

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP YEMEN

YEMEN EMERGENCY CRISIS RESPONSE
(Directly Implemented Project No. 97850, Output Nos. 101415 and 101417)

Report No. 1808

Issue Date: 8 September 2017

**Report on the Audit of UNDP Yemen
Yemen Emergency Crisis Response
(Project No. 97850, Output Nos. 101415 and 101417)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through KPMG SA. (the audit firm), from 7 to 20 June 2017, conducted an audit of Yemen Emergency Crisis Response (Project No. 97850, Output Nos. 101415 and 101417 "Business Operations") (the Project), which is directly implemented and managed by the UNDP Country Office in Yemen (the Office). This was the first audit of the Project.

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations. The audit covered the Project's Combined Delivery Report, which includes expenditure for the period from 1 January to 31 December 2016 and the accompanying Funds Utilization statement¹ as of 31 December 2016. The audit did not cover the Statement of Assets as no assets were held by the Project. In addition, the audit did not cover the Statement of Cash Position as no separate bank account was established and maintained for the Project.

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

Audit results

Based on the audit reports and corresponding management letters submitted by the audit firm, the results are summarized in the table below:

Output No.	Project Expenditure*		
	Amount (in \$ '000)	Opinion	NFM** (in \$ '000)
101415	2,417	Adverse	1,088
101417	2,021	Unqualified	N/A

**The audit covered all expenditures recorded in the Combined Delivery Report, including Government expenditures, as these expenditures were material and not audited as part of the Harmonized Approach to Cash Transfers (HACT) framework, and the supporting documents were available for review at the level of the Office.*

***NFM= Net Financial Misstatement*

The audit firm issued an adverse opinion² on project expenditure for Output No. 101415 due to a net overstatement of \$1,088,100 resulting from an overstatement of \$1,488,046 and an understatement of \$399,946 (refer to issues 1 and 2).

Key recommendations: Total = 2, high priority = 2

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) undepreciated fixed assets used at the project level; (c) inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

² Adverse Opinion (International Standards of Accounting 700): the financial statements of an organization do not fairly present its actual financial position, the statements do not comply with Generally Accepted Accounting Principles (GAAP), and/or, the required information was either not disclosed, or (if disclosed) was inaccurate.

The two recommendations aim to ensure the reliability and integrity of financial and operational information (Recommendation 1 and 2).

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:

Weakness in monitoring advances (Issue 1) The audit noted that the Office incorrectly recorded in the 2016 Combined Delivery Report for Output No. 101415 expenditures incurred in 2017, amounting to \$1,372,865, and advances of \$115,181 that were not supported by adequate documentation, under government expenditures. This resulted in an overstatement of project expenditures for 2016 by \$1,488,046.

Recommendation:

The Office should develop a more robust process to monitor, track and review expenditures reported as advances to ensure that amounts reported on the Combined Delivery Report represent expenditure incurred in the appropriate period. Further, management should ensure that UNDP rules and financial policies are properly followed, regarding supporting documentation of transactions.

Incomplete Combined Delivery Report and Funds Utilization Statement (cutoff) (Issue 2) The total amount reported in the 2016 Combined Delivery Report for output 101415 under Government expenditures was \$2,301,935. However, the review of the supporting documentation performed by the audit noted that the total expenditures as per the implementing partner's books and records amounted to \$2,701,881. As a result, there was an understatement of reported expenditures by \$399,946.

Recommendation: The Office should implement a robust review and monitoring of controls to ensure that the expenditures reported by implementing partners match the expenditures recorded in the Combined Delivery Report and any differences noted are reviewed and corrected on a timely basis. Additionally, UNDP management should ensure that the Combined Delivery Report is used to report all expenditures related to the project activities for the calendar year.

