



PERFORMANCE AUDIT

OF

YEMEN EMERGENCY CRISIS RESPONSE PROJECT (NO. 99947)

AND

ENHANCED RURAL RESILIENCE IN YEMEN PROGRAMME (NO. 95492)

Report No. 2162

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Report on the Performance Audit of Yemen Emergency Crisis Response Project and Enhanced Rural Resilience in Yemen Programme Executive Summary

The UNDP Office of Audit and Investigations (OAI), from 9 to 26 September 2019, conducted a performance audit of the Yemen Emergency Crisis Response Project, Project No. 99947 (YECRP) and the Enhanced Rural Resilience in Yemen Programme, Project No. 95492 (ERRY) directly implemented by UNDP Yemen (the Office). Performance auditing is an independent examination of an entity to assess whether the entity is achieving economy, efficiency, and effectiveness in the employment of available resources.

The audit aimed at reviewing the effectiveness of the projects in helping affected communities in recovering from crises and strengthening resilience. In answering this objective, the audit assessed whether:

1. governance and monitoring systems (both at Office and Regional Bureau levels) have been established and are working, and whether corrective actions were being taken in a timely manner to address any deviations and delays in the project implementation; and
2. relevant results have been achieved and shared with key stakeholders, donors, and affected communities and feedback incorporated to improve projects delivery.

The audit covered the activities of YECRP and ERRY from 1 January 2018 to 30 June 2019. The two projects recorded expenses of approximately \$201 million. Both projects were last audited in 2019 under the Harmonized Approach to Cash Transfer (HACT) financial audit exercise covering financial year 2018 transactions. OAI conducted an audit of the Office in November 2018, which resulted in an overall rating of partially satisfactory/major improvement needed (Report No. 2010, issued on 4 January 2019).

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The performance audit was conducted remotely from New York due to visa restrictions. The audit team reviewed scanned supporting documents made available by the Office and conducted meetings and virtual interviews.

Overall audit rating

OAI is issuing a **partially satisfactory/major improvement needed** rating, 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 due to weaknesses noted in monitoring and oversight of the two projects (YECRP and ERRY) relating to unsupported achievements, limited access to beneficiary data, the Harmonized Approach to Cash Transfer Framework not being fully implemented, ineffective management of cash advances and liquidations, and the requirement to continuously monitor community health, safety and security.

Key recommendations: Total = 6, high priority = 5

The six recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 3	High
	2	Medium
Compliance with legislative mandates, regulations and rules, policies and procedures	4, 5, 6	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:

Reported project achievements by the CO not fully supported (Issue 1)

There was insufficient quality assurance of reported achievements of YECRP and ERRY. Specifically, the Office was not able to provide supporting documents for the reported 1.8 million beneficiaries that benefitted from YECRP and 414,148 individuals that benefitted from ERRY's small-scale projects. Further, evidence uploaded to the corporate planning system for the Office's Results Oriented Annual Report (ROAR) did not include supporting documentation for the number of beneficiaries that benefitted from the projects.

Recommendation 1: The Office should ensure that all results achieved are accurate, reliable and verifiable, and should maintain adequate supporting documentation as evidence.

Limited access to beneficiary data (Issue 2)

The Office did not obtain from the responsible parties of YECRP a detailed list of beneficiaries. The Office had only been provided with sample lists of beneficiaries to support monitoring and evaluation activities. The Office staff indicated that responsible parties explained that providing such information would be against the national law on access to information, unless authorized and accompanied by measures to protect confidentiality. Also, responsible parties indicated that agreements signed with the Office did not specifically require the submission of such detailed information. In OAI's view, the Letter of Agreement and project document signed with responsible parties had provisions regarding UNDP's access to documents supporting project achievements.

Recommendation 3: In order to fulfil its reporting responsibilities to the donors, the Office should ensure that it has complete access to beneficiary data, incorporating measures to protect confidentiality.

Harmonized Approach to Cash Transfer Framework not fully implemented (Issue 3)

The Office did not prepare the Statement of Cash Position¹ of YECRP (Output Nos. 104673 and 103142), which incurred expenses of \$12 million and \$97 million, respectively. Therefore, the external auditors did not express an opinion on the value and existence of the cash held by YECRP as of 31 December 2018. In addition, the Office contracted two firms to conduct programmatic monitoring and financial spot-checks separately. The Office was not able to demonstrate effectiveness and efficiency gained as a result of having two audit firms conducting programmatic monitoring and financial spot-checks.

