



**FINANCIAL MARKETS INTERNATIONAL, INC.
USAID Financial Sector Development Technical
Assistance Program (USAID/FINREP-II)**

REPORT OF FACTUAL FINDINGS

In connection with the conducting of Non-U.S. organization Pre-Award Survey (NUPAS) of Ukrainian Federation of professional accountants and auditors (UFPAA)



www.bdo.com.ua

Tel.: +38 044 393 26 87
Fax: +38 044 393 26 91
e-mail: bdo@bdo.kiev.ua

Tel.: +38 056 370 30 43
Fax: +38 056 370 30 45
e-mail: office@bdo.com.ua

Tel.: +38 062 206 52 89
Fax: +38 062 206 52 91
e-mail: office@bdo.com.ua

BDO LLC

201-203, Kharkivske Road, 10th floor
Kyiv
Ukraine, 02121

4, Serova Str.
Dnipropetrovsk
Ukraine, 49000

51A, Artyoma Str., office 703
Donetsk
Ukraine, 83001

REPORT OF FACTUAL FINDINGS

To the Financial Markets International, Inc.,
implementing the USAID Financial Sector Development
Technical Assistance Program (USAID/FINREP-II)

We have performed the procedures agreed with you and enumerated below with respect to the assessment of UFPAA financial management and internal control systems in compliance with the NUPAS criteria.

Our engagement was undertaken in accordance with the International Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" applicable to agreed-upon procedures engagements.

The procedures were performed solely to assist you in evaluating the capacity (financial, managerial, organizational) and internal controls of the UFPAA and are summarized as follows:

1. UFPAA's policies and procedures governing were reviewed:
 - a) Financial management (budgeting, accounting, costing (direct and indirect cost components), reporting and internal controls etc.);
 - b) Management of personnel (organizational structure and job descriptions, hiring policy and procedures, salary and benefits policy, applicable contractual arrangements, etc.);
 - c) Management of operations (office policies; ethical responsibilities; security and confidentiality; travel and procurement policies and procedures, property management etc.);
 - d) Other areas of operations (non-finance related) which may be relevant.
2. The UFPAA's management staff were interviewed to ensure that policies and procedures are:
 - a) Fully understood by the management and staff involved and the overall attitude of the management and staff is positive; and
 - b) Placed in operation with long-term goals which can be construed as a support of their future activities.

3. Observed application/implementation of the developed policies and procedures. Tested relevant documents, records and transactions by using a judgmental sampling method to ensure the effectiveness of the application of the developed policies and procedures in the following six specific criteria:
- Legal Structure;
 - Financial Management and Internal Control Systems;
 - Procurement Systems;
 - Human Resources System;
 - Project Performance Management;
 - Organizational Sustainability.

We report our findings below:

Organization activity fully complies with current Ukrainian legislation. UFPAA management has implemented well-structured approach in governance and endeavour to use best practices in governing of a non-profit organization. UFPAA fully meets all USAID requirements of “local organization”.

Organization has adequate accounting/bookkeeping system in place which is based on local accounting software package “1C” and a “Client-bank” program with electronic signature application. Financial management activities and internal controls such as: segregation of duties, documentation, authorization and approvals are adequately detailed in existing written policies. Organization has adequate budgeting system and respective experience in variance analysis on results of operating activity.

There are adequate procurement policies in place. Organization has basic requirements to avoid potential conflicts of interest that cover risks connected only with staff. Due to the absence sub-awards activities, the Organization does not have sub-award management policies.

The Organization has got a documented staff time management system, that allows to capture, allocate and report staff time, activities and costs reliably. All basic internal controls connected with payroll operations and HR management are implemented properly.

Organization has certain successful experience in implementation of the projects funded by the donors. Project management activities and respective procedures are adequately described in written regulations, but for the last 12 years all activities had been held within UFPAA’s Committees without donor funding. Thus, it is difficult reliably check an implementation and effectiveness of controls and procedures connected with projects’ activities which are funding by external parties (donors) For this reason Organization staff does not have current experience and written policies regarding sub-granting activity with using donor’s funding.

UFPAA has a great reputation in professional circles that makes possible to involve highly qualified experts for wide range of projects/activities. Core element of organizational capacity development is strategic planning within the Organization. UFPAA management has developed a well-structured strategic plan of UFPAA’s activities for 2014-2016, where on the basis of organization’s mission, values and principles was designed a detailed action plan. There are indicators, time frames and responsible units set for each activity/action in plan.

