

**UNITED NATIONS OFFICE FOR PROJECT SERVICES
(UNOPS)****INTERNAL AUDIT REPORT****5 December 2025**

Project name:	Phase II: Yemen Integrated Urban Services Emergency Project (YIUSEP II)
Project number:	22988-003
Country:	Yemen
Auditor:	BDO LLP
Period subject to audit:	27 July 2023 to 30 June 2024

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Acronyms and abbreviations

IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IESBA	International Ethics Standards Board for Accountants
IPSAS	International Public Standard Accounting System
ISA	International Standards on Auditing
UN	United Nations
UNOPS	United Nations Office for Project Services
US\$	United States Dollars
YIUSEP	Yemen Integrated Urban Services Emergency Project

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 'Phase II: Yemen Integrated Urban Services Emergency Project (YIUSEP II)' ("the project") (oneUNOPS project ID 22988-003), which is implemented and managed by the UNOPS Office in Yemen. 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\$ 559,828.34 during the period from 27 July 2023 to 30 June 2024. The donor who contributed to the project is the World Bank, through a donation from the International Development Association (IDA).

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).

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the project as partially satisfactory (some improvement needed), which means, "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". The details of the audit results are presented in Tables 1 and 2.

UNOPS Internal Audit and Investigations Group

Internal audit report

Phase II: Yemen Integrated Urban Services Emergency Project (YIUSEP II), 22988-003, Yemen

27 July 2023 to 30 June 2024

Table 1: Summary results of the financial audit

Project title		Period	Project no.
Phase II: Yemen Integrated Urban Services Emergency Project (YIUSEP II)		27 July 2023 to 30 June 2024	22988-003
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
559,828.34	Unmodified	-	N/A

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Partially satisfactory (some improvement needed)	
Finance	Satisfactory	
Procurement and supply chain	Satisfactory	
Human resources	Satisfactory	
General administration	Satisfactory	
Information and Communications Technology	Satisfactory	
Overall rating of internal control	Partially satisfactory (some improvement needed)	

Key issues and recommendations

The internal audit report raised one recommendation, which is ranked medium priority.

Recommendations with a medium priority mean that “Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).”

The table below summarizes the recommendations we have issued in relation to the functional areas concerned and provides a list of the audit findings, further details of which can be found in the section 'detailed assessment'.

No.	Functional area	Audit finding title	Priority rating (high / medium)	Financial impact (US\$)
1	Project management	Delay in project activities	Medium	-
Total				-

Management's comments

The Head of the Programme accepted all recommendations.

Signed:

DS
BDO LLP

BDO LLP

5 December 2025

Operational overview

The Phase II: Yemen Integrated Urban Services Emergency Project (YIUSEP II) is a project financed by the World Bank (hereinafter 'the Bank') which aims to restore access to critical urban services and strengthen resilience to shocks in selected cities within the Republic of Yemen.

The primary beneficiaries of the project are the residents of the selected urban, peri-urban and rural areas in Yemen (3 million), including IDPs, marginalized groups such as women, girls and children who are the primary beneficiaries of improved services by having more access to improved drinking water and improved wastewater collection and treatment services.

The targeted services cover four sectors:

- (i) tertiary municipal services and solid waste management.
- (ii) urban water and sanitation.
- (iii) urban roads.
- (iv) electricity for critical services.

The project includes three components:

Component 1: Service Restoration:

- 1.1: Tertiary Municipal Services and Solid Waste Management
- 1.2: Urban Water and Sanitation
- 1.3: Urban Roads
- 1.4: Electricity for Critical Services

Component 2: Implementation Support and Capacity Development

- 2.1: Project Implementation and Management Support
- 2.2: Enhanced Capacity Building
- 2.3: Third-Party Monitoring
- 2.4: Supporting SWM service Delivery Improvement through Results Based Financing

Component 3: Contingent Emergency Response.

In June 2021, UNOPS and the World Bank signed a legal agreement for USD 50 million, set to span 36 months. The World Bank IDA invested an additional USD 120 million to implement the project activities through a Financing agreement signed in February 2022. This increased the budget to USD 170 million and extended the project duration to 48 months. In August 2023, the World Bank signed a second Additional Financing agreement, providing USD 19.5 million and secured a grant of USD 5.9 million from the Global Partnership for Results-Based Financing (GPRBA). These funds are dedicated to ongoing efforts to restore access to critical urban services and enhance resilience to shocks in selected cities within Yemen, resulting in a total project budget of USD 195.4 million.

