UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

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AUDIT

OF

UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE

KFW - POVERTY ORIENTED INFRASTRUCTURE - PHASES V, VI, VII, VIII, IX, X
(Directly Implemented Project No. 41098, Output Nos. 46774, 60764, 73017, 80762, 86843, 93278)

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Report on the Audit of UNDP Programme of Assistance to the Palestinian People
KFW – Poverty Oriented Infrastructure - Phases V, VI, VII, VIII, IX, X
(Project No. 41098, Output Nos. 46774, 60764, 73017, 80762, 86843, 93278)
Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Talal Abu-Ghazaleh & Co. (the audit firm), from 30 April to 21 May 2018, conducted an audit of KFW – Poverty Oriented Infrastructure - Phases V, VI, VII, VIII, IX, X (Project No. 41098, Output Nos. 46774, 60764, 73017, 80762, 86843, 93278) (the Project), which is directly implemented and managed by the UNDP Programme of Assistance to the Palestinian People (the Office). The last audit of Output No. 86843 was conducted by OAI, through Talal Abu-Ghazaleh & Co. in 2015, and covered project expenses from 1 January to 31 December 2014. The last audit of Output Nos. 46774, 60764 and 73017 was conducted by OAI, through Moore Stephens LLP in 2016, and covered project expenses from 1 January to 31 December 2015. This was the first audit of Output Nos. 93278 and 80762.

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 (CDR), which includes expenses for the period from 1 January 2016 to 31 December 2017 and the accompanying Funds Utilization statement[1] as of 31 December 2016 and 31 December 2017 as well as Statement of Assets as of 31 December 2016 and 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 reports and corresponding management letters submitted by the audit firm, the results are summarized in the tables below:

Table 1

Financial Year 2016						
Output ID	**Project Expenses***				**Project Assets**	
	Amount (in $ '000)	**Opinion**	**NFM** (in $ '000)**	**Effect on CDR**	**Amount (in $'000)**	**Opinion**
46774	169	Adverse	169	Overstatement	N/A	N/A
60764	231	Adverse	229	Overstatement	N/A	N/A
73017	20	Adverse	20	Overstatement	N/A	N/A
80762	66	Adverse	59	Overstatement	N/A	N/A
86843	(19)	Adverse	(19)	Understatement	N/A	N/A
93278	1,794	Qualified	(31)	Understatement	4	Unmodified
Total	**2,261**		**427**		**4**	

**Expenses recorded in the CDR were $2.3 million for 2016.*
***NFM = Net Financial Misstatement*

[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.

Table 2

Financial Year 2017						
Output ID	**Project Expenses***				**Project Assets**	
	Amount (in $ '000)	**Opinion**	**NFM** (in $ '000)**	**Effect on CDR**	**Amount (in $'000)**	**Opinion**
46774	503	Adverse	503	Overstatement	N/A	N/A
60764	(88)	Adverse	(98)	Understatement	N/A	N/A
73017	(124)	Adverse	(131)	Understatement	N/A	N/A
80762	0.5	Adverse	0.5	Overstatement	N/A	N/A
86843	182	Adverse	182	Overstatement	N/A	N/A
93278	3,173	Qualified	(391)	Understatement	4	Unmodified
Total	**3,646.5**		**65.5**		**4**	

**Expenses recorded in the CDR were $3.6 million for 2017.*
***NFM= Net Financial Misstatement*

Instead of following the corporate budget override policy, the Office was following an improper practice of borrowing Project funds from one output to another output, and of returning them at alter stage, often in a different accounting period, thus creating overstatement of expenses in the receiving output and understatement of expenses in the lending output. OAI had already identified this issue in the past and had raised recommendations to address this practice (Report Nos. 1502 and 1646) but they have not been implemented.. OAI will monitor the resolution of the audit issues through the new recommendations included in the current report. One of the key impact of this practice is that expenses reported as spent to deliver a given output are misleading and by extension, the value of inputs attributed to the achievement of a given result is also misleading. It should be noted that the outputs are funded by the same donor.

The abovementioned practice led the audit firm to issue adverse opinions on project expenses of Output Nos. 46774, 60764, 73017, 80762 and 86843, and to qualify its opinion on project expenses of Output No. 93278, due to material NFMs in the CDRs of 2016 and 2017.

Key recommendations: Total = **13**, high priority = **11**

The 13 recommendations aim to ensure the reliability and integrity of financial and operational information, and compliance with legislative mandates, regulations and rules, policies and procedures.

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. The high (critical) priority recommendations are summarized and presented below:

Incorrect recording of expenses in the CDR Issue 1 (Output Nos. 46774, 60764, 73017, 80762, 86843, 93278)	The 2016 and 2017 CDR expenses were overstated by $427,000 and by $65,500, respectively, due to the use of Project funds from output for expenses of another output (refer to total NFM presented under Tables 1 and 2). <u>Recommendation:</u> The Office should (a) trace any funding or refunding to other projects in order to assess the impact on the Project's CDR; (b) in case of inter-project transactions, ensure necessary reversals are made to the correct projects' accounts and correct accounting periods; and (c) obtain the donor's approval for transfers of project funds to other projects or phases.

Miscalculation of GMS Issue 2 (Output nos. 46774, 60764, 73017, 80762, 86843)	As a result of using Project funds from one output for expenses of another output, the GMS expenses did not correctly present the agreed upon rate of 7 and 8 percent according to the grant agreement. The base amount for calculating GMS included unrelated expenses and refunds, and thus resulted in either overstated or understated amounts in 2016 and 2017 (included in the respective NFM amounts presented under Tables 1 and 2). Recommendation: The Office should recalculate the GMS in compliance with the terms of the grant agreement and reconcile the GMS in the same period.

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.

Helge S. Osttveiten
Director
Office of Audit and Investigations