All this evidences that development of main aspects of organizational capacity is being fulfilled on the regular (systematic) basis, effective monitoring tools are in place, management takes corrective actions if necessary.

It should be noted additionally that for the last 12 years Organization did not have any donor funding. During this time Organization was performing its activity using internal financial resources (membership fees) and some amount of non-repayable financial aid, provided by the entities and individuals (including funds of UFPAA affiliate training centre).

For this reason Organization did not apply procedures and practices connected with:

- project management (preparation of project reporting, project budgeting, allocation of salaries for project stuff, procurements for projects purposes, etc.);
- subgranting activity;
- tender procedures.

Therefore, we were not able to observe implementation of respective written policies and application of procedures in practice, especially from donor restriction prospective (for example, "Allowable and Unallowable cost", "Direct and Indirect Cost", etc.)

Taking into consideration actual results of the survey, BDO has made conclusion, that:

The Overall Score for Organization has "Adequate" level (3.25 from 4.00).

Thus, financial and management capacity of UFPAA to manage USAID funds, to implement new projects is moderate.

According to the NUPAS requirements we have prepared Final Report which is presented further.

Our report is solely for the purpose to assist you in conducting of Non-U.S. organization Pre-Award Survey (NUPAS) of Ukrainian Federation of professional accountants and auditors (UFPAA). Because the above procedures performed by BDO LLC do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the financial and non-financial information, which were used in our evaluation. Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

The report is for your information and is not to be used for any other purpose or to be distributed to any other parties except USAID officials. This report relates only to the assessment of criteria specified above, that were evaluated on the basis of financial and non-financial information, and does not extend to any financial statements of NGO "UFPAA", taken as a whole.

Kyiv, 30 June 2015
BDO LLC



Contents

I INTRODUCTION	6
II RESULTS OF SURVEY	8
1. Legal structure	8
2. Financial Management and Internal Control Systems	14
3. Procurement Systems	18
4. Human Resources System	20
5. Project Performance Management	21
6. Organizational Sustainability	22
FINAL CROSS-CHECK	23
III CONCLUSION AND RECOMMENDATIONS	24
IV ACTIONS REQUESTED	26
APPENDIX 1 - NUPAS REPORT TABLE	27

I INTRODUCTION

This report (hereinafter - Report) represents the results of survey of NGO Ukrainian Federation of Professional Accountants and Auditors (hereinafter - UFPAA or Organization) conducted by BDO LLC (hereinafter - BDO) in accordance with agreement signed between FINANCIAL MARKETS INTERNATIONAL, INC. which is implementing USAID Financial Sector Development Technical Assistance Program (hereinafter - USAID/FINREP-II).

According to the Agreement #51/23A dd 02 June 2015 BDO undertook to provide the services of Pre-Award Survey based on the official USAID Non-U.S. Organization Pre-award Survey (NUPAS) methodology criteria.

The main goal of the survey is to assess UFPAA's financial management and internal control systems in compliance with the NUPAS criteria and provide recommendation for its improvements.

According to the agreement general objectives of this assessment were to:

- determine whether UFPAA's accounting system is adequate to protect the U.S. Government's interests;
- determine whether UFPAA has the financial management capacity to properly manage a USAID-funded activity;
- evaluate and obtain a sufficient understanding of UFPAA's internal controls related to a possible USAID-funded activity.
- determine whether UFPAA has the capacity to comply, in all material respects, with the Mandatory Standard Provisions for Non U.S. Non-Governmental Grantees and applicable laws and regulations.

We performed our work in compliance with the requirements of "Non-U.S. Organization Pre-Award Survey Guidelines and Support. Additional help for ADS Chapter 303".

The objectives of NUPAS assessment are:

- 1) to determine whether UFPAA has sufficient financial management capacity to manage USAID funds in accordance with USAID and U.S. Government policies;
- 2) to determine the most efficient method of financing to use under potential USAID awards;
- 3) the degree of support and oversight necessary to ensure proper accountability of funds provided to the organization.

In order to perform our tasks on NUPAS assessment we used such tools and techniques:

- requesting financial and non-financial information;
- analysing of internal documentation of organization (registration documents, regulations, written procedures, etc.);
- interviewing organizational staff;
- observing of the processes within the organization and respective implemented internal controls;
- comparing of actual processes and written procedures designed and implemented in the organization.

