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OFFICE OF AUDIT AND INVESTIGATION SERVICES

**AUDIT
OF THE UNFPA COUNTRY OFFICE
IN THE ARAB REPUBLIC OF EGYPT**

FINAL REPORT

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EXECUTIVE SUMMARY

1. The Office of Audit and Investigation Services (OAIS) performed an audit of the UNFPA Country Office (the Office) in the Arab Republic of Egypt (Egypt). The audit covered the period from 01 January 2018 to 31 March 2019. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.

Background

2. The activities covered by the audit corresponded to the first and second years of the tenth Country Programme 2018 – 2022, approved by the Executive Board in its first regular session of 2018, with indicative resources of USD 38.9 million.

3. Expenses covered by the audit amounted to USD 10.5 million,¹ executed by 19 Implementing Partners (USD 4.6 million) and by UNFPA (USD 5.9 million), funded from core resources of USD 2.3 million and non-core resources of USD 8.2 million.

4. Approximately 54 per cent of the expenses incurred in the period under review corresponded to the Sexual and Reproductive Health component. The Gender and the Adolescents and Youth components accounted for 27 and 16 per cent of the expenses incurred, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 3 per cent of expenses.²

Methodology and scope

5. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, which require that internal auditors plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of governance, risk management and internal control processes in place over the in-scope areas and activities. The audit included reviewing and analysing, on a test basis, information that provided the basis for the audit conclusions.

6. The scope of the audit included the review of Office governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.

Audit rating

7. The overall audit rating³ is **“Some Improvement Needed”** – which means that the assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the Office should be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.

¹ Atlas general ledger.

² Source: Cognos budgets and expenditures by programme cycle output reports.

³ See complete set of definitions in Annex 1.

8. Ratings by key audit area are summarized in the following table.

Audit ratings by key audit area		
Office Governance		Effective
<i>Office management</i>		<i>Effective</i>
<i>Organizational structure and staffing</i>		<i>Effective</i>
<i>Risk management</i>		<i>Effective</i>
Programme Management		Some improvement needed
<i>Programme planning and implementation</i>		<i>Some improvement needed</i>
<i>Implementing partner management</i>		<i>Some improvement needed</i>
<i>Supply chain management</i>		<i>Major improvement needed</i>
<i>Management of non-core funding</i>		<i>Effective</i>
Operations Management		Some improvement needed
<i>Human resources management</i>		<i>Effective</i>
<i>Procurement</i>		<i>Some improvement needed</i>
<i>Financial management</i>		<i>Effective</i>
<i>General administration</i>		<i>Effective</i>
<i>Information and communication technology</i>		<i>Effective</i>
<i>Security</i>		<i>Effective</i>

Key findings and recommendations

9. The audit identified some good practices, as well as areas that require Management attention. Overall, the audit report includes four high priority and three medium priority recommendations designed to help the Office improve its programme delivery and operations. Of the seven recommendations, four are operational in nature and three refer to compliance matters.

Good practices

10. Some of the good practices adopted by the Office could be considered for replication by other offices.

11. From a governance perspective, in order to improve performance and control, the Office conducted well-documented weekly joint programme and operations management review meetings as a means of sharing the status of implementation activities and discussing programmatic and operational challenges faced. The Office demonstrated a strong office management planning process where each output had a defined indicator linked to quarterly milestones, with responsibility for their achievement clearly assigned. The Office established a clear division of roles and responsibilities in all aspects of programme delivery and operations, aimed at enhancing efficiency and accountability. Further, the Office developed a spreadsheet-based matrix system that provided an overview of the status of compliance with mandatory training courses for all staff – resulting in a 100 per cent mandatory course completion rate in the period under review. Similarly, the Office registered high completion rates for the performance appraisal and development process.

12. From a programme management perspective, the Office developed a spreadsheet-based tool that linked the outcomes and outputs in the Country Programme Document 2018 – 2022 to those in the UNFPA Strategic Plan 2018 – 2021 and the United Nations Partnership Development Framework 2018 – 2022, with clearly defined output indicators and targets. The Office established a dedicated team of finance associates, based in Cairo, to quality-assure Funding Authorization and Certificate of Expense forms submitted by Implementing Partners, resulting in timely advances to and liquidation of funds by the Partners. The 2019 workplan preparation and planning process was initiated early, resulting in the timely approval and signing of all workplans. The Office also fostered and sustained strong relationships with donors, resulting in a significant increase in non-core contributions in the first year of the new Country Programme 2018 – 2022.

13. Finally, in the area of operations management, the Office maintained comprehensive and well-documented procurement and human resource files, making the retrieval of information and documents efficient.

Operational level

14. From a programme management perspective, the Office should update the output indicators, baselines and targets included in workplans for better consistency and linkage to Country Programme outputs and assess their accuracy; it should also document the sources of the baselines and targets used.

15. Further, there is a need to develop output indicators related to commodity security and regularly monitor commodity availability and stock-out levels. The Office should undertake needs assessments and forecasts of programme supplies with appropriate periodicity to identify the health demands of the beneficiary population and inform its procurement planning; and, further, support the Government in improving the availability of commodities in the national health supply-chains through formal and active participation in the country's National Quantification Committee.

16. In the area of operations management, the Office should raise the awareness of relevant staff on the need to better plan local procurement activities and to timely prepare annual procurement plans.

