



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

**COMMUNITY RESILIENCE AND DEVELOPMENT PROGRAMME FOR AREA C AND EAST
JERUSALEM**
(Directly Implemented Project No. 69435, Output No. 84013)

Report No. 1944
Issue Date: 2 August 2018

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Community Resilience and Development Programme for Area C and East Jerusalem
(Project No. 69435, Output No. 84013)**

Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Tala Abu-Ghazaleh & Co. (the audit firm), from 15 to 31 May 2018, conducted an audit of Community Resilience and Development Programme for Area C and East Jerusalem (Project No. 69435, Output No. 84013), which is directly implemented and managed by the UNDP Programme of Assistance to the Palestinian People (the Office). The last audit of the Project was conducted by OAI, through Deloitte in 2017 and covered project expenses from 1 January to 31 December 2016.

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 expenses for the period from 1 January to 31 December 2017 and the accompanying Funds Utilization statement¹ as of 31 December 2017 as well as Statement of Assets as of 31 December 2017. 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(s) and corresponding management letter(s) submitted by the audit firm, the results are summarized in the table below:

Project Expenses*				Project Assets	
Amount (in \$ '000)	Opinion	NFM** (in \$ '000)	Effect on CDR	Amount (in \$ '000)	Opinion
6,365	Qualified	43	Understatement	46	Unmodified***

* Included in the audit scope were transactions that relate to expenses incurred at the "responsible party" level (\$3,851) as these were not covered under HACT audits and all related supporting documents were available for review at the level of UNDP PAPP.

**NFM= Net Financial Misstatement

***Unmodified=Unqualified or clean opinion

The audit firm qualified its opinion on project expenses due to a miscalculation of General Management Support cost (GMS).

Key recommendation: Total = 1, high priority = 1

The recommendation aims to ensure compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 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. The high (critical) priority recommendation is presented below:

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.

Miscalculation of
General Management
support (GMS)
(Issue 1)

The GMS amount recorded in the 2017's CDR was calculated using a percentage of 7 percent instead of the agreed upon percentage of 8 percent, thus resulting in an understatement of expenses amounting to \$43,000.

Recommendation:

The Office should comply with terms of grant agreement in calculating the GMS and should record the above-mentioned amounts in the correct accounting period.

Management comments and action plan

The Special Representative to 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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

United Nations Development Programme

**Financial Audit of Directly Implemented Project Managed by
UNDP- Programme of Assistance to the Palestinian People (PAPP)**

**“Community Resilience and Development Programme For Area C and East
Jerusalem”**

(Project ID 69435 - Output ID: 84013)

For the period from 1 January to 31 December 2017

26 July 2018

Talal Abu – Ghazaleh & Co.
Certified Public Accountants



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1. PART I – EXECUTIVE SUMMARY

1.1. Executive Summary:

This report represents the results of the financial audit conducted by Talal Abu – Ghazaleh & Co. of the Project ID 69435 – Output ID: 84013 “Community Resilience and Development Programme For Area C and East Jerusalem)” (the project), directly implemented by UNDP Programme of Assistance to the Palestinian People (PAPP) for the period from 1 January to 31 December 2017.

The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI) and mandated in accordance with the Contract for Professional Services signed between UNDP and Talal Abu –Ghazaleh & Co. on 29 March 2018.

Audit opinions:

The following is the summary of the audit opinions provided:

Report on	Type of opinion	Note
Financial Position	Qualified	The GMS's amount recorded in the Current CDR was not correctly calculated according to the terms of agreement.
Statement of Fixed Assets	Unmodified	
Statement of Cash Position	Not applicable	There was no separate bank account for the project under audit therefore, no audit opinion to be provided on the Statement of Cash Position.

Audit Finding:

As a result of our audit, the following finding was included in the management letter:

Summary of Audit Finding	Priority	Net Financial Impact
The GMS amount that recorded in the 2017's CDR was calculated using percentage 7% instead of 8%.	High (Critical)	Understated the expenses in current CDR by an amount of USD 43,146.

Follow-up on Previous year audit recommendations:

The output ID 69435 was audited in 2017 for FY2016. The previous audit report no.1805 was issued on 1 September 2017 for the output ID 69435 “Community Resilience and Development Programme For Area C and East Jerusalem” for the period from 1 January to 31 December 2016 did not result in any recommendations; accordingly, no follow up procedures were required to be performed.

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)



Talal Abu –Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 26 July 2018

1.2. Audit objectives

A. The objective of the financial audit is to express an opinion on the project’s financial position which include:

- 1) Expressing an opinion on whether the expenses incurred by the project for the period from 1 January to 31 December 2017 and the funds utilization, the accounts receivable and the accounts payable as at 31 December 2017 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 Utilization 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, at net book value, presents fairly the balance of depreciated assets of the UNDP Project as at 31 December 2017. This statement should include all assets available as at 31 December 2017 and not only those purchased in the year under audit. Where a DIM project does not have any assets or equipment it will not be necessary to express such an opinion, and
- 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 2017. Disbursements made against directly implemented project, 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. It is required to express an opinion on the Statement of Cash only where a dedicated bank 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.

