



**AUDIT**

**OF**

**UNDP UKRAINE**

**PROCUREMENT SUPPORT SERVICES TO THE MINISTRY OF HEALTH OF UKRAINE**  
**(Directly Implemented Project No. 90474, Output Nos. 96228 and 103344)**

**Report No. 1790**

**Issue Date: 7 August 2017**

**Report on the Audit of UNDP Ukraine  
Procurement Support Services to the Ministry of Health of Ukraine  
(Project No. 90474, Output Nos. 96228 and 103344)  
Executive Summary**

The UNDP Office of Audit and Investigations (OAI), through Moore Stephens LLP (the audit firm), from 15 to 26 May 2017, conducted an audit of Procurement Support Services to the Ministry of Health of Ukraine, Project No. 90474, Output Nos. 96228, Health Care Procurement and 103344, Mucopolysaccharidosis Medicine, (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 work covered financial transactions as well as internal controls and systems for the purpose of expressing an opinion on whether the financial statements present fairly, in all material aspects, the Project's operations, as well as assess compliance with UNDP regulations, rules, policies and procedures and donor agreements. The audit covered the Project's Combined Delivery Report, which includes expenditure for the period from 1 January to 31 December 2016 and the accompanying Funds Utilization statement<sup>1</sup> as of 31 December 2016. It also reviewed the relevant systems, procedures and practices in place as they relate to the Project, in the areas of: organization and staffing, programme and project management, human resources, finance, procurement, asset management, cash management, information systems, and general administration. The audit did not include expenses processed and approved in locations outside of the country (such as UNDP Regional Centres and UNDP Headquarters) The audit did not cover the Statement of Assets as no assets were purchased for the Project. 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*.

**Overall audit rating**

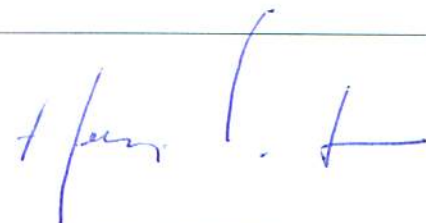
Based on the audit reports and corresponding management letters submitted by the audit firm, OAI assessed the management of the Project as **satisfactory**, which means, "The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area". The details of the audit results are presented in the table below:

Project Expenditure		
Output Nos.	Amount (in \$ '000)	Opinion
96228	33,578*	Unqualified
103344	4,024	Unqualified

\*Expenditures recorded in the Combined Delivery Report were \$36,591,045. Excluded from the audit scope were expenditures processed and approved by other UNDP offices outside of the country (\$3,012,661).

<sup>1</sup> 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.

The audit did not result in any recommendations.

A handwritten signature in blue ink, enclosed within a rectangular box. The signature is stylized and appears to read 'Helge S. Osttveiten'.

Helge S. Osttveiten  
Director  
Office of Audit and Investigations

**UNITED NATIONS DEVELOPMENT PROGRAMME  
(UNDP)**

**FINAL AUDIT REPORT**

**25 July 2017**

**FINANCIAL AND INTERNAL CONTROLS AUDIT OF THE  
UNDP DIRECTLY IMPLEMENTED (DIM) PROJECT**

**Procurement support services to the Ministry of Health  
of Ukraine - health care procurement**

<b>UNDP Country Office:</b>	<b>Ukraine</b>
<b>Atlas Project ID:</b>	<b>00090474</b>
<b>Atlas Output ID:</b>	<b>00096228</b>
<b>Auditor:</b>	<b>Moore Stephens LLP</b>
<b>Period subject to audit:</b>	<b>1 January to 31 December 2016</b>



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## Table of Contents

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<b>EXECUTIVE SUMMARY.....</b>	<b>3</b>
<b>THE AUDIT ENGAGEMENT.....</b>	<b>4</b>
STATEMENT OF EXPENDITURE .....	6
STATEMENT OF ASSETS AND EQUIPMENT .....	8
STATEMENT OF CASH POSITION .....	9
<b>MANAGEMENT LETTER .....</b>	<b>10</b>
ORGANIZATION AND STAFFING .....	10
PROGRAMME AND PROJECT MANAGEMENT .....	10
HUMAN RESOURCES .....	10
FINANCE .....	10
PROCUREMENT .....	11
ASSET MANAGEMENT .....	11
CASH MANAGEMENT .....	11
INFORMATION SYSTEMS.....	11
GENERAL ADMINISTRATION.....	11
<b>ANNEXES.....</b>	<b>13</b>
ANNEX 1: COMBINED DELIVERY REPORT .....	13
ANNEX 2: AUDIT AREA RATINGS .....	18

## EXECUTIVE SUMMARY

Moore Stephens LLP conducted the financial audit of 'Health Care Procurement' (Project ID 00090474 – output ID 00096228) ('the project'), directly implemented by UNDP Ukraine ('the office') for the year ended 31 December 2016. The audit was undertaken on behalf of UNDP, Office of Audit and Investigations (OAI).