In the course of the survey BDO has interviewed the following representatives of UFPAA:

- Legka Valentina, Executive Director;
- Bondar Alla, Head of Revision Committee;
- Galina Potopalskaya, Chairman of Quality control Committee

UFPAA's annual financial statements are subject to the audit/review regularly. As stipulated by the internal policies and UFPAA's Charter the organization's Revision Committee provides their own verification of financial statements and activities annually. Results of such verification are subject to the consideration by the Council and Supervisory Board.

Main (strategic) goal of UFPAA - is uniting efforts of accountants and auditors to facilitate the reform and development of accounting and audit in Ukraine on the basis of International Financial Reporting Standards (IFRSs) and International Standards on Auditing standards (ISAs), with due regard to the processes of European integration, improvement of tax legislation and protection of common interests of the members of the Organization.

To achieve the above goal UFPAA is carrying out a number of activities on a systematic basis:

- Translation of IFRSs and Code of Ethics of Professional Accountants (IFAC) into Ukrainian;
- Participation in working groups established by the state bodies in connection with development and further improvement of tax, accounting and audit legislation;
- Providing trainings and workshops on IFRSs and accounting issues;
- Promotion of adoption of IFRSs and IPSASs in Ukraine;
- Public events in professional community (forums, conferences, roundtables, etc.) for accountants and auditors;
- Publishing of IFRSs books, IFAC Code of Ethics and other methodical materials;
- Carrying out trainings for the preparation to CAP/CIPA and DipIFR (ACCA) examination, administration of CAP/CIPA professional certification.

UFPAA in its activity cooperates with different organizations and groups of stakeholders including but not limited to governmental structures (the Ministry of Finance, the National Securities and Stock Market Commission, etc.), World Bank, International Bank for Reconstruction and Development, Audit Chamber of Ukraine, Ukrainian universities, audit organizations from different countries.

Through its affiliate company - training centre - Organization provides training services for CAP/CIPA, DipIFR (ACCA) certification, seminars and educational events for accounting and finance specialists.

In order to perform its activity across the country and in order to provide support and services to its members in regions, UFPAA has a number of representative offices in different regions of Ukraine.

UFPAA is a member of International Federation of Accountants (the only representative from Ukraine in IFAC), Eurasian Council of Certified Accountants and Auditors, Francophone Federation of the Professional Accountants and Auditors (FIDEF).

II RESULTS OF SURVEY

Our survey was conducted in June 2015 and covers period of UFPAA activity from 01 January 2014 to 31 May 2015. In some cases procedures and observations are referred to earlier periods.

In course of the assessment the auditors have analyzed and investigated UFPAA activities which are conditionally divided into the following areas:

1. Legal Structure
2. Financial Management and Internal Control Systems
3. Procurement Systems
4. Human Resources Systems
5. Project Performance Management
6. Organization Sustainability

To conduct evaluation auditors requested internal regulations, statutory and registration documents, financial and accounting data, other explanatory information and materials. Some UFPAA representatives and key Organization staff were interviewed.

The average score for each criterion and the overall score for the Organization are presented in the table below.

No.	Criterion	Average score
1	Legal Structure	3.60
2	Financial Management and Internal Control Systems	3.31
3	Procurement Systems	3.17
4	Human Resources Systems	3.48
5	Project Performance Management	2.75
6	Organization Sustainability	3.18
	Overall Score	3.25

Our observations and findings for each risk area are summarized in “NUPAS Report Table” presented in Appendix 1.

1. Legal structure

1.1 Local Organization Definition

Under the Certificate of Registration with Ministry of Justice of Ukraine #770 dated 4 September 1996, the Ukrainian Federation of Professional Accountants and Auditors (“UFPAA” or the “Organization”) was registered by the Ministry of Justice of Ukraine on 4 September 1996 as an all-Ukrainian public organization.

UFPAA is a “local” organization:

1. It is organized under the laws of Ukraine;
2. It has its principal place of business in Ukraine;
3. It is majority owned by individuals who are citizens of Ukraine and it is managed by a governing body, with citizens of Ukraine in the majority; and
4. It is not controlled by a foreign entity or by an individual or individuals who are not citizens or permanent residents of the recipient country.

UFPAA is one of the most prominent professional organizations of accountants and auditors in Ukraine. It was established in 1996.

