

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

CONSTRUCTION OF 100 HOUSING UNITS
(Directly Implemented Project No. 57098, Output No. 70416)

Report No. 1648
Issue Date: 29 September 2016

Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Construction of 100 Housing Units (Project No. 57098, Output No. 70416)
Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Moore Stephens LLP (the audit firm), from 27 to 28 July 2016, conducted an audit of Construction of 100 Housing Units (Project No. 57098, Output No. 70416) (the Project), which is directly implemented and managed by the UNDP Programme of Assistance to the Palestinian People (the Office). This was the first audit of the Project.

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 2015 and the accompanying Funds Utilization statement¹ as of 31 December 2015. 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 report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenditure	
Amount (in \$ '000)	Opinion
4,197	Unqualified

Key recommendation: Total = 1, high priority = 0

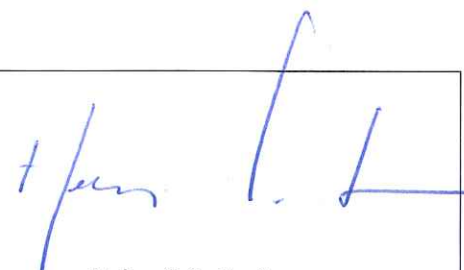
The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, which means, "Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP." This recommendation includes actions to address the incorrect recording of fund commitments.

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

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.

Management comments and action plan

The Special Representative 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.

A handwritten signature in blue ink is enclosed within a rectangular box. The signature appears to be 'H. Osttveiten'.

Helge S. Osttveiten
Director
Office of Audit and Investigations

**UNITED NATIONS DEVELOPMENT PROGRAMME
(UNDP)**

AUDIT REPORT

22 September 2016

**FINANCIAL AUDIT OF THE UNDP DIRECTLY
IMPLEMENTED (DIM) PROJECT**

Construction of 100 Housing Units

UNDP Office:	Programme of Assistance to the Palestinian People
Atlas Project ID:	57098
Atlas Output ID:	70416
Auditor:	Moore Stephens LLP
Period subject to audit:	1 January to 31 December 2015

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EXECUTIVE SUMMARY

Moore Stephens LLP conducted the financial audit of 'Construction of 100 Housing Units' (Project ID 57098 - Output ID 70416) (the project), directly implemented by UNDP Programme of Assistance to the Palestinian People (PAPP, 'the Office'), for the year ended 31 December 2015. The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI).

We have issued audit opinions as summarised in the table below and as detailed in the next section:

Statement of Expenditure	Unqualified
Statement of Fixed Assets	Not applicable
Statement of Cash Position	Not applicable

As a result of our audit, we have raised one audit finding with no financial impact as summarised below:

No.	Description	Priority	Net financial impact \$
1	Commitments balance incorrectly stated	Medium	-
Total			-

This output ID 70416 'Construction of 100 Housing Units' was not audited in the prior year.



Mark Henderson
Partner

Moore Stephens LLP
150 Aldersgate Street
London EC1A 4AB

22 September 2016

THE AUDIT ENGAGEMENT

Audit Objectives and Scope

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

- Expressing an opinion on whether the financial expenses incurred by the project between 1 January and 31 December 2015 and the funds utilization as at 31 December 2015 are 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.
- Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP project as at 31 December 2015. This statement must include all assets available as at 31 December 2015 and not only those purchased in a given period. Where a DIM project does not have any assets or equipment, it will not be necessary to express such an opinion.
- 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 2015. In cases where the audited DIM project does not have a dedicated bank account for the project and the cash transactions are made through the country office bank accounts, this type of opinion is not required.

The Financial Audit was conducted in accordance with the International Standards of Auditing (ISA), the 700 series.

The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project between 1 January and 31 December 2015. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties", unless the inclusion of these expenses is specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP country office.

Independent Auditors' Report to UNDP – Construction of 100 Housing Units

Statement of Expenditure

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

We have audited the accompanying Combined Delivery Report (CDR) and Funds Utilization statement totalling \$4,197,331.43 (the statement) of the UNDP output ID 70416 'Construction of 100 Housing Units' for the period from 1 January to 31 December 2015.

Management's Responsibility for the Statement of Expenditure

Management is responsible for the preparation of the statement for the Construction of 100 Housing Units 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 International Standards on Auditing. 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 statement 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 audit opinion.

Unqualified Opinion

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization statement presents fairly, in all material respects, the expenses of \$4,197,331.43 incurred by the project 'Construction of 100 Housing Units' for the period 1 January to 31 December 2015 in accordance with UNDP accounting policies and were i) in conformity with the approved budget; (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.