Compliance level

17. The Office should perform both visual and detailed inspections of all reproductive health commodity shipments and prepare the relevant policy-required forms to document the results of the process. The Office should streamline procurement activities undertaken by IPs for consistency with applicable policy. Finally, the Office should implement supervisory controls to monitor compliance with the requirements of procurement procedures, including those related to contract management.

Management response

18. The Office is in agreement with the findings and recommendations included in the report and will take action at the operational and compliance levels.

19. At the operational level, the Office will undertake a mid-term review of the Country Programme to update the output indicators and document their sources. The Office will seek to be a member of and participate in the National Quantification exercise and develop a specific indicator for commodity security and a costed implementation plan that will allow the relevant Government IP to receive regular information on reproductive health commodity availability and stock-outs at all levels. The Office will also enforce use of the procurement planning tool.

20. At the compliance level, the Office will coordinate closely with the relevant Government IP to advocate the urgency for performing visual and detailed inspections of all reproductive health commodity shipments and ensure documentation of the results immediately following inspection. The Office will also reinforce the need for procurements undertaken by IPs to be consistent with applicable policy and implement supervisory controls to monitor compliance with procurement procedures, including those related to contract management.

21. The OAIS team would like to thank the Management and personnel of the Office, of the Arab States Regional Office and of the different Headquarters units for their cooperation and assistance throughout the audit.

I. OBJECTIVES, SCOPE AND METHODOLOGY

1. The audit covered activities implemented by the Office in the period from 01 January 2018 to 31 March 2019. Programme delivery and operational activities pertaining to other periods were covered by the audit, as appropriate.
2. The objective of the audit, conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, was to provide reasonable assurance about the effectiveness of the governance, risk management and internal control processes over UNFPA's operations in Egypt.
3. The audit included such tests, as considered appropriate, to obtain reasonable assurance with regards to:
 - a) The effectiveness and efficiency of Office operations;
 - b) The conformity of expenses with the purposes for which funds were appropriated;
 - c) The safeguarding of assets entrusted to the Office;
 - d) The level of compliance with applicable legislative mandates, rules, regulations, policies and procedures; and
 - e) The reliability of the Office financial and operational reporting.
4. The scope of the audit included a review of the Office governance, programme management, and operations, and focused on the processes established to mitigate risks associated with external factors, people, processes, relationships, and information technology.
5. The engagement was conducted by an OAI audit specialist, supported by staff from an external audit firm and one individual consultant. The audit started on 20 May 2019. A field mission took place from 16 to 30 June 2019. Preliminary findings and recommendations resulting from the audit were discussed with Office Management at an exit meeting held on 30 June 2019. Comments and clarifications provided by Management thereafter were reflected in a draft report submitted to Office Management on 11 November 2019, and a final Management response received on 04 December 2019.

II. BACKGROUND

6. Egypt had an estimated population of 94.7 million in 2017, with an average annual growth rate of 2.4 per cent. The increase in population was mainly driven by a recent increase in fertility rates, following decades of progress in lowering fertility levels. The steady increase in population threatens to hinder development efforts, with major implications on security, quality of life, the provision of basic services, education, health, housing and water.⁴

7. Egypt has made significant progress in improving the health of women and children. Recent maternal mortality figures show a continued decrease, with the ratio reaching 46 deaths per 100,000 live births in 2014. The fertility rate also increased from 3 per cent in 2008 to 4 per cent in 2014. The increase, along with a decrease in the number of married women using modern contraceptives from 58 per cent in 2008 to 57 per cent in 2014, are indications that the family planning programme in Egypt has lost momentum. The unmet need for family planning increased from 11.6 per cent in 2008 to 12.6 per cent in 2014.⁵

8. The tenth Country Programme 2018 – 2022 and the accompanying Country Programme Action Plan (CPAP), is guided by the United Nations Partnership Development Framework (UNPDF) (2018 – 2022), with indicative resources of USD 1.2 billion for the period. The UNPDF is, in turn, fully aligned to national development priorities, as articulated in the Sustainable Development Strategy: Egypt Vision 2030. Under the UNPDF, each participating agency is responsible for delivery on a set of actions that jointly contribute to shared results. It is noted that the Cooperation Agreement for the United Nations System Development Cooperation Framework (UNSDCF), to be rolled out from 2023 onwards, has been signed with the Government.

9. Expenses covered by the audit amounted to USD 10.5 million,⁶ executed by 19 Implementing Partners (USD 4.6 million) and by UNFPA (USD 5.9 million), funded from core resources of USD 2.3 million and non-core resources of USD 8.2 million.

10. Approximately 54 per cent of the expenses incurred in the period under review corresponded to the Sexual and Reproductive Health component. The Gender and the Adolescents and Youth components accounted for 27 and 16 per cent of the expenses incurred, respectively. Costs funded from the Institutional Budget and programme coordination and assistance costs, not allocated to any of the above thematic areas, accounted for the remaining 3 per cent of expenses.⁷

11. The UNFPA Office in Egypt is located in the capital city of Cairo. During the period under review and at the time of the audit field mission, the Office was managed by a Representative, assisted by an Assistant Representative.

⁴ UNFPA Egypt Country Programme Document 2018 – 2022.

⁵ UNFPA Egypt Country Programme Document 2018 – 2022.

⁶ Atlas general ledger.

⁷ Source: Cognos budgets and expenditures by programme cycle output reports.

