



**PERFORMANCE AUDIT**

**OF**

**YEMEN EMERGENCY CRISIS RESPONSE PROJECT (NO. 99947)**

**AND**

**ENHANCED RURAL RESILIENCE IN YEMEN PROGRAMME (NO. 95492)**

**Report No. 2162**

**Issue Date: 21 November 2019**

## 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 Position<sup>1</sup> 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

<sup>1</sup> 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'.

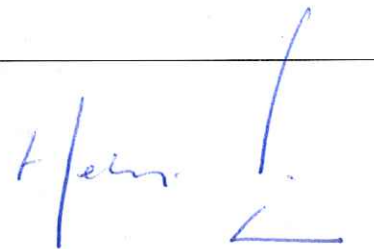
Furthermore, the audit team observed that compensation for fatalities varied and were not always covered under an insurance plan. Out of a total of eight fatality cases reviewed, three were resolved through tribal processes and negotiations with the deceased individual's family, and five through an insurance 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.



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