

**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 statement<sup>1</sup> 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:

<sup>1</sup> 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.

Helge S. Ostveiten  
Director  
Office of Audit and Investigations

**United Nations Development Programme**

**Financial Audit of Directly Implemented Project Managed by  
UNDP- Programme of Assistance to the Palestinian People (PAPP)**

**“Hebron Courthouse Building”**  
**(Project ID 57409 - Output ID: 77024)**  
**For the year ended 31 December 2017**

26 July 2018

**Talal Abu – Ghazaleh & Co.**  
**Certified Public Accountants**



---

**TABLE OF CONTENTS**

---

<b>1. PART I – EXECUTIVE SUMMARY .....</b>	<b>1</b>
1.1. Executive Summary: .....	1
1.2. Audit Objectives.....	3
1.3. Scope of audit:.....	4
<b>2. PART II – FINANCIAL AUDIT REPORTS.....</b>	<b>5</b>
2.1. Auditor’s Report on Financial Position:.....	5
2.2. Combined Delivery Report (CDR) and Funds Utilization statement: .....	7
2.3. Auditor’s Report on the Statement of Fixed Assets:.....	11
2.4. Statement of Fixed Assets:.....	12
<b>3. PART III: MANAGEMENT LETTER.....</b>	<b>14</b>
3.1 Current year audit findings and recommendations .....	14

## 1. PART I – EXECUTIVE SUMMARY

### 1.1. Executive Summary:

This report represents the results of the financial audit conducted by Talal Abu – Ghazaleh & Co. of the project ID 57409 – output ID 77024 “Hebron Courthouse Building” (the project), directly implemented by UNDP Programme of Assistance to the Palestinian People (PAPP) for the period from 1 January to 31 December 2017.

The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI) and mandated in accordance with the Contract for Professional Services signed between UNDP and Talal Abu – Ghazaleh & Co. on 29 March 2018.

### Audit opinions:

The following is the summary of the audit opinions provided:

Report on:	Type of opinion	Note
Financial Position	Adverse	-All prepayments were recorded as an expense, which is not in line with the UNDP Programme and Operations Policies and procedures (POPP) this led to material overstatement of recorded expenses. -The current Combined Delivery Report (CDR) is overstated due to funding amounts to other projects. -The Current Fund Utilization Statement is overstated due to not closing previous years commitments in Atlas.
Statement of Fixed Assets	Unmodified	
Statement of Cash Position	Not applicable	There was no separate bank account for the project under audit therefore, no audit opinion to be provided on the Statement of Cash Position.

**Audit Findings:**

As a result of our audit, the following findings were included in the management letter:

Summary of Audit Finding	Priority	Net Financial Impact
All prepayments were recorded as an expense which is not in line with the UNDP Programme and Operations Policies and Procedures (POPP).  Due to recording of prepayments, the GMS expenses did not present correctly 7% of the expenses reported within the current CDR.	High (Critical)	Construction and engineering expenses in current CDR are overstated by the amount of USD 4,600,000.  Facilities and admin expenses in the current CDR are overstated by the amount of USD 322,000
The current Combined Delivery Report (CDR) is overstated due to funding some expenses of other projects.	High (Critical)	Construction and engineering expenses in the current CDR are overstated by the amount of USD 789,680.
The current Fund Utilization Statement is overstated due to not closing the commitments in Atlas in previous years.	Medium (Important)	Commitments in the current Fund Utilization Statement are overstated by an amount of USD 7,500.

**Follow-up on previous year's audit recommendations:**

The output ID 77024 was not audited in the prior year; accordingly, no follow-up procedures were required to be performed.

Sincerely yours,

**Jamal Milhem, CPA**  
Certified Accountant License # (100/98)

Talal Abu - Ghazaleh & Co.  
License No. 251/1997  
Ramallah - Palestine, 26 July 2018



