



INTERNAL AUDIT AND INVESTIGATIONS GROUP

UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

INTERNAL AUDIT REPORT

PROJECT NAME:	INTEGRATED YEMEN URBAN SERVICES EMERGENCY PROJECT
PROJECT NUMBER:	20914-001
COUNTRY:	YEMEN
AUDITOR:	BDO LLP
PERIOD SUBJECT TO AUDIT:	15 NOVEMBER 2017 TO 31 MARCH 2020

Contents

Acronyms and abbreviations	3
Executive summary	4
The engagement context	4
Audit objectives	4
Audit scope	4
Audit rating	4
Table 1: Summary results of the financial audit	5
Table 2: Internal control rating summary for project	5
Key issues and recommendations	5
Operational overview	7
Detailed assessment	8
Annex I - Definitions	12

Acronyms and abbreviations

IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
ICA	Individual Contractor Agreement
IP	Implementing Partner
IPSAS	International Public Sector Accounting Standards
OC	Operations Centre
PC	Project Centre
RO	Regional Office
UNDP	United Nations Development Programme
UNOPS	United Nations Office for Project Services
US\$	United States Dollars

Executive summary

The engagement context

The Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through BDO LLP (“the audit firm”), conducted an audit of the project ‘Integrated Yemen Urban Services Emergency Project’ (“the project”) (oneUNOPS project ID 20914-001), which is implemented and managed by UNOPS Operational Hub in Amman. The audit firm was under the general supervision by IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to US\$ 81,433,869 during the period from 15 November 2017 to 31 March 2020.

Audit objectives

The overall objective of the audit was to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives.

The areas of focus included:

- a) Effective, efficient and economical use of resources;
- b) Reliability of reporting;
- c) Safeguarding of assets; and
- d) Compliance with applicable legislation.

The purpose of the audit was to provide reasonable assurance that:

- a) Client/donor contributions and project expenditure are properly accounted for;
- b) Project expenditure was incurred in accordance with the contribution agreement, and is supported by adequate documentation; and
- c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations.

In particular, the audit firm provided an overall assessment of the operational and internal control systems that are in place for the management of the project so that related transactions are processed in accordance with UNOPS policies and procedures to achieve the project’s objectives.

Audit scope

The audit firm conducted the audit in accordance with International Standards on Auditing issued by the IAASB and UNOPS internal audit practices, and in consideration of the requirements of International Public Sector Accounting Standards (IPSAS).

Due to COVID-19 restrictions this audit was performed remotely and as such no physical verification of non-expendable property or project progress was possible.

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the project as satisfactory, which means “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.” The details of the audit results are presented in Tables 1 and 2.

Table 1: Summary results of the financial audit

Project title		Period	Project no.
Integrated Yemen Urban Services Emergency Project		15 November 2017 to 31 March 2020	20914-001
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
81,433,869	Unmodified	221,835	Not applicable ¹

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	
Finance, including project finance	Satisfactory	
Procurement and contract management	Satisfactory	
Human resources management	Satisfactory	
General administration, including travel and asset management	Satisfactory	
Information and Communications Technology	Satisfactory	
Overall rating of internal control	Satisfactory	

Key issues and recommendations

The audit raised three issues. There are three recommendations, all of which are ranked medium priority, meaning “Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences)”.

¹ Due to COVID-19 restrictions this audit was agreed to be performed remotely, and that an opinion on the statement of non-expendable property would not be possible.

Below is a list of the audit findings, further details of which can be found in the detailed assessment section.

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (US\$)
1	Finance	ICA annual leave accrual was not included in interim financial statement	Medium	-
2	Procurement and supply chain	Deficiencies in procurement process	Medium	-
3	Human resources	Insufficient employee background checks	Medium	-
Total				-

Management's comments

The Head of Office of UNOPS Operational Hub in Amman accepted all the recommendations.

Signed:



Robert Waters
Partner
BDO LLP

8 December 2020

Operational overview

In 2017 the World Bank entered into a financing agreement with the United Nations Office for Project Services (UNOPS) to contribute to improving the livelihoods of the Yemeni population through the implementation of the Project to restore urban services in selected cities where most of the conflict-related damage has occurred. The Project is targeting 19 medium to large scale cities in Yemen: Aden, Al Dhale'e, Al Hodeidah, Al Mukalla, Amran, Bajil, Bayhan, Bayt al-Faqih, Dhamar, Ibb, Lahj, Rida, Saadah, Sana'a, Say'oun, Shihr, Taiz, Yarim, and Zinjibar. In the first year of implementation the Project focused on three cities: Aden, Al Hodeidah, and Sana'a, but it has since expanded to ten cities.