III. DETAILED FINDINGS

A. OFFICE GOVERNANCE

EFFECTIVE

Good practices identified

12. The following good practices in the area of governance were identified, in line with established policies and procedures:
- a) Weekly Country Office management team meetings, comprising both programme and operations management teams, were held to report on the status of programme implementation activities and to discuss programmatic and operational challenges faced. The meetings were well documented in detailed minutes that included clear action points for follow-up;
 - b) The Office demonstrated a strong office management planning process where: (i) each output had a defined indicator linked to quarterly milestones; (ii) each output indicator and milestone had an assigned team leader and members; and (iii) each output indicator was assigned a baseline and target, with the basis of assignment clearly defined;
 - c) The Office established a clear division of roles and responsibilities in all aspects of programme delivery and operations, aimed at enhancing efficiency and accountability;
 - d) The Office put in place a spreadsheet-based matrix system that provided an overview of the status of compliance with mandatory training courses for all staff. Heads of programme clusters were responsible for its review and follow-up with staff for completion of the training courses. The matrix was periodically reviewed by the Country Office management team, resulting in a 100 per cent mandatory course completion rate in the period under review; and
 - e) The Office registered high completion rates in the 2018 cycle for all three phases of the staff performance and development process, within established deadlines.

A.1 – OFFICE MANAGEMENT

EFFECTIVE

13. Audit procedures performed in this area included the review of: (a) the Office planning process in 2019; (b) the relevance of the 2018 and 2019 annual management plans, and the implementation level of activities in 2018; (c) the alignment of the 2019 performance plans of key personnel to Office priorities; (d) the effectiveness of Management oversight of programme delivery and operational activities; (e) the accuracy of the Office 2018 annual report data; and (f) the level of familiarization of Office personnel with UNFPA policies and procedures.
14. No reportable matters were identified based on the work performed.

A.2 – ORGANIZATIONAL STRUCTURE AND STAFFING

EFFECTIVE

15. At the time of the audit field mission, the Office had 31 approved staff posts, including 3 international posts, 12 national posts and 16 general service posts. An additional 7 posts were covered under the Service Contract modality. In addition, the Office engaged 6 international and 30 local individual consultants during the period under review.
16. Audit work performed in this area included a review of: (a) the alignment of the organizational structure and staffing arrangements with the Office programme delivery and operational activities; (b) the use of proper contractual modalities; (c) the effectiveness of the performance planning and appraisal process; and (d) the relevance and sufficiency of staff development activities conducted during the period under review.
17. No reportable matters were identified based on the audit work performed.

A.3 – RISK MANAGEMENT**EFFECTIVE**

18. Audit work performed in this area consisted of the review of the latest strategic and fraud risk assessments completed by the Office, the process followed in identifying and assessing risks and controls, and the actions undertaken to mitigate significant residual risk.

19. No reportable matters were identified based on the audit work performed.

B. PROGRAMME MANAGEMENT**SOME IMPROVEMENT NEEDED**Good practices identified

20. The following good practices were identified in the area of programme management, some of which could be considered for replication in other offices:

- a) The Country Programme Document 2018 – 2022 outcomes and outputs were clearly linked to those in the UNFPA Strategic Plan and the UNPDF. Further, the Office developed a spreadsheet-based output operationalization tool⁸ with clearly defined and verifiable output indicators, units of measure, and indicator targets that were fully aligned to the Country Programme document;
- b) The Office established a dedicated team of finance associates, based in Cairo, to quality-assure fund authorization and certificate of expense (FACE) forms submitted by IPs and match reported activities in the forms to those indicated in the corresponding approved workplans and supporting progress reports – resulting in timely advances to and liquidation of funds by IPs;
- c) The 2019 workplan preparation and planning process was initiated early in December 2018, resulting in the timely approval and signing of all workplans by February 2019. This, in turn, facilitated an early start to programme activities in the year; and
- d) The Office maintained strong donor relations resulting in increased non-core contributions. In particular, non-core contributions increased from USD 4.3 million in 2017 to USD 16.7 million in 2018, the first year of the new Country Programme 2018 – 2022, setting the Office on a good course to achieve the USD 33.5 million target for funding the tenth Country Programme.

B.1. – PROGRAMME PLANNING AND IMPLEMENTATION**SOME IMPROVEMENT NEEDED**

21. During the period under review, the Office implemented activities related to four outputs of the tenth Country Programme 2018 – 2022 at a total cost of USD 9.9 million, inclusive of programme coordination and assistance costs, with financial implementation rates of 92 per cent in 2018 and 32 per cent as at 31 March 2019, measured based on annual budgets allocated in Atlas. Programme implementation activities were funded from core resources of USD 1.7 million and non-core resources of USD 8.2 million, and related mainly to the provision of reproductive health services.

22. Activities were implemented by UNFPA, with related expenses of USD 5.3 million (54 per cent of programme implementation expenses in the period under review) and financial implementation rates of 97 per cent in 2018 and 32 per cent as at 31 March 2019. A large part of the expenses related to UNFPA-implemented activities corresponded to the procurement of services (mainly media campaigns) and personnel costs.

23. Activities were also implemented by 19 IPs engaged by the Office, with related expenses of USD 4.6 million (46 per cent of programme implementation expenses in the period under review) and financial implementation rates of 88 per cent in 2018 and 32 per cent as at 31 March 2019. Section B.2 of the report provides further details of IP-implemented activities.