## **1.2. Audit objectives**

- A. The objective of the financial audit is to express an opinion on the project’s financial position which include:
- 1) Expressing an opinion on whether the expenses incurred by the project for the period from 1 January to 31 December 2017 and the funds utilization, the accounts receivable and the accounts payable as at 31 December 2017 were fairly presented in accordance with UNDP accounting policies and that the expenses incurred were: (i) in conformity with the approved project budgets; (ii) for the approved purposes of the project; (iii) in compliance with the relevant regulations and rules, policies and procedures of UNDP; and (iv) supported by properly approved vouchers and other supporting documents. The Combined Delivery Report (CDR) and the accompanying Funds Utilization statement are the mandatory and official statements upon which the audit opinion should be expressed. Other forms of statement of expenses that may be prepared by a project office are not accepted.
  - 2) Expressing an opinion on whether the statement of fixed assets, at net book value, presents fairly the balance of depreciated assets of the UNDP Project as at 31 December 2017. This statement should include all assets available as at 31 December 2017 and not only those purchased in the year under audit. Where a DIM project does not have any assets or equipment it will not be necessary to express such an opinion, and
  - 3) Expressing an opinion on whether the statement of cash held by the Project presents fairly the cash and bank balance of UNDP Project as at 31 December 2017. Disbursements made against directly implemented project, DIM project are usually financed from the regular country office bank accounts. Exceptionally, a dedicated bank account may be opened and used solely for the cash transactions of a DIM project, e.g. if the project is in a remote location. It is required to express an opinion on the Statement of Cash only where a dedicated bank account for the DIM project has been established. In cases where the cash transactions of the audited DIM project are made through the country office bank accounts, this type of opinion is not required.
- B. Providing the progress made in implementing the recommendations raised in a previous year audit report (if any).

The financial audit was conducted in accordance with the International Standards on Auditing (ISA), the 700 series.



### **1.3. Scope of Audit:**

The scope of the audit relates only to transactions concluded and recorded against the "UNDP-DIM" project for the period from 1 January to 31 December 2017.

The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties"; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP office.

## 2. PART II – FINANCIAL AUDIT REPORTS

### 2.1. Auditor's Report on Financial Position.

#### Independent Auditor's Report on the Project Financial Position of UNDP DIM Project ID 57409 – Output ID 77024 “Hebron Courthouse Building”

To The Director of the Office of Audit and Investigations (OAI)  
United Nations Development Programme (UNDP)

We have audited the financial position of the UNDP project ID 57409 - output ID 77024 “Hebron Courthouse Building”, for the period from 1 January to 31 December 2017, which include: (a) the accompanying Combined Delivery Report (CDR); (b) the Funds Utilization statement (the statement); and (c) the project-related accounts receivable and accounts payable.

The CDR expenditure totaling USD 6,490,110.64 is comprised of expenditure directly incurred by the UNDP PAPP for an amount of USD 6,315,282 and expenditure incurred by entities other than the Office for an amount of USD 174,828. Our audit only covered the expenditure directly incurred by the UNDP PAPP of USD 6,315,282.

#### Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying CDR and Funds Utilization statement do not present fairly the expenses of USD 6,315,282 directly incurred by the UNDP PAPP and charged to the project for the period from 1 January to 31 December 2017.

#### Basis for Adverse Opinion.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the CDR and Funds Utilization section of our report. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

- UNDP PAPP recorded all prepayments as expenses. This treatment which is not in-line with the UNDP accounting policies, has caused an overstatement of the construction and engineering expense (Account No.72105) reported in the current CDR by USD 4,600,000. This also caused an overstatement of facilities and admin- implement expense (Account No.75105) within the current CDR – by USD 322,000.
- Overstatement of the construction and engineering expense (Account No.72105) reported in the current CDR by USD 789,680 due to funding these amounts to cover other projects expenses.
- The current Funds Utilization Statement is overstated by USD 7,500 due to not closing some commitments in Atlas in previous years.

### **Management Responsibilities**

Management is responsible for the preparation and fair presentation of the of the CDR and the Funds Utilization statement of the project and for such internal control as management determines is necessary to enable the preparation of a CDR and Funds Utilization statement that is free from material misstatement, whether due to fraud or error.

### **Auditor’s Responsibilities**

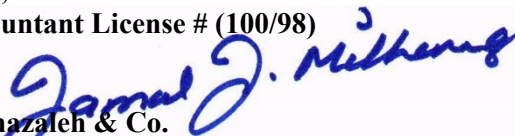
Our objectives are to obtain reasonable assurance about whether the CDR and the Funds Utilization statement are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the CDR and Funds Utilization statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization’s internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Jamal Milhem, CPA**  
Certified Accountant License # (100/98)



Talal Abu –Ghazaleh & Co.  
License No. 251/1997

Ramallah - Palestine, 26 July 2018

**2.2. Combined Delivery Report (CDR) and Funds Utilization Statement:**

**"Hebron Courthouse Building"  
(Project ID 57409 - Output ID: 77024)  
for the period from 1 January to 31 December 2017**



**UN Development Programme**  
Report ID: unglcdrp

**Combined Delivery Report By Project**

Page 1 of 4  
Run Time: 22-05-2018 12:05:39

**Selection Criteria :**

**Business Unit :** PAL10  
**Period :** Jan-Dec (2017)  
**Selected Project Id :** ALL  
**Selected Fund Code :** 30000  
**Selected Dept. IDs :** ALL  
**Selected Outputs :** 00077024

<b>Project Id :</b> 00057409 Supporting the Rule of Law and	<b>Period :</b> Jan-Dec (2017)
<b>Output # :</b> 00077024 Hebron Courthouse Building	<b>Impl. Partner :</b> 02386 UNDP (Direct Execution)
	<b>Location :</b>

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
<b>Dept:</b> 70001 (PAPP - Central)				
<b>Fund :</b> 30000 (PROGRAMME COST SHARING)				
61105 - Salaries - NP Staff	0.00	63,110.67	0.00	63,110.67
61205 - Salaries - GS Staff	0.00	16,951.55	0.00	16,951.55
61305 - Salaries - IP Staff	0.00	81,278.85	0.00	81,278.85
61310 - Post Adjustment - IP Staff	0.00	44,260.79	0.00	44,260.79
62105 - Dependency Allowance-NP Staff	0.00	1,974.71	0.00	1,974.71
62110 - Contrib Joint Staff Pension-NP	0.00	12,813.43	0.00	12,813.43
62115 - Contrib to Med,SocIns-NP Staff	0.00	4,401.02	0.00	4,401.02
62140 - Annual Leave Expense - NO	0.00	220.38	0.00	220.38
62205 - Dependency Allow - GS Staff	0.00	178.34	0.00	178.34
62210 - Contrib to Jt Staff Pens Fd-GS	0.00	3,477.02	0.00	3,477.02
62215 - Contrib. to Medical, social In	0.00	801.13	0.00	801.13
62220 - Language Allowance - GS Staff	0.00	307.86	0.00	307.86
62240 - Annual Leave Expense - GS	0.00	859.64	0.00	859.64
62305 - Dependency Allowances-IP Staff	0.00	10,461.36	0.00	10,461.36
62310 - Contrib to Jt Staff Pens Fd-IP	0.00	26,895.77	0.00	26,895.77
62315 - Contrib. to medical, social in	0.00	1,812.28	0.00	1,812.28
62320 - Mobility, Hardship, Non-remova	0.00	9,669.96	0.00	9,669.96
62340 - Annual Leave Expense - IP	0.00	1,460.25	0.00	1,460.25
63330 - Ed Grt Incl Trvl&Allow-IP Stf	0.00	5,938.20	0.00	5,938.20
63335 - Home Leave Trvl & Allow-IP Stf	0.00	2,775.00	0.00	2,775.00
63530 - Contribution to EOS Benefits	0.00	7,710.10	0.00	7,710.10
63535 - Contribution to Security	0.00	8,738.05	0.00	8,738.05
63540 - Contribution to Training	0.00	1,644.78	0.00	1,644.78
63545 - Contribution to ICT	0.00	3,084.00	0.00	3,084.00
63550 - Contributions to MAIP	0.00	513.97	0.00	513.97
63555 - Contribution to UN JFA	0.00	6,682.07	0.00	6,682.07
63560 - Contributions to Appendix D	0.00	513.97	0.00	513.97
64110 - Separations - NP Staff	0.00	1,262.20	0.00	1,262.20
64210 - Separations - GS Staff	0.00	339.01	0.00	339.01
64310 - Separations - IP Staff	0.00	1,757.57	0.00	1,757.57
64397 - Services to projects -CO staff	0.00	10,527.00	0.00	10,527.00
64398 - Direct Project Cost-Staff	0.00	38.00	0.00	38.00
65115 - Contributions to ASHL Reserve	0.00	19,943.34	0.00	19,943.34
65135 - Payroll Mgt Cost Recovery ATLA	0.00	1,071.30	0.00	1,071.30
71305 - Local Consult.-Sht Term-Tech	0.00	3,633.04	0.00	3,633.04
71405 - Service Contracts-Individuals	0.00	204,810.54	0.00	204,810.54
71410 - MAIP Premium SC	0.00	448.44	0.00	448.44
71415 - Contribution to Security SC	0.00	7,623.53	0.00	7,623.53
71635 - Travel - Other	0.00	523.24	0.00	523.24
72105 - Svc Co-Construction & Engineer	0.00	5,445,461.36	0.00	5,445,461.36
72425 - Mobile Telephone Charges	0.00	2,315.36	0.00	2,315.36
72435 - E-mail-Subscription	0.00	1,590.00	0.00	1,590.00
72440 - Connectivity Charges	0.00	952.00	0.00	952.00
72815 - Inform Technology Supplies	0.00	458.34	0.00	458.34