Recommendation 4: The Office should ensure full implementation of the HACT Framework by: (a) ensuring that the required Statement of Cash Position is prepared; and (b) requiring the Third-Party Monitoring Agent to conduct both financial spot-checks and programmatic monitoring for YECRP.

Ineffective management of project

The audit team reviewed 9 payment vouchers out of 35 totalling \$46 million (70 percent of the total payment vouchers processed from 1 January 2019 through

¹ The 'Call Letter for FY2018 HACT Audit Exercise and Global Fund Sub-Recipient Audits' requires auditors to audit and render an opinion on the Statement of Expenditures, Statement of Cash Position, and Statement of Assets and Equipment.

cash advances and liquidations (Issue 4)

30 June 2019) and noted control weaknesses, such as inadequate documentation to support the approval of payments vouchers.

The audit team noted that the Office processed payment vouchers for requests for cash advances and liquidations even when reviewers documented in the checklist that there were exceptions noted. There was no evidence that reviewers requested clarification on the unreconciled balances prior to signing the checklist.

Further, one payment voucher (No. 88166) had been processed although the responsible party reported over-expenditure of \$2.2 million by the end of 2018. The written justification for the additional costs incurred and corresponding approval for clearing requests was missing. Lastly, the approved annual work plan and itemized estimated costs were not attached to the Funding Authorization and Certificate of Expenditures (FACE) forms for the nine payment vouchers sampled.

Recommendation 5: The Office should enhance management of project cash advances and liquidations by: (a) requiring staff reviewing requests for cash advances and liquidations to seek clarification on exceptions noted; and (b) maintaining proper documentation including justification for clearing requests, approved annual work plan, and itemized estimated costs.

Continuous monitoring of community health, safety and security needed (Issue 5)

Towards the end of 2018, there were 39 injuries and 8 fatalities reported during the implementation of the YECRP project activities. The Technical Review Mission of the World Bank requested immediate measures to ensure strict compliance with 'Occupational, Health, and Safety Guidelines' of the World Bank. UNDP undertook several actions including developing a Safeguards Action Plan and commissioning a study to improve established systems on occupational, health, and safety and to bring them in line with international standards. This study led to the development of the 'Environmental and Social Management Framework' to ensure that YECRP was consistent with UNDP's 'Social and Environmental Standards' and the 'Occupational, Health, and Safety Guidelines' of the World Bank.

As of 30 June 2019, reported injuries and fatalities increased to 52 and 9, respectively, all of which involved YECRP activities.

During a virtual meeting with the audit team in September 2019, the World Bank indicated that it would like UNDP to continuously monitor the implementation of the various recommendations contained in the 'Environmental and Social Management Framework'.

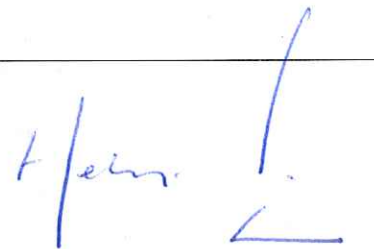
Furthermore, the audit team observed that compensation for fatalities varied and were not always covered under an insurance plan. Out of a total of eight fatality cases reviewed, three were resolved through tribal processes and negotiations with the deceased individual's family, and five through an insurance company. One responsible party provided a worker insurance plan with a fixed compensation amount of \$6,400 in case of death. The other responsible party resolved compensation claims through tribal reconciliation processes. In these cases, compensation in case of death varied between \$2,500 to \$40,000.

Recommendation 6: The Office should ensure compliance with the 'Social and Environmental Standards' and 'Occupational, Health, and Safety Guidelines' including: (a) continuous monitoring of community health, safety and security through implementation of the 'Environmental and Social Management Framework: Yemen Emergency Crisis Response Project'; and (b) ensuring that responsible parties put in place the necessary insurance coverage that will provide harmonized compensation rates for all workers engaged in the YERCP project.

Management comments and action plan

The Assistant Administrator and Director of the Regional Bureau for Arab States and the Resident Representative accepted all six 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. Ostveiten
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INTRODUCTION

The Office, located in Sana'a, Yemen (the Country), had been operating in a challenging and complex environment with a protracted humanitarian crisis.