24. Audit work performed in this area focused on two outputs with aggregate expenses of USD 5.3 million during the period under review (54 per cent of programme implementation expenses) and included: (a) a review of the workplans related to the outputs selected, for 2018 and 2019; (b) an assessment of the process followed to prepare, cost and approve the workplans, as well as monitor their implementation by the Office and with various IPs; (c) the review of monitoring reports and other evidence of programme implementation along with visits to: (i) four

⁸ Tool developed by the Office to track the achievement of annual targets for each output indicator.

locations in the two governorates of Al Minya and Asyut, where programme activities were implemented; and (ii) two IP offices located in the capital city of Cairo. In addition, the audit reviewed: (a) the alignment of activities implemented to the Country Programme document; and (b) the level of achievement of the tenth programme cycle outputs for selected programme components.

25. Based on the work performed in this area, the audit noted the following matter that needs Management attention.

Better link Country Programme Action Plan and Implementing Partner output indicators, and strengthen target and baseline formulation

26. Office Management was unable to explain the sources of baselines and targets formulated for two out of six CPAP output indicators reviewed. Supporting documents relating to the output indicators “percentage of maternal health facilities integrating family planning counselling in service delivery” and “number of primary health clinics offering integrated youth-friendly health services including reproductive health” were either incomplete or unavailable – mainly, according to Office Management, as a result of Government restrictions on the dissemination of certain types of data for security reasons.

27. Further, it was difficult to establish linkages between the above two CPAP output indicators, together with their baselines and targets, to those in the corresponding IP workplans in the period under review. Office Management explained that the first output indicator “percentage of maternal health facilities integrating family planning counselling in service delivery,” was set for implementation by a Government IP in 2018, but was not included in the corresponding workplan because the related activities were delayed due to receipt of donor funds late in the year – necessitating implementation of the activities, on a pilot basis, outside of the approved workplan, in the fourth quarter of the year.

28. The second output indicator “number of primary health clinics offering integrated youth-friendly health services including reproductive health”, although reflected in the relevant IP’s 2018 workplan, was missing from the corresponding 2019 workplan. Office Management explained that, in 2019, the output indicator was related to three separate process-level indicators in the IP workplan: (a) ‘Number of developed training manuals’; (b) ‘Youth-friendly health service facilities mapping conducted’; and (c) ‘Number of service providers trained on Train the Trainer and updated youth-friendly integrated manual’ – making it not only difficult to relate the CPAP output indicator to those in the IP workplan, but also to track progress made against it because of its unclear linkage to the process-level output indicators.

ROOT CAUSE	<i>Other: factors beyond the control of the Office. Guidance: inadequate supervision at Office level. The relevance and achievability of targets, including those with unsupported baselines, is difficult to establish.</i>
IMPACT	<i>Activities implemented outside of approved workplans are not properly authorized. The process-level output indicators, baselines and targets in use to track implementation progress may not be fully aligned to Country Programme priorities – limiting Office Management’s ability to make informed decisions.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 1 **PRIORITY: HIGH**

Leveraging on the 2020 annual planning cycle, update the workplan output indicators, baselines and targets for clear consistency and linkage to Country Programme Action Plan outputs; and assess the accuracy of the Country Programme output indicator baselines and the relevance and achievability of the related output indicator targets, while documenting the sources for the baselines and targets used.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative* STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *January 2021*

Starting 2020, all workplans will include all the indicators listed in the Country Programme document; baselines will be defined from the achievements of 2019, while targets will be defined and compatible with the Country Programme Action Plan (CPAP). Any amendments to targets will be documented in detail. The mid-term review of the Country Programme will be used as an exercise to identify the indicators in terms of reviewing baselines, documenting their sources, and properly estimating the related targets.

B.2 – IMPLEMENTING PARTNER MANAGEMENT**SOME IMPROVEMENT NEEDED**

29. National Execution (NEX) expenses amounted to USD 4.6 million (46 per cent of total programme implementation expenses) in the period under review, corresponding to activities implemented by 9 Government IPs and 10 non-governmental organization IPs, with financial implementation rates of 88 per cent in 2018 and 32 per cent as at 31 March 2019.

30. Per the available general ledger information for the period under review, NEX expenses corresponded primarily to training of counterparts (USD 2.0 million – 43 per cent of NEX expenses); facilities management (USD 0.7 million – 15 per cent of NEX expenses); salaries (USD 0.6 million – 13 per cent of NEX expenses); and printing and publication (USD 0.4 million – 9 per cent of NEX expenses).

31. IP audits performed in 2019 (2018 audit cycle) covered 5 of the 19 IPs, with aggregate expenses of USD 2.0 million (62 per cent of total NEX expenses in 2018). All five IP audits received unqualified audit opinions.

32. Operating Fund Account (OFA) balances, representing funds transferred to IPs for activities not yet implemented, averaged USD 0.7 million quarterly in 2018, and amounted to USD 0.2 million and USD 0.8 million as at 31 December 2018 and 31 March 2019, respectively.

33. Audit work performed in this area included the review of: (a) the IP selection and capacity assessment processes; (b) the existence of appropriate IP agreements; (c) the controls implemented for the review, authorization and processing of fund advance requests and expense reports submitted by IPs through FACE forms; (d) the controls implemented over OFA, used to record and control funds advanced to IPs; and (e) the process followed to monitor activities for three IPs engaged by the Office with aggregate programme implementation expenses of USD 2.3 million (50 per cent of NEX expenses) in the period under review.

