



**AUDIT**

**OF**

**UNDP EGYPT**

**GRANTS FROM THE GLOBAL FUND**

**Report No. 2646**  
**Issue Date: 8 January 2024**



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## Report on the Audit of UNDP Egypt Grants from the Global Fund Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 11 to 24 September 2023, conducted an audit of one grant from the Global Fund (Output Nos. 122206 [HIV/TB] and 131565 [COVID-19 support-C19RM]) managed by UNDP Egypt (the Office) as the Principal Recipient. This grant was managed under the Global Fund's Additional Safeguard Policy.<sup>1</sup> 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 and strategic management (organizational structure, Internal Control Framework & delegation of authorities, risk management, staffing and performance management, and allegations of wrongdoing);
- (b) development activities (project approval and implementation, monitoring and evaluation, capacity development and transition strategy, grant closure);
- (c) Sub-recipient management (selection, assessment and contracting, financial and programmatic activities);
- (d) procurement (quantification and forecasting, procurement of health products, quality assurance of health products, procurement of other goods and services), supply management of medical products (inventory, warehousing and distribution), and individual contractors; and
- (e) financial management (Global Fund budget during grant making, revenue and accounts receivables, expenditure and payment processing, financial reporting to the Global Fund, Fund Administrator Role, general ledger journal entries).

The audit covered the Global Fund-related activities of the Office from 1 January 2022 to 30 June 2023. The Office recorded Global Fund-related expenses of approximately \$8.01 million. This was the first audit of the Office's Global Fund-related activities.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (The IIA). Scope limitations were due to the non-granting of access to the government warehouse to perform a physical verification of assets and inventory.

### Overall audit rating

OAI assessed the Office's management of the Global Fund grants as **satisfactory/some improvement needed**, which means "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." This rating was

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<sup>1</sup> The Additional Safeguard Policy is a range of tools established by the Global Fund as part of its risk management processes.

mainly due to weaknesses identified in inventory management and the quality control of pharmaceutical products.

**Key recommendations:** Total = 3, high priority = 2

Objectives	Recommendation No.	Priority Rating
Effectiveness and efficiency of operations	1	Medium
Safeguarding of assets	2	High
Compliance with legislative mandates, regulations and rules, policies and procedures	3	High

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 recommendations are presented below:

**Insufficient monitoring of health product inventories in the government Central Warehouse (Issue 2)** Efforts to conduct physical verifications of the inventories at the government Central Warehouse of COVID-19 test kits and supplies, valued at \$6.2 million, were hindered because the Central Warehouse administrators informed the Programme Management Unit (PMU) that the inventories were considered government property upon delivery of goods procured by the Global Fund and hence, separate inventory records for the Global Fund were not necessary. A physical inventory spot check was ultimately undertaken by the Office, which observed that all test kits and supplies were distributed to medical and testing facilities.

The audit team noted that the government Central Warehouse received an additional COVID-19 Sequencing Kit valued at \$185,501 in January 2023. However, the inventory balances were not available at the PMU at the time of the audit fieldwork because a physical inventory count was not conducted. The audit team sought permission to visit the government Central Warehouse during fieldwork, but the request was not granted.

**Recommendation:** The Office should strengthen the management of inventories by: (a) requesting a report detailing the actual quantity used and the inventory balance of the COVID-19 Sequencing Kit procured by the Global Fund in the government Central Warehouse and conducting a physical inventory count and verification, if applicable; and (b) escalating the issue of inventory management to the government ministry to ensure access to the government's Central Warehouse is granted and that Global Fund procured medical supplies and consumables are accounted for and stored separately from other inventories.

**Lack of quality control testing of second-line TB medicines (Issue 3)** Since the inception of the Global Fund grant in January 2019, the quality control testing of second-line TB medicines was not performed. According to the Office, the National TB Programme (NTP) decided that second-line TB medicines procured from Stop TB would be accepted if it was certified and

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approved by the World Health Organization and Stop TB because of the lengthy process of the quality control test conducted in the national laboratories (up to four weeks).

Recommendation: The Office should strengthen the quality assurance process by performing quality control tests of all finished pharmaceutical products to be used by the national programmes in accordance with the Global Fund Quality Assurance Policy for Pharmaceutical Products.

### Management comments and action plan

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

A handwritten signature in black ink, appearing to read 'Guillermo Munoz', is enclosed within a rectangular box.

Guillermo Munoz  
Deputy Director a.i  
Office of Audit and Investigations

## I. Profile of Global Fund grants managed by UNDP Egypt

Since 2019, UNDP has been the Principal Recipient of Global Fund grants in Egypt (the Country).