We have issued audit opinions as summarised in the table below and as detailed in the next section:

<b>Statement of Expenditure</b>	Unmodified
<b>Statement of Assets &amp; Equipment</b>	Not applicable
<b>Statement of Cash Position</b>	Not applicable

We have assessed the project's internal controls and systems and found them to be **satisfactory**, which means that 'The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area'.

As a result of our audit, we have raised no audit findings.

The output ID 00096228 'Heath Care Procurement' was not audited in the prior year.



Mark Henderson  
Partner

Moore Stephens LLP  
150 Aldersgate Street  
London EC1A 4AB

25 July 2017

MOORE STEPHENS

## THE AUDIT ENGAGEMENT

### **Audit Objectives and Scope**

#### **A: Financial Audit**

The objective of the financial audit was to express an opinion on the DIM project's financial statements which include:

- Expressing an opinion on whether the financial expenses incurred by the project between 1 January and 31 December 2016 and the funds utilization as at 31 December 2016 are fairly presented in accordance with UNDP accounting policies and that the expenses 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.
- Expressing an opinion on whether the statement of fixed assets presents fairly the balance of assets of the UNDP project as at 31 December 2016. This statement must include all assets available as at 31 December 2016 and not only those purchased in a given period. Where a DIM project does not have any assets or equipment, it will not be necessary to express such an opinion.
- Expressing an opinion on whether the statement of cash held by the project presents fairly the cash and bank balance of UNDP project as at 31 December 2016. In cases where the cash transactions of the audited DIM project are made through the country office bank accounts, this type of opinion is not required.

The Financial Audit was conducted in accordance with the International Standards of Auditing (ISA), the 700 series.

The scope of the audit relates only to transactions concluded and recorded against the UNDP DIM project between 1 January and 31 December 2016. The scope of the audit did not include:

- Activities and expenses incurred or undertaken at the level of "responsible parties", unless the inclusion of these expenses is specifically required in the request for proposal; and
- Expenses processed and approved in locations outside the country such as UNDP Regional Centres and UNDP Headquarters and where the supporting documentation is not retained at the level of the UNDP country office.

#### **B: Audit of Internal Controls and Systems**

Necessary audit steps are required to cover the project's internal controls and systems in order to assess:

- (a) Reliability and integrity of project financial and operational information;
- (b) Effectiveness and efficiency of project operations;
- (c) Safeguarding of project assets;
- (d) Compliance with legislative mandates, regulations and rules, policies and procedures, as well as donor agreements.

Internal controls with regard to the audited project in the following areas shall be assessed:

**(i) Organization and Staffing:** Assess the overall project structure for effective work flows and management arrangements, including assignment of authority, accountability and responsibility to staff.

**(ii) Programme and project management:** Assess the management aspects in terms of approval of the project, financial management of project funds, and monitoring of implementation towards achievement of project objectives. This includes reporting to the, Steering Committee, Project Board and/or Donors.

**(iii) Human Resources:** Assess competitiveness and transparency of the recruitment process; and effectiveness of the management of project personnel, including contract administration, performance evaluation and payment of salaries and allowances.

**(iv) Finance:** Assess the compliance with UNDP policies with respect to the safe custody and adequate management of cash, commitment of expenditures against approved budget, disbursement or payments against liabilities and cash advances to field offices, project staff, etc.

**(v) Procurement:** Assess whether goods, services and civil works for the project are procured competitively and in a transparent manner in accordance with UNDP policies and procedures. This includes management of obligations and appropriate assessment of goods or services delivered and monitoring performance of the contractors, before payment.

**(vi) Asset Management:** Assess whether project assets are adequately recorded, safeguarded, monitored, including periodic physical verification of their use and existence.

**(vii) Cash Management:** Review the safeguarding of all cash (including bank accounts) held separately for the purposes of the project either in the UNDP country office or at the project field offices, including cash held as advances or imprest in any sub-office or field office.

