



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

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

Report No. 1375

Issue Date: 4 September 2014

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

The UNDP Office of Audit and Investigations (OAI), from 4 to 17 June 2014, through Talal Abu-Ghazaleh & Co. (the audit firm), conducted an audit of KfW Poverty Oriented Infrastructure (Phase VII) - West Bank and Gaza Strip, Output 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 in 2013 and covered project expenditure from 1 January to 31 December 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 Combined Delivery Report, which includes expenditure for the period from 1 January to 31 December 2013 and the accompanying Funds Utilization statement¹ as of 31 December 2013. The audit did not cover the Statement of Assets as no assets were purchased by the Project. In addition, the audit did not cover the Statement of Cash Position as no separate bank account was established and maintained for the Project.

The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Audit results

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

Project Expenditure			Project Assets	
Amount (in \$ '000)	Opinion	NFI (in \$ '000)	Amount (in \$ '000)	Opinion
944	Qualified	327	N/A	N/A

NFI = Net Financial Impact

The audit firm qualified its opinion on project expenditure due to an amount of \$326,740 that was not reported in the Combined Delivery Report and was wrongly reported in another project, leading to an understatement of expenditure in the Combined Delivery Report.

Key recommendations: Total = 2, high priority = 0

The audit did not result in any high (critical) priority recommendations. There are two 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 unrecorded expenditures, and variance in the approved budget.

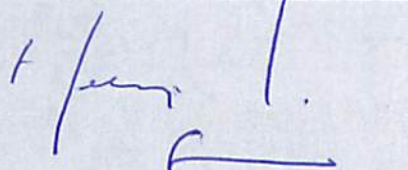
¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) depreciated fixed assets used at the project level; (c) inventory held at the project level; (d) prepayments made by the project; and (e) outstanding commitments held at the project level.

Implementation status of previous OAI audit recommendations: Report No. 1270, 21 February 2014.

Total recommendations: 5
Implementation status: 80%

Management comments and action plan

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



Helge S. Ostveiten
Director
Office of Audit and Investigations

Auditor's Report

Financial audit of “KfW Poverty Oriented Infrastructure (Phase VII)” implemented by United Nations Development Programme, Programme of Assistance to the Palestinian People for the year ended 31 December 2013.

PROJECT TITLE AND ID

Title: KfW Poverty Oriented Infrastructure (Phase VII)

IDs: Atlas Project ID: 41098, Output ID: 73017

FUNDED BY

German Development Bank

Talal Abu - Ghazaleh & Co.

Certified Public Accountants



KfW Poverty Oriented Infrastructure (Phase VII)

Implemented By

United Nations Development Programme, Programme of Assistance to the Palestinian People

Funded by German Development Bank

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To Director
Office of Audit and Investigations
United Nations Development Programme

Dear Mr. Helge Osttveiten,

This report represents the results of our financial audit of the Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (Phase VII) - West Bank and Gaza Strip" (the Project) for the year ended 31 December 2013 implemented by UNDP Programme of Assistance to the Palestinian People (UNDP PAPP).

This Financial audit was mandated in accordance with the Audit contract for professional service with UNDP/OAI Ref. PS 2014 dated 6 May 2014.

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director



Talal Abu - Ghazaleh & Co.

Ramallah - Palestine, 17 June 2014



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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 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 2013 Budget of the grant is USD 1,155,874 the financial audit covered the amount of USD 943,973 of total expenditures incurred locally during the period from 1 January to 31 December 2013. The original project duration is three years from the start of Infrastructure Works, but an amendment was signed on 5 May 2014 to extend the preparation, implementation and operation of the Programme until maximum 31 December 2015.

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	Output Number	Atlas Project ID	2013 Budget (USD)	2013 Actual Expenditure Per CDR (USD)
KfW Poverty Oriented Infrastructure (Phase VI)	73017	41098	1,155,874	943,973

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 2013 and the funds utilization as at 31 December 2013 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 2013. This statement must include all assets available as at 31 December 2013 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 the Project 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 UNDP PAPP 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. As an audit firm, we are 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 UNDP PAPP 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 and Gaza including Jerusalem for the total amount of USD 943,973 for the period from 1 January to 31 December 2013. 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 Output ID: 73017 titled “KfW Poverty Oriented Infrastructure (Phase VII)” for the year ended 31 December 2013.

Funded by: KfW - German Development Bank

Implemented by: UNDP Programme of Assistance to the Palestinian People

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 PAPP.

The audit Covered:

- All activities of the Output 73017 - PAL / Poverty Oriented Infrastructure during the period from 1 January to 31 December 2013; and
- Include a review of project reports and records located at the UNDP 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 Output 73017 during the period from 1 January to 31 December 2013, as reported by UNDP PAPP;
- b) If applicable, the value and existence of the fixed assets held by the Output 73017 as at 31 December 2013; and
- c) If applicable, the value and existence of cash held by the Output 73017 as at 31 December 2013, 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 Output ID: 73017 titled “KfW Poverty Oriented Infrastructure (Phase VII)” for the year ended 31 December 2013.