Grant No.	Output No.	Description	Start Date	End Date	Budget (in \$'000)	Funds Received as of <b>30 June 2023</b> (in \$ '000)	Implementation Rate	Expenses as of <b>30 June 2023</b> (in \$ '000)	Global Fund Rating at <b>30 June 2023</b>
	115586	NFM2- Main Grant	1-Apr-19	31-Mar-22	1,087	93	27%	293	N/A
	123880	NFM2- C19RM	1-Apr-19	31-Mar-22	2,639	-	16%	422	N/A
2888	122206	NFM3- Main Grant	1-Apr-22	31-Mar-25	2,737	2,737	41%	1,116	N/A
2888	131565	NFM3- C19RM	1-Apr-22	31-Mar-25	6,165	5,988	100%	6,181	N/A

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Governance. The organizational structure, the Internal Control Framework and delegation of authorities, risk management, staffing, and performance management were reviewed, and no reportable issues were found. Although the Programme Management Unit (PMU) had only two staff supported by a UN Volunteer, oversight exercised by the Office allowed for the timely identification and mitigation of challenges.
- (b) Development activities. The controls over the implementation of the grant to achieve programmatic objectives were established and functioning. The monitoring and evaluation function ensured regular assessments of the progress/implementation of programme activities.
- (c) Financial management. Controls were adequately established to ensure the timely submission of progress reports to the Global Fund. Adequate supporting documentation was provided to justify payments and adequate oversight by the Office was noted.

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

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

**High priority recommendations**, arranged according to significance:

- (a) Strengthen the management of health product inventories (Recommendation 2).
- (b) Strengthen the quality assurance process (Recommendation 3).

**Medium priority recommendation:**

- (a) Improve oversight of the national programmes (Recommendation 1).

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The detailed assessment is presented below, per audit area:

## A. Sub-recipient management

### 1. Selection, assessment, and contracting

#### **Issue 1**      Lapses in the oversight of national programmes

The UNDP-Global Fund Health Implementation Guidance Manual requires the Principal Recipient to assess the capacity of the Sub-recipients before signing the Sub-recipient agreements. The Sub-recipient agreements require quarterly submissions of mandatory progress reports to the Principal Recipients, and these should be reviewed to provide timely feedback to improve Sub-recipient performance. The National HIV and Tuberculosis Monitoring and Evaluation Plan 2022–2025 states that data quality assurance must be carried out quarterly together with the National AIDS Programme (NAP) and UNDP.

The Office contracted the NAP and the National TB Programme (NTP) in August and June 2022 for \$178,000 and \$204,000, respectively, without assessing their capacity as required by the Global Fund operational guide, and no sound explanation was provided. The audit team noted that the NAP and NTP were nominated by the Country Coordination Mechanism committee.<sup>2</sup>

The two national programmes submitted their mandatory quarterly reports with an average delay of three months. The delays were consistent. The Office reported that the delays were due to the time taken by the national programmes to consolidate the reports from the Sub-recipient NGOs, and delays in the receipt of data from some TB interventions, such as prisons. In addition, no management letters were sent to the national programmes following the review of their mandatory progress reports, which could have guided them in addressing the delays.

The data quality assurance was not carried out quarterly by the NAP and the Office as required in the National HIV and Tuberculosis Monitoring and Evaluation Plan 2022–2025. No sound explanation was provided by the Office for the lack of data quality assurance.

The above observations were caused by a lack of oversight by the PMU, which only had two staff and one UN Volunteer at the time of the audit. This was further exacerbated by the weak capacity of the Sub-recipient NGOs.

Ineffective oversight of the national programmes may impact grant implementation and performance since programme activity issues may not be identified and resolved on time.

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<sup>2</sup> Country Coordinating Mechanisms are national committees that submit funding applications to the Global Fund and oversee grants on behalf of their countries.

The lack of robust data quality assurance processes may lead to inaccurate reporting to the Global Fund and consequently, affect Principal Recipient performance assessments.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Office should improve oversight of the national programmes by:	
<ul style="list-style-type: none"> <li>(a) conducting the capacity assessment of all Sub-recipients including the national programmes before signing the Sub-recipient agreements and the start of the grant implementation period;</li> <li>(b) working closely with the national programmes to improve the submission of mandatory progress reports and management letters; and</li> <li>(c) conducting data quality assurance quarterly together with the national programmes.</li> </ul>	
<b>Management action plan:</b>	
The Offices agrees with the recommendation and will:	
<ul style="list-style-type: none"> <li>(a) conduct a capacity assessment of all Sub-recipients for the next grant;</li> <li>(b) issue a management letter to the NAP and the NTP regularly; and</li> <li>(c) complete a joint spot check verification visit to the NAP and the NTP and complete a report with clear recommendations to be shared with the NTP and NAP following the visit.</li> </ul>	
<b>Estimated completion date:</b> March 2025	

## B. Procurement and supply management

### 1. Procurement of health products

**Issue 2**      Insufficient monitoring of health product inventories in the government Central Warehouse

The UNDP-Global Fund and Health Implementation Guidance Manual states that all undistributed medical supplies and equipment held at government central or regional warehouses/storage locations should be verified through physical inventory counts and reported on at the end of each quarter.

