



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

KFW POVERTY ORIENTED INFRASTRUCTURE (V) – WEST BANK AND GAZA STRIP
(Directly Implemented Project No. 46774)

Report No. 1256

Issue Date: 21 February 2014

**Report on the audit of UNDP Programme of Assistance to the Palestinian People
KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip (Project No. 46774)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 1 October to 3 November 2013, through Talal Abu-Ghazaleh & Co. (the audit firm), conducted an audit of KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip, Project No. 46774 (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 Office was conducted by OAI in 2010.

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 Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2012.

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			Project Assets		
Amount (in \$ '000)	Opinion	NFI (in \$ '000)	Amount (in \$ '000)	Opinion	NFI (in \$ '000)
3,826	Qualified	474	N/A	N/A	N/A

NFI = Net Financial Impact

The audit firm qualified its opinion on project expenditures due to the following:

- An amount of \$392,549 included in the Combined Delivery Report related to other projects i.e., KfW Poverty Oriented Infrastructure Phase VII and KfW Poverty Oriented Infrastructure Phase VI.
- Expenditures were incorrectly classified in the Combined Delivery Report. For instance, infrastructure expenses totalling \$31,637 representing the final payment for the construction of additional school classrooms were classified as consultant expenses, and infrastructure expenses totalling \$67,115 representing payment for the construction of Edward Said National Conservation of Music were classified as maintenance expenses.
- The General Management Support fee was overcharged by \$81,763, leading to an overstatement of the amount reported in the Combined Delivery Report.
- Project funds were not maintained in a separate bank account as agreed upon with the donor; instead, they were maintained in a bank account shared for all funds from the donor.

Key recommendations: Total = 5, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are five medium (important) priority recommendations, 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." These recommendations include actions to address: unrelated expenditures in the Combined Delivery Report, absence of a dedicated project bank account, incorrect classification of the expenditures to the correct budget line items, lack of compliance with the project duration period, and incorrect calculation of General Management Support fees.

Management comments and action plan

The Special Representative accepted all five 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. Ostveiten
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 “United Nation Development Programme UNDP” - Palestine (West Bank & Gaza) for the Year Ended 31 December 2012.

PROJECT TITLE AND ID

Title: “KfW Poverty Oriented Infrastructure (V)”

IDs: (Atlas Award ID: 41098 project ID: 46774)

FUNDED BY

German Development Bank

Talal Abu-Ghazaleh & Co.
Certified Public Accountants



Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

KfW Poverty Oriented Infrastructure (V)

Implemented By

“United Nation Development Programme UNDP”

Palestine (West Bank & Gaza)

Funded by German Development Bank

TABLE OF CONTENTS

1. PART I - EXECUTIVE SUMMARY	3
1.1. Background Information about Project.....	3
1.2. Project Identification information.....	3
1.3. Audit Objectives	4
1.4. Summary of the work done and audit results:	7
1.1.1. Work Done:	7
1.1.2. Results of Audit:.....	8
2. PART II - AUDITOR’S REPORT WITH OPINION.....	9
2.1. Auditor’s Report – Year Ended 2012	9
2.2. 2012 CDR Project No. 46774.....	11
3. PART III - MANAGEMENT LETTER	14
3.1. Audit Issues and Recommendations.....	15
3.1.1. Un-related expenditures in the current CDR	15
3.1.2. Absence of a dedicated bank account:.....	18
3.1.3. Incorrect classification of the expenditures to the correct budget line items: .	19
3.1.4. Lack compliance with the project duration period:	20
3.1.5. Incorrect calculation of General Management Support (GMS) or (<i>Facilities & Admin- Implement</i> as it appears in CDR).....	22

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

Dear Mr. Helge Osttveiten,

This report represents the results of our financial audit of the locally incurred costs in the "Combined Delivery Report (CDR)" of the Project ID: 46774 titled "KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip", for the Year ended 31 December 2012.

