

**UNITED NATIONS OFFICE FOR PROJECT SERVICES
(UNOPS)****INTERNAL AUDIT REPORT****29 October 2025**

Project name:	House Reconstruction in Gaza (Phase II)
Project number:	21353-001
Country:	Jerusalem office
Auditor:	BDO LLP
Period subject to audit:	10 December 2021 to 31 July 2024

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Acronyms and abbreviations

KfW	Kreditanstalt für Wiederaufbau, Germany's Development Bank
HLP	Housing, Land & Property
IAASB	International Auditing and Assurance Standards Board
IAIG	Internal Audit and Investigations Group
IESBA	International Ethics Standards Board for Accountants
IPSAS	International Public Standard Accounting System
ISA	International Standards on Auditing
NRC	Norwegian Refugee Council
UN	United Nations
UNOPS	United Nations Office for Project Services
US\$	United States Dollars

Executive summary

The engagement context

The Internal Audit and Investigations Group (IAIG) of the United Nations Office for Project Services (UNOPS), through BDO LLP ("the audit firm"), conducted an audit of the project 'House Reconstruction in Gaza (Phase II)' ("the project") (oneUNOPS project ID 21353-001), which is implemented and managed by the UNOPS Office in Jerusalem. The audit firm was under the general supervision of IAIG in conformance with the International Standards for the Professional Practice of Internal Auditing.

The project reported expenditure amounting to US\$ 11,783,161 during the period from 10 December 2021 to 31 July 2024. The donor who contributed to the project is KfW (Frankfurt am Main), for the account of the Federal Republic of Germany.

Audit objectives

The overall objective of the audit was to assess the management of the project operations to obtain reasonable assurance towards the achievement of the project objectives.

The areas of focus included:

- a) Effective, efficient and economical use of resources;
- b) Reliability of reporting;
- c) Safeguarding of assets; and
- d) Compliance with applicable legislation.

The purpose of the audit was to provide reasonable assurance that:

- a) Client/donor contributions and project expenditure are properly accounted for;
- b) Project expenditure was incurred in accordance with the contribution agreement, and is supported by adequate documentation; and
- c) The related financial statements prepared by UNOPS for the year under review present a fair view of the operations.

In particular, the audit firm provided an overall assessment of the operational and internal control systems that are in place for the management of the project so that related transactions are processed in accordance with UNOPS policies and procedures to achieve the project's objectives.

Audit scope

The audit firm conducted the audit in accordance with International Standards on Auditing issued by the IAASB and UNOPS internal audit practices, and in consideration of the requirements of International Public Sector Accounting Standards (IPSAS).

Audit rating

Based on the audit report and corresponding management letter submitted by the audit firm, IAIG assessed the management of the project as satisfactory (effective), which means, "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well.

Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area". The details of the audit results are presented in Tables 1 and 2.

Table 1: Summary results of the financial audit

Project title		Period	Project no.
House Reconstruction in Gaza (Phase II)		10 December 2021 to 31 July 2024	21353-001
Financial statement		Statement of non-expendable property	
Amount US\$	Opinion	Amount US\$	Opinion
11,783,161	Unmodified	-	N/A

Table 2: Internal control rating summary for project

Rating summary by functional area		
Functional area	Rating	
Project management	Satisfactory	
Finance	Satisfactory	
Procurement and supply chain	Satisfactory	
Human resources	Satisfactory	
General administration	Satisfactory	
Information and Communications Technology	Satisfactory	
Overall rating of internal control	Satisfactory	

Key issues and recommendations

The internal audit report did not raise any recommendations.

Signed:

DS
BDO LLP

BDO LLP

29 October 2025

Operational overview

After the successful implementation of phase one of the project to reconstruct 155 homes in Gaza between July 2016 and March 2018, UNOPS proposes to begin phase two, replicating the methodology of phase one while constructing up to 345 further homes.

The high-level activities of the project consist of:

- Needs assessment to ascertain the housing needs that remain unaddressed within the Gaza Strip.
- Vulnerability assessment performed in conjunction with Norwegian Refugee Council (NRC) to identify longlist of potential beneficiary households.
- Legal/technical screening and assistance, including counselling on Housing, Land & Property (HLP) rights provided to beneficiaries by NRC.
- Provision of cash grants directly to selected beneficiaries to begin construction.
- Ongoing support through to completion of construction, including assistance with the bank accounts, physical quality control inspections and health and safety equipment.

