

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP PROGRAMME OF ASSISTANCE TO THE PALESTINIAN PEOPLE**

**Report No. 2009**  
**Issue Date: 9 November 2018**

## Report on the Audit of UNDP Programme of Assistance to the Palestinian People Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of the UNDP Programme of Assistance to the Palestinian People (the Office) from 6 to 17 August 2018. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- (a) governance (leadership, corporate direction, corporate oversight and assurance, corporate external relations and partnership);
- (b) programme (quality assurance process, programme/project design and implementation, knowledge management);
- (c) operations (financial resources management, ICT and general administrative management, procurement, human resources management, and staff and premises security); and
- (d) United Nations leadership and coordination.

The audit covered the activities of the Office from 1 January 2017 to 30 April 2018. In view of the management structure of the Office and the fact that it is led by a Special Representative of the Administrator, and not a Resident Representative, the audit did not cover the management of the Resident Coordinator system as part of the United Nations Leadership and Coordination area. The Office recorded programme and management expenses of approximately \$152 million. The last audit of the Office was conducted by OAI in 2014.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed the Office as **partially satisfactory/major improvement needed**, which means “The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.” This rating was mainly due to weaknesses in the Office’s control environment, weaknesses in large-scale infrastructure project implementation, and deficiencies in procurement management.

### Good practice

In 2016, the Office, with the support of an IT company, created an online assets system. The system includes all information on fixed assets and inventory managed by the Office in Jerusalem, Ramallah and Gaza. Information on assets can be accessed using the assigned custodian, Office ID or location. The main purpose of the system is to have full control over the assets and inventory in all locations. All assets are assigned bar codes, which are read through a reading device that facilitates the physical count process during mid-year and year-end physical verification exercises.

**Key recommendations:** Total = 7, high priority = 3

The seven recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	2, 3	Medium
	4	High
Reliability and integrity of financial and operational information	1	High
Effectiveness and efficiency of operations	5	High
Compliance with legislative mandates, regulations and rules, policies and procedures	6, 7	Medium

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 presented below:

Weakness in control environment of the Office (Issue 1)

The following weaknesses were identified within the control environment in which corporate policies had not been adhered to on a systematic basis:

(a) Costs of projects lacking funds being charged to projects with a cash balance

A review of a sample of 20 payment vouchers found that 3 vouchers, amounting to \$3.3 million, were charged to a project that had a cash balance because the project that the payments corresponded to lacked funding at the time of payment. The Office also indicated that this practice had occurred with other projects during the audit period. In all, \$11.9 million of project expenditures had been charged to projects that had a cash balance at the time when payments were due, as a short-term 'loan', without evidence of donor approval. Furthermore, the Office did not have a centralized tracking mechanism to record these charges and their reversals.

(b) Recording project cash advances as expenditure to meet expenditure targets

Within a sample of 20 payment vouchers, 2 instances were identified where advances of \$5.2 million had been incorrectly recorded as expenditures.

**Recommendation:** The Office should: (a) in consultation with the Controller, design and implement a budget override policy for relevant projects, and reverse transactions where expenditure has been charged to the incorrect projects; and (b) adhere to the IPSAS requirements for the recording and reversal of advances.

Weaknesses in large-scale infrastructure project implementation (Issue 4)

Two out of the six projects reviewed related to large-scale infrastructure projects. The audit team noted weaknesses in project implementation, as follows:

(a) Project Hebron Courthouse Building

There were delays in construction work due to challenges in the excavation work, geo-technical testing, and redesign of foundation plans after being rejected by the Construction Technical Committee. The rejection of the plans caused the suspension of the construction works in January 2018 and the construction works were still suspended by the end of the fieldwork (mid-August 2018). The Office planned to review the contractor's time schedule. The audit team also noted that the risk assessment for this project was updated in May 2018, while the previous one was from October 2013.

(b) Project Construction of Waste Water Treatment Plant in Khan Younis (Gaza Strip)

The Coastal Municipalities Water Utility, an organization created by local municipalities of Khan Younis and commissioned to implement two project components, faced challenges in the construction work. There were delays in the acquisition of land for the infiltration basins and challenges in acquiring construction materials and equipment. The activities were planned to be completed by the second quarter of 2018.

Recommendation: For large infrastructure projects, the Office should record all risks regularly, and based on the risk assessments, assess and implement mitigating actions for these risks.

Deficiencies in the management of procurement (Issue 5)

The audit team noted weaknesses in procurement, as follows:

(a) Lack of documentation of Contracts, Assets and Procurement Committee (CAP) reviews of procurement activities

The audit team sampled 12 out of 62 procurement cases reviewed by the CAP during the audit period and found that in all but one case, the review was not documented in the ACP Online application. The single case where the review was documented was by way of a comment endorsing the case without assessing the document provided, which evaluated the proposals.

(b) Incorrect use of purchase orders in Atlas system

The audit team noted that there were 76 purchase orders (valued at \$7.6 million) raised to facilitate payment to suppliers contracted by implementing partners. However, the related procurements were undertaken by the implementing partner, who was therefore responsible for raising purchase orders and the Office was requested to only process the payment. As a result, the commitments and total value of the procurement at the Office level for the audit period was misrepresented, inflating the volume of the procurement activities in the Atlas system by 14 percent of the total procurement completed by the Office.

Recommendation: The Office should improve procurement management by: (a) documenting the Contracts, Assets and Procurement Committee reviews and minutes in the ACP Online application before recommending the procurement cases to the head of office for approval; (b) and discontinuing the issuance of purchase orders for procurement processes that are not undertaken by UNDP.

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**Management comments and action plan**

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

Low risk issues (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink is enclosed in a black rectangular box. The signature appears to be 'H. Ostveiten'. Below the signature, the name and title of the signatory are printed.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations