AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

CONSTRUCTION OF KHAN YOUNIS WASTE WATER TREATMENT PLANT
(Directly Implemented Project No. 41529, Output No. 47395)

Report No. 1802
Issue Date: 7 September 2017
Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Construction of Khan Younis Waste Water Treatment Plant
(Project No. 41529, Output No. 47395)
Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Deloitte (the audit firm), from 6 June to 3 July 2017, conducted an audit of Construction of Khan Younis Waste Water Treatment Plant, Project No. 41529, Output No. 47395 (the Project), which is directly implemented and managed by the UNDP Programme of Assistance to the Palestinian People (the Office). This was the first audit of the Project.

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 2016 and the accompanying Funds Utilization statement¹ as of 31 December 2016 as well as Statement of Assets as of 31 December 2016. 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:

<table>
<thead>
<tr>
<th>Project Expenditure*</th>
<th>Project Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount (in $ '000)</strong></td>
<td><strong>Opinion</strong></td>
</tr>
<tr>
<td>9,832</td>
<td>Qualified</td>
</tr>
</tbody>
</table>

*NFM= Net Financial Misstatement

The audit firm qualified its opinion on project expenditure due to the incorrect recording of advances to implementing partners and of prepayments to contractors as expenses, which led to the overstatement of expenditures reported in the Combined Delivery Report (refer to issue 1). Even though the Net Financial Misstatement amount was material, the auditors took into consideration that all transactions reviewed were adequately supported by documentation relevant to the project activities and provided to them during the audit.

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

The audit raised one high priority recommendation that aims to ensure the reliability and integrity of financial and operational information. 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.

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) undepreciated 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.
The high (critical) priority recommendations is presented below:

Recording of advances to Implementing Partners and Prepayments to Contractors as Expenses (Issue 1)  
The audit identified that four advance payments made by UNDP to implementing partners based on signed agreements were recorded as expenses in full. These advance payments were granted to the implementing partners for the implementation of project activities. In addition, two payments made by UNDP to contractors based on signed contracts, were recorded as an expense in full, while these payments represented a 20 percent of the total contracts value. These prepayments were paid to the contractors to start implementing the project activities. This led to the overstatement of expenses by $9,045,177 representing the amount of the advances made to Implementing Partners and the prepayments made to the contractors. In addition, the aforementioned overstatement led to inflating the indirect costs recorded under the 'Facilities and Administration' account code by $723,614.

**Recommendation:** The Office should fully implement and follow the proper accounting treatments for the recording of prepayments as required by UNDP Programme and Operations Policies and Procedures.

**Management comments and action plan**

The Special Representative of the Administrator 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.

Brett Simpson
Officer-in-Charge
Office of Audit and Investigations
Report on Financial Audit of UNDP Directly Implemented Project
Managed by UNDP Programme of Assistance to the Palestinian People (PAPP)

Construction of Khan Younis Waste Water Treatment Plant

Project ID 00041529
Output ID 00047395

August 29, 2017
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Part I – Executive Summary

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

Dear Sir/Madam;

This report represents the results of the financial audit conducted by Deloitte Haskins & Sells LLP (DHS) through Deloitte & Touche (ME) Palestine Office on the project ID 00041529 - Output ID 00047395 “Construction of Khan Younis Waste Water Treatment Plant” (the project), directly implemented by UNDP Programme of Assistance to the Palestinian People (PAPP) for the period from 1 January to 31 December 2016.

The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI) and mandated in accordance with the LTA ACP/8631/2014/04 signed between UNDP and Deloitte India on 31 July 2015.

We have issued audit opinions as summarized in the table below and as detailed in the next sections:

<table>
<thead>
<tr>
<th>Statement of Expenses</th>
<th>Qualified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement of Fixed Assets</td>
<td>Unmodified</td>
</tr>
<tr>
<td>Statement of Cash Position</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

As a result of our audit, we have raised one audit finding with net financial impact as summarized below:

<table>
<thead>
<tr>
<th>Audit Finding</th>
<th>Priority</th>
<th>Net Financial Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recording the advances to Implementing Partners and Prepayments to Contractors as Expenses</td>
<td>High (Critical)</td>
<td>US$ 9,768,791</td>
</tr>
</tbody>
</table>
Follow up on Previous Audit Report

The Output was not audited in previous years, accordingly no follow up procedures were performed

Deloitte & Touche (M.E.)
Ramallah, Palestine
August 29, 2017
Audit objectives

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

1) Expressing an opinion on whether the expenses incurred by the project between 1 January to 31 December 2016 and the funds utilization as at 31 December 2016 were 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) and the accompanying Funds Utilization1 statement are the mandatory and official statements upon which the audit opinion should be expressed. Other forms of statement of expenses that may be prepared by a project office are not accepted.

