



**AUDIT**

**OF**

**UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE**

**KFW POVERTY ORIENTED INFRASTRUCTURE (Phase III) - WEST BANK**  
**(Directly Implemented Project No. 41156)**

**Report No. 1277**

**Issue Date: 21 February 2014**

**Report on the audit of UNDP Programme of Assistance to the Palestinian People  
KfW Poverty Oriented Infrastructure (Phase III) - West Bank (Project No. 41156)  
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), from 1 October to 18 November 2013, through Talal Abu-Ghazaleh & Co. (the audit firm), conducted an audit of KfW Poverty Oriented Infrastructure (Phase III)-West Bank, Project No. 41156 (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 2010 to 31 December 2011.

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:

Year	Project Expenditure			Project Assets	
	Amount (in \$ '000)	Opinion	NFI (in \$ '000)	Amount (in \$ '000)	Opinion
2010	622	Qualified	332	N/A	N/A
2011	38	Unqualified	N/A	N/A	N/A

*NFI = Net Financial Impact*

The audit firm qualified its opinion on project expenditure for 2010 due to the lack of supporting documentation for expenditure amounting to \$331,899.

**Key recommendation:** Total=1, high priority=1

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP." One high (critical) priority recommendation is presented below:

<p>Lack of supporting documents for the year ended 31 December 2010 (Issue 1)</p>	<p>The auditors noted that \$331,899 in expenditure was not supported by appropriate documents (e.g. purchase order, invoices, contracts, etc.).</p> <p><u>Recommendation:</u> Maintain adequate documentation in one location.</p>
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### Management comments and action plan

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

A rectangular box containing a handwritten signature in blue ink. Below the signature, there is a printed name and title: 'Helge S. Osttveiten', 'Director', and 'Office of Audit and Investigations'. A blue arrow points from the signature to the name. A large blue scribble is present above the signature.

# Auditor's Report

Financial audit of “KfW Poverty Oriented Infrastructure (Phase III)-West Bank” (The Project) implemented by “United Nation Development Programme UNDP” - Palestine (West Bank & Gaza) for the Year Ended 31 December 2010 and year ended 31 December 2011.

## **PROJECT TITLE AND ID**

Title: “KfW Poverty Oriented Infrastructure (Phase III)”

IDs: (Atlas Award ID: 37586, Project ID: 41156)

## **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: 41156 titled “KfW Poverty Oriented Infrastructure (Phase III) - West Bank” for the years ended 2010 and 2011.

Funded by: KfW– German Development Bank

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

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## **KfW Poverty Oriented Infrastructure (Phase III)**

**Implemented By**

**“United Nation Development Programme UNDP”**

**Palestine (West Bank)**

**Funded by German Development Bank**

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

Dear Mr. Helge Osttveiten,

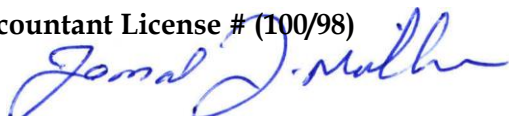
This report represents the results of our financial audit of the locally incurred costs in the "Combined Delivery Report (CDR)" of the Project ID: 41156 titled "KfW Poverty Oriented Infrastructure (Phase III) - West Bank", for the Year ended 31 December 2010 and year ended 31 December 2011.

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, 18 November 2013



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بناية البرج الاخضر، شارع الشهيد نزيه قوره، ص ب: 1110 رام الله، الضفة الغربية

## 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. In addition, the programme 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 591,797 for 2010 and USD 37,010 for 2011. The financial audit covered the amount of USD 621,796 and USD 38,474 of total expenditures incurred locally during the periods of 2010 and 2011 respectively. The project duration is 24 months from start of Infrastructure Works.

### 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	Budget (USD)		Actual Expenditure Per CDR (USD)	
			2010	2011	2010	2011
KfW Poverty Oriented Infrastructure (III) - West Bank	41156	37586	591,797	37,010	621,796	38,474

### 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 years ended 2010 and 2011 and the funds utilization 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 of 31 December 2010 and as of 31 December 2011. These statements must include all assets available as of 31 December 2010 as well as 31 December 2011 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 or acquired under "KfW Poverty Oriented Infrastructure (III) Project – West Bank". 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.



### **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 for the total amount of USD 621,796 and USD 38,474 for the periods from 1 January to 31 December 2010 and from 1 January to 31 December 2011 respectively. 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.