The Office's Yemen Emergency Crisis Response Project (YECRP) and the Enhanced Rural Resilience in Yemen Programme (ERRY) were the two largest projects contributing to UNDP Strategic Plan Output 6.1 "from the humanitarian phase after crisis, early economic revitalization generates jobs and other environmentally sustainable livelihoods opportunities for crisis affected men and women."

The World Bank is the main donor for YECRP with initial funding of \$50 million in September 2016 and a project end-date of August 2018. It was extended twice to reach approximately \$400 million in funding by May 2019. The project end-date was extended until September 2021. The project aimed to revive the Country's economy through large cash-for-work projects, to provide support to small businesses, and to conduct labor-intensive repairs of small infrastructure projects benefiting vulnerable communities in over 300 districts across the 22 governorates of the Country.

The Office signed Letters of Agreement with two national partners, Public Works Project² (PWP) and Sustainable Fund for Development³ (SFD), as responsible parties to implement project activities. As required in the project document, the Office contracted a firm to serve as the Third-Party Monitoring Agent to assist the Office in monitoring the implementation of project activities, particularly in areas where UNDP had limited access due to security restrictions.

For ERRY, UNDP was collaborating with FAO, ILO, and WFP to jointly implement the project activities with a budget of \$38 million, which was funded by the European Union. The project aimed to enhance the self-reliance of people living in rural communities in the Country to better cope with crises, risks and shocks through support to livelihoods stabilization and recovery, local governance, and improved access to sustainable energy. The Office signed Letters of Agreement with national partners and international non-governmental organizations to implement project activities related to UNDP.

ERRY started in March 2016 and ended in February 2019. Subsequently, the Office was preparing for the extension of the project with additional funding of approximately \$10 million from the Swedish International Development Cooperation Agency.

In July 2019, the UNDP Administrator visited both projects as part of a five-day mission to the Country, where he met with national partners and local communities, and visited project sites (e.g., renovated schools, repaired water tanks, and a restored port).

The project budget allocations and expenses during the audit period were as follows:

Project	Total Budget (Thousands)*	1 January 2018 - 30 June 2019**	
		Budget (Thousands)	Expenses (Thousands)
1. Yemen Emergency Crisis Response Project	\$400,000	\$224,045	\$187,542
2. Enhanced Rural Resilience in Yemen Programme	\$38,000	\$14,595	\$13,519

*Source: YECRP's project documents (September 2016 - June 2019) and ERRY's project document (March 2016 - February 2019)

**Source: UNDP Executive Snapshot 2018 and 2019

² The signed Letter of Agreement with PWP will end on 31 December 2019.

³ The Office signed a new Letter of Agreement with SFD to implement project activities up to the end of the project (September 2021).

AUDIT OBJECTIVE, CRITERIA, AND METHODOLOGY

A. Audit Objectives

OAI conducted a performance audit of YECRP and ERRY to review the extent to which both projects helped affected communities recover from crises and strengthen their resilience. To answer this objective, the audit assessed whether:

- (a) governance and monitoring systems (both at Country Office and Regional Bureau levels) have been established, and corrective actions taken in a timely manner to address any deviations and delays in project implementation; and
- (b) relevant results have been achieved and shared with key stakeholders, donors, and affected communities.

B. Audit Criteria

To form an opinion and conclude on the audit objectives, the team used the following criteria: the 'UNDP Programme and Operations Policies and Procedures', the 'United Nations Development Group Harmonized Approach to Cash Transfer (HACT) Framework', and YECRP and ERRY project documents, including their outputs and outcomes. The audit covered the period from 1 January 2018 to 30 June 2019.

C. Audit Methodology

The performance audit was conducted remotely from New York due to visa restrictions. The audit team reviewed scanned supporting documents made available by the Office and conducted virtual interviews/meetings with Office management and personnel, donors (European Union and World Bank), responsible parties, the Third-Party Monitoring Agent, and an audit firm. The audit team met with the UNDP Regional Bureau for Arab States management and staff in New York. Further, the team communicated with two UN agencies participating in the ERRY joint programme.

The audit team attempted to confirm the existence of project infrastructure/assets (e.g., water tanks) by using satellite images (Google Earth⁴). However, the satellite images were not deemed conclusive for the 10 sites selected. Virtual visits to project sites were also planned by the audit team, but the security clearance for the Office staff who were to assist the audit team by providing live images of the project sites was not granted.