This Financial audit was mandated in accordance with the Audit contract for professional service with UNDP/OAI Ref. 2013/04 dated 20 September 2013.

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)



Executive Director

Talal Abu- Ghazaleh & Co.

Ramallah - Palestine, 3 November 2013



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Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

1. PART I – EXECUTIVE SUMMARY

The Executive Summary summarizes the important issues raised in the financial audit of the above mentioned award.

1.1. Background Information about 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 to 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.

The total budget of the grant is USD 3,887,966. The financial audit covered the amount of USD 3,825,955 of total expenditures incurred locally during the period from 1 January to 31 December 2012.

The project duration is 24 months starting 1 July 2008 and the Project geographical location allocated in different areas in West Bank & Gaza Strip including East Jerusalem, some projects under phase (V) still ongoing till the date of this report for the 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) Some projects were in Area C, for example Twana in EGP VI that took a long time to get a permit and to implement the works which is only now about to start. 3) Due to the political situation in Gaza, all projects were suspended due to the fact UNDP was unable to bring in materials to the Gaza Strip. In order to re-start UNDP needed COGAT (Israeli Government) approval. Five projects in Gaza for EGP V are still pending COGAT approval.

1.2. Project Identification information

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

Table 1:

Project Name	Project Number	Atlas Award ID	2012 Budget (in USD)	2012 Actual Expenditure Per CDR (in USD)
KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip	46774	41098	3,887,966	3,825,955

1.3. Audit Objectives

The objective of the financial audit is to express an opinion on a project’s financial statements which include:

- 1) Expressing an opinion on whether the expenses incurred by the project during year ended 2012 and the funds utilization as at 31 December 2012 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. The Combined Delivery Report (CDR) is the mandatory and official statements upon which the audit opinion should 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 2012. This statement must include all assets available as at 31 December 2012 and not only those purchased in the period under audit. Where a DIM project does not have any assets or equipment, it will not be necessary to express such an opinion.

Given that no fixed assets were purchased/ acquired under “KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip”, therefore no statement of fixed assets was prepared

- 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 a given date. Disbursements made against a DIM project are usually financed from the regular country office bank accounts. Exceptionally, a dedicated bank account may be opened and used solely for the cash transactions of a DIM project, e.g. if the project is in a remote location. The audit firm is required to express an opinion on the Statement of Cash only where dedicated banks account for the DIM project has been established. In cases where the cash transactions of the audited DIM project are made through the country office bank accounts, this type of opinion is not required.

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

Scope of Audit:

We performed our audit in accordance with the International Standards of Auditing (ISA) and in compliance with the UNDP rules and regulations. We also reviewed the internal controls and compliance with procurement guidelines issued by UNDP and submitted the necessary recommendations to management.

The scope of the audit includes various audit steps that have been performed on a sample basis, obtaining adequate and sufficient coverage based on the audit objectives and comfort required.

This audit covers the local direct and indirect costs incurred in West Bank and Gaza including Jerusalem for the total amount of USD 3,825,955. This report does not cover amounts disbursed during other periods and does not include any amounts received or disbursed under any other agreements with UNDP.

The following are the main steps performed and followed as the basis for preparing the audit programs. They are not considered all-inclusive or restrictive in nature and do not constitute relief from exercising due professional care and judgment. The steps were modified to correspond with local conditions and specific project design, implementation procedures, and contract provisions which may vary from project to project.

- 1- Performing pre-audit steps which include reviewing project documents, UNDP’s internal manual procedures and UNDP policies;
- 2- Evaluating the program implementation actions and accomplishments,
- 3- Obtaining a sufficient understanding of the internal control structure related to the agreement’s different activities, internal environment, assessing the control risks, monitoring controls, control over compliance, and information and communication,
- 4- Identifying areas where fraud and illegal acts have occurred or likely to have occurred as a result of inadequate controls.
- 5- Examining the Combined Delivery Report (CDR) and related notes, this includes testing expenditures, bank account and related budgets,
- 6- Performing tests of compliance with agreement’s terms and applicable laws and regulations related to UNDP programs.

