



**AUDIT**

**OF**

**UNDP GEORGIA**

**CONFIDENCE BUILDING EARLY RESPONSE MECHANISM**  
**(Directly Implemented Project No. 74936)**

**Report No. 1129**  
**Issue Date: 11 January 2013**

## Report on the audit of UNDP Georgia - Confidence Building Early Response Mechanism (Project ID 74936) 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 Confidence Building Early Response Mechanism, Project ID 74936 (the Project), which is directly implemented and managed by UNDP Country Office in Georgia (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 \$4 million during the period from 1 January 2011 to 31 December 2011. The Project was funded by the European Union.

### 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 review of the Project's Statement of Expenditure (Combined Delivery Report) for the period from 1 January to 31 December 2011 and the 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	NFI (in \$ '000)	Amount (in \$ '000)	Opinion
4,015	Qualified	n/a	122	Unqualified

NFI = Net Financial Impact

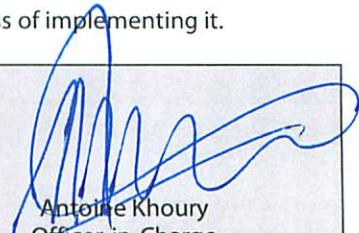
The audit firm qualified its opinion on project expenditure due to misclassification of expenditures amounting to \$ 876,018. These are micro capital grants that have mistakenly been charged to various other budget lines.

### Key issues and recommendations

The audit raised one issue. There was one recommendation ranked medium (important) priority, which means "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.



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



**KPMG Slovensko spol. s r. o.**  
Dvořákovo nábrežie 10  
P. O. Box 7  
820 04 Bratislava 24  
Slovakia

Telephone +421 (0)2 59 98 41 11  
Fax +421 (0)2 59 98 42 22  
Internet [www.kpmg.sk](http://www.kpmg.sk)

## 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 74936 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 Confidence Building Early Response Mechanism for the year ending 31 December 2011.

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

### 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 a qualified opinion on the Statement of Expenditures and 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 Georgia 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**

**Confidence Building Early Response Mechanism**  
Statement of Expenditures and Statement of Assets  
for the Period from 1 January 2011  
to 31 December 2011

# **UNITED NATIONS DEVELOPMENT PROGRAMME**

## **Confidence Building Early Response Mechanism**

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**KPMG Slovensko spol. s r. o.**  
Dvořákovo nábrežie 10  
P. O. Box 7  
820 04 Bratislava 24  
Slovakia

Telephone +421 (0)2 59 98 41 11  
Fax +421 (0)2 59 98 42 22  
Internet [www.kpmg.sk](http://www.kpmg.sk)

## 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 #74936 (Atlas ID 00059786), the Confidence Building Early Response Mechanism 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.

*Basis for Qualified Opinion*

The expenditure presented in the Statement of Expenditures on disbursement line 72615 - Micro Capital Grants is understated by the amount of USD 876,018 due to a misclassification contrary to UNDP guidelines. Accordingly, the expenditure recorded on the following disbursement lines are overstated as follows: Line 72105 – Svc Co-Construction & Engineer by USD 507,229, line 75705 – Learning costs by USD 140,058, line 72210 – Machinery and Equipment by USD 123,692, line 75709 – Learning – training of counter by USD 39,709, line 72305 – Agri & Forestry Products by USD 28,080, line 73216 – Construction Costs by USD 20,000 and line 74210 – Printing and Publications by USD 17,250.

*Qualified Opinion*

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the Statement of Expenditures presents fairly, in all material respects, the expenditure of USD 4,015,185 incurred by the project for the period from 1 January 2011 to 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 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





KPMG Slovensko spol. s r. o.  
Dvořákovo nábrežie 10  
P. O. Box 7  
820 04 Bratislava 24  
Slovakia

Telephone +421 (0)2 59 98 41 11  
Fax +421 (0)2 59 98 42 22  
Internet www.kpmg.sk

## 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 #74936 (Atlas ID 00059786), the Confidence Building Early Response Mechanism 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 122,037 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

**STATEMENT OF EXPENDITURES**  
**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Confidence Building Early Response Mechanism**

**AS AT 31 DECEMBER 2011**  
**(in US dollars)**



UN Development Programme  
 Report ID: ungl143a

**Combined Delivery Report With Encumbrance**

Page 1 of 2  
 Run Time: 13-09-2012 14:09:44

**Selection Criteria:**

Business Unit : GEO10  
 Period : Jan-Dec (2011)  
 Selected Award Id : 00059786  
 Selected Fund Code : ALL

Award Id	00059786 COBERM	Period	Jan-Dec (2011)
Project #	00074836 COBERM	Impl. Partner	01293 DIRECT EXECUTION
		Location	Georgia, Republic of