B. Providing the progress made in implementing the recommendations raised in a previous year audit report (if any).

The financial audit was conducted in accordance with the International Standards on Auditing (ISA), the 700 series.

1.3. Scope of Audit:

The scope of the audit relates only to transactions concluded and recorded against the “UNDP-DIM” project for the period from 1 January to 31 December 2017.

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 Centres and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP office.

2. PART II – FINANCIAL AUDIT REPORTS

2.1. Auditor's Report on Financial Position.

**Independent Auditor's Report on the Project Financial Position
of UNDP DIM Project ID 69435 – Output ID 84013
“Community Resilience and Development Programme For Area C and East
Jerusalem”**

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

We have audited the financial position of the UNDP project ID 69435 output ID 84013 “Community Resilience and Development Programme For Area C and East Jerusalem”, for the period from 1 January to 31 December 2017, which include: (a) the accompanying Combined Delivery Report (CDR); (b) the Funds Utilization statement (the statement); and (c) the project-related accounts receivable and accounts payable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the basis for Qualified Opinion section of our report, the accompanying Combined Delivery Report (CDR) and Funds Utilization statement present fairly, in all material respects, the expenses of USD 6,364,925.46 directly incurred by UNDP PAPP and charged to the project for the period from 1 January to 31 December 2017 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.

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.

- The current GMS included in the CDR was not correctly calculated according to signed agreement (i.e. 8% of construction measure) which led to understate the GMS in 2017 CDR by USD 43,146.

Management Responsibilities

Management is responsible for the preparation and fair presentation of the of the CDR and the 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 is 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 the 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 ISAs, we exercise professional judgment 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 risks, 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, 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.

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu –Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 26 July 2018





UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

Page 2 of 4
Run Time: 25-02-2018 12:02:28

Project Id : 00069435 Community Resilience & Dev. P		Period :	Jan-Dec (2017)	
Output # : 00084013 Community Resilience Program		Impl. Partner :	02388 UNDP - PAPP	
		Location :	Palestine	
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
72810 - Acquis of Computer Software	0.00	966.01	0.00	966.01
73101 - Leased/rented land	0.00	4,807.38	0.00	4,807.38
73110 - Custodial & Cleaning Services	0.00	164.36	0.00	164.36
73120 - Utilities	0.00	31,567.28	0.00	31,567.28
73305 - Maint & Licensing of Hardware	0.00	386.20	0.00	386.20
73410 - Maint, Oper of Transport Equip	0.00	4,093.13	0.00	4,093.13
74110 - Audit Fees	0.00	3,776.00	0.00	3,776.00
74120 - Capacity Assessment	0.00	49,000.00	0.00	49,000.00
74205 - Audio Visual Productions	0.00	750.00	0.00	750.00
74210 - Printing and Publications	0.00	1,786.61	0.00	1,786.61
74220 - Translation Costs	0.00	650.00	0.00	650.00
74225 - Other Media Costs	0.00	10,000.00	0.00	10,000.00
74325 - Contrib.To CO Common Security	0.00	10,439.00	0.00	10,439.00
74505 - Insurance	0.00	8,281.22	0.00	8,281.22
74510 - Bank Charges	0.00	30.00	0.00	30.00
74525 - Sundry	4,204.00	1,326.59	0.00	5,530.59
74596 - Services to projects -GOE	0.00	22,297.00	0.00	22,297.00
74598 - Direct Project Costs - GOE	0.00	2,813.60	0.00	2,813.60
74710 - Land Transport	0.00	199.45	0.00	199.45
75105 - Facilities & Admin - Implement	0.00	431,518.82	0.00	431,518.82
76125 - Realized Loss	0.00	604.37	0.00	604.37
76135 - Realized Gain	0.00	- 92.69	0.00	- 92.69
77360 - Med Exams(incl Pre-empl)-TA	0.00	165.47	0.00	165.47
77630 - Dep Exp Owned - ITC	0.00	186.90	0.00	186.90
77660 - Dep Exp Owned -Vehicle	0.00	4,607.01	0.00	4,607.01
Total for Fund 30000	3,851,413.30	2,513,512.16	0.00	6,364,925.46
Total for Dept : 70001	3,851,413.30	2,513,512.16	0.00	6,364,925.46
Total for Output : 00084013	3,851,413.30	2,513,512.16	0.00	6,364,925.46
Project Total :	3,851,413.30	2,513,512.16	0.00	6,364,925.46



Signed By : CRDP PM: JAMAL ALAREF Date : 28.05.18
 Signed By : [Signature] Date : 28/5/2018



UNDP UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

Page 3 of 4
Run Time: 25-02-2018 12:02:30

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2017)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00084013