**(viii) Information Systems:** Assess the efficiency and security of the information systems established and maintained from project funds and their adequacy to meet the management and reporting requirements of the projects.

**(ix) General Administration:** These include areas of operations not specifically covered above and for which expenses are charged to the project covering such areas as: travel of project staff, use and maintenance of project vehicles, lease and maintenance of office premises.

An overall rating for the internal controls and systems is given in the Executive Summary section of this report.



## **Independent Auditor's Report to UNDP – Health Care Procurement**

### **Statement of Expenditure**

#### **To the Director of the Office of Audit and Investigations United Nations Development Programme**

##### **Unmodified Opinion**

We have audited the accompanying Combined Delivery Reports (CDRs) and Funds Utilization statement totalling \$ 36,591,045.41 ("the statement") of the UNDP project 00090474 and output ID 00096228, 'Health Care Procurement', for the period from 1 January to 31 December 2016.

The CDR expenditure totalling \$ 36,591,045.41 is comprised of expenditure directly incurred by the UNDP Country Office in Ukraine for an amount of \$ 33,578,384.45 and expenditure not processed or approved by UNDP Country Office Ukraine for the amount of \$ 3,012,660.96. Our audit only covered the expenditure directly incurred by the UNDP Country Office in Ukraine of \$ 33,578,384.45.

In our opinion, the attached Combined Delivery Report (CDR) and Funds Utilization statement presents fairly, in all material respects, the expenses of \$ 33,578,384.45 incurred by the project 'Health Care Procurement' for the period 1 January to 31 December 2016 in accordance with UNDP accounting policies and were: (i) in conformity with the approved budget; (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.

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those provisions and standards are further described in the 'Auditor's responsibilities for the audit of the Statement of Expenditure' section of this report.

We are independent of UNDP in accordance with the IESBA Code of Ethics for Professional Accountants. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Management responsibilities**

UNDP project management is responsible for the preparation of the Statement and other financial records for the project's activities and for such internal control as management determines is necessary to enable the preparation of the Statement to be free from material misstatement, whether due to fraud or error.

##### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the Statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Statement.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.

We communicate with UNDP project management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Mark Henderson  
Partner

Moore Stephens LLP  
150 Aldersgate Street  
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25 July 2017

MOORE STEPHENS

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## **Independent Auditor's Report to UNDP – Health Care Procurement**

### **Statement of Assets and Equipment**

We noted that the UNDP output ID 00096228 'Health Care Procurement' had no assets or equipment and accordingly a Statement of Assets & Equipment was not produced.

## **Independent Auditor's Report to UNDP – Health Care Procurement**

### **Statement of Cash Position**

We noted that the UNDP output ID 00096228 'Health Care Procurement' did not have a dedicated bank account for DIM project activities subject to audit and accordingly a Statement of Cash Position was not produced.

## MANAGEMENT LETTER

The audit areas subject to the audit of internal controls and systems, and the findings related to the audit of the financial audit and audit of internal controls and systems, are discussed in our management letter below.

### Organization and Staffing

The project has been structured by the office in conjunction with UNICEF and WHO, with the objective of strengthening national procurement systems for healthcare in Ukraine, thereby helping to improve the diagnosis and treatment of patients in the country. To date, the office has procured medicines and medical products for the National Public Health Programmes for 2015 and 2016.

In 2016, there were twelve staff working on the project, which is managed by the Programme Specialist under the Deputy Country Directors. The Programme Specialist also supervised the procurement unit, consisting of two Procurement Associates, a Procurement and Logistics Associate, an International Consultant on medicines and health products, and an International Consultant providing support for the procurement of medical products.

### Programme and Project Management

The project team met with the Ministry of Health on a weekly basis to discuss project progress. There were also regular meetings between the project team and top management at the office (i.e. the Country Directors and the Deputy Country Directors).

Our review of project financial data and minutes of meetings held with the Ministry of Health in 2016 indicated that programme activities were executed in accordance with the agreement with the Ministry of Health.

### Human Resources

The project's Human Resources requirements were managed by the office's Human Resources Department, which had sufficient capacity. The project followed UNDP guidelines for all HR processes, such as recruitment, contract management, performance appraisal and payroll management. Local staff were hired under service contracts and were subject to evaluations by the Programme Specialist and the Deputy Country Director (Operations) every six months.

