

Egypt Additional Financing for Sustainable Rural Sanitation Services Program.

Financial audit of program, cash receipts and disbursements for “Egypt Additional Financing for Sustainable Rural Sanitation Services Program”, project no. P154112 for the period from July 1, 2020 to June 30, 2021

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

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 program statement

Our opinion

In our opinion, the program statement of cash receipts and disbursements, "Additional Financing for Egypt Sustainable Rural Sanitation Services Program (SRSSP- Project No. P154112) for the period from July 1, 2020 to June 30, 2021 was prepared in all material respects, in accordance with cash basis of accounting as described in note (2) to the statement of cash receipts and disbursements.

What we have audited

The program statement comprises:

- Statement of program cash receipts and disbursements
- The notes to the program statement which include significant accounting policies and other explanatory information.

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 program 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 Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and other independence requirements relevant to our audit of the program statement in Egypt. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of Egypt.



Emphasis of Matter-Basis of accounting and restriction on distribution

We draw attention to note (2) to the program statement, which describes the basis of accounting. The program statement is prepared for the purpose of providing information to PMU's management. As a result, the program statement may not be suitable for another purpose.

This report has been prepared in accordance with our Agreement with the Ministry of Housing, Utilities, and Urban Communities (MHUUC)], and has been prepared solely for Ministry of Housing, Utilities, and Urban Communities (MHUUC) and International Bank for Reconstruction and Development and Asian Infrastructure Investment Bank , and should not be distributed to or used by parties other than PMU's management, Ministry of Housing, Utilities, Urban Communities (MHUUC) and International Bank for Reconstruction and Development and Asian Infrastructure Investment Bank. To the extent permitted by law, PricewaterhouseCoopers, Egypt (PwC) does not accept or assume any liability, responsibility, or duty of care for any use of or reliance on this document by anyone, other than the intended recipient to the extent agreed in the Agreement. Accordingly, regardless of the form of action, whether in contract, tort or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind and disclaims all responsibility for the consequences of any person acting or refraining to act in reliance on the contents of this report or for any decisions made or not made which are based upon the contents of this report.

Responsibilities of management and those charged with governance for the program statement of cash receipts and disbursements

Management is responsible for the preparation of the program statement in accordance with cash basis of accounting as described in note 2 in the notes to the program statement and for such internal control as management determines is necessary to enable the preparation of the program statement that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the program statement of cash receipts and disbursements

Our objective is to obtain reasonable assurance about whether the program statement of cash receipts and disbursements is 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 based on the statement 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 program statement, 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 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.

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,

A handwritten signature in blue ink, appearing to read 'Ashraf Mamdouh', is written over the typed name.

Ashraf Mamdouh
Partner
PricewaterhouseCoopers Egypt

1 February 2022



Statement of program cash receipts and disbursements
“Egypt Sustainable Rural Sanitation Services Program”
From July 1, 2020 to June 30, 2021

Statement of program cash receipts and disbursements “line description”	PMU “USD”	Dakahlia “USD”	Sharkia “USD”	Menofia “USD”	Damietta “USD”	Gharbia “USD”	Notes
Program Cash Opening Balance	44,670,733	10,146,972	7,933,418	249,645	164,157	189,275	
<u>Program Cash Receipts (A)</u>							
Receipts from international bank for reconstruction and development	85,409,100						Not
Receipts from Asian Infrastructure Investment Bank	17,820,000						Not
Transfers from MHUUC- PMU to WSCs	(42,455,009)	15,524,988	22,350,604	2,425,362	921,429	1,232,626	Note (5)
Interest received		1,050,712	816,144	63,679	29,552	44,053	
Wrong Deposit			47,811				Note (6)
Refunded Expenses			175,025				Note (7)
<u>Program Cash Expenditures (B)</u>							
Contractors		(19,275,886)	(25,066,171)				
Consultants	(680,729)			(297,129)		(6,511)	
Advertisement		(1,909)					
Training					(5,191)	(5,202)	
Bank charges	(1,280)	(137)	(237)	(14)	(34)	(40)	
Total program cash expenditures	(682,009)	(19,277,932)	(25,066,408)	(297,142)	(5,225)	(11,753)	
<u>Program Cash Revaluation (C)</u>							
Foreign currency revaluation “EGP to USD”	-	129,087	70,241	8,094	(2,202)	(3,140)	
Program Cash Ending Balance	104,762,815	7,573,827	6,326,835	2,449,637	1,107,711	1,451,061	
Cash balance per program banks	104,762,815	7,573,827	6,326,835	2,449,637	1,107,711	1,451,061	
Difference	-	-	-	-	-	-	

The accompanying notes on page 7-10 form an integral part of the program cash receipts and disbursements statement and to be read with.

Auditor’s report attached

PMU management signature

Note 1: Background and Scope of the Statement:

Background

On December 9, 2018 loan agreement no L0052A and on October 13,2018 and loan agreement no.8896-EG were signed between Arab republic of Egypt represented by minister of international cooperation Mrs. Sahar Nasr and Asian Infrastructure Investment Bank and International Bank for Reconstruction and Development, to provide a Co-financing with total amount of \$585,000,000 divided between International Bank for Reconstruction and Development and Asian Infrastructure Investment Bank.

