



AUDIT

OF

**CONSTRUCTION OF 300 HOUSING UNITS IN RAFAH,
REPAIR DAMAGED HOUSING UNITS
(Directly Implemented Project No. 42831, Output No. 99288)**

BY

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE (PAPP)

Report No. 2357

Issue Date: 15 July 2021

**Report on the Audit of
Construction of 300 Housing Units in Rafah,
Repair Damaged Housing Units implemented by UNDP Programme of Assistance to the Palestinian
People (PAPP)
(Project No. 42831, Output No. 99288)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through Talal Abu-Ghazaleh & Co. (the audit firm), from 19 May to 3 June 2021, conducted an audit of 'Construction of 300 Housing Units in Rafah' (Project No. 42831), 'Repair Damaged Housing Units' (Output No. 99288) (the Project), which is directly implemented and managed by the UNDP Programme of Assistance to the Palestinian People (PAPP) (the Office). The last audit of the Project was conducted by OAI, through Talal Abu-Ghazaleh & Co. in 2020 and covered project expenses from 1 January to 31 December 2019.

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 (CDR), which includes expenses for the period from 1 January to 31 December 2020 and the accompanying Funds Utilization statement¹ as of 31 December 2020. 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 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
6,360	Unmodified

There was an 'Emphasis of Matter' to the CDR and Funds Utilization statements due to UNDP expenses recorded as government expenses for the amount of \$5,156,605, but it did not affect the audit opinion as this was a misclassification issue.

Key recommendation: Total = 1, high priority = 0

The audit did not result in any high (critical) priority recommendations. There is one medium (important) priority recommendation, 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 amounts erroneously recorded as government expenses as the expenses were incurred by UNDP. This misclassification did not have a financial impact on the total CDR amount.

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

Implementation status of previous OAI audit recommendations: Report No. 2248, 17 August 2020.

Total recommendations: 1

Not Implemented: 1

The pending recommendation pertains to “Reconciled Advances Erroneously Recorded as Government Expenses.” Implementation has not yet commenced.

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

United Nations Development Programme

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

**“Construction of 300 Housing Units in Rafah,
Repair Damaged Housing Units”
(Project ID 42831 - Output ID 99288)**

For the period from 1 January to 31 December 2020

8 July 2021

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. on Project ID 42831 “Construction of 300 Housing Units in Rafah”- Output ID 99288 “Repair Damaged Housing Units” (the project), directly implemented by UNDP Programme of Assistance to the Palestinian People (PAPP) for the period from 1 January to 31 December 2020.

The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI) and mandated in accordance with the Purchase Order Number UNDP 1-0000100454 for Professional Services signed between UNDP and Talal Abu –Ghazaleh & Co. on 11 April 2021

– **Audit Opinions:**

The following is the summary of the audit opinions provided:

Report on	Type of opinion	Note
Financial Position	Unmodified	The audit report included an emphasis of matter related to reconciled advances recorded under government expenses column.
Statement of Fixed Assets	Not applicable	There were no fixed assets or equipment therefore, no audit opinion is provided on a 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 a Statement of Cash.

– **Audit Finding:**

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

Summary of Audit Findings	Priority	Net Financial Impact
Reconciled Advances at an amount of US\$ 5,156,605.46 were recorded in the current CDR under the government expenses column although they were incurred and implemented by UNDP.	Medium (Important)	No net financial impact on the total CDR amount.

– **Follow-up of Previous Year Audit Recommendations:**

Project ID 42831 “Construction of 300 Housing Units in Rafah”, Output ID 99288, “Repair Damaged Housing Units” was audited in the prior year (audit ID 2248 issued on

17 August 2020). The previous audit report included one recommendation. The recommendation raised and its implementation status is as follows:

Recommendation Title	Implementation
Reconciled Advances Erroneously Recorded as Government Expense.	Not Implemented. Finding No. 1

Sincerely yours,

Jamal Milhem, CPA

Certified Accountant License # (100/98)

Talal Abu –Ghazaleh & Co.

License No. 251/1997

Ramallah - Palestine, 14 June 2021



Jamal J. Milhem



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 2020 to 31 December 2020 and the funds utilization statement, the accounts receivable and the accounts payable as at 31 December 2020 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 2020. This statement should include all assets available as at 31 December 2020 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.
 - 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 2020. 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. 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 2020.

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 REPORT

2.1: Auditor's Report on Financial Position

**Independent Auditor's Report on the Project Financial Position
of UNDP DIM Project ID 42831 – Output ID 99288
“Construction of 300 Housing Units in Rafah,
Repair Damaged Housing Units”**

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

We have audited the financial position of UNDP Project ID 42831 “Construction of 300 Housing Units in Rafah” – Output ID 99288 “Repair Damaged Housing Units”, for the period from 1 January to 31 December 2020, which includes: (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\$ 6,360,427.71 directly incurred by UNDP PAPP and charged to Project ID 42831- Output ID 99288 for the period from 1 January to 31 December 2020 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 (ISA). 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 controls as management determines are 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 ISA 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, 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 controls.
- Obtain an understanding of internal controls 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 controls.

