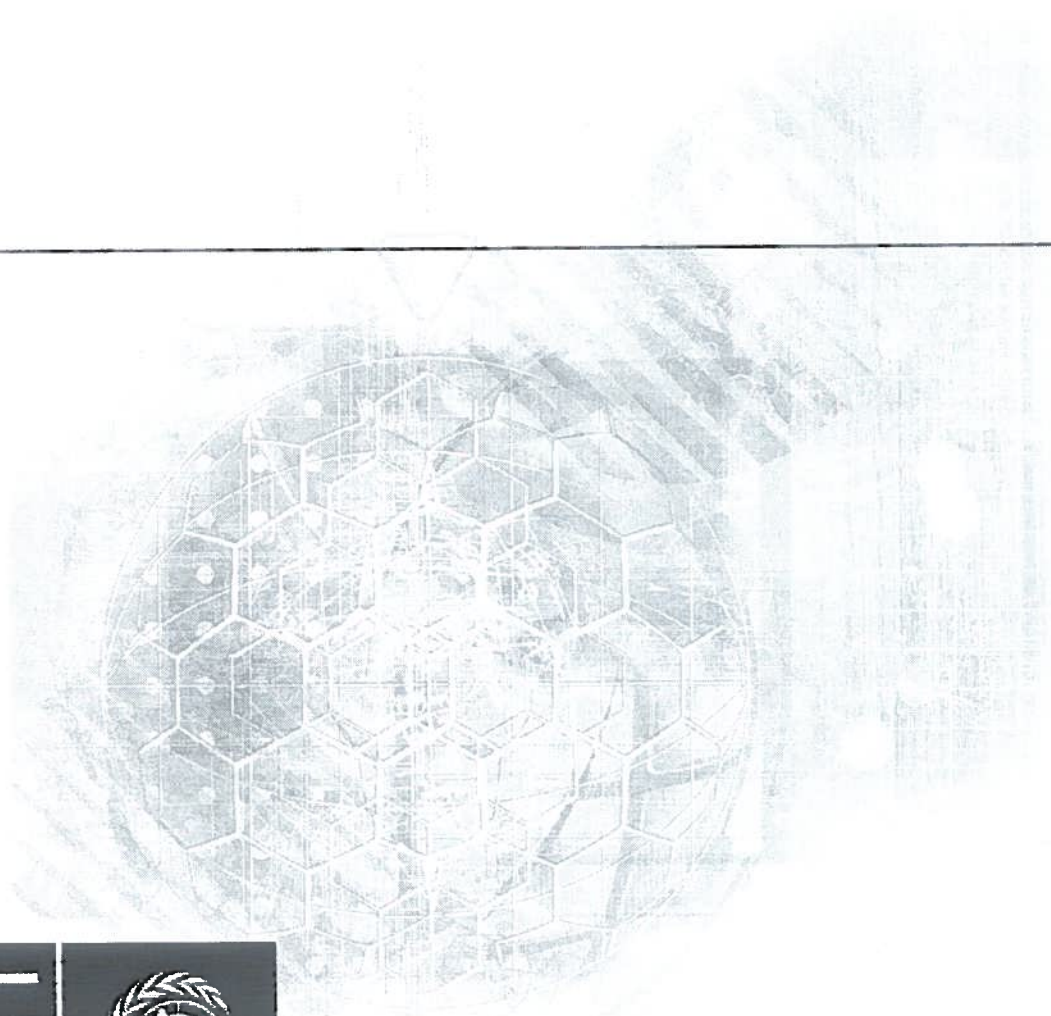




**Auditor's Report and Management Letter
VSU Pilot Project, Atlas Award No. 00098237
from 1 January 2018 through 31 December
2018**



U N
D P

Contents

	Page
Independent Auditor's Report	3
Statement of Expenditures	5
Notes to the statements	9
Management Letter	11
<u>Appendix</u>	
Appendix A	Follow Up Action Plan
Appendix B	Certified Action Plan Year 2018

Independent auditor's report

To: National Project Director and
Resident Representative - United Nations Development Programme (UNDP)
Cairo, Egypt

a) Certification of Statement of Expenses (UNDP CDR)

We have audited the accompanying Statement of Expenses (the statement) of the UNDP project atlas award no. 00098237 and project 00101625, the VSU Pilot Project as implemented by the Ministry of State for Environmental Affairs for the period from 1 January 2018 through 31 December 2018 .