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project over a given period. The scope of the audit does 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 Centers and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP country office.

The audit Covered:

- All activities of the project 46774 – PAL / Poverty Oriented Infrastructure during the period from 1 January to 31 December 2012; and
- Include a review of project reports and records located at the UNDP Programme of Assistance to the Palestinian People (PAPP) office, and, as applicable, field offices of the project/programme and other field locations.

Specifically, the audit covered the following:

- a) The expenses incurred and recorded in the Combined Delivery Reports (CDR) of the project 46774 during the period from 1 January to 31 December 2012, as reported by the PAPP Office;
- b) If applicable, the value and existence of the fixed assets held by the project 46774 as at 31 December 2012; and
- c) If applicable, the value and existence of cash held by the project 46774 as at 31 December 2012, either as cash at hand or in the bank account (Statement of Cash is required only if there is separate bank account for the DIM project under review).

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

1.4. Summary of the work done and audit results:

1.1.1. Work Done:

This summary represents the results of our financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) West Bank and Gaza Strip”, for the year ended 31 December 2012.

The total costs incurred by United Nation Development Programme (UNDP) in Palestine on the above mentioned project is USD 3,825,955 of which we approximately covered **85.4** percent in substantive test of details. As shown in the following table:

Table 2:

Project Location	No. of Samples	Total expenditures (in USD)	Total expenditures Tested	Percentage
Gaza	36	2,237,395	2,237,395	100%
Ramallah & Jerusalem	31	1,588,560	1,032,531	65%
Total	67	3,825,955	3,269,926	85.4%

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

1.1.2. Results of Audit:

- **The Combined Delivery Report (CDR)**

The results of our tests disclosed total financial errors of USD 573,064. Details of these errors are described in Part III of this report.

Table 3

Project Location	No. of Samples	Total expenditures (in USD)	Total Financial Error	Percentage
Total	67	3,825,955	573,064	14.97%

Except for the effect of financial errors mentioned above, the “Combined Delivery Report” fairly presents, in all material respects, program incurred costs and commodities procured in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note (1) to “Combined Delivery Report”.

- **The Statement of Fixed Assets**

Given that no fixed assets were purchased/ acquired under “KfW Poverty Oriented Infrastructure (V) – West Bank and Gaza Strip”, therefore no statement of fixed assets was prepared

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

Contrary to the general conditions of the agreement signed between the UNDP/PAPP and KfW (Annex 4, attachment B) the project’s funds were not maintained in a separate bank account, instead they were maintained in a bank account together with funds from another KfW Projects. Accordingly, we could not confirm the Project’s bank balance as of 31 December 2012 and interest revenue received during the project period, and we were unable to perform alternative satisfactory audit procedures.

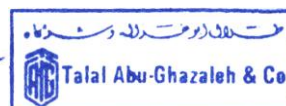
Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director

Talal Abu - Ghazaleh & Co.

Ramallah - Palestine, 3 November 2013



2. PART II - AUDITOR'S REPORT WITH OPINION

2.1. Auditor's Report - Year Ended 2012

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

To Mr. Helge Osttveiten
Director
Office of Audit and Investigation (OAI)

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 "Atlas Award ID: 41098", "KfW Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip), for the period from 1 January to 31 December 2012.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the statement for "KfW Poverty Oriented Infrastructure (V) in 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. 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 audit opinion.



