

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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Resilient nations.*

AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

KFW POVERTY ORIENTED INFRASTRUCTURE

(Directly Implemented Project No. 41098, Output Nos. 46774, 60764, 73017 and 86843)

Report No. 1502

Issue Date: 11 August 2015

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People
KfW Poverty Oriented Infrastructure
(Project No. 41098, Output Nos. 46774, 60764, 73017 and 86843)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 20 to 28 May 2015, through Talal Abu – Ghazaleh & Co. (the audit firm), conducted an audit of KfW Poverty Oriented Infrastructure (Project No. 41098, Output Nos. 46774, 60764, 73017 and 86843) (the Project), which is directly implemented and managed by the UNDP Programme of Assistance to the Palestinian People (the Office). The last audit of the Project was conducted by Talal Abu – Ghazaleh & Co. in 2014 and covered project expenditure from 1 January to 31 December 2013.

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 2014 and the accompanying Funds Utilization statement¹ as of 31 December 2014. The audit did not cover the Statement of Assets as no assets were purchased 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:

Project Expenditures*				
Output Nos.	Amount (in \$ '000)	Opinion	NFI** (in \$ '000)	Effect on CDR
46774	676	Qualified	150	Understatement
60764	2,172	Qualified	(297)	Overstatement
73017	830	Qualified	(296)	Overstatement
86843	2,427	Qualified	(664)	Overstatement

*The Combined Delivery Report covered five outputs (46774, 60764, 73017, 80762 and 86843) of Project No. 41098. Of these outputs, four (46774, 60764, 73017 and 86843) were within the scope of this audit.

**NFI = Net Financial Impact

The audit firm issued a qualified opinion on the Combined Delivery Report due to the following: (a) General Management Support fees totalling \$0.2 million (understatement) were not recorded in 2014; (b) 2013 expenditures totalling \$0.8 million (no financial impact) were recorded under incorrect project outputs in 2013 but the correction was made in 2014; and (c) expenditures totalling \$1.3 million (overstatement) were incorrectly recorded under project outputs in 2014. These resulted in a net overstatement of expenditure in the Combined Delivery Report of \$1.1 million (or 18 percent).

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) depreciated 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.

Key recommendations: Total = 7, high priority = 7

The seven recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendation 1 for Output Nos. 46774, 86843, 60764 and 73017); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 2 for Output Nos. 467742, 60764, and 73017).

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:

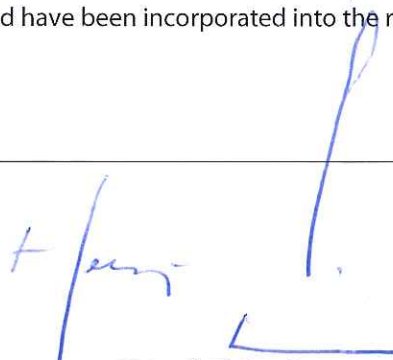
Incorrect recording of expenditures (Issue 1 for Output Nos. 46774, 86843, 60764 and 73017)	Expenditures totalling \$1.3 million were incorrectly recorded in 2014. <u>Recommendation:</u> The Office should record expenditures to the correct project outputs and within the same accounting period.
General Management Support fees not recorded (Issue 2 for Output Nos. 46774, 60764 and 73017)	General Management Support fees totalling \$0.2 million were not recorded in the Combined Delivery Report of the Project in 2014. <u>Recommendation:</u> The Office should collect the General Management Support fees as stipulated in the donor agreement.

Implementation status of previous OAI audit recommendations

The previous audits (Report Nos. 1373, 1374 and 1375, issued on 4 September 2014) had a total of seven recommendations, and based on OAI's desk review, all seven are implemented.

Management comments and action plan

The UN Special Representative of the Administrator accepted all seven 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. Osttveiten
Director
Office of Audit and Investigations

Auditor's Report

Financial audit of “KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip” (The Project) implemented by UNDP/PAPP - The State of Palestine (West Bank & Gaza) for the year ended 31 December 2014.

PROJECT TITLE AND IDs:

Title: “KfW Poverty Oriented Infrastructure (V)”

IDs: (Atlas Project ID: 41098, Output ID: 46774)

FUNDED BY

German Development Bank

Talal Abu - Ghazaleh & Co.

Certified Public Accountants



KfW Poverty Oriented Infrastructure (V)
Implemented by
UNDP/PAPP the State of Palestine (West Bank & Gaza)
Funded by
German Development Bank

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**To the Director of the Office of Audit and Investigations
United Nations Development Programme**

This report represents the results of our financial audit of Output ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip", for the Year ended 31 December 2014.

This financial audit was mandated in accordance with the audit contract for professional service signed with UNDP/OAI (Ref. PS 2015-03 dated 11 May 2015).

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



1. PART I – EXECUTIVE SUMMARY

The Executive Summary recapitulates the important issues raised in the financial audit of the project "KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip".

1.1. Background information about the Project

The overall objective of the Programme is to construct priority small-scale infrastructure in poverty-stricken Palestinian communities through the utilization of labor-intensive means. The objectives are:

1. Reduce poverty;
2. Generate short term and permanent employment opportunities;
3. Improve access to basic service delivery in impoverished Palestinian communities through the provision of social and economic infrastructure; and
4. Enhance the ability of the local service provider to implement programs and activities for their community.

1.2. Project identification information

The following table summarizes the amount of expenditures for the year under review.

Project name	Output number	Atlas Project ID	2014 budget (USD)	2014 Actual expenditures as per CDR (USD)
KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip	46774	41098	909,562	676,049

The audit covered the Project activities during the period from 1 January to 31 December 2014. During the period under review, the Office recorded project expenditures totaling USD 676,049 as reported through the Combined Delivery Report (CDR).

The following table shows the reconciliation between the CDR the actual expenditure amounts. Our findings with regards to that difference are presented in Part III of this report:

Description	Amount (USD)	Ref. Number
2014 CDR	676,049	Part II (2.2)

Un-related expenditures in the current CDR	(662,000)	Part III (3.1.1)
2013 regularizations in the current CDR	796,772	Part III (3.1.1)
Absence of imputation of General Management Support (GMS) fees	15,252	Part III (3.1.2)
Net adjusted CDR	826,073	

1.3. Project budget:

The following is the overall Project's budget:

Category/Activity	2014 Budget
Activity 1: Gaza Strip – Construction	90,124
Activity 2: West Bank – Construction	173,920
Activity 3: WWTP- Jenin	645,518
Activity 7: Project stuff and Miscellaneous	--
Total Project's budget	909,562

1.4. Project duration:

The original project duration was 24 months starting from 1 July 2008. The Project geographical location is in different areas in West Bank & Gaza Strip including East Jerusalem. Some projects under phase (V) were still ongoing until the date of this report for the following reasons:

- 1) The "Project to Rehabilitate the Jenin Wastewater Treatment Plant" took longer than expected due to issues related to capacities at the Municipality of Jenin to run the facility;
- 2) Due to the political situation in Gaza, all projects were suspended due to the fact that UNDP was unable to bring in materials to the Gaza Strip. In order to re-start UNDP needed Coordination of Government Activities in the Territories (Israeli Government) approval. At the time, five projects in Gaza for KfW V were still pending COGAT approval.

Based on the above, amendments were signed to extend the Programme until maximum 31 December 2015.

1.5. Audit objectives

The objective of the financial audit was to express an opinion on the project's financial statements which include:

- 1) Expressing an opinion on whether the expenses incurred by the project during year ended 31 December 2014 and the funds utilization as at 31 December 2014 were fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and

procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) and the accompanying Funds Utilization statement were the mandatory and official statement upon which the audit opinion was to be expressed.

- 2) Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP Project as at 31 December 2014. This statement should include all assets available as at 31 December 2014 and not only those purchased in the period under audit.
- 3) Expressing an opinion on whether the statement of cash held by the Project presents fairly the cash and bank balance of UNDP Project as at 31 December 2014, only if a dedicated bank account was established for the project.

1.6. Scope of Audit:

We performed our financial audit in accordance with the International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

The scope of the audit related to transactions concluded and recorded against the UNDP DIM project for the period 1 January 2014 to 31 December 2014. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties"; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation were not retained at the level of the UNDP country office

Specifically, the audit covered the following:

- a) Expenses incurred and recorded in the Combined Delivery Report (CDR) of the project during the period from 1 January 2014 to 31 December 2014;
- b) The value and existence of the fixed assets held by the project as at 31 December 2014; and
- c) The value and existence of Cash held by the project as at 31 December 2014 (in the case there was a separate bank account for the DIM project under review).