Opinion

In our opinion, the attached statement of expenses, present fairly, in all material respects the expenditure of \$37,600 (excluding UNDP Support Services expenditures of \$1,351) incurred by the UNDP project of VSU Pilot Project for the period from 1 January 2018 to 31 December 2018 in accordance with agreed upon accounting policies and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project;(iii) in compliance with the relevant UNDP regulations and rules, policies and procedures; and (iv) supported by properly approved vouchers and other supporting documents.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of expenses section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management Responsibilities

Management is responsible for the preparation of the statement of expenses for VSU Pilot Project and for such internal controls as management determines is necessary to enable the preparation of a statement of expenses that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the statement of expenses 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 on the basis of these documents.

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 expenses, 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 organization's internal control.

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.

b) Certification of Assets and equipment

An audit opinion is not applicable for Award 00098237 since it did not have non-expandable equipment.

c) Certification of Statement of Cash Position

Since all project expenditures are financed through UNDP disbursements, and since the project do not maintain a bank account and/or petty cash balance as of 31 December 2018, therefore we did not issue an audit report on the statement of cash position.

This report is intended solely for the information and use of the United Nations Development Programme (UNDP) , Government of Arab Republic of Egypt , of the VSU Pilot Project's management and others within the organization. However, upon release by the UNDP, this report is a matter of public record and its distribution is not limited.

Russell Bedford Sherif Dabbous,
Cairo, Egypt.
3 March 2019
3, Mamar Behar, Down Town, Cairo
Tel/Fax: +2 (02) 23951133 - 23934226



Combined Delivery Report By Project

UN Development Programme
Report ID: unglcdrp

Selection Criteria:

Business Unit : EGY10
Period : Jan-Dec (2018)
Selected Project Id : 00098237
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : ALL

Project Id : 00098237 VSU Pilot project	Period :	Jan-Dec (2018)		
Output # : 00101625 VSU Pilot project	Impl. Partner :	99999 UNDP		
	Location :	Egypt		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp

Dept: 44805 (Egypt - Energy & Environment)

Fund : 63030 (MP Prog Res Gen Prog)

64397 - Services to projects -CO staff	0.00	945.64	0.00	945.64
71605 - Travel Tickets-International	0.00	1,020.77	0.00	1,020.77
71615 - Daily Subsistence Allow-Intl	0.00	3,372.19	0.00	3,372.19
72120 - Svc Co-Trade and Business Serv	0.00	33,207.00	0.00	33,207.00
74596 - Services to projects -GOE	0.00	405.27	0.00	405.27
Total for Fund 63030	0.00	38,950.87	0.00	38,950.87
Total for Dept : 44805	0.00	38,950.87	0.00	38,950.87
Total for Output : 00101625	0.00	38,950.87	0.00	38,950.87

Project Total :	0.00	38,950.87	0.00	38,950.87
------------------------	-------------	------------------	-------------	------------------

Signed By : _____ Date : _____

Signed By : _____ Date : _____



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Selection Criteria:

Business Unit : EGY10
Period : Jan-Dec (2018)
Selected Project Id : 00098237
Selected Fund Code : ALL
Selected Dept. Ids : ALL
Selected Outputs : ALL

Project Id : ALL	Period :	Jan-Dec (2018)	Impl. Partner :		Total Exp	
Output # : ALL	Location :		Govt Exp	UNDP Exp	UN Agencies Exp	
44805 - Egypt - Energy & Environmt			0.00	38,950.87	0.00	38,950.87



Combined Delivery Report By Project

Funds Utilization

Selection Criteria:

Business Unit : EGY10
Period : Jan-Dec (2018)
Selected Project Id : 00098237
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : ALL

No Data found for the Selection Criteria

Notes to the statements

31 December 2018

1. Introduction and Background

A. Project Main Information

VSU Pilot Project was initiated under the UNDP Atlas award no. 00098237 .

The project is implemented by Ministry of State For Environmental Affairs. .

