



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE (PAPP)

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

Report No. 2247
Issue Date: 17 August 2020

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People (PAPP)
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 Talal Abu-Ghazaleh & Co. (the audit firm), from 31 May to 29 June 2020, 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). The last audit of the Project was conducted by OAI, through Talal Abu-Ghazaleh & Co. in 2019 and covered project expenses from 1 January to 31 December 2018.

The audit firm conducted a financial audit, in accordance with the International Standards of Auditing (ISA), the 700 series, 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 2019 and the accompanying Funds Utilization statement¹ as of 31 December 2019 as well as Statement of Assets as of 31 December 2019. The audit did not cover the Statement of Cash 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			Project Assets	
Amount (in \$ '000)	Opinion	NFM* (in \$ '000)	Amount (in \$ '000)	Opinion
11,000	Unmodified	(27)	27	Unmodified

*NFM= Net Financial Misstatement. The amount shown in brackets relates to an understatement.

Key recommendation: Total = 1, high priority = 0

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendations, which means, "Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP." This recommendation includes actions to address an understatement of the 2019 Combined Delivery Report (CDR).

The recommendation aims to ensure the reliability and integrity of financial and operational information (Recommendation 1).

Implementation status of previous OAI audit recommendations:

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 previous audit (Report No. 2067, issued on 5 August 2019) did not result in any recommendations.

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. Ostveiten
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)**

**“Construction of Khan Younis Waste Water Treatment Plant”
(Project ID 41529 - Output ID 47395)
For the period from 1 January to 31 December 2019**

10 August 2020

**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 41529 – output ID 47395 “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 2019.

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 20 April 2020.

- Audit Opinions:

The following is the summary of the audit opinions provided:

Report on	Type of Opinion	Note
Financial Position	Unmodified	
Statement of Fixed Assets	Unmodified	
Statement of Cash	Not applicable	There was no separate bank account for the project under audit therefore, no audit opinion to be provided on a 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
The current Combined Delivery Report (CDR) is understated due to refunding of expenses from other projects.	Medium (Important)	The current CDR is understated with an amount of US\$ 25,000.00. These refund led to understatement of 2019 GMS expenses (Facilities and Admin) with an amount of US\$ 1,750.00.

Follow-up on Previous year audit recommendations:

The project ID 41529 – output ID 47395 “Construction of Khan Younis Waste Water Treatment Plant” was audited in the prior year (audit ID 2067 issued on 14 August 2019). The previous audit did not result in any recommendation.

Sincerely yours,

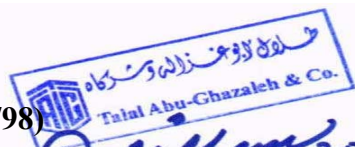
Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu –Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 10 August 2020



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 financial expenses incurred by the Project from 1 January to 31 December 2019 and the funds utilization, the accounts receivable and the accounts payable as at 31 December 2019 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.
 - 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 2019. This statement should include all assets available as at 31 December 2019 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 2019. 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. As applicable, providing the progress made in implementing the recommendations raised in a previous year audit report.

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 2019.

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 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 41529 – Output ID 47395
“Construction of Khan Younis Waste Water Treatment Plant”**

**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 41529 – output ID 47395 “Construction of Khan Younis Waste Water Treatment Plant”, for the period from 1 January to 31 December 2019, 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.

Unmodified Opinion

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization Statement present fairly, in all material respects the expenses of US\$ 11,000,810.00 directly incurred by UNDP PAPP and charged to the project ID 41529 – output ID 47395 for the period from 1 January to 31 December 2019 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 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.

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 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.

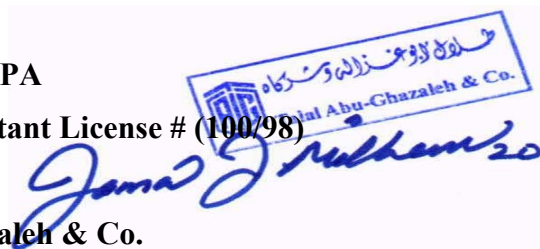
Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu –Ghazaleh & Co.