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 2016. This statement includes all assets available as at 31 December 2016 and not only those purchased in a given period. Where a DIM project does not have any assets or equipment, it will not be necessary to express such an opinion.

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 2016, only if a dedicated bank account was established specifically for the project.

The Financial Audit was conducted in accordance with the International Standards of Auditing (ISA), the 700 series.

Scope of Audit

The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project for the period 1 January to 31 December 2016. The scope of the audit did 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 were not retained at the level of the UNDP country office.
INDEPENDENT AUDITOR’S REPORT ON STATEMENT OF EXPENSES

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

Qualified Opinion

We have audited the accompanying Combined Delivery Report (CDR), and the Funds Utilization Statement ("the statement") of the UNDP Project ID 00041529 - Output ID 00047395 "Construction of Khan Younis Waste Water Treatment Plant" for the period from 1 January to 31 December 2016.

In our opinion, except for the possible effects of the matters discussed in the Basis for Qualified Opinion section of our report, the accompanying Combined Delivery Report (CDR), and the Funds Utilization Statement presents fairly, in all material respects, the expenses of US$ 9,832,111.36 incurred by the UNDP PAPP under project ID 00041529 - Output ID 00047395 "Construction of Khan Younis Waste Water Treatment Plant" for the year ended December 31, 2016, in accordance with UNDP accounting policies, and 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.

Basis for Qualified Opinion

1. Based on the sample selected, for 4 of the advance payments made by UNDP to Implementing Partners and 2 prepayments made to contractors, the UNDP instantly recorded the payments as an expense in full instead of recording the payments initially as advances and prepayments and then reversing later for the actual expenses incurred by the Implementing Partners and contractors. This treatment which is not in line with the UNDP accounting policies resulted in overstating the expenses reported within the CDR by US$ 9,045,177. This overstatement represents only the advances and prepayments tested in our sample selected; we were not provided with the total population of the advances and prepayments recorded directly as expenses to quantify the total amount of the overstatement.

2. The aforementioned overstatements of the CDR expenses reported under output ID 00047395, led to overstating the indirect costs (Facilities and Admin – Implement, account code 75105) - which is calculated at 8% of the total expenses reported within the CDR - by US$ 723,614.
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor’s responsibilities for the audit of the CDR and Funds Utilization section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management Responsibilities
Management is responsible for the preparation of the CDR and Funds Utilization statement of the project, and for such internal control as management determines is necessary to enable the preparation of a CDR and Funds Utilization Statement that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities
Our objectives are to obtain reasonable assurance about whether the CDR and Funds Utilization statement are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISA’s, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also,

- Identify and assess the risks of material misstatement of the CDR and Funds Utilization statement, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 organization’s internal control.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche (M.E.)
Ramallah, Palestine
August 29, 2017
### Combined Delivery Report (CDR)

