UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

SUPPORT TO EDUCATION SECTOR IN EAST JERUSALEM
(Directly Implemented Project No. 99472, Output No. 102751)

Report No. 2073

Issue Date: 14 August 2019

Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Support to Education Sector in East Jerusalem
(Project No. 99472, Output No. 102751)
Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Talal Abu-Ghazaleh & Co. (the audit firm), from 23 April to 14 June 2019, conducted an audit of Support to Education Sector in East Jerusalem (Project No. 99472, Output No. 102751) (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 expenses for the period from 1 January to 31 December 2018 and the accompanying Funds Utilization statement[1] as of 31 December 2018. The audit did not cover the Statement of Assets as no assets were held 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 Expenses		
Amount (in $ '000)	**Opinion**	**NFM* (in $ '000)**
10,546	Adverse	8,690

**NFM= Net Financial Misstatement*

The audit firm issued an adverse opinion on project expenses due to the recording of advanced payments as expenses in the Combined Delivery Report (CDR).

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

The recommendation 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. 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.

Recording advance payments as expenses in the Combined Delivery Report (CDR) (Issue 1)	Advance payments of $8,436,932 were recorded as expenses. These payments were made to the schools to start implementing project activities. As of 31 December 2018, none of the project activities were implemented, which led to an overstatement of the expenses recorded in the 2018 CDR. This overstatement led to overstating the General Management Support expenses by $253,108. Recommendation: The Office should recognize expenses only for goods or services that have been received or provided during the current financial year.

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.

Helge S. Osttveiten
Director
Office of Audit and Investigations

United Nations Development Programme
(UNDP)

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

“Support to Education Sector in East Jerusalem”
(Project ID 99472 - Output ID 102751)
For the Year Ended 31 December 2018

4 August 2019

Talal Abu Ghazaleh & Co.
Member of Talal Abu Ghazaleh & Co. International, TAGI
"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 99472 – output ID 102751 "Support to Education sector in East Jerusalem" (the project), directly implemented by UNDP Programme of Assistance to the Palestinian People for the period from 1 January to 31 December 2018.

This 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	Adverse	All advance payments were recorded as expenses in the CDR, which was not in line with the UNDP Programme and Operations Policies and procedures (POPP) this led to material overstatement of recorded expenses.
Statement of Fixed Assets	Not applicable	There were no fixed assets or equipment. Therefore, no audit opinion is provided on the statement of fixed assets.
Statement of Cash	Not applicable	There was no separate bank account for the project under audit. Therefore, no audit opinion is provided on the statement of cash.

– **Audit Findings:**

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

Summary of Audit Finding	Priority	Net Financial Impact
All advance payments were recorded as expenses in the CDR which is not in line with the UNDP Programme and Operations Policies and Procedures (POPP). Due to recording of advance payments as expenses, the GMS expenses were calculated as 3% of the overstated expenses reported in the current CDR. .	High (Critical)	Construction and engineering expenses in current CDR are overstated by the amount of US$ 8,436,932.15. Facilities and admin expenses in the current CDR are overstated by the amount of US$ 253,107.96

- **Follow-up of Previous Year's Audit Recommendations:**

The project ID 99472 – output ID 102751 "Support to Education Sector in East Jerusalem", was not audited in the prior year.

Sincerely yours,

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

Jamal J. Milhem
2019
Talal Abu-Ghazaleh & Co.

Talal Abu –Ghazaleh & Co.
License No. 251/1997
Ramallah – Palestine, 4 August 2019

1.2. Audit Objectives

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

1) Expressing an opinion on whether the financial expenses incurred by the Project from 1 January to 31 December 2018 and the funds utilization, the accounts receivable and the accounts payable as at 31 December 2018 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 2018. This statement should include all assets available as at 31 December 2018 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; 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 2018. Disbursements made against directly implemented project, DIM projects 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 accounts 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 2018.
The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties"; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centers and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP country office.

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 99472- Output ID 102751
"Support to Education Sector in 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 99472 - output ID 102751 "Support to Education Sector in East Jerusalem", for the period from 1 January to 31 December 2018, 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.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying CDR and Funds Utilization statement do not present fairly the expenses of US$ 10,545,679.23 directly incurred by the UNDP PAPP and charged to the project for the period from 1 January to 31 December 2018.

Basis for Advers 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 office recorded all advance payments as expenses in the CDR. This treatment which is not in line with the UNDP policies, led to the overstatement of the expenses reported in the CDR by US$ 8,436,932.15. This also led to the overstatement of facilities and admin expense (Account no.75105) by US$ 253,107.96.

Management's Responsibilities

Management is responsible for the preparation 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)

Jamal J. Milhem
2019
Talal Abu-Ghazaleh & Co.