The Project operates in a diverse sectoral and institutional context with activities spanning several sectors:

- Tertiary municipal services and solid waste management;
- Urban water and sanitation;
- Urban roads; and
- Energy and housing.

Under the Project, UNOPS is responsible for the execution of a variety of subprojects and activities by partnering with the following national entities ('Local Partners') during implementation: Roads Maintenance Fund Implementation Unit (RMF-IU), Urban Water Project Management Unit (UW-PMU), and Public Works Project (PWP). In the energy sector, UNOPS implements subprojects without engaging the assistance of Local Partners.

The audit team extends its appreciation to the management and staff members of UNOPS office in Yemen, and the UNOPS Operational Hub in Amman, for their full cooperation during the audit.

Detailed assessment

1.	Title:	ICA annual leave accrual not included in financial statement	
Functional area:	Finance		
Comparison criteria:	Article 1. Definitions of the UNOPS Financial Rules and Regulations defines UNOPS financial statements as 'a set of financial data and explanatory notes, prepared in accordance with accounting policies, describing the corporate financial performance of UNOPS, during the financial period'.		
Priority:	Medium		
Cause:	Human error	Un-intentional mistakes committed by staff entrusted to perform assigned functions	
Responsible manager:	Finance manager		
Due date:	31 December 2020		
Financial impact:	-		
Facts / observation:	<p>As part of the quarterly closing process an accrual is posted to one UNOPS for the balance of Individual Contractor Agreement (ICA) annual leave which has not been taken as at the end of the quarter.</p> <p>We noted that the accrual posted for the quarter ended 31 March 2020 was posted late and was therefore not included in the financial statement subject to audit. Subsequent to the audit, this financial statement was revised and the annual leave accrual of US\$ 97,128 is now accurately reflected in the total expenditure reported for the period.</p>		
Impact:	Potential understatement of project expenditure in the reporting period.		
Recommendation:	The finance team should ensure that all project related expenditure is captured in the reporting period and that any accruals are correctly included within the financial statement.		
Management reply and action plan:	We acknowledge the recommendation, and UNOPS will ensure to submit the interim financial reports after the closure of the books to ensure all accruals and adjusting entries are captured in the financials submitted to the World Bank.		

2.	Title:	Deficiencies in procurement process							
Functional area:	Procurement and supply chain								
Comparison criteria:	<p>Article 15.4.4.3. of the UNOPS Procurement Procedures states that ‘There are no specific requirements concerning sourcing under EPP [Emergency Procurement Procedures]’.</p> <p>Article 15.4.4.4 of the UNOPS Procurement Procedures states that ‘Under EPP, an RFQ may be used for solicitation of offers regardless of the value of the procurement and shall be deemed to be a formal method of solicitation.’</p>								
Priority:	Medium								
Cause:	Guidance	Lack of or inadequate guidance or supervision at the RO/OC/PC level							
Responsible manager:	Procurement manager								
Due date:	Immediately								
Financial impact:	-								
Facts / observation:	<p>We noted that there were weaknesses in the procurement practices seen for a material purchase order. The purchase order in question is provided, below:</p> <table border="1" data-bbox="483 1220 1396 1373"> <thead> <tr> <th>PO number</th> <th>Vendor</th> <th>Amount (US\$)</th> </tr> </thead> <tbody> <tr> <td>3086307</td> <td>Al Kabous Group</td> <td>4,400,000</td> </tr> </tbody> </table> <p>We note that under Emergency Procurement Procedures (EPP), which were authorised in advance by the Executive Chief Procurement Officer, on 8 August 2018, and used for the duration of the project, there are reduced requirements when purchasing goods or supplies. However, in this case the following weaknesses were identified:</p> <p>An RFQ was sent to 17 potential suppliers by a procurement and logistics specialist from the Amman Hub on 29 October 2018 at 5:04pm. The request was to provide power rental in Yemen to UNOPS for use across all of the governorates in Yemen. Based on the results of the procurement process, UNOPS was to enter into Long Term Agreements with contractors covering different governorates. However, the deadline for receipt of the bid was 4 November 2018 at 11:00am. As a result, suppliers only had four full working days to prepare a full price quotation and technical proposal for providing power rental in nine cities across Yemen.</p> <p>12 offers were received and were provided for our inspection. However, only 11 offers are listed on the Bid Opening Report, and were included in the Technical and Financial Evaluation. The bid provided by Al-Qamish General Trading Co. Ltd was not included. The reasoning for excluding this bid was not documented, despite it having been received on 3 November 2018, before the set deadline.</p>			PO number	Vendor	Amount (US\$)	3086307	Al Kabous Group	4,400,000
PO number	Vendor	Amount (US\$)							
3086307	Al Kabous Group	4,400,000							