Accounting principles:

The Combined Delivery Report (CDR) was prepared on the accrual basis accounting system, therefore expenditures were recognized when incurred rather than when paid.

All assets included in the Statement of Fixed Assets were accounted for according to their historical costs, and in compliance with UNDP's Asset Management Guidelines.

Since 2012, UNDP started applying IPSAS and as a result, fixed assets depreciation expenses are included in the CDR.

1.7. Summary of the Audit performed and Results:

1.7.1 Audit performed:

This summary represents the results of our financial audit of Output ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) West Bank and Gaza Strip", for the year ended 31 December 2014.

The total expenditures incurred by UNDP on the above Project is USD 676,049. The audit tests approximately covered 72 percent of the total expenditures, as shown in the following table:

Project location	No. of samples	Total expenditures reported in the CDR (in USD)	Total expenditures tested (in USD)	Percentage
West Bank and Gaza	8	676,049 ¹	484,410	72%

¹ The total expenditures under this project are understated by an amount of USD 150,024; therefore the actual CDR amount should be USD 826,073. Details of the difference is presented in Part III of this report.

1.7.2 Results of the Audit:

- **The Combined Delivery Report (CDR) and Funds Utilization Statement**

The results of our tests disclosed a Net Financial Impact of USD 150,024.

1. (USD 662,000) were included in the Combined Delivery Report (CDR) while it was not related to the project. The above amount should be allocated to Phase VI (Output #60764) and Phase VII (Output #73017);
2. USD 796,772 were included during 2013 in the Combined Delivery Report (CDR) of the project while they were related to other KfW phases (Outputs #60764 and #73017). During 2014, the refunds were done and recorded as revenue (negative expenditures) on the CDR.
3. USD 15,252 are GMS amounts not reported in the CDR).

Details of these anomalies are described in Part III of this report.

Project location	No. of samples	Total expenditures (in USD)	Net Financial Impact (in USD)	Percentage
West Bank & Gaza	8	676,049	150,024	22%

- **The Statement of Fixed Assets**

The Project did not purchase or acquire fixed assets, therefore no statement of fixed assets was prepared.

- **The Statement of Cash held by the Project**

In accordance with the Terms of Reference for the audit, we did not issue an opinion on the Statement of Cash Position as there was no separate bank account for the project under review.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report

REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT
“KfW POVERTY ORIENTED INFRASTRUCTURE (V) IN PALESTINE (WEST
BANK AND GAZA STRIP)”

To the Director of the Office of Audit and Investigations
United Nations Development Programme

Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report (CDR) and Funds Utilization Statement (the Statement) of the UNDP Project “KfW Poverty Oriented Infrastructure (V) in The State of Palestine (West Bank and Gaza Strip)”, bearing output number 46774 for the period from 1 January to 31 December 2014.

Management’s Responsibility

Management is responsible for the preparation and fair presentation of the statement for “KfW Poverty Oriented Infrastructure (V) in The State of Palestine (West Bank and Gaza Strip)”, Project and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA 700). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project’s preparation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinion.

Basis for a Modified Opinion:

- An amount of USD 662,000 included in the current Combined Delivery Report (CDR) is not related to project "KfW Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip)" and should be allocated to KfW Poverty Oriented Infrastructure phase VI and VII (Output #60764 and #73017); (for more details refer to the management letter Part III of this report).
- The current Combined Delivery Report (CDR) is understated by the amount of USD 796,772 due to the regularization of 2013 expenditures not related to this project. The regularization was recorded as revenues (negative expenditures) in the CDR, which explains the understatement indicated above; (For more details refer to the management letter Part III of this report).
- The current Combined Delivery Report (CDR) is understated by an amount of USD 15,252 due to the non-allocation of General Management Support fees (GMS) to the project; (For more details refer to the management letter Part III of this report).

Modified Opinion

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization statement except for the reasons indicated in "Basis for a modified opinion" paragraphs mentioned above, presents fairly in all material respects the expenditure of USD 676,049 incurred by the project Output ID: 46774, "KfW Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip)" for the period 1 January to 31 December 2014 in accordance with UNDP accounting policies and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu - Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



Financial audit of Output ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW - German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

2.2. CDR Output No. 46774 for the year ended 31 December 2014:

✓

Combined Delivery Report By Project

UN Development Programme
Report ID: unglodrp

Page 1 of 3
Run Time: 28-05-2015 09:05:53

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00046774

Project Id : 00041098 PALI KFW -V	Period : Jan-Dec (2014)
Output # : 00046774 Small Scale Works&Employment 5	Impl. Partner : 02388 UNDP - PAPP
	Location : Palestine

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 70001 (PAPP - Central)				
Fund : 40500 (TF PAPP Voluntary Contrib Actv)				
71405 - Service Contracts-Individuals	0.00	221,796.46	0.00	221,796.46
71410 - MAIP Premium SC	0.00	759.52	0.00	759.52
71415 - Contribution to Security SC	0.00	15,549.48	0.00	15,549.48
72105 - Svc Co-Construction & Engineer	0.00	432,910.75	0.00	432,910.75
72435 - E-mail-Subscription	0.00	1,200.00	0.00	1,200.00
74110 - Audit Fees	0.00	6,945.00	0.00	6,945.00
76125 - Realized Loss	0.00	1,095.66	0.00	1,095.66
76135 - Realized Gain	0.00	-4,207.69	0.00	-4,207.69
Total for Fund 40500	0.00	676,049.19	0.00	676,049.19
Total for Dept : 70001	0.00	676,049.19	0.00	676,049.19
Total for Output : 00046774	0.00	676,049.19	0.00	676,049.19
Project Total :	0.00	676,049.19	0.00	676,049.19

Signed By :

Date :

Signed By :

Date :

Faisal J. Alkhatib



Financial audit of Output ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 2 of 3
Run Time: 28-05-2015 09:05:54

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00046774

Project Id : ALL		Period : Jan-Dec (2014)		
Output # : ALL		Impl. Partner : Location :		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	676,049.19	0.00	676,049.19

Financial audit of Output ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip" for the year ended 31 December 2014.
Funded by: KfW – German Development Bank
Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

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Run Time: 28-05-2015 09:05:55

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00046774

No Data found for the Selection Criteria

3. PART III - MANAGEMENT LETTER

1 June 2015

To the Director of the Office of Audit and Investigations

United Nations Development Programme

Subject: Letter to Management on auditing Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 46774".

We have performed an audit of the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 46774", "KfW Poverty Oriented Infrastructure (V) in The State of Palestine (West Bank and Gaza Strip), for the period from 1 January to 31 December 2014 in accordance with International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

In planning and performing our audit of the project, we considered the Project's internal control structure and compliance with term and condition of the grant contract in order to determine our auditing procedures for expressing our opinion on the Combined Delivery Report (CDR) ("the Statement") and not to provide assurance on the internal control structure. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error.

UNDP Palestine Office Management is responsible for the design, implementation and maintenance of the internal control system over the Projects. To execute this obligation, the UNDP Palestine office Managements is required to assess the expected risks and rewards of the policies and procedures for management control.

Our consideration of the internal control structure was for the limited purpose of expressing an opinion on the Combined Delivery Report (CDR) and Funds Utilization Statement, and therefore would not necessary disclosing all matters that might be reportable conditions. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director

Talal Abu- Ghazaleh & Co.

Ramallah - Palestine, 1 June 2015



3.1. Audit Issues and Recommendations

3.1.1 Un-related expenditures and refunds in the current CDR

Observation

Notice Background:

We noticed an amount of USD 662,000 (Euro 494,507) included in the Combined Delivery Report (CDR) while it was not related to the project. The above amount should be allocated to Phase VI (Output #60764) and Phase VII (Output #73017).

The management used these funds to cover other KfW phase's expenditures and recorded the amounts in unrelated projects' accounts, which overstated/understated the expenditures in both projects.

In case corrective action is not taken by UNDP, the unfair presentation of the current CDR will remain.