Furthermore, the audit team reviewed the 'Report of the Administrator on results for 2018 and progress on the Strategic Plan, 2018-2021' and the Office's '2018 Results Oriented Annual Report' (ROAR) and identified various results pertaining to YECRP and ERRY. To confirm the accuracy of reported results, the audit team requested supporting evidence, and conducted telephone interviews with a sample of beneficiaries.

Lastly, the audit team examined results of the HACT audits of the two projects and the status of implementation of recommendations from the audit of the Office.

⁴ Google Earth is a computer program that renders a 3-dimensional representation of Earth, based primarily on satellite imagery.

AUDIT RESULTS

Overall, governance and monitoring systems were established both at Regional Bureau and Country Office levels. The Regional Bureau provided strategic oversight and support to the Office. At the Country Office level, a governance structure had been established to ensure effective project implementation. The Office's Economic Resilience and Recovery Team provided oversight to YECRP and ERRY activities. Given the complexity of operations in the Country, the Office also maintained capacity in the Amman liaison office (Jordan).

However, there were weaknesses noted in monitoring and oversight of the two projects (YECRP and ERRY) such as unsupported achievements, limited access to beneficiary data, ineffective management of cash advances and liquidations, and the requirement to continuously monitor community health, safety and security.

The World Bank's mid-term review report (May 2018) indicated improvements in overall ratings of YECRP and rated the project performance as "highly satisfactory." Further, the World Bank conducted a technical review mission in November 2018, which confirmed YECRP's solid progress since the last review mission. Also, World Bank representatives, during virtual meetings with the audit team, provided positive feedback on UNDP's overall management of YECRP and indicated that the World Bank had agreed to contribute additional funding of \$100 million, which increased the project budget to \$400 million.

In addition, ERRY's draft Evaluation Report (August 2019) indicated that the project made significant contributions to the overall resilience of the local communities. The outputs of seven areas of intervention (cash for work and assets, crops and livestock value chains, micro-businesses, solar energy, social cohesion, local governance, and skills development) were identified as relevant to the needs of the assisted rural communities.

The targets reported by the Office in 2018 for both YECRP and ERRY were generally achieved. The Office maintained its public website with information on the projects' progress and activities. Also, all 36 beneficiaries that the audit team was able to interview were satisfied and indicated that they received their payments. However, the audit team noted weaknesses in fully validating the reported achievements of the projects.

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

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

High-priority recommendations, arranged according to significance:

- (a) The Office should ensure that all results achieved are accurate, reliable, and verifiable, and maintain adequate supporting documentation as evidence (Recommendation 1).
- (b) The Office should ensure complete access to beneficiary data (Recommendation 3).
- (c) The Office should enhance management of project cash advances and liquidations (Recommendation 5).
- (d) The Office should ensure compliance with the 'Social and Environmental Standards' and 'Occupational, Health, and Safety Guidelines' (Recommendation 6).
- (e) The Office should ensure full implementation of the HACT Framework (Recommendation 4).

Medium priority recommendation:

- (a) The Regional Bureau for Arab States should review evidence uploaded to the corporate planning system prior to approving the 'Results Oriented Annual Report' to ensure the validity and quality of reported achievements (Recommendation 2).

Issue 1. Reported project achievements in the Office's 2018 Results Report not fully supported

During regular sessions of the UNDP Executive Board, the UNDP Administrator presents the organization's annual achievements and progress on the implementation of the Strategic Plan. The 2018 Annual Report included various references and results achieved by the Office. For example, "The partnership with the World Bank focused on creating emergency employment for over 344,550 people (47 percent youth, 28 percent women, 18 percent internally displaced persons), helping over two million people from vulnerable households buy essentials to survive." Further, "Over two million people in Yemen gained employment or improved their livelihood through partnership with UNDP."

The Office's 'Results Oriented Annual Report' over 2018 (ROAR) provided more details of the above achievements, such as "two million direct and indirect beneficiaries benefited from 7.2 million workdays emergency employment in all 22 Governorates and the people who were provided with access to key services reached 2.3 million." The ROAR further included a reference to data in the Mid-Term Review of the cash-for-work project by the World Bank. According to the Office, 1.8 million of the 2 million direct and indirect beneficiaries reported in the ROAR pertained to YECRP. In addition, the Office's reported achievements for ERRY included "414,148 persons (198,517 women and 215,631 men) benefitting from small-scale projects."