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Green Tower Bld., Al-Shaheed Nazeq Qurah Street P.O. Box: 1110 Ramallah, The West Bank

بناية البرج الاخضر، شارع الشهيد نزيه قوره، ص ب: ١١١٠ رام الله، الضفة الغربية

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

Basis for a Modified Opinion:

- An amount of USD 392,549 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 revised to other projects i.e. KfW Poverty Oriented Infrastructure phase VII and KfW Poverty Oriented Infrastructure phase VI. For more details refer to the management letter Part III of this report.
- Project funds are not maintained in a separate bank account; instead, they were maintained in a bank account together with funds from other donors which prevent the management from monitoring and controlling the project funds (For more details refer to the management letter Part III of this report).
- Expenditures were incorrectly classified in the Combined Delivery Report (CDR), for instance Infrastructure expenses with total amount of USD 31,637 representing the final payment for construction of additional school-classrooms were classified as consultant expense, moreover, Infrastructure expenses with total amount of USD 67,115 representing the fifth payment for construction of Edward Said National Conservation of music were classified as maintenance expense. For more details refer to the management letter Part III of this report).
- Incorrect calculation of Administration costs and non-compliance with terms of agreement with KfW, the management was charged an amount of USD 269,237 as “Facilities & Admin- Implement”. While the correct amount is USD 187,474 with difference USD 81,763.

Modified Opinion

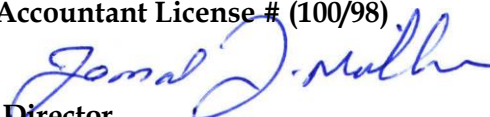
In our opinion, the attached Combined Delivery Report (CDR), except for the reasons indicated in “basis for a modified opinion” paragraphs mentioned above, presents fairly in all material respects the expenditure of USD 3,825,955 incurred by the project Atlas Award ID: 41098, “KfW Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip)” for the period 1 January to 31 December 2012 in accordance with UNDP accounting policies and basis of the accounting used in note (1) to Combined Delivery Report.

Emphasis of Matter

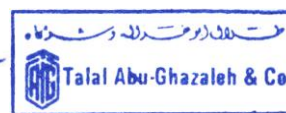
We draw attention to Note (2) (B) to the Combined Delivery Report (CDR) which describes the uncertainty related to the project duration. Our opinion is not qualified in respect of this matter.

Jamal Milhem, CPA

Certified Accountant License # (100/98)



Executive Director



Talal Abu- Ghazaleh & Co.

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW - German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

Ramallah - Palestine, 3 November 2013

2.2. 2012 CDR Project No. 46774



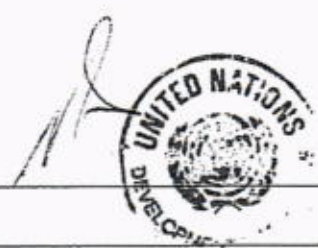
Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00046774

Project Id : 00041098 PAL/ KFW -V	Period :	Jan-Dec (2012)
Output # : 00046774 KFW EGP Phase V	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)				
74525 - Sundry	0.00	5,766.17	0.00	5,766.17
Total for Fund 04950	0.00	5,766.17	0.00	5,766.17
Fund : 40500 (TF PAPP Voluntary Contrib Actv)				
63515 - Security-related Costs	0.00	18,720.00	0.00	18,720.00
71205 - Intl Consultants-Sht Term-Tech	0.00	80,982.60	0.00	80,982.60
71405 - Service Contracts-Individuals	0.00	135,373.79	0.00	135,373.79
71410 - MAIP Premium SC	0.00	109.92	0.00	109.92
71415 - Contribution to Security SC	0.00	0.00	0.00	0.00
72105 - Svc Co-Construction & Engineer	0.00	2,942,624.14	0.00	2,942,624.14
72401 - Prefab structure/other buildin	0.00	301,750.60	0.00	301,750.60
72402 - Building Maintenance	0.00	71,566.64	0.00	71,566.64
72405 - Acquisition of Communic Equip	0.00	-218.34	0.00	-218.34
73104 - Leased Building	0.00	58.19	0.00	58.19
73105 - Rent	0.00	-58.19	0.00	-58.19
74110 - Audit Fees	0.00	3,466.65	0.00	3,466.65
74510 - Bank Charges	0.00	165.57	0.00	165.57
74525 - Sundry	0.00	526.62	0.00	526.62
75105 - Facilities & Admin - Implement	0.00	269,237.00	0.00	269,237.00
76125 - Realized Loss	0.00	2,918.46	0.00	2,918.46
76135 - Realized Gain	0.00	-7,034.21	0.00	-7,034.21
Total for Fund 40500	0.00	3,820,189.44	0.00	3,820,189.44
Total for Dept : 70001	0.00	3,825,955.61	0.00	3,825,955.61
Total for Output : 00046774	0.00	3,825,955.61	0.00	3,825,955.61
Project Total :	0.00	3,825,955.61	0.00	3,825,955.61

