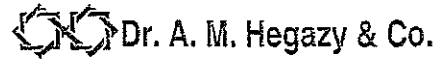


**Inclusive Housing Financing Program
Social Housing Fund**

**Auditor's Report
&
Special Purpose Financial Statement**

June 30th 2019



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The Governing Body

Social Housing and Mortgage Finance Fund (SHMFF)

December 2nd 2019

Dear Sirs,

This report represents the results of our financial audit of the World Bank Loan No. 8498 - EG to finance the implementation and to improve the affordability of formal housing for low income households in the Arab Republic of Egypt and to strengthen the SHMFF's capacity to design policies and coordinate programs in the social housing sector for the year ended June 30th 2019.

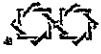
Audit Objectives:

The objective of this engagement was to conduct a financial audit of the funds receipts and expenditures and related Special Accounts of the World Bank Loan No. 8498 EG for the year ended June 30th 2019. As required by internationally accepted standards on auditing, we have made specific inquiries of the management and others about the representations embodied in the financial statement and the effectiveness of the internal control over financial reporting. The results of our audit tests, the responses to our inquiries, and the written representations of the management comprise the evidential matter upon which we intend to rely to forming our opinion.

Our activities were confined to auditing the procedures of funds expenditures of the loan project, at all levels and division, for the financial year ended June 30th 2018, according to the Loan agreement and the guidelines of the World Bank.

An audit in accordance with International Standards on Auditing does not provide absolute assurance about or guarantee the accuracy of the said statement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is an inherent risk that material errors, fraud, or illegal acts, may exist and not be detected by us.

In planning and performing our audit of the statement of funds receipts and expenditures of the World Bank Loan No. 8498 EG for the year ended June 30th 2019, we considered its internal control to determine our auditing procedures for the purpose of expressing our opinion on the said statement and not to provide absolute assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in internal control that might be a weakness. A weakness is a condition in which the design or operation of one or



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more of the internal control components dose not reduce to relatively low level the risk that errors or fraud in amounts that would be material in relation to the statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable assurance about whether the special purpose financial statement of the Sources and Uses of Funds Statement of the World Bank Loan No. 8498 EG is free of material misstatement. Such criteria required us to search for mistakes and irregularities which may seriously affect the usage lists. However as our examination relies on selective checking for accounting records, there is no absolute guarantee that all mistakes and irregularities will be discovered.

Additionally, auditing checking should not be relied on to uncover illegal conducts that affect the usage lists, which are disclosed in our examination.

Professional standards require that we advise you of any matter relating to our audit and based on the audited sample which represents 71.09% of the total amounts drawn during the year ended June 30th 2019, we communicated our comments with the project management and agreed with the feedback from the project management in addition such comments do not reveal internal control weakness.

Please do not hesitate to contact us if you require any clarifications.

Sincerely

Dr. Khaled A. M. Hegazy
Partner

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- 2- Special Purpose Financial Statement as at 30th June 2019.**
- 3- Notes to the Special Purpose Financial Statement as at 30th June 2019.**

Social Housing and Mortgage Finance Fund (SHMFF)
Inclusive Housing Finance Program
Financial Management Unit (FMU)
Partially Funded From World Bank Loan No 8498 EG
Sources and Uses of Funds Statements
For 1 July 2018 to 30 June 2019

	Government Budget Line	For 1 July 2018 to 30 June 2019	Amounts in US \$	
				Cumulative till 30 June 2019
<i>Cash Receipt</i>				
World Bank (WB)				
Social Housing and Mortgage Finance Fund (SHMFF)	Third Line	79,093,051		264,819,330
	Third Line	525,694		1,325,944
Total Financing		79,618,745		266,145,274
<i>Less:</i>				
<u>Uses of Funds</u>				
Demand Side Housing Subsidy Support	Forth Line	79,092,849		264,818,847
Improving Management Information System	Second Line	270,218		700,416
		79,363,067		265,519,263
<u>Other Expenditure</u>				
Salaries & Wages	First Line	241,922		584,604
Others	Second Line	13,756		41,407
		255,678		626,011
Total Expenditures		79,618,745		266,145,274
Net Funds balances				