Project Id	Output	Euro Amount	USD Amount	Period	Correction
00041098	00046774	43,013	58,363	10-Feb-2014	should be allocated to KfW Phase VI
00041098	00046774	93,476	126,833	17-Feb-2014	should be allocated to KfW Phase VI
00041098	00046774	43,678	59,264	17-Feb-2014	should be allocated to KfW Phase VI
00041098	00046774	30,749	41,722	17-Feb-2014	should be allocated to KfW Phase VI
00041098	00046774	39,082	48,913	10-Dec-2014	should be allocated to KfW Phase VI
00041098	00046774	47,115	64,807	25-Apr-2014	should be allocated to KfW Phase VI
00041098	00046774	26,673	33,382	9-Dec-2014	should be allocated to KfW Phase VII
00041098	00046774	19,869	27,180	1-May-2014	should be allocated to KfW Phase VII
00041098	00046774	54,075	67,678	9-Dec-2014	should be allocated to KfW Phase VII
00041098	00046774	33,390	46,183	29-May-2014	should be allocated to KfW Phase VII
00041098	00046774	22,921	31,702	29-May-2014	should be allocated to KfW Phase VII
00041098	00046774	40,467	55,971	29-May-2014	should be allocated to KfW Phase VII
Total		494,507	662,000		

Financial audit of Output ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

During 2013, the Office used the funds of the project for expenditures belonging to other KfW phases (Outputs 60764 and 73017). The regularizations were only made during 2014 and recorded in the Combined Delivery Report (CDR) as revenues (negative expenditures) which resulted in an understatement of the project's 2014 expenses by an amount of USD 796,772 (Euro 606,953).

Project Id	Output	Euro Amount	USD Amount	Period	Correction
00041098	00046774	(35,983)	(46,914)	17-May-2014	Should be allocated to the right period
00041098	00046774	(35,865)	(46,760)	17-May-2014	Should be allocated to the right period
00041098	00046774	(48,000)	(62,581)	17-May-2014	Should be allocated to the right period
00041098	00046774	(47,007)	(62,344)	17-May-2014	Should be allocated to the right period
00041098	00046774	(23,775)	(31,532)	17-May-2014	Should be allocated to the right period
00041098	00046774	(44,795)	(59,410)	17-May-2014	Should be allocated to the right period
00041098	00046774	(22,804)	(29,848)	17-May-2014	Should be allocated to the right period
00041098	00046774	(32,000)	(41,721)	17-May-2014	Should be allocated to the right period
00041098	00046774	(16,000)	(20,942)	17-May-2014	Should be allocated to the right period
00041098	00046774	(50,033)	(67,979)	20-Nov-2014	Should be allocated to the right period
00041098	00046774	(34,200)	(43,678)	7-Aug-2014	Should be allocated to the right period
00041098	00046774	(72,091)	(94,360)	7-Aug-2014	Should be allocated to the right period
00041098	00046774	(24,534)	(32,539)	7-Aug-2014	Should be allocated to the right period
00041098	00046774	(26,858)	(34,302)	7-Aug-2014	Should be allocated to the right period
00041098	00046774	(35,840)	(46,728)	7-Aug-2014	Should be allocated to the right period
00041098	00046774	(17,676)	(23,442)	7-Aug-2014	Should be allocated to the right period
00041098	00046774	(39,492)	(51,691)	7-Aug-2014	Should be allocated to the right period
Total		(606,953)	(796,772)		

Financial audit of Output ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip" for the year ended 31 December 2014.
Funded by: KfW – German Development Bank
Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

Criteria:

The Combined Delivery Report (CDR) should present the actual amount of related expenditures.

Priority

High (Critical).

Recommendation

The office should not record transactions belonging to one project under a different project. In exceptional cases where this situation is not avoidable, the regularization should be done during the same period to avoid any impact on the yearly statement of expenditures.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

The auditor has noted that all reversals from 2013 have been reflected against the proper phase in 2014. All funds have now been received by UNDP from the donor, and it is understood that no further issue should be faced with regards to this recommendation.

3.1.2 Absence of imputation of General Management Support fees (GMS)

Observation

Notice Background:

According to general conditions of the agreement signed between the UNDP/PAPP and KfW, UNDP/PAPP must charge an amount 8% on the program activities. This remunerations should be considered as a management fee and should be paid on programme activities exclusively, not on vehicles, sundries or any other budget line.

In addition, a management fee rate of 4% was to be recovered based on activities related to "Rehabilitation of Waste Water Treatment Plant rehabilitation in Jenin" and the "Rehabilitation of the Waste water treatment Plant in Gaza".

During our audit, we noted that General Management Support fees (GMS) amounting USD 15,252 were not recovered by the Office on the project

Criteria:

The Office should collect General Management Support fees in full adherence to the terms stipulated in the donor agreements.

Priority

High (Critical)

Recommendation

We recommend the Office to collect the General Management Support fees (GMS) accurately, transparently, in a timely manner, and in full adherence to the terms stipulated in the donor agreement.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

Unlike previous phases of the programme where GMS was properly reflected, in 2014, and as per our Headquarters request, there was a change in how the GMS were to be recorded in the UNDP Atlas system. The office has however setup in 2014 a new system for proper setup and monitoring of GMS in the system for accurate collection. Correction will be made immediately in the system.

Auditor's Report

Financial audit of “KfW Poverty Oriented Infrastructure (VI) – West Bank and Gaza Strip” (The Project) implemented by UNDP/PAPP - The State of Palestine (West Bank & Gaza) for the year ended 31 December 2014.

PROJECT TITLE AND IDs:

Title: “KfW Poverty Oriented Infrastructure (VI)”

IDs: (Atlas Project ID: 41098, Output ID: 60764)

FUNDED BY

German Development Bank

Talal Abu – Ghazaleh & Co.

Certified Public Accountants



KfW Poverty Oriented Infrastructure (VI)
Implemented by
UNDP/PAPP the State of Palestine (West Bank & Gaza)
Funded by
German Development Bank

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To: The Director of the Office of Audit and Investigations (OAI)
United Nations Development Programme

This report represents the results of our financial audit of Output ID: 60764 titled
"KfW Poverty Oriented Infrastructure (VI) – West Bank and Gaza Strip", for the
Year ended 31 December 2014.

This financial audit was mandated in accordance with the audit contract for
professional service signed with UNDP/OAI (Ref. PS 2015-03 dated 11 May
2015).

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



1. PART I – EXECUTIVE SUMMARY

The Executive Summary recapitulates the important issues raised in the financial audit of “KfW Poverty Oriented Infrastructure (VI) - West Bank and Gaza Strip”.

1.1. Background Information about Project

The overall goal of the programme is to construct priority small-scale infrastructure in poverty stricken Palestinian communities through the utilization of labor-intensive means. The objectives are:

- 1) Reduce Poverty;
- 2) Generate short term and permanent employment opportunities;
- 3) Improve access to basic service delivery in impoverished Palestinian communities through the provision of social and economic infrastructure; and
- 4) Enhance the ability of the local service provider to implement programs and activities for their community.

1.2. Project identification information

The following table summarizes the amount of expenditures for the year under review.

Project Name	Output Number	Atlas Project ID	2014 Budget (USD)	2014 Actual Expenditures Per CDR (USD)
KfW Poverty Oriented Infrastructure (VI) – West Bank and Gaza Strip	60764	41098	3,294,000	2,171,835

The financial audit covered the project’s activities during the period from 1 January to 31 December 2014. During the period under review, the Office recorded project expenditures totaling USD 2,171,835 as reported through the Combined Delivery Report (CDR).

The following table shows the reconciliation between the CDR and the actual expenditure amounts. Our findings with regards to that difference are presented in Part III of this report:

Description	Amount (USD)	Ref. Number
2014 CDR	2,171,835	Part II (2.2)
2013 regularizations in the current CDR	(470,033)	Part III (3.1.1)

Absence of imputation of General Management Support (GMS)	173,510	Part III (3.1.2)
Net adjusted CDR	1,875,312	

1.3. Project budget:

The following is the overall Project's budget:

Activity	Description	Budget (USD)
Activity No. 2	West Bank Construction Work	54,000
Activity No. 3	Gaza Strip Construction Work	3,240,000
Activity No. 4	Miscellaneous	--
	Total	3,294,000

1.4. Project duration:

The project duration was from 10 October 2006 to 31 December 2015.

