Internal Audit of the Arab Republic of Egypt Country Office

September 2013

Office of Internal Audit
and Investigations (OIAI)
Report 2013/33

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children

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Summary

The Office of Internal Audit and Investigations (OIAI) has conducted an audit of the Egypt country office. The audit sought to assess the governance, programme management and operations support over the office's activities. The audit team visited the office from 26-30 May 2013, and the audit covered the period from January 2012 to 26 May 2013.

Egypt is classified as a middle-income country, and is 112th out of 186 in the 2013 Human Development Index. It is still in transition after the January 2011 revolution. The year 2012 was marked by fundamental events that included the approval of a new constitution.

The recent trends in child malnutrition are a matter of national concern. The Demographic Health Survey (DHS) in 2008 found that 29 percent of children under five years old were stunted. In 2012, in selected slums and unplanned settlements in four major cities, the prevalence was close to one-third of the under-fives, according to a report UNICEF is preparing with the Informal Settlements Development Facility (*Report on child multidimensional poverty in slums and unplanned areas*).

The Egypt country office is in Cairo. As of May 2013, the office had a total of 53 approved posts: seven international professionals; 23 national officers; and 23 general service staff. Total expenditure amounted to US$ 8.7 million in 2012 and US$ 4.5 million in 2013 (as of May).

Action agreed following the audit

As a result of the audit, and in discussion with the audit team, the country office has agreed to take a number of measures. Two of them are being implemented as high priority. They are as follows:

- The office has agreed to prioritize the implementation of the Harmonized Approach to Cash Transfers (HACT) by finalizing and implementing an assurance plan that specifies the nature and frequency of assurance activities, such as financial spot checks, programme monitoring and scheduled audits.
- The office has also agreed to ensure better measurement and reporting on results by providing more training and guidance to staff on results-based programme monitoring, including the planning, conduct, reporting and follow-up of key action points stemming from field monitoring visits.

Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over the country office, in the areas examined by this audit, were generally established and functioning during the period under audit. The Egypt country office, with support from the Middle East and North Africa Regional Office, and OIAI will work together to monitor implementation of the measures that have been agreed.

Office of Internal Audit and Investigations (OIAI) September 2013

Contents

Objectives and scope

The objective of the country-office audit is to provide assurance as to whether there are adequate and effective controls, risk-management and governance processes over a number of key areas in the office. In addition to this assurance service, the audit report identifies, as appropriate, noteworthy practices that merit sharing with other UNICEF offices.

The audit observations are reported upon under three headings; governance, programme management and operations support. The introductory paragraphs that begin each of these sections explain what was covered in that particular area, and between them define the scope of the audit.

Audit observations

1 Governance

In this area, the audit reviews the supervisory and regulatory processes that support the country programme. The scope of the audit in this area includes the following*:*

- **Supervisory** structures, including advisory teams and statutory committees.
- **Identification** of the country office's priorities and expected results and clear communication thereof to staff and the host country.
- **Staffing structure** and its alignment to the needs of the programme.
- **Performance measurement**, including establishment of standards and indicators to which management and staff are held accountable.
- **Delegation** of authorities and responsibilities to staff, including the provision of necessary guidance, holding staff accountable, and assessing their performance.
- **Risk management**: the office's approach to external and internal risks to achievement of its objectives.
- **Ethics**, including encouragement of ethical behaviour, staff awareness of UNICEF's ethical policies and zero tolerance of fraud, and procedures for reporting and investigating violations of those policies.

All the above areas were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following.

The office had established supervisory structures and governance advisory committees with appropriate terms of reference and memberships. It had also identified key management priorities and expected results and these had been clearly communicated to staff through the annual management plan. Staff performance assessments were timely.

The roles of staff members in processing and controlling transactions had been properly defined and assigned through the table of authority. Staff members had been delegated with appropriate authorities within defined limits.

Monitoring progress against priorities and objectives

The 2012 and 2013 annual management plans (AMP) identified key management priorities and management indicators to measure performance. The audit noted the following shortcomings.