Talal Abu –Ghazaleh & Co.
License No. 251/1997
Ramallah – Palestine, 14 June 2019

2.2 Combined Delivery Report (CDR) and Funds Utilization Statement

Combined Delivery Report by Activity

UN Development Programme
Report ID: unglcdrb

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Run Time: 29-04-2019 14:04:07

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2018)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00102751

Project Id : 00099472 Right to Education in JRS II — Period : Jan-Dec (2018)
Output # : 00102751 EDUCATION in East Jerusalem — Impl. Partner : 02388 UNDP - PAPP
Location : Palestine

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Activity : CONSTRUCTION (Construction)				
Fund : 30071 (Programme Cost Sharing GOV1)				
72105 - Svc Co-Construction & Engineer	0.00	7,598,450.78	0.00	7,598,450.78
72145 - Svc Co-Training and Educ Serv	0.00	2,640,072.74	0.00	2,640,072.74
75105 - Facilities & Admin - Implement	0.00	307,155.71	0.00	307,155.71
Total for Fund 30071	0.00	10,545,679.23	0.00	10,545,679.23
Total for Activity CONSTRUCTION	0.00	10,545,679.23	0.00	10,545,679.23
Total for Output : 00102751	0.00	10,545,679.23	0.00	10,545,679.23
Project Total :	0.00	10,545,679.23	0.00	10,545,679.23

Signed By : Muna Hidmi - Programme Coordinator Date : 29/April/2019

Signed By : Motaz Drwabsheh - Programme Analyst Date : 2/5/2019

Talal Abu-Ghazaleh & Co.

Combined Delivery Report by Activity

UN Development Programme
Report ID: unglcdrb

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Run Time: 29-04-2019 14:04:07

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2018)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00102751

Project Id : ALL
Output # : ALL
Period : Jan-Dec (2018)
Impl. Partner :
Location :

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	10,545,679.23	0.00	10,545,679.23

Motzz Dawabsheh - Programme Analyst 2/5/2019
Musa Hidmi - Program Coordinator - 29 April 2019

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Talal Abu-Ghazaleh & Co.

Combined Delivery Report by Activity

UN Development Programme
Report ID: unglcdrb

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Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2018)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00102751

No Data found for the Selection Criteria

Motaz Dawabsheh Programme Analyst 2/5/2019

Mua Hidmi - Programme Coordinator - 29 April 2019

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Talal Abu-Ghazaleh & Co.

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 99472 - output ID 102751 "Support to Education Sector in East Jerusalem", for the period from 1 January to 31 December 2018, 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
2019
طلال أبوغزاله وشركاه
Talal Abu-Ghazaleh & Co.

Talal Abu –Ghazaleh & Co.
License No. 251/1997
Ramallah – Palestine, 14 June 2019

Finding No. 1:

Title:

Recording advance payments as expenses in the CDR.

Criteria:

UNDP Programme and Operations Policies and Procedures (POPP) states that expenses are recognized when goods or services have been received.

Observation:

The objective for project ‘Support to Education Sector in East Jerusalem” is to strengthen the capacity of weak schools that require immediate attention to preserve their existence through grant the chosen schools to implement various activities such as; Improving learning environment at the basic and secondary education levels and early childhood through provision of infrastructure activities, maintenance, expansion, zoning and planning, upgrading of existing facilities and utility infrastructure, provision of furniture and equipment; in addition to Human resource development and capacity building activities, including teachers training ; moreover to other activates such as Support to the informal education; Support the technical and vocational education; support research and development. etc

During the audit, we noticed that an amount of US$ 8,436,932.15 was recorded as expenses while this amount represented advance payments paid to the schools to start implementing the project activities. As of 31 December 2018, none of the project activities were implemented yet by the schools which led to overstatement of the expense recorded in the 2018 CDR.

The overstatement of the expenses recorded in the CDR, led to overstating the Facilities and Admin expenses (account no. 75105) with the amount of US$ 253,107.96, as it is calculated as 3% of total expenses reported in the CDR.

The net financial impact of this observation including the overstatement in indirect costs is US$ 8,690,040.11.

The office responded that this occurred as the overall implementing arrangement should have been under the management support services modality whereby UNDP is providing financial services to the government by transferring funds to the identified schools on their behalf. As such the transfers were logged as expenses and not advances.

Noncompliance with POPP and recording advance payments as expenses may result in reporting inaccurate expenses within the current CDR, which can be misleading for making decisions.

Priority:

High (Critical)

Recommendation:

The office should recognize expenses only for goods or services that have been received or provided during the current financial year.

Management’s Response:

UNDP acknowledge the finding of the auditors and will look to rectify this within the new phase planned for this year by signing a new agreement with the donor that reflects the services to be provided on behalf of the government ministry to the identified schools.

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.