License No. 251/1997

Ramallah – Palestine, 30 June 2020



2.2. Combined Delivery Report (CDR) and Funds Utilization Statement

"Construction of Khan Younis Waste Water Treatment Plant" (Project ID 41529 - Output ID 47395) For the period from 1 January to 31 December 2019

Combined Delivery Report By Project

UN Development Programme
Report ID: unglcdrp

Page 1 of 3
Run Time: 27-02-2020 16:02:47

Selection Criteria:

Business Unit: PAL10
Period: Jan-Dec (2019)
Selected Project Id: ALL
Selected Fund Code: ALL
Selected Dept. IDs: ALL
Selected Outputs: 00047395

Project Id: 00041529 PAL/Construction of Treatment Plant	Period: Jan-Dec (2019)	Impl. Partner: 02388 UNDP - PAPP	Location: Palestine	
Output #: 00047395 Construction of Treatment Plant				
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 70001 (PAPP - Central)				
Fund: 04950 (PAPP Core Programme)				
77660 - Dep Exp Owned -Vehicle	0.00	3,442.50	0.00	3,442.50
Total for Fund 04950	0.00	3,442.50	0.00	3,442.50
Fund: 30000 (PROGRAMME COST SHARING)				
71205 - Intl Consultants-Sht Term-Tech	0.00	464,257.22	0.00	464,257.22
71305 - Local Consult-Sht Term-Tech	0.00	25,000.00	0.00	25,000.00
72105 - Svc Co-Construction & Engineer	0.00	4,678,174.98	0.00	4,678,174.98
72115 - Svc Co-Natural Resources & Env	0.00	2,985,655.54	0.00	2,985,655.54
74510 - Bank Charges	0.00	120.00	0.00	120.00
75105 - Facilities & Admin - Implement	0.00	567,224.53	0.00	567,224.53
Total for Fund 30000	0.00	8,670,432.27	0.00	8,670,432.27
Fund: 40500 (TF PAPP Voluntary Contrib Actv)				
71205 - Intl Consultants-Sht Term-Tech	0.00	171,775.08	0.00	171,775.08
72105 - Svc Co-Construction & Engineer	0.00	1,982,794.59	0.00	1,982,794.59
72115 - Svc Co-Natural Resources & Env	0.00	0.00	0.00	0.00
74596 - Services to projects -GOE	0.00	0.00	0.00	0.00
75105 - Facilities & Admin - Implement	0.00	172,365.56	0.00	172,365.56
Total for Fund 40500	0.00	2,326,935.23	0.00	2,326,935.23
Total for Dept: 70001	0.00	11,000,810.00	0.00	11,000,810.00
Total for Output: 00047395	0.00	11,000,810.00	0.00	11,000,810.00
Project Total:	0.00	11,000,810.00	0.00	11,000,810.00

Kamry Whader project manager 27-2-2020

Signed By: Ashraf A. Shamsa Programme Manager Date: 27/2/2020

Signed By: Iman Al Hussein Prog Specialist Date: 27/2/2020



Initiated for identification purposes only

Financial Audit of Directly Implemented Project ID 41529 - Output ID 47395 "Construction of Khan Younis Waste Water Treatment Plant" For the period from 1 January to 31 December 2019



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 2 of 3
Run Time: 27-02-2020 16:02:47

Selection Criteria:

Business Unit: PAL10
Period: Jan-Dec (2019)
Selected Project Id: ALL
Selected Fund Code: ALL
Selected Dept. IDs: ALL
Selected Outputs: 00047395

Project id : ALL	Period :	Jan-Dec (2019)		
Output # : ALL	Impl. Partner :			
	Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	0.00	11,000,810.00	0.00	11,000,810.00

Ramy Maaler
27/2/2020

A. A. A.
27/2/2020



Jamal D. Alkhatib
Tahat Abu-Gharabeh & Co.
Initiated for identification purposes only



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 3 of 3
Run Time: 27-02-2020 16:02:50

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2019)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00047395

Project/Award: 00041529 PAL/Construction of Treatment

Period : As at Dec 31, 2019

Output #	Impl. Partner: 02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances		0.00
Undepreciated Fixed Assets		26,966.25
Unamortized intangible Assets		0.00
Inventory		0.00
Prepayments		130,473.75
Commitments		130,473.75

Ramy Khader
27/2/2020

A. Ad
27/2/2020

[Signature]
27/2/2020



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2.3. Auditor's Report on the Statement of Fixed Assets

**Independent Auditor's Report on the Statement of Fixed Assets
of UNDP DIM Project ID 41529 – Output ID 47395
“Construction of Khan Younis Waste Water Treatment Plant”**

**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 41529 - output ID 47395 “Construction of Khan Younis Waste Water Treatment Plant”, as at 31 December 2019.

