



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

SMALL SCALE WORKS AND EMPLOYMENT V, VI, VII
(Directly Implemented Project No. 41098, Output Nos. 46774, 60764, 73017)

Report No. 1646
Issue Date: 14 October 2016

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Small Scale Works and Employment V, VI, VII
(Project No. 41098, Output Nos. 46774, 60764, 73017)
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through Moore Stephens LLP (the audit firm), from 28 July to 3 August 2016, conducted an audit of KFW Poverty Oriented Infrastructure (Project No. 41098, Output Nos. 46774, 60764, 73017—Small Scale Works and Employment V, VI, VII) (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 in 2015 and covered project expenditure from 1 January to 31 December 2014.

The audit firm conducted a financial audit to express an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations. The audit covered the Project's Combined Delivery Report, which includes expenditure for the period from 1 January to 31 December 2015 and the accompanying Funds Utilization statement¹ as of 31 December 2015. The audit did not cover the Statement of Assets as no assets were purchased 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 reports and corresponding management letters submitted by the audit firm, the results are summarized in the table below:

Project Expenditure				
Output Nos.	Amount (in \$ '000)	Opinion	NFI* (in \$ '000)	Effect on CDR
46774	107	Adverse	(469)	Understatement
60764	3,246	Qualified	972	Overstatement
73017	389	Unqualified	N/A	N/A

*NFI = Net Financial Impact

The audit firm issued an adverse opinion on project expenditure regarding Output No. 46774 due to expenditure amounting to \$468,516 that was omitted from the Combined Delivery Report.

The audit firm issued a qualified opinion on project expenditure regarding Output No. 60764 due to expenditure amounting to \$971,915 incorrectly posted in the Combined Delivery Report.

Key recommendations: Total = 2, high priority = 2

The two recommendations aim to ensure the reliability and integrity of financial and operational information (Recommendation 1 related to Output Nos. 46774 and 60764).

¹ The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) depreciated 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.

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. All high (critical) priority recommendations are presented below:

Expenditure relating to output omitted from Combined Delivery Report (Issue 1, Output No. 46774)	Expenditure relating to this output amounting to \$468,516 was recorded in the Combined Delivery Report of Output No. 60764, understating the expenditure reported for Output No. 46774. <u>Recommendation:</u> The Office should record expenditures under the correct outputs.
Expenditure incorrectly recorded to output (Issue 1, Output No. 60764)	Expenditure amounting to \$971,767 was incorrectly recorded in the Combined Delivery Report of Output No. 60764, overstating the expenditure for this output. <u>Recommendation:</u> The Office should record expenditures under the correct outputs.

Implementation status of previous OAI audit recommendations

The previous audit (Report No. 1502, 11 August 2015) had seven recommendations. One recommendation related to a project output not audited this year that was assessed by an OAI desk review as implemented. The remaining six recommendations were assessed by the audit firm as in progress.

The pending recommendations pertain to (a) unrelated expenditures and refunds in the current Combined Delivery Report (Output No. 46774), (b) absence of imputation of General Management Support fees (Output No. 46774), (c) refunds in the current Combined Delivery Report (Output Nos. 60764 and 73017), and (d) non-imputation of General Management Support fees (Output Nos. 60764 and 73017).

Management comments and action plan

The Special Representative accepted both recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.



Helge S. Ostveiten
Director
Office of Audit and Investigations