	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
<b>Fund : 30079 (EUROPEAN COMMISSION)</b>					
61305 - Salaries - IP Staff	0.00	77,199.24	0.00	0.00	77,199.24
61310 - Post Adjustment - IP Staff	0.00	34,541.02	0.00	0.00	34,541.02
62310 - Contrib to Jt Staff Pens Fd-IP	0.00	25,247.38	0.00	0.00	25,247.38
62315 - Contrib to medical, social in	0.00	239.40	0.00	0.00	239.40
62320 - Mobility, Hardship, Non-remova	0.00	11,427.74	0.00	0.00	11,427.74
63350 - Reimb of Income Tax-IP Staff	0.00	24,351.00	0.00	0.00	24,351.00
63320 - Personal Security Measures	0.00	91.10	0.00	0.00	91.10
63530 - Contribution to Separations	0.00	2,777.29	0.00	0.00	2,777.29
63535 - Contribution to Security	0.00	4,443.60	0.00	0.00	4,443.60
63540 - Contribution to Training	0.00	2,777.29	0.00	0.00	2,777.29
64322 - Reassignments-Subsistence Allow	0.00	5,430.00	0.00	0.00	5,430.00
64323 - Reassignments-Lump Sum	0.00	8,965.05	0.00	0.00	8,965.05
64324 - Reassignments-Shipment	0.00	7,000.00	0.00	0.00	7,000.00
65115 - Contributions to ASHI Reserve	0.00	5,554.51	0.00	0.00	5,554.51
65135 - Payroll Mgt Cost Recovery ATLA	0.00	669.96	0.00	0.00	669.96
71140 - Hazard Duty Station Allow-ALD	0.00	0.00	0.00	0.00	0.00
71200 - Local Consult-Short Term-Tech	0.00	10,028.80	0.00	0.00	10,028.80
71310 - Local Consult-Short Term-Supp	0.00	33,671.27	0.00	0.00	33,671.27
71405 - Service Contracts-Individuals	0.00	296,080.19	0.00	0.00	296,080.19
71605 - Travel Tickets-International	0.00	895.00	0.00	0.00	895.00
71615 - Daily Subsistence Allow-Intl	0.00	5,234.80	0.00	0.00	5,234.80
71620 - Daily Subsistence Allow-Local	0.00	11,111.24	0.00	0.00	11,111.24
71635 - Travel - Other	0.00	365.84	0.00	0.00	365.84
72105 - Svc Co-Construction & Engineer	0.00	507,228.78	0.00	0.00	507,228.78
72120 - Svc Co-Trade and Business Svc	0.00	1,250.79	0.00	0.00	1,250.79
72130 - Svc Co-Transportation Services	0.00	294.45	0.00	0.00	294.45
72205 - Office Machinery	0.00	1,253.36	0.00	0.00	1,253.36
72210 - Machinery and Equipment	0.00	124,009.83	0.00	0.00	124,009.83
72215 - Transportation Equipment	0.00	40,618.83	0.00	0.00	40,618.83
72220 - Furniture	0.00	982.37	0.00	0.00	982.37
72305 - Agri & Forestry Products	0.00	26,102.44	0.00	0.00	26,102.44
72420 - Land Telephone Charges	0.00	1,812.04	0.00	0.00	1,812.04
72425 - Mobile Telephone Charges	0.00	4,277.23	0.00	0.00	4,277.23
72430 - Postage and Pouch	0.00	269.61	0.00	0.00	269.61
72440 - Connectivity Charges	0.00	2,300.43	0.00	0.00	2,300.43
72305 - Stationery & other Office Supp	0.00	4,586.11	0.00	0.00	4,586.11
72315 - Micro Capital Grants-Other	0.00	2,199,791.49	0.00	0.00	2,199,791.49
72705 - Hospitality-Special Events	0.00	560.35	0.00	0.00	560.35
72705 - Acquis of Computer Hardware	0.00	-1,957.28	0.00	0.00	-1,957.28
72815 - Inform Technology Supplies	0.00	85.08	0.00	0.00	85.08
73105 - Rent	0.00	14,724.64	0.00	0.00	14,724.64
73120 - Custodial & Cleaning Services	0.00	2,761.24	0.00	0.00	2,761.24
73120 - Utilities	0.00	5,943.22	0.00	0.00	5,943.22
73125 - Common Services-Premises	0.00	72.29	0.00	0.00	72.29
73215 - Construction Cost	0.00	20,022.44	0.00	0.00	20,022.44
73310 - Maint & Licensing of Software	0.00	1,239.17	0.00	0.00	1,239.17
73410 - Maint Oper of Transport Equip	0.00	23,753.28	0.00	0.00	23,753.28
73505 - Rental to UNCT for Supp Svcs	0.00	1,102.83	0.00	0.00	1,102.83
74210 - Printing and Publications	0.00	17,385.91	0.00	0.00	17,385.91
74220 - Translation Costs	0.00	915.44	0.00	0.00	915.44
74510 - Bank Charges	0.00	1,109.67	0.00	0.00	1,109.67
74520 - Storage	0.00	245.79	0.00	0.00	245.79
74525 - Sundry	0.00	926.71	0.00	0.00	926.71
75105 - Facilities & Admin - Implement	0.00	263,028.22	0.00	0.00	263,028.22
75707 - Learning costs	0.00	140,038.42	0.00	0.00	140,038.42
75708 - Learning - subcontracts	0.00	4,291.85	0.00	0.00	4,291.85