Signed By : _____



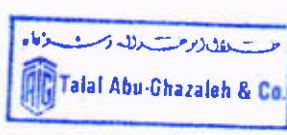
Date : _____

28/10/2013

Signed By : _____

Date : _____

Talal Abu-Ghazaleh



[Signature]



Combined Delivery Report By Project

UN Development Programme
Report ID: unglcdp

Page 2 of 4
Run Time: 24-10-2013 12:10:19

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00046774

Project id : ALL Output # : ALL	Period : Jan-Dec (2012)			Total Exp
	Govt Exp	UNDP Exp	UN Agencies Exp	
70001 - PAPP - Central	0.00	3,825,955.61	0.00	3,825,955.61



Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00046774

Project/Award: 00041098 PAL/ KFW -V

Period : As at Dec 31, 2012

Output #	00046774	Impl. Partner :02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances			0.00
Undepreciated Fixed Assets			0.00
Inventory			0.00
Prepayments			0.00
Commitments			0.00



Schedule to Combined Delivery Report
IPSAS Adjustments as at 1 January 2012

Selection Criteria :

Business Unit : PAL10
Selected Project(s): 00041098
Selected Fund Code : ALL
Selected Output(s): 00046774

Project Id : ALL					
Output # :					
Impl. Partner :	NONE				
Description	Account	Fund	Donor	Amount	

No Data found for the Selection Criteria

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

**PROJECT ID: 46774 TITLED “KfW POVERTY ORIENTED INFRASTRUCTURE (V)
WEST BANK AND GAZA STRIP”, FOR THE YEAR ENDED 2012**

NOTE TO THE COMBINED DELIVERY REPORT (CDR)

Note (1) Basis of Accounting:

The Combined Delivery Report (CDR) was prepared on the Cash Basis of accounting. According to this basis, expenditures are recognized when paid rather than when incurred.

Note (2): General

A. Budget:

The following the budget until 31 December 2012:

	Last approved Budget	Last approved Budget
Item	(Euro Mio)	(USD Mio)
Construction Measure	18.18	27.08
Services	0.5	.75
Capacity Building	0.5	.75
Local Taxes and Fees, Land Acquisition	3	4.47
Administration Costs (UNDP/PAPP)	1.67	2.49
Total Investment/Project Cost	23.85	35.54

The budget includes an amount of 3 million EURO (Equivalent to USD 4.47) as a cost sharing from the implementation institutions i.e. municipalities, NGOs, and other institutions, the project budget is distributed over the life of the project. Accordingly, no budget column was added specifically for 2012 to the above table, since no breakdown of the budget by period under audit is available.

B. Project Duration:

The project duration is 24 months started 1 July 2008. The Project geographical location is in different areas in West Bank & Gaza Strip including East Jerusalem. Some projects under phase (V) still ongoing until the date of this report for the 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) Some projects were in Area C, for example Twana in EGP VI that took a long time to get a permit and to implement the works which is only now about to start. 3) 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 COGAT (Israeli Government) approval. Five projects in Gaza for EGP V are still pending COGAT approval.

CERTIFICATION FOR STATEMENT OF CASH POSITION

To Mr. Helge Osttveiten
Director
Office of Audit and Investigation (OAI)

The Statement of Cash Position for the Project "Atlas Award ID: 41098", "KfW Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip), for the period from 1 January to 31 December 2012" is not applicable due to not establishing a separate bank account for the project's purposes. Accordingly, the statement of cash position of the project as at 31 December 2012 is not prepared by the project management and no expression of opinion on the statement of cash position is stated.