Besides, the overall goal of the project was to improve living conditions for non-refugees internally displaced by the 2014 conflict in Gaza, supported by the following outcomes:

- i. The most vulnerable families are identified and selected for reconstruction and/or upgrade of their destroyed or inadequate housing units.
- ii. Households displaced by the 2014 war and vulnerable cases enjoy HLP right.
- iii. The capacity of selected vulnerable households to undertake and lead individual household reconstruction or upgrade is improved.
- iv. Selected beneficiaries are enabled to build or upgrade houses to good quality and sustainable standards.

On 7 October 2023, Palestinian armed groups breached the perimeter fence and launched thousands of rockets toward Israel. Israel declared a state of war alert and initiated military operations against Gaza with continuous airstrikes that have resulted in widespread destruction and mass displacement.

The level of success of the project was significantly affected by the war started on 7 October 2023, resulting in the destruction of all the houses that were reconstructed from the project start date (23 July 2018). After the war started on 7 October 2023, it was agreed to utilize the residual funds from the reconstruction / substandard work packages to address the urgent humanitarian needs of the IDPs in Gaza through procurement and distribution of Non-Food Items.

The financing agreement for "House Reconstruction in Gaza (Phase II)" entered into force on 23 July 2018 for a total amount of US\$ 13,150,000. Besides, it was amended by the first supplemental financing agreement dated 18 October 2018; the first amendment agreement dated 20 January 2020; the second amendment agreement dated 12 April 2021 and the second supplemental financing agreement dated 10 December 2021; the third supplemental financing agreement dated 9 December 2022; the first Amendment Letter dated 16 June 2023 and the second Amendment Letter dated 12 December 2023; as well as the third Amendment Letter dated on 21 June 2024.

The audit team extends its appreciation to the management and staff members of UNOPS office in Jerusalem for their cooperation during the audit.

Annex I - Definitions

Standard audit ratings for overall performance of internal control system

Effective 1 January 2017, the internal audit services of UNDP, UNFPA, UNICEF, UNOPS and WFP adopted harmonized audit rating definitions, as described below. IAIG assesses the entity under review as a whole as well as the specific audit areas within the audited entity:

- (a) satisfactory (effective),
- (b) partially satisfactory (some improvement needed),
- (c) partially satisfactory (major improvement needed), and
- (d) unsatisfactory (ineffective).

The elements of the rating system take into account the audited office's internal control system, risk management practices, and their impact on the achievement of office objectives.

The definitions of the ratings are, as follows:

Standard rating	Definition
Satisfactory (effective)	The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
Partially satisfactory (some improvement needed)	The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
Partially satisfactory (major improvement needed)	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.
Unsatisfactory (ineffective)	The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity.

Categories for priorities of audit recommendations

The audit observations are categorized according to the priority of the audit recommendations and the possible causes of the issues. The categorized audit observation provides a basis by which the UNOPS country office management is to address the issues.

The following categories of **priorities** are used:

Categories	Definition
High	Prompt action is considered imperative to ensure that UNOPS is not exposed to high risks (that is, where failure to take action could result in critical or major consequences for the organization).
Medium	Action is considered necessary to avoid exposure to significant risks (that is, where failure to take action could result in significant consequences).
Low	Action is considered desirable and should result in enhanced control or better value for money.

Possible causes

The following categories of **possible causes** are used:

- **Guidelines:** absence of written procedures to guide staff in performing their functions;
 - Lack of or inadequate corporate policies or procedures
 - Lack of or inadequate RO/OC/PC policies or procedures
 - Inadequate planning
 - Inadequate risk management processes
 - Inadequate management structure
- **Guidance:** inadequate or lack of supervision by supervisors;
 - Lack of or inadequate guidance or supervision at the RO/OC/PC level
 - Inadequate oversight by Headquarters
- **Resources:** insufficient resources (funds, skill, staff) to carry out an activity or function;
 - Lack of or insufficient resources (financial, human, or technical resources)
 - Inadequate training
- **Human error:** Un-intentional mistakes committed by staff entrusted to perform assigned functions;
- **Intentional:** intentional overriding of internal controls;
- **Other:** Factors beyond the control of UNOPS.