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**STATEMENT OF EXPENDITURES  
UNITED NATIONS DEVELOPMENT PROGRAMME  
Confidence Building Early Response Mechanism**

**AS AT 31 DECEMBER 2011  
(in US dollars)**



UN Development Programme  
Report ID: ungl143a

Combined Delivery Report With Encumbrance

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Run Time: 13-09-2012 14:09:44

Award Id : 00059786 COBERM	Period : Jan-Dec (2011)				
Project # : 00074936 COBERM	Impl. Partner : 01293 DIRECT EXECUTION				
	Location : Georgia, Republic of				
	Govt Disb	UNDP Disb	UN Agencies	Encumbrance	Total Exp
75709 - Learning - training of counter	0.00	39,777.69	0.00	0.00	39,777.69
76125 - Realized Loss	0.00	1,798.46	0.00	0.00	1,798.46
76135 - Realized Gain	0.00	- 7,624.79	0.00	0.00	- 7,624.79
<b>Total for Fund 30079</b>	<b>0.00</b>	<b>4,015,185.01</b>	<b>0.00</b>	<b>0.00</b>	<b>4,015,185.01</b>
<b>Total for Project : 00074936</b>	<b>0.00</b>	<b>4,015,185.01</b>	<b>0.00</b>	<b>0.00</b>	<b>4,015,185.01</b>
<b>Award Total</b>	<b>0.00</b>	<b>4,015,185.01</b>	<b>0.00</b>	<b>0.00</b>	<b>4,015,185.01</b>

Signed By :

**Inita Paulovica  
Deputy Resident  
Representative  
UNDP Georgia**

Date :

13/09/2012

Nr  
2.5h

**STATEMENT OF ASSETS**  
**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Confidence Building Early Response Mechanism**

**AS AT 31 DECEMBER 2011**  
**(in US dollars)**

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Movement of Confidence Building Early Response Mechanism project's Capital and Non-Capital Assets is as follows:

<b>Opening balance</b>	<b>63 925</b>
Acquisitions during the year	85 822
Disposals	(22 203)
Adjustments	<u>(5 507)</u>
<b>Closing balance</b>	<b><u>122 037</u></b>

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Confidence Building Early Response Mechanism**

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

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**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.



RECORD OF PHYSICAL VERIFICATION AND CERTIFICATION  
OF PROPERTY PLANT AND EQUIPMENT  
MANAGED IN THE FRAMEWORK OF UNDP PROJECT Confidence Building Early Response Mechanism  
(PROJECT # 00074936) PROJECT/AWP

In line with UNDP Programme and Operations Policies and Procedures requirements, UNDP carries out bi-annual physical verification and certification of its non-expendable assets.

The United Nations Development Programme Country Office in Georgia hereby records the physical verification and certification of assets as specified in the attached list, which is annexed to this document and contain the following:

Number of items: **8 (Eight)**

Total acquisition amount: **122,037.28 USD (One Hundred Twenty Two Thousand Thirty Seven point Twenty Eight)**

Physical verification is conducted on **29 December 2011**

Herewith, we verify that the property, plant and equipment included in the list corresponds to UNDP asset management policies, is physically located and shall be included in asset register as at 31 December 2011.

Physical Verification by:

Prepared by: Mr. David Samunashvili (Project Assistant)

Verified By: Ms. Nana Jamburia (UNDP Asset Focal Point)

Submitted by: Ms. Irina Liczek (Project Manager)

Cleared by: Ms. Nils Christensen (Portfolio Manager)

Approved by: Ms. Ketu Ukleba (Operation Manager)

A series of handwritten signatures in black ink, corresponding to the names listed on the left. The signatures are written over the text of the verification process.