Mark Henderson
Partner

Moore Stephens LLP
150 Aldersgate Street
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22 September 2016

Independent Auditors' Report to UNDP – Construction of 100 Housing Units

Statement of Assets and Equipment

We noted that the UNDP output ID 70416 'Construction of 100 Housing Units' had no assets or equipment and accordingly a Statement of Fixed Assets was not produced.

Independent Auditors' Report to UNDP – Construction of 100 Housing Units

Statement of Cash Position

We noted that the UNDP output ID 70416 'Construction of 100 Housing Units' did not have a dedicated bank account for DIM project activities subject to audit and accordingly a Statement of Cash Position was not produced.

MANAGEMENT LETTER

The findings related to the audit of the financial statements are discussed in our management letter below:

Finding n°: 1	Title: Commitments balance incorrectly stated
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Observation:

Under the International Public Sector Accounting Standards (IPSAS) adopted for the project financial reporting, for any purchase orders (PO) created in Atlas, a matching 'commitment' balance is systematically recorded in the funds utilization statement in the project combined delivery report (CDR).

Whenever a 'receipt' is issued in the system (upon receipt of goods or services), the PO and commitment balance should be adjusted accordingly. The adjustment to the commitment can be partial if the PO total amount is split in various receipts of goods / services and payments.

As part of the year-end procedures, the Office's procurement unit should review all POs still open in the system to ensure that the POs for which transactions have been completed (i.e. expensed and recorded in the CDR) are closed so that the commitments recorded in the funds utilization statement are correct.

We noted that at 31 December 2015, the project's funds utilization statement showed commitments totalling \$4,060,542. However, all the related transactions had already been completed and paid for during the year 2015, and were included in the 2015 CDR. Details of the relevant transactions are shown below:

PO ID	Commitment \$	Amount expensed in 2015 \$	Transaction ID on 2015 AAA report
14694	679,926	135,985 52,157 36,180 55,655 61,896 <u>338,052</u> 679,925	85415 86665 87175 87853 88513 89095
14695	699,000	139,800 71,077 62,913 94,298 <u>330,912</u> 699,000	87547 88571 89029 88572 89155
15134	383,799	76,760 52,480 <u>254,560</u> 383,800	87547 88571 89029
15248	713,381	142,676 44,028 <u>526,677</u> 713,381	88206 88509 89087
15311	816,590	816,590	89293
15213	714,358	714,358	89178
15429	53,488	53,488	89171
TOTAL	4,060,542	4,060,542	

The above transactions were incorrectly recorded as commitments at 31 December 2015 because

their respective POs were still open in the system. The review of the POs by the procurement unit, which should have been performed as part of the year-end procedures, was only done in February 2016.

Priority: Medium

Recommendation:

The review of all outstanding POs should be undertaken as part of the year-end procedures to ensure that the funds utilization statement at 31 December includes only commitment balances in relation to transactions that have not yet been completed and for which expenditure is expected to be incurred during the following financial year.

Management comments:

Procurement has further investigated the source of the issue raised, and found out that It is actually because user has set the receiving required mode to 'optional' or 'no receipt required" within the PO in the system. UNDP confirms agreement to audit recommendation in this connection, and willingness to setup needed actions as part of the year end procedure to ensure that a matching commitment balance is systematically recorded in the funds utilization statement in the project combined delivery report.



Mark Henderson
Partner

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22 September 2016

Annexes

Annex 1: Combined Delivery Report



Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2015)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00070416

Project Id : 00057098 Construction of 100 Housing Un		Period :	Jan-Dec (2015)	
Output # : 00070416 Construction of 100 Housing Un		Impl. Partner :	02388 UNDP - PAPP	
		Location :	Palestine	
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp

Dept: 70001 (PAPP - Central)

Fund : 04950 (PAPP Core Programme)

71205 - Intl Consultants-Sht Term-Tech	0.00	- 13,500.00	0.00	- 13,500.00
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Total for Fund 04950	0.00	- 13,500.00	0.00	- 13,500.00
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Fund : 30000 (PROGRAMME COST SHARING)