Management indicators: The AMP listed categories of management indicators. However, this list was incomplete. No management indicators had been established for office management, strategic programme management, strategic partnerships, emergency preparedness or human resources management. Further, not all management indicators were regularly reviewed by the country management team (CMT). While it may not be practical to have all indicators reviewed in every CMT, the office may benefit from ensuring that a complete set of indicators is established and is reviewed by a designated oversight body at fixed intervals.

Where management indicators had been established, the office had not always set targets or benchmarks. In the absence of specific targets, it was not possible to judge whether the office was doing well or not. For instance, there were no targets for the indicators related to the amount of funds raised during the year or the percentage of implementation of HACT assurance activities.[1]

Management priorities: The office identified six key management priorities for 2012. The CMT was to have reviewed progress against these priorities regularly, but there were some key priorities that it did not systematically and consistently review. They included ensuring partners' awareness of key priorities for child rights and well-being, funding and resource mobilization, and HACT implementation and assurance plans. The office noted that some of these priorities were discussed during section meetings, although they were not reflected in the minutes.

Agreed action 1 (medium priority): The country office agrees to review management indicators to measure performance of all key objectives and priorities; set specific targets for each indicator; and ensure regular review of progress against targets and priorities by governing bodies such as the Country Management Team or other internal oversight mechanisms.

Responsible staff: Deputy Representative and Social Policy Monitoring and Evaluation Chief
Date by which action will be completed: December 2013

Risk management

Country offices are expected to implement the UNICEF Enterprise Risk Management (ERM) policy. This requires conduct of an office-wide risk and control self-assessment (RCSA) to identify key risks and opportunities in the operating environment. The policy also requires offices to put in place measures to mitigate identified risks.

The office had conducted its RCSA in July 2010, with participation of all staff members. Following this exercise, the risk and control library was developed in April 2011. In June 2012, the office had revised and updated the ratings of the risks. However, they were not updated in the risk and control library.

[1] HACT is discussed on page 10 below.

The office explained that the main risks facing the country programme, and how the office planned to address them, were defined in the new country programme management plan (CPMP).[2] However, this did not include a comprehensive account of all key risks identified in the risk profile updated in 2012, or a specific action plan with assigned staff responsibilities, performance indicators and timeframe. Specific medium- to high-risk areas not covered in the CPMP and for which no action plan had been prepared included: aid environment and predictability of funding; results-based management; measurement and reporting on results; and rewards and sanctions.

Agreed action 2 (medium priority): The office agrees to update the risk and control library, and develop an action plan with assigned staff responsibilities, performance indicators and timeline to monitor implementation of actions and controls for mitigating the identified risks.

Responsible staff: Chief of Operations
Date by which action will be completed: December 2013

Governance area: Conclusion

Based on the audit work performed, OIAI concluded that the controls and processes over governance, as defined above, were generally established and functioning during the period under audit.

[2] When preparing a new country programme, country offices prepare a CPMP to describe, and help budget for, the human and financial resources that they expect will be needed.

2 Programme management

In this area, the audit reviews the management of the country programme – that is, the activities and interventions on behalf of children and women. The programme is owned primarily by the host Government. The scope of the audit in this area includes the following:

- **Resource mobilization and management**. This refers to all efforts to obtain resources for the implementation of the country programme, including fundraising and management of contributions.
- **Planning**. The use of adequate data in programme design, and clear definition of results to be achieved, which should be specific, measurable, achievable, realistic and timebound (SMART); planning resource needs; and forming and managing partnerships with Government, NGOs and other partners.
- **Support to implementation**. This covers provision of technical, material or financial inputs, whether to governments, implementing partners, communities or families. It includes activities such as supply and cash transfers to partners.
- **Monitoring of implementation**. This should include the extent to which inputs are provided, work schedules are kept to, and planned outputs achieved, so that any deficiencies can be detected and dealt with promptly.
- **Reporting.** Offices should report achievements and the use of resources against objectives or expected results. This covers annual and donor reporting, plus any specific reporting obligations an office might have.
- **Evaluation**. The office should assess the ultimate outcome and impact of programme interventions and identify lessons learned.