34. Based on the work performed in this area, the audit noted the following matter that requires management attention.

Streamline procurement activities undertaken by IPs for consistency with policy

35. From the testing of two (out of four) procurement transactions executed by a Government IP in the amount of USD 90,571, it was noted that the IP procured all items from a centralized manufacturing and procurement government entity, in accordance with Government financial regulations, rules and procedures which require that the entity manufactures or procures goods and services on behalf of all Government ministries and agencies. In both cases reviewed, the IP obtained two additional price quotes, from non-government suppliers, to demonstrate that procurement through the Government entity was competitive and, in both cases, cheaper. The quotes obtained from the non-government suppliers were, however, dated just a day before physical receipt of the ordered goods. The management of the IP explained that the quotes had no real significance in the procurement process, as the IP was obligated to comply with Government procurement rules and regulations and that the quotes were obtained, in most other cases *post-facto*, merely to satisfy and respect UNFPA policies, rules and procedures. It was noted from discussions with the IP that this was normal practice.

36. This appears to be a misinterpretation of the provisions in the IP agreement which require, inter alia, that the IP manages the cash transfers from UNFPA under its (the IP's) own financial regulations, rules and procedures. Discussion with the HACT auditors revealed that they have emphasized the same point to the IP in the past.

ROOT CAUSE	<i>Guidance: inadequate supervision at Office level.</i>
IMPACT	<i>The efficiency of the IP's procurement activities may be adversely impacted by extraneous requirements and activities.</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 2

PRIORITY: MEDIUM

Raise the awareness of relevant Office and IP personnel on the need to follow policy and IP agreement provisions with respect to the procurement of goods and services.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *October 2020*

While it is true that the Government IP has to procure from Government entities, the Office will follow up with the IP to comply with its (the IP's) procurement rules and procedures and, where necessary to seek three offers for comparison purposes, to ensure that these are obtained in a timely manner. The Office will increase the number of spot-checks to better monitor the IPs' procurement practices and, if necessary, apply direct execution for large procurement transactions.

B.3 – SUPPLY CHAIN MANAGEMENT

MAJOR IMPROVEMENT NEEDED

37. During the period under review, the Office supplied reproductive health commodities and other inventory items at an approximate total cost of USD 0.8 million (inclusive of USD 0.1 million in transportation costs) through local funding provided by donors in the country. The inventory supplied mainly comprised medical and pharmaceutical products (USD 0.7 million), procured by the Procurement Services Branch (PSB), located in Copenhagen, Denmark, on behalf of the Office. Additional medical and pharmaceutical products, in the amount of USD 0.5 million, were procured by the Office, through PSB, in the second quarter of 2019. Reproductive health commodities were mainly stored at and distributed from a central warehouse located in Cairo and managed by a Government IP.

38. Audit work performed included a review of the needs assessment and forecasting arrangements in place, as well as testing, for a sample of inventory supplied during the period under review at a cost of USD 1.2 million (92 per cent of the value of supplies provided during the period under review and in the second quarter of 2019), of the processes and controls in place in the areas of: (a) procurement planning, requisitioning and ordering; (b) customs clearance, receiving and inspection; (c) inventory controls (while the goods procured remained in UNFPA's possession); (d) hand-over of inventory to IPs; (e) distribution to intended beneficiaries; and (f) monitoring. Audit work further included a review of the related procurement processes for locally-procured dignity and medical kits (refer to section C.2 of the report).

39. Audit work performed also included site visits to: (a) the central warehouse in Cairo managed by a Government IP; and (b) two governorate warehouses located in Al Minya and Asyut. The audit tests conducted were to: (a) verify the receipt of commodities procured by UNFPA; (b) assess the warehouse controls in place and reliability of the inventory records maintained; (c) test the distribution of commodities by tracing a sample of deliveries through the central warehouse to the service delivery points; and (d) verify commodity availability and stock-out levels at the warehouses, and service delivery points visited.

40. Based on the audit work performed in this area, the audit noted the following matters that require management attention.

Develop output indicators related to commodity security and regularly monitor commodity availability and stock-out levels

41. The Office did not provide any evidence that it regularly monitored reproductive health commodities availability and stock-out levels in the country. While Egypt falls in the ‘pink’ quadrant⁹ of the UNFPA Strategic Plan 2018 – 2021, a significant portion of the Office’s programme in the period under review, financed through locally-raised non-core funding, focused on the provision of reproductive health commodities to governorates throughout the country, with a plan to supply approximately USD 2.5 million of commodities annually over the next five years.

42. Despite the planned significant increase in commodities to be supplied, the Country Programme document 2018 – 2022 did not include any output indicator related to commodity security. Further, according to Office Management, at the time of drafting this report, the Office was yet to obtain the results and recommendations of a national commodity availability and stock-out survey undertaken in 2018 under the sponsorship of an international aid agency. Therefore, any monitoring activities undertaken by the Office during the period under review was neither informed by the survey nor guided by relevant output indicators – making it impossible to determine the progress achieved or the impact made by the commodities supplied.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>The Office’s ability to measure results and progress in the area of commodity security may be diminished.</i>
CATEGORY	<i>Operational.</i>

RECOMMENDATION 3 **PRIORITY: HIGH**

With the assistance of the Commodity Security Branch, obtain the national commodity availability and stock-out survey report and use the results and recommendations therein to formulate, accordingly, commodity security-related output indicators, baselines and targets for inclusion in the 2020 annual plans; and perform regular monitoring of reproductive health commodities availability and stock-outs at all levels.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative, with support from the Chief, Commodity Security Branch* STATUS: *Agree*

MANAGEMENT ACTION PLAN: DUE DATE: *February 2021*

The Office has, in the past, unsuccessfully requested national level data on availability of commodities and stock-outs. The data were not shared due to confidentiality considerations on the part of the Government. The Office will seek to officially address its request through the relevant Government Minister and the Ministry of Foreign Affairs; and, based on the response, will formulate an appropriate commodity security-related indicator and put in place a monitoring system to be applied at all levels.