The project payroll was managed by the office using Atlas. However, as per the terms of reference, only the payroll cost for local project staff was considered and verified during the audit in the year under review. Salaries were paid in accordance with signed employment contracts. The payroll cost for technical advisors and international staff was outside the scope of the audit engagement because the expenditure was not processed and approved at the level of the office. The Human Resources Department maintained project staff records, with appropriate access restrictions.

### Finance

The financial management of the project was guided, coordinated and administered by the office in accordance with UNDP Financial Regulations and Rules; the Operational Guide to the UNDP Internal Control Framework; UNDP Programme and Operations Policies and Procedures (POPP); and other relevant UNDP corporate procedures. The project used UNDP's Atlas accounting system for its finance and accounting requirements.

The office used its Financial Department (which had sufficient capacity), with one Administrative/Finance Assistant being allocated to the project. Financial reports were

approved by the Country Director and the Deputy Country Directors; UNDP's agreements with the Ministry of Health allowed it to use its own standard reporting procedures.

## **Procurement**

The project used UNDP Procurement Support Office (PSO) guidelines for its procurement requirements. The guidelines required the project to give due consideration to the following general principles while executing its procurements: Best Value for Money; Fairness, Integrity, Transparency; Effective International Competition; and the Interest of UNDP.

The office used UNDP's standard Invitation to Bid (ITB) procedures for procurement in excess of \$ 100,000. The only exceptions were when there was only one manufacturer of the desired products, and these products were patented. In such cases, the direct contract modality was used. The ITBs did not include a maximum budget.

Invitations to Bid were published in English and Russian; they were made available on appropriate UNDP websites, as well as being sent directly to potential suppliers based on the office's previous experience and market research. Bidders were invited to attend a pre-bidding conference; any clarifications sought during this conference were subsequently circulated to all bidders by email. Public bid openings were held and documented; the Procurement Associate checked that all bids received were compliant with the conditions given in the ITB and performed background checks on all applicants.

The evaluation panel was approved by the Deputy Country Officer; the evaluation meetings were also attended by an observer from the Ministry of Health. Evaluation reports documented the award decision made; in all cases that we reviewed, we noted that the lowest-value, technically compliant bid was selected. The procurement team compared the prices of winning bids to recent, similar purchases made by the Ministry of Health, equivalent bodies in neighbouring countries, the Global Fund and by UNDP under its LTAs with suppliers.

When the direct contract modality was used, written permission was sought from the Advisory Committee at UNDP headquarters in New York. Again, the evaluation panel was approved by the Deputy Country Director and attended by an observer from the Ministry of Health. The invited bidders were invited to attend meetings with the Programme Specialist and the Procurement Associate in order to negotiate prices and quantities.

## **Asset Management**

No project-specific assets were purchased or maintained by the office.

## **Cash Management**

The Project did not maintain a dedicated bank account for its operations; disbursements were financed from the regular office bank accounts. There was no petty cash, and no partner organisations or field offices to which funds were advanced.

## **Information Systems**

The project's IT needs were met by the use of the UNDP computerised accounting package Atlas, which was utilised for both its accounting and payroll requirements. Back-ups of the project information were routinely undertaken and stored both on and offsite. All work computers were password-protected, with staff obliged to change their passwords at least once every three months.

## **General Administration**

There were no significant systems and controls relevant to the project beyond those described above.





Mark Henderson  
Partner

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25 July 2017

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## **Annexes**

**Annex 1: Combined Delivery Report**

UN  
DPUN Development Programme  
Report ID: unglcdrp

## Combined Delivery Report By Project

Page 1 of 4  
Run Time: 18-07-2017 15:07:44

## Selection Criteria :

Business Unit : UKR10  
Period : Jan-Dec (2016)  
Selected Project Id : 00090474  
Selected Fund Code : ALL  
Selected Dept. IDs : B0582  
Selected Outputs : 00096228