Project Id : ALL	Period : Jan-Dec (2017)			
Output # : ALL	Impl. Partner : Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	3,851,413.30	2,513,512.16	0.00	6,364,925.46

CRDP PM: JAMAL AL AREF

Handwritten signatures and dates:
28-05-18
Finance Officer
29/5/2018





UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 4 of 4
Run Time: 25-02-2018 12:02:33

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2017)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00084013

Project/Award: 00069435 Community Resilience & Dev. P

Period : As at Dec 31, 2017

Output #	00084013	Impl. Partner :02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances			0.00
Undepreciated Fixed Assets			45,834.33
Unamortized Intangible Assets			0.00
Inventory			0.00
Prepayments			0.00
Commitments			4,571.96

CRDP PM: JAMAL AL AREF

Jamal Aref
28-05-18

Amr Al-Aref
Amr Al-Aref
28/5/18



2.3 Auditors Report on the Statement of Fixed Assets:

**Independent Auditor's Report on the Statement of Fixed Assets
of UNDP DIM Project ID 69435 – Output ID 84013
“Community Resilience and Development Programme For Area C and East
Jerusalem”**

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

We have audited the accompanying statement of fixed assets of the UNDP project ID 69435 - output ID 84013 “Community Resilience and Development Programme For Area C and East Jerusalem” as at 31 December 2017.

Unmodified Opinion

In our opinion, the accompanying statement of fixed assets presents fairly in all material respects the assets status of the UNDP project ID 69435 - output ID 84013 - “Community Resilience and Development Programme For Area C and East Jerusalem”, amounting to USD 45,834.33 as at 31 December 2017 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. 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 Statement of fixed assets of the project and for such internal control as management determines is necessary to enable the preparation of the statement of fixed assets that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the audit

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 ISAs, we exercise professional judgment 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 risks, 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, 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.

Jamal Milhem, CPA
Certified Accountant License # (100/98)

Talal Abu –Ghazaleh & Co.
License No. 251/1997
Ramallah – Palestine, 26 July 2018



2.4. Statement of Fixed Assets:

"Community Resilience and Development Programme For Area C and East Jerusalem")

(Project ID 69435 - output ID: 84013)

for the period from 1 January to 31 December 2017

Statement of assets					
As of 31 December 2017					
Project No. 69435 - Community Resilience & Dev. P					
Output 84013 - Community Resilience Program					
Category	Year	Location	Original Amount	Depreciated Amount	Net Book Value
			USD	USD	USD
vehicle	2014	Jerusalem	26,355.25	8,052.99	18,302.26
Laptop	2014	Jerusalem	1,869.00	654.15	1,214.85
vehicle	2016	Jerusalem	28,928.85	2,611.63	26,317.22
Total Value			57,153.10	11,318.77	45,834.33

Program Manager:

Jamal El Aref

Finance officer

Aghamasser



3. PART III: MANAGEMENT LETTER

3.1 Current year audit findings and recommendations

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

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 position of the Project ID 69435, output ID 84013 "Community Resilience and Development Programme For Area C and East Jerusalem" for the period from 1 January to 31 December 2017, 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.

Jamal Milhem, CPA
Certified Accountant License # (100/98)

Jamal J. Milhem



Talal Abu-Ghazaleh & Co.
License No. 251/1997
Ramallah – Palestine, 26 July 2018

Finding 1:

Title:

Miscalculation of General Management support (GMS).

Criteria:

According to the general conditions of amendment No. 4 for the signed agreement between the UNDP PAPP and Swedish International Development Cooperation Agency (SIDA) in 14 August 2017, an amount of 8% should be charged as a General Management Support (GMS) instead of 7%.

Observation:

During our audit, we noticed that the GMS amount recorded in the 2017 CDR was calculated using percentage of 7% instead of 8%. Although, UNDP made an adjustment for that error later in 2018 CDR, 2017 CDR is still understated by an amount of USD 43,146.

The reason for this miscalculation is due to the delay in charging the new GMS percentage with the current year.

Non-compliance with the terms of the agreement and the amendments led to understatement of the expenses in the current CDR.

Priority:

High (Critical)

Recommendation:

The Office should comply with terms of grant agreement in calculating the GMS and to record the above-mentioned amounts in the correct accounting period.

Management's Response:

Around mid-August 2017, one of CRDP Donors amended their agreement with UNDP and consequently changed the GMS percentage from 7% to 8%. Since financial records prior to 2017 in ATLAS are not accessible, the change in ATLAS was done effective January 2017.

The system automatically charges GMS according to the percentage set in ATLAS while as in this case it should have retroactively charged 8% GMS from January 2017 onward. However, for a technical reason in the system, the new percentage of the GMS was only reflected from the date of the change done in the system.

In January 2018, the error was identified and was manually adjusted; however, the adjusting entry was recorded in 2018 since 2017 books were already closed.

Priorities of Audit Recommendations

High (Critical)	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.
Medium (Important)	Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
Low	Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.