Despite the above, the audit team noted weaknesses in the quality assurance of reported achievements of YECRP and ERRY. This was based on interviews with the project personnel, the Third-Party Monitoring Agent, responsible parties, and reviews of available supporting documents.

Quality assurance at the Country Office level

Quality assurance activities for YECRP included conducting project site visits, reviewing the accuracy of progress reports, and reviewing the work of the Third-Party Monitoring Agent. For ERRY, quality assurance activities were conducted through project site visits, and monitoring activities. The monitoring activities were jointly undertaken with partner UN agencies, including submitting joint progress reports to the European Union.

To validate the number of beneficiaries, the audit team requested the Office to provide supporting documents for the 1.8 million people that benefitted from YECRP and for the 414,148 beneficiaries that benefitted from ERRY's small scale projects as reported in the Office's 2018 ROAR. The Office provided inadequate supporting documents, which did not allow the audit team to confirm the reported number of beneficiaries in the ROAR.

For YECRP, the Office maintained an Excel worksheet, which was updated by the responsible parties on a quarterly basis. However, the worksheet showed 2.3 million beneficiaries, which was more than the 1.8 million beneficiaries that the Office indicated related to YECRP. Furthermore, the Office did not require the responsible party to establish a system that would maintain records of beneficiaries to support the reported achievements in the ROAR. The Office explained that details of beneficiaries were maintained (e.g., log books) at project sites and quality assurance was undertaken during site visits. Nevertheless, the Office indicated that the responsible party had already been requested to start maintaining records of beneficiaries at the central office, and that implementation was ongoing.

When asked for the supporting documents on the reported 414,148 beneficiaries that benefitted from small-scale projects as part of ERRY project activities, the Project Manager indicated that there was no register for names of beneficiaries. The Office could not demonstrate how the figure of 414,148 beneficiaries was determined. Further, the audit team selected a sample of reported achievements from the Excel worksheets that the Office maintained for ERRY, which consisted of 38,116 individuals and with corresponding costs incurred totalling \$528,000. The supporting documents shared with the audit team were not organized and coherent and it was difficult to reconcile them with the reported results.

Quality assurance at the level of the Regional Bureau

UNDP’s ‘Results Oriented Annual Report Guidance Note’ requires Country Offices to provide evidence and submit the ROAR to the respective Regional Bureau for review and approval. Further, the UNDP Regional Bureau for Arab States established a standard operating procedure (June 2017) outlining roles and responsibilities of different teams and staff within the Regional Bureau. The Regional Bureau Desk Team is required to support Country Offices in the region in the preparation of the ROAR, including clarifying any substantive and/or technical issues and providing technical support in the quality assurance of data entries and any other technical queries.

The Regional Bureau Desk Team indicated that it provided support to the Office in the preparation of the ROAR and explained that the quality assurance of reported achievements was the Country Office’s oversight responsibility. Nonetheless, the audit team identified an area where the Regional Bureau could provide additional support in quality assurance. Specifically, the corporate site for ROAR had a section for uploading evidence to support the reported achievements. For the Office’s 2018 ROAR, evidence uploaded did not include support for the number of beneficiaries that benefitted from the projects.

Lack of evidence to substantiate project achievements may affect UNDP’s reputation as a trusted development partner and may negatively impact donor and stakeholder confidence.

Priority	High (Critical)
Recommendation 1:	
The Office should ensure that all results achieved are accurate, reliable and verifiable, and should maintain adequate supporting documentation as evidence.	
Management action plan:	
The Office will request all responsible parties to provide a complete list of beneficiaries for the livelihood and cash-for-work interventions in line with overall guidance on beneficiary information sharing provided by the Resident/Humanitarian Coordinator. This guidance was provided to UN agencies and international non-governmental organizations to avoid misuse of data. Access to the database will be limited and beneficiary information will not be available to the public. The list of beneficiaries will not be posted on the transparency platform and will only be used internally for verification and auditing exercises.	
An inter-office memorandum will be issued to programme teams to make sure that all results are supported with sufficient evidence-based documentation, including instructions on how to protect confidentiality of beneficiary information.	
Estimated completion date: December 2019	

Priority	Medium (Important)
Recommendation 2:	
The Regional Bureau for Arab States should review evidence uploaded to the corporate planning system prior to approving the 'Results Oriented Annual Report' to ensure the validity and quality of reported achievements.	
Management action plan:	
The Regional Bureau Desk Team, together with the Regional Results-Based Management and Evaluation Team, will continue providing support to Country Offices in the region, including the Office, in preparing ROARs, to ensure quality assurance and inclusion of all data as required by the ROAR template.	
Estimated completion date: February 2020	

Issue 2. Limited access to beneficiary data

Monitoring improves development effectiveness and efficiency by reviewing performance and using evidence to adjust programming for optimal results. Effective monitoring includes tracking performance through the collection of appropriate and credible data and other evidence.