We communicated 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 controls that we defined during our audit.

Emphasis of Matter

We draw your attention to Note No. 1 to the accompanying CDR and Funds Utilization statement which describes reconciled advances with an amount of US\$ 5,156,605.46 which were recorded in the current CDR under the government expenses column, although it was incurred and implemented by UNDP PAPP. Our opinion is not qualified in respect of this matter as we already reviewed the total amount of the CDR at an amount of US\$ 6,360,427.71 and the reconciled advances amount were not advances to government entities, however, it just a misclassification issue.

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



Jamal J. Milhem
Talal Abu -Ghazaleh & Co.
License No. 251/1997
Ramallah - Palestine, 14 June 2021



2.2 Combined Delivery Report (CDR) and Funds Utilization Statement

"Construction of 300 Housing Units in Rafah, Repair Damaged Housing Units" (Project ID 42831 - Output ID 99288) for the period from 1 January to 31 December 2020

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UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

Page 1 of 4
Run Time: 25-02-2021 11:02:33

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2020)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00099288

Project Id : 00042831 PAL/ Construction of 300 Housi	Period : Jan-Dec (2020)
Output # : 00099288 repair damaged housing units	Impl. Partner : 02368 UNDP - PAPP
	Location :
	</

Dept: 70001 (PAPP - Central)

Fund: 04950 (PAPP Core Programme)

74510 - Bank Charges	0.00	70.00	0.00	70.00
Total for Fund 04950	0.00	70.00	0.00	70.00

Fund: 30000 (Programme Cost Sharing)

71305 - Local Consult.-Sht Term-Tech	0.00	17,220.00	0.00	17,220.00
71405 - Service Contracts-Individuals	0.00	186,196.43	0.00	186,196.43
71410 - MAIP Premium SC	0.00	82.99	0.00	82.99
71415 - Contribution to Security SC	0.00	9,962.90	0.00	9,962.90
72105 - Svc Co-Construction & Engineer	0.00	730,064.98	0.00	730,064.98
72135 - Svc Co-Communications Service	0.00	150.00	0.00	150.00
72165 - Svc Co-Social Svcs, Social Sci	0.00	2,145.00	0.00	2,145.00
72170 - Svc Co-Humanitarian Aid & Relf	5,156,605.46	0.00	0.00	5,156,605.46
72215 - Transportation Equipment	0.00	-59,023.91	0.00	-59,023.91
72311 - Fuel, petroleum and other oils	0.00	386.55	0.00	386.55
72425 - Mobile Telephone Charges	0.00	440.61	0.00	440.61
72445 - Common Services-Communications	0.00	1,000.00	0.00	1,000.00
72505 - Stationery & other Office Supp	0.00	485.81	0.00	485.81
72805 - Acquis of Computer Hardware	0.00	1,638.85	0.00	1,638.85
72815 - Inform Technology Supplies	0.00	140.00	0.00	140.00
73406 - Maintenance of Equipment	0.00	829.00	0.00	829.00
73410 - Maint, Oper of Transport Equip	0.00	1,823.62	0.00	1,823.62
74225 - Other Media Costs	0.00	2,504.00	0.00	2,504.00
74325 - Contrib.To C/O Common Security	0.00	10,920.00	0.00	10,920.00
74505 - Insurance	0.00	1,036.69	0.00	1,036.69
74596 - Services to projects -GCE	0.00	45,800.00	0.00	45,800.00
75105 - Facilities & Admin - Implement	0.00	215,930.17	0.00	215,930.17
76120 - Unrealized Loss	0.00	95.60	0.00	95.60
76125 - Realized Loss	0.00	16.02	0.00	16.02
76130 - Unrealized Gain	0.00	-25,111.58	0.00	-25,111.58
76135 - Realized Gain	0.00	-5.39	0.00	-5.39
77660 - Dep Exp Owned -Vehicle	0.00	59,023.91	0.00	59,023.91
Total for Fund 30000	5,156,605.46	1,203,752.25	0.00	6,360,357.71
Total for Dept: 70001	5,156,605.46	1,203,822.25	0.00	6,360,427.71
Total for Output: 00099288	5,156,605.46	1,203,822.25	0.00	6,360,427.71

Mohammad Qasem Project Coord *Mohammad Qasem*

25-Feb-2021 *Jamal D. Khalil*

Hekmat Khairy Programme An *Hekmat Khairy*

25-Feb-2021 

Yvonne Helle Special Rep *Yvonne Helle* ve UNDP PAPP

25-Feb-2021 Initiated for certification purposes only

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UN Development Programme
Report ID: unglcdp

Combined Delivery Report By Project

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Run Time: 25-02-2021 11:02:33