1.5. Audit Objectives

The objective of the financial audit was to express an opinion on the project's financial statements which include:

- 1) Expressing an opinion on whether the expenses incurred by the project during year ended 31 December 2014 and the funds utilization as at 31 December 2014 were fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) and the accompanying Funds Utilization statement were the mandatory and official statement upon which the audit opinion was to be expressed.
- 2) Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP project as at 31 December 2014. This statement should include all assets available as at 31 December 2014 and not only those purchased in the period under audit.
- 3) Expressing an opinion on whether the statement of cash held by the project presents fairly the cash and bank balance of UNDP project as at 31 December 2014, only if a dedicated bank account was established specifically for the project.

1.6. Scope of Audit:

We performed our audit in accordance with the International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

The scope of the audit related to transactions concluded and recorded against the UNDP DIM project for the period 1 January 2014 to 31 December 2014. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of “responsible parties”; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation were not retained at the level of the UNDP country office

Specifically, the audit covered the following:

- a) The expenses incurred and recorded in the Combined Delivery Reports (CDR) of the project during the period from 1 January 2014 to 31 December 2014;
- b) The value and existence of the fixed assets held by the project as at 31 December 2014; and
- c) The value and existence of Cash held by the project as at 31 December 2014 (in the case there was a separate bank account for the DIM project under review).

Accounting principles:

The Combined Delivery Report (CDR) was prepared on the accrual basis accounting system, therefore expenditures were recognized when incurred rather than when paid.

All assets included in the Statement of Fixed Assets were accounted for according to their historical costs, and in compliance with UNDP’s Assets Management Guidelines.

Since 2012, UNDP started applying IPSAS and as a result, fixed assets depreciation expenses are included in the CDR.

1.7. Summary of the Audit Performed and audit results:

1.7.1 Audit Performed:

This summary represents the results of our financial audit of Output ID: 60764 titled “KfW Poverty Oriented Infrastructure (VI) West Bank and Gaza Strip”, for the year ended 31 December 2014.

The total expenditures incurred by UNDP on the above project are USD 2,171,835. The audit tests approximately covered 83 percent of the total expenditures, as shown in the following table:

Project location	No. of Samples	Total Expenditures (in USD)	Total Expenditures Tested (in USD)	Percentage
West Bank & Gaza	32	2,171,835 ¹	1,799,489	83 %

¹ The total expenditures under this project are overstated by net amount of USD 296,523; therefore the actual CDR amount should be USD 1,875,312. Details of the differences are described in Part III of this report.

1.7.2 Results of Audit:

- **The Combined Delivery Report (CDR) and Funds Utilization Statement**

The results of our tests disclosed Net Financial Impact of (USD 296,523) composed as below:

1. (USD 470,033) represent regularizations of transactions initially recorded during 2013 in the budget of the output #46774 (due to funds concerns); and
2. USD 173,510 represent General Management Support (GMS) amounts not recorded in the CDR) during 2014.

Details of these inadequacies are described in Part III of this report.

Project location	No. of Samples	Total expenditures (in USD)	Net Financial Impact (in USD)	Percentage
West Bank & Gaza	32	2,171,835	296,523	14%

- **The Statement of Fixed Assets**

The project did not purchase or acquire fixed assets, therefore no statement of fixed assets was prepared.

- **The Statement of Cash held by the project**

In accordance with the Terms of Reference for the audit, we did not issue an opinion on the Statement of Cash Position as there was no separate bank account for the project under review.

Jamal Milhem, CPA

Certified Accountant License # (100/98)


Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report

REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT
“KfW POVERTY ORIENTED INFRASTRUCTURE (VI) IN PALESTINE (WEST
BANK AND GAZA STRIP)”

To the Director of the Office of Audit and Investigations
United Nations Development Programme

Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report (CDR) and Funds Utilization Statement (the Statement) of the UNDP project “KfW Poverty Oriented Infrastructure (VI) in The State of Palestine (West Bank and Gaza Strip)”, bearing output number 60764 for the period from 1 January to 31 December 2014.

Management’s Responsibility

Management is responsible for the preparation and fair presentation of the statement for “KfW Poverty Oriented Infrastructure (VI) in The State of Palestine (West Bank and Gaza Strip)”, project and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA 700). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project’s preparation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinion.

Basis for a Modified Opinion:

- The current Combined Delivery Report (CDR) is overstated by an amount of USD 470,033 representing regularizations of transactions initially recorded during 2013 in the budget of the phase V (Output #46774); (For more details refer to the management letter Part III of this report).
- The current Combined Delivery Report (CDR) is understated by an amount of USD 173,510 due to the non-imputation of General Management Support (GMS) amounts to the project; (For more details refer to the management letter Part III of this report).

Modified Opinion

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization statement except for the reasons indicated in the "Basis for a modified opinion" paragraph mentioned above, presents fairly in all material respects the expenditure of USD 2,171,835 incurred by the project "KfW Poverty Oriented Infrastructure (VI) in Palestine (West Bank and Gaza Strip)" for the period from 1 January to 31 December 2014 in accordance with UNDP accounting policies and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



Jamal D. Milhem

Financial audit of Output ID: 60764 titled "KfW Poverty Oriented Infrastructure (VI) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

2.2. CDR Output No. 60764 for the year ended 31 December 2014:

VI

Combined Delivery Report By Project

UN Development Programme
Report ID: unglodrp

Page 1 of 3
Run Time: 28-05-2015 09:05:30

Selection Criteria:

Business Unit: PAL10
Period: Jan-Dec (2014)
Selected Project Id: 00041098
Selected Fund Code: ALL
Selected Dept. IDs: ALL
Selected Outputs: 00060764

Project Id: 00041098 PAL/KFW-V	Period: Jan-Dec (2014)		
Output #: 00060764 Small Scale Works&Employment 6	Impl. Partner: 02388 UNDP - PAPP		
	Location:		
Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 70001 (PAPP - Central)			
Fund: 40500 (TF PAPP Voluntary Contrib Actv)			
71415 - Contribution to Security SC	0.00	0.00	0.00
72105 - Svc Co-Construction & Engineer	0.00	2,168,885.18	2,168,885.18
74110 - Audit Fees	0.00	3,598.00	3,598.00
74525 - Sundry	0.00	362.71	362.71
76125 - Realized Loss	0.00	903.63	903.63
76135 - Realized Gain	0.00	-1,914.24	-1,914.24
Total for Fund 40500	0.00	2,171,835.28	2,171,835.28
Total for Dept: 70001	0.00	2,171,835.28	2,171,835.28
Total for Output: 00060764	0.00	2,171,835.28	2,171,835.28
Project Total:	0.00	2,171,835.28	2,171,835.28

Signed By: _____

Date: _____

Signed By: _____

Date: _____

James J. Gilman



Financial audit of Output ID: 60764 titled "KfW Poverty Oriented Infrastructure (VI) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 2 of 3
Run Time: 28-05-2015 09:05:31

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00060764

Project Id : ALL	Period : Jan-Dec (2014)			
Output # : ALL	Impl. Partner :			
	Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	2,171,835.28	0.00	2,171,835.28

Financial audit of Output ID: 60764 titled "KfW Poverty Oriented Infrastructure (VI) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 3 of 3
Run Time: 28-05-2015 09:05:32

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00060764

Project/Award: 00041098 PAL/ KFW -V

Period : As at Dec 31, 2014

Output #	Impl. Partner	UNDP AMOUNT
00060764	02388 UNDP - PAPP	
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		0.00
Inventory		0.00
Prepayments		0.00
Commitments		0.00

3. PART III - MANAGEMENT LETTER

1 June 2015

To the Director of the Office of Audit and Investigations

United Nations Development Programme

Subject: Letter to Management on auditing Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 60764".

We have performed an audit of the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP project "Atlas Output ID: 60764", "KfW Poverty Oriented Infrastructure (VI) in The State of Palestine (West Bank and Gaza Strip), for the period from 1 January to 31 December 2014 in accordance with International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

In planning and performing our audit, we considered the project's internal control structure and compliance with term and condition of the grant contract in order to determine our auditing procedures for expressing our opinion on the Combined Delivery Report (CDR) ("the Statement") and not to provide assurance on the internal control structure.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error.

UNDP Palestine Office Management is responsible for the design, implementation and maintenance of the internal control system over the projects. To execute this obligation, the UNDP Palestine office Managements is required to assess the expected risks and rewards of the policies and procedures for management control.