Social Housing and Mortgage Finance Fund (SHMFF)
Inclusive Housing Finance Program
Partially Funded from the World Bank's Loan No 8498 EG
Notes to the Special Purpose Financial Statement
From 1 July 2018 to 30 June 2019

Note 1 -Nature of Activities

The Arab Republic of Egypt and the International Bank for Reconstruction and Development agreed that the latter shall provide finance to the Social Housing and Mortgage Finance Fund on June 10th, 2015, through Loan No 8498 EG. The Bank agrees to lend an amount of five hundred million United States Dollar (US\$500 Million)

The objective of the Program is to improve the affordability of formal housing for low income households in the Arab Republic of Egypt and to strengthen the SHMFF's capacity to design policies and coordinate programs in the social housing sector.

The Program consist of the following parts:

The Program is a part of the Borrower's Social Housing Program and consists of the following components:

Part A: Institutional Strengthening of SHMFF

1. Enhancing the capacity of SHMFF to improve the Borrower's housing sector through, *inter alia*: (a) coordination and consolidation of housing entities and functions; (b) formulation of social housing policy, programs, regulations and procedures; and (c) preparation and implementation of reforms to improve the efficiency and equitability of the housing system.
2. Enhancing the effectiveness of SHMFF to provide oversight to the implementation of the Program through, *inter alia*: (a) the establishment of an improved management information system; (b) the establishment of a sound fiduciary management and governance structure and (c) improving monitoring and evaluation capacity.

Part B: Demand-side Housing Subsidy Support

1. Affordable Mortgage Program (AMP)
2. Public Rental Subsidy Program for Tenants
3. Private Rental Subsidy Programs for Investors
4. Private Rental Subsidy Programs for Tenants,

The Program Duration:

The Program closing date is April 30, 2022

Terms of repayment and Grace period:

According to the loan agreement, Schedule 3, the Arab Republic shall repay the loan on semi-annual installment due on January and July 15th each year, starting from July 15th 2020 and ending on January 15th 2050. Each installment amounts to (1.67%) of the loan amount, except for the Installment dated January 15th 2050 which will amount to (1.47%)

Note 2 - Accounting Policies

The followings are the significant applied accounting policies:

2/1 Method of Accounting

The Program maintains its accounts on the cash basis of accounting. On this basis receipts are recognized when received by the Program, and expenditures are recognized when paid.

2/2 Translation of non US\$ dollars currency:

The SHMFF maintains its accounts in Egyptian Pounds. Transactions in US\$ dollar currencies are recorded at the average exchange rates ruling at the end of the financial year 30 June 2019, the statement of funds receipts and expenditures has been prepared on the cash basis of accounting.

Note 3-Cash receipt (Financing) Analysis

	<u>Amounts in US \$</u>	
	For 1 July 2018 to 30 June 2019	Cumulative till 30 June 2019
<u>Cash Receipt</u>		
World Bank (WB)	79,093,051	264,819,330
Social Housing and Mortgage Finance Fund (SHMFF) *	525,694	1,325,944
Total Financing	79,618,745	266,145,274

*As per the Issuance of Law 93 of 2018 Related to the Social Housing and Supporting Mortgage Finance Fund Law on 11/6/2018 by merging the Two Funds under the Name of the Social Housing and Mortgage Finance Fund.

Note 4 - World Bank Loan NO.8498

	<u>US \$</u>
As at 30/6/2019	
Cash Receipt	Amount
Expenditure	320,494,966
Net Funds balance	(142,450,070)
	178,044,896

Note 5 - Expenditure Analysis

5/1 : Analysis of Salaries & Wages as at 30th June 2019 is represented as follows:

Salaries & Wages	Amounts in US \$	
	For 1 July 2018 to 30 June 2019	Cumulative till 30 June 2019
Improving Management Information System	71,880	171,921
Improving Monitoring & Evaluation	47,225	140,551
Internal audit function	59,260	90,562
Mechanism for considering complaints and grievances	63,557	181,570
Total Salaries & Wages	241,922	584,604

5/2 : Analysis of Others - Other Expenditures as at 30th June 2019 is represented as follows:

Others	Amounts in US \$	
	For 1 July 2018 to 30 June 2019	Cumulative till 30 June 2019
Independent Verification Agent (IVA) Fees	13,554	40,925
bank charges & interest	202	482
Total Others	13,756	41,407