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Construction of Treatment Plant</th>
<th>Period</th>
<th>Jan-Dec (2016)</th>
<th>Impl. Partner</th>
<th>UNDP - PAPP</th>
<th>Location</th>
<th>Palestine</th>
</tr>
</thead>
<tbody>
<tr>
<td>00041529</td>
<td>PAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>00047305</td>
<td>Construction of Treatment Plant</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Dept</th>
<th>Fund</th>
<th>Activity</th>
<th>Gvt Exp</th>
<th>UNDP Exp</th>
<th>UN Agencies Exp</th>
<th>Total Exp</th>
</tr>
</thead>
<tbody>
<tr>
<td>70001</td>
<td>04999 (PAPP Core Programme)</td>
<td>Mobile Telephone Charges</td>
<td>44.85</td>
<td>0.00</td>
<td>0.00</td>
<td>44.85</td>
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<tr>
<td>77550</td>
<td>72625</td>
<td>Dep Exp Owned Vehicle</td>
<td>3,482.50</td>
<td>0.00</td>
<td>0.00</td>
<td>3,482.50</td>
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<tr>
<td>Total for Fund</td>
<td></td>
<td></td>
<td>2,497.25</td>
<td>0.00</td>
<td>0.00</td>
<td>2,497.25</td>
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<tr>
<td>30009 (PROGRAMME COST SHARING)</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>04388</td>
<td>72115</td>
<td>Svc Co-Natural Resources &amp; Env</td>
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<td>0.00</td>
<td>2,918,548.24</td>
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<tr>
<td>74598</td>
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<td>UNDP cost recovery chung-bills</td>
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<td>0.00</td>
<td>0.00</td>
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<td>75105</td>
<td>2</td>
<td>Facilities &amp; Admin - Implement</td>
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<td>0.00</td>
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<tr>
<td>Total for Fund</td>
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<td></td>
<td>3,123,908.05</td>
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<td>40500 (TF PAPP Voluntary Contrib Actv)</td>
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<tr>
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<td>72105</td>
<td>Svc Co-Construction &amp; Engineer</td>
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<td>6,208,070.32</td>
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<td>72170</td>
<td>0.00</td>
<td>Svc Co-Humanitarian Aid &amp; Ref</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>74598</td>
<td>488,645.83</td>
<td>Direct Project Costs - GOE</td>
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<td></td>
<td>488,645.83</td>
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<tr>
<td>75105</td>
<td>488,645.83</td>
<td>Facilities &amp; Admin - Implement</td>
<td>0.00</td>
<td>0.00</td>
<td></td>
<td>488,645.83</td>
</tr>
<tr>
<td>Total for Fund</td>
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<td>6,704,716.95</td>
<td>0.00</td>
<td></td>
<td>6,704,716.95</td>
</tr>
<tr>
<td>Total for Dept</td>
<td></td>
<td></td>
<td>9,832,111.36</td>
<td>0.00</td>
<td></td>
<td>9,832,111.36</td>
</tr>
<tr>
<td>Total for Output</td>
<td></td>
<td></td>
<td>9,832,111.36</td>
<td>0.00</td>
<td></td>
<td>9,832,111.36</td>
</tr>
</tbody>
</table>

**Project Total**: 9,832,111.36

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**Deloitte & Touche (M.E.)**
Certified Public Accountants
Ramallah - Palestine

**Signed By**: Ashok A. Shemuly - Program Manager, Ashar 23/2/2017

**Signed By**: Imad Al Husein - Program Specialist 23/2/2017
Financial audit of Project ID 00041529 “Construction of Khan Younis Waste Water Treatment Plant”
For the year ended 31 December 2016

<table>
<thead>
<tr>
<th>Project Id</th>
<th>Output #</th>
<th>Period</th>
<th>Impl. Partner</th>
<th>Location</th>
<th>Govt Exp</th>
<th>UNCP Exp</th>
<th>UN Agencies Exp</th>
<th>Total Exp</th>
</tr>
</thead>
<tbody>
<tr>
<td>70001</td>
<td>ALL</td>
<td>Jan-Dec (2016)</td>
<td></td>
<td></td>
<td>0.00</td>
<td>9,832,111.36</td>
<td>0.00</td>
<td>9,832,111.36</td>
</tr>
</tbody>
</table>

Raney Khader  Project Manager  23-2-2017
Ashraf A. Shemesh Program Manager  23/2/2017
Iman Al Huseini  Program Specialist  23/2/2017

