



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

KFW POVERTY ORIENTED INFRASTRUCTURE (VII) - WEST BANK AND GAZA STRIP
(Directly Implemented Project No. 73017)

Report No. 1270

Issue Date: 21 February 2014

**Report on the audit of UNDP Programme of Assistance to the Palestinian People
KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip (Project No. 73017)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 1 October to 5 November 2013, through Talal Abu – Ghazaleh & Co. (the audit firm), conducted an audit of KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip, Project No. 73017 (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 through Deloitte & Touche M.E/ Saba & Co. in 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 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			Cash		
Amount (in \$ '000)	Opinion	NFI (in \$ '000)	Amount (in \$ '000)	Opinion	NFI (in \$ '000)	Amount (in \$ '000)	Opinion	NFI (in \$ '000)
3,345	qualified	367	N/A	N/A	N/A	N/A	N/A	N/A

NFI = Net Financial Impact

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

- An amount of \$362,761 was not reported in the Combined Delivery Report, and was instead reported in another project account, leading to understatement of the expenditures in the Combined Delivery Report.
- A difference of \$4,208 between the amounts reported in the Combined Delivery Report and the amounts reported in the transaction file due to a systematic error.

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: the absence of dedicated project bank account, incorrect classification of expenditures to the correct budget line items, unrecorded expenditures, variances in the approved budget, and output errors in the financial management system.

Implementation status of previous audit recommendations: Report No. 1055, 17 July 2012.

Total recommendations: 3

Implementation status: 100%

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.

A handwritten signature in blue ink, which appears to read 'Helge S. Ostveiten', is positioned above the printed name. A long, curved blue line extends from the end of the signature, looping upwards and to the right.

Helge S. Ostveiten
Director
Office of Audit and Investigations

Auditor's Report

Financial audit of “KfW Poverty Oriented Infrastructure (VII)- 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 (VII)”

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

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: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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 (VII)

Implemented By

“United Nation Development Programme UNDP”

Palestine (West Bank & Gaza)

Funded by German Development Bank

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To: Director

Office of Audit and Investigation (OAI)

United Nation Development Programme (UNDP)

Dear Mr. Helge Osttveiten,

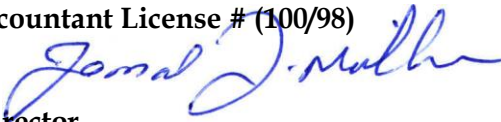
This report represents the results of our financial audit of the locally incurred costs in the "Combined Delivery Report (CDR)" of the Project ID: 73017 entitled "KfW Poverty Oriented Infrastructure (VII) – West Bank and Gaza Strip", for the Year ended 31 December 2012.

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, 5 November 2013



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مكتب رام الله: هاتف: ٢٢٩ ٨٨ ٢٢٠ / ١ ، فاكس: ٢٢٩ ٨٨ ٢١٩ (+٩٧٠)

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

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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 goal of the programme is to construct priority small-scale infrastructure in poverty stricken Palestinian communities through the utilization of labor-intensive means. The objectives are 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, 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 3,854,506. The financial audit covered the amount of USD 3,345,092 of total expenditures incurred locally during the period from 1 January to 31 December 2012. The project duration is three years from the start of Infrastructure Works.

Projects are tendered by the various counterparts (Local Authorities, CSO's, Camp Committees, etc) under the direct supervision of the KfW team. An advertisement is placed in the local newspapers by the counterpart requesting bids. A joint bid opening with UNDP, the beneficiary counterpart, and Line Ministry presence if so required, takes place open to those submitting bids. An evaluation is then conducted and UNDP issues a no-objection to the counterpart to award the contract. The counterpart signs the contract with the counterpart. UNDP's KfW Project Assistant raises a Purchase order when required. A request for direct payment is submitted by the counterpart for each payment request.

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 (USD)	2012 Actual Expenditure Per CDR (USD)
KfW Poverty Oriented Infrastructure (VI) – West Bank and Gaza Strip	73017	41098	3,854,506	3,345,092

1.3. Audit Objectives and Scope

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 (VII) Project – 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.

