



AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

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

Report No. 1802
Issue Date: 7 September 2017

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People
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 Deloitte (the audit firm), from 6 June to 3 July 2017, 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). 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 expenditure for the period from 1 January to 31 December 2016 and the accompanying Funds Utilization statement¹ as of 31 December 2016 as well as Statement of Assets as of 31 December 2016. 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 Expenditure*			Project Assets	
Amount (in \$ '000)	Opinion	NFM* (in \$ '000)	Amount (in \$ '000)	Opinion
9,832	Qualified	9,769	37	Unqualified

*NFM= Net Financial Misstatement

The audit firm qualified its opinion on project expenditure due to the incorrect recording of advances to implementing partners and of prepayments to contractors as expenses, which led to the overstatement of expenditures reported in the Combined Delivery Report (refer to issue 1). Even though the Net Financial Misstatement amount was material, the auditors took into consideration that all transactions reviewed were adequately supported by documentation relevant to the project activities and provided to them during the audit.

Key recommendation: Total = 1, high priority = 1

The audit raised one high priority recommendation that 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.

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 high (critical) priority recommendations is presented below:

Recording of advances
to Implementing
Partners and
Prepayments to
Contractors as Expenses
(Issue 1)

The audit identified that four advance payments made by UNDP to implementing partners based on signed agreements were recorded as expenses in full. These advance payments were granted to the implementing partners for the implementation of project activities. In addition, two payments made by UNDP to contractors based on signed contracts, were recorded as an expense in full, while these payments represented a 20 percent of the total contracts value. These prepayments were paid to the contractors to start implementing the project activities. This led to the overstatement of expenses by \$9,045,177 representing the amount of the advances made to Implementing Partners and the prepayments made to the contractors. In addition, the aforementioned overstatement led to inflating the indirect costs recorded under the 'Facilities and Administration' account code by \$723,614.

Recommendation: The Office should fully implement and follow the proper accounting treatments for the recording of prepayments as required by UNDP Programme and Operations Policies and Procedures.

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.



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