Funded by: KfW - German Development Bank

Implemented by: UNDP Programme of Assistance to the Palestinian People

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 Output ID: 73017 titled “KfW Poverty Oriented Infrastructure (Phase VII) - West Bank and Gaza Strip”, for the year ended 31 December 2013.

The total costs incurred by UNDP PAPP on the above mentioned project is USD 943,973 of which we approximately covered 75 Percent in substantive test of details. As shown in the following table:

Table 2:

Project Location	No. of Samples	Total expenditures (USD)	Total expenditures Tested (USD)	Percentage
West Bank	11	943,973	704,557	75 %

1.4.2. Results of Audit:

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

The results of our tests disclosed total financial errors of USD 326,740. Details of these errors are described in Part III of this report.

Table 3

Project Location	No. of Samples	Total expenditures (USD)	Net Financial Impact (USD)	Percentage
Total	11	943,973	326,740	35%

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 the Project therefore no statement of fixed assets was prepared.

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

The Statement of Cash Position for the Project for the period from 1 January to 31 December 2013" 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 2013 was not prepared by the project management and no expression of opinion on the statement of cash position had been stated.

Sincerely yours,

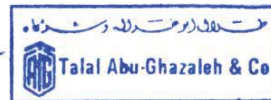
Jamal Milhem, CPA

Certified Accountant License # (100/98)

Executive Director

Talal Abu - Ghazaleh & Co.

Ramallah - Palestine, 17 June 2014



2. PART II – AUDITOR’S REPORT WITH OPINION

2.1. Auditor’s Report - Year Ended 2013

REPORT OF THE INDEPENDENT AUDITORS TO UNDP ON DIM PROJECT “KfW POVERTY ORIENTED INFRASTRUCTURE (PHASE VII)

To Mr. Helge Osttveiten
Director
Office of Audit and Investigations
United Nations Development Programme

Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report and Funds Utilization Statement (the statement) of the UNDP Project Atlas Output ID: 73017 “KfW Poverty Oriented Infrastructure (Phase VII) (the Project) for the period from 1 January to 31 December 2013.

Management’s Responsibility

UNDP PAPP Management is responsible for the preparation and fair presentation of the statement for the project “KfW Poverty Oriented Infrastructure (VII) in State of Palestine (West Bank and Gaza Strip)” 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 modified audit opinion.



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Financial audit of the Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (Phase VII)" for the year ended 31 December 2013.

Funded by: KfW - German Development Bank

Implemented by: UNDP Programme of Assistance to the Palestinian People

Basis for a Modified Opinion

An amount of USD 326,740 were not reported in the current statement of the Project and reported in other project accounts i.e. "KfW Poverty Oriented Infrastructure (Phase V)". This leads to understatement of the expenditures in the current CDR.

Modified Opinion

In our opinion, the attached Combined Delivery Report and Funds Utilization statement, except for the reason indicated in "basis for a modified opinion" paragraphs mentioned above, presents fairly in all material respects the expenditure of USD 943,973 incurred by the project Atlas Output ID: 73017 "KfW Poverty Oriented Infrastructure (Phase VII)" for the period 1 January to 31 December 2013 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)

Jamal D. Milhem
Executive Director



Talal Abu - Ghazaleh & Co.

Ramallah - Palestine, 17 June 2014

Financial audit of the Output ID: 73017 titled “KfW Poverty Oriented Infrastructure (Phase VII)” for the year ended 31 December 2013.

Funded by: KfW - German Development Bank

Implemented by: UNDP Programme of Assistance to the Palestinian People

2.2. 2013 CDR Output No. 73017



Combined Delivery Report By Project

UN Development Programme
Report ID: unglcdrp

Page 2 of 3
Run Time: 07-08-2014 16:08:53

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2013)
Selected Project Id : 00041098
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00073017

Project Id : ALL	Period : Jan-Dec (2013)			
Output # : ALL	Impl. Partner :			
	Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	943,973.63	0.00	943,973.63





Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2013)
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, 2013

Output #	00073017	Impl. Partner :02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances			0.00
Undepreciated Fixed Assets			1,729.96
Inventory			0.00
Prepayments			0.00
Commitments			0.00



Financial audit of the Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (Phase VII)" for the year ended 31 December 2013.