Our consideration of the internal control structure was for the limited purpose of expressing an opinion on the Combined Delivery Report (CDR) and Funds Utilization Statement, and therefore would not necessarily be disclosing all matters that might be reportable conditions. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

Jamal Milhem, CPA
Certified Accountant License # (100/98)

Executive Director
Talal Abu- Ghazaleh & Co.
Ramallah - Palestine, 1 June 2015



3.1 Audit Issues and Recommendations

3.1.1 Refunds in the current CDR

Observation

Notice Background:

We noted that project's expenditures amounting to USD 470,033 (Euro 356,262) were initially recorded during 2013 in the budget of the Output #46774 due to funds concerns. The regularization was done during 2014, which lead to an overstatement of the 2014 project's expenses by the amount indicated above.

Project ID	Output	Euro Amount	USD Amount	Period/Month	Correction
00041098	00060764	48,000	62,581	17-May-2014	Should be allocated to the right period
00041098	00060764	32,000	41,721	17-May-2014	Should be allocated to the right period
00041098	00060764	16,000	20,942	17-May-2014	Should be allocated to the right period
00041098	00060764	44,795	59,410	17-May-2014	Should be allocated to the right period
00041098	00060764	35,983	46,914	17-May-2014	Should be allocated to the right period
00041098	00060764	47,007	62,344	17-May-2014	Should be allocated to the right period
00041098	00060764	22,804	29,848	17-May-2014	Should be allocated to the right period
00041098	00060764	35,865	46,760	17-May-2014	Should be allocated to the right period
00041098	00060764	23,775	31,532	17-May-2014	Should be allocated to the right period
00041098	00060764	50,033	67,979	20-Nov-2014	Should be allocated to the right period
Total		356,262	470,033		

Financial audit of Output ID: 60764 titled "KfW Poverty Oriented Infrastructure (VI) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

Criteria:

The Combined Delivery Report (CDR) should present the actual amount of related expenditures.

Priority

High (Critical).

Recommendation

The Office should not record transactions belonging to one project under a different project. In exceptional cases where this situation is not avoidable, the regularization should be done during the same period to prevent any impact on the yearly statement of expenditures.

Management acceptance:

☒Yes ☐No

Management comments and action plan:

The auditor has noted that all reversals from 2013 have been reflected against the proper phase in 2014. All funds have now been received by UNDP from the donor, and it is understood that no further issue should be faced with regards to this recommendation.

3.1.2 Non- imputation of General Management Support (GMS) fees:

Observation

Notice Background:

We noted that General Management Support fees (GMS) amounting USD 173,510 were not recovered and recorded in the CDR of the project.

Criteria:

The Office should collect General Management Support fees in full adherence to the terms stipulated in the donor agreement.

Priority

High (Critical)

Recommendation

We recommend the Office to collect the General Management Support fees accurately, transparently, in a timely manner, and in full adherence to the terms stipulated in the donor agreement.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

Unlike previous phases of the programme where GMS was properly reflected, in 2014, and as per our Headquarters request, there was a change in how the GMS was to be recorded in the UNDP Atlas system. The office has however setup in 2014 a new system for proper setup and monitoring of GMS in the system for accurate collection. Correction will be made immediately in the system.

Auditor's Report

Financial audit of “KfW Poverty Oriented Infrastructure (VII) – West Bank and Gaza Strip” (The Project) implemented by UNDP/PAPP - The State of Palestine (West Bank & Gaza) for the year ended 31 December 2014.

PROJECT TITLE AND IDs:

Title: “KfW Poverty Oriented Infrastructure (VII)”

IDs: (Atlas Project ID: 41098, Output ID: 73017)

FUNDED BY

German Development Bank

Talal Abu – Ghazaleh & Co.

Certified Public Accountants



KfW Poverty Oriented Infrastructure (VII)
Implemented by
UNDP/PAPP the State of Palestine (West Bank & Gaza)
Funded by
German Development Bank

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3.1.2 Non-imputation of General Management Support fees (GMS)	15

**To the Director of the Office of Audit and Investigations
United Nations Development Programme**

This report represents the results of our financial audit of Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (VII) – West Bank and Gaza Strip", for the Year ended 31 December 2014.

This financial audit was mandated in accordance with the audit contract for professional service signed with UNDP/OAI (Ref. PS 2015-03 dated 11 May 2015).

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



1. PART I – EXECUTIVE SUMMARY

The Executive Summary recapitulates the important issues raised in the financial audit of the project "KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip".

1.1. Background information about Project

The overall goal of the programme is to construct priority small-scale infrastructure in poverty stricken Palestinian communities through the utilization of labor-intensive means. The objectives are:

- 1) Reduce Poverty;
- 2) Generate short term and permanent employment opportunities;
- 3) Improve access to basic service delivery in impoverished Palestinian communities through the provision of social & economic Infrastructure; and
- 4) Enhance the ability of the local service provider to implement programs and activities for their community.

1.2. Project Identification information

The following table summarizes the amount of expenditures for the year under review.

Project Name	Output Number	Atlas Project ID	2014 Budget (USD)	2014 Actual Expenditures Per CDR (USD)
KfW Poverty Oriented Infrastructure (VII) – West Bank and Gaza Strip	73017	41098	859,582	829,655

The audit covered the Project activities during the period from 1 January to 31 December 2014. During the period under review, the Office recorded project expenditures totaling USD 829,655 as reported through the Combined Delivery Report (CDR).

The following table shows the reconciliation between the CDR amounts and the actual expenditures amount according to the findings in Part III of this report:

Description	Amount (USD)	Ref. Number
2014 CDR	829,665	Part II (2.2)
Refunds in the current CDR	(326,739)	Part III (3.1.1)

Absence of Allocating GMS	30,260	Part III (3.1.2)
Net Adjusted CDR	533,186	

1.3. Project Budget:

The following is the overall Project's Budget:

Activity	Description	Budget (USD)
Activity No. 2	West Bank Construction Work	379,252
Activity No. 3	Gaza Strip Construction Work	381,979
Activity No. 4	Contingencies	--
Activity No. 5	Miscellaneous	98,351
	Total	859,582

1.4. Project Duration:

The project duration started from 10 September 2008 to 31 December 2015.

1.5. Audit Objectives

The objective of the financial audit was to express an opinion on the project's financial statements which include:

- 1) Expressing an opinion on whether the expenses incurred by the project during year ended 31 December 2014 and the funds utilization as at 31 December 2014 were fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) and the accompanying Funds Utilization statement were the mandatory and official statement upon which the audit opinion was to be expressed.
- 2) Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP Project as at 31 December 2014. This statement should include all assets available as at 31 December 2014 and not only those purchased in the period under audit.
- 3) Expressing an opinion on whether the statement of cash held by the Project presents fairly the cash and bank balance of UNDP Project as at 31 December 2014, only if a dedicated bank account was established for the project.

1.6. Scope of Audit:

We performed our financial audit in accordance with the International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

The scope of the audit related to transactions concluded and recorded against the UNDP DIM project for the period 1 January 2014 to 31 December 2014. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties"; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation were not retained at the level of the UNDP country office

Specifically, the audit covered the following:

- a) Expenses incurred and recorded in the Combined Delivery Reports (CDR) of the project during the period from January 1, 2014 to December 31, 2014;
- b) The value and existence of the fixed assets held by the project as at 31 December 2014; and
- c) The value and existence of Cash held by the project as at 31 December 2014 (in the case there was a separate bank account for the DIM project under review).

Accounting principles:

The Combined Delivery Report (CDR) was prepared on the accrual basis accounting system, therefore expenditures were recognized when incurred rather than when paid.

All assets included in the Statement of Fixed Assets were accounted for according to their historical costs, in compliance with UNDP's Assets Management Guidelines.

Since 2012, UNDP started applying IPSAS and as a result, fixed assets depreciation expenses are included in the CDR.

1.7. Summary of the Audit Performed and Audit Results:

1.7.1 Audit Procedures Performed:

This summary represents the results of our financial audit of Output ID: 73017 titled “KfW Poverty Oriented Infrastructure (VII) West Bank and Gaza Strip”, for the year ended 31 December 2014.

The total expenditures incurred by UNDP on the above Project are USD 829,665. The audit tests approximately covered 56 percent of the total expenditures as shown in the following table:

Table 2:

Project Location	No. of Samples	Total Expenditures (in USD)	Total Expenditures Tested (in USD)	Percentage
West Bank & Gaza	9	829,665 ¹	463,881	56 %

¹ The total expenditures under this project are overstated by an amount of USD 296,479; therefore the actual CDR amount should be USD 533,176. Details of the difference is described in Part III of this report.