The Office did not obtain from the responsible parties of YECRP a detailed list of beneficiaries, which would have provided all the necessary details such as names, gender, and locations. Also, it had no access to the beneficiary details, although one of the responsible parties established a management information system. The Office only received sample lists of names of beneficiaries to support monitoring and evaluation activities.

Further, the Third-Party Monitoring Agent was not aware of the total number of beneficiaries of YECRP because only information on selected sub-projects to be visited or beneficiaries to be interviewed were made available.

The Office staff indicated that a database of beneficiaries was being developed for the Office. Given the limited access to beneficiary data, the effectiveness of this database as the Office's source for conducting project performance analysis, progress monitoring, and inputs to decision-making was not ensured.

The responsible parties explained that providing such information would be against the national law on access to information, unless authorized and accompanied by measures to protect confidentiality. Also, agreements signed with UNDP did not specifically require such detailed information. In OAI's view, the Letter of Agreement and project document signed with responsible parties had provisions regarding UNDP's access to documents supporting project achievements.

The limited access to beneficiary data impacted the programmatic and financial monitoring and oversight of the project and prevented the Office from obtaining reliable details of project achievements.

Priority	High (Critical)
Recommendation 3:	
In order to fulfil its reporting responsibilities to the donors, the Office should ensure that it has complete access to beneficiary data, incorporating measures to protect confidentiality.	
Management action plan:	
Responsible parties will be requested to submit full beneficiary lists. These lists will be consolidated into a database and access will be restricted as a security precaution.	
Estimated completion date: December 2019	

Issue 3. Harmonized Approach to Cash Transfer Framework not fully implemented

The Office had been managing YECRP and ERRY activities under the HACT Framework. Overall, the Office followed requirements of the HACT Framework, such as conducting micro-assessments of responsible parties, obtaining assurance of funds transferred to responsible parties through periodic on-site reviews of financial records of cash transfers and programmatic monitoring. Furthermore, HACT financial audits of responsible parties were conducted annually on YECRP and ERRY. However, the Office was not fully effective in implementing the HACT Framework due to lapses in some assurance and oversight activities.

Weaknesses in HACT financial audit exercise

During the 2019 HACT financial audit exercise, the Statement of Cash Position⁵ of YECRP (Output Nos. 104673 and 103142) with incurred expenses of \$12 million and \$97 million, respectively, was not prepared. Therefore, the external auditors did not express an opinion on the value and existence of the cash held by YECRP as of 31 December 2018. However, the HACT Framework required the preparation of the Statement of Cash Position when implementing/responsible partners maintained a dedicated bank account and petty cash, which was applicable to YECRP.

YECRP was not able to prepare the Statement of Cash Position because transactions were not monitored and traced to Output Nos. 104673 and 103142. Accordingly, it remained a challenge for the project to demonstrate the cash position for each output at year-end.

In the absence of an audited Statement of Cash Position, there is no assurance on the status of cash-on-hand at the end of a reporting period. Furthermore, there is a risk that any improper use of cash may go undetected and corrective action may not be taken in a timely manner.

Management of programmatic and financial monitoring can be improved

The HACT Framework requires combining financial spot-check procedures with programmatic monitoring to minimize the burden on the national partners and to achieve the most efficient use of resources. The Office

⁵ The 'Call Letter for FY2018 HACT Audit Exercise and Global Fund Sub-Recipient Audits' requires auditors to audit and render an opinion on the Statement of Expenditures, Statement of Cash Position, and Statement of Assets and Equipment.

contracted two firms to conduct programmatic monitoring and financial spot-checks separately. The firm contracted as a Third-Party Monitoring Agent was only conducting programmatic monitoring for YECRP. The second firm was conducting financial spot-checks for all nationally implemented projects of the Office. For YECRP, the Office was not able to demonstrate effectiveness and efficiency gained as a result of having two audit firms conducting programmatic monitoring and financial spot-checks.