Management comments and action plan

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



Helge S. Ostveiten
Director
Office of Audit and Investigations



**United Nations Development Programme
(UNDP)**

Report of the Independent Auditor on
the United Nations Development Program (UNDP)
Directly Implemented (DIM) Project ID 97850
“Yemen Emergency Crisis Response” - Output ID 101415 “Short
Term Income Generation”
- Sana’a, Yemen -
For the year ended 31 December 2016



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Executive Summary

KPMG Geneva conducted the financial audit of UNDP project ID 97850 “Yemen Emergency Crisis Response” - Output ID 101415 “Short Term Income Generation” (the project) for the period 1 January to 31 December 2016. The audit was undertaken on behalf of the Office of Audit and Investigations (OAI) United Nations Development Programme (UNDP).

We have issued audit opinions as summarized in the table below and as detailed in the next section:

Statement of Expenditures
Project Statement of Fixed Assets
Statement of Cash Position

Adverse opinion
Not Applicable
Not Applicable

As a result of our audit, we have raised two audit findings with a net financial impact of US\$ 1,088,100 as summarized below, more details to the finding is provided in the management letter on page 6.

No.	Description	Priority	Amount in US\$
1	Weakness in monitoring advances	High (Critical)	1,488,046
2	Incomplete CDR and Funds Utilization Statement (cutoff)	High (Critical)	(399,946)
Total			1,088,100

The project was not audited in prior years and hence no follow up recommendations.

KPMG SA



Pierre-Henri Pingeon
Partner



Henri Mwaniki

Geneva, 5 September 2017

Audit Objectives and Scope

The objective of the financial audit was to express an opinion on the project's financial statements which include:

- Expressing an opinion on whether the financial expenses incurred by the project between 1 January and 31 December 2016 and the fund utilization as at 31 December 2016 are fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) and the Funds Utilization statements are the mandatory and official Statement upon which the audit opinion should be expressed. Other forms of Statement of expenses that may be prepared by a project office are not accepted.
- Expressing an opinion on whether the Statement of Fixed Assets presents fairly the balance of assets of the UNDP project as at 31 December 2016. This Statement must include all assets available as at 31 December 2016 and not only those purchased in a given period. Where a DIM project does not have any assets or equipment, it will not be necessary to express such an opinion.
- Expressing an opinion on whether the Statement of Cash presents fairly the cash and bank balance of the project as at 31 December 2016. Where a DIM project does not have a dedicated bank account for the project, it will not be required to express such an opinion.

The Financial Audit was conducted in accordance with the International Standards of Auditing (ISA).

The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project, between 1 January and 31 December 2016. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties" or other UN agencies, unless the inclusion of these expenses is specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Offices and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP country office.



Independent Auditors' Report

Statement of Expenditures

To the Director of the Office of Audit and Investigations (OAI)
United Nations Development Programme (UNDP)

Adverse Opinion

We have audited the accompanying Combined Delivery Report (CDR) and Funds Utilization statement ("the statement of expenditures") of the UNDP project ID 97850 "Yemen Emergency Crisis Response" - Output ID 101415 "Short Term Income Generation" for the period 1 January to 31 December 2016.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying CDR and Funds Utilization statement do not present fairly the expenses of the UNDP project ID 97850 "Yemen Emergency Crisis Response" - Output ID 101415 "Short Term Income Generation" for the period from 1 January to 31 December 2016 in accordance with UNDP accounting policies.

Basis for Adverse Opinion

Reported in the 2016 CDR and Funds Utilization statement were expense transactions amounting to US\$ 1,372,865 that related to 2017 transactions. In addition, expenses amounting to US\$ 115,181 could not be accounted for as 2016 expense transactions resulting in an overall overstatement of the CDR and Funds Utilization statement in the amount of US\$ 1,488,046. Furthermore, 2016 expenses amounting to US\$ 399,946 were not reported resulting in the understatement of the CDR and Funds Utilization statement.

The above combined errors resulted in a material overstatement of US\$ 1,088,100 that represents 45% of the total expenses in the CDR and Funds Utilization statement as at 31 December 2016.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the CDR and Funds Utilization section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Management responsibilities

Management is responsible for the preparation of the CDR and the Funds Utilization statement of the project, and for such internal control as management determines is necessary to enable the preparation of a CDR and Funds Utilization statement that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the CDR and the Funds Utilization statement are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the CDR and Funds Utilization statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG SA



Pierre-Henri Pingeon
Partner



Henri Mwaniki

Geneva, 5 September 2017

Management Letter

To the Director of the Office of Audit and Investigations (OAI)
United Nations Development Programme (UNDP)

We noted the following findings in relation to the project as a result of our audit.