Project Id : 00090474 Procurement Support Services t		Period : Jan-Dec (2016)		
Output # : 00096228 Health Care Procurement		Impl. Partner : 99999 UNDP		
		Location : Ukraine		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Dept: 58201 (Ukraine - Central)				
Fund : 30071 (Programme Cost Sharing GOV1)				
71615 - Daily Subsistence Allow-Intl	0.00	- 850.08	0.00	- 850.08
71635 - Travel - Other	0.00	- 178.09	0.00	- 178.09
72330 - Medical Products	0.00	13,667.30	0.00	13,667.30
74115 - Legal Fees	0.00	- 596.78	0.00	- 596.78
74505 - Insurance	0.00	374.04	0.00	374.04
74725 - Other L.T.S.H.	0.00	645.00	0.00	645.00
75105 - Facilities & Admin - Implement	0.00	391.84	0.00	391.84
Total for Fund 30071	0.00	13,453.23	0.00	13,453.23
Total for Dept : 58201	0.00	13,453.23	0.00	13,453.23
Dept: 58208 (Ukraine - Poverty Reduction)				
Fund : 30071 (Programme Cost Sharing GOV1)				
64398 - Direct Project Cost-Staff	0.00	549,402.43	0.00	549,402.43
71405 - Service Contracts-Individuals	0.00	1,659.13	0.00	1,659.13
71410 - MAIP Premium SC	0.00	3.86	0.00	3.86
71415 - Contribution to Security SC	0.00	65.58	0.00	65.58
71615 - Daily Subsistence Allow-Intl	0.00	850.08	0.00	850.08
71635 - Travel - Other	0.00	178.09	0.00	178.09
72330 - Medical Products	0.00	34,115,286.12	0.00	34,115,286.12
74115 - Legal Fees	0.00	596.78	0.00	596.78
74505 - Insurance	0.00	3,346.45	0.00	3,346.45
74515 - Claims and Adjustments	0.00	28,769.00	0.00	28,769.00
74598 - Direct Project Costs - GOE	0.00	235,458.19	0.00	235,458.19
74725 - Other L.T.S.H.	0.00	573,369.41	0.00	573,369.41
75105 - Facilities & Admin - Implement	0.00	1,065,514.18	0.00	1,065,514.18
76125 - Realized Loss	0.00	10,247.28	0.00	10,247.28
76135 - Realized Gain	0.00	- 7,154.40	0.00	- 7,154.40
Total for Fund 30071	0.00	36,577,592.18	0.00	36,577,592.18
Total for Dept : 58208	0.00	36,577,592.18	0.00	36,577,592.18
Total for Output : 00096228	0.00	36,591,045.41	0.00	36,591,045.41



Combined Delivery Report By Project

UN Development Programme  
Report ID: unglcdrp

Page 2 of 4  
Run Time: 18-07-2017 15:07:44

Project Id : 00090474 Procurement Support Services t	Period :	Jan-Dec (2016)		
Output # : 00096228 Health Care Procurement	Impl. Partner :	99999 UNDP		
	Location :	Ukraine		
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
Project Total :	0.00	36,591,045.41	0.00	36,591,045.41

Signed By :

*Blerta Cela, Country Director*

Date : \_\_\_\_\_

Signed By :

Date : \_\_\_\_\_





UN  
DP

UN Development Programme  
Report ID: unglcdp

Combined Delivery Report By Project

Page 3 of 4  
Run Time: 18-07-2017 15:07:46

Selection Criteria :

Business Unit : UKR10  
Period : Jan-Dec (2016)  
Selected Project Id : 00090474  
Selected Fund Code : ALL  
Selected Dept. IDs : B0582  
Selected Outputs : 00096228

Project Id : ALL	Period : Jan-Dec (2016)			
Output # : ALL	Impl. Partner : Location :			
	Govt Exp	UNDP Exp	UN Agencies Exp	Total Exp
58201 - Ukraine - Central	0.00	13,453.23	0.00	13,453.23
58208 - Ukraine - Poverty Reduction	0.00	36,577,592.18	0.00	36,577,592.18



# Combined Delivery Report By Project

UN Development Programme

Report ID: unglcdrp

Page 4 of 4

Run Time: 18-07-2017 15:07:47

## Funds Utilization

### Selection Criteria :

Business Unit : UKR10  
Period : Jan-Dec (2016)  
Selected Project Id : 00090474  
Selected Fund Code : ALL  
Selected Dept. IDs : B0582  
Selected Outputs : 00096228

Project/Award: 00090474 Procurement Support Services t

Period : As at Dec 31, 2016

Output # 00096228 Impl. Partner :99999 UNDP

### UNDP AMOUNT

Outstanding NEX advances	0.00
Undepreciated Fixed Assets	0.00
Inventory	0.00
Prepayments	0.00
Commitments	2,639,648.83



## Annex 2: Audit area ratings

The following categories of priorities are used regarding the audit of internal controls and systems:

<b>Satisfactory</b>	The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
<b>Partially satisfactory / Some Improvement Needed</b>	The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
<b>Partially Satisfactory / Major Improvement Needed</b>	The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
<b>Unsatisfactory</b>	The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.