1.7.2 Results of Audit:

- **The Combined Delivery Report (CDR) and Funds Utilization Statement**

The results of our tests disclosed Net Financial Impact of USD 296,479.

(USD 326,739 are expenditures related to this project but recorded on other projects in the last year and revised in 2014. USD 30,260 are General Management Support (GMS) amounts not reported in the CDR). Details of these errors are described in Part III of this report.

Project Location	No. of Samples	Total Expenditures (in USD)	Net Financial Impact (in USD)	Percentage
West Bank & Gaza	9	829,665	296,479	36%

Except for the effect of the observation mentioned above, the "Combined Delivery Report" presents fairly, in all material respects, program incurred costs and commodities procured in accordance with UNDP accounting policies and they were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

- **The Statement of Fixed Assets**

The Project did not purchase or acquire fixed assets, therefore no statement of fixed assets was prepared.

- **The Statement of Cash held by the Project**

In accordance with the Terms of Reference for the audit, we did not issue an opinion on the Statement of Cash Position as there was no separate bank account for the project under review.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Jamal Milhem
Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report

REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT
“KfW POVERTY ORIENTED INFRASTRUCTURE (VII) IN PALESTINE (WEST
BANK AND GAZA STRIP)”

To the Director of the Office of Audit and Investigations
United Nations Development Programme

Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report (CDR) and Funds Utilization Statement (the Statement) of the UNDP Project “KfW Poverty Oriented Infrastructure (VII) in The State of Palestine (West Bank and Gaza Strip)”, bearing output number 73017 for the period from 1 January to 31 December 2014.

Management’s Responsibility

Management is responsible for the preparation and fair presentation of the statement for “KfW Poverty Oriented Infrastructure (VII) in The State of Palestine (West Bank and Gaza Strip)”, Project and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA 700). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project’s preparation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinion.

Basis for a Modified Opinion:

- The current Combined Delivery Report (CDR) is overstated by an amount of USD 326,739 due to the refund of expenditures related to this project that was recorded on other project in the last year and revised in 2014; (For more details refer to the management letter Part III of this report).
- The current Combined Delivery Report (CDR) is understated by an amount of USD 30,260 due to the non-allocation of General Management Support fees (GMS) to the project; (For more details refer to the management letter Part III of this report).

Modified Opinion

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization statement except for the reasons indicated in "basis for a modified opinion" paragraphs mentioned above, presents fairly in all material respects the expenditure of USD 829,665 incurred by the project Atlas Output ID: 73017, "KfW Poverty Oriented Infrastructure (VII) in Palestine (West Bank and Gaza Strip)" for the period from 1 January to 31 December 2014 in accordance with UNDP accounting policies and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

Jamal Milhem, CPA

Certified Accountant License # (100/98)


Talal Abu-Ghazaleh & Co.



License No. 251/1997


Ramallah - Palestine, 1 June 2015

Financial audit of Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW - German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

2.2. CDR Output No. 73017 for the year ended 31 December 2014:



UN Development Programme
Report ID: unglodrp


Selection Criteria:


Business Unit: PAL10
Period: Jan-Dec (2014)
Selected Project Id: 00041098
Selected Fund Code: ALL
Selected Dept. IDs: ALL
Selected Outputs: 00073017


Page 1 of 3
Run Time: 28-05-2015 09:05:50

Combined Delivery Report By Project

Project Id : 00041098 PAL/ KFW -V Output # : 00073017 Small Scale Works&Employment 7	Period : Jan-Dec (2014) Impl. Partner : 02308 UNDP - PAPP Location : Palestine	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 70001 (PAPP - Central)					
Fund : 04950 (PAPP Core Programme)					
33001 - Change(s) in accounting policy	0.00	1,729.96	0.00		1,729.96
71415 - Contribution to Security SC	0.00	7,500.00	0.00		7,500.00
71620 - Daily Subsistence Allow-Local	0.00	926.44	0.00		926.44
72130 - Svc Co-Transportation Services	0.00	400.20	0.00		400.20
72420 - Land Telephone Charges	0.00	1,077.26	0.00		1,077.26
72425 - Mobile Telephone Charges	0.00	143.19	0.00		143.19
72815 - Inform Technology Supplies	0.00	314.82	0.00		314.82
74210 - Printing and Publications	0.00	5,400.00	0.00		5,400.00
74505 - Insurance	0.00	2,465.73	0.00		2,465.73
74525 - Sundry	0.00	82,118.89	0.00		82,118.89
74696 - PP&E Expensed items	0.00	3,787.59	0.00		3,787.59
76125 - Realized Loss	0.00	7.41	0.00		7.41
76135 - Realized Gain	0.00	-390.22	0.00		-390.22
Total for Fund 04950	0.00	105,481.27	0.00		105,481.27
Fund : 40500 (TF PAPP Voluntary Contrib Actv)					
72105 - Svc Co-Construction & Engineer	0.00	706,731.72	0.00		706,731.72
72130 - Svc Co-Transportation Services	0.00	757.32	0.00		757.32
72311 - Fuel, petroleum and other oils	0.00	398.60	0.00		398.60
72315 - Food & Textile Products	0.00	234.38	0.00		234.38
72405 - Acquisition of Communic Equip	0.00	232.80	0.00		232.80
72425 - Mobile Telephone Charges	0.00	132.33	0.00		132.33
73410 - Maint. Oper of Transport Equip	0.00	196.36	0.00		196.36
74110 - Audit Fees	0.00	3,519.00	0.00		3,519.00
74505 - Insurance	0.00	1,367.54	0.00		1,367.54
74525 - Sundry	0.00	14,753.69	0.00		14,753.69
76125 - Realized Loss	0.00	121.31	0.00		121.31
76135 - Realized Gain	0.00	-4,261.20	0.00		-4,261.20
Total for Fund 40500	0.00	724,183.85	0.00		724,183.85
Total for Dept : 70001	0.00	829,665.12	0.00		829,665.12
Total for Output : 00073017	0.00	829,665.12	0.00		829,665.12
Project Total :	0.00	829,665.12	0.00		829,665.12

Signed By:  Date: 28/5/2015

Signed By:  Date: _____



Financial audit of Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 2 of 3
Run Time: 28-05-2015 09:05:51

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00073017

Project Id : ALL	Period : Jan-Dec (2014)
Output # : ALL	Impl. Partner :
	Location :

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	829,665.12	0.00	829,665.12

Financial audit of Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

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Run Time: 28-05-2015 09:05:52

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00073017

Project/Award: 00041098 PAL/ KFW -V

Period : As at Dec 31, 2014

Output #	Impl. Partner	UNDP AMOUNT
00073017	02388 UNDP - PAPP	
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		0.00
Inventory		0.00
Prepayments		0.00
Commitments		0.00

3. PART III - MANAGEMENT LETTER

1 June 2015

To the Director of the Office of Audit and Investigations

United Nations Development Programme

Subject: Letter to Management on auditing the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 73017".

We have performed an audit of the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 73017", "KfW Poverty Oriented Infrastructure (VII) in The State of Palestine (West Bank and Gaza Strip), for the period from 1 January to 31 December 2014 in accordance with International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

In planning and performing our audit, we considered the Project's internal control structure and compliance with term and condition of the grant contract in order to determine our auditing procedures for expressing our opinion on the Combined Delivery Report (CDR) ("the Statement") and not to provide assurance on the internal control structure.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error.

UNDP Palestine Office Management is responsible for the design, implementation and maintenance of the internal control system over the Projects. To execute this obligation, the UNDP Palestine office Managements is required to assess the expected risks and rewards of the policies and procedures for management control.

Our consideration of the internal control structure was for the limited purpose of expressing an opinion on the Combined Delivery Report (CDR) and Funds Utilization Statement, and therefore would not necessarily be disclosing all matters that might be reportable conditions. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director

Talal Abu- Ghazaleh & Co.

Ramallah - Palestine, 1 June 2015



3.1 Audit Issues and Recommendations

3.1.1 Refunds in the current CDR

Observation

Notice Background:

During 2013, the Office recorded expenditures belonging to the project in the budget of the output 46774 (Phase 5). The regularizations were only made during 2014 which resulted in an overstatement of the project's 2014 expenses by an amount of USD 326,739 (Euro 250,691).

