UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

AUDIT

OF

UNDP COUNTRY OFFICE

IN

EGYPT

Report No. 2081

Issue Date: 21 February 2020

Table of Contents

Report on the Audit of UNDP Egypt
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP Egypt (the Office) from 3 to 14 November 2019. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

(a) governance (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);

(b) programme (quality assurance process, programme/project design and implementation, knowledge management);

(c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and

(d) United Nations leadership and coordination.[1]

The audit covered the activities of the Office from 1 January 2018 to 31 August 2019. The Office recorded programme and management expenses of approximately $112 million. The last audit of the Office was conducted by OAI in 2015.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed**, which means "The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area." This rating was mainly due to inadequate controls over the procurement process.

Key recommendations: Total = **7**, high priority = **1**

The seven recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1	Medium
Reliability and integrity of financial and operational information	4, 5	Medium

---

[1] The audit covered the activities under this area only for 2018.

Effectiveness and efficiency of operations	6	Medium
	7	High
Compliance with legislative mandates, regulations and rules, policies and procedures	2, 3	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. The high (critical) priority recommendation is presented below:

Inadequate controls over procurement process (Issue 7)	The audit team reviewed a sample of 22 purchase orders amounting to $1.2 million out of a total of 327 purchase orders amounting to $2.8 million and noted the following:

Procurement authority was not effectively established as noted in eight cases totalling $311,077, which included:

- vendors being contacted by programme personnel instead of the procurement unit;
- lack of segregation of duties between the creation of requisitions and approval of purchase orders in Atlas for three cases totalling $151,475; and
- processing of government requests for direct payments through Atlas purchase orders, instead of using Atlas payment vouchers.

Recommendation 7: The Office should strengthen the controls over the procurement process by: (a) ensuring that vendors are only contacted by procurement staff; (b) ensuring the segregation of duties between the creation of requisitions and approval of purchase orders; and (c) using Atlas payment vouchers for direct payments. |

Management comments and action plan

The Resident Representative accepted all recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I.   About the Office

The Office, located in Cairo, Egypt (the Country) had, at the time of the audit, 48 staff, 13 service contract holders, and 6 United Nations Volunteers. The main priorities of the Country Programme Document for the period from 2018 to 2022 were: (i) Enabling frameworks for the implementation of Egypt vision 2030 and the Sustainable Development Goals, strengthening institutional capacities for planning and monitoring; (ii) Inclusive and pro-poor local economic development and entrepreneurship; (iii) Climate resilience, sustainable livelihoods and ecosystems; and (iv) Women's protection and empowerment.

II.   Audit results

Satisfactory performance was noted in the following areas:

(a)   <u>Operations/ICT and general administrative management.</u> ICT systems managed by the Office including hardware and software were operating effectively. General administration controls were well established and functioning adequately. No reportable issues were identified.

(b)   <u>Operations/Human resources management.</u> Adequate controls were established, and the review of recruitment and separation processes did not identify any reportable issues.

(c)   <u>Operations/Staff and premises security.</u> Staff and premises security management was found to be adequate and all security measures were in place. No reportable issues were identified

OAI made one recommendation ranked high (critical) and six recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Office and are not included in this report.

High priority recommendation:
(a)   Strengthen the controls over the procurement process (Recommendation 7).

Medium priority recommendations, arranged according to significance:
(a)   Address the issue of VAT reimbursement (Recommendation 3).
(b)   Enhance controls over the liquidation of cash advances (Recommendation 4).
(c)   Improve budget process in Country Programme Document (Recommendation 1).
(d)   Strengthen procurement planning (Recommendation 6).
(e)   Ensure accurate recording of transactions in Atlas (Recommendation 5).
(f)   Expedite the closure of finalized projects and outputs (Recommendation 2).

The detailed assessment is presented below, per audit area:

| 1. | Corporate Direction |

Issue 1   Weaknesses in budget allocation

Budget allocations should be realistic, and implementation of the budgeted activities should be monitored.

The budget for the Gender Equality Pillar was set up as a standalone pillar in the Country Programme Document based on national priorities in 2017. As of 31 December 2019, the Office's annual budget for 2019 was reduced from $80.7 million to $69 million.

The Office anticipated higher resources in order not to slow down delivery and included the budget for several projects (including GEF projects) ending in 2019, for which extensions were pending.

Weaknesses in the budget allocation could raise expectations relating to the achievement of programmatic objectives, thereby exposing the organization to reputational risks.