UFPAA is a non-governmental organization established under the Law of Ukraine “On Public Organizations” and it is independent of state authorities. The UFPAA has about 5000 individual members - accountants and auditors who exercise control over the organization through the organization’s elected management bodies.

The UFPAA members are classified as follows: active members, associated members and honourable members.

The difference between active members and associated members is that the active members, unlike associated members, may be elected to the UFPAA’s governing bodies.

The honourable members must be known for their public activity in accounting and audit.

The active members must have at least three years of professional experience in accounting and/or audit and be certified according to the Ukrainian approved certification program or according to the international certification program of a member of International Federation of Accountants (IFAC). Associated members are individuals with higher economic education and less than one year of professional experience, or students.

1.2 Legal Requirements

The Organization is legally registered to operate in Ukraine. This information is corroborated by the extract from online Unified Register of Legal Entities (<https://usr.minjust.gov.ua/ua/freesearch>), which confirms that UFPAA is a professional public organization, registration code 21655685, it was founded on 4 September 1996 by 25 founers. According to the public register Ms Valentyna Legka and Mr. Oleksandr Papaika have signatory authority on behalf of UFPAA. The UFPAA’s registration is confirmed by the certificate of state registration of UFPAA with Kyiv Goloseevsky State Administration, Series A00 #052625, dated 4 September 1996; an extract from the State Register of Legal Entities AAB #389597 dated 16 September 2011; a certificate AA#780134 dated 19 December 2012 from the State Statistics Service of Ukraine; the tax registration Certificate #88765/10/29-219 dated 26 September 2011; and the letter from the State Tax Inspection in Kyiv Goloseevsky district #10553/10/15-54 dated 22 June 2007 confirming that UFPAA is registered as a non-profit organization taxpayer.

The Organization does not need any license, permits or certifications to operate in Ukraine.

1.3 Organizational Structure

UFPAA has the registered status of an “all-Ukrainian public organization”. Under the Law of Ukraine “On Public Organizations”, to be considered an “all-Ukrainian”, UFPAA should have territorial divisions in not less than 13 regions of Ukraine. Currently, there are less than 13 territorial divisions according to the UFPAA’s Executive director, and therefore, UFPAA should revise its constituent documents to change the situation of having no “all-Ukrainian” status. According to its Charter, the principal mission of UFPAA is uniting efforts of accountants and auditors to facilitate the reform and development of accounting and audit in Ukraine on basis of International standards, with due regard to the processes of European integration, improvement of tax legislation and protection of common interests of the members of the Federation.

The UFPAA’s Strategic Plan for 2014-2016 specifies the core activities of the Organization:

- a) Professional education (improvement of qualification), certification;
- b) Participation in national economic development programs;
- c) Providing information, consultation and other support to UFPAA members;
- d) Representing interests of UFPAA members in state authorities, delegating members to working groups and supervising bodies of state agencies;
- e) Making proposals to state agencies on accounting, financial reporting and audit activity;
- f) Practical implementation in Ukraine of the International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA);
- g) Convergence of IFRS and Ukrainian National Accounting Standards (NAS).

The UFPAA's vision is to be recognized by society as a professional self-regulated organization.

UFPAA is the founder and the sole shareholder of the Company "Scientific Methodology Centre of UFPAA", registration code 24917743, registered 15 May 1997 ("Centre"). The Centre activity is focused on certification of accountants and training programs.

The Organization's Charter supports its mission, UFPAA's purposes include:

- Development of proposals on ways to improve the uniform accounting and financial reporting rules mandatory for all companies and which guarantee the interests of all users;
- Organizing development, public discussion and review by state authorities of draft national accounting standards, other regulations on accounting and financial reporting;
- Development of proposals on improvement of the system of organization forms and accounting methods in Ukraine, methodological support for introducing contemporary technologies for collecting and processing of accounting economic information;
- Development of recommendations for improvement of the system of training and qualifying accountants and auditors;
- Providing members of the Organization and other entities with methodological and consultative support on verifying financial reports, accounting, primary documents and other information with the purpose of ensuring their accuracy.

1.4 Governance

UFPAA's Charter sets the following management bodies of the Organization:

- 1) Assembly;
- 2) Council headed by the President;
- 3) Supervisory Board;
- 4) Executive Board headed by the Executive Director;
- 5) Audit Committee;
- 6) Committees.