Project Id	Output	Euro Amount	USD Amount	Period	Correction
00041098	00073017	34,200	43,678	7-Aug-2014	Should be allocated to the right period
00041098	00073017	72,091	94,360	7-Aug-2014	Should be allocated to the right period
00041098	00073017	24,534	32,539	7-Aug-2014	Should be allocated to the right period
00041098	00073017	39,492	51,691	7-Aug-2014	Should be allocated to the right period
00041098	00073017	17,676	23,442	7-Aug-2014	Should be allocated to the right period
00041098	00073017	35,840	46,728	7-Aug-2014	Should be allocated to the right period
00041098	00073017	26,858	34,302	7-Aug-2014	Should be allocated to the right period
Total		250,691	326,739		

Criteria:

The Combined Delivery Report (CDR) should present the actual amount of related expenditures.

Priority

High (Critical).

Recommendation

The Office should not record transactions belonging to one project under a different project. In exceptional cases where this situation is not avoidable, the regularization should be done during the same period to avoid any impact on the yearly statement of expenditures.

Financial audit of Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

The auditor has noted that all reversals from 2013 have been reflected against the proper phase in 2014. Now that we have received all funds from the donor, we do not expect to face any further issues pertaining to utilizing reversals.

3.1.2 Non-imputation of General Management Support fees (GMS)

Observation

Notice Background:

We noticed that General Management Support fees amounting USD 30,260 were not recovered and recorded by the Office in the CDR of the project.

Criteria:

The Office should collect General Management Support fees in full adherence to the terms stipulated in the donor agreements.

Priority

High (Critical)

Recommendation

We recommend the Office to collect the General Management Support fees accurately, transparently, in a timely manner, and in full adherence to the terms stipulated in the donor agreement.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

Unlike previous phases of the programme where GMS was properly reflected, in 2014, and as per our Headquarters request, there was a change in how the GMS were recorded in the UNDP Atlas financial system. Unfortunately, and as a result the GMS was not calculated for this phase of the programme. We will follow up with our Programme Management Support Unit (PMSU) to ensure all GMS amounts will be immediately reflected and that in the future this issue does not occur again.

Auditor's Report

Financial audit of “KfW Poverty Oriented Infrastructure (IX) – West Bank” (The Project) implemented by UNDP/PAPP - The State of Palestine (West Bank & Gaza) for the year ended 31 December 2014.

PROJECT TITLE AND IDs:

Title: “KfW Poverty Oriented Infrastructure (IX)”

IDs: (Atlas Project ID: 41098, Output ID: 86843)

FUNDED BY

German Development Bank

Talal Abu – Ghazaleh & Co.

Certified Public Accountants



Financial audit of Output ID: 86843 titled “KfW Poverty Oriented Infrastructure (IX) - West Bank” for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

KfW Poverty Oriented Infrastructure (IX)
Implemented by
UNDP/PAPP the State of Palestine (West Bank & Gaza)
Funded by
German Development Bank

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**To the Director of the Office of Audit and Investigations
United Nations Development Programme**

This report represents the results of our financial audit of Output ID: 86843 titled “KfW Poverty Oriented Infrastructure (IX) – West Bank”, for the Year ended 31 December 2014.

This financial audit was mandated in accordance with the audit contract for professional service signed with UNDP/OAI (Ref. PS 2015-03 dated 11 May 2015).

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



1. PART I – EXECUTIVE SUMMARY

The Executive Summary recapitulates the important issues raised in the financial audit of the project "KfW Poverty Oriented Infrastructure (IX) - West Bank".

1.1. Background information about the Project

The Government of Germany through the Kreditanstalt fuer Wiederaufbau (KfW – the German Development Bank) has entrusted the United Nations Development Programme / Programme of Assistance to the Palestinian People (UNDP/PAPP) for the implementation of the "Poverty Oriented Employment Generation Programme in the West Bank". To date, nine phases of the programme have been financed with a total value of approximately 86.9 Million Euros.

1.2. Project identification information

Programme Objectives:

- (i) Temporary reduction of monetary poverty (on household level) by creating short term employment and incomes.
- (ii) Demand driven extension and improvement of social and economic communal infrastructure.

The following table summarizes the amount of expenditures for the year under review:

Project name	Output number	Atlas Project ID	2014 budget (USD)	2014 Actual expenditures as per CDR (USD)
KfW Poverty Oriented Infrastructure (IX) – West Bank	86843	41098	3,575,517	2,426,645

The financial audit covered the Project activities during the period from 1 January to 31 December 2014. During the period under review, the Office recorded project expenditures totaling USD 2,426,645 as reported through the Combined Delivery Report (CDR).

The following table shows the reconciliation between the CDR and the actual expenditures amount. Our findings with regards to that difference are presented in Part III of this report:

Description	Amount (USD)	Ref. Number
2014 CDR	2,426,645	Part II (2.2)
Un-related expenditures in the current CDR	(663,967)	Part III (4.1.1)
Net adjusted CDR	1,792,678	

1.3. Project budget:

The following is the overall Project's budget:

Activity	Description	Budget (USD)
Activity No. 1	Construction Work	3,210,000
Activity No. 2	Miscellaneous	34,483
--	PMU	331,034
	Total	3,575,517

1.4. Project duration:

The original project duration is three years starting from 5 April 2012.

1.5. Audit objectives

The objective of the financial audit was to express an opinion on the project's financial statements which include:

- 1) Expressing an opinion on whether the expenses incurred by the project during year ended 31 December 2014 and the funds utilization as at 31 December 2014 were fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) and the accompanying Funds Utilization statement were the mandatory and official statement upon which the audit opinion was to be expressed.
- 2) Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP Project as at 31 December 2014.

This statement should include all assets available as at 31 December 2014 and not only those purchased in the period under audit.

- 3) Expressing an opinion on whether the statement of cash held by the Project presents fairly the cash and bank balance of UNDP Project as at 31 December 2014, only if a dedicated bank account was established specifically for the project.

1.6. Scope of Audit:

We performed our financial audit in accordance with the International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

The scope of the audit related to transactions concluded and recorded against the UNDP DIM project for the period from 1 January 2014 to 31 December 2014. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties"; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation were not retained at the level of the UNDP country office

Specifically, the audit covered the following:

- a) Expenses incurred and recorded in the Combined Delivery Reports (CDR) of the project during the period from 1 January 2014 to 31 December 2014;
- b) The value and existence of the fixed assets held by the project as at 31 December 2014; and
- c) The value and existence of Cash held by the project as at 31 December 2014 (in the case there was a separate bank account for the DIM project under review).

Accounting principles:

The Combined Delivery Report (CDR) was prepared on the accrual basis accounting system, therefore expenditures were recognized when incurred rather than when paid.

All assets included in the Statement of Fixed Assets were accounted for according to their historical costs, and in compliance with UNDP's Asset Management Guidelines.

Financial audit of Output ID: 86843 titled “KfW Poverty Oriented Infrastructure (IX) - West Bank” for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

Since 2012, UNDP started applying IPSAS and as a result, fixed assets depreciation expenses are included in the CDR.

1.7. Summary of the Audit performed and results:

1.7.1 Audit performed:

This summary represents the results of our financial audit of Output ID: 86843 titled “KfW Poverty Oriented Infrastructure (IX) West Bank”, for the year ended 31 December 2014.

The total expenditures incurred locally by UNDP on the above Project is USD 2,426,645. The audit tests approximately covered 72 percent of the total expenditures, as shown in the following table:

Project location	No. of samples	Total expenditures reported in the CDR (in USD)	Total expenditures tested (in USD)	Percentage
West Bank	27	2,426,645 ¹	1,758,047	72%

¹ The total expenditures under this project are overstated by an amount of USD 663,967; therefore the actual CDR amount should be USD 1,792,678. Details of the difference is presented in Part III of this report.

1.7.2 Results of the Audit:

- **The Combined Delivery Report (CDR) and Funds Utilization Statement**

The results of our tests disclosed a Net Financial Impact of USD 663,967 which should be allocated to KfW VIII phase (Output #80762). Details of these errors are described in Part III of this report.

Project location	No. of samples	Total expenditures reported in the CDR (in USD)	Net Financial Impact (in USD)	Percentage
West Bank	27	2,426,645	663,967	27%

- **The Statement of Fixed Assets**

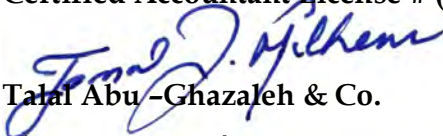
The Project did not purchase or acquire fixed assets, therefore no statement of fixed assets was prepared.