Priority   Medium (Important)
Recommendation 1: The Office should improve its budget process in the Country Programme Document, which should incorporate the approval timeframe for project extensions in order to provide an accurate picture of planned activities.
Management action plan: The Office will enhance existing budget revision approval standard operating procedures to limit start of year budgets and increase the number of opportunities for budget revisions, noting that the number of budget revisions, minimum budget, and number of budget periods are constrained respectively by vertical fund procedures and government procedures, as well as the figures and durations set in project documents. **Estimated completion date:** December 2020

B. Programme

1. Project Design and Implementation

Issue 2   Delays in project closure

The 'UNDP Programme and Operations Policies and Procedures' require that projects be closed in a timely manner to manage fiduciary risk, meet donor expectations, avoid costly extensions and enable the timely transfer of assets for the sustainability of results. The financial closure of projects/outputs must take place within 12 months of operational closure or after the date of cancellation.
At the time of the audit, the Office had:

- 36 outputs that were ongoing despite having exceeded the end date as shown in Atlas (enterprise resource planning system of UNDP). This happened as the Office kept the output open until the closure of the whole project.
- 10 outputs that were operationally closed for more than 12 months but had not been financially closed. This was due to challenges in settling remaining balances or assets relating to these outputs.

The Office commented that when seeking government approval for the closure of outputs, it had proven more efficient to avoid misunderstandings and to keep outputs running until the whole project was closed. However, the Office was working on accelerating and refining the approval processes with the relevant government ministry to be able to close each output separately from the project.

By not closing projects and outputs in a timely manner, the Office risks unauthorized expenditures being charged against these projects.

Priority	Medium (Important)
Recommendation 2: The Office should revise the output end dates in Atlas for ongoing projects and expedite the closure of finalized projects and outputs.	
Management action plan: The Office is working on accelerating and refining the approval processes with the Government to be able to close each output separately from the project where possible. Closures are also specifically included in the Integrated Work Plan and the Country Office team annual work plans. **Estimated completion date:** December 2020	

C. Operations

1. Financial Resources Management

Issue 3   Payment of value added tax (VAT)

The 'UNDP Programme and Operations Policies and Procedures' require offices to liaise with relevant government ministries to ensure exemption or reimbursement of taxes for all purchases. In the event difficulties are encountered, these should be communicated to the Office of Operations, Legal and Technology Services for guidance and resolution. The VAT/sales account in Atlas should be debited for the VAT paid and the Office should regularly submit claims to the tax authority.

The Country introduced VAT in October 2016; however, the Office had not yet obtained VAT exemption on purchases. Several United Nations agencies (UNICEF, ICAO, FAO) led by UNICEF, had a VAT reimbursement agreement with the Government, while those agencies led by UNDP (UNDP, UNHCR, UNIDO, UNHABITAT, UN Women, UNIC and UNESCO), did not.
Consequently, all purchases were subject to 14 percent VAT, which from January 2018 to August 2019, amounted to approximately $307,000 for UNDP purchases and $2.5 million for procurement on behalf of projects. Furthermore, VAT was not recorded in the VAT/sales recoverable account but was instead expensed.

Priority	Medium (Important)
Recommendation 3: The Office should address the issue of reimbursement of VAT by expediting the collection of VAT data to facilitate discussions with the Government and by seeking advice from the Office of Operations, Legal and Technology Services, in obtaining VAT.	
Management action plan: The Office will record VAT, intensify and complete ongoing actions with the Operations Management Team and the United Nations Country Team, then based on written feedback when available from the Government, will seek advice from the Office of Operations, Legal and Technology Services on the VAT issue. **Estimated completion date:** October 2020	

Issue 4   Inadequate controls over liquidation of cash advances

The United Nations Development Group Harmonized Approach to Cash Transfer (HACT) Framework requires the use of Funding Authorization and Certification of Expenditures (FACE) forms by implementing partners to request cash transfers and report on their use. FACE forms should be accompanied by a completed itemized cost estimate showing the detailed activity budget, including price and quantities.

The audit team reviewed a sample of 3 out of 422 cash advances totalling $7.9 million out of $77 million and noted that the FACE forms were not accompanied by an itemized cost estimate. The Office was therefore not able to verify the correctness of expenditures and relied on the assurance of annual implementing partner audits.

The reported financial information might be inaccurate if the FACE forms do not include all relevant information for validating expenditures.

Priority	Medium (Important)
Recommendation 4: The Office should enhance controls over the liquidation of advances by reviewing the itemized cost estimate together with the FACE forms to ensure the accuracy of the recorded expenditures.	
Management action plan: The Office will enhance controls over the advance liquidation process by seeking advice from the Office of Financial Resources Management and supporting FACE forms and reviewing of the itemized cost estimate and utilizing this together with the FACE forms to review and ensure the correctness and accuracy of the recorded expenditures. **Estimated completion date:** October 2020	

Issue 5   Incorrect use of Chart of Accounts and inaccurate recording of transactions in Atlas

The 'UNDP Programme and Operations Policies and Procedures' require that for cost recovery purposes, offices make entries in the cost recovery project and include the same agency reference information as the accompanying voucher. As per the UNDP Implementing Partners and Implementing Agents Guidance, starting 1 January 2018, tagging of payments in Atlas is mandatory, to analyse and provide accurate financial reporting of project expenditures by cash transfer modality type.