All the above areas were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

The key results of the country programme were in alignment with the national priorities and goals of the country. The office had effectively pursued partnership with the government – for example, in its support to the Ministry of Health and Population (MoHP) for the 2012 Egypt Nutrition Landscape Analysis. This project, which assessed Egypt’s readiness and capacity to combat malnutrition, was the first of its type in the Middle East and North Africa Region. The office was focusing on systems strengthening for more equitable and quality service delivery in child health and nutrition, protection and education. This emphasis was the result of experiences of piloting models of good practice, such as perinatal care, community schools and inclusive education, in the 2007-2013 cycle. As of May 2013, all key programme components such as health, nutrition, education and child protection had been evaluated during the current country programme cycle ending in June 2013.

The office had effective systems and processes to ensure quality and timely reporting to donors, and the office’s annual report complied with existing guidelines.

The office’s controls for monitoring the status of liquidations and reporting on outstanding direct cash transfers (DCTs) were generally adequate. DCTs were monitored on a monthly and quarterly basis. In March 2013, the office had no DCTs outstanding for more than nine months; and DCTs outstanding between six and nine months were 2 percent of total outstanding DCTs.

Programme planning

The office had implemented the simplified programme results structure in 2010. The results matrix of the country programme that was updated in 2012 contained indicators, baselines and targets for all programme component results (PCRs) and intermediate results (IRs).[3] A total of eight PCRs and 23 IRs were actively implemented in 2012. However, a number of indicators were not clearly linked to the IRs. They were more activity- or input-based indicators. For example, for "*IR 8.8 Children and adolescents have increased capacity to speak out and advocate for their own rights*" the indicators formulated were *university movie festival launched* and *MoU signed with Ministry of High Education*. Having activity-based rather than results-based indicators made assessment of progress towards achievement of results difficult if not impossible. Further, in many cases, the source and year of the baselines included in the results matrix were not defined. This made it difficult to validate the accuracy of data.

Most of the AWPs with partners for 2013 were not signed until the second quarter of the year (mostly April). As of 30 May, the AWPs with the Ministry of Health and the Ministry of Insurance and Social Affairs had not been signed because of multiple changes within some of the government partners. Delays in signing of the AWPs with partners led to delays in the implementation of planned activities.

The gaps noted above were partly due to inadequate application of results-based management principles and tools in programme planning. The office indicated that in the preparation of the new country programme, a more appropriate process of identifying and redefining key indicators was being introduced with the assistance of the regional office. The office also noted that the political instability and multiple changes within key government partners posed challenges in getting AWPs signed in the usual format and in a timely manner.

Agreed action 3 (medium priority): The country office agrees to improve training and guidance to staff on results-based management and planning to ensure that annual workplans contain clearly defined indicators for results, baselines with specific source and year of reference. It also agrees to follow up with responsible partners to ensure that the annual workplans are agreed and signed early in the year to ensure timely implementation of activities.

Responsible staff: Deputy Representative
Date by which action will be completed: December 2013

Results-based programme monitoring

Programme implementation and achievement of planned results was monitored through various means, such as field-monitoring visits, programme coordination meetings, CMT meetings and periodic reviews with implementing partners. The audit reviewed programme

[3] A PCR is an output of the country programme, against which resources will be allocated. An IR is description of a change in a defined period that will significantly contribute to the achievement of a PCR.

monitoring and noted the following shortcomings.

Field-monitoring visits: The programme sections prepared monthly travel plans, and staff members were required to record findings from the field-monitoring visits by preparing trip reports in the Lotus Notes-based trip-report database. However, staff did not always do this. According to the database, no trip reports were prepared for 164 of the 343 trips undertaken in 2012 or 71 of 141 trips undertaken in 2013 (as of May). This presented a risk that significant findings arising from field-monitoring visits might not be reported or followed up. In addition, in four of the seven trip reports looked at by the audit, there was no evidence that the status and effectiveness of programme inputs such as cash transfers or supplies given to partners had been reviewed. Also, while staff had documented findings and action points, the responsibilities and timeline for implementing recommended actions were not consistently given in the reports reviewed. In general, there was no systematic process to follow up significant action points arising from field monitoring. The database had a feature for tracking and updating status of recommendations made on each trip report, but it was not consistently used.