Contrary to the general conditions of the agreement signed between the UNDP/PAPP and KfW (Annex 4, attachment B) the project's funds were not maintained in a separate bank account, instead they were maintained in a bank account together with funds from another KfW Projects. Accordingly, we could not confirm the Project's bank balance as of 31 December 2012 and interest revenue received during the project period, and we were unable to perform alternative satisfactory audit procedures.

Talal Abu - Ghazaleh & Co.

Jamal Milhem, CPA



Executive Director

Ramallah - Palestine, 3 November 2013



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3. PART III - MANAGEMENT LETTER

3 November 2013

To: Director

Office of Audit and Investigation (OAI)

United Nation Development Programme (UNDP)

Subject: Letter to Management on auditing Combined Delivery Report (CDR) ("the Statement") of the UNDP Project "Atlas Award ID: 41098".

We have performed an audit of the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Award ID: 41098", "Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip), for the period from 1 January to 31 December 2012 in accordance with International Standards of Auditing (ISA) and in compliance with the UNDP rules and regulations.

In planning and performing our audit of the project, we considered Poverty Oriented Infrastructure (V)'s (the Project) 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 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.

Finally, we would like to express our appreciation for the courtesy extended to us by the responsible personnel in UNDP Palestine office management.

Truly yours

Talal Abu - Ghazaleh & Co.

Jamal Milhem, CPA



Executive Director

Certified Accountant License # (100/98)



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Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

3.1. Audit Issues and Recommendations

3.1.1. Un-related expenditures in the current CDR

Observation

Criteria:

The projects funds could not be used to cover other projects’ expenditures without prior written approval from the donor, and each project transactions file should include only the project related expenditures.

Notice Background:

During the audit, we noted an amount of USD 392,549 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 other projects i.e. Project VII and Project VI.

The management have used these funds to cover other projects’ expenditures and recorded the amounts in unrelated projects’ accounts, which may overstate/understate the expenditures in the other projects’.

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

Project ID	Output	USD Amount	Period/Month	Voucher	Correction
00041098	00046774	29,941	2012-06	00061858	Should be allocated to Project VII
00041098	00046774	22,418	2012-12	00065631	Should be allocated to Project VII
00041098	00046774	26,578	2012-12	00065636	Should be allocated to Project VII
00041098	00046774	27,188	2012-12	00065639	Should be allocated to Project VI
00041098	00046774	26,860	2012-12	00065640	Should be allocated to Project VII
00041098	00046774	54,009	2012-12	00065643	Should be allocated to Project VII
00041098	00046774	46,198	2012-12	00065644	Should be allocated to Project VII
00041098	00046774	2,592	2012-12	00065647	Should be allocated to Project VII

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Funded by: KfW - German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

00041098	00046774	2,600	2012-12	00065648	Should be allocated to Project VI
00041098	00046774	26,129	2012-12	00065649	Should be allocated to Project VII
00041098	00046774	19,558	2012-12	00065650	Should be allocated to Project VII
00041098	00046774	76,841	2012-12	00065651	Should be allocated to Project VII
00041098	00046774	31,637	2012-12	00065652	Should be allocated to Project VII
Total		392,549			

Priority

Medium (Important).

Recommendation

The office should reallocate and revise the above-mentioned amounts to the correct Projects' accounts; also, the Office should consult and obtain donor's prior written approval for any changes in the use of the Projects' funds.

Management acceptance:

Yes No

Management comments and action plan:

We have already reversed all the charges against the correct projects. While we don't have written approval from the donor, they are aware of this practice of temporarily charging against other phases that have funds available until replenishments from the donor are received. While we do not like this practice for it creates additional work, this is done to prevent claims by contractors. It should be mentioned that the risk is low for the funds in the bank account are specifically utilized for the various phases of the EGP Project which are funded only by one donor, the German Government, though KfW.

