

UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations



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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:

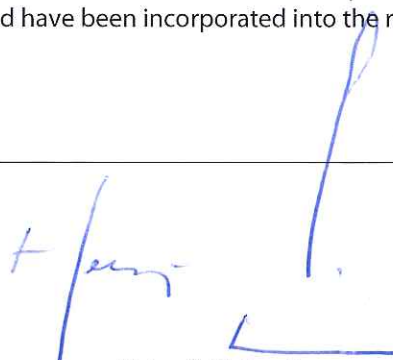
Incorrect recording of expenditures (Issue 1 for Output Nos. 46774, 86843, 60764 and 73017)	Expenditures totalling \$1.3 million were incorrectly recorded in 2014. <u>Recommendation:</u> The Office should record expenditures to the correct project outputs and within the same accounting period.
General 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
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