BUSINESS UNIT	OPERATING UNIT	PROFILE ID	TAG NUMBER	SERIAL ID	DESCRIPTION	LOCATION	CUSTODIAN NAME	ACQUISITION DATE	Quantity	Acquisition Cost	Currency	FUND CODE	Implementing Agent	Donor	PROJECT ID	DEPTID	Activity
GEO10	GEO	Vehicles	CDC448	KMH-JN813P9U9854 8E	Hyundai Tucson 2.0 MT	32a Palashvili Str. Tbilisi Georgia	Nugzar Kakhashvili	9/03/2009	1	17,550.00	USD	30079	0001981	00280	00074936	55001	
GEO10	GEO	Vehicles	N/A	N/A	Coden radio for car	32a Palashvili Str. Tbilisi Georgia	Nugzar Kakhashvili	9/03/2009	1	3,961.20	USD	30079	0001981	00280	00074936	55001	
GEO10	GEO	Information and telecommunication	UNDP FOSTER 195	D269B DK37F D78ER YHC2H KTCP	Notebook Toshiba Satellite A300-231	32a Palashvili Str. Tbilisi Georgia	Bezhan Kozarashvili	9/03/2009	1	1,596.97	USD	30079	0001981	00280	00074936	55001	
GEO10	GEO	Vehicles	007 D 94	JN1TOSV61206440 17	Nissan Patrol	Sukhumi	Ruslan Mikaelyan	N/A	1	20,712.00	USD	30079	0001981	00280	00074936	55001	
GEO10	GEO	Vehicles	QSO 060	KMH-JN813P9U9882 34	Hyundai Tucson 2.0 MT	32a Palashvili Str. Tbilisi Georgia	Gela Kelkhashvili	31/03/2009	1	17,550.00	USD	30079	0001981	00280	00074936	55001	2
GEO10	GEO	Vehicles	007 D 91	JN1TOSV61206440 13	Nissan Patrol	Kutasi Tegeda Motors Garage	Ruslan Mikaelyan	N/A	1	20,712.00	USD	30079	0001981	00280	00074936	55001	
GEO10	GEO	Information and telecommunication	UNDP FOSTER 40	sm; CNJ8100Q29	Natecx HP Compaq 6715b	Koshidze Str. Tbilisi Georgia	Nia Luska	16/10/2008	1	1,115.11	USD	30079	0001981	00280	00074936	55001	2
GEO10	GEO	Vehicles	007 AS 63	JTEEB71J20701205 5	Toyota Land Cruiser LC 70	32a Palashvili Str. Tbilisi Georgia	Nugzar Kvaratskhelia	28/03/2011	1	38,820.00	USD	30079	0001981	00280	00074936	55001	2
										122,037.28	USD						

Physical Verification By:

Prepared By:

Submitted By:

Project Assistant

Project Manager



*cutting through complexity™*

# United Nations Development Programme

**Project No.74936**

**Management Letter 2011**

30 November 2012





KPMG Slovensko spol. s r.o.  
Dvořákovo nábrežie 10  
811 02 Bratislava  
Slovak Republic

Tel +421 2 59984 111  
Fax +421 2 59984 888

Director, UNDP Office of Audit and Investigations

Daily News Building, 23<sup>rd</sup> Floor,

220 East 42<sup>nd</sup> 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 Confidence Building Early Response Mechanism (COBERM), ATLAS project ID 74936 executed by UNDP Georgia.

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 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 5 October 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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# Glossary of terms

**CDR**

Combined Delivery Report

**SOP**

Standard Operating Procedures

# **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, which was according to management beyond project's control. For example, several entries related to micro capital grants were made to different accounts. The total amount of incorrectly booked amount resulted to USD 876 thousand. For the illustration we included the list of incorrect entries in the table below.

Micro capital grants disbursements booked on incorrect accounts		
Account	Description	USD thousand
72105	Svc Co-Construction & Engineer	507
75705	Learning costs	140
72210	Machinery and Equipment	124
74210	Printing and Publications	17
72305	Agri & Forestry Products	28
73216	Construction Cost	20
75709	Learning - training of counter	40
<b>Total</b>		<b>876</b>

### Criteria:

We understand the UNDP office should follow the UNDP Accounting Standard Chart of Accounts and place accounting entries to the correct disbursement line in the CDR in order to preserve a proper presentation.

### Cause:

There was a development of the Atlas system during the year 2011. Apart from the other amendments to the system, there was also change regarding the inputting of account numbers to purchase orders. In general, the accountants need to select proper account numbers from the so called "catalogue". For certain periods of time, the catalogue was not properly set in the system and the accountants could not select the account linked to micro capital grants. Therefore in order to enter such a purchase order, the accountants had to choose the different closest account which suited the purpose of the micro capital grant expenditures.

# Observation 1

## Accounting entries using incorrect accounts

### *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 update and correction of the system in order to enable the accountants may select the appropriate accountant.

### *Management comments:*

We as management need to mention that the system was corrected in June-2012 with the introduction of the account for Grants (72600) in the Atlas Procurement Catalogue.



# **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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