

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

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**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