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 Centres 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 00041156 - PAL/ Poverty Oriented Infrastructure during the period from 1 January 2010 to 31 December 2011; 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 41156 during the period from 1 January 2010 to 31 December 2011 as at 31 December 2010 and 31 December 2011, as reported by the PAPP Office;
- b) If applicable, the value and existence of the fixed assets held by the project 00041156 as at 31 December 2010 and 31 December 2011; and
- c) If applicable, the value and existence of cash held by the project 41156 as at 31 December 2010 and 31 December 2011, 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).

#### 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: 41156 titled “KfW Poverty Oriented Infrastructure (Phase III) - West Bank”, for year ended 31 December 2010 and year ended 31 December 2011.

The total costs incurred by United Nation Development Programme (UNDP) in Palestine on the above mentioned project is USD 621,796 and USD 38,474 of which we approximately covered 90 percent and 65 percent respectively by 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	
	2010	2011	2010	2011	2010	2011	2010	2011
West Bank	2	1	621,796	38,474	562,679	25,000	90%	65%
<b>Total</b>	<b>2</b>	<b>1</b>	<b>621,796</b>	<b>38,474</b>	<b>562,679</b>	<b>25,000</b>	<b>90%</b>	<b>65%</b>

#### 1.4.2. Results of Audit:

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

The review did not 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 Statement of Fixed Assets**

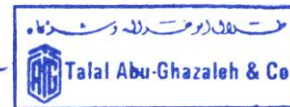
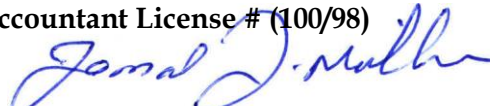
Given that no fixed assets were purchased / acquired under “KfW Poverty Oriented Infrastructure (III) – West Bank”, therefore no statement of fixed assets was prepared.

- **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 2010 as well as 31 December 2011 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, 18 November 2013**

## 2. PART II – AUDITOR’S REPORT WITH OPINION

### 2.1 Auditor’s Reports – Year ended 2010

#### REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT “KfW POVERTY ORIENTED INFRASTRUCTURE (III) IN PALESTINE (WEST BANK)

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

#### Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report (CDR) (“the Statement”) of the UNDP Project “Atlas Award ID: 37586, “KfW Poverty Oriented Infrastructure (III) in Palestine (West Bank), for the period from 1 January to 31 December 2010.

#### Management’s Responsibility

Management is responsible for the preparation and fair presentation of the statement for “KfW Poverty Oriented Infrastructure (III) in Palestine (West Bank)” 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.



### **Basis for a Modified Opinion**

Parts of expenditures reported were not supported by appropriate documents (e.g. purchase order (PO), Invoices, contracts, transfer notice, etc.). Inadequate documentation violates the UNDP manual to maintain full documentation for each transaction reported. For more information related to unsupported amounts please refer to Part III in this report.

### **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 621,796 incurred by the project Atlas Award ID: 37586, “KfW Poverty Oriented Infrastructure (III) in Palestine (West Bank and Gaza Strip)” for the period 1 January to 31 December 2010 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, 18 November 2013**



## 2.2 Auditor's Reports - Year ended 2011

### REPORT OF THE INDEPENDENT AUDITORS TO UNDP DIM PROJECT "KfW POVERTY ORIENTED INFRASTRUCTURE (III) IN PALESTINE (WEST BANK)

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

#### Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report (CDR) ("the Statement") of the UNDP Project "Atlas Award ID: 37586, "KfW Poverty Oriented Infrastructure (III) in Palestine (West Bank), for the period from 1 January to 31 December 2011.

#### Management's Responsibility

Management is responsible for the preparation and fair presentation of the statement for "KfW Poverty Oriented Infrastructure (III) in Palestine (West Bank)" 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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بناية البرج الاخضر، شارع الشهيد نزيه قوره، ص ب: ١١١٠ رام الله، الضفة الغربية

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 38,474 incurred by the project "Atlas Award ID: 37586, "KfW Poverty Oriented Infrastructure (III) in Palestine (West Bank) for the period 1 January to 31 December 2011 in accordance with UNDP accounting policies and basis of the accounting used in note (1) to Combined Delivery Report.