Auditor's response:

The Current CDR must reflect the amount of expenditures incurred locally for the period under audit, although you did the reversing entries, the effects of these adjustments will not be reflected in the current CDR. We still recommend to consider our findings and to implement our recommendation, reason being that this will contribute to better control of the project expenditures. UNDP rule is that the expenditures incurred shall be:

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW - German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

(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.

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

3.1.2. Absence of a dedicated bank account:

Observation

Criteria:

The management should comply with terms of contracts with donor.

Notice Background:

Contrary to the general conditions of the agreement signed between the UNDP/PAPP and KfW (Annex 4, attachment B) the project’s funds were not maintained in a separate bank account, instead they were maintained in a bank account together with funds from another KfW Projects. Accordingly, we could not confirm the Project’s bank balance as at 31 December 2012 and interest revenue received during the project period, and we were unable to perform alternative satisfactory audit procedures.

The annex 4, attachment B mentioned “*the authorized party will arrange for a special account to be opened with renowned bank (bank in charge of the account), which will be kept in its own name or in the name of a third party authorized by the authorized Party and, specifically, to handle a) expenditures in foreign exchange....etc. b) expenditures in local currency... etc.*”.

The absence of dedicated bank account is a violation of terms of contract.

Priority

Medium (Important).

Recommendation

UNDP should consider complying with provisions of separate agreement and open a bank account to be used exclusively for the payment of the transactions related to this project.

Management acceptance:

Yes No

Management comments and action plan:

This issue has been raised in the past audit reports. The Donor is aware of this and has no objection. We have this in writing where it is stated by the donor, “We are aware that funds for phases III, V, VI, VII are transferred to one single dedicated EUR bank account.” All project funds in the one account are from the same donor, the Government of Germany through KfW. It should be noted, that at the time the project was initiated in 2002, we were given authorization by UNDP Headquarters to only open one bank account for the project for all the phases.

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW – German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

3.1.3. Incorrect classification of the expenditures to the correct budget line items:

Observation:

Criteria:

The management should comply with terms of contract and related budget and allocate the funds to the appropriate budget line items.

Notice Background:

Expenditures were incorrectly classified in the Combined Delivery Report (CDR). For instance:

- Infrastructure expenses with the total amount of USD 31,637 representing the final payment for construction of additional school classrooms was classified as consultant expense (refer to voucher no. 65652).
- Infrastructure expenses with the total amount of USD 67,115 representing the fifth payment for construction of Edward Said National Conservation of music were classified as maintenance expense (refer to voucher no. 62664).

The lack of double check before entering and posting the transactions to the system leads to this problem.

Priority:

Medium (Important).

Recommendation:

The Office should reclassify amounts to the correct budget line items and maintain double check before entering and posting the transactions to the system.

Management acceptance:

Yes No

Management comments and action plan:

We enter our payments against activities and corresponding budget lines. On occasion, payments accidentally have been charged to an incorrect line item within the same activity. Also, due to the fact that there may be different individuals entering data related to various types of charges, i.e. Procurement, HR, Finance, etc; they may charge a line item under the activity which they personally believe is more appropriate. We will be encouraging staff to utilize the designated budget lines for all future payments as much as possible. This does not have budgetary implications on the activity or project.

Auditor’s response:

We still recommend the management revising these payments to the correct account numbers.

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW - German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

3.1.4. Lack compliance with the project duration period:

Observation

Criteria:

The management should comply with terms of contract and related amendments, and should report to the donor for any possible delay in progress of implementation.

Notice Background:

There are 12 projects still ongoing (One in the West bank and 11 projects in Gaza), without any written extension from the donor which breaches the time schedule mentioned in the contract. The contract indicates that the underlying time schedule for the preparation, implementation and operation of the project is 24 months; this may lead to cause problems and misunderstanding with the donors.

