



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

CONSTRUCTION OF 300 HOUSING UNITS IN RAFAH
(Directly Implemented Project No. 49740)

Report No. 1272

Issue Date: 21 February 2014

**Report on the audit of UNDP Programme of Assistance to the Palestinian People
Construction of 300 Housing Units in Rafah (Project No. 49740)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 1 October to 20 November 2013, through Talal Abu-Ghazaleh & Co. (the audit firm), conducted an audit of Construction of 300 Housing Units in Rafah, Project No. 49740 (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

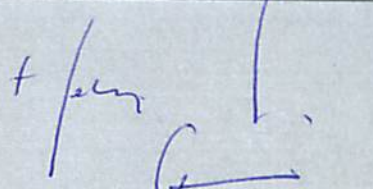
Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

Project Expenditure		Project Assets	
Amount (in \$ '000)	Opinion	Amount (in \$'000)	Opinion
3,061	Unqualified	N/A	N/A

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, which means, "Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP." This recommendation includes actions to address salaries stated in the contracts that do not comply with the actual salaries as per the Payroll General Ledger Account Detail Report.

Management comments and action plan

The Special Representative accepted the recommendation and is in the process of implementing it. Comments and/or additional information provided have been incorporated into the report, where appropriate.



Helge S. Osttveiten
Director
Office of Audit and Investigations

Auditor's Report

Financial audit of “Construction of 300 Housing Units in Rafah” (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: “Construction of 300 Housing Units in Rafah”

IDs: (Atlas Award ID: 42831 Project No: 49740)

FUNDED BY

Saudi Committee for Palestinian People Relief

Talal Abu-Ghazaleh & Co.

Certified Public Accountants



Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the Project No: 49740 titled “Construction of 300 Housing Units in Rafah” for the year 2012
Funded by: Saudi Committee for Palestinian People Relief
Implemented by: United Nation Development Programme (UNDP) in Palestine.

Construction of 300 Housing Units in Rafah

Implemented By

“United Nation Development Programme UNDP”

Palestine (West Bank & Gaza)

Funded by Saudi Committee for Palestinian People Relief

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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 No.: 49740 titled "Construction of 300 Housing Units in Rafah", 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, 20 November 2013



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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 donation from the Saudi Committee for Palestinian People Relief was to accommodate 300 non-refugee families from Rafah whose houses were destructed through Al Aqsa Intifada.

The project is located in Rafah City- Tal El Sultan Neighborhood. Upon completion of this project; those families will be able to have houses with necessary facilities and service.

The project consists of 300 housing units provided with the infrastructure services to run the project properly like water, wastewater, electricity and road networks. The project also includes two schools, mosque, water well and sewage pumping station.

The project is divided into 15 packages in order to comply with the capacity of local contractors and ensure the competition as much as possible.

Project main components:

- Construction of 300 residential units in Rafah.
- Infrastructure including roads, water, wastewater and electrical network.
- Two Secondary Schools.
- Mosque.

The Agreement of Setting up Credit Fund was signed between the Saudi Committee for Palestinian People Relief and UNDP on 20 December 2005 and amended according to Amendment No. (1) On 15 October 2012 as follows:

Agreement	Original Agreement Dated on 20 Decemebr 2005	Amendment No, (1) dated on 15 October 2013
Duration of the Project	20/12/2005 - 12/6/2007	20/12/2005 - 31/7/2013
Total Budget	USD 10,954,054	USD 16,110,929

The financial audit covered the amount of USD 2,775,407 out of total expenditures incurred locally during the period from 1 January to 31 December 2012.

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)
Construction of 300 Housing Units in Rafah	49740	42831	3,454,518	3,061,431

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 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 statement 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 “Construction of 300 Housing Units in Rafah”, 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 31 December 2012. 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.

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 Gaza for the total amount of USD 3,061,431 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 activates, 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.

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 49740 - Construction of 300 Housing Units in Rafah 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 49740 during the period from 1 January to 31 December 2012 and the Funds Utilization statement as at 31 December 2012 as reported by the PAPP Office;
- b) If applicable, the value and existence of the fixed assets held by the project 49740 as at 31 December 2012; and
- c) If applicable, the value and existence of cash held by the project 49740 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 No: 49740 titled "Construction of 300 Housing Units in Rafah" for the year 2012
Funded by: Saudi Committee for Palestinian People Relief
Implemented by: United Nation Development Programme (UNDP) in Palestine.