The Office assumed that the Country had a limited market for firms that had the capacity to do both programmatic monitoring and financial spot-checks. Therefore, separate procurement notices were prepared. Nonetheless, the Office commented that having one firm doing both programmatic monitoring and financial spot-checks could be more efficient and beneficial to the Office.

The use of two Third-Party Monitoring Agents may result in additional costs for the Office and ineffective project management decisions, which could affect the achievement of intended results.

Priority	High (Critical)
Recommendation 4:	
The Office should ensure full implementation of the HACT Framework by:	
<ul style="list-style-type: none"> (a) ensuring that the required Statement of Cash Position is prepared; and (b) requiring the Third-Party Monitoring Agent to conduct both financial spot-checks and programmatic monitoring for YECRP. 	
Management action plan:	
<ul style="list-style-type: none"> (a) The Office will ensure in the future that the auditors issue a Statement of Cash Position. (b) The Office will continue its current practice of conducting programmatic monitoring and financial spot-checks for YECRP, and when possible, will ensure that these monitoring actions are performed by one firm. 	
Estimated completion date: December 2019	

Issue 4. Ineffective management of project cash advances and liquidations

The ‘UNDP Programme and Operations Policies and Procedures’ require that payment vouchers be supported with adequate documentation to ensure the validity of transactions. During the period 1 January 2019 through 30 June 2019, the Office processed 35 payment vouchers amounting to \$66 million for disbursements of cash advances and liquidations from the two projects. The audit team selected nine payment vouchers processed totalling \$46 million (70 percent) and requested the Office to provide supporting documents.

The review of supporting documentation disclosed that the Office established controls when processing project cash advances and liquidations. For example, the Office assigned several staff to review requests for cash advances and liquidations submitted by responsible parties. For every request, reviewers completed a checklist to document review results.

However, the audit team noted that the Office processed payment vouchers for requests for cash advances and liquidations even when reviewers documented in the checklist that there were exceptions noted. For example, reviewers noted that balances between the Funding Authorization and Certificate of Expenditures (FACE) forms and bank statements were not reconciled for five out of the nine sampled payment vouchers. There was no evidence that reviewers requested clarification on the unreconciled balances prior to signing the checklist.

Further, one payment voucher (No. 88166) had been processed although the responsible party reported over-expenditure of \$2.2 million by the end of 2018. The responsible party indicated in a letter to the Office that, “there was no time to go through the request procedures of UNDP as it was already end of the year.” In OAI’s view, this was not a valid justification to approve the additional costs incurred. The Office’s written justification for approving the transaction was missing. Lastly, the approved annual work plan and itemized estimated costs were not attached to the FACE forms for all nine sampled payment vouchers as required.

During the 2019 HACT financial audit exercise, external auditors rendered an adverse opinion on the Statements of Expenditures of YERCP (Output Nos. 104673, 110437, and 103142) and ERRY (Output No. 99511) mainly due to advances recorded as expenditures, and general ledgers not reconciled with the Combined Delivery Reports.

The weaknesses in the follow up on exceptions were an oversight on the part of the Office, and it agreed that the review process needed improvements to effectively manage the processing of cash advances and liquidations.

Inadequate controls in processing requests for cash advances and liquidations may result in funds being misused or misappropriated.

Priority	High (Critical)
Recommendation 5:	
The Office should enhance management of project cash advances and liquidations by:	
<ul style="list-style-type: none"> (a) requiring staff reviewing requests for cash advances and liquidations to seek clarification on exceptions noted; and (b) maintaining proper documentation including justification for clearing requests, approved annual work plan, and itemized estimated costs. 	
Management action plan:	
The Office’s Management Support Unit will ensure the procedure for clearing FACE forms includes clarifications on noted exceptions, including maintaining all required supporting documents and note to the file if needed.	
An inter-office memorandum will be issued to the programme units and project teams on the business processes.	
Estimated completion date: December 2019	

Issue 5. Continuous monitoring of community health, safety and security needed

In December 2016, the Office completed the YECRP screening for 'Social and Environmental Standards' as required when setting up a new project. The risks identified included: "exacerbating conflict to project-affect communities and individual" (moderate risk), "significant ground extraction for construction of water supply infrastructure" (low risk), "operations posing potential safety risks to local communities" (low risk), and "failure of structural elements" e.g., collapse of infrastructure (low risk). The overall risk assessment for YECRP was low. However, towards the end of 2018, there were 39 injuries and 8 fatalities reported during the implementation of YECRP project activities.