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

Detailed assessment

1.	Title:	Delay in project activities	
Functional area:		Project management	
Comparison criteria:		Article 3.01 of the Financing Agreement states that “the Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions, the FMFA, and Schedule 2 to this Agreement”.	
Priority:		Medium	
Cause:		Other	Factors beyond the control of UNOPS.
Responsible manager:		Project Manager	
Due date:		31 December 2025	
Financial impact:		-	
Facts / observation:		<p>Many of the project's sub-projects have been significantly delayed, threatening the ability to complete the project within the agreement period, ending on 30 June 2026.</p> <p>From reviewing the workplan and narrative report as of July 2024, several sub-projects had made no progress by 30 June 2024, despite being scheduled to start before the end of the reporting period.</p> <p>From 27 July 2023 (project start date) to 30 June 2024 (reporting period end date), only 6.32% of the available budget was used. The interim financial report showed income received of US\$ 8,855,015 as at 30 June 2024, compared to actual expenditure of US\$ 559,828.</p> <p>The management team indicated that the project was in a fundamental but time-consuming pre-construction phase during the audited period, where minimal expenditure could be incurred.</p>	
Impact:		The delay in the pre-construction phase has disrupted the project timeline, potentially affecting subsequent phases and overall project delivery.	
Recommendation:		<p>The Project Manager should revise the work plan to reflect the current status and anticipated timelines. Additionally, a robust monitoring system should be implemented to track progress and promptly address any delays identified.</p> <p>Any deviation from the work plan must be clearly supported via an amendment or written approval from an appropriate authorizer from the Funding Source. If required, an extension should be requested promptly.</p>	
Management reply:		From project management perspective, it is expected that the project was to have pre-construction (designs, ESMPs, approvals of both, procurement) phases spanning over a 1-year time period. Implementation time for most projects spans between 6 to 9 months. So for a project starting in July 2023, financial progress of 6% by June 2024 is acceptable. Equally, a lot of project	

	<p>activities were accomplished during the audit period that do not contribute much to the disbursement (financial progress).</p> <p>It is also correct that some components of YIUSEP II (including AF2) went through delays that were beyond project control. Recognizing this fact, the donor is currently looking into options of extending the project to remedy the situation</p>
Action plan:	<p>Moving forward, the primary focus will be to ensure full alignment across operational, procurement/logistics, and technical teams to support accelerated delivery. The planning structure will be reinforced through clearer identification of critical sequences, strengthened coordination between technical teams, procurement/logistics units, implementing partners, and contractors, and more timely decision-making to address emerging risks, challenges, and delays.</p> <p>As of today, the YIUSEP II Project#22988-003, has made substantial progress, with the majority of sub-projects either under implementation or already completed. Apart from the earlier discussions of no-cost extension (NCE), the donor has recently confirmed potential for availability of Additional Financing of US\$ 15 million for YIUSEP II. We hope to have this Additional Financing materialized by or before May 2026 which will provide reasoning for extension of the time.</p> <p>On the other hand, the project management team is outlining the key actions that are being implemented to accelerate delivery. These measures are designed to enhance implementation efficiency and ensure timely progress across all ongoing sub-projects. To accelerate delivery, we will prioritize critical activities and fast-track essential tasks. A prioritization matrix will be applied to categorize sub-projects by readiness, risk level, and implementation status, ensuring that the most time-sensitive interventions receive targeted support along the project's critical path. Coordination will be further strengthened among UNOPS engineers, sector leads, implementing partners, and contractors to support timely decision-making and resolve emerging bottlenecks. Where feasible, resources will be reallocated to reinforce high-priority sub-projects.</p> <p>Follow-up and monitoring efforts will be intensified through weekly progress reviews, updated work plan tracking sheets, closer on-site monitoring of physical progress, prompt resolution of contractor issues, and strict tracking of contractor delivery timelines. This will be complemented by early-warning flags to highlight deviations requiring management attention.</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. IAIIG 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
- (d) 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.