

AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

HEBRON COURTHOUSE BUILDING

(Directly Implemented Project No. 57409, Output No. 77024)

Report No. 1943

Issue Date: 2 August 2018

**Report on the Audit of UNDP Programme of Assistance to the Palestinian People
Hebron Courthouse Building
(Project No. 57409, Output No. 77024)**

Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Talal Abu-Ghazaleh & Co. (the audit firm), from 15 to 23 May 2018, conducted an audit of Hebron Courthouse Building (Project No. 57409, Output No. 77024) (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 2017 and the accompanying Funds Utilization statement¹ as of 31 December 2017 as well as Statement of Assets as of 31 December 2017. 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*				Project Assets	
Amount (in \$ '000)	Opinion	NFM** (in \$ '000)	Effect on CDR	Amount (in \$ '000)	Opinion
6,315	Adverse	5,719	Overstatement	4	Unmodified

*Expenses recorded in the Combined Delivery Report were \$6,490,111. Excluded from the audit scope were expenses processed and approved by other UNDP offices outside of the country (\$174,828).

**NFM= Net Financial Misstatement

The audit firm issued adverse opinion on project expenses due to recording prepayments to contractors as expenses, recording unrelated expenses to the audited period in the current Combined Delivery Report, and recording unrelated expenses in the Funds Utilization statement.

Key recommendations: Total = 3, high priority = 2

The three recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendations 2-high and 3-medium); and (b) compliance with legislative mandates, regulations and rules, policies and procedures (Recommendation 1-high).

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:

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 prepayments to contractors as expenses (Issue 1) All prepayments were recorded as expenses, which is not in line with the 'UNDP Programme and Operations Policies and Procedures'. Due to the recording of prepayments as expenses, there was an overstatement of expenses in the current Combined Delivery Report by \$4.9 million.

Recommendation: The Office should: (a) implement and follow proper accounting treatments for recording of prepayments; and (b) record the amounts related to all goods or services not provided by 31 December 2017 as prepayments, to present the correct balance of the prepayments.

Unrelated expenses in the current Combined Delivery Report (Issue 2) An amount of \$789,680 from the funds of the Project were utilized by other projects, without reimbursing these amounts to the Project and without obtaining prior approval from the donor. As a result, the project expenses reported in the 2017 Combined Delivery Report were overstated.

Recommendation: The Office should: (a) trace any funding or refunding to other projects in order to assess the impact on the Project's Combined Delivery Report; (b) in case of inter-project transactions, ensure necessary reversals are made to the correct project accounts and in the correct accounting periods; and (c) obtain the donor's approval for transfers of project funds to other projects or phases.

Management comments and action plan

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

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Director
Office of Audit and Investigations