Signed by Programme Specialist:  
Ivan Carmi  
Date: 22 May 2018





UN Development Programme  
Report ID: unglcdrp

**Combined Delivery Report By Project**

Page 2 of 4  
Run Time: 22-05-2018 12:05:39

Project Id : 00057409 Supporting the Rule of Law and	Period :	Jan-Dec (2017)
Output # : 00077024 Hebron Courthouse Building	Impl. Partner :	02386 UNDP (Direct Execution)
	Location :	

	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
72966 - Licenses and other	0.00	1,666.33	0.00	1,666.33
73104 - Leased Building	0.00	7,836.39	0.00	7,836.39
73120 - Utilities	0.00	995.21	0.00	995.21
73125 - Common Services-Premises	0.00	12,000.00	0.00	12,000.00
73305 - Maint & Licensing of Hardware	0.00	1,232.50	0.00	1,232.50
73406 - Maintenance of Equipment	0.00	41.45	0.00	41.45
73410 - Maint, Oper of Transport Equip	0.00	-69.20	0.00	-69.20
74210 - Printing and Publications	0.00	115.14	0.00	115.14
74225 - Other Media Costs	0.00	1,500.00	0.00	1,500.00
74325 - Contrib.To CO Common Security	0.00	4,375.00	0.00	4,375.00
74505 - Insurance	0.00	945.44	0.00	945.44
74525 - Sundry	0.00	8,088.37	0.00	8,088.37
74596 - Services to projects -GOE	0.00	4,512.00	0.00	4,512.00
74598 - Direct Project Costs - GOE	0.00	17.00	0.00	17.00
75105 - Facilities & Admin - Implement	0.00	424,586.29	0.00	424,586.29
75705 - Learning costs	0.00	530.00	0.00	530.00
76125 - Realized Loss	0.00	7.75	0.00	7.75
76135 - Realized Gain	0.00	-1.07	0.00	-1.07
77630 - Dep Exp Owned - ITC	0.00	442.62	0.00	442.62
<b>Total for Fund 30000</b>	<b>0.00</b>	<b>6,490,110.64</b>	<b>0.00</b>	<b>6,490,110.64</b>
<b>Total for Dept : 70001</b>	<b>0.00</b>	<b>6,490,110.64</b>	<b>0.00</b>	<b>6,490,110.64</b>
<b>Total for Output : 00077024</b>	<b>0.00</b>	<b>6,490,110.64</b>	<b>0.00</b>	<b>6,490,110.64</b>
<b>Project Total :</b>	<b>0.00</b>	<b>6,490,110.64</b>	<b>0.00</b>	<b>6,490,110.64</b>



Signed By: \_\_\_\_\_

Date: 22/05/2018

Signed By: Programme Specialist

Date: \_\_\_\_\_

Mr. Ivan Carmi





**UNDP UN Development Programme**  
Report ID: unglcdrp

**Combined Delivery Report By Project**

Page 3 of 4  
Run Time: 22-05-2018 12:05:39

**Selection Criteria :**

Business Unit : PAL10  
Period : Jan-Dec (2017)  
Selected Project Id : ALL  
Selected Fund Code : 30000  
Selected Dept. IDs : ALL  
Selected Outputs : 00077024

Project Id : ALL	Period :	Jan-Dec (2017)			
Output # : ALL	Impl. Partner :				
	Location :				
		Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
70001 - PAPP - Central		0.00	6,490,110.64	0.00	6,490,110.64



Signed by Programme Specialist  
Mr. Ivan Carmi  
Date : 22 May 2018



*[Handwritten Signature]*



UN Development Programme  
Report ID: unglcdrp

**Combined Delivery Report By Project**

Page 4 of 4  
Run Time: 22-05-2018 12:05:42

**Funds Utilization**

**Selection Criteria :**

Business Unit : PAL10  
Period : Jan-Dec (2017)  
Selected Project Id : ALL  
Selected Fund Code : 30000  
Selected Dept. IDs : ALL  
Selected Outputs : 00077024