Impact:	<p>Providing suppliers with less than a week to respond to substantial RFQs reduces the likelihood of all suitable suppliers responding to the request. Furthermore, it may mean that offers submitted by potential suppliers are less detailed and potentially less suitable than if they had been given more time to respond.</p> <p>Excluding suppliers from the evaluation without a clear, documented explanation decreases the transparency in the procurement process and could call into question the award.</p>
Recommendation:	<p>The procurement team should ensure that suppliers are given sufficient time (which, in most cases, would mean at least a week), to respond to substantial RFQs, notwithstanding the emergency context.</p> <p>The procurement team should further ensure that all procurement decisions are fully documented, including the decision to exclude any suppliers from the opening and evaluation process, so that the procurement process is seen to be fully fair and transparent.</p>
Management reply and action plan:	<p>We acknowledge the recommendation and shall ensure that sufficient time commensurate to the estimated procurement value and complexity of requirement shall be given to bidders to respond to the RFQs under EPP.</p> <p>To note also is that other measures are already being implemented to facilitate expedition of procurement under EPP such as fast tracking the evaluation process for bids received and submission of the evaluation report to the HQCPC in not more than 7 days from the closing date of the RFQ.</p>

3.	Title:	Insufficient employee background checks	
Functional area:	Human resources		
Comparison criteria:	Article 4.1 of the UNOPS Personnel Management Framework states that 'UNOPS' selection methods shall be establish in a way to enable the organization to continuously place the right people in the right position at the right time. Filling of vacancies shall be done in an efficient, transparent and dynamic manner.'		
Priority:	Medium		
Cause:	Guidelines	Lack of or inadequate RO/OC/PC policies or procedures	
Responsible manager:	Project Manager		
Due date:	Immediately		
Financial impact:	-		
Facts / observation:	<p>A member of staff hired to fill the position of National Finance Officer based in Sana'a, with a contract starting date of 1 December 2017, did not fulfil the requirements for the role. They had stated on their application that they held a Master's degree in finance, but once started work a colleague complained that they did not have the skills needed to complete the role.</p> <p>After HR were informed of this, they asked the employee to provide their educational certificates. When it was confirmed that the employee did not fit the role requirements, their contract was terminated.</p> <p>This demonstrates that candidates' backgrounds are not being sufficiently verified before offers of employment are made.</p>		
Impact:	Potentially unsuitable employees are hired for project roles.		
Recommendation:	The HR team should ensure that all successful candidates' backgrounds are sufficiently verified before formal job offers are made, so that applicants are suitably qualified for their roles.		
Management reply and action plan:	<p>The selection was based on the info indicated in the candidate's GPRS profile; once HR was informed about her incompetency; an investigation was carried out and an action of termination was conducted accordingly.</p> <p>To avoid such scenarios it's currently mandatory to request candidates to submit their certificates before issuing any contract. The certificates are also being verified. These are recruitment requirements, HR also has created a checklist where no recruitment process can be finalized unless this checklist is completed. This checklist includes background check and certificate verification.</p>		

Annex I - Definitions

Standard audit ratings for overall performance of internal control system

Effective 1 January 2017, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below. IAIG assesses the entity under review as a whole as well as the specific audit areas within the audited entity:

- (a) satisfactory (effective),
- (b) partially satisfactory (some improvement needed),
- (c) partially satisfactory (major improvement needed), and
- (c) unsatisfactory (ineffective).

The elements of the rating system take into account the audited office's internal control system, risk management practices, and their impact on the achievement of office objectives.

The definitions of the ratings are, as follows:

Standard rating	Definition
Satisfactory (effective)	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 (ineffective)	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.

Categories for priorities of audit recommendations

The audit observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized audit observation provides a basis by which the UNOPS country office management is to address the issues.

The following categories of **priorities** are used:

Categories	Definition
High	Prompt action is considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
Medium	Action is considered necessary to avoid exposure to significant risks (that is, where 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.

Possible causes

The following categories of **possible causes** are used:

- **Guidelines:** absence of written procedures to guide staff in performing their functions;
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate RO/OC/PC policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors;
 - Lack of or inadequate guidance or supervision at the RO/OC/PC level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skill, staff) to carry out an activity or function;
 - Lack of or insufficient resources (financial, human, or technical resources)
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions;
- **Intentional:** intentional overriding of internal controls;
- **Other:** Factors beyond the control of UNOPS.