In a Technical Review Mission Report of the World Bank (November 2018), the Mission appreciated the "excellent work" carried out and "remarkable results achieved" by UNDP in implementing the YECRP activities. However, the Review Mission requested immediate measures to ensure strict compliance with 'Occupational, Health, and Safety Guidelines' of the World Bank. All civil work activities were suspended for one week pending classification of high-risk activities. Accordingly, UNDP developed the Safeguards Action Plan and shared it with the World Bank. Specifically, the following actions were undertaken:

- classifying all sub-projects to identify and subsequently suspend high-risk sub-projects until proper occupational, health, and safety measures were in place;
- banning the use of explosives for project activities; and
- strengthening on-site monitoring by site supervisors and through the Third-Party Monitoring Agent, enforcing compliance measures and enhancing reporting processes.

In January 2019, UNDP commissioned a study to improve established systems for occupational, health, and safety. This was followed by a stakeholder consultation workshop in April 2019 to discuss the main findings and recommendations. In March 2019, the Office prepared the 'Environmental and Social Management Framework: Yemen Emergency Crisis Response Project' to ensure that YECRP was consistent with UNDP's 'Social and Environmental Standards' and the 'Occupational, Health, and Safety Guidelines' of the World Bank. The Framework included annexes (e.g., risk screening list, toolkit, etc.) including recommendations to help the Office to be compliant with the Standards. As of 30 June 2019, reported injuries and fatalities increased to 52 and 9, respectively, all of which involved YECRP activities.

During a virtual meeting with the audit team in September 2019, the World Bank stated that UNDP had initially not reported on the injuries and fatalities relating to the project. Although immediate actions were taken, the World Bank indicated that it would like UNDP to continuously monitor the situation to ensure full implementation of the recommendations contained in the 'Environmental and Social Management Framework: Yemen Emergency Crisis Response Project'.

Furthermore, the audit team observed that compensation for fatalities varied and were not always covered under an insurance plan. Out of a total of eight fatality cases reviewed, three were resolved through tribal processes and negotiations with the deceased individual's family, and five through an insurance company. One responsible party provided a worker insurance plan, with a fixed compensation amount of \$6,400 in case of death. The other responsible party resolved compensation claims through tribal reconciliation processes. In these cases, compensation in case of death varied between \$2,500 to \$40,000.

Discussions with the Office staff also disclosed that implementing partners and UN agencies operating in the Country had different approaches towards compensation payments in the absence of an insurance plan.

Inadequate measures to mitigate social and environmental risks may lead to more injuries or fatalities and create additional liabilities for the organization. This can negatively affect donor and stakeholder trust in UNDP. Further,

unequal payments of compensation for injuries and fatalities may increase tension and volatility between communities, which may negatively affect the implementation of project activities.

Priority	High (Critical)
Recommendation 6:	
<p>The Office should ensure compliance with the ‘Social and Environmental Standards’ and ‘Occupational, Health, and Safety Guidelines’, including:</p> <ul style="list-style-type: none"> (a) continuous monitoring of community health, safety and security through implementation of ‘Environmental and Social Management Framework: Yemen Emergency Crisis Response Project’; and (b) ensuring that responsible parties put in place the necessary insurance coverage that will provide harmonized compensation rates for all workers engaged in the YERCP project. 	
Management action plan:	
<ul style="list-style-type: none"> (a) With support from the Bureau for Policy and Programme Support, the Office developed the ‘Environmental and Social Management Framework’, which included a detailed ‘Occupational Health and Safety Framework’ for YERCP. In addition, an international staff, International Social and Environmental Safeguard Specialist, had been recruited as per an agreement with the World Bank, to provide oversight and quality assurance to the application of the ‘Environmental and Social Management Framework’. (b) There are no corporate guidelines with regard to compensation for injuries and fatalities. Local insurance policies and the national legal framework are the guiding factors in awarding compensation. In the case of force majeure (e.g., victims of airstrikes, landmines, and improvised explosive devices) or in the case of absence of possibilities of legal redress, cultural or tribal norms and values can also apply. Therefore, wherever practical, the Office will ensure a harmonized framework will be followed for compensation. 	
Estimated completion date: December 2019	

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.