The highest governing body of UFPAA is the **Assembly**, to be held not less than once a year. The delegates to the Assembly are selected by UFPAA's territorial units in proportion of the number of members of the territorial units to the number of overall members. The Assembly:

- Approves the charter of the Organization and amendments thereto;
- Defines main activities of the Organization;
- Elects the President of the Organization;

- Elects members of the Council of the Organization;
- Elects members of the Supervisory Board;
- Elects members of the Revision Committee;
- Approves the Code of Ethics of UFPAA, regulations on Council of UFPAA, Audit Committee, Supervisory Board, on territorial units;
- Approves the reports of the Council, Supervisory Board and Audit Committee;
- Approves reorganization and liquidation.

The **Council** is the permanent collective body acting in between the Assemblies. The Council includes the President and 8 members elected for 3 years with a possibility to be re-elected once. The authority of the Council includes the following:

- Management of UFPAA in between the Assemblies;
- Convening the Assembly;
- Setting up branches (territorial units);
- Approval of Vice-Presidents at the request of the President;
- Setting up committees;
- Approval of the cost budget;
- Setting membership qualification requirements;
- Setting the amount of membership fees.

The Council is headed by the **President** who assumes overall management of the Organization, acts as its representative in relations with the third parties, has a signatory authority on financial documents. The President has two Vice-Presidents.

The **Supervisory Board** is the permanent collective body offering public supervision in between the Assemblies. The Supervisory Board consists of the Chairman and 6 members. The authority of the Supervisory Board includes:

- Public control over quality of services of professional accountants and auditors;
- Development of the strategy of activity of the Organization;
- Temporary suspension of the authority of the officers of the Organization;
- Calling on extraordinary meeting of the Assembly if necessary;
- Approving the appointment of the members of the Council

The **Executive Board** is headed by the **Executive Director**, who is appointed by the Council of the Organization with approval from the Supervisory Board. The Executive Director works pursuant to employment contract. The Executive Director is subordinate to the President. The Executive Director is responsible for day-to-day management of the Organization, represents UFPAA in respect of third parties, hires and dismisses staff.

The **Revision Committee** is elected for two years to perform audit of the financial activity of the Organization and submits its reports to the Council, Supervisory Board and the Assembly.

UFPAA has the following **committees** (permanent groups aimed to achieve the goals set by the Council):

- 1) Committee on professional education and certification;
- 2) Committee on membership and ethics;
- 3) Committee on standards and accounting practice;
- 4) IFRS committee;
- 5) Tax policy committee;
- 6) Revision Committee;

- 7) Finance and budget committee;
- 8) Quality control committee;
- 9) Disciplinary committee.

UFPAA's internal regulations adopted by the Assembly require that members of UFPAA's governing bodies (Council, Supervisory Board and Executive Board) may not be members of other UFPAA's governing bodies simultaneously.

The UFPAA's Charter also envisages that the Code of Ethics is to be adopted by the Assembly. The Code of Ethics is to set the ethical requirements applicable to all UFPAA's members.

To date, a draft Code of Ethics was prepared but not yet formally adopted by the Assembly.

The President of UFPAA is Mr. Oleksandr Papaika (appointed for 2011-2013 pursuant to the decision of the 15th Assembly of UFPAA dated 26 March 2011 and re-elected on 29 March 2014 by the 18th Assembly for another three year-term). Other members of the Council include:

- 1) Ms. Olena Harlamova (Vice-President);
- 2) Mr. Petro Krichun;
- 3) Ms. Tetiana Suhanik;
- 4) Ms. Ruslana Kuzina;
- 5) Mr. Yaroslav Golubko;
- 6) Ms. Larisa Panteliychuk;
- 7) Ms. Olga Radeva;
- 8) Mr. Oleksiy Shmatko.

Thus, the Council maintains a fair proportion of men (4 members including Chairman) and women (5 members). The members of the Council are Ukrainians.

The Executive Director is Ms. Valentyna Legka. Ms Legka is a skilled Ukrainian project manager with 34 years of professional managerial experience. She graduated from Kiev International Management Institute in 2001 and previously served as a World Bank expert in Ukraine/ She has 7 years successful experience in managing programmes in Ukraine for the World Bank Group.

The Supervisory Board consists of the following members:

- 1) Ms. Irina Belousova (Chairman of Supervisory Board);
- 2) Mr. Mykola Bondar;
- 3) Mr. Serhiy Moskvin;
- 4) Ms. Chernilevska;
- 5) Ms. Olena Velychko.

