



AUDIT

OF

UNDP UKRAINE

LOCAL COMMUNITIES CAPACITY
(Directly Implemented Project No. 79107)

Report No. 1198
Issue Date: 27 November 2013

**Report on the audit of UNDP Ukraine
Local Communities Capacity (Project No.79107)
Executive Summary**

From 28 August to 30 September 2013, the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP), through Deloitte Audit s.r.o. (the audit firm), conducted an audit of Local Communities Capacity, Project No. 79107 (the Project), which is directly implemented and managed by the UNDP Country Office in Ukraine (the Office). The audit was conducted under the general supervision of OAI in conformance with the *International Standards for the Professional Practice of Internal Auditing*. The last audit of the Office was conducted by OAI in 2008.

The Project reported expenditure totalling \$6.5 million during the period from 1 January to 31 December 2012. The following donors contributed to the Project: the European Commission 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 2012.

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		Cash	
Amount (in \$ '000)	Opinion	Amount (in \$'000)	Opinion	Amount (in \$'000)	Opinion
6,472	Unqualified	-	N/A (*)	-	N/A (**)

(*) No assets and no equipment were held by the project

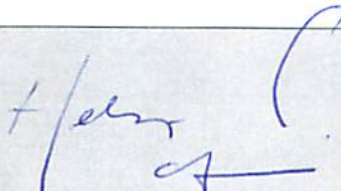
(**) No separate bank account and/or petty cash was held by the project.

Key issues and recommendations

The audit raised two issues and resulted in two recommendations, both ranked medium (important) priority, 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." These recommendations include actions for ensuring that lists of participants for community-based trainings are signed, and that grant agreements include all required signatures.

Management's comments

The Resident Representative accepted both recommendations and is in the process of implementing them.



Helge S. Osttveiten
Director
Office of Audit and Investigations



Auditor's Report

From financial audit of “Local
Communities Capacity Project”
implemented by UNDP in Ukraine

25 November 2013

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**Auditor's Report from audit of "Local Communities Capacity"
implemented by UNDP in Ukraine**

1. PART I - EXECUTIVE SUMMARY

1.1. Purpose And Scope Of This Report

Based on Contract No. PS 2013/02 dated 6 June 2013 and following our appointment we have performed an audit of one development project implemented by UNDP in Ukraine named "Local Communities Capacity" for the financial year 2012.

The objective of the financial audit was to express an opinion on a project's financial statements and particularly to express an opinion on whether the statement of expenditure presents fairly 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.

UNDP Office in Ukraine prepared statement of expenditure (Combined Delivery Report - CDR) for the project and year under the examination. We provided Auditor's opinion on this statement (refer to the Part II of this Report). There were no assets recorded under audited output therefore no Statement of Fixed Assets was prepared. There were no Statement of Cash Position prepared therefore our scope was to verify just CDR.

1.2. Project Identification Data

The following table summarizes the amount of expenditures (in USD) under examination:

Table 1

Project number	Output number	Project name	Implementing partner	2012	Total
48246	79107	Local Communities Capacity	UNDP	6,472,354.84	6,472,354.84

1.3. Background Information About Project

The project aims at increasing self-consciousness and creating self-sustainability of communities by promoting dialogue among its members, facilitating social activity, shaping a collectively shared vision of the future and implementing joint initiatives on community development.

The overall objective the project is to promote sustainable socio-economic development at local level by strengthening participatory governance and encouraging community-based initiatives throughout Ukraine.

Specific objectives of the project are to:

- promote community based approach to local governance and sustainable development;
- enhance energy efficiency at local level;
- support the creation of the locally owned and managed repository and network of good practices and knowledge on community mobilization and participatory governance.