The MHUCC got the presidential ratification related to International Bank for Reconstruction and Development on May 28, 2019, and related ratification to Asian Infrastructure Investment Bank on June 26,2019. Accordingly, the International Bank for Reconstruction and Development transferred the 1st withdrawal on June 28,2019, 2nd withdrawal on February 10, 2020, 3rd withdrawal on Jan 14,2021, 4th withdrawal on February 2,2021 and 5th withdrawal on March 21,2021. The Asian Infrastructure Investment Bank transferred the 1st withdrawal on March 3,2021 and 2nd withdrawal on June 21,2021. The objective of the program is to strengthen institutions and policies for increasing access and improving rural sanitation services in the governorates of Dakahliya, Sharkiya, Damietta, Gharbiya, and Menoufiya 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 892,000 people living in highly polluted villages and satellite areas within the program area in the five participating governorates of Dakahliya, Sharkiya, Damietta, Gharbiya and Menoufiya through the construction by the respective WSCs of 178,317 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) development of a tariff structure for sanitation services that would enable cost recovery; (ii) formulation of a National Rural Sanitation Strategy; and (iii) 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.
3. (i) Strengthening the national regulatory framework for water and sanitation, (ii) developing a financial and tariff model that allows for sustainable cost recovery for water and sanitation and (iii) undertaking analytical studies to inform the national water and sanitation sector strategy, and developing an action plan with timelines of the National Water Sanitation Sector Strategy, and developing an action plan with timelines for implementation for the National Water Sanitation Sector Strategy.

Loan settlement

Both loans will be settled as the below:

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each March 15 and September 15 Starting from March 15, 2024 through March 15, 2052	1,72%
On September 15, 2052	1,96%

Scope of the Statement

The program cash receipts, and disbursements statement is the representation and the responsibility of Program Management Unit (PMU) of the Ministry of Housing, Utilities, and Urban Communities (MHUUC).

The statement of program cash receipts and disbursements represents the cash receipts and disbursements of Sustainable Rural Sanitation Services Program (SRSSP) financed with Loan No. 8896-EG and loan No. L0052A, administrated by Program Management Unit (PMU) of the ministry of Housing, Utilities, and Urban Communities (MHUUC) and implemented by water and sanitation companies (WSCs) “Dakahliya, Sharkiya, Damietta, Gharbiya and Menoufiya”.

Note 2: Basis of Accounting:

Program Management Unit (PMU) of the ministry of Housing, Utilities, and Urban Communities (MHUUC) policy is to prepare the program cash receipts and disbursements statement in accordance with cash basis of accounting. The program management unit “PMU recognizes transactions only when cash is received or paid”. Statement of receipts and expenditures covers cash receipts, cash disbursements, and opening and closing cash balances in addition to cash balances per the project banks.

Note 3: Foreign Exchange:

Egypt sustainable rural sanitation services program cash receipts and disbursements statement is presented in United States Dollars “USD”, International bank for reconstruction and development cash transfers, are received in “USD”, and expenditure are incurred in USD and Egyptian Pounds, Expenditure incurred in EGP have been converted to USD using the average exchange rate. Cash balances in EGP are translated to USD using the closing rates at the end of each financial period.

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

International bank for reconstruction and development transferred an amount of USD 56,750,000 on January 1,2021, an amount of USD 19,409,100 on February 2,2021, and amount of USD 9,250,000 on March 21,2021. The Asian Infrastructure Investment Bank transferred an amount of USD 8,910,000 on March 3,2021, and an amount of USD 8,910,000 June 21,2021 to the ministry of Housing, Utilities, and Urban Communities (MHUUC), Program management unit (PMU).

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

The program management unit of Egypt sustainable rural sanitation services program transferred USD 42,455,009 during the period from July 1, 2020 to June 30, 2021 to the implementing water sanitation companies based on the provided investment plans.

Note 6: Wrong Cash deposits:

This amount represents a transfer by an amount of USD 47,811 equivalent to EGP 752,070 to the Sharkia WSC, this transfer was made by mistake as it's not related to the program and subsequently refunded on 21 September 2021.

Note 7: Refunded Expenses:

The refunded expenses represent the amount transferred back to WSC Sharkia program bank account from its operations bank account. The refunded amounts are the full retention amount that were not paid yet by the WSC of Sharkia to its contractors and were kept in the WSC operations bank account till the end of the project.

Annex 1: Cumulative statement of project cash receipts and disbursement from May 28, 2019 to June 30, 2021

**“Egypt Sustainable Rural Sanitation Services Program”
From May 28, 2019 to June 30, 2021**

Statement of program cash receipts and disbursements “line description”	PMU “USD”	Dakahlia “USD”	Sharkia “USD”	Menofia “USD”	Damietta “USD”	Gharbia “USD”	Notes
Program Cash Opening Balance transferred on 28 June 2019.	71,247,270						
<u>Program Cash Receipts (A)</u>							
Receipts from international bank for reconstruction and development	99,409,100						
Receipts from Asian Infrastructure Investment Bank	17,820,000						
Transfers from MHUUC- PMU to WSCs	(83,030,603)	35,642,515	42,205,393	2,676,041	1,085,418	1,421,236	
Interest received		1,329,518	976,814	67,169	32,244	48,090	
Wring Deposit			47,811				
Refunded Expenses			175,025				
<u>Program Cash Expenditures (B)</u>							
Contractors		(29,578,824)	(36,755,259)				
Consultants	(680,729)			(297,129)		(6,511)	
Advertisement		(7,946)					
Training					(5,191.00)	(5,202)	
Bank charges	(2,224)	(187.97)	(289)	(23)	(67)	(46)	
Total program cash expenditures	(682,953)	(29,586,958)	(36,755,548)	(297,152)	(5,258)	(11,759)	
<u>Program Cash Revaluation (C)</u>							
Foreign currency revaluation “EGP to USD”	-	188,753	(322,660)	3,579	(4,693)	(6,506)	
Program Cash Ending Balance	104,762,814	7,573,827	6,326,835	2,449,637	1,107,711	1,451,061	
Cash balance per program banks	104,762,814	7,573,827	6,326,835	2,449,637	1,107,711	1,451,061	
Difference	-	-	-	-	-	-	