On another note, the report referred to in paragraph 42 above is for an assessment of Reproductive Health Commodity Security conducted by a third-party service provider. It is now available to the Office and is currently being used for the development of a costed implementation plan, expected to be finalized by the end of 2019. This plan will allow the Government IP to receive regular information on reproductive health commodities availability, including stock-outs at all levels. More so, Office staff recently attended the ‘Last Mile Assurance Process Global Roll-out’ workshop and will follow closely the implementation of agreed timelines until December 2020.

Perform commodity needs assessment and forecasting as part of the Office supply quantification process

43. As noted in paragraph 41, the Office’s programmes were focused on the provision of reproductive health commodities with a plan to scale up supplies in the near future. There was, however, no evidence that rigorous needs assessments and forecasts informed the determination of the programme supplies procured by the Office during the period under review. Further, there was no evidence of formal collaboration between the Office and appropriate in-country partners and programme stakeholders in making reproductive health commodities forecasts. For example,

⁹ Country classification in a quadrant is determined by a combination of a country’s needs and the ability to finance its own development, intended to address multi-dimensional inequalities between and among countries. The ‘pink’ quadrant primarily focuses on creating an enabling environment for capacity development, partnerships and coordination, knowledge management and advocacy, policy dialogue and advice – excluding service delivery. Therefore, Egypt is not one of the 46 priority countries under the UNFPA Supplies programme.

the Office was not a member of the National Quantification Committee, which is the national coordination mechanism that concluded in February 2019 a commodities quantification exercise for the period 2019 – 2021.

44. Office Management explained that interaction with the National Quantification Committee was, at best, informal and that the procurement of reproductive health commodities by the Office was based on requests from the Government, as received, and from distribution plans prepared by IPs. However, a review of all four sampled distribution plans prepared by an IP revealed that the plans did not include any timelines for the distribution of commodities – rendering them inadequate to ensure timely sourcing of commodities. In addition, there was no process in place at the Office to review and validate the adequacy of the distribution plans, and monitor that commodities are timely distributed and used for the intended purposes.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>The absence of a proper needs assessment and forecasting process may adversely impact commodities availability and originate stock-outs.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 4

PRIORITY: HIGH

In collaboration with the relevant programme stakeholders, support the Government in improving the availability of commodities in the national health supply-chains through formal and active participation in the National Quantification Committee and undertake, as required by applicable policy, needs assessments and forecasts of programme supplies, at least annually, to identify the health demands of the beneficiary population and to inform procurement planning.

MANAGER RESPONSIBLE FOR IMPLEMENTATION: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *June 2020*

The Office will officially request to take part in the National Quantification exercise through representation in the relevant committee by the National Programme Officer and the Reproductive Health Commodities Security Programme Specialist. The Office will rely on the costed implementation plan that is currently under development (to be finalized at the end of 2019) as the major binding document to contribute annually to the needs assessment and forecasting of programme supplies.

Perform detailed inspections of all reproductive health commodity shipments

45. For all four inventory procurement transactions reviewed, the Office did not prepare ‘receiving and inspection’ forms to document comprehensively the results of the visual and detailed inspections of the shipments, as required by applicable policy¹⁰ – making it difficult to establish if the policy-prescribed receipt and inspection procedures were undertaken.

46. Further, delivery slips for a condoms shipment in the amount of USD 265,000 were yet to be prepared and signed to document the transfer of custodianship of the condoms to a Government IP, three months following the completion of the consignment’s customs clearance process. According to Office Management, the delay in issuing the delivery slips was due to concerns raised by the IP regarding damage to the condoms – a matter which, at the time of drafting this report, was under discussion between the Office, PSB, the concerned IP and the manufacturer. Although no specific recommendation is made with regard to the delivery slip matter, it underscores the importance of conducting timely visual and detailed inspections before physically and formally receiving commodities.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>The absence of systematic inspections of incoming goods increases the risk of inventory loss and/or damage.</i>
CATEGORY	<i>Compliance.</i>

¹⁰ Policy and Procedures on Management of Programme Supplies.

RECOMMENDATION 5**PRIORITY: HIGH**

Undertake visual and detailed inspections of all shipments, as soon as possible, upon arrival of the commodities in-country and document the results of the receiving and inspection process in detailed 'receiving and inspection' forms, as required by applicable policy.

RESPONSIBLE MANAGER: Representative

STATUS: Agree

MANAGEMENT ACTION PLAN:

DUE DATE: June 2020

The Office will enforce proper use of receiving and inspection reports. Special training will be provided to the logistics focal point, as well as the third-party customs clearance company, for proper inspecting and reporting on goods upon arrival.

B.4 – MANAGEMENT OF NON-CORE FUNDING**EFFECTIVE**

47. Programme implementation expenses funded from non-core resources amounted to USD 8.2 million (83 per cent of total programme expenses) in the period under review. Of this amount, approximately USD 2.8 million was provided by a donor to support Egypt's national population strategy; USD 1.3 million by another donor to enhance reproductive health and rights and to combat gender violence; and USD 1.3 million by a third donor in support of effective governance to stabilize population growth. The remaining balance of USD 2.8 million comprised smaller contributions made by nine other donors and trust funds.

