cash receipts and disbursements statements, which describes the basis of accounting. The project cash receipts and disbursements statements are prepared for the purpose of providing information to PMU's management. As a result, the project cash receipts and disbursements statements may not be suitable for another purpose. Our report is intended solely for PMU's management, Ministry of Housing, Utilities, and Urban Communities (MHUUC) and should not be distributed to or used by parties other than PMU's management, Ministry of Housing, Utilities, Urban Communities (MHUUC).

#### **Responsibilities of management and those charged with governance for the project statements of cash receipts and disbursements**

Management is responsible for the preparation and fair presentation of the project statement of cash receipts and disbursement in accordance with cash basis of accounting and for such internal control as management determines is necessary to enable the preparation of the project cash receipts and disbursements statements that are free from material misstatement, whether due to fraud or error.

In preparing the project statement of cash receipts and disbursements, management is responsible for assessing the project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the project management unit financial reporting process.

### **Auditor's responsibilities for the audit of the project statements of cash receipts and disbursements**

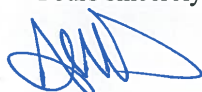
Our objectives are to obtain reasonable assurance about whether the project statements of cash receipts and disbursements a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these statements of cash receipts and disbursements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of cash receipts and disbursements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PMU's internal control.
- Evaluate the appropriateness of accounting policies used and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the project ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the statement of cash receipts and disbursements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the project statement of cash receipts and disbursements, including the disclosures, and whether the statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Yours sincerely,



Ashraf Mamdouh  
PwC Partner  
PricewaterhouseCoopers

17 October 2018



*Statements of project cash receipts and disbursements*

**“Egypt Sustainable Rural Sanitation Services Program”  
From July 1, 2016 to June 30, 2017**

| Statement of project cash receipts and disbursements “line description” | PMU<br>“USD”       | Dakahlia<br>“USD” | Sharkia<br>“USD” | Behera<br>“USD”  | Statement<br>Notes |
|---|--------------------|-------------------|------------------|------------------|--------------------|
| <b>Project Cash Opening Balance</b>                                     | <b>137,499,987</b> | -                 | -                | -                |                    |
| <b><i>Project Cash Receipts (A)</i></b>                                 |                    |                   |                  |                  |                    |
| Transfers from MHUUC- PMU to WSCs                                       | (6,281,283)        | 2,462,604         | 2,156,249        | 1,662,430        |                    |
| Cash deposit  |                    |                   |                  | 14,644           |                    |
| <b><i>Project Cash Expenditures (B)</i></b>                             |                    |                   |                  |                  |                    |
| Consultants   | (1,097,896)        |                   |                  |                  |                    |
| Independent verification agency   | (174,659)          |                   |                  |                  |                    |
| Advertising   |                    | (2,090)           |                  |                  |                    |
| Bank charges  | (27)               |                   |                  |                  |                    |
| <b><i>Project Cash Revaluation (C)</i></b>                              |                    |                   |                  |                  |                    |
| Foreign currency revaluation “EGP to USD”                               | -                  | (296,687)         | (257,425)        | (208,802)        |                    |
| <b>Project Cash Ending Balance</b>                                      | <b>129,946,122</b> | <b>2,163,827</b>  | <b>1,898,824</b> | <b>1,468,272</b> |                    |