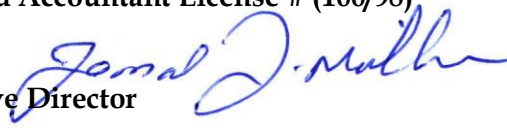
**Jamal Milhem, CPA**

**Certified Accountant License # (100/98)**

**Executive Director**

**Talal Abu - Ghazaleh & Co.**

**Ramallah - Palestine, 18 November 2013**





### **2.3 CDR Project No. 41156 for 2010**

Combined Delivery Report By Project



UN Development Programme  
Report ID: ungl143p

Page 1 of 2  
Run Time: 23-07-2013 13:07:03

**Selection Criteria :**

Business Unit : PAL10  
Period : Jan-Dec (2010)  
Selected Award Id : ALL  
Selected Fund Code : ALL  
Selected Dept. IDs : ALL  
Selected Projects : 00041156

Award Id : 00037586 PAL/ Poverty Oriented Infras,E	Period : Jan-Dec (2010)
Project # : 00041156 PAL/ Poverty Oriented Infras,E	Impl. Partner : 02388 UNDP - PAPP
	Location : Palestine

	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
<b>Dept: 70001 (PAPP - Central)</b>					
<b>Fund : 40500 (TF PAPP Voluntary Contrb Actvt)</b>					
72105 - Svc Co-Construction & Engineer	0.00	575,353.30	0.00	0.00	575,353.30
75105 - Facilities & Admin - Implement	0.00	46,028.25	0.00	0.00	46,028.25
76125 - Realized Loss	0.00	414.74	0.00	0.00	414.74
<b>Total for Fund 40500</b>	<b>0.00</b>	<b>621,796.29</b>	<b>0.00</b>	<b>0.00</b>	<b>621,796.29</b>
<b>Total for Dept : 70001</b>	<b>0.00</b>	<b>621,796.29</b>	<b>0.00</b>	<b>0.00</b>	<b>621,796.29</b>
<b>Total for Project : 00041156</b>	<b>0.00</b>	<b>621,796.29</b>	<b>0.00</b>	<b>0.00</b>	<b>621,796.29</b>
<b>Award Total :</b>	<b>0.00</b>	<b>621,796.29</b>	<b>0.00</b>	<b>0.00</b>	<b>621,796.29</b>

Signed By : \_\_\_\_\_ Date : \_\_\_\_\_





Combined Delivery Report By Project

UN Development Programme  
Report ID: ungl143p

Selection Criteria :

Business Unit : PAL10  
Period : Jan-Dec (2010)  
Selected Award Id : ALL  
Selected Fund Code : ALL  
Selected Dept. IDs : ALL  
Selected Projects : 00041156

Award Id : 00037586	PAL/ Poverty Oriented Infrac,E	Period :	Jan-Dec (2010)
Project # :	PAL/ Poverty Oriented Infrac,E	Impl. Partner :	None
		Location :	Palestine

	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
70001 - PAPP - Central	0.00	621,796.29	0.00	0.00	621,796.29

*Jamal J. Malha*



## 2.4 CDR Project No. 41156 for 2011



Combined Delivery Report By Project

UN Development Programme  
Report ID: ungl143p

Page 1 of 2  
Run Time: 28-10-2013 08:10:35

Selection Criteria :

Business Unit : PAL10  
Period : Jan-Dec (2011)  
Selected Award Id : 00037586  
Selected Fund Code : ALL  
Selected Dept. IDs : ALL  
Selected Projects : ALL

Award Id : 00037586 PAL/ Poverty Oriented Infrac,E	Period :	Jan-Dec (2011)			
Project # : 00041156 PAL/ Poverty Oriented Infrac,E	Impl. Partner :	02368 UNDP - PAPP			
	Location :	Palestine			
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp

Dept: 70001 (PAPP - Central)

Fund : 40500 (TF PAPP Voluntary Contrb Actvt)

72105 - Svc Co-Construction & Engineer	0.00	35,765.38	0.00	0.00	35,765.38
75105 - Facilities & Admin - Implement	0.00	2,861.23	0.00	0.00	2,861.23
76135 - Realized Gain	0.00	- 152.84	0.00	0.00	- 152.84
<b>Total for Fund 40500</b>	<b>0.00</b>	<b>38,473.77</b>	<b>0.00</b>	<b>0.00</b>	<b>38,473.77</b>
<b>Total for Dept : 70001</b>	<b>0.00</b>	<b>38,473.77</b>	<b>0.00</b>	<b>0.00</b>	<b>38,473.77</b>
<b>Total for Project : 00041156</b>	<b>0.00</b>	<b>38,473.77</b>	<b>0.00</b>	<b>0.00</b>	<b>38,473.77</b>