71305 - Local Consult.-Sht Term-Tech	0.00	3,248.71	0.00	3,248.71
71405 - Service Contracts-Individuals	0.00	300.00	0.00	300.00
71415 - Contribution to Security SC	0.00	1,820.00	0.00	1,820.00
71505 - UN Volunteers-Stipend & Allow	0.00	21,972.34	0.00	21,972.34
71520 - UNV-Language Allowance	0.00	1,258.07	0.00	1,258.07
71535 - UNV-Medical Insurance	0.00	2,327.81	0.00	2,327.81
71540 - UNV-Global Charges	0.00	909.29	0.00	909.29
71541 - UNVs-Contribution to security	0.00	1,428.22	0.00	1,428.22
71550 - UNV-Resettlement Allowance	0.00	1,831.05	0.00	1,831.05
71565 - UNV-Natl Appoint/Sep incl Trvl	0.00	124.84	0.00	124.84
71590 - UNV Development Effectiveness	0.00	3,019.35	0.00	3,019.35
72105 - Svc Co-Construction & Engineer	0.00	3,914,082.33	0.00	3,914,082.33
73410 - Maint, Oper of Transport Equip	0.00	79.00	0.00	79.00
74505 - Insurance	0.00	1,383.54	0.00	1,383.54
74525 - Sundry	0.00	3,270.17	0.00	3,270.17
75105 - Facilities & Admin - Implement	0.00	197,852.71	0.00	197,852.71
76135 - Realized Gain	0.00	- 0.10	0.00	- 0.10

Total for Fund 30000	0.00	4,154,907.33	0.00	4,154,907.33
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Fund : 40500 (TF PAPP Voluntary Contrib Actv)

71405 - Service Contracts-Individuals	0.00	44,665.01	0.00	44,665.01
71410 - MAIP Premium SC	0.00	155.17	0.00	155.17
71415 - Contribution to Security SC	0.00	2,521.14	0.00	2,521.14
72105 - Svc Co-Construction & Engineer	0.00	5,919.73	0.00	5,919.73
75105 - Facilities & Admin - Implement	0.00	2,663.05	0.00	2,663.05

Total for Fund 40500	0.00	55,924.10	0.00	55,924.10
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Total for Dept : 70001	0.00	4,197,331.43	0.00	4,197,331.43
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Total for Output : 00070416	0.00	4,197,331.43	0.00	4,197,331.43
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Ramzy Khader
project Manager

[Signature]
28/2/2016

Helwan EL-Khairy
Deputy Head of structure unit
[Signature]
22/2/2016

[Signature] MOORE STEPHENS

Mark Henderson
Partner
Moore Stephens LLP
22 September 2016

[Signature] A1 Hussein
Prog Specialist




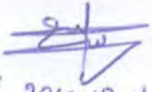
Combined Delivery Report By Project


UNDP UN Development Programme
Report ID: unglcdrp

Page 2 of 4
Run Time: 28-02-2016 14:02:32

Project Id : 00057098 Construction of 100 Housing Un		Period :		Jan-Dec (2015)	
Output # : 00070416 Construction of 100 Housing Un		Impl. Partner :		02388 UNDP - PAPP	
		Location :		Palestine	
		Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Project Total :		0.00	4,197,331.43	0.00	4,197,331.43

 MOORE STEPHENS
Mark Henderson
Partner
Moore Stephens LLP
22 September 2016

Ramzy Wnador 
project manager 28/2/2016

Hekmat El Khay 
28/2/2016

Signed By : Iman Al Hussein  Date : 28/2/2016

Signed By : _____ Date : _____



Combined Delivery Report By Project

UN Development Programme
Report ID: unglcdrp

Page 3 of 4
Run Time: 28-02-2016 14:02:34

Selection Criteria :


Business Unit : PAL10
Period : Jan-Dec (2015)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00070416

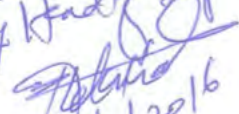
Project Id : ALL	Period : Jan-Dec (2015)
Output # : ALL	Impl. Partner : Location :

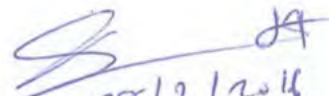
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	4,197,331.43	0.00	4,197,331.43

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Mark Henderson
Partner
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22 September 2016

Ramzy Khader
project Manager

28/2/2016

Habib El Khay
Deputy Head of Information Unit

28/2/2016

Jana Al Hussein
Prog Specialist

28/2/2016



Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2015)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00070416

Project/Award: 00057098 Construction of 100 Housing Un

Period : As at Dec 31, 2015

Output #	00070416	Impl. Partner :02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances			0.00
Undepreciated Fixed Assets			0.00
Inventory			0.00
Prepayments			0.00
Commitments			4,060,542.00

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Mark Henderson
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22 September 2016

Ramzy Khader
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Hekmat EL Khay
Deputy Head of Information Unit

28/2/2016

Iman Al Hussein
Proc Specialist

28/2/2016

Annex 2: Audit finding priority ratings

The following categories of priorities are used:

- | | |
|-------------------------------|---|
| High
(Critical) | Action is considered imperative to ensure that UNDP is not exposed to high risks. Failure to take action could result in major consequences and issues. |
| Medium
(Important) | Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences. |
| Low | Action is considered desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the Auditors directly with the Office management, during the exit meeting and through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the audit report. |