

**MUNICIPAL DEVELOPMENT AND LENDING  
FUND (MDLF)**

**Memorandum of Suggestions for Improvement of the  
Internal Controls for the year ended December 31, 2012**



**To the Board of Directors of Municipal Development and Lending Fund (MDLF)  
Ramallah - Palestine**

Under International Standards on Auditing, auditors are encouraged to report various matters concerning an entity's internal control structure noted during the course of audit. Matters that are encouraged 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 financial statements of Municipal Development and Lending Fund (hereinafter the "MDLF") for the year ended December 31, 2012, we considered MDLF's internal control structure in determining the scope of our audit procedures for the purpose of rendering an opinion on the financial statements. While our purpose was not to provide assurance on the internal control structure, certain matters came to our attention that we want to report to you. These matters, along with our recommendations, are described in the accompanying memorandum.

This letter and memorandum is intended solely for the use of management and is not intended for any other purposes.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of their work. We would be pleased to discuss these recommendations in greater detail or otherwise assist in their implementation.

Sincerely yours,

A handwritten signature in blue ink, consisting of a long horizontal stroke with a vertical line intersecting it near the end, and a small loop at the top right.

**PricewaterhouseCoopers**

November 21, 2013

Ramallah, Palestine

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## **Municipal Development and Lending Fund (MDLF)**

### **Memorandum of Suggestions For Improvement of the Internal Controls 2012**

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#### **1. PALESTINIAN NATIONAL AUTHORITY CONTRIBUTION IN MUNICIPAL DEVELOPMENT PROGRAM CYCLE II**

##### **Observation**

During the course of our audit, we noted that the Palestinian National Authority (“PNA”) is not duly paying their promised contribution to the Municipal Development Program (“MDP”) Cycle II. This issue resulted in high balances of outstanding pledges receivable (3,444,008 USD as of December 31, 2012) and therefore outstanding accounts payable to suppliers. Having such outstanding amounts may affect the going concern of the project and accordingly the going concern of MDLF.

##### **Recommendation**

We highly recommend management to contact PNA in order to pay the due amount, and therefore enable the fund to settle the outstanding liabilities, or otherwise seek other sources of funding to cover for these liabilities.

##### **Management Response**

**MDLF followed this issue with Ministry of Finance & they promise to transfer the due amounts.**

**2. MANAGEMENT FEES**

**Observation**

During the course of our audit, we noted that one of management fees deductions for the amount of 11,400 EURO was disbursed from another bank account rather than the required project bank account.

**Recommendation**

We recommend that all management fees are reviewed for compliance and adherence to the project account, and overall compliance guidelines before making any payment.

**Management Response**

**MDLF re- transferred the amount to the bank and deducted this amount from proper bank account during 2013.**

## Municipal Development and Lending Fund (MDLF)

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#### 3. INVOICES INCLUDED VALUE ADDED TAX (VAT)

##### Observation

During our audit course of AFD expenditures, we noted that the following payment was not (VAT) exempted.

<u>Invoice No.</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount (EURO)</u>
201200019	August 27, 2012	Engineering and Management Consulting Center	12,028

##### Recommendation

We recommend preparing zero (VAT) letter to Value Added Tax department for the project expenditures and getting the proper approvals about them before purchasing goods or services.

##### Management Response

**MDLF prepared zero (VAT) letter and got the proper approval during 2013.**