



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

QUARTET-BLAIR MISSION DOS
(Directly Implemented Project No. 47872, Output No. 62844)

Report No. 1506
Issue Date: 11 August 2015

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Quartet-Blair Mission DOS
(Project No. 47872, Output No. 62844)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 18 May to 4 June 2015, through Talal Abu – Ghazaleh & Co. (the audit firm), conducted an audit of Quartet-Blair Mission DOS (Project No. 47872, Output No. 62844) (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 OAI in 2013 and covered the period from 1 January 2010 to 30 September 2012.

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 as well as Statement of Assets as of 31 December 2014. The audit did not include activities and expenses incurred or undertaken at the "responsible party" level, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters), or where supporting documentation was not retained at the UNDP Country Office level. 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 report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenditures*		Project Assets	
Amount (in \$ '000)	Opinion	Amount (in \$ '000)	Opinion
1,136	Unqualified	105	Unqualified

* Expenditures recorded in the Combined Delivery Report were \$2.31 million. Excluded from the audit scope were expenditures incurred by other United Nations agencies (\$1.18 million).

Key recommendation: Total = 1, high priority = 1

The one recommendation aims to ensure the reliability and integrity of financial and operational information.

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 recommendation is presented below:

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.

Inaccurate recording of
expenditures
(Issue 1)

Expenditures totalling \$1.18 million incurred by other United Nations agencies were incorrectly recorded as UNDP expenditures in the Combined Delivery Report. The audit firm issued an emphasis of matter in respect of this issue, but did not qualify its audit opinion.


Recommendation: The Office should correctly record expenditures and classify them under the relevant category.

Implementation status of previous OAI audit recommendations

The previous audit (Report No. 1107, issued on 24 October 2013) had four recommendations and, based on OAI's desk review, they are fully implemented.

Management comments and action plan

The UN Special Representative of the Administrator accepted the recommendation and is in the process of implementing it. 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 “Quartet-Blair Mission DOS” (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: “Quartet-Blair Mission DOS”

IDs: (Atlas Project ID: 47872, Output No: 62844)

FUNDED BY

The United States Department of State (DOS)

Talal Abu - Ghazaleh & Co.

Certified Public Accountants



Quartet-Blair Mission DOS
Implemented by
UNDP/PAPP the State of Palestine (West Bank & Gaza)
Funded by
The United States Department of State (DOS)

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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: 62844 titled
"Quartet-Blair Mission DOS", 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, 4 June 2015



1. PART I – EXECUTIVE SUMMARY

The Executive Summary recapitulates the important issues raised in the financial audit of the "Quartet-Blair Mission DOS".

1.1. Background information about the Project

On 27 June 2007, the Quartet (United States, United Nations, European Union and Russia) appointed a Quartet Representative (QR) to advance the objectives of the Quartet related to the development of the economy and the institutions of the Palestinian Authority (PA).

The office of the Quartet Representative (OQR) is composed by a team of experts and support staff, based in Jerusalem and elsewhere, to be seconded by partners and institutions. Within this context, UNDP/PAPP was to provide operational and logistical support to the Representative and his Office based in Jerusalem, in order to facilitate the effective and expedited delivery of the Quartet's objectives. Inter-agency cooperation has been extended and included United Nations Truce Supervision Organization, United Nations Office for Project Services and United Nations Department of Safety and Security.

The office of the Quartet Representative (OQR) is supported by a project implemented thanks to a multi-donor and partners' support framework (where UNDP/PAPP acts as the Executing Agency). The key strategic partners are the Quartet members, supportive bi-lateral and multilateral agencies and local partners, including civil society and private sector.

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)
Quartet-Blair Mission DOS	62844	47872	2,366,041	2,310,723

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 2,310,723 as reported through the Combined Delivery Report (CDR).

A total amount of USD 1,175,037 was excluded from our audit scope since the related expenditures were incurred by other UN Agencies.

1.3. Project duration:

The project duration was from 22 August 2008 to 31 December 2015.

1.4. 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.

1.5. 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 Asset Management Guidelines.

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

Financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS" for the year ended 31 December 2014.

Funded by: The United States Department of State (DOS)

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

1.6. Summary of the Audit performed and results:

1.6.1 Audit performed:

This summary represents the results of our financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS", for the year ended 31 December 2014.

The total expenditures incurred by UNDP on the above Project are USD 1,135,686. The audit tests approximately covered 78 percent of the total expenditures, as shown in the following table:

Project location	No. of samples	Total expenditures incurred by UNDP (USD)	Total expenditures tested	Percentage
Jerusalem	10	1,135,686	882,167	78%

1.6.2 Results of the Audit:

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

The review did not disclose any financial errors in the Project's CDR and Funds Utilization statement.

- **The Statement of Fixed Assets**

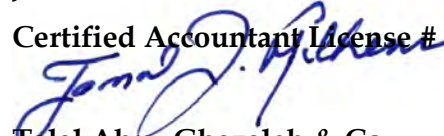
The results of our review did not disclose any material misstatement that could affect the presentation of the statement of fixed assets as at 31 December 2014.

- **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, 4 June 2015



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report

REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT “QUARTET – BLAIR MISSION DOS”

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 “Quartet-Blair Mission DOS”, bearing output number 62844 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 “Quartet-Blair Mission DOS”, 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 unmodified audit opinion.

Unmodified Opinion

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization statement gives a true and fair view of the expenditures of USD 1,135,686 incurred by the Project "Quartet-Blair Mission DOS", 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.