Finding 1: Weakness in monitoring advances

Observation

According to UNDP's financial regulations, the financial report shall report expenses incurred within a single calendar year.

During the course of our audit, we noted that UNDP recorded expenditures incurred in 2017 for US\$ 1,372,865 and advances not justified as at 31 December 2016 for US\$ 115,181 in the CDR under government expenditures. These costs were recorded by UNDP as expenses after having been communicated as such by their implementing partner. This resulted in a material overstatement of the CDR by US\$ 1,488,046.

Priority

High (Critical)

Recommendation

UNDP management should develop a more robust process to monitor, track and review expenditures reported as advances to ensure that amounts reported on the CDR represent expenditure incurred in the appropriate period. Further, management should ensure that UNDP rules and financial policies are properly followed.

Management Comment and Action Plan

1. The Country Office already has a robust internal monitoring system. Advance are only cleared after being reconciled with implementing partner bank account. In addition to "central" project bank account IP is operating separate bank account for each sub-project. The scope of project activities covers all 333 governatores and there are hundreds of sub projects. Based on implementing partner accounting policy after approval of sub project cash is transferred to respective sub project bank account and is treated as expenditure. After closure of the sub project accounts are reconciled.
2. The operation manual for the implementing partner was cleared by UNDP BOM during project formulation stage. The signed Letter of Agreement, clearly states that the implementing partner would use its own operational manual as it has been cleared by UNDP BOM.



Management Comment and Action Plan (continued)

3. Yemen is in the midst emergency and audited project is intended to address emergency needs of population. Requesting the implementing partner to follow UNDP financial rules will results to significant implementation delays for life saving operations.
4. In the future, the Country Office will follow HACT guidelines and ensure that all assurance activities indicated in the plan are followed, as well include it in the HACT Audit plan.

Auditor's response (if applicable)

KPMG notes the management comments above but maintains recommendations to ensure the appropriate monitoring and accounting of advances by UNDP.

Finding 2: Incomplete CDR and Funds Utilization Statement (cutoff)

Observation

According to UNDP's financial regulations, the financial report shall report expenses incurred within a single calendar year.

The total amount reported in the CDR for output 101415 under Government expenditures was US\$ 2,301,935. However, during our reconciliation process, the total expenditures as per the implementing partner's books and records amounted to US\$ 2,701,881.

Discussion with UNDP management revealed that the expenses reported in the CDR only covered the period from 14 August 2016 (inception of the project) up to 18 December 2016 and not through 31 December 2016 as is required by regulations. This is due to the fact that the implementing partner closed its books on 18 December 2016 to ensure sufficient time for reporting to UNDP. This finding resulted in a material understatement of the CDR by US\$ 399,946.

Priority

High (critical)

Recommendation

UNDP management should implement robust review and monitoring of controls to ensure that the expenditures reported by their implementing partners reconcile to the expenditures recorded in their CDR and any differences noted investigated and corrected on a timely basis. Additionally, UNDP management should ensure that the CDR is used to report all expenditures related to the project activities for the calendar year.

Management Comment and Action Plan

Recommendation is noted. The implementing partner missed the deadline for submission of their FACE form which led to the unreconciled difference before the closure of 2016 accounts. The above amount was subsequently cleared in the 1st quarter of 2017, hence, no further action is required.