Similarly, the Supervisory Board has a fair proportion of men (2 members) and women (3 members including Chairman).

The Chairs of the Committees are:

- 1) Committee on professional education and certification - Ms. Zubilevich Svetlana;
- 2) Committee on membership and ethics - Ms. Tetyana Suhanik;
- 3) Committee on standards and accounting practice - Ms. Natalia Lohanova;
- 4) IFRS committee - Ms. Olena Harlamova;
- 5) Tax policy committee - Ms. Larisa Panteliychuk;
- 6) Audit Committee - Mr. Yaroslav Golubko;
- 7) Finance and budget committee - Ms. Larisa Panteliychuk;
- 8) Quality control committee - Ms. Halyna Potopalska;

9) Disciplinary committee - Ms. Valentyna Pedak.

1.5 Control Environment

The scope of authority of each of the organization's governing bodies is set out in its charter and the regulations adopted by the Assembly. The **Regulation on Council** was approved by the Resolution of the 14th Assembly dated 27 March 2010.

The Council is the highest permanent collective body managing UFPAA between the Assemblies. The Council includes the President and 8 members elected by the Assembly for 3 years with a possibility of re-election. The Council members are not employees of UFPAA and they do not receive salary for their services. The Council holds meetings that require quorum of at least 5 members. Resolutions of the Council and made by majority members present at the meeting. The Council reports to the Assembly and to the Supervisory Board. The Council manages the property and funds of UFPAA and approves UFPAA's cost budget; sets up qualification criteria for UFPAA's members and the amount of membership fees, approves enrolment and exclusion of the members of UFPAA. The authority of a Council member is terminated automatically if his/her membership in UFPAA is discontinued or voluntarily. The Council membership may also be suspended (with follow up approval by the Assembly) if UFPAA's committee on professional ethics finds a conflict of interest, or the member does not attend three consecutive Council meetings.

The **Regulation on Supervisory Board**, approved by the Council on 14 April 2011, sets out in detail the key functions of the Supervisory Board, which include: public control over professional activity of accountants and auditors and control of the quality of their services; offering proposals for UFPAA's strategy; hearing the preliminary report of the Council on its activity at least three weeks in advance of the next Assembly meeting, approval of nomination of the President and the Executive Director. The Supervisory Board reports to the Assembly. The Supervisory Board consists of a Chairman and 6 members, who are elected from among the representatives of state authorities, representatives of science and education and public figures. Meetings of the Supervisory Board are to be held not less than four times a year. Members of the Supervisory may not be members of the Council, Revision Committee and the Executive Board.

The **Regulation on Executive Board**, approved by the Council on 3 December 2010, covers in detail the procedure for appointment and operation of the Executive Board. The Executive Board is headed by the Executive Director and it consists of other members in accordance with the staff schedule approved by the Council.

Currently, the staff schedule for 2015 includes 5 positions: the Executive Director, Deputy Executive Director, Office Manager, the Chief Accountant and the Accountant. The members of the Executive Board may not be members of the Council, Revision Committee and the Supervisory Board.

The **Regulation on Membership** was approved by the Resolution of the 14th Assembly dated 27 March 2010 and it sets the types of UFPAA's members: active members, associated members and honourable members.

The scope and limits of authority of UFPAA's governing bodies are clearly defined in the Charter and internal regulations and they appear to be reasonable.

The members of the Council, the Executive Board and other governing bodies are elected/appointed/removed in accordance with applicable laws and approved internal regulations of UFPAA.

The members of UFPAA's governing bodies are not allowed to be members of other governing bodies. However, UFPAA has not adopted the **Code of Ethics** yet, that is to set the ethical requirements applicable to all UFPAA's members.

UFPAA's **Personnel Management Policy** approved by UFPAA's Council on 20 December 2013 sets the conflict of interest requirements to UFPAA's employees.

The organization also approved the Regulation on Procedure of Employee Recruitment and Dismissal and the Model Labor Agreements with the Executive Director and other employees that detail the standard Ukrainian law provisions. The Model Agreement with the Executive Director provides that the director should not disclose any confidential information made known in connection with performance of labor duties.

In our view, the organization has in place necessary legal mechanisms and controls for enforcement its labor policies.