<b>Award Total :</b>	<b>0.00</b>	<b>38,473.77</b>	<b>0.00</b>	<b>0.00</b>	<b>38,473.77</b>
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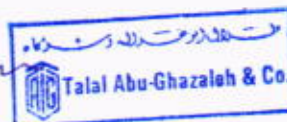
Signed By :



Date :

27/10/2013

Jamal D. rubber



Signature

Combined Delivery Report By Project



UN Development Programme  
Report ID: ungl143p

Page 2 of 2  
Run Time: 28-10-2013 08:10:36

Selection Criteria:

Business Unit : PAL10  
Period : Jan-Dec (2011)  
Selected Award Id : 00037586  
Selected Fund Code : ALL  
Selected Dept. IDs : ALL  
Selected Projects : ALL

Award id : 00037586	PAL/ Poverty Oriented Infrs,E	Period :	Jan-Dec (2011)			
Project # :	PAL/ Poverty Oriented Infrs,E	Impl. Partner :	None			
		Location :	Palestine			
		Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp

70001 - PAPP - Central	0.00	38,473.77	0.00	0.00	38,473.77
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**PROJECT ID: 41156 TITLED “KfW POVERTY ORIENTED INFRASTRUCTURE (III)  
WEST BANK”, FOR THE YEAR ENDED 2011**

**NOTE TO THE COMBINED DELIVERY REPORT (CDR)**

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**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 are the budgets until 31 December 2011:

<b>Item</b>	<b>Budget (USD)</b>	
	<b>2010</b>	<b>2011</b>
Construction works	591,797	37,010
Total Investment /Project Cost	591,797	37,010

**B. Project Duration:**

The project duration is 24 months and the Project geographical location allocated in West Bank districts.

**CERTIFICATION FOR STATEMENT OF CASH POSITION**

To: Mr. Helge Osttveiten

Director

Office of Audit and Investigations (OAI)

The Statement of Cash Position for the Project "Atlas Award ID: 37586", "KfW Poverty Oriented Infrastructure (III)" in Palestine (West Bank), for the period from 1 January to 31 December 2010 as well as from 1 January to 31 December 2011" 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 of 31 December 2010 as well as 31 December 2011 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, 18 November 2013



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### 3. PART III - MANAGEMENT LETTER

3 November 2013

To: Director

Office of Audit and Investigations (OAI)

United Nations Development Programme

**Subject: Letter to Management on auditing Combined Delivery Report (CDR) ("the Statement") of the UNDP Project "Atlas Award ID: 37586".**

We have performed an audit of the Combined Delivery Report (CDR) ("the Statement") of the UNDP Project "Atlas Award ID: 37586", "Poverty Oriented Infrastructure (III) in Palestine (West Bank), for the period from 1 January to 31 December 2010 as well as the period from 1 January to 31 December 2011 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 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.

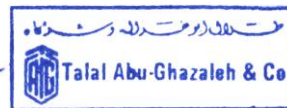
Our consideration of the internal control structure was for the limited purpose of expressing an opinion on the Combined Delivery Report (CDR), and therefore would not necessary disclosing all matters that might be reportable conditions. In addition, because of inherent limitations in any internal control 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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### 3.1 Audit Issues and Recommendations

#### 3.1.1 Lack of supporting documents- For the year ended 2010

##### Observation

##### Criteria:

The management should maintain adequate documentation in compliance with UNDP procedures.

During the audit, we noted that some expenditures reported were not supported by appropriate documents (e.g. purchase order (PO), Invoices, contracts, etc.). Inadequate documentation violates the UNDP manual to maintain full documentation for each transaction reported.

Examples of payments that lack proper and adequate documentation:

Description of the payment	Voucher	Amount Euro	Amount USD
Reversal entry from KfW V to KfW III.	45290	39,106	--
UNDP, KfW Reversal	45293	245,937	331,899

##### Priority

High (Critical)

##### Recommendation

The Office should maintain adequate documentation in one location and not in different remote locations.

##### Management acceptance:

Yes       No

##### Management comments and action plan:

At the time of this project there was no PIU and each staff member working on the project kept their own files. In order, to bring continuity to the programme a PIU was established under EGP V (46774) to manage the day to day management of the programme. This includes having one location for all programme related documentation. All files are now centrally located for this programme. It should be mentioned, that we will need to look into our archives for these documents and once found will be presented. This is not a case of charging wrong projects. This is a case that we adjusted payments to close this phase of the programme and the donor was aware of the shifts.

##### Auditor's response:

Our recommendation is still valid until receiving all required documentation.