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 41529 - output ID 47395 amounting to US\$ 26,966.25 as at 31 December 2019 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's 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 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.

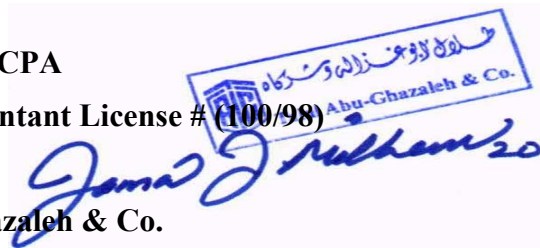
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License No. 251/1997

Ramallah – Palestine, 30 June 2020.

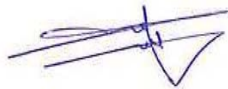


2.4. Statement of Fixed Assets

"Construction of Khan Younis Waste Water Treatment Plant"
(Project ID 41529 - Output ID 47395)
As at 31 December 2019

STATEMENT OF ASSETS				
AS AT 31 DECEMBER 2019 - Project # PAL10 - 47395				
Category	Location	Original Amount USD (A)	Depreciated Amount USD (B)	NET Book Value Amount USD (C=A-B)
TOUAREG VW VEHICLE	Gaza	41,310.00	14,343.75	26,966.25
Total Value		41,310.00	14,343.75	26,966.25

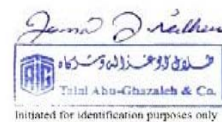
Prepared By: Ramzy Khader



Programme Manager: Ashraf Abu Shamala



Program Specialist: Iman Hussein

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 project ID 41529 – output ID 47395 "Construction of Khan Younis Waste Water Treatment Plant", for the period from 1 January to 31 December 2019, 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 business 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)

Talal Abu –Ghazaleh & Co.

License No. 251/1997

Ramallah – Palestine, 30 June 2020

Finding No. 1:

Title:

Understatement of 2019 CDR.

Criteria:

UNDP Programme and Operations Policies and Procedures (POPP) states that the Combined Delivery Report (CDR) should display expenses directly incurred by UNDP on behalf of the project.

Observation

During the audit we noticed that, other project has utilized the available funds of the UNDP in the previous years. However, the reversal was not made to UNDP PAPP office funds instead it was made to this project, moreover it was not made in the same accounting period, instead, the reversal was made during financial year 2019 and was recorded under this project's CDR which led to understatement of the current CDR by the amount of US\$ 25,000.00. Below are the details of this reversal in 2019 CDR:

Transaction ID	Description	US\$ Amount
PAL10-00116746-1-2-ACCR-DST	Reversal was made to reimburse UNDP money that was utilized on rehabilitation of damages occurred due to escalations on Gaza in 2014 for the newly handed over project at that time, project name "Renewable Energy Generation through Solar Panels for Public Education Health and Water Facilities in the Gaza Strip - PAL10-00083499".	(25,000.00)
Total of Reversal		(25,000.00)

Furthermore, the above reversal led to understatement of 2019 GMS by the amount of US\$ 1,750.00. Thus, the total financial impact is understating 2019 CDR by US\$ 26,750.00.

This occurred because the utilized amount during 2014 by Renewable Energy Generation through Solar Panels for Public Education project was refunded to this project during 2019, and the adjusting entry was recorded in 2019 since 2014 books were already closed.

Priority

Medium (Important)

Recommendation

The office should process the reversals from the related projects during the correct accounting period.

Management's Response:

UNDP acknowledge the audit finding, the amount of USD 25,000 was a delayed refund by the donor for funds advanced by UNDP under project 00083499, however as the project was already closed in 2018, UNDP allocated the funds to this project to be utilized for a feasibility study. UNDP will ensure to utilize the funds during the year 2020.

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.