1.4. Work Done

1.4.1. Expenditures verified

In average, we verified 28.75 % of all reported expenditures as shown in the following table:

Table 2

Output	Year	No. of samples	Total expenditure as per CDR (in USD)	Total expenditure tested	Percentage
79107	2012	213	6,472,354.84	1,860,686.97	28.75%

1.4.2. On-the-spot audit

We performed part of fieldwork directly on-the-spot in the UNDP Ukraine Office premises in Kiev during the period August 28 – September 4, 2013. The fieldwork was completed in Bratislava.

Overall Audit timeline was as follows:

Table 3

Audit Phase	Timeline
Planning	Aug 12 – 16, 2013
Fieldwork	Aug 28 – Sept 30, 2013
- Of which on the spot audit	Aug 28 – Sept 4, 2013
Reporting	Oct 1 – 30, 2013

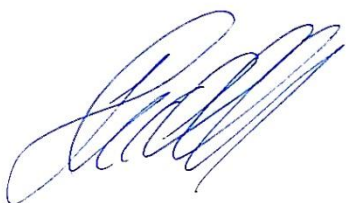
1.5. Conclusions

We identified certain drawbacks in project management controls which we assessed as medium priority findings. They have no direct financial impact. Other identified findings were the ones with low priority. There were no findings with high priority identified.

Our opinion on the CDR together with signed CDR is included in the Chapter 2 of this Report.

Findings and recommendations with low priority are not included in this Report but were provided separately to the Project Management.

For more details about particular findings and recommendations refer to the Chapter 3 of this Report.



Marián Hudák
Country Leading Partner and Executive
Deloitte Audit s.r.o.

2. PART II – AUDIT REPORT WITH OPINION

2.1. Opinion on CDR

REPORT OF THE INDEPENDENT AUDITOR ON THE OUTPUT “LOCAL COMMUNITIES CAPACITY”

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

Report on the Project Financial Statement

We have audited the accompanying Combined Delivery Report (“the statement”) of the UNDP Directly Implemented Project, output number 79107 named “Local Communities Capacity” for the period 1.1.2012 – 31.12.2012.

Management Responsibility

Management is responsible for the preparation of the statement for output 79107 and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the statement based on our audit. We conducted our audit in accordance with the International Standards on Auditing applicable for this engagement. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the project’s preparation of the statements 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 project’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 presentation of the statement.

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

Unmodified Opinion

In our opinion, the attached Combined Delivery Report presents fairly, in all material respects, the expenditure of USD 6,472,354.84 incurred by the output “Local Communities Capacity” for the period 1.1.2012 – 31.12.2012 in accordance with UNDP accounting policies and 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.

Bratislava, 25 November 2013



Marián Hudák, CA, FCCA
Responsible Auditor
Licence SKAu No. 856

2.2. Signed CDR



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 1 of 5
Run Time: 14-10-2013 16:10:03

Selection Criteria :

Business Unit : UKR10
Period : Jan-Dec (2012)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00079107

Project Id : 00048246 Community Based Approach to Lo	Period : Jan-Dec (2012)
Output # : 00079107 Local communities capacity	Impl. Partner : 99999 UNDP
	Location :
	</

Dept: 58204 (Ukraine - Dem. Governance)

Fund : 04000 (Core Programme, UNU Centre)

72125 - Svc Co-Studies & Research Serv	0.00	23.59	0.00	23.59
72175 - Svc Co-Urban, Rural & Regional	0.00	69,665.12	0.00	69,665.12
76125 - Realized Loss	0.00	10.77	0.00	10.77
76135 - Realized Gain	0.00	- 7.96	0.00	- 7.96

Total for Fund 04000 0.00 69,691.52 0.00 69,691.52

Fund : 30079 (EUROPEAN COMMISSION)