***Measuring and reporting on progress towards results*:** The office used the tool for measuring and reporting progress in the Results Assessment Module (RAM) in VISION. The measurement and reporting was constrained by the definition of indicators (see *Programme planning*, above), and tended to provide more information on activities completed rather than progress towards results. In cases where the indicators for results had been defined, there was sometimes no information on the actual number or percentage of results achieved. As a result, reporting in RAM was only done on activities completed rather than their impact. Further, the data was collected from either the partners' database or from their reports. The format used to report results by the partner had not been standardized across sections and partners, thereby limiting the quality of data input into the RAM. Additional training and guidance to staff would improve the office's capacity to measure and report on progress.

Agreed action 4 (high priority): The country office agrees to take the following steps:

i. The findings of field-monitoring visits will be consistently documented through trip reports.
ii. The status of programme inputs and their effectiveness will be established during field visits.
iii. Responsibilities and timelines will be established for implementing action points arising from field visits and those actions will be systematically followed up for timely implementation.
iv. Training and guidance to staff in measuring and reporting on results will be provided.

Responsible staff: Deputy Representative
Date by which action will be completed: December 2013

HACT and assurance activities

Country offices are required to implement the Harmonized Approach to Cash Transfers (HACT) for cash transfers to implementing partners. HACT is also required for UNDP, UNFPA and WFP in all programme countries. HACT exchanges a system of rigid controls for a risk-management approach, reducing transaction costs by simplifying rules and procedures, strengthening partners' capacities and helping to manage risks. HACT includes risk assessments – a macro-assessment of the country's financial management system, and micro-assessments of the individual implementing partners (both Government entities and NGOs).

Assurance activities are a further element of the HACT framework, promoting accountability and strengthening the financial management and internal control mechanisms of the implementing partners. The activities include spot checks of partner implementation, programmatic monitoring, audits of partners receiving a certain level of funds, and (where required) special audits. The risk assessments and assurance activities are supposed to be carried out in cooperation with the three other UN agencies that have also adopted HACT.

Macro-assessment: The World Bank had conducted an assessment of the public financial systems in 2007 but the report was not issued. As a result, the UN agencies had not done a desk review of the existing assessments in the country. Lack of macro-assessment by UN participating agencies had limited UNICEF and the other UN agencies' knowledge of current risks in public financial management and the potential for capacity building (the office had not seen the World Bank report). Also, the UN agencies were not able to establish a basis for reliance on the Supreme Audit Institute (SAI) regarding scheduled audits of government partners that received cash transfers.

Micro-assessments: The office had micro-assessed all NGOs during the period 2009 and 2010. Any partnership with new NGOs was preceded by micro-assessment, irrespective of the value of the cooperation agreement. However, the government had not approved the micro-assessment of government partners. This had limited the office's capacity to identify key risks related to cash transfers to government partners, and to identify and address their capacity gaps. They were therefore considered by default as high-risk partners and subject to more extensive assurance activities.

Assurance activities*:* The office used the FACE[4] form for cash transfer requests from partners. However, the office had continued to request partners to submit detailed receipts to support their use of cash transfers to UNICEF until mid-2012. At that point, this had been discontinued in anticipation that assurance activities in the form of spot checks, programme monitoring and scheduled audits would be undertaken. However, the assurance activities were not planned and carried out as expected; as of May 2013, the office was still developing its assurance plan.

Insufficient assurance activities limited the office's assurance that cash transfers to partners had been used as intended and had achieved the expected results. Although this risk could have been partly mitigated through field monitoring visits undertaken by programme staff, sampled field-trip reports did not suggest that a review of status and use of cash transfers had been consistently included in the field monitoring (see also *Results-based programme monitoring*, above). The office stated that it planned to finalize and implement the assurance plan by 1 July 2013.