The above projects executed under main separate agreement titled “*KfW Poverty Oriented Infrastructure (V)*” and the duration of these projects is 24 months starting 1 July 2008, but the above projects are a still ongoing as set forth above.

Priority

Medium (Important)

Recommendation

The Office should obtain prior written extension from the donor.

Management acceptance:

Yes No

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

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Management comments and action plan:

Donor is aware that projects remain ongoing and are beyond the Separate Agreement indicated duration. This was beyond our control. For example, twelve projects in Gaza were delayed in implementation because the Israeli government suspended the entry of construction materials into Gaza since 2008. Only in early 2011 did the Israelis start giving clearance on a project by project basis for the entry of construction materials. Thus, we have to wait until we get a no objection to restart works from COGAT. Also, in the case of the West Bank, the JWWTP project has been delayed due to the fact that UNDP and the Donor made implementation conditional on the Jenin Municipality being able to cover some costs and take steps to ensure the facility is running appropriately. It should be mentioned that five projects remain pending approval by COGAT as of this report. In all cases, the donor and UNDP will be amending the agreement to extend the contract duration.

Auditor’s response:

We still recommend the management to obtain a prior written extension to the main separate agreement, especially that projects are still ongoing and written extension can be obtained.

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW - German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

3.1.5. Incorrect calculation of General Management Support (GMS) or (*Facilities & Admin- Implement as it appears in CDR*)

Observation

Criteria:

According to general conditions of the agreement signed between the UNDP/PAPP and KfW (Article 4 point B page 10 on the separate grant agreement), UNDP/PAPP must charge an amount 8% on the program activities. This remunerations will be consider a management fee and will paid on programme activities exclusively, not on vehicles, sundries or any other budget line.

In addition, a management fee 4% will be paid for the works related to management of Waste Water Treatment Plant rehabilitation in Jenin and the Rehabilitation of the Wastewater treatment Plant in Gaza.

Notice Background:

During the audit, we noted incorrect calculation of Administration costs and non-compliance with terms of agreement with KfW, and the management was charged an amount of USD 269,237 as “*Facilities & Admin- Implement*”. Moreover we still not receive a separate external working paper of calculation the GMS amount and the base of calculation. The correct calculation is USD 187,474 as follows:

The correct calculation:

Base	Rate	Amount From (CDR) USD	Remuneration USD
Programme activities exclusively, not on vehicles, sundries or any other budget line	8%	2,221,408	177,713
Works related to management of Waste Water Treatment Plant rehabilitation in Jenin and the Rehabilitation of the Waste water treatment Plant in Gaza	4%	244,040	9,762
Total amount should be reported based on the current information			187,475
Total amount reported			269,237
Difference (Overstatement of the total expenditure amounts reported in the CDR)			81,762

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 46774 titled “KfW Poverty Oriented Infrastructure (V) - West Bank and Gaza Strip” for the year ended 2012

Funded by: KfW - German Development Bank

Implemented by: United Nation Development Programme (UNDP) in Palestine.

Priority

Medium (Important)

Recommendation

The Office should comply with terms of grant agreement and related amendment and recalculate the GMS amounts based on the rates used in the separate agreement.

Also the Office should refund the amount to project account.

Management acceptance:

Yes No

Management comments and action plan:

Starting in 2012 UNDP stated utilizing the IPSAS thus our GMS was calculated differently than previous year. As such, in 2012 we started using the GMS calculation as “earn as you go” and because we utilize different GMS percentages for this project, UNDP Atlas support advised us to input manually the various GMS. Because of this, the GMS is being read at the award level and not activity level which is at the level where the different GMS calculations are. The difference in GMS will be adjusted through a general ledger voucher and will be modified in the 2013 financial year because 2012 books have been closed. This is a technical issue related to the new system in place which we are now adjusting to. For this project, some activities have 8% GMS, some have 4% GMS, and some have zero percent GMS.

Auditor’s response:

We still recommend to consider our findings and to implement our recommendation, reason being that this will contribute to better control of the project expenditures.