1.4. Summary of the work done and audit results:

1.4.1. Work Done:

The total costs incurred by United Nation Development Programme (UNDP) in Palestine on the above mentioned Project is USD 3,061,431. The audit approximately covered 91percent 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
Rafah - Tal Esultan - Gaza Strip	34	3,061,431	2,775,407	91%

1.4.2. Results of Audit:

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

The review didn't disclose any financial errors in the Project's CDR; however, we noted certain instances of weaknesses in internal control system of the Project. Details of these weaknesses are described in Part III of this report.

The "Combined Delivery Report" fairly presents, in all material respects, Project's incurred costs 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 "Construction of 300 Housing Units in Rafah", 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 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.

Given that no dedicated bank account is opened for the Project, therefore no statement of cash held by the Project was prepared.

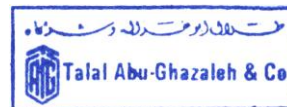
Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director

Talal Abu- Ghazaleh & Co.

Ramallah - Palestine, 20 November 2013



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report

REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT
“CONSTRUCTION OF 300 HOUSING UNITS IN RAFAH”

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: 42831”, “Construction of 300 Housing Units in Rafah”, 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 “Construction of 300 Housing Units in Rafah”, 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.



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Financial audit of the locally incurred costs in the "Combined Delivery Report (CDR)" of the Project No: 49740 titled "Construction of 300 Housing Units in Rafah" for the year 2012

Funded by: Saudi Committee for Palestinian People Relief

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unmodified Opinion

In our opinion, the Combined Delivery Report (CDR) gives a true and fair view of the expenditures of USD 3,061,431 incurred by the Project "Construction of 300 Housing Units in Rafah", for the period from 1 January to 31 December 2012.

Jamal Milhem, CPA

Certified Accountant License # (100/98)



Executive Director

Talal Abu- Ghazaleh & Co.

Ramallah - Palestine, 20 November 2013

Financial audit of the locally incurred costs in the “Combined Delivery Report (CDR)” of the
Project No: 49740 titled “Construction of 300 Housing Units in Rafah” for the year 2012
Funded by: Saudi Committee for Palestinian People Relief
Implemented by: United Nation Development Programme (UNDP) in Palestine.

2.2. 2012 CDR Project No. 49740



Combined Delivery Report By Project

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00049740

Project Id : 00042831 PAL/ Construction of 300 Housl	Period :	Jan-Dec (2012)		
Output # : 00049740 Construction of 300 units	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)

71405 - Service Contracts-Individuals	0.00	12,000.00	0.00	12,000.00
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Total for Fund 04950	0.00	12,000.00	0.00	12,000.00
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Fund : 40500 (TF PAPP Voluntary Contrib Actv)

63515 - Security-related Costs	0.00	14,560.00	0.00	14,560.00
71305 - Local Consult-Shr Term-Tech	0.00	2,440.14	0.00	2,440.14
71405 - Service Contracts-Individuals	0.00	164,062.25	0.00	164,062.25
71410 - MAIP Premium SC	0.00	143.71	0.00	143.71
71415 - Contribution to Security SC	0.00	0.00	0.00	0.00
71620 - Daily Subsistence Allow-Local	0.00	931.17	0.00	931.17
72105 - Svc Co-Construction & Engineer	0.00	2,665,429.73	0.00	2,665,429.73
72120 - Svc Co-Trade and Business Serv	0.00	174.56	0.00	174.56
73410 - Maint, Oper of Transport Equip	0.00	355.20	0.00	355.20
74525 - Sundry	0.00	55,418.64	0.00	55,418.64
75105 - Facilities & Admin - Implement	0.00	145,210.78	0.00	145,210.78
75705 - Learning costs	0.00	700.00	0.00	700.00
76125 - Realized Loss	0.00	5.96	0.00	5.96
76135 - Realized Gain	0.00	-1.02	0.00	-1.02

Total for Fund 40500	0.00	3,049,431.12	0.00	3,049,431.12
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Total for Dept : 70001	0.00	3,061,431.12	0.00	3,061,431.12
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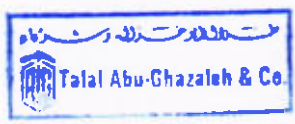
Total for Output : 00049740	0.00	3,061,431.12	0.00	3,061,431.12
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Project Total :	0.00	3,061,431.12	0.00	3,061,431.12
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Signed By : 20209 Awad Date : _____
Signed By : _____ Date : _____



Jamal J. ...





UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 2 of 4
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Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00049740

	Period : Jan-Dec (2012)			Total Exp
	Govt Exp	UNDP Exp	UN Agencies Exp	
70001 - PAPP - Central	0.00	3,061,431.12	0.00	3,061,431.12

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Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2012)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00049740

Project/Award: 00042831 PAL/ Construction of 300 House
Period : As at Dec 31, 2012

Output #	Impl. Partner	UNDP AMOUNT
00049740	:02388 UNDP - PAPP	
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		0.00
Inventory		0.00
Prepayments		0.00
Commitments		3,109.08



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

Selection Criteria :

Business Unit : PAL10
Selected Project(s): ALL
Selected Fund Code : ALL
Selected Output(s): 00049740

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 No: 49740 titled "Construction of 300 Housing Units in Rafah" for the year 2012
 Funded by: Saudi Committee for Palestinian People Relief
 Implemented by: United Nation Development Programme (UNDP) in Palestine.

PROJECT NO.: 49740 TITLED "CONSTRUCTION OF 300 HOUSING UNITS IN RAFAH", FOR THE YEAR 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 is the Project's Budget for the Year 2012 in USD:

Category/Activity	2012 Budget
Construction of 300 Housing Units and Infrastructure Works	3,049,341
Miscellaneous	71,932
Project Management and Staffing	191,764
GMS for UNDP/PAPP	141,481
Total Project's Budget for the Year 2012	3,454,518

B. Project Duration:

The Agreement of Setting Up Credit Fund was signed between the Saudi Committee for Palestinian People Relief and UNDP on 20 December 2005 and amended according to Amendment No. (1) On 15 October 2012 as follows:

Agreement	Original Agreement Dated on 20/12/2005	Amendment No, (1) dated on 15/10/2013
Duration of the Project	20/12/2005 - 12/6/2007	20/12/2005 - 31/7/2013

3. PART III - MANAGEMENT LETTER

20 November 2013

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

Subject: Letter to Management on auditing Combined Delivery Report (CDR) ("the Statement") of the UNDP Project "Atlas Award ID: 42831".

We have performed an audit of the Combined Delivery Report (CDR) and Funds Utilization Statement ("the Statement") of the UNDP Project "Atlas Award ID: 42831", "Construction of 300 Housing Units in Rafah", 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 "Construction of 300 Housing Units in Rafah", (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.

Talal Abu-Ghazaleh & Co.

Jamal Milhem, CPA



Executive Director

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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 قورة، ص ب: ١١١٠ رام الله، الضفة الغربية

3.1.1 Salaries stated in the contracts do not comply with the actual salaries as per the Payroll GL Account Detail Report

Observation

Criteria:

Contracts and personnel actions are very important supporting documents for verifying the accuracy of the salaries charged to the Project.

Notice Background:

During the audit, we noted that the monthly salaries stated in the contracts do not comply with the actual salaries as per the Payroll GL Account Detail Report.

Priority

Medium (Important)

Recommendation

The Office should take into consideration the fact that employees' contracts/actions have to comply with the actual salaries.

Management acceptance:

Yes No

Management comments and action plan:

*(Separate response – by HR Manager on our inquiry by email dated 23/12/2013)/*The contract lists the original remuneration whereas the GL report lists that actual remuneration due to the fact that we hold a yearly SC remuneration survey which leads to increase in salary.

Auditor’s response:

We still recommend to consider our findings and to implement our recommendation; the monthly salaries stated in the contracts must comply with the actual salaries as per the Payroll GL Account Detail Report and any differences must clearly clarified, also the management did not provide us with any document related to increase in the salaries scale or any acceptable justification reflect the increase in the salaries.