Audit Scope:

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 3,345,092 for the period from 1 January to 31 December 2012. 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: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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 73017 – 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 73017 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 73017 as at 31 December 2012; and
- c) If applicable, the value and existence of cash held by the project 73017 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: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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:

1.4.1. 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: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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 3,345,092 of which we approximately covered 65 Percent in substantive test of details. As shown in the following table:

Table 2:

By Vendor location	No. of Samples	Total Expenditures Tested USD
Nablus (WB)	10	359,448
Jinen (WB)	4	115,038
Hebron (WB)	14	609,988
Ramallah (WB)	10	440,698
Salfeet (WB)	2	109,295
Jericho (WB)	1	52,222
Jerusalem	3	15,814
Gaza	36	460,461
Total Tested	80	2,162,964
Percentage Tested		65%

1.4.2. Results of Audit:

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

The results of our tests disclosed total financial errors of USD 366,969. Details of these errors are described in Part III of this report.

Table 3

Project Location	No. of Samples	Total expenditures (USD)	Total Financial Error	Percentage
Total	80	3,345,092	366,969	11%

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 (VII) – West Bank and Gaza Strip", therefore no statement of fixed assets was prepared.

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

The project's funds were not maintained in a separate bank account; instead they were maintained in a bank account together with funds from other 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, 5 November 2013



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report

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

To 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 (VII) 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 (VII) 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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Financial audit of the locally incurred costs in the "Combined Delivery Report (CDR)" of the Project ID: 73017 entitled "KfW Poverty Oriented Infrastructure (VII) - 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 362,761 were not reported in the current Combined Delivery Report (CDR) and reported in other project account i.e. "KfW Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip)". This leads to understatement of the expenditures in the current CDR.

Difference between the amounts reported in the CDR and amount reported in transaction file out of a systematic error is amounted to USD 4,208.

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 3,345,092 incurred by the project Atlas Award ID: 41098, "KfW Poverty Oriented Infrastructure (VII) 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.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director

Talal Abu - Ghazaleh & Co.

Ramallah - Palestine, 5 November 2013



Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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.

2.2. 2012 CDR Project No. 73017



Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00073017

Project Id : 00041098 PAL/ KFW -V	Period :	Jan-Dec (2012)
Output # : 00073017 KFW EPG - Phase VII	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)

71305 - Local Consult.-Sht Term-Tech	0.00	36.39	0.00	36.39
71405 - Service Contracts-Individuals	0.00	17,421.27	0.00	17,421.27
71605 - Travel Tickets-International	0.00	1,334.08	0.00	1,334.08
71815 - Daily Subsistence Allow-Intl	0.00	1,323.97	0.00	1,323.97
71820 - Daily Subsistence Allow-Local	0.00	4,822.50	0.00	4,822.50
72105 - Svc Co-Construction & Engineer	0.00	946.14	0.00	946.14
72220 - Furniture	0.00	72.78	0.00	72.78
72435 - E-mail-Subscription	0.00	7,800.00	0.00	7,800.00
72815 - Inform Technology Supplies	0.00	199.44	0.00	199.44
73216 - Construction Cost	0.00	409.75	0.00	409.75
74525 - Sundry	0.00	15,619.23	0.00	15,619.23
75705 - Learning costs	0.00	1,400.00	0.00	1,400.00
76125 - Realized Loss	0.00	3.56	0.00	3.56
76135 - Realized Gain	0.00	- 39.60	0.00	- 39.60
77630 - Dep Exp Owned - ITC	0.00	285.16	0.00	285.16

Total for Fund 04950	0.00	51,634.67	0.00	51,634.67
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Fund : 40500 (TF PAPP Voluntary Contrib Actv)