Training of staff and partners: The office trained staff and partners on policy and

[4] The Funding Authorization Certificate of Expenditure (FACE) form is used by the partner to request and liquidate cash transfers. It is also used by UNICEF to process the requests for and liquidation of cash transfers. The FACE forms should reflect the workplans, which set out the activities for which funds are being requested, or on which they have been spent. The FACE form was designed for use with the HACT framework, but can also be used outside it.

procedures relating to HACT in 2010 and 2011. However, since the actual implementation of HACT did not take place as planned, and in view of possible changes of partners' personnel in the last two or three years, refresher training for both UNICEF staff and partners would be appropriate.

The late implementation of HACT in the office was partly due to lack of prioritization of HACT implementation, but also to socio-political factors, including the revolution in 2011 and the resulting multiple changes within the government.

Agreed action 5 (high priority): The country office agrees to take the following steps:

i. Prioritize the implementation of HACT, ensuring that the assurance plan (including financial spot checks, programme monitoring and scheduled audits) is finalized and implemented immediately.
ii. Provide refresher training for staff and partners on HACT policy and procedures.
iii. Use the results of the micro-assessments to inform the planning of assurance activities, and follow up the status of recommendations made in the micro-assessments of NGOs.
iv. Given the current context in the country, consider all government partners as high risk until macro-assessment of the public financial management systems and the micro-assessment of government partners are completed.

Responsible staff: Chief of Operations and Deputy Representative
Date by which action will be completed: January 2014

Programme management: Conclusion

Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over programme management, as defined above, needed improvement to be adequately established and functioning.

3 Operations support

In this area the audit reviews the country office's support processes and whether they are in accordance with UNICEF Rules and Regulations and with policies and procedures. The scope of the audit in this area includes the following:

- **Financial management**. This covers budgeting, accounting, bank reconciliations and financial reporting.
- **Procurement and contracting.** This includes the full procurement and supply cycle, including bidding and selection processes, contracting, transport and delivery, warehousing, consultants, contractors and payment.
- **Asset management**. This area covers maintenance, recording and use of property, plant and equipment (PPE). This includes large items such as premises and cars, but also smaller but desirable items such as laptops; and covers identification, security, control, maintenance and disposal.
- **Human-resources management.** This includes recruitment, training and staff entitlements and performance evaluation (but not the actual staffing structure, which is considered under the Governance area).
- **Inventory management.** This includes consumables, including programme supplies, and the way they are warehoused and distributed.
- **Information and communication technology (ICT)**. This includes provision of facilities and support, appropriate access and use, security of data and physical equipment, continued availability of systems, and cost-effective delivery of services.

With the exception of inventory management and ICT, which were assessed as low risk areas, all the above areas were covered in this audit.

Satisfactory key controls

The audit found that controls were functioning well over a number of areas including (but not necessarily limited to) the following:

Financial transactions were properly processed, authorized and approved in accordance with the table of authority approved by the Representative. The bank signatory panel was up to date, and documents relating to financial transactions including cheques, payment vouchers and supporting documents, were kept in a restricted place.

The office had established and documented workflow processes related to procurement of goods and services, contracts for services, and payment processing.

Financial controls

Country offices are required to establish financial controls to ensure timely processing of financial transactions for payments to partners and suppliers. These should be made to properly selected providers of goods and services and on the basis of valid obligating documents such as contracts and project cooperation agreements (PCAs). The audit noted the following:

Cash transfers: Cash transfers to partners were not disbursed in accordance with the activity implementation timeframes stated in either the workplans or in the partners' requests. In 12 of 15 sampled cases, funds were disbursed within a range of one to five months after the activity start date. The delays were mainly caused by late submission of requests for cash transfers by partners. The office explained that even after the government's clearance on the partnerships for NGOs, the partners still required government authorization to receive funds from UNICEF. This authorization sometimes took a long time; partners interviewed by the audit cited cases of over six months. Late disbursement of funds led to delays in the implementation of programme activities.

Contracts for services: In five of the 10 cases reviewed, contracts for services were signed by the consultants or contractors three to 12 days after the start date of the contracts (the office had signed on time, but not the consultants/contractors). This meant that work started without valid contracts. Longer lead times were needed between issue and start dates of contracts.