Deloitte & Touche (M.E.)
Certified Public Accountants
Ramallah - Palestine
Financial audit of Project ID 00041529 “Construction of Khan Younis Waste Water Treatment Plant”
For the year ended 31 December 2016

```
<table>
<thead>
<tr>
<th>Output #</th>
<th>Impl. Partner: I22688 UNDP - PAPP</th>
<th>UNDP AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding NEX advances</td>
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<td>0.00</td>
</tr>
<tr>
<td>Undepreciated Fixed Assets</td>
<td></td>
<td>37,293.75</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>Prepayments</td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>Commitments</td>
<td></td>
<td>6,269,591.32</td>
</tr>
</tbody>
</table>

Randy Khadar, Project Manager
23-2-2017

Ashraf Al Shemali, Programme Manager
23-2-2017

Imran Al Hussein, Program Special
23-2-2017

Deloitte & Touche (M.E.)
Certified Public Accountants
Ramallah - Palestine
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INDEPENDENT AUDITOR’S REPORT ON STATEMENT OF FIXED ASSETS

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

Unmodified Opinion

We have audited the accompanying Statement of Fixed Assets of the UNDP project ID 00041529 - Output ID 00047395 “Construction of Khan Younis Waste Water Treatment Plant” as at 31 December 2016.

In our opinion, the accompanying Statement of Fixed Assets presents fairly, in all material respects, the status of the fixed assets of the UNDP project ID 00041529 - Output ID 00047395 amounting to US$ 37,293.75 as at 31 December 2016, in accordance with UNDP accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor’s responsibilities for the audit of the Statement of Fixed Assets section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management’s Responsibilities

Management is responsible for the preparation of the statement of fixed assets, and for such internal control as management determines is necessary to enable the preparation of the statement of fixed assets that are free from material misstatement, whether due to fraud or error.
Auditor’s Responsibilities

Our objectives are to obtain reasonable assurance about whether the statement of fixed assets is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISA’s, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also,

- Identify and assess the risks of material misstatement of the statement of fixed assets, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 organization’s internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche (M.E.)
Ramallah, Palestine
August 29, 2017
Statement of Fixed Asset

<table>
<thead>
<tr>
<th>Category</th>
<th>Location</th>
<th>Original Amount USD (A)</th>
<th>Depreciated Amount USD (B)</th>
<th>NET Book Value Amount USD (C=A-B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOUAREG VW VEHICLE</td>
<td>Gaza</td>
<td>41,310.00</td>
<td>4,016.25</td>
<td>37,293.75</td>
</tr>
<tr>
<td>Total Value</td>
<td></td>
<td>41,310.00</td>
<td>4,016.25</td>
<td>37,293.75</td>
</tr>
</tbody>
</table>

Prepared By: Ramzy Khader

Programme Manager: Ashraf Abu Shamala

Program Specialist: Iman Hussein

Deloitte & Touche (M.E.)
Certified Public Accountants
Ramallah - Palestine
Part III – Management Letter

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Finding 1: Recording the Advances to Implementing Partners and Prepayments to Contractors as Expenses......................................................................................................................... 15
To the Director of the Office of Audit and Investigations
United Nations Development Programme

Introduction
Under International Standards on Auditing, auditors are encouraged to report various matters concerning an entity’s internal control structure noted during their audit, and are required to report certain of those matters. Matters that are required to be reported are “significant deficiencies in the design or operation of the internal control structure that, in the auditor’s judgment, could adversely affect the entity’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.”

As part of our audit of the Project’s financial statements of the Project ID 00041529 - Output ID 00047395 “Construction of Khan Younis Waste Water Treatment Plant” for the period from 1 January to 31 December 2016, we considered UNDP’s internal control structure and compliance with its accounting policies in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. Our purpose was not to provide assurance on the internal control structure.

We emphasize that the responsibility for a sound system of internal controls rests with management and work performed by external audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of irregularity should there be any, although our audit procedures have been designed so that any material irregularity has a reasonable probability of discovery.

The matters raised in this part are those which came to our attention during the audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be needed. Recommendations for improvements should be assessed by management for their full commercial impact before they are implemented. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Acknowledgment
We wish to express our appreciation for the courtesy and cooperation extended to our representatives during the course of their work.

Deloitte & Touche (M.E.)
Ramallah, Palestine
August 29, 2017
Financial audit of output ID 00047395 “Construction of Khan Younis Waste Water Treatment Plant”
For the year ended 31 December 2016