As per the budget revision dated 27 November 2018, the project start date is year 2018 and end date is year 2019. The project approved budget is \$ 295,000. The project budget for year 2018 and beyond is \$295,000 fully funded from MP Prog Res Gen Prog (MPPU).

B. Project Background and Objectives:

The objective of this project is support very small PU users in a cost-effective way by :

- Optimizing validating and disseminating easy to use low cost PU metering equipment and
- Introducing pre-packaged systems

While the earmarked technologies will be applicable to VSUs anywhere in the world, the country selected for implementation is Egypt. Egypt is a party to the Vienna convention and the Montreal protocol and ratified the London, Copenhagen and Montreal amendments. The country is fully committed to the phaseout of HCFCs and willing to take the lead in assessing and implementing new HCFC phaseout technologies, particularly in the foam sector – as it did for CFCs in 1992 when it submitted and completed the first foam sector investment projects ever under the MLF . Egypt has local PU system house that frequently combine importations and distributions for major international chemical and equipment manufacturers with local blending for SMEs . In addition, most international PU chemical suppliers are represented with offices or their own system houses. Its existing HCFC phaseout program has a section dedicated to VSUs that is in need for the outcome of this demonstration project but will not require additional investment funding . Similar projects in Brazil Mexico and Nigeria are also in need to address its VSU customers .

Impact of project Montreal Protocol Obligations related to VSUs :

The project is a pilot project aimed to optimize PU sector technologies and will contribute indirectly to the fulfilment of Montreal protocol obligations in any country with a VSU

subsector . In Egypt, Mexico and Nigeria this will facilitate existing, approved programs and NOT lead to additional funding- just better implementation because, if successfully validated the optimized technology will contribute to availability of better and cost-effective phaseout options .

2. Significant Accounting Policies

A. Description of the Statements

1. Statement of Expenditures - Combined Delivery Report (CDR)

The CDR combines the project expenditures from three disbursement sources for a calendar year. The three disbursement sources include:

- a. The implementing partner disbursements are recorded in the Government disbursement column in the CDR
- b. UNDP disbursements are recorded in UNDP disbursement column in the CDR These disbursement includes the Direct Payment which the implementing partner is responsible for the expenditure but requesting UNDP to effect payments to vendors/ consultant on its behalf, and UNDP Support Services which is the project expenditures that UNDP is fully responsible and accountable for.
- c. The UN agencies expenditures related to the project are recorded in the UN agencies column in the CDR.

B. Basis of Accounting

1. Statement of Combined Delivery Report (CDR)

The Combined Delivery Report (CDR) 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.

C. Foreign Currency Exchange:

1. For the Statement of Expenditures (Combined Delivery Report)

For funds disbursed in U.S.\$, transactions are recorded and reported in U.S.\$. For funds disbursed in Egyptian Pounds (L.E), the project records all transactions in Egyptian pound. However, for UNDP reporting purposes , the project funds received and expenditures paid in Egyptian pounds (L.E) have been converted to U.S.\$ at fixed monthly exchange rate determined by the UNDP country office. The resulted foreign currency exchange differences is charged to foreign currency exchange loss or gain account.

Management Letter

We have completed our financial audit of the financial reports of VSU Pilot Project funded by the UNDP through Alas award no. 00098237 as implemented by the Ministry of State For Environmental Affairs during the period from 1 January 2018 through 31 December 2018. We have issued our reports on the statement of expenditure for the year ended 31 December 2018 dated 3 March 2019.

In planning and performing our audit of the financial reports and in accordance with the Terms of Reference, we considered the general review of the project progress and the assessment of the project internal controls in order to determine the general compliance with broad project document covenants as well as our auditing procedures for the purpose of expressing our opinion on the financial reports and not to provide assurance on the internal control structure and/or compliance with specific covenants relating to specific performance criteria /output.

In addition and in accordance with annex 1 to the terms reference, we have assessed the overall management of the project's implementation, review work plans, progress reports, project budget, project expenditures, project delivery, recruitment, operations, financial closing and disposal /transfer of assets.