Project/Award: 00057409 Supporting the Rule of Law and

Period : As at Dec 31, 2017

Output #	00077024	Impl. Partner :02386 UNDP (Direct Execution)	UNDP AMOUNT
Outstanding NEX advances			0.00
Undepreciated Fixed Assets			4,421.68
Unamortized Intangible Assets			0.00
Inventory			0.00
Prepayments			0.00
Commitments			7,500.00



Signed by Programme Specialist  
Mr. Ivan Carmi  
Date : 22 May 2018 ,

### 2.3 Auditors Report on the Statement of Fixed Assets:

**Independent Auditor's Report on the Statement of Fixed Assets  
of UNDP DIM Project ID 57409 – Output ID 77024  
“Hebron Courthouse Building”**

**To The Director of the Office of Audit and Investigations (OAI)  
United Nations Development Programme (UNDP).**

We have audited the accompanying statement of fixed assets of the UNDP project ID 57409 - output ID 77024 – “Hebron Courthouse Building” as at 31 December 2017.

#### **Unmodified Opinion**

In our opinion, the accompanying statement of fixed assets presents fairly in all material respects the assets status of the UNDP project ID 57409 - output ID 77024 – “Hebron Courthouse Building”, amounting to USD 4,421.68 as at 31 December 2017 in accordance with UNDP accounting policies.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the auditor's responsibilities for the audit of the statement of fixed assets. We are independent of UNDP in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with this code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Management Responsibilities**

Management is responsible for the preparation of the Statement of fixed assets of the project and for such internal control as management determines is necessary to enable the preparation of the statement of fixed assets that is free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibilities for the audit**

Our objectives are to obtain reasonable assurance about whether the statement of fixed assets is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these documents.



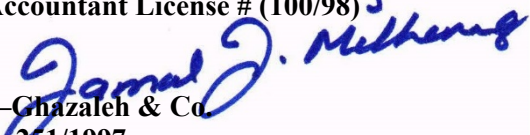
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the statement of fixed assets, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Jamal Milhem, CPA**

**Certified Accountant License # (100/98)**



**Talal Abu-Ghazaleh & Co**

**License No. 251/1997**

**Ramallah – Palestine, 26 July 2018**



**2.4. Statement of Fixed Assets:**

**“Hebron Courthouse Building”  
(Project ID 57409 - output ID: 77024) as of 31 December 2017**

Statement of assets						
As of 31 December 2017						
Project No. "57409 - Supporting the Rule of Law and Access to Justice						
Output 77024 - Hebron Courthouse Building						
Category	Year	Location	Owner	Original Amount	Depreciated Amount	Net Book Value
				USD	USD	USD
Laptop	2014	Jerusalem	Whib Adwan	1,590.00	662.50	927.50
Laptop	2015	Jerusalem	Project Manager's Laptop	1,573.96	541.05	1,032.91
Laptop	2017	Jerusalem	AutoCad Workstation for I&E	2,015.00	41.98	1,973.02
			Partial payment for Desktop AutoCad for the Infrastructure			
Desktop	2017	Jerusalem		493.39	5.14	488.25
<b>Total Value</b>				<b>5,672.35</b>	<b>1,250.67</b>	<b>4,421.68</b>



Program Specialist:

*[Handwritten signature]*

23/5/2018

Ivam Carmi



### 3. PART III: MANAGEMENT LETTER

#### 3.1 Current year audit findings and recommendations

To The Director of the Office of Audit and Investigations (OAI)  
United Nations Development Programme (UNDP)

##### Introduction

Under International Standards on Auditing, auditors are encouraged to report various matters concerning an entity's internal control structure noted during their audit and are required to report certain of those matters. Matters that are required to be reported are "significant deficiencies in the design or operation of the internal control structure that, in the auditor's judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements."

As part of our audit of the Project's financial position of the Project ID 57409, output ID 77024 "Hebron Courthouse Building" for the period from 1 January to 31 December 2017, we considered UNDP's internal control structure and compliance with its accounting policies in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. Our purpose was not to provide assurance on the internal control structure.

We emphasize that the responsibility for a sound system of internal controls rests with management and work performed by external audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of irregularity should there be any, although our audit procedures have been designed so that any material irregularity has a reasonable probability of discovery.

The matters raised in this part are those which came to our attention during the audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be needed. Recommendations for improvements should be assessed by management for their full commercial impact before they are implemented. Effective implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

##### Acknowledgment

We wish to express our appreciation for the courtesy and cooperation extended to our representatives during the course of their work.