48. Audit work performed in this area included tests of compliance with co-financing agreement requirements, including expense eligibility and reporting, for two key co-financing agreements. The audit also included tests of the accuracy of reports submitted to donors and of compliance with the cost recovery policy. Inquiries of representatives of the three major donors noted in paragraph 47 above were made to obtain an understanding of their working relationship with the Office and their assessment of UNFPA's performance and achievements.

49. No reportable matters were identified based on the audit work performed.

C. OPERATIONS MANAGEMENT**SOME IMPROVEMENT NEEDED**Good practices identified

50. The following good practice in the area of operations management was in line with established policies and procedures:

- a) The Office maintained comprehensive and well-organized procurement and human resource files – making the retrieval of information and documents efficient.

C.1 – HUMAN RESOURCES MANAGEMENT**EFFECTIVE**

51. The Office incurred staff payroll costs amounting to USD 1.1 million during the period under review. In addition, the Office made use of contract personnel and engaged 7 individuals under service contracts and another 36 under individual consultancy contracts, for management activities and programme delivery and support, incurring related costs in the amount of USD 0.5 million. At the time of the audit field mission, the payroll for both staff members and service contract holders was managed by the United Nations Development Programme (UNDP).

52. Work performed in this area included an analytical review of payroll and contract personnel costs, a walk-through of the payroll reconciliation controls with UNDP, and the testing of a sample of five individual consultancies and three service contracts awarded by the Office at a cost of USD 0.2 million (30 per cent of total contract costs incurred in the period) for linkage to the corresponding workplans, compliance with applicable policies and procedures, and operating effectiveness of controls in the areas of: (a) recruitment; (b) contract award; and (c) contract management. Audit procedures applied also included testing of the recruitment process for five staff members hired during the audit period and testing of locally-paid staff benefits and entitlements amounting to USD 8,469.

53. No reportable matters were identified based on the audit work performed.

C.2 – PROCUREMENT**SOME IMPROVEMENT NEEDED**

54. During the period under review, the Office locally procured goods and services at a cost of USD 2.1 million. The most significant categories of goods and services procured corresponded to service companies (USD 0.9 million; training of counterparts (USD 0.6 million); and stationery and supplies (USD 0.3 million).

55. Audit work performed in this area included the review of a sample of 25 local purchases made at a cost of USD 0.8 million (40 per cent of total local procurement) for linkage to the corresponding workplans; compliance with the UNFPA procurement principles,¹¹ policies and procedures, as well as the operating effectiveness of controls in the areas of: (a) procurement planning; (b) requisitioning; (c) solicitation and bidding; (d) bid assessment; (e) vendor selection; (f) contract award; (g) purchase order issuance; and (h) receiving.

56. Based on the work performed in this area, the audit noted the following matters that require management attention.

Ensure that the local procurement plan is comprehensive and timely prepared

57. The annual local procurement plans for 2018 and 2019 were finalized after the 31 March policy deadline by 50 and 25 days, respectively – potentially diminishing their usefulness as planning and managerial oversight tools.

58. In addition, the plans did not capture several procurement actions in the period under review. From the sample tested, USD 143,440 and USD 31,686 of locally-procured goods and services were not in the 2018 and 2019 procurement plans, respectively.

ROOT CAUSE	<i>Guidelines: inadequate planning.</i>
IMPACT	<i>Procurement activities may not be appropriately and timely conducted – adversely impacting programme implementation.</i>
CATEGORY	<i>Operational</i>

RECOMMENDATION 6**PRIORITY: MEDIUM**

Raise the awareness of relevant staff on the need to better plan local procurement activities and timely prepare procurement plans.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *July 2020*

A proper follow-up mechanism will be developed by the Office's Operations Unit regarding the procurement actions identified at the beginning of the year. The mechanism will include close monitoring by each Programme Officer. The monitoring will also be expanded, on a quarterly basis, to avoid any ad hoc requests. More so, the procurement focal point will be requested to check the procurement planning tool to ensure that all requests are included therein.

Enhance compliance monitoring with procurement policies and procedures

59. The following exceptions which were noted – while not individually material or pervasive in nature – indicate some instances of non-compliance with procurement policies and procedures:

- (a) One instance, in the amount of USD 24,184 – where a supplier charged a 10 per cent management fee for services rendered to the Office, amounting to USD 2,418, which was not foreseen in the signed contract; and
- (b) One instance, in the amount of USD 13,959 – where a contract relating to the procurement of services was signed, *post-facto*, more than one month after the Office had already taken delivery of services.

¹¹ Best value-for-money; fairness, integrity and transparency; open and effective competition; and protection of the interest of UNFPA.

ROOT CAUSE	<i>Guidance: inadequate supervision at the Office level.</i>
IMPACT	<i>The effectiveness and efficiency of the procurement process, its transparency and fairness, as well as the ability to obtain value-for-money, may be impaired.</i>
CATEGORY	<i>Compliance.</i>

RECOMMENDATION 7

PRIORITY: MEDIUM

Strengthen supervisory controls to monitor compliance with the requirements of the procurement procedures, including those related to contract management.

RESPONSIBLE MANAGER: *Representative*

STATUS: *Agree*

MANAGEMENT ACTION PLAN:

DUE DATE: *January 2021*

The Office will undertake a specific procurement training on the new procurement policy for all Operations staff. The Office will also encourage participation in regional trainings and attendance at relevant webinars, with special emphasis on contract management.

