



AUDIT

OF

UNDP UKRAINE

SUSTAINABLE DEVELOPMENT PROGRAMME OF LUGANSK OBLAST
(Directly Implemented Project No. 60297)

Report No. 1126
Issue Date: 5 February 2013

Report on the audit of UNDP Ukraine - Sustainable Development Programme of Lugansk Oblast (Project ID 60297)
Executive Summary

From 1 to 5 October 2012, the Office of Audit and Investigations (OAI) of the United Nations Development Programme, through KPMG, Slovakia (the audit firm), conducted an audit of Sustainable Development Programme of Lugansk Oblast, Project ID 60297 (the Project), which is directly implemented and managed by the UNDP Country Office in Ukraine (the Office). The audit firm was under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

The Project reported expenditure totalling \$0.1 million during the period from 1 January to 31 December 2011. The following donors contributed to the Project: Nadra Luganschiny, Ukraine and UNDP.

Audit scope and objectives

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 Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2011 and Statement of Assets as of 31 December 2011.

Audit results

Based on the audit report and corresponding management letter submitted by the audit firm, the results are summarized in the table below:

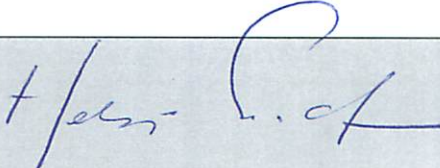
Project Expenditure		Project Assets	
Amount (in \$ '000)	Opinion	Amount (in \$ '000)	Opinion
137	Unqualified	267	Unqualified

Key issues and recommendations

The audit raised one issue and resulted in one medium (important) priority recommendation, meaning "Action is required to ensure that UNDP is not exposed to significant risks. Failure to take action could result in negative consequences for UNDP." This recommendation includes actions to address incorrect accounts used for accounting entries.

Management's comments

The Resident Representative accepted the recommendation and is in the process of implementing it.



Helge S. Osttveiten
Director
Office of Audit and Investigations



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EXECUTIVE SUMMARY

TO THE CONTRACTING AUTHORITY

Director
Office of Audit and Investigations (OAI)
United Nations Development Programme
Daily News Building, 23rd Floor
220 East 42nd Street
New York, NY 10017, USA

17 December 2012

In accordance with the Terms of Reference dated 20 September 2012 and the Contract No. PS 2012/07 dated 20 September 2012 for audit services for the project ID 60297 that you agreed with us, we provide our Auditors' Report with respect to the accompanying Statement of Expenditures and Statement of Assets of the UNDP project the Sustainable Development Programme of Lugansk oblast for the year ending 31 December 2011.

The field work was performed during the period October 2012 and was based on the review of the accounting records and reports of the Project maintained at the UNDP Country office in Ukraine.

Objective

Our engagement was to perform financial audit and to express an opinion on the Project's Statement of Expenditures and Statement of Assets which include:

- Expressing an opinion on whether the Statement of Expenditures presents fairly in all material respects, the expenditure incurred by the project over a specified period in accordance with UNDP accounting policies and that the expenditures 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; and
- Expressing an opinion on whether the Statement of Assets and equipment presents fairly in all material respects, the asset balance of the UNDP project as at 31 December 2011.



Standard and Ethics

Our engagement was undertaken in accordance with:

- International Standards on Auditing (ISA) as promulgated by the International Federation of Accountants (IFAC);
- The Code of Ethics for Professional Accountants issued by the IFAC.

Summaries of Findings

In summary, we have issued an unqualified opinion on the Statement of Expenditures and an unqualified opinion on Statement of Assets.

Our findings are summarized below and refer to internal control matters that came to our attention during the normal course of our audit which are also addressed to the management of the UNDP Country Office in Ukraine in the Management Letter dated 30 November 2012:

Finding no	Issue Title	Priority
Finding no.1	Accounting entries using incorrect accounts	Medium

We look forward to discussing our report with you and would be pleased to provide any further information or assistance which may be required.

17 December 2012

Bratislava, Slovak Republic

**UNITED NATIONS
DEVELOPMENT PROGRAMME**

Independent Auditors' Report

Sustainable Development Programme of Lugansk area
Statements of Expenditures and Statement of Assets
for the Period from 1 January 2011
to 31 December 2011

UNITED NATIONS DEVELOPMENT PROGRAMME

Sustainable Development Programme of Lugansk area

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Independent Auditors' Report – Statement of Expenditures

To the Office of Audit and Investigations of UNDP

We have audited the accompanying Statement of Expenditures of the United Nations Development Programme ("UNDP") project #60297 (Atlas ID 00049443), the Sustainable Development Programme of Lugansk oblast for the period from 1 January 2011 to 31 December 2011 and the summary of significant accounting policies and other explanatory information. The Statement of Expenditures has been prepared by management of UNDP in accordance with UNDP accounting policies.