Jamal Milhem, CPA  
Certified Accountant License # (100/98)



Talal Abu-Ghazaleh & Co.  
License No. 251/997  
Ramallah – Palestine, 26 July 2018

*Jamal J. Milhem*

**Finding 1:**

**Title:**

Recording prepayments to Contractors as expenses.

**Criteria:**

Programme and Operations Policies and Procedures (POPP) states that, a prepayment is used when a supplier requires partial or full payment for goods or services prior to the delivery/provision of the goods or services. When paid, prepayments reflect as amounts due to UNDP and are recorded in the asset account 16065 (Prepaid Voucher Modality). As the goods or services are provided, the prepaid asset balance must be reduced, and an expense recorded for the amount of goods or services received by UNDP. This is achieved by receipting and vouchering against the relevant PO and offsetting the prepayment against the Accounts Payable PO voucher. Such offsets need to be communicated to the vendor.

**Observation:**

During our audit, we noticed that an amount of USD 4,600,000 was recorded as expenses in full while this amount represented prepayments paid to the contractors to start implementing the project activities, none of these project activities were implemented till 31 December 2017 which led to overstatement of the expense recorded in the current CDR.

In addition, aforementioned overstatement led to overstating the Facilities and Admin- (account no. 75105) which is calculated as 7% of the expenses reported within the current CDR – by USD 322,000.

The net financial impact of this observation including the overstatement in indirect costs is USD 4,922,000.

This happened due to non-compliance in recording prepayments according to POPP. Non-compliance with POPP and recording prepayments as expenses may result in reporting inaccurate expenses within the current CDR, which can be misleading for making decisions.

**Priority:**

High (critical)

**Recommendation:**

The Office should:

- a) Implement and follow proper accounting treatments for recording of prepayments as required by POPP.
- 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.

**Management’s Response:**

Management will follow the Audit recommendations in the future.

**Finding 2:**

**Title:**

Un-related expenses in the current CDR.

**Criteria:**

UNDP Programme and Operations Policies and Procedures (POPP) stating that the Combined Delivery Report (CDR) should display expenses directly incurred by UNDP on behalf of the project.

**Observation:**

During our audit, we noticed that, other projects utilized the funds of “Hebron Courthouse Building” during 2017 by USD 789,680 without reimbursement of such amounts till 31 December 2017 and without obtaining approval from the donor.

This was caused by:

- a- Shortage in the available funds in certain projects when payments were.
- b- Transfers to cover the shortages in other projects were recorded as expenses in the project from which transfers are made and reversals transactions are made when the amounts are refunded.

This has affected the fair statement of expenses in the current year CDR, moreover not obtaining the donor approval for any transfer from the project fund to other project may might considered as a noncompliance with the agreement.

**Priority:**

High (Critical).

**Recommendation:**

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 in the correct accounting periods.
- c. Obtain the donor’s approval for transfers of project fund to other project or phases.

**Management’s Response:**

Management to follow audit recommendations. Reversals were implemented for most of the advances to other projects done as part of the inter-projects transactions and were reflected in 2018 figures. Point (a) above will be followed in full, with no future repetition.

**Finding 3:**

**Title:**

Un-related expenses in the Fund Utilization Statement.

**Criteria:**

UNDP Programme and Operations Policies and Procedures (POPP) state that, Commitments in the Fund Utilization statement Represents purchase orders and/or legally binding vendor contracts entered into, but where goods or services have not yet been delivered or rendered by the end of the reporting period. These commitments are not charged as an expense until the goods are delivered or services rendered.

**Observation:**

During our audit, we noticed that, the commitments balance in the current Funds Utilization Statement is USD 7,500, which is related to commitments paid in 2015 and was not closed in Atlas at the time of payment.

The reason for this issue is due to not closing the commitments in Atlas in 2015. Not closing the commitments in Atlas in 2015 led to overstatement of the commitments in the current Fund Utilization statement by an amount of USD 7,500.

**Priority:**

Medium (Important).

**Recommendation:**

The Office should review all the pending commitments to ensure that all POs are closed in the correct accounting period.

**Management's Response:**

Management will be following the audit recommendation by reviewing all pending commitments to ensure that all POs are closed in the correct accounting period.

**Priorities of Audit Recommendations**

High (Critical)	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.
Medium (Important)	Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
Low	Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.