- **The Statement of Cash held by the Project**

In accordance with the Terms of Reference for the audit, we did not issue an opinion on the Statement of Cash Position as there was no separate bank account for the project under review.

Jamal Milhem, CPA

Certified Accountant License # (100/98)



Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report

REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT
“KfW POVERTY ORIENTED INFRASTRUCTURE (IX) IN PALESTINE (WEST BANK)”

To the Director of the Office of Audit and Investigations
United Nations Development Programme

Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report (CDR) and Funds Utilization Statement (the Statement) of the UNDP Project “KfW Poverty Oriented Infrastructure (IX) in The State of Palestine (West Bank)”, bearing output number 86843 for the period from 1 January to 31 December 2014.

Management’s Responsibility

Management is responsible for the preparation and fair presentation of the statement for “KfW Poverty Oriented Infrastructure (IX) in The State of Palestine (West Bank)”, Project and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA 700). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project’s preparation of the statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinion.

Basis for a Modified Opinion:

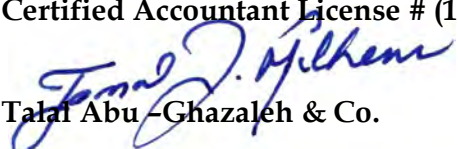
- An amount of USD 663,967 included in the current Combined Delivery Report (CDR) is not related to project "KfW Poverty Oriented Infrastructure (IX) in Palestine (West Bank)" and should be recorded under "KfW Poverty Oriented Infrastructure Phase VIII" (Output #80762); (for more details refer to the management letter Part III of this report).

Modified Opinion

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization statement except for the reasons indicated in "Basis for a modified opinion" paragraphs mentioned above, presents fairly in all material respects the expenditure of USD 2,426,645 incurred by the project Atlas Output ID: 86843, "KfW Poverty Oriented Infrastructure (IX) in Palestine (West Bank)" for the period from 1 January to 31 December 2014 in accordance with UNDP accounting policies and were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents.

Jamal Milhem, CPA

Certified Accountant License # (100/98)


Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 1 June 2015



Financial audit of Output ID: 86843 titled "KfW Poverty Oriented Infrastructure (IX) - West Bank" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

2.2. CDR Output No. 86843 for the year ended 31 December 2014:

TX

Combined Delivery Report By Project

UN Development Programme
Report ID: unglcdp

Page 1 of 3
Run Time: 28-05-2015 09:05:28

Selection Criteria:

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00086843

Project Id : 00041098 PAL/ KFW -V	Period : Jan-Dec (2014)	Impl. Partner : 02388 UNDP - PAPP	Location :
Output # : 00086843 Small Scale Works&Employment 9			
Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 70001 (PAPP - Central)			
Fund: 30000 (PROGRAMME COST SHARING)			
71405 - Service Contracts-Individuals	0.00	299,613.89	0.00
71410 - MAIP Premium SC	0.00	1,209.16	0.00
71415 - Contribution to Security SC	0.00	10,881.40	0.00
72105 - Svc Co-Construction & Engineer	0.00	1,956,294.25	0.00
72435 - E-mail-Subscription	0.00	2,100.00	0.00
73410 - Maint. Oper of Transport Equip	0.00	-2,206.14	0.00
75105 - Facilities & Admin - Implement	0.00	158,752.47	0.00
Total for Fund 30000	0.00	2,426,645.03	0.00
Total for Dept : 70001	0.00	2,426,645.03	0.00
Total for Output : 00086843	0.00	2,426,645.03	0.00
Project Total :	0.00	2,426,645.03	0.00

Signed By :

Date :

Signed By :

Date :

James J. McIlhenny



Financial audit of Output ID: 86843 titled "KfW Poverty Oriented Infrastructure (IX) - West Bank" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 2 of 3
Run Time: 28-05-2015 09:05:29

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00086843

Project Id : ALL		Period : Jan-Dec (2014)		
Output # : ALL		Impl. Partner : Location :		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	2,426,645.03	0.00	2,426,645.03

Financial audit of Output ID: 86843 titled "KfW Poverty Oriented Infrastructure (IX) - West Bank" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

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Run Time: 28-05-2015 09:05:30

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00086843

No Data found for the Selection Criteria

3. PART III - MANAGEMENT LETTER

1 June 2015

To the Director of the Office of Audit and Investigations

United Nations Development Programme

Subject: Letter to Management on auditing the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 86843".

We have performed an audit of the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 86843", "KfW Poverty Oriented Infrastructure (IX) in The State of Palestine (West Bank), for the period from 1 January to 31 December 2014 in accordance with International Standards on Auditing (ISA 700) and in compliance with the UNDP rules and regulations.

In planning and performing our audit, we considered the Project's internal control structure and compliance with term and condition of the grant contract in order to determine our auditing procedures for expressing our opinion on the Combined Delivery Report (CDR) ("the Statement") and not to provide assurance on the internal control structure. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error.

UNDP Palestine Office Management is responsible for the design, implementation and maintenance of the internal control system over the Projects. To execute this obligation, the UNDP Palestine office Managements is required to assess the expected risks and rewards of the policies and procedures for management control.

Our consideration of the internal control structure was for the limited purpose of expressing an opinion on the Combined Delivery Report (CDR) and Funds Utilization Statement, and therefore would not necessarily be disclosing all matters that might be reportable conditions. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director

Talal Abu- Ghazaleh & Co.

Ramallah - Palestine, 1 June 2015



3.1 Audit Issues and Recommendations

3.1.1 Un-related expenditures in the current CDR

Observation

Notice background:

We noticed that expenditures amounting to USD 663,967 were included in the current Combined Delivery Report (CDR) while they were not related to project "KfW Poverty Oriented Infrastructure (IX), such amount should be allocated to the Phase VIII (Output #80762).

The management used these funds to cover other KfW phase's expenditures and recorded the amounts in unrelated projects' accounts, which overstated the project's expenditures.

In case corrective action is not taken by UNDP, the unfair presentation of the current CDR will remain.

Project Id	Output	USD Amount	Period	Correction
00041098	00086843	18,067	22-Sep-2014	should be allocated to KfW Phase VIII
00041098	00086843	64,965	22-Sep-2014	should be allocated to KfW Phase VIII
00041098	00086843	60,301	25-Sep-2014	should be allocated to KfW Phase VIII
00041098	00086843	65,146	13-Oct-2014	should be allocated to KfW Phase VIII
00041098	00086843	51,993	30-Oct-2014	should be allocated to KfW Phase VIII
00041098	00086843	32,821	30-Oct-2014	should be allocated to KfW Phase VIII
00041098	00086843	65,548	4-Nov-2014	should be allocated to KfW Phase VIII
00041098	00086843	36,800	11-Nov-2014	should be allocated to KfW Phase VIII
00041098	00086843	45,033	19-Nov-2014	should be allocated to KfW Phase VIII
00041098	00086843	34,009	3-Dec-2014	should be allocated to KfW Phase VIII
00041098	00086843	41,437	8-Dec-2014	should be allocated to KfW Phase VIII

Financial audit of Output ID: 86843 titled "KfW Poverty Oriented Infrastructure (IX) - West Bank" for the year ended 31 December 2014.

Funded by: KfW – German Development Bank

Implemented by: United Nations Development Programme, Programme of Assistance to the Palestinian People (UNDP/PAPP) in The State of Palestine.

00041098	00086843	35,060	8-Dec-2014	should be allocated to KfW Phase VIII
00041098	00086843	36,237	8-Dec-2014	should be allocated to KfW Phase VIII
00041098	00086843	55,944	10-Dec-2014	should be allocated to KfW Phase VIII
00041098	00086843	20,607	24-Dec-2014	should be allocated to KfW Phase VIII
Total		663,967		

Criteria:

The Combined Delivery Report (CDR) should present the actual amount of related expenditures.

Priority

High (Critical).

Recommendation

The office should not record transactions belonging to one project under a different project. In exceptional cases where this situation is not avoidable, the refunds should be done during the same period to avoid any impact on the yearly statement of expenditures.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

Due to the fact that the donor has transferred all remaining balances for this phase, we have already taken the necessary steps to reverse all payments charged to KfW VIII (Output #80762) to the correct project. As of this writing, most reversals have been completed and payments were charged against the correct phase and will be correctly reflected in the 2015 CDR. Any remaining reversals will be done immediately.