Management's Responsibility for the Statement of Expenditures

Management is responsible for the preparation and fair presentation of this Statement of Expenditures in accordance with UNDP accounting policies, and for such internal control as management determines is necessary to enable the preparation of the Statement of Expenditures that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this Statement of Expenditures based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Expenditures is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Expenditures. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Statement of Expenditures, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Statement of Expenditures 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Statement of Expenditures.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the Statement of Expenditures presents fairly, in all material respects, the expenditure of USD 136,567 incurred by the project for the period from 1 January 2011 to 31 December 2011 in accordance with the UNDP accounting policies.

Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to note 1, the Basis of Presentation accompanying the Statement of Expenditures, which describes the basis of accounting. The Statement of Expenditures has been prepared to assist the entity to comply with the UNDP accounting policies referred to above. As a result, the Statement of Expenditures may not be suitable for another purpose.

KPMG Slovakia

17 December 2012

Bratislava, Slovak Republic



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Independent Auditors' Report – Statement of Assets

To the Office of Audit and Investigations of UNDP

We have audited the accompanying Statement of Assets of the United Nations Development Programme ("UNDP") project #60297 (Atlas ID 00049443), the Sustainable Development Programme of Lugansk oblast for the period from 1 January 2011 to 31 December 2011 and the summary of significant accounting policies and other explanatory information. The Statement of Assets has been prepared by management of UNDP in accordance with UNDP accounting policies.

Management's Responsibility for the Statement of Assets

Management is responsible for the preparation and fair presentation of this Statement of Assets in accordance with UNDP accounting policies, and for such internal control as management determines is necessary to enable the preparation of the Statement of Assets that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this Statement of Assets based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement of Assets is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement of Assets. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Statement of Assets, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Statement of Assets 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Statement of Assets.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement of Assets presents fairly, in all material respects, the asset balance amounting to USD 266,763 as at 31 December 2011 in accordance with UNDP accounting policies.

Basis of Accounting and Restriction on Use and Distribution

Without modifying our opinion, we draw attention to note 2, the Basis of Presentation accompanying the Statement of Assets, which describes the basis of accounting. The Statement of Assets has been prepared to assist the entity to comply with the UNDP accounting policies referred to above. As a result, the Statement of Assets may not be suitable for another purpose.

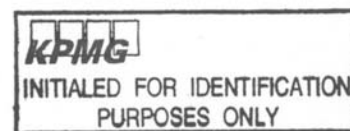
KPMG Slovakia

17 December 2012

Bratislava, Slovak Republic

UNITED NATIONS DEVELOPMENT PROGRAMME
Sustainable Development Programme of Lugansk area

STATEMENT OF EXPENDITURES
AS AT 31 DECEMBER 2011
(in US dollars)



UN Development Programme
Report ID: ungl143a

Combined Delivery Report With Encumbrance

Page 1 of 1
Run Time: 05-04-2012 10:04:39

Selection Criteria :

Business Unit : UKR10
Period : Jan-Dec (2011)
Selected Award Id : 00049443
Selected Fund Code : ALL

Award Id : 00049443 Sustainable Development Progra	Period : Jan-Dec (2011)
Project # : 00060297 Sustainable Development Progra	Impl. Partner : 99999 UNDP
	Location : Ukraine