C.3 – FINANCIAL MANAGEMENT

EFFECTIVE

60. Work performed in this area included a review of: (a) the financial management capacity of the Office; (b) the authorization and proper processing of financial transactions; (c) the coding of transactions to the correct project, activity, general ledger account, IP and fund codes; (d) the operating effectiveness of controls over the accounts payable and payments process; (e) the value added tax control arrangements in place; (f) the budget management process; and (g) the effectiveness of the financial management accountability process.

61. No reportable matters were identified based on the audit work performed.

C.4 – GENERAL ADMINISTRATION

EFFECTIVE

62. This area was assessed as presenting a low audit risk. The related audit work was therefore limited to walkthroughs of the travel, asset management and facilities management processes.

63. No reportable matters were identified based on the audit work performed.

C.5 – INFORMATION AND COMMUNICATIONS TECHNOLOGY

EFFECTIVE

64. This area was assessed as presenting a low audit risk. Related audit work was, therefore, limited to the review of the existence and effectiveness of the Office’s business continuity plan and preparedness in the event of a business disruption.

65. No reportable matters were identified based on the audit work performed.

C.6 – SECURITY MANAGEMENT

EFFECTIVE

66. Work performed in this area included: (a) a review of the most recent United Nations Minimum Operating Security Standards (MOSS) and United Nations Minimum Operating Residential Security Standards (MORSS) assessments; (b) an assessment of compliance with mandatory security training requirements; (c) inquiries of the local United Nations Department of Safety and Security (UNDSS) about the active engagement of Office Management, including its participation in the Security Management Team; (d) testing of management and staff familiarity with their security management responsibilities and applicable security management guidelines; (e) a review of the timeliness of security advisories to all staff and contract personnel; (f) a review of the Office security, contingency, and building and medical evacuation plans; (g) a review of the timeliness of security incident reporting to UNDSS; and (h) the existence of a dedicated security desk and hotlines.

67. No reportable matters were identified based on the audit work performed.

ANNEX–1 - DEFINITION OF AUDIT TERMS

A. AUDIT RATINGS

Audit rating definitions, adopted for use in reports for audit engagements initiated as from 1 January 2016,¹² are explained below:

<ul style="list-style-type: none"> ▪ Effective 		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area’s objectives.</p>
<ul style="list-style-type: none"> ▪ Some improvement needed 		<p>The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> ▪ Major improvement needed 		<p>The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated.</p>
<ul style="list-style-type: none"> ▪ Not effective 		<p>The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved.</p> <p>The issues identified could seriously compromise the achievement of the audited entity or area’s objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated.</p>

B. CATEGORIES OF ROOT CAUSES AND AUDIT ISSUES

Guidelines: absence of written procedures to guide staff in performing their functions

- Lack of or inadequate corporate policies or procedures
- Lack of or inadequate Regional and/or Country Office policies or procedures
- Inadequate planning
- Inadequate risk management processes
- Inadequate management structure

Guidance: inadequate or lack of supervision by supervisors

- Lack of or inadequate guidance or supervision at the Headquarters and/or Regional and Country Office level
- Inadequate oversight by Headquarters

Resources: insufficient resources (funds, skills, staff) to carry out an activity or function:

- Lack of or insufficient resources: financial, human, or technical resources
- Inadequate training

Human error : un-intentional mistakes committed by staff entrusted to perform assigned functions

Intentional: intentional overriding of internal controls.

Other: factors beyond the control of UNFPA.

¹² Based on the proposal of the Working Group on harmonization of engagement-level audit ratings approved by the United Nations Representatives of Internal Audit Services (UN-RIAS) in September 2016

C. PRIORITIES OF AGREED MANAGEMENT ACTIONS

Agreed management actions are categorized according to their priority, as a further guide to Management in addressing the related issues in a timely manner. The following priority categories are used:

- **High** Prompt action is considered imperative to ensure that UNFPA is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
- **Medium** Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority management actions, if any, are discussed by the audit team directly with the Management of the audited entity during the course of the audit or through a separate memorandum upon issued upon completion of fieldwork, and not included in the audit report.

D. CATEGORIES OF ACHIEVEMENT OF OBJECTIVES

These categories are based on the COSO framework and derived from the INTOSAI GOV-9100 Guide for Internal Control Framework in the Public Sector and INTOSAI GOV-9130 ERM in the Public Sector.

- **Strategic** High level goals, aligned with and supporting the entity's mission
- **Operational** Executing orderly, ethical, economical, efficient and effective operations and safeguarding resources against loss, misuse and damage
- **Reporting** Reliability of reporting, including fulfilling accountability obligations
- **Compliance** Compliance with prescribed UNFPA regulations, rules and procedures, including acting in accordance with Government Body decisions, as well as agreement specific provisions

GLOSSARY

Acronym	Description
Atlas	UNFPA's Enterprise Resource Planning System
CPAP	Country Programme Action Plan
FACE	Funding Authorization and Certificate of Expense
HACT	Harmonized Approach to Cash Transfer
IP	Implementing Partner
MORSS	Minimum Operating Residential Security Standards
MOSS	Minimum Operating Security Standards
NEX	National Execution
OAIS	Office of Audit and Investigation Services
OFA	Operating Fund Account
PSB	Procurement Services Branch
UNDP	United Nations Development Programme
UNDSS	United Nations Department of Safety and Security
UNFPA	United Nations Population Fund
UNPDF	United Nations Partnership Development Framework
UNSDCF	United Nations System Development Cooperation Framework
USD	United States Dollars