Programme cooperation agreements (PCAs): The office had developed a checklist for Contract Review Committee (CRC) submissions, but it was not consistently used. The checklist did not include a requirement to verify compliance with the requirements of United Nations Security Council resolution 1267 regarding sanctions against Al-Qaida and the Taliban. None of the supporting documents for PCAs sampled by the audit showed evidence of review of compliance with the resolution.

Agreed action 6 (medium priority): The country office agrees to:

i. Strengthen its controls and processes to ensure that requests for cash transfers are submitted before the activity start date, and that contracts for services are signed by the consultants or contractors before the start date of contracts.
ii. Revise the programme cooperation agreement (PCA) checklist to include a requirement for verification of NGOs in compliance with the United Nations Security Council resolution 1267 and ensure that the checklist is consistently used for the review of PCAs submitted to the CRC.

Responsible staff: Deputy Representative
Date by which action will be completed: Immediately

Operations support: Conclusion

Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over operations support, as defined above, were generally established and functioning during the period under audit.

Annex A: Methodology, and definition of priorities and conclusions

The audit team used a combination of methods, including interviews, document reviews, testing samples of transactions. It also visited UNICEF locations and supported programme activities. The audit compared actual controls, governance and risk management practices found in the office against UNICEF policies, procedures and contractual arrangements.

OIAI is firmly committed to working with auditees and helping them to strengthen their internal controls, governance and risk management practices in the way that is most practical for them. With support from the relevant regional office, the country office reviews and comments upon a draft report before the departure of the audit team. The Representative and their staff then work with the audit team on agreed action plans to address the observations. These plans are presented in the report together with the observations they address. OIAI follows up on these actions, and reports quarterly to management on the extent to which they have been implemented. When appropriate, OIAI may agree an action with, or address a recommendation to, an office other than the auditee's (for example, a regional office or HQ division).

The audit looks for areas where internal controls can be strengthened to reduce exposure to fraud or irregularities. It is not looking for fraud itself. This is consistent with normal practices. However, UNICEF's auditors will consider any suspected fraud or mismanagement reported before or during an audit, and will ensure that the relevant bodies are informed. This may include asking the Investigations section to take action if appropriate.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. OIAI also followed the reporting standards of International Organization of Supreme Audit Institutions.

Priorities attached to agreed actions

High: Action is considered imperative to ensure that the audited entity is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium: Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low: Action is considered desirable and should result in enhanced control or better value for money. Low-priority actions, if any, are agreed with the country-office management but are not included in the final report.

Conclusions

The conclusions presented at the end of each audit area fall into four categories:

[Unqualified (satisfactory) conclusion]
Based on the audit work performed, OIAI concluded that the controls and processes over

the country office *[or audit area]* were generally established and functioning during the period under audit.

[Qualified conclusion, moderate]
Based on the audit work performed, OIAI concluded that, subject to implementation of the agreed actions described, the controls and processes over [audit area], as defined above, were generally established and functioning during the period under audit.

[Qualified conclusion, strong]
Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over [audit area], as defined above, needed improvement to be adequately established and functioning.

[Adverse conclusion]
Based on the audit work performed, OIAI concluded at the end of the audit that the controls and processes over [audit area], as defined above, needed **significant** improvement to be adequately established and functioning.

[Note: the wording for a strongly qualified conclusion is the same as for an adverse conclusion but omits the word "significant".]

The audit team would normally issue an ***unqualified*** conclusion for an office/audit area only where none of the agreed actions have been accorded high priority. The auditor may, in exceptional circumstances, issue an unqualified conclusion despite a high-priority action. This might occur if, for example, a control was weakened during a natural disaster or other emergency, and where the office was aware the issue and was addressing it. Normally, however, where one or more high-priority actions had been agreed, a ***qualified*** conclusion will be issued for the audit area.

An ***adverse*** conclusion would be issued where high priority had been accorded to a significant number of the actions agreed. What constitutes "significant" is for the auditor to judge. It may be that there are a large number of high priorities, but that they are concentrated in a particular type of activity, and that controls over other activities in the audit area were generally satisfactory. In that case, the auditor may feel that an adverse conclusion is not justified.