71305 - Local Consult-Sht Term-Tech	0.00	4,402.05	0.00	4,402.05
71405 - Service Contracts-Individuals	0.00	32,085.36	0.00	32,085.36
71610 - Travel Tickets-Local	0.00	5,622.81	0.00	5,622.81
71620 - Daily Subsistence Allow-Local	0.00	62,029.81	0.00	62,029.81
71635 - Travel - Other	0.00	552.87	0.00	552.87
72135 - Svc Co-Communications Service	0.00	112.86	0.00	112.86
72145 - Svc Co-Training and Educ Serv	0.00	58,755.49	0.00	58,755.49
72175 - Svc Co-Urban, Rural & Regional	0.00	5,611,902.29	0.00	5,611,902.29
72205 - Office Machinery	0.00	31,824.49	0.00	31,824.49
72220 - Furniture	0.00	3,292.86	0.00	3,292.86
72405 - Acquisition of Communic Equip	0.00	27,351.46	0.00	27,351.46
72410 - Acquisition of Audio Visual Eq	0.00	1,585.45	0.00	1,585.45
72505 - Stationery & other Office Supp	0.00	560.53	0.00	560.53
72510 - Publications	0.00	4,447.57	0.00	4,447.57
72705 - Hospitality-Special Events	0.00	7,295.64	0.00	7,295.64
72810 - Acquis of Computer Software	0.00	90.63	0.00	90.63
72815 - Inform Technology Supplies	0.00	3,556.59	0.00	3,556.59
73120 - Utilities	0.00	106.43	0.00	106.43
73405 - Rental & Maint-Other Office Eq	0.00	15.75	0.00	15.75
73410 - Maint, Oper of Transport Equip	0.00	11,720.74	0.00	11,720.74
74210 - Printing and Publications	0.00	1,886.03	0.00	1,886.03
74220 - Translation Costs	0.00	367.04	0.00	367.04
74525 - Sundry	0.00	519.75	0.00	519.75
75105 - Facilities & Admin - Implement	0.00	419,083.79	0.00	419,083.79
75705 - Learning costs	0.00	104,057.01	0.00	104,057.01
75708 - Learning - ticket costs	0.00	1,351.05	0.00	1,351.05
75707 - Learning - subsistence allowan	0.00	11,418.60	0.00	11,418.60
76125 - Realized Loss	0.00	1,909.33	0.00	1,909.33
76135 - Realized Gain	0.00	- 5,240.96	0.00	- 5,240.96

Total for Fund 30079 0.00 6,402,663.32 0.00 6,402,663.32

Total for Dept : 58204 0.00 6,472,354.84 0.00 6,472,354.84

Deloitte.
Signed For Identification

**Auditor's Report from audit of "Local Communities Capacity"
implemented by UNDP in Ukraine**



UN Development Programme
Report ID: unglodrp

Combined Delivery Report By Project

Page 2 of 5
Run Time: 14-10-2013 16:10:03

Project Id : 00048246 Community Based Approach to Lo	Period :	Jan-Dec (2012)		
Output # : 00079107 Local communities capacity	Impl. Partner :	99999 UNDP		
	Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Total for Output : 00079107	0.00	6,472,354.84	0.00	6,472,354.84
Project Total :	0.00	6,472,354.84	0.00	6,472,354.84

Signed By :

Date :

14.10.2013

Signed By :

RICARDA RIEGER
COUNTRY DIRECTOR
UNDP UKRAINE

Date :

Deloitte.
Signed For Identification

Auditor's Report from audit of "Local Communities Capacity" implemented by UNDP in Ukraine



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 3 of 5
Run Time: 14-10-2013 16:10:03

Selection Criteria :

Business Unit : UKR10
Period : Jan-Dec (2012)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00079107

Project Id : ALL		Period : Jan-Dec (2012)		
Output # : ALL		Impl. Partner : Location :		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
58204 - Ukraine - Dem. Governance	0.00	6,472,354.84	0.00	6,472,354.84

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Auditor's Report from audit of "Local Communities Capacity" implemented by UNDP in Ukraine



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 4 of 5
Run Time: 14-10-2013 16:10:04

Funds Utilization

Selection Criteria :