The management of the VSU Pilot Project is responsible for management and implementation of project's agreed upon activities as well as establishing and maintaining an adequate monitoring, evaluation and reporting system that measures and reports project's timelines in relation to progress milestones and planned completion date. Also, VSU Pilot Project's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by the management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of monitoring, evaluation and reporting system is to provide management with reasonable, but not absolute, assurance that project management has a results oriented reporting system which provided financial and performance results, actual results were in the same format as the budget, variances between budgeted and actual amounts were accounted for, meaningful measurements of actual performances were provided, accurate and timely performance reports were provided, and information necessary to periodically evaluate the cost versus benefits of the project were provided.

While 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 the financial reports in conformity with the basis of accounting described in Note 2 to the financial reports.

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 financial reports described in the first paragraph, we obtained an understanding of the internal control structure. However, our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses

During our audit, we noted certain issues involving the project internal control structure which we believe, are necessary to be highlighted to the project management.

Internal Control Assessment

We had conducted a general assessment of Internal Controls in accordance to the established internal control standards. Our assessment was conducted as part of our audit of the UNDP NIM project's and not for the expressing opinion on it. The procedures included the following:

- Reviewing the expenses made by the implementing partner and assess whether they are in accordance with the project document, Annual Work Plan (AWP) and budgets and in compliance with the UNDP Programme and Operations Policies and Procedures (POP) on results and accountability.
- Review the process for procurement/ contracting and assess whether it was transparent and competitive.
- Reviewing the use and control and disposal of non expendable equipment and assess whether it is in compliance with UNDP POP on results and accountability and also whether the equipment procured met the identified needs and whether its use was in-line with intended purposes.
- Review the process for recruiting project personal and consultants and assess whether it was transparent and competitive
- Review the project's accounting records and assess their adequacy for maintaining accurate and complete records of receipts and disbursements.
- Reviewing that the requests for direct payments and ensure that they were signed by the authorized governmental officials.

Available Facilities and Right of Access

The project maintain proper filing of its records which includes electronic filing and hard copies expenditures with its proper back up documents. We had access to all available documents.

In addition, we have considered the prior audit findings while performing our audit and we have followed up with management on the proper corrective action taken to address those findings, if any.

Follow up on Prior Audit Findings

The 2017 financial year was not subjected to external audit as the project starts in 2018. Therefore, there is no prior audit findings.

Current Year Management Issues and Findings

Project Progress and Timelines

For reviewing of project progress, we undertake the following procedures:

- Reviewing the annual and quarterly work plan, quarterly and annual financial reports, and requests for direct payments and assets terms of their timely and their compliance with the project document or the AWP , and the UNDP Programme Operations Policies and Procedures (POPP) on Results Management.
- Reviewing the annual project report prepared by the implementing Partner and assets in terms of compliance with UNDP guidelines.
- Reviewing whether the decisions and/or recommendation of the above activities have been followed through by the implementation partner.
- Reviewing the of project progress.
- Reviewing whether implementation services of the UN Agency were provided in line with the project document or AWP.

Which arrived to the following:-

The project is implemented by Ministry of State For Environmental Affairs. .

The project start date is year 2018 and end date is year 2019.

The project approved budget is \$ 295,000. The project budget for year 2018 and beyond is \$295,000 fully funded from MP Prog Res Gen Prog (MPU).

The project's rate of delivery as of 31 December 2018 was 39% calculated as follows:-

Total Expenditures for the year ended 31 December 2018/Project budget revision as of 27 November 2018

The results of our review identify one material condition related to the project progress, monitoring, evaluation and reporting system as follow :

A. Project Rate of Delivery

1. Rate of delivery is 39%

Condition

The project's rate of Delivery as of 31 December 2018 was 39%

Risk Severity : **Low**

Recommendation

We recommended the project management to ensure timely supervision and monitoring over the project's Rate of Delivery. Before the end of the fiscal year, project management should initiate a budget revision to rephrase funds in case it was determined that a material portion of the budget will not be spent as planned.

Management Response

Appendix A

Certified Follow Up Action Plan

Follow Up Action Plan – Year 2017 audit data and observations

Award No:		00098237	Output No:		101625	Opinion Type:		Unqualified				
Obs No	Observation	Recommendation	Audit Area	Risk Severity	Proj/ CO Mgt Comm.	Action(s) Planned	Target Impl. Date	Action Unit	Person Responsible for Action	Updated Status	Actual Impl. Date	Descri. of Status Update
1	The 2017 financial year was not subjected to external audit as the project starts in 2018. Therefore, there is no prior audit findings.											