Auditor's response (if applicable)

N/A

KPMG SA



Pierre-Henri Pingeon
Partner



Henri Mwaniki

Geneva, 5 September 2017

Annex 1: Statement of Expenses



Selection Criteria :

Business Unit : YEM10
Period : Jan-Dec (2016)
Selected Project Id : 00097850
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00101415

Project Id : 00097850 Yemen Emergency Crisis Respons	Period : Jan-Dec (2016)
Output # : 00101415 Short Term Income Generation	Impl. Partner : 03474 UNDP (Direct Execution)
	Location : UNDP
Govt Exp	UNDP Exp
UN Agencies Exp	Total Exp

Activity : ACTIVITY1 (Wages for Social Services)

Fund : 30000 (PROGRAMME COST SHARING)

72605 - Grants to Instit & other Benef	28,548.00	0.00	0.00	28,548.00
75105 - Facilities & Admin - Implement	0.00	1,427.40	0.00	1,427.40
Total for Fund 30000	28,548.00	1,427.40	0.00	29,975.40
Total for Activity ACTIVITY1	28,548.00	1,427.40	0.00	29,975.40

Activity : ACTIVITY2 (Civil Works)

Fund : 30000 (PROGRAMME COST SHARING)

72105 - Svc Co-Construction & Engineer	1,827,524.00	0.00	0.00	1,827,524.00
75105 - Facilities & Admin - Implement	0.00	91,376.20	0.00	91,376.20
Total for Fund 30000	1,827,524.00	91,376.20	0.00	1,918,900.20
Total for Activity ACTIVITY2	1,827,524.00	91,376.20	0.00	1,918,900.20

Activity : ACTIVITY3 (Consultancy Services)

Fund : 30000 (PROGRAMME COST SHARING)

71305 - Local Consult.-Sht Term-Tech	106,626.50	0.00	0.00	106,626.50
75105 - Facilities & Admin - Implement	0.00	5,331.33	0.00	5,331.33
Total for Fund 30000	106,626.50	5,331.33	0.00	111,957.83
Total for Activity ACTIVITY3	106,626.50	5,331.33	0.00	111,957.83

Activity : ACTIVITY4 (Sub-grants)

Fund : 30000 (PROGRAMME COST SHARING)

72605 - Grants to Instit & other Benef	339,236.00	0.00	0.00	339,236.00
75105 - Facilities & Admin - Implement	0.00	16,961.80	0.00	16,961.80
Total for Fund 30000	339,236.00	16,961.80	0.00	356,197.80

Project Id : 00097850 Yemen Emergency Crisis Respons		Period :	Jan-Dec (2016)	
Output # : 00101415 Short Term Income Generation		Impl. Partner :	03474 UNDP (Direct Execution)	
		Location :	UNDP	
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Total for Activity ACTIVITY4	339,236.00	16,961.80	0.00	356,197.80
Total for Output : 00101415	2,301,934.50	115,096.73	0.00	2,417,031.23
Project Total :	2,301,934.50	115,096.73	0.00	2,417,031.23

Signed By : Catherine Wabwila - 13th Feb. 2017
 Signed By : AL Maayyad 14th Feb 2017



Pierre-Henri Pingeon, Partner
KPMG SA, Geneva
5 September 2017

Henri Mwaniki, Senior Manager
KPMG SA, Geneva
5 September 2017





Selection Criteria :

Business Unit : YEM10
Period : Jan-Dec (2016)
Selected Project Id : 00097850
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00101415

Project Id : ALL	Period : Jan-Dec (2016)			
Output # : ALL	Impl. Partner : Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
46408 - Rep of Yemen-Poverty Reduction	2,301,934.50	115,096.73	0.00	2,417,031.23



Funds Utilization

Selection Criteria :

Business Unit : YEM10
Period : Jan-Dec (2016)
Selected Project Id : 00097850
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00101415

Project/Award: 00097850 Yemen Emergency Crisis Respons

Period : As Of Dec31,2016

Output #	00101415	Impl. Partner :03474 UNDP (Direct Execution)	UNDP AMOUNT
	Outstanding NEX advances		7,073,065.50
	Undepreciated Fixed Assets		0.00
	Inventory		0.00
	Prepayments		0.00
	Commitments		0.00

Annex 2: Audit Findings Priority Ratings

The following categories of priorities are used:

High (Critical)	Action is considered imperative to ensure that UNDP is not exposed to high risks. Failure to take action could result in major consequences and issues.
Medium (Important)	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 recommendations, if any, are dealt with by the auditors directly with the Office management, during the exit meeting and through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the audit report.