FLOOD PROTECTION AND EMERGENCY RECONSTRUCTION PROJECT – REHABILITATION PROJECT INFRASTRUCTURE EMERGENCY IN THE PROVINCES OF HADRAMOUT AND MAHRA (IDA GRANT NO. H459)

Sana'a, Republic of Yemen

MANAGEMENT LETTER FOR THE YEAR ENDED DECEMBER 31, 2014
FLOOD PROTECTION AND EMERGENCY RECONSTRUCTION PROJECT – REHABILITATION PROJECT INFRASTRUCTURE EMERGENCY IN THE PROVINCES OF HADRAMOUT AND MAHRA
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MANAGEMENT LETTER FOR THE YEAR ENDED DECEMBER 31, 2014

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Translation to English language of the attached Arabic language text.
Mr. Ibrahim H. Othman  
Project Director  
Flood Protection and Emergency Reconstruction Project – Rehabilitation Project Infrastructure Emergency in the Provinces of Hadramout and Mahra (IDA Grant No. H459)  
Sana’a, Republic of Yemen

May 17, 2015

Dear Mr. Othman:

Management Letter for the Year Ended December 31, 2014

As part of our normal audit procedures, we perform a study and evaluation system of internal accounting control of the Flood Protection and Emergency Reconstruction Project – Rehabilitation Project Infrastructure Emergency in the Provinces of Hadramout and Mahra (IDA Grant No. H459) (the Project) for 2014. The purpose of our study and evaluation is to determine the nature, timing and extent of auditing procedures. Please find attached our Management Letter for the mentioned year.

Our study and evaluation is more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole. The management of the Project is responsible for establishing and maintaining an efficient system of internal accounting control and assessing the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Therefore, our study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the system. The weaknesses and recommendations detailed in the attached report are only those which have come to our attention during the course of our normal audit work.

Kindly note that all the observations included in the attached report were discussed thoroughly with the Project management where its comments were enclosed accordingly in this report.

We take this opportunity to express herein our appreciation for the cooperation extended to us by the management and staff during our audit.

Yours sincerely,

M. Zohdi Mejanni
Senior Partner
Flood Protection and Emergency Reconstruction Project – Rehabilitation Project Infrastructure Emergency in the Provinces of Hadramout and Mahra (IDA Grant No. H459) Management Letter For the year ended December 31, 2014

I. INTERNAL AUDIT

Observation

1. As noted in the prior year for lack of absence of a department or an independent person to perform the internal audit tasks of the project through:
   a. An annual work plan to be approved by the senior management with sufficient time before the beginning of the fiscal year.
   b. Internal auditors should be independent and reporting directly to senior management.
   c. Internal auditors should attain proper educational qualification.
   d. Documenting the work of the internal audit department for the purpose of clarifying the audit procedures that have been performed and the internal auditor’s opinion accordingly.
   e. Preparing reports with recommendations to improve the performance of the management of the project provided that such recommendations should be applicable and following up the implementation.

Furthermore, we noted that the finance department employees perform certain additional internal audit tasks along with their original tasks for performing the accounting mission of the project without the consideration of proper segregation of duties for contradicted employment functions.

Implication

Weakness of controlling the project’s financial tasks, whereas the internal audit is considered one of the elements of the Project’s internal control system. In addition, the possibility of management overrides for the internal control procedures over the Project’s financial tasks due to lack of independence.

Recommendation

Necessity of a department or an independent person to perform the internal audit tasks through an annual work plan specified and approved by the senior management, provided that such plan should include the tasks and work program for the internal auditors, which must be implemented and approved with sufficient time before the beginning of the year. In addition, the internal audit section should implement the audit program and document the work and directly report to the senior management, including deficiencies with recommendations to address the deficiencies. Moreover, verifying non-existence of violating policies and objectives which were set by the senior management in order to control the project’s operations.
Management response

The function of the internal auditor is not accredited under the main functions specified in the project original and official documents in addition to the organizational structure of the project with the consideration as the project is small and has limited activities.

KPMG Comment

The existence and function of an independent internal auditor and reporting directly to senior management is considered as one of the project’s internal controls.
II. GENERAL

Observation

2. As noted in the prior year for the failure of the project management to deduct social insurance for the project’s salaries according to the Social Insurance Law No. (26) for the year 1991.

Implication

Violation of the law referred to above and the probability of the project to bear fines and additional burdens.

Recommendation

Necessity to deduct the legal social insurance from employees’ salaries and to be remitted to the Social Security in addition to the project’s share in order to avoid any fines that may be imposed on the project in the future.

Management response

As practice, the employees’ contracts are standard forms provided by the International Development Association (IDA), such contracts does not include any terms regarding social insurance. The World Bank contributes to pay the major part of the employees’ salaries and according to the World Bank’s policies which does not bear any social insurance unless the contracts were concluded directly with the Bank.