Funded by: KfW - German Development Bank

Implemented by: UNDP Programme of Assistance to the Palestinian People

KfW POVERTY ORIENTED INFRASTRUCTURE (VII) - WEST BANK AND GAZA STRIP
NOTES TO THE STATEMENT OF FIXED ASSETS

Note (1) Basis of Accounting:

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

Note (2): General

A. Budget:

The following the budget until 31 December 2013:

<u>Activity</u>	<u>Description</u>	<u>Budget (USD)</u>
Activity No. 2	West Bank Construction Work	1,066,288
Activity No. 3	Gaza Strip Construction Work	--
Activity No. 4	Contingencies	--
Activity No. 5	Miscellaneous	89,586
	Total	1,155,874

B. Project Duration:

The original project duration of three years started from Infrastructure Works implementation. The Project has several locations in different areas in West Bank & Gaza Strip including East Jerusalem and Ramallah.

On the basis of the second amendment signed on 5 May 2014 to the agreement dated 10 October 2006, the preparation, implementation and operation of the Programme is extended until maximum 31 December 2015.

3. CERTIFICATION FOR STATEMENT OF CASH POSITION

CERTIFICATION FOR STATEMENT OF CASH POSITION

To Mr. Helge Ostveiten

Director

Office of Audit and Investigations

United Nations Development Programme

The Statement of Cash Position for the Project Atlas Output ID: 73017 "KfW Poverty Oriented Infrastructure (Phase VII)" for the period from 1 January to 31 December 2013 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 2013 was not prepared by the project management and no expression of opinion on the statement of cash position had been stated.

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)



Executive Director



Talal Abu - Ghazaleh & Co.

Ramallah - Palestine, 17 June 2014



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4. PART III – MANAGEMENT LETTER

17 June 2014

To Mr. Helge Ostveiten
Director
Office of Audit and Investigations
United Nations Development Programme

Subject: Letter to Management on auditing Combined Delivery Report (CDR) (the statement) of the UNDP Project Atlas Output ID: 73017.

We have performed an audit of the Combined Delivery Report and Funds Utilization statement (the statement) of the UNDP Project Atlas Output ID: 73017 "Poverty Oriented Infrastructure (Phase VII)" (the Project) for the period from 1 January to 31 December 2013 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 KfW Poverty Oriented Infrastructure (Phase VII) 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 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.

The UNDP PAPP Management is responsible for the design, implementation and maintenance of the internal control system over the Projects. To execute this obligation, the UNDP PAPP 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 PAPP.

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)



Executive Director

Talal Abu - Ghazaleh & Co.

Ramallah - Palestine, 17 June 2014



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4.1 Audit Issues and Recommendations

4.1.1. Un-recorded expenditures:

Observation

Criteria:

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

Notice Background:

During the audit, we noticed that the amount of USD 326,740 (Euro 250,691) was not reported in the project current statement and reported in the project “KfW Poverty Oriented Infrastructure (Phase V)”. This leads to understatement of the expenditures in the current statement.

In case the Office does not take corrective action, the unfair presentation of the current statement will remain.

Project ID	Output	EURO Amount	USD Amount	Period/Month	Correction
00041098	00046774	26,858	34,302	2013-04	Should be allocated to KfW phase VII
00041098	00046774	39,492	51,691	2013-05	Should be allocated to KfW phase VII
00041098	00046774	35,840	46,728	2013-06	Should be allocated to KfW phase VII
00041098	00046774	17,676	23,442	2013-08	Should be allocated to KfW phase VII
00041098	00046774	24,534	32,539	2013-08	Should be allocated to KfW phase VII
00041098	00046774	34,200	43,678	2013-04	Should be allocated to KfW phase VII
00041098	00046774	72,091	94,360	2013-08	Should be allocated to KfW phase VII
Total		250,691	326,740		

Priority

Medium (Important)

Financial audit of the Output ID: 73017 titled "KfW Poverty Oriented Infrastructure (Phase VII)" for the year ended 31 December 2013.

Funded by: KfW - German Development Bank

Implemented by: UNDP Programme of Assistance to the Palestinian People

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:

Once funds are received from the donor, we will reverse the remaining payments to the correct EGP VII phase. In the future, we will ensure that deposits are received in a timely manner so as to prevent future need to charge incorrect project phases. Unfortunately, last year the donor would not disburse funds to UNDP until the audit of the 2012 was conducted which was delayed due to the new Regional LTA exercise. This practice of charging incorrect phases is done to prevent claims by contractors and the donor is aware of the practice as a short term solution.

4.1.2. Variance in the approved budget:

Observation

Criteria:

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

Notice Background:

During the audit, we noticed that there are budget variances in the accounts of some activities. The table below shows the actual amount of expenditures reported which exceeded the approved budget:

Activity	Description	Budget per Activity (USD)	Actual Reported	Variance
No. 3	Gaza Strip Construction Work	--	32,251	(32,251)

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:

While the overall budget for the project was sufficient to cover expenditures, we will take the steps to revise the budget line accordingly. This priority should be considered low.