71405 - Service Contracts-Individuals	0.00	0.00	0.00	0.00
71605 - Travel Tickets-International	0.00	- 178.01	0.00	- 178.01
71815 - Daily Subsistence Allow-Intl	0.00	68.84	0.00	68.84
71820 - Daily Subsistence Allow-Local	0.00	109.17	0.00	109.17
72105 - Svc Co-Construction & Engineer	38,961.04	2,594,726.95	0.00	2,633,687.99
72150 - Svc Co-Manufacturing Services	0.00	31,263.67	0.00	31,263.67
72205 - Office Machinery	0.00	- 152.76	0.00	- 152.76
72220 - Furniture	0.00	152.76	0.00	152.76
72401 - Prefab structure/other buildin	0.00	25,512.21	0.00	25,512.21
72402 - Building Maintenance	0.00	353,534.35	0.00	353,534.35
72405 - Acquisition of Communic Equip	0.00	- 509.46	0.00	- 509.46
72605 - Grants to Instit & other Benef	0.00	0.00	0.00	0.00
73105 - Rent	0.00	- 36.39	0.00	- 36.39
73125 - Common Services-Premises	0.00	10,543.64	0.00	10,543.64
74510 - Bank Charges	0.00	185.56	0.00	185.56
74525 - Sundry	0.00	23,769.65	0.00	23,769.65
75105 - Facilities & Admin - Implement	0.00	212,783.53	0.00	212,783.53
75705 - Learning costs	0.00	280.00	0.00	280.00
76125 - Realized Loss	0.00	2,660.17	0.00	2,660.17
76130 - Unrealized Gain	0.00	- 100.94	0.00	- 100.94
76135 - Realized Gain	0.00	- 96.26	0.00	- 96.26

Total for Fund 40500	38,961.04	3,254,496.68	0.00	3,293,457.72
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UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

Page 2 of 5
Run Time: 24-10-2013 12:10:55

Project Id : 00041098 PAL/ KFW -V	Period :	Jan-Dec (2012)		
Output # : 00073017 KFW EPG - Phase VII	Impl. Partner :	02388 UNDP - PAPP		
	Location :	Palestine		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Total for Dept : 70001	38,961.04	3,306,131.35	0.00	3,345,092.39
Total for Output : 00073017	38,961.04	3,306,131.35	0.00	3,345,092.39
Project Total :	38,961.04	3,306,131.35	0.00	3,345,092.39

Signed By : _____

Date : _____

Signed By : _____

Date : _____

Talal Abu-Ghazaleh



[Signature]

[Signature]



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 3 of 5
Run Time: 24-10-2013 12:10:55

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00073017

Project Id : ALL	Period : Jan-Dec (2012)
Output # : ALL	Impl. Partner :
	Location :

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	38,961.04	3,306,131.35	0.00	3,345,092.39



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 : 00073017

Project/Award: 00041098 PAL/ KFW -V

Period : As at Dec 31, 2012

Output #	00073017	Impl. Partner :02388 UNDP - PAPP	UNDP AMOUNT
	Outstanding NEX advances		0.00
	Undepreciated Fixed Assets		1,996.07
	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): 00073017

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: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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: 73017 TITLED “KfW POVERTY ORIENTED INFRASTRUCTURE (VII)
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:

Activity	Description	Budget (USD)
Activity No. 1	Project implementation unit	50,000
Activity No. 2	West Bank Construction Work	3,210,000
Activity No. 3	Gaza Strip Construction Work	497,375
Activity No. 4	Contingencies	--
Activity No. 5	Miscellaneous	97,131
	Total Investment /Project Costs	3,854,506

B. Project Duration:

The project duration is three years started from the start of Infrastructure Works and the Project geographical location allocated in different areas in West Bank & Gaza Strip including East Jerusalem and Ramallah.

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 (VII)" 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.

Talal Abu - Ghazaleh & Co.

Jamal Milhem, CPA

Executive Director

Ramallah - Palestine, 5 November 2013



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مكتب رام الله: هاتف: ٢٢٩ ٨٨ ٢٢٠ / ١ ، فاكس: ٢٢٩ ٨٨ ٢١٩ (+٩٧٠)

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

3. PART III - MANAGEMENT LETTER

5 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) ("the Statement") of the UNDP Project "Atlas Award ID: 41098", "Poverty Oriented Infrastructure (VII) 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 (VII)'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



Certified Accountant License # (100/98)

Executive Director



MEMBER OF THE

FORUM OF FIRMS

TAGI is a full member of the Forum of Firms .The Forum conducts its business through its executive arm , the Transnational Auditors Committee (TAC) , which is also a committee of the International Federation of Accountants (IFAC) . www.ifac.org/forum_of_firms .

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Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project ID: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - 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. Absence of a dedicated bank account:

Criteria:

For proper and adequate internal control over Project's funds, a special bank account is recommended.

Observation

The Project's funds were not maintained in a separate bank account; instead, they were maintained in the main bank account with other funds.

Priority

Medium (Important)

Recommendation

The Office should consider maintaining the funds for the Project in a separate 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 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, which has thereafter been used for all subsequent phases.