The audit team noted the following:

- 6 vouchers totalling $570,859 out of 14 sampled vouchers had not been tagged under the appropriate cash transfer modality. One voucher related to services provided to other United

Nations agencies and the other five vouchers related to payments made for nationally implemented projects though purchase orders.

- Four vouchers totalling $835,662 out of seven sampled vouchers for project procurement support provided by UNDP, had not been tagged in Atlas.

- 80 payments valued at $78,788 for Daily Subsistence Allowance (DSA) were recorded under 11 non-DSA accounts, such as office machinery, sundry, miscellaneous and rental incomes. Similar recording errors were noted for six transactions totalling $8,835 relating to ticket purchases and vehicle maintenance.

The incorrect use of the Chart of Accounts may affect the accuracy of financial reporting information.

Priority	Medium (Important)
Recommendation 5: The Office should ensure accurate recording of transactions in Atlas by ensuring all transactions are tagged and Charts of Accounts are verified before recording in Atlas, and where required, seek clarification from the Office of Financial Resources Management.	
Management action plan: The Office is putting in place standard operating procedures to ensure all transactions are tagged and that voucher names are made consistent with all voucher lines Chart of Accounts to avoid apparent contradiction between voucher names and Chart of Accounts with special attention to multi-line Chart of Accounts. **Estimated completion date:** October 2020	

2. Procurement

Issue 6 Inadequate procurement planning

The 'UNDP Programme and Operations Policies and Procedures' require the development of consolidated procurement plans on an annual basis, which should be analysed, reviewed and updated regularly. Analysis of the consolidated procurement plan provides an opportunity to identify economies of scale and better use of resources. Procurement risk assessment, strategy development and planning should commence at the project definition stage.

The Office had prepared procurement plans comprising of 12 procurement cases totalling $69,200 corresponding to five projects in 2018, and 38 procurement cases totalling $1.97 million corresponding to nine projects in 2019. However, the procurement plans did not comprehensively identify the procurement

needs for the Office. During 2018, the Office processed 225 procurement cases totalling $1.85 million, and during 2019, the Office processed 102 procurement cases totalling $1.04 million.

The inadequate procurement planning contributed to insufficient lead time for sourcing, which led to requisitions being created during or after issuing purchase orders, as noted in 14 of 22 sampled transactions with a total amount of $898,012.

The Office was unable to monitor the volume of purchases to identify opportunities for consolidation of recurring procurement requirements to enhance efficiency.

Priority	Medium (Important)
Recommendation 6: The Office should strengthen the procurement planning by: (a) requiring all projects, including those using UNDP support, to develop procurement plans and to incorporate these in a consolidated plan; (b) monitoring purchases to identify opportunities for consolidation and competitive bidding; and (c) establishing and enforcing lead times for the procurement process commencing with requisitions in Atlas by the requesting unit.	
Management action plan: The Office will review standard operating procedures so that all projects that are using UNDP procurement support develop a procurement plan and incorporate these in the annual consolidated Office procurement plan, use requisitions, and are advised of typical lead times. The Office will monitor periodically procurement plans and requisitions for consolidation where appropriate and competitive bidding as per normal practice. **Estimated completion date:** February 2021	

Issue 7   Inadequate controls over procurement process

The 'UNDP Programme and Operations Policies and Procedures' stipulate that all communications with vendors should be undertaken by the procurement unit, and procurement requisitions and approval authorities should be segregated, and direct payments should be processed through raising payment vouchers.

The audit team reviewed a sample of 22 purchase orders amounting to $1.2 million out of a total of 327 purchase orders amounting to $2.8 million and noted the following:

Procurement authority was not effectively established as noted in eight cases totalling $311,077, which included:

- vendors being contacted by programme personnel instead of the procurement unit.
- lack of segregation of duties between the creation of requisitions and approval of purchase orders in Atlas was not observed for three cases totalling $151,475, which the Office explained was due to the limited number of staff; and
- processing of government requests for direct payments through Atlas purchase orders, instead of using Atlas payment vouchers.

Weaknesses in the procurement process could lead to inefficient use of available resources.

Priority	High (Critical)
Recommendation 7: The Office should strengthen the controls over the procurement process by: (a) ensuring that vendors are only contacted by procurement staff; (b) ensuring the segregation of duties between the creation of requisitions and approval of purchase orders; and (c) using Atlas payment vouchers for direct payments.	
Management action plan: The Office will establish standard operating procedures to monitor delegated procurement authority and to ensure that purchase orders are raised only for procurement actions performed by the Office. **Estimated completion date:** December 2020	

Definitions of audit terms - ratings and priorities

A.   AUDIT RATINGS

- **Satisfactory**

  The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Some Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were generally established and functioning but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.

- **Partially Satisfactory / Major Improvement Needed**

  The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.

- **Unsatisfactory**

  The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B.   PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)**

  Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.

- **Medium (Important)**

  Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.

- **Low**

  Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.