<p>Implementing Partner (IP)</p> <p>Signature of IP Official: _____</p> <p>Name and title (print): Dr. Ezzat Lewis, Head of the National Ozone Unit</p> <p>Date: _____</p>	<p>UNDP Country Office</p> <p>Signature of UNDP Official: _____</p> <p>Name and title (print): Ms. Randa Aboul-Hosn, Country Director</p> <p>Date: _____</p>	<p>Government Auditors/Audit Firm</p> <p>Signature of Audit firm Official: _____</p> <p>Name and title (print): Sherif Dabbous, Managing Partner Russell Bedford Sherif Dabbous</p> <p>Date: _____</p> <p>Stamp and Seal of audit firm: _____</p>
---	---	--

Appendix B
Current Action Plan – Year 2018

Certification of Action Plan – Year 2018 audit data and observations

Table 1- Audit of the UNDP CDR

UNDP Combined Delivery Report (CDR) as at 31 December 2018							
L	Project No.	Output No.	Amount audited and certified (US\$)	Audit opinion (unqualified, qualified, adverse, disclaimer)	Total amount of qualification of audit opinion (if qualified, adverse or disclaimer opinion)	Reason(s) for qualification of audit opinion and breakdown of NFI amount (US	Observation(s) that had impact on qualification of audit opinion (list observation number(s) and page of audit report/management letter)
	00098237	00101625	Amount audited and certified \$37,600	Unqualified	NA	NA	NA

<p>Implementing Partner (IP)</p> <p>Signature of IP Official: _____</p> <p>Name and title (print): Dr. Ezzat Lewis, Head of the National Ozone Unit</p> <p>Date: _____</p>	<p>UNDP Country Office</p> <p>Signature of UNDP Official: _____</p> <p>Name and title (print): Randa Aboul-Hosn, Country Director</p> <p>Date: _____</p>	<p>Government Auditors/Audit Firm</p> <p>Signature of Audit firm Official: _____</p> <p>Name and title (print): Sherif Dabbous, Managing Partner Russell Bedford Sherif Dabbous</p> <p>Date: _____</p> <p>Stamp and Seal of audit firm: _____</p>
---	---	--

Table 2- Audit of the statement of cash position

Statement of Cash Position as at 31 December 2018				
Project No.	Output No.	Value of Cash Position Statement as of 31 December 2018 (US\$)	Audit Opinion Statement of Cash Position	Total amount of qualification Statement of Cash Position (US\$)
00098237	00101625	NA	NA	NA

<p>Implementing Partner (IP)</p> <p>Signature of IP Official: _____</p> <p>Name and title (print): Dr. Ezzat Lewis, Head of the National Ozone Unit</p> <p>Date: _____</p>	<p>UNDP Country Office</p> <p>Signature of UNDP Official: _____</p> <p>Name and title (print): Randa Aboul-Hosn, Country Director</p> <p>Date: _____</p>	<p>Government Auditors/Audit Firm</p> <p>Signature of Audit firm Official: _____</p> <p>Name and title (print): Sherif Dabbous, Managing Partner Russell Bedford Sherif Dabbous</p> <p>Date: _____</p> <p>Stamp and Seal of audit firm: _____</p>
---	---	--

Table 3- Audit of the statement of assets and equipments

Statement of Assets and Equipment as at 31 December 2018				
Project No.	Output No.	Value of Assets and Equipments as of 31 December 2018 (Cumulative from project start date) (US\$)	Audit Opinion Statement of Assets and Equipment	Total amount of qualification on the Statement of Assets and Equipment (US\$)
00098237	00101625	NA	NA	NA