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

Criteria:

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

Observation:

Expenditures were incorrectly classified in the Combined Delivery Report (CDR) (by project classification), for instance vouchers No (62692, 62823 and 63962) were classified as Prefab Structure/Other Building (account No. 72402) whereas they should have been classified as Construction and Engineer (account No. 72105), see the table below:

Account No. Used	The correct account No. should be used	Amount (In USD)	Description
72402	72105	36,858	Third payment / Halhoul
72402	72105	28,250	Final pay / Al Jadeera
72402	72105	55,606	2nd pay / Yasouf Iskaka school
Total		120,714	

The incorrect classification will overstate the total amounts reported under account No. 72402 and understate the amount reported under account No. 72105, which means fuzziness in the presentation of the CDR per project account.

Priority:

Medium (Important).

Recommendation:

The Office should consider reclassifying amounts to the correct budget line items and maintaining double check before entering and posting the transactions to the system in the future.

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. This should be low priority.

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3.1.3. Un-recorded expenditures:

Observation

Criteria:

The project funds should be recorded at the correct project account.

Notice Background:

During the audit, we noted that the amount of USD 362,761 was not reported in the current Combined Delivery Report (CDR) and reported in other project account i.e. “KfW Poverty Oriented Infrastructure (V) in Palestine (West Bank and Gaza Strip). This leads to understatement of the expenditures in the current CDR.

In case the Office does not take corrective action, 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	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
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		362,761			

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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 project. 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, even you did the reversing entries, the effects of these adjustments will not 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:

(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: 73017 entitled “KfW Poverty Oriented Infrastructure (VII) - West Bank and Gaza Strip” for the year ended 2012

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3.1.4. Variance in the approved budget:

Observation

Criteria:

The budget is an important part of the project activities and any violation must be approved and clarified.

Notice Background:

During the audit, we noted variance from the approved budget with amount of expenditures actually reported per activity, as follows:

Activity	Description	Budget per Activity (USD)	Actual Reported	Variance
No. 3	Gaza Strip Construction Work	497,375	526,315	(28,940)
No. 4	Contingencies	--	36.39	(36.39)

Priority

Medium (Important)

Recommendation

The Office should monitor the budget line items to avoid any violation and to obtain an approval and clarification for any variance.

Management acceptance:

☒ Yes ☐ No

Management comments and action plan:

The overall project budget was sufficient to cover the variances for the mentioned budget line activities. UNDP will adjust accordingly.

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. UNDP rule is that the expenditures incurred shall be:

(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.

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3.1.5. Out-Put Error in the Financial Management system:

Observation

Criteria:

The total amount in the transaction file must match with the total amounts reported in CDR.

Notice Background:

During the audit, we noted difference between the amounts reported in the CDR and the amount reported in transaction file due of systematic error, as follows:

Total amount reported in the CDR as of 31 December 2012 Excluding (unrealized loss and gain)	Total amount in the transaction file explored from the ATLAS system	Difference USD
3,342,380	3,346,588	4,208

The difference resulted from including some transactions related to 2013 in the current transaction file (system error) or classifying some items to unused account Number as follows:

Voucher No.	Description	Amount USD
00066112	2012 Invoices	351.97
00066394	Sett. of Inv. # 12/00009773	117.23
00066126	SONOL LTD / UNDP/PAPP_NOV.&DEC. 2012	1235.43
00066192	UNITED NATIONES DEVELOPMENT PROGRAMME / UNDP/PAPP_01/12/2012-31/12/201	322.41
n/a	Outstanding_NEX_Advances Total	(100.94)
00062250	Laptop / Gaza	2,281.23
Total		4,208

Priority

Medium (Important)

Recommendation

The Office should solve such problem to avoid any future contradiction between the transaction file and CDR.

Management acceptance:

☒ Yes ☐ No

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Management comments and action plan:

Kindly note the CDR reads data based upon the accounting date used, while the project transaction detail reports reads data based upon the budget date used. To reconcile these reports, we were advised by Atlas support to run the Account Activity Analysis report (AAA) instead of the project transaction detail. The AAA report will match with the total amounts reported in the CDR.

Auditor’s response:

We still recommend to consider our findings and to implement our recommendation; the detailed transaction sheet we have taken must match with total amounts reported in the CDR, and the source used to explore the detailed transaction sheet must be the same as the source used to explore the CDR.