Project Id : 00042831 PAL/ Construction of 300 Housi		Period : Jan-Dec (2020)		
Output # : 00099288 repair damaged housing units		Impl. Partner : 02388 UNDP - PAPP		
		Location :		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Project Total :	5,158,605.46	1,203,822.25	0.00	6,360,427.71

Mohammad Qasem Project Coord *Mohammad Qasem* 25-Feb-2021

Hekmat Khairy Programme An *Hekmat Khairy* 25-Feb-2021

Signed By: Yvonne Helle Special Representative UNDP PAPP Date: 25-Feb-2021

Signed By: *Yvonne Helle* Date: 25-Feb-2021

Jamal D. Helle



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UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

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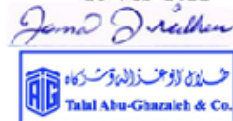
Business Unit : PAL10
Period : Jan-Dec (2020)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00099288

Project Id : ALL	Period : Jan-Dec (2020)			
Output # : ALL	Impl. Partner : Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central	5,156,605.46	1,203,822.25	0.00	6,360,427.71

Mohammad Qasem Project Coordinator 25-Feb-2021

Hekmat Khairy Programme An 25-Feb-2021

Yvonne Helle Special Repr ve UNDP PAPP 25-Feb-2021



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Combined Delivery Report By Project

Report ID: ungldrp Programme

Page 4 of 4
Run Time: 25-02-2021 11:02:34

Funds Utilization

Selection Criteria :

Business Unit : PAL10
Period : Jan-Dec (2020)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00099288

Project/Award: 00042831 PAL/ Construction of 300 Housi

Period : As at Dec 31, 2020

Output #	00099288	Impl. Partner : 02388 UNDP - PAPP	UNDP AMOUNT
Outstanding NEX advances			471,533.68
Undepreciated Fixed Assets			0.00
Unamortized Intangible Assets			0.00
Inventory			0.00
Prepayments			0.00
Commitments			0.00

Mohammad Qasem Project Coordinator 25-Feb-2021

Hekmat Khairy Programme Analyst 25-Feb-2021

Yvonne Helle Special Representative of UNDP - PAPP 25-Feb-2021

Yvonne Helle



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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 42831 "Construction of 300 Housing Units in Rafah" – Output ID 99288 "Repair Damaged Housing Units" for the period from 1 January to 31 December 2020, 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 controls 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.

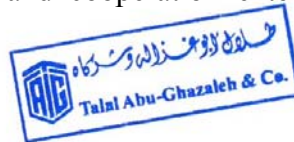
The matters raised in this part are those which came to our attention during the audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be needed. Recommendations for improvements should be assessed by management for their full business 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, 14 June 2021



Jamal J. Milhem

Finding No. 1:

Title:

Reconciled Advances Erroneously Recorded as Government Expenses.

Criteria:

UNDP Programme and Operations Policies and Procedures (POPP) states that "Government Expenses Continues to reflect the total disbursements by the implementing partner as reported on the Financial Report (for non-harmonized country programme) or Funding Authorization and Certification of Expenditure (FACE) (for harmonized-country programme). Such expenses will be reported under the government expenses column in the CDR". The expenses incurred and implemented directly by the UNDP office will be recorded under the UNDP expenses column in the CDR.

Observation

The project aims to help in repairing the damaged houses in Gaza from 2014 war, UNDP sent a wire transfer to a bank in Gaza with the amounts that should be transferred to the beneficiaries according to the signed agreements with the bank and the beneficiaries. UNDP recorded these transfers as Government NEX advances, while these were not advances to responsible parties, then after additional field visits and verifications and depending on an approved list from UNDP, the Bank pays the agreed amounts to the beneficiaries.

During the audit, we noticed that when the reconciliations were made for advances (recording the actual amounts paid to the beneficiaries as expenses in the CDR) at an amount of US\$ 5,156,605.46, these reconciled advances were recorded in the current CDR under the government expenses column, although they were representing expenses incurred and implemented by UNDP PAPP.

This occurred because when the office reconciled the advances, the UNDP financial system recorded these expenses under the column of government expense as they were initially recorded as Government NEX advances. Although these amounts do not present advances to government entities.

Not closing the advances properly led to an understatement of UNDP expenses column in the current CDR at an amount of US\$ 5,156,605.46 and an overstatement of the Government expenses column with the same amount. As this was a misclassification issue there was no net financial impact on the total CDR amount.

Priority

Medium (Important).

Recommendation

The office should seek guidance from the Office of Financial Resources Management (OFRM) on how to record these payments as these are representing expenses that were incurred and implemented by UNDP and should be recorded under the UNDP expenses column in the CDR instead of the Government expense column.

Management's Response:

PAPP acknowledges the audit finding, where the expenditures were showing under the government expenditures column is as a result of the financial system in place, thus, UNDP contacted the RBAS focal person to contact the Office of Financial Resources Management (OFRM) for their guidance on how to record the payments that are issued to the bank to distribute to beneficiaries and awaiting their response.

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.