	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
Fund : 04000 (TRAC (Lines 1.1.1 and 1.1.2))					
71305 - Local Consult-Sht Term-Tech	0.00	28,782.72	0.00	0.00	28,782.72
71405 - Service Contracts-Individuals	0.00	41,008.51	0.00	0.00	41,008.51
71805 - Travel Tickets-International	0.00	2,514.79	0.00	0.00	2,514.79
71610 - Travel Tickets-Local	0.00	3,628.05	0.00	0.00	3,628.05
71615 - Daily Subsistence Allow-Intl	0.00	8,599.64	0.00	0.00	8,599.64
71620 - Daily Subsistence Allow-Local	0.00	7,390.27	0.00	0.00	7,390.27
71625 - Daily Subslst Allow-Mtg Partic	0.00	1,721.45	0.00	0.00	1,721.45
71635 - Travel - Other	0.00	2,797.38	0.00	0.00	2,797.38
72115 - Svc Co-Natural Resources & Env	0.00	1,334.15	0.00	0.00	1,334.15
72130 - Svc Co-Transportation Services	0.00	497.48	0.00	0.00	497.48
72210 - Machinery and Equipment	0.00	14.30	0.00	0.00	14.30
72310 - Minerals,Mining & Metal Prdcts	0.00	8,001.36	0.00	0.00	8,001.36
72311 - Fuel, petroleum and other oils	0.00	2,413.55	0.00	0.00	2,413.55
72710 - Hospitality-Vouchered Expenses	0.00	400.56	0.00	0.00	400.56
73410 - Maint, Oper of Transport Equip	0.00	5,667.31	0.00	0.00	5,667.31
73505 - Reimb to UNDP for Supp Svcs	0.00	91.07	0.00	0.00	91.07
74220 - Translation Costs	0.00	114.68	0.00	0.00	114.68
74230 - Audio & Visual Equipment	0.00	493.55	0.00	0.00	493.55
74505 - Insurance	0.00	34.68	0.00	0.00	34.68
74520 - Storage	0.00	177.28	0.00	0.00	177.28
74525 - Sundry	0.00	7,502.11	0.00	0.00	7,502.11
76125 - Realized Loss	0.00	2.23	0.00	0.00	2.23
76135 - Realized Gain	0.00	- 15.12	0.00	0.00	- 15.12
Total for Fund 04000	0.00	121,172.00	0.00	0.00	121,172.00
Fund : 30071 (Programme cost sharing - GOV1)					
72105 - Svc Co-Construction & Engineer	0.00	20,839.58	0.00	0.00	20,839.58
72210 - Machinery and Equipment	0.00	187,962.34	0.00	- 203,846.69	- 15,884.35
75105 - Facilities & Admin - Implement	0.00	10,440.11	0.00	0.00	10,440.11
Total for Fund 30071	0.00	219,242.03	0.00	- 203,846.69	15,395.34
Total for Project : 00060297	0.00	340,414.03	0.00	- 203,846.69	136,567.34
Award Total :					
	0.00	340,414.03	0.00	- 203,846.69	136,567.34

Signed By :

Date :

UNITED NATIONS DEVELOPMENT PROGRAMME
Sustainable Development Programme of Lugansk area

STATEMENT OF ASSETS
AS AT 31 DECEMBER 2011
(in US dollars)

Movement of Sustainable Development Programme of Lugansk oblast project's Capital and Non-Capital Assets is as follows:

Opening balance	14 024
Acquisitions during the year	252 739
Disposals	-
Adjustments	-
Closing balance	<u>266 763</u>

UNITED NATIONS DEVELOPMENT PROGRAMME
Sustainable Development Programme of Lugansk area

BASIS OF PRESENTATION FOR THE STATEMENTS OF EXPENDITURES AND ASSETS FOR THE PERIOD FROM 1 JANUARY 2011 TO 31 DECEMBER 2011
(in US dollars)

1. STATEMENT OF EXPENDITURES

The Statement of Expenditures is prepared on the cash basis of accounting. The expenditures are recorded on the basis that they are made: (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 reporting currency is United States dollars ("USD"). Transactions in other currencies are converted to US dollars at the exchange rate established by United Nations at the date of the transaction. The resulting foreign exchange gain/losses are recorded separately in the Statement of Expenditures.

2. STATEMENT OF ASSETS

The management of assets includes all actions necessary for the acquisitions and receipt, custody, maintenance and disposal of non-expendable assets which are controlled and safeguard by UNDP.

Complete and accurate records from acquisition to disposal are maintained for all assets in the Atlas Assets Module under the classification of "capital assets" or "non-capital assets".

Atlas is used to record all items assigned to a staff member, or custodian of the item; update to the asset status is performed when the item is returned, disposed of, or reassigned to another staff member.

For UNDP purposes a capital asset is an item with a minimum life expectancy of three or more years and with a value of USD 1,000 or more.

Cameras, cell phones, projectors and all other items issued to individuals, valued at less than USD 1,000 must be recorded as "non-capital assets" in the Atlas Assets Module.

All project equipment, supplies and other property financed or provided by UNDP belong to UNDP until and unless at such time as its ownership is transferred to a government or an entity designated by UNDP.

Assets are entered on the Statement of Assets at the date of delivery, i.e. when they are in possession of UNDP, and this date may be different from the actual date of purchase, i.e. cash payment, which is mentioned in the Assets Ledger.

The Annual Statement of Assets is comprised of the following:

- In service assets balance (prior year acquisitions) in US Dollars;
- Plus the value of the acquisitions made during the current year in US Dollars;
- Less the value of disposals made during the current year in US Dollars.

UNDP's accounting policy does not depreciate or amortize assets. The value of an item disposed from the Statement of Assets is the same as the original purchase cost.

Our ref.: Project 00060297
31 January 2012

Ms. Ricarda Rieger
Country Director
UNDP Ukraine

In accordance with the established procedures regarding the submission of inventory held in the Sustainable Development Programme of Lugansk Oblast, Atlas Project ID 00060297, as at 31/12/2011, enclosed please find the **Project's Inventory Ledger** reflecting total assets of \$ **266763.31** for the year ended 31/12/2011.

The detailed information as shown in the **Project's Inventory Ledger** is as follows:

Opening Balance as of 1 January 2011:	\$14024.07
Acquisitions in 2011 as of 31 December 2011:	\$245397.06
Disposals in 2011 as of 31 December 2011:	\$0.00
Adjustments in 2011 as of 31 December 2011	\$ 7342.18
Closing Balance as of 31 December 2011:	\$266763.31

Furthermore, we certify the following:

1. The **Removing Barriers to Greenhouse Gas Emissions Mitigation through Energy Efficiency in the District Heating System, Phase 2** Project has carried out a thorough physical inventory and the Project's Inventory Ledger matches the physical inventory for all non-expendable items held by this Project.
2. This report reflects all assets acquired during the financial period January 01, 2011 through December 31, 2011.
3. The report reflects the correct calculation taking into consideration the beginning/opening balance, acquisitions, and disposals for the year ended 31/12/2011.
4. No changes have been made to the opening balance.
5. All adjustments made to the assets reflected therein have been verified and are correct.
6. The report has been verified to ensure that there are not multiple items listed as one item.
7. All obsolete Assets have been disposed of by way of a Request for Asset Disposal, Theft or Transfer form and reflected in this report as a disposal.
8. All descriptions and locations for furniture have been verified for accuracy.
9. All descriptions, serial numbers and locations for IT and electrical equipment as well as vehicles have been verified for accuracy.
10. The report does not reflect any asset(s) with zero cost.
11. The USD amount reflected for each asset has been verified against the local currency for accuracy.
12. The Project's Inventory Ledger which should be used as a "Stock Taking Form" has been used to verify the Annual Physical Inventory Exercise.
13. Project's Inventory Ledger "Stock Taking Form" has been signed and dated by Physical Inventory Team.
14. Project's Inventory Ledger "Stock Taking Form" has been verified, signed and dated by the Project Manager/Coordinator.

This serves to confirm that I take full responsibility and accountability for the veracity and accurateness of the data contained in this report and I have ensured adherence to the prescribed timeliness as far as preparation of this report.

Signature _____


Aleksandr Severin
Project Manager

Date: 31 January 2012

Corrected

Project Office in Lugansk

End of Year Project Inventory Ledger of the
non-expendable assets

as of 31 December 2011

Project title: Sustainable development
programme of Lugansk oblast

Project starting date: 2008

Project site address: 49 Kirova Str., Lugansk

Project ending
date: 2012

Project
number:

00060297

Asset No.	Description of item	Quantity	Serial No.	Date of purchase	Price of purchase per unit (USD)	Location	Vendor	If transferred	If disposed When, date, of CAP
								To whom, when	
1	Notebook Toshiba Satellite A200-1J6	1	Z7170856 K	2008	1435.18	Project site	Ami-Ukraine CO		
2	Notebook Asus UX50V	1	SU35SFGGAW	2009	1529.98	Project site	Rozetka Ltd		
3	Multifunctional device Xerox Phaser 3300 MFP including toners	1	3250969677	2010	841.24	Project site	Vashkevich V.Y.		
4	Wide-frame scanner HD2530 base 25 A1 +	1	KL67E89013Y	2010	9288.07	Project site	System-group Ltd		
5	Monitor LG Flatron E2240S-PN	1	004TPEAZQ707	2010	208.44	Project site	Pustovar Dmytro Volodymyrovich FOP		
6	UPS Eaton NV 600H	1	*43D609494*	2010	59.24	Project site	Pustovar Dmytro Volodymyrovich FOP		
7	AMD Athlon II X2 260 Box	1	9G89971G0038 2	2010	661.92	Project site	Pustovar Dmytro Volodymyrovich FOP		
8	Toyota Land Cruiser 80	1	CIDP/2001/024	2010	7342.18	Project site	CIDP		
9	Camera Nikon Coolpix P500	1	30245621	2011	469.96	Project site	Vashkevich V.Y.		
10	High temperature flare for biogas utilization	1	2011 SN 0010878-1-1	2011	244 927.10	Landfill Project site	BIOGASS Technology		