Emphasis of Matter

We draw attention that some expenditures amounting to USD 1,175,037 related to other UN Agencies acting as responsible parties to the project were recorded under UNDP expenditures not as UN Agencies expenditures. Our opinion is not qualified in respect of this matter.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu-Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 4 June 2015



Financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS" for the year ended 31 December 2014.

Funded by: The United States Department of State (DOS)

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. 62844 for the year ended 31 December 2014:

UN Development Programme
Report ID: unglodrip

Combined Delivery Report By Project

Page 1 of 4
Run Time: 03-06-2015 13:06:40

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00062844

Project Id : 00047872 Support to the QQR	Period : Jan-Dec (2014)
Output # : 00062844 Quartet-Blair Mission DOS	Impl. Partner : 02388 UNDP - PAPP
	Location :

Financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS" for the year ended 31 December 2014.

Funded by: The United States Department of State (DOS)

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: unglcdrp

Combined Delivery Report By Project

Page 2 of 4
Run Time: 03-06-2015 13:06:40

Project Id : 00047872 Support to the OQR	Period : Jan-Dec (2014)
Output # : 00062844 Quartet-Blair Mission DOS	Impl. Partner : 02388 UNDP - PAPP
	Location :
Govt Exp	UNDP Exp
UN Agencies Exp	Total Exp

Project Total :	0.00	2,310,722.77	0.00	2,310,722.77
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Signed By :

Date :

Signed By :


Date :



Financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS" for the year ended 31 December 2014.

Funded by: The United States Department of State (DOS)

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



UNDP UN Development Programme

Report ID: unglodrp

Combined Delivery Report By Project

Page 3 of 4

Run Time: 03-06-2015 13:08:41

Selection Criteria :

Business Unit : PAL10

Period : Jan-Dec (2014)

Selected Project Id : ALL

Selected Fund Code : ALL

Selected Dept. IDs : ALL

Selected Outputs : 00062844

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

2,310,722.77

0.00

2,310,722.77

Financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS" for the year ended 31 December 2014.

Funded by: The United States Department of State (DOS)

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: unglcdrp

Combined Delivery Report By Project

Page 4 of 4
Run Time: 03-06-2015 13:06:42

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2014)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00062844

Project/Award: 00047872 Support to the OQR

Period : As at Dec 31, 2014

Output #	00062844	Impl. Partner :02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances			0.00
Undepreciated Fixed Assets			105,426.84
Inventory			0.00
Prepayments			0.00
Commitments			0.00

3. CERTIFICATION OF THE STATEMENT OF FIXED ASSETS - 2014

To the Director of the Office of Audit and Investigations

United Nations Development Programme

Report on the Statement of Fixed Assets

We have audited the accompanying Statement of Fixed Assets (the statement) of the UNDP Output ID: 62844, "Quartet-Blair Mission DOS", as of 31 December 2014.

Management's Responsibility

Management is responsible for the preparation of the Statement for "Quartet-Blair Mission DOS" Project and for such internal control as management determines is necessary to enable the preparation of the 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 statement is 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 schedule 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 unmodified opinion.

Unmodified Opinion

In our opinion, the attached Statement of assets presents fairly, in all material respects, the balance of fixed assets of USD 105,421 incurred by the project "Quartet-Blair Mission DOS" as at 31 December 2014 in accordance with UNDP accounting policies.

Jamal Milhem, CPA

Certified Accountant License # (100/98)


Executive Director

Talal Abu- Ghazaleh & Co.

Ramallah - Palestine, 4 June 2015



Financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS" for the year ended 31 December 2014.

Funded by: The United States Department of State (DOS)

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

3.1 Statement of Fixed Assets – 2014

Quartet-Blair Mission DOS
STATEMENT OF FIXED ASSETS
AS AT 31 DECEMBER 2014

Category	Location	Value USD
Building Improvements:		
- Electrical & Air Conditions	Jerusalem	70,000
- Blast Windows	Jerusalem	74,500
Total Value		144,500
Accumulated Depreciation		(39,079)
Net Book Value		105,421

Financial audit of Output ID: 62844 titled "Quartet-Blair Mission DOS" for the year ended 31 December 2014.

Funded by: The United States Department of State (DOS)

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

3.2 List of Assets and Equipment:

Project Title: Support to the OQR Atlas ID: 00047872, Output ID: 00062844						
Business Unit	Asset ID	Description	Acquisition Date	Expiry Date	Cost, USD	Project
PAL10	000000001867	Electrical & Air cond-OQR	3/8/2012	3/8/2012	70,000.00	00062844
PAL10	000000001877	Blast Windows for OQR b	6/30/2012	6/30/2012	74,500.00	00062844
Total Cost					144,500.00	
Accumulated Dep.					-39,079.16	
Net Book Value					105,420.84	

Date: 3-Jun-15

Signature :

James J. Gilhe



D.M.

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4. PART III - MANAGEMENT LETTER

4 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: 62844".

We have performed an audit of the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Output ID: 62844", "Quartet-Blair Mission DOS", 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, 4 June 2015



4.1.Audit Issues and Recommendations

4.1.1 Inadequate classification of expenditures:

Observation

Notice Background:

During our audit, we noticed that some expenditures amounting to USD 1,175,037 were incurred by other UN Agencies acting as responsible parties to the project while they were recorded under UNDP expenditures.

Criteria:

According to the UNDP rules and regulations these expenditures must be classified as UN Agencies expenses.

Priority

High (Important)

Recommendation

The Office should classify these expenditures as UN Agencies expenses and ensure in the future that expenditures are adequately classified in the CDR depending on the entity which incurred them.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

UNDP will seek clear guidance from HQ's on how to record the UN agencies advances correctly, and it will be implemented starting July 2015.