Business Unit : UKR10
Period : Jan-Dec (2012)
Selected Project Id : ALL
Selected Fund Code : ALL
Selected Dept. IDs : ALL
Selected Outputs : 00079107

Project/Award: 00048246 Community Based Approach to Lo

Period : As at Dec 31, 2012

Output #	00079107	Impl. Partner :99999 UNDP	UNDP AMOUNT
	Outstanding NEX advances		0.00
	Undepreciated Fixed Assets		0.00
	Inventory		0.00
	Prepayments		0.00
	Commitments		0.00

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Auditor's Report from audit of "Local Communities Capacity" implemented by UNDP in Ukraine



UN Development Programme
Report ID: unglcdrp

Combined Delivery Report By Project

Page 5 of 5
Run Time: 14-10-2013 16:10:05

Schedule to Combined Delivery Report
IPSAS Adjustments as at 1 January 2012

Selection Criteria:

Business Unit : UKR10
Selected Project(s): ALL
Selected Fund Code : ALL
Selected Output(s): 00079107

Project Id : ALL					
Output # :					
Impl. Partner : NONE					
Description	Account	Fund	Donor	Amount	

No Data found for the Selection Criteria

Deloitte.
Signed For Identification

3. PART III - MANAGEMENT LETTER

We enclose a letter that documents our observations and provide recommendations on certain matters identified during the performance of our audit of financial statements of the project described in the previous chapters.

Findings and recommendations with low priority are not included in this Report but are provided separately to the Project Management.

It should be noted that these findings do not result from a specifically targeted review engagement but are only those that came to our attention during the course of our audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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.

UNDP Ukraine Office Management is responsible for the design, implementation and maintenance of the internal control system over the projects. To execute this obligation, the UNDP Ukraine Office Management is required to assess the expected risks and rewards of the policies and procedures for management control.

The objectives of the internal control system are, to provide UNDP Directors and Management sufficient assurance that the project assets of the Company are protected from loss resulting from unauthorized use or manipulation, and that the project operations are performed in accordance with the policies adopted and are recorded properly in order to allow for the timely preparation of reliable accounting information in accordance with the applicable accounting principles.

We would like to thank the UNDP Ukraine Office Management for their comments on individual management letter points, which we have considered in completing this letter.

This letter together with low priority findings are intended primarily for the information and use of the Office of Audit and Investigation Director and UNDP Ukraine Office Management.

We would be pleased to discuss our comments with you further, and if requested, to assist you in implementing any of the recommendations.

Yours faithfully,



Marián Hudák
Country Leading Partner and Executive
Deloitte Audit s.r.o.

3.1. Medium priority findings

3.1.1. Lists of participants not signed

Priority

Medium

Observation

List of participants for community-based trainings were not signed. In two cases list of participants which is not signed was attached to the respective vouchers (voucher # 108125 and 107641).

Recommendation

List of participants in the workshops, seminars and other events should be signed. It provides additional assurance that all participants took part in the workshops, conferences and seminars.

Management Comments

We accept the recommendations and will ensure that list of participants are signed.

Auditor's response

No further comments.

3.1.2. Missing signatures on Grant Agreements

Priority

Medium

Observation

We found multiple cases of missing signatures in the Grant Agreements on the side of grantee.

Recommendation

We recommend paying more attention to formal side of signing the Grant Agreements. From legal point of view it is necessary that the Grant Agreement contains the signatures and dates on both sides of contractual parties, otherwise agreements are not effective.

Management Comments

First tranche of grant is released to community organisation based upon original signed grant agreement and original signed Grant Agreement is attached to the voucher of the first tranche. Subsequent tranches (2nd, 3rd, etc.) may indeed have unsigned version of the Grant Agreement, as the Finance Unit has the original on the file and can always refer back to the original to validate the amount, payment schedule, etc. We, however, take note of the comment and recommendation and will ensure that copies of signed Grant Agreement will be attached to all vouchers.

Auditor's response

No further comments.