TOTAL: \$ 266763.31

Prepared by

Ala Tynkevych

Alla Tynkevych
Programme Associate

Approved by

Aleksandr Severin

Aleksandr Severin
Project Manager



cutting through complexity™

United Nations Development Programme

Project No.60297

Management Letter 2011

30 November 2012





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811 02 Bratislava
Slovak Republic

Director, UNDP Office of Audit and Investigations
Daily News Building, 23rd Floor,
220 East 42nd Street,
New York, NY 10017,
USA

30 November 2012

Dear Director,

We have recently completed our fieldwork for the final audit for the year ending 31 December 2011 of the Sustainable Development Programme of Lugansk oblast, ATLAS project ID 60297 executed by UNDP Ukraine.

The purpose of this letter is to bring to your attention certain matters which were encountered in the course of our work and to offer our comments and recommendations. These comments, by their nature, are critical as they relate solely to weaknesses and do not address the many strong features and controls within the companies systems.

The primary purpose of our examination was expressing an opinion on the Statement of Expenditures and Assets position of the project.

We performed our procedures on the financial systems of the project Combined Delivery Report only to the extent as required by International Standards on Auditing. Our evaluation with respect to these financial systems was not designed to specifically audit internal controls. Such procedures would not necessarily disclose all weaknesses in the systems

To facilitate your review and follow up, detailed information relating to the major findings is presented on the following pages.

The contents of this letter have been discussed with the responsible management personnel and apply to the controls and procedures in existence during our examination. We have not updated these items since 28 September 2012.

We would be pleased to discuss our comments and recommendations with you and to assist you with their implementation.

We would also like to acknowledge the co-operation and assistance extended to us by the personnel of the companies during the course of our work.

Very truly yours,

Quentin Crossley

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Observation 1

Accounting entries using
incorrect accounts

Observation 1

Accounting entries using incorrect accounts

Condition:

During our audit we identified several instances of accounting entries being made using incorrect accounts. Several entries were made to the Sundry account instead of the correct respective account. For instance, during our testing we identified accounting entries related to the purchase of new tires and maintenance of cars booked on account 74525 – Sundry instead of being booked on account 73410 - Maint, Oper of Transport Equipment.

Criteria:

We understand the UNDP office should follow the UNDP Accounting Standard Chart of Accounts and place accounting entries to the correct disbursements line in the Combined Delivery Report (hereinafter “CDR”) in order to preserve a proper presentation.

Cause:

Based on our understanding it was the local accountant’s assumption that it was permissible to use the Sundry account for accounting entry of any expenses as long as it is not „overspent“ and is less than 10% of total spending. However, we understand there is no such UNDP policy in place.

Effect, potential impact or risk:

Increased risk of incorrect presentation of disbursements in CDR.

Priority:

Medium

Recommendation:

In order to mitigate the risk of an incorrect presentation of disbursements in CDR, we recommend the accountants cease using the so called “overspent” rule and book the expenses on the appropriate disbursements line in accordance with UNDP accounting standard chart of accounts.

Observation 1

Accounting entries using incorrect accounts

Management comments:

In accordance with UNDP Programme and Operations Policies and Procedures (POPP) each project implemented by UNDP has individual Annual Work Plan (AWP) duly approved by the Project Board with detailed distribution of available resources to achieve the expected results. Any substantial or financial adjustments to already approved AWP are subject to Project/Programme Board decision and agreement between signatories of the project. Thus, Project Manager is fully responsible for utilization of the available resources within the approved AWP only.

Bearing in mind that Lugansk project did not have any resources under the budget account 73400 - "Maintenance, Operation of Transport Equipment" all expenses related to maintenance of project vehicle were allocated to the budget account 74500 "Miscellaneous Expenses" or expenses not identified under any available inputs within the annual approved resource allocation.

We will make every effort to accurately plan for all required inputs, so that most appropriate account code are used.

Appendix 1

Definitions of Priorities of Audit Recommendations

Appendix 1

Definitions of 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 observations provide a basis by which the UNDP country office management is to address the issues.

The following categories of priorities are used:

High (Critical)

Action is considered imperative to ensure that UNDP is not exposed to high risks. Failure to take action could result in major consequences and issues.

Medium (Important)

Action is considered necessary to avoid exposure to significant risks. Failure to take action could result in significant consequences.



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