**Finding 1: Recording the Advances to Implementing Partners and Prepayments to Contractors as Expenses**

**Observation**
Per Programme and Operations Policies and procedures (POPP), advances payments made to Implementing partners (i.e. NGOs) are recorded by the Office as an advance, and reversing later the advances for the actual expenses incurred by the Implementing partners after obtaining the related supporting documents of the expenses incurred by the Implementing partner.

During the audit of the sample selected, we noted that for 4 of the advance payments made by UNDP to Implementing Partners based on signed agreements, the Office recorded the advance payments as an expense in full. These advances were paid to the Implementing Partners to start implementing the project activities which are properly supported with signed agreements along with other relevant supporting documents.

The table below illustrates the instances noted:

<table>
<thead>
<tr>
<th>S.L</th>
<th>Journal ID</th>
<th>Date Recorded</th>
<th>Account #</th>
<th>Description</th>
<th>Amount - USD</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>AP06717451</td>
<td>3-Nov-16</td>
<td>72115</td>
<td>Advance pay./CMWU/Implement. 20% advance payment for CMWU for contractors of the pressure line</td>
<td>764,204</td>
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<tr>
<td>2</td>
<td>AP06717451</td>
<td>3-Nov-16</td>
<td>72115</td>
<td>Advance pay./CMWU/Implement.20% advance payment for CMWU for contractors of the infiltration basins</td>
<td>1,127,200</td>
</tr>
<tr>
<td>3</td>
<td>AP06724126</td>
<td>8-Nov-16</td>
<td>72115</td>
<td>10% advance Payment-CMWU... 10% advance payment for CMWU to be used in 2017 for the infiltration basins</td>
<td>563,600</td>
</tr>
<tr>
<td>4</td>
<td>AP06724126</td>
<td>8-Nov-16</td>
<td>72115</td>
<td>10% advance Payment-CMWU...10% advance payment for CMWU to be used in 2017 for the pressure line</td>
<td>382,102</td>
</tr>
</tbody>
</table>

2,837,106

Furthermore, POPP states that, a prepayment is used when a supplier requires partial or full payment for goods or services prior to the delivery/provision of the goods or services. When paid, prepayments reflect as amounts due to UNDP and are recorded in the asset account 16065 (Prepaid Voucher Modality). As the goods or services are provided, the prepaid asset balance must be reduced and an expense recorded for the amount of goods or services received by UNDP. This is achieved by receipting and vouchering against the relevant PO and offsetting the prepayment against the Accounts Payable PO voucher. Such offsets need to be communicated to the vendor.

During the audit of the sample selected, we noted that for 2 of the payments made by UNDP to contractors based on signed contracts, the Office recorded the payments as an expense in full, while these payments represented a 20% prepayments of total contracts upon signature of contract with the suppliers against obtaining bank Guarantees from the suppliers. These prepayments were paid to the contractors to start implementing the project activities which are properly supported with signed contracts along with other relevant supporting documents.
Financial audit of output ID 00047395 “Construction of Khan Younis Waste Water Treatment Plant”
For the year ended 31 December 2016

The table below illustrates the instances noted:

<table>
<thead>
<tr>
<th>S.L</th>
<th>Journal ID</th>
<th>Date Recorded</th>
<th>Account #</th>
<th>Description</th>
<th>Amount - USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AP06806573</td>
<td>27-Dec-16</td>
<td>72105</td>
<td>- Adv-Pay.METITO-Inv #13516100/01</td>
<td>5,680,673</td>
</tr>
<tr>
<td>2</td>
<td>AP06798397</td>
<td>21-Dec-16</td>
<td>72105</td>
<td>Handala Co.-inv.#436- project construction of main pressure lines to the sea and to the infiltration basins.</td>
<td>527,398</td>
</tr>
</tbody>
</table>

This led to overstatement of expenses recorded within the CDR by US$ 9,045,177 representing the amount of the advances made to Implementing Partners and the prepayments made to the contractors.

In addition, aforementioned overstatement led to overstating the indirect costs (Facilities and Admin – Implement, account code 75105) - which is calculated at 8% of the total expenses reported within the CDR – by US$ 723,614.

The net financial impact of this observation including the overstatement in indirect costs (Facilities and Admin – Implement, account code 75105) is US$ 9,768,791.

Non-compliance with UNDP POPP and recording payments to implementing partners and contractors as expense instead of advances and prepayments may result in reporting inaccurate expenses on CDR which can be misleading for stakeholders making decisions.

**Priority**
High (Critical)

**Recommendation**
The Office should fully implement and follow proper accounting treatments for recording of prepayments as required by POPP.
Management’s Response and action plan

UNDP/PAPP agree with the audit finding. UNDP/PAPP will review the internal process with respect to contract advance payments to be in line with the POPP as well as with Audit recommendation.

Auditor’s Response

UNDP country office management accepted the observation. No further audit procedures required.
Priorities of Audit Recommendations

High (Critical)  
Action is considered imperative to ensure that UNDP is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium (Important)  
Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.

Low  
Action is considered desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the Auditors directly with the Office management, during the exit meeting and through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in the audit report.