*Statements of project cash receipts and disbursements*

**“Egypt Sustainable Rural Sanitation Services Program”  
From July 1, 2017 to June 30, 2018**

| Statement of project cash receipts and disbursements “line description” | PMU<br>“USD”       | Dakahlia<br>“USD” | Sharkia<br>“USD” | Behera<br>“USD”  | Statement<br>Notes |
|---|--------------------|-------------------|------------------|------------------|--------------------|
| <b>Project Cash Opening Balance</b>                                     | <b>129,946,122</b> | <b>2,163,827</b>  | <b>1,898,824</b> | <b>1,468,272</b> |                    |
| <b><i>Project Cash Receipts (A)</i></b>                                 |                    |                   |                  |                  |                    |
| Receipts from international bank for reconstruction and development     | 149,575,000        | -                 | -                | -                | (4)                |
| Transfers from MHUUC- PMU to WSCs                                       | (21,350,544)       | 14,403,235        | 5,366,243        | 1,581,066        | (5)                |
| Interest received   | -                  | 75,002            | -                | 158,981          |                    |
| <b><i>Project Cash Expenditures (B)</i></b>                             |                    |                   |                  |                  |                    |
| Contractors   | -                  | (8,456,090)       | (2,014,840)      | -                |                    |
| Consultants   | (3,897,659)        | (349,811)         | (564,231)        | (110,688)        |                    |
| Independent verification agency   | (376,074)          | -                 | -                | -                |                    |
| Project sludge analysis   | -                  | (111)             | -                | -                |                    |
| Workshops   | -                  | (963)             | (328)            | -                |                    |
| Furniture   | -                  | -                 | (19,783)         | -                |                    |
| Accommodation   | -                  | -                 | -                | (519)            |                    |
| Advertising   | (3,279)            | (18,400)          | (32,141)         | (6,361)          |                    |
| Printings   | -                  | -                 | (21,008)         | -                |                    |
| Interest transferred  | -                  | (74,985)          | -                | -                |                    |
| Bank charges  | (3,377)            | (38)              | (45)             | (42)             |                    |
| Rewards   | (4,431)            | (11,235)          | (7,571)          | (1,703)          |                    |
| Error adjustment “Wrong cash deposit”                                   | -                  | -                 | -                | (13,985)         |                    |
| <b><i>Project Cash Revaluation (C)</i></b>                              |                    |                   |                  |                  |                    |
| Foreign currency revaluation “ EGP to USD”                              |                    | (960,310)         | (1,844)          | 7,077            |                    |
| <b>Project Cash Ending Balance</b>                                      | <b>253,885,759</b> | <b>6,770,121</b>  | <b>4,603,276</b> | <b>3,082,098</b> |                    |

The accompanying notes on page 6 form an integral part of the project cash receipts and disbursements statements and to be read with.

Auditor’s report attached  
PMU management signature



*Statement of project cash balance reconciliation*

**“Egypt Sustainable Rural Sanitation Services Program”  
From July 1, 2017 to June 30, 2018**

| Statement of project cash balance reconciliation “line description” | 30 June 2018 “USD” | 30 June 2017 “USD” | Note # |
|---|--------------------|--------------------|--------|
| Cash balance per project books                                      | 268,341,254        | 135,477,045        |        |
| Cash balance per project banks                                      | 268,341,254        | 135,477,045        |        |
| Difference  | -                  | -                  |        |

*Notes to the project cash receipts and disbursements statements*

**Note 1: Scope of the Statement:**

The project cash receipts and disbursements statements are the representation and the responsibility of Project Management Unit (PMU) of the Ministry of Housing, Utilities, and Urban Communities (MHUUC).

The statement of project cash receipts and disbursements represents the cash receipts and disbursements of Sustainable Rural Sanitation Services Program (SRSSP) financed with Loan No. 8527-EG, administrated by Project Management Unit (PMU) of the ministry of Housing, Utilities, and Urban Communities (MHUUC) and implemented by water and sanitation companies (WSCs) “ElDakahlia, ElSharkia and ElBehera”

The statement of project cash balance reconciliation represents the reconciliation between the project cash balance per PMU and WSCs books with the PMU and WSCs Banks as at June 30, 2018

**Note 2: Basis of Accounting:**

Project Management Unit (PMU) of the ministry of Housing, Utilities, and Urban Communities (MHUUC) policy is to prepare the project cash receipts and disbursements statements in accordance with cash basis of accounting.

**Note 3: Foreign Exchange:**

Egypt sustainable rural sanitation services project cash receipts and disbursements statements are presented in United States Dollars “USD”, International bank for reconstruction and development cash transfers are received in “USD”, and expenditure are incurred in USD, EUR and Egyptian Pounds, Expenditure incurred in EGP and EUR have been converted to USD using the transaction date exchange rates.

**Note 4: Receipts from international bank for reconstruction and development:**

International bank for reconstruction and development transferred the below amounts during the period July 1, 2017 to June 30, 2018 to the ministry of Housing, Utilities, and Urban Communities (MHUUC), Project management unit (PMU)

| Transfer # | Date          | Amount      | Currency |
|------------|---------------|-------------|----------|
| 1          | 11 April 2018 | 78,625,000  | USD      |
| 2          | 27 June 2018  | 70,950,000  | USD      |
|            |               | 149,575,000 |          |

**Note 5: Transfers from the project management unit (PMU) to water sanitation companies (WSCs):**

The project management unit of Egypt sustainable rural sanitation services project transferred USD 21,350,544 during the period from July 1, 2017 to June 30, 2018 to the implementing water sanitation companies based on the provided investment plans.