COVID-19 test kits and supplies valued at approximately \$6.2 million were delivered directly to the government Central Warehouse between April and September 2022. Physical verifications of the inventories at the government Central Warehouse were not conducted because the Central Warehouse administrators informed the PMU that the inventories were already government ministry property and hence, separate inventory records for the Global Fund were not necessary. Subsequently, the Global Fund Programme Manager and the Local Fund Agent (Global Fund Country Team) conducted a physical inventory spot check at the Central Warehouse. The Global Fund Country Team observed that all COVID-19 test kits and supplies were distributed to various medical and testing facilities in the Country. The





distribution list report of the COVID-19 test kits and supplies was not initially provided during the Global Fund Country Team’s visit. The report was later furnished to the Global Fund Country Team from the government Central Warehouse at the request of the PMU. The audit team sought permission to visit the government Central Warehouse during fieldwork, but the request was not granted.

In addition, the audit team noted that the government Central Warehouse received an additional COVID-19 Sequencing Kit valued at \$185,501 in January 2023. However, the inventory balances were not available at the PMU at the time of the audit fieldwork because a physical inventory count was not conducted.

Failure to meet the inventory management requirements of the Global Fund may lead to inaccurate inventory reports, inventory stockouts, mismanagement of inventory, and losses.

<b>Priority</b>	High (Critical)
<b>Recommendation 2:</b>	
The Office should strengthen the management of inventories by:	
<ul style="list-style-type: none"> <li>(a) requesting a report detailing the actual quantity used and the inventory balance of the COVID-19 Sequencing Kit procured by the Global Fund in the government Central Warehouse and conducting a physical inventory count and verification, if applicable; and</li> <li>(b) escalating the issue to the government ministry to ensure that access to the government's Central Warehouse is granted and that Global Fund-procured medical supplies and consumables are accounted for and stored separately from other inventories, and requesting access to conduct periodic physical inventory counts and verification.</li> </ul>	
<b>Management action plan:</b>	
<ul style="list-style-type: none"> <li>(a) The government ministry requires a rigorous security clearance process to provide access to the Central Warehouse, and the Office does not expect that access will be granted, therefore a physical verification will not be possible; however, a request will be made nonetheless (point b). The Office has requested a report from the government ministry detailing the actual quantity used and the remaining COVID-19 Sequencing Kits.</li> <li>(b) The Resident Representative will send a letter to the Assistant Minister of Health, copy to the Fund Portfolio Manager, requesting that the Global Fund procured medical supplies and health products be stored separately, and request access to the warehouse to complete physical verification.</li> </ul>	
<b>Estimated completion date:</b> June 2024	

## 2. Quality assurance of health products

### Issue 3 Lack of quality control testing of second-line TB medicines



The Global Fund Quality Assurance Policy for Pharmaceutical Products states that the quality of finished pharmaceutical products<sup>3</sup> procured with Global Fund grant funds must be monitored. In collaboration with the National Drug Regulatory Authority, the Principal Recipient must ensure that random samples of finished pharmaceutical products are obtained at different points in the supply to monitor the quality of such products.

Since the inception of the Global Fund grant in January 2019, the quality control testing of second-line TB medicines amounting to \$85.1 million was not performed. According to the PMU, the NTP decided that the second-line TB medicines procured from Stop TB would be accepted if it was certified and approved by the World Health Organization and Stop TB because of the lengthy process of the quality control tests conducted in the national laboratories (up to four weeks). The issue was not further pursued by the Office. Following a discussion with the audit team during fieldwork, the PMU intended to perform a quality control test of the forthcoming delivery of the second-line TB medicines.

Failure to conduct quality control testing on second-line TB medicines may jeopardize the effectiveness, safety, and integrity of the treatment process and consequently increase patient health hazards and reputational risks.

<b>Priority</b>	High (Critical)
<b>Recommendation 3:</b>	
The Office should strengthen the quality assurance process by performing quality control of all finished pharmaceutical products to be used by the national programmes in accordance with the Global Fund Quality Assurance Policy for Pharmaceutical Products.	
<b>Management action plan:</b>	
With support from the Global Fund Partnership and Health Systems Team, the Office is finalizing a quality assurance plan for the grant covering the period 2024 to the end of the grant. As part of the implementation plan, annual sampling sessions will be conducted and selected samples will be sent for quality control testing. For 2024, additional quantities will be procured to enable sampling for quality control.	
<b>Estimated completion date:</b> 31 December 2024	

<sup>3</sup> A finished pharmaceutical product is a product in its finished dosage form that has undergone all stages of production, including packaging in its final container and labeling.

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## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Fully 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.
- **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 contribute to negative consequences for UNDP.