<p>Implementing Partner (IP)</p> <p>Signature of IP Official: _____</p> <p>Name and title (print): Dr. Ezzat Lewis, Head of the National Ozone Unit</p> <p>Date: _____</p>	<p>UNDP Country Office</p> <p>Signature of UNDP Official: _____</p> <p>Name and title (print): Randa Aboul-Hosn, Country Director</p> <p>Date: _____</p>	<p>Government Auditors/Audit Firm</p> <p>Signature of Audit firm Official: _____</p> <p>Name and title (print): Sherif Dabbous, Managing Partner Russell Bedford Sherif Dabbous</p> <p>Date: _____</p> <p>Stamp and Seal of audit firm: _____</p>
---	---	--

Table 4- Report on audit observations and recommendations

Project No.	Output No.	Observ. No	Audit Observation	Recommendation	Audit Area	Risk Severity	Project/CO Mngmt. Comments
00098237	00101625	1	<u>Project's Delivery Rate</u> The project's rate of Delivery as of 31 December 2018 was 39%	We recommended the project management to ensure timely supervision and monitoring over the project's Rate of Delivery. Before the end of the fiscal year, project management should initiate a budget revision to rephrase funds in case it was determined that a material portion of the budget will not be spent as planned.	Project progress and timelines (rate of delivery)	Low	

<p>Implementing Partner (IP)</p> <p>Signature of IP Official: _____</p> <p>Name and title (print): Dr. Ezzat Lewis, Head of the National Ozone Unit</p> <p>Date: _____</p>	<p>UNDP Country Office</p> <p>Signature of UNDP Official: _____</p> <p>Name and title (print): Randa Aboul-Hosn, Country Director</p> <p>Date: _____</p>	<p>Government Auditors/Audit Firm</p> <p>Signature of Audit firm Official: _____</p> <p>Name and title (print): Sherif Dabbous, Managing Partner Russell Bedford Sherif Dabbous</p> <p>Date: _____</p> <p>Stamp and Seal of audit firm: _____</p>
---	---	--

TOTAL COST OF PROJECT TO MLF:

US\$ 315,650

COST-EFFECTIVENESS:

7.4 US\$/kg

PROJECT MONITORING MILESTONES: Included

PROJECT SUMMARY

- The objective of this project is support very small PU users in a cost-effective way by:
- optimizing, validating and disseminating easy to use low cost PU metering equipment and
 - introducing pre-packaged systems

While the earmarked technologies will be applicable to VSUs anywhere in the world, the country selected for implementation is Egypt. Egypt is a Party to the Vienna Convention and the Montreal Protocol and ratified the London, Copenhagen and Montreal amendments. The country is fully committed to the phaseout of HCFCs and willing to take the lead in assessing and implementing new HCFC phaseout technologies, particularly in the foam sector—as it did for CFCs in 1992 when it submitted and completed the first foam sector investment projects ever under the MLF. Egypt has local PU system houses that frequently combine importations and distributions for major international chemical and equipment manufacturers with local blending for SMEs. In addition, most international PU chemicals suppliers are represented with offices or their own system houses. Its existing HCFC phaseout program has a section dedicated to VSUs that is in need for the outcome of this demonstration project but will not require additional investment funding. Similar projects in Brazil, Mexico and Nigeria are also in need to address its VSU customers.

IMPACT OF PROJECT MONTREAL PROTOCOL OBLIGATIONS RELATED TO VSUs

This project is a pilot project aimed to optimize PU sector technologies and will contribute indirectly to the fulfillment of Montreal Protocol obligations in any country with a VSU subsector. In Egypt, Mexico and Nigeria this will facilitate existing, approved programs and NOT lead to additional funding—just better implementation because, if successfully validated, the optimized technology will contribute to availability of better and cost-effective phaseout options.

Combined Delivery Report By Project



UN Development Programme
Report ID: unglcdrp

Selection Criteria:

Business Unit : EGY10
Period : Jan-Dec (2018)
Selected Project Id : 00098237
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : ALL

Project Id : ALL	Period : Jan-Dec (2018)	Impl. Partner Location :	UNDP Exp	UN Agencies Exp	Total Exp
Output # : ALL					

44805 - Egypt - Energy & Environment	0.00	38,950.87	0.00	38,950.87
--------------------------------------	------	-----------	------	-----------



Funds Utilization

Selection Criteria :

Business Unit : EGY10
Period : Jan-Dec (2018)
Selected Project Id : 00098237
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : ALL

No Data found for the Selection Criteria