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

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# AUDIT

# OF

# UNDP UKRAINE

## EARLY RECOVERY OF SOCIAL SERVICES AND PEACEBUILDING IN DONETSK AND LUGANSK OBLASTS
## (Directly Implemented Project No. 84715, Output No. 92607)

**Report No. 1640**

**Issue Date: 14 July 2016**

# Report on the Audit of UNDP Ukraine
# Early Recovery of Social Services and Peacebuilding in Donetsk and Lugansk Oblasts
# (Project No. 84715, Output No. 92607)
# Executive Summary

The UNDP Office of Audit and Investigations (OAI), through Moore Stephens LLP (the audit firm), from 2 to 13 May 2016, conducted an audit of Early Recovery of Social Services and Peacebuilding in Donetsk and Lugansk Oblasts (Project No. 84715, Output No. 92607) (the Project), which is directly implemented and managed by the UNDP Country Office in Ukraine (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 expenditure for the period from 1 January to 31 December 2015, and the accompanying Funds Utilization statement[1] as of 31 December 2015 as well as Statement of Assets as of 31 December 2015. The audit did not include activities and expenses incurred or undertaken at the "responsible party" level, or expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters). In addition, 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 Expenditure* | | | Project Assets | |
|---|---|---|---|---|
| **Amount (in $ '000)** | **Opinion** | **NFI** (in $ '000)** | **Amount (in $'000)** | **Opinion** |
| 4,302 | Qualified | 139 | 3 | Unqualified |

**Expenditures recorded in the Combined Delivery Report were $4,316,318. Excluded from the audit scope were transactions that relate to expenditures processed by other United Nations agencies ($14,004).*
*** Net financial impact*

The audit firm qualified its opinion on project expenditure due to financial findings totalling $139,286 that represented amounts included in the Combined Delivery Report and Funds Utilization statement, which were not in compliance with the relevant regulations, rules, policies and procedures of UNDP. One amount ($138,454) pertaining to recoverable VAT was presented as a project expense instead of being recovered, and another amount ($832) was recorded inclusive of a Value Added Tax (VAT). These findings represent 3.2 percent of the total expenditure reported, and are therefore considered material in the context of the audit.

**Key recommendations** Total = **2**, high priority = **1**

The two recommendations aim to ensure the reliability and integrity of financial and operational information.

[1] The Funds Utilization statement includes the balance, as at a given date, of five items: (a) outstanding advances received by the project; (b) depreciated 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.

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 recommendation is presented below:

| | |
|---|---|
| Recoverable VAT amounts claimed as project expenses (Issue 1) | The audit noted that the majority of construction companies in the Country charge VAT, which the Office has the right to reclaim from the Government. In most cases, the VAT was being recovered. However, the project transaction listing contained 23 transactions for which VAT had not yet been reclaimed and which were charged to the project as expenses, amounting to $138,454.<br><br>The VAT is recovered in the majority of cases and there was no evidence that the VAT will not be reimbursed by the relevant authorities. Consequently, the above amount should not have been recorded as an expense but as a receivable.<br><br>Recommendation: The Office should not record VAT on construction invoices as a project expense unless there is a conclusive written response from the Government that the amount will not be refunded. Where the Office subsequently recovers VAT, the VAT reinstatement entry previously made should be reversed. Where possible, the Office should work with vendors that do not charge VAT. |

**Management comments and action plan**

The UN Resident Coordinator and UNDP Resident Representative accepted the recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated into the report, where appropriate.

Antoine Khoury
Officer-in-Charge
Office of Audit and Investigations