Although Organization has well-structured internal regulations which clearly describe UFPAA' elected bodies activity we recommend to adopt the Code of Ethics as soon as possible to ensure that ethical issues such as potential conflicts of interest are properly addressed.

We further recommend that UFPAA sets a Legal Committee, in addition to existing committees, to be composed of members having both accounting and legal background. The Legal Committee may be given the task of legal support to UFPAA's day-to-day activity.

In order to comply fully with current Ukrainian legislation we recommend to revise UFPAA constituent documents and to change current status of the Organization from "all-Ukrainian" to "Ukrainian" public organization.

We believe UFPAA is understaffed due to financial restraints, therefore, there is lack of human resources for effective implementation of its mission. Most UFPAA's activities are performed by its members on non-paid basis as volunteers.

2. Financial Management and Internal Control Systems

2.1 Banking Relationship and Accounts

The organization has bank accounts (in national and foreign currency) in Joint Stock Company "The State Export-Import Bank of Ukraine". Accounts are "free and clear" of personal funds of board members, officers or employees. All transactions on the accounts are maintained on the organization's behalf. Reconciliations of bank accounts are made by an accountant on a regular basis at least monthly. Results of such reconciliations are reviewed by the Executive director, but it is not envisaged to leave any notes (signature or any other mark) as to confirm such control. The organization maintains banking financial records using the accounting program "1C" Accounting" that is sufficient for internal and external audit trail purposes. The responsible officer discusses outstanding items with the management at the day when such issue appears.

2.2 Accounting/Bookkeeping System

Financial accounting is maintained by the Organisation in accordance with the Ukrainian generally accepted accounting principles. The organization has a reliable double entry accounting system. Accounting data are recorded using accounting software "1C"

Accounting”. This system meets the Organization’s needs at all significant aspects. Financial transactions are entered by accountant into the accounting system on a daily basis. The accounting system has the functionalities to automatically reconcile subsidiary ledgers to the main ledger. The Organization keeps its supporting documentation for accounting records (journal vouchers, payment vouchers, receipts, invoices, other applicable documents) in the office and in the archive.

2.3 Chart of Accounts, General Ledger and Financial Statements

The organization has an approved chart of accounts as a part of the accounting policy that generally corresponds with General Ledger but not all accounts used are included into this chart. The general ledger numbering system follows statutory Ukrainian requirements in all the significant aspects. Material financial transactions are consistently recorded according to the accounting standards, principles and practices. The organization prepares its trial balances from the general ledger. The financial statements are prepared in accordance with the Ukrainian Accounting Standards.

2.4 Variance Analysis (Budget to Actual Cost)

Organization has appropriate written instructions on financial management which regulate budgeting process and variance analysis. Preparation, approval and monitoring of budgets are well segregated activities within UFPAA. Financial Committee is responsible for the preparation of budget for the next year. The annual budget is presented on a quarterly basis and cumulatively for the year.

Budget reporting and variance analysis is performed on a monthly and quarterly basis. Each quarter UFPAA Council reviews budget performance and approves factual results. Revision Committee reviews and provides its conclusions on budget performance annually during UFPAA Assembly.

There is approved regulation on project activity management in place. This regulation defines reporting process for the project’s activity where variance analysis is a component of such reporting.

It is not possible to observe implementation of variance analysis for project activity since organization did not have any donor financing for the last years

2.5 Allowable and Unallowable Cost

The Organization’s finance personnel have a clear understanding of what costs are allowable, allocable and reasonable according to the existing written policies on financial management system, accounting and tax Ukrainian legislation. Payments are authorised by Executive director and recorded by an accountant. The Organization marks up paid invoices that makes possible to avoid duplicate payments but such practice is not described in policies. The Organization has an approved policy that defines which costs relate to unallowable ones. This policy is obligatory for finance and program staff.

2.6 Direct and Indirect Cost

The Organization’s accountants have a clear understanding of direct costs, indirect costs and cost allocation principles. Also finance/accounting staff of Organization understand the concept of “cost objectives” in relation to intermediate and final cost objectives. Organization has an adequate capacity to accumulate direct and indirect costs by project. Due to absence of donor financing for the last years it was not possible to check capabilities

of accounting staff in accumulating and allocating direct and indirect costs by projects.

2.7 Payments - Segregation of Duties

The organization has a written policy that describes a payment process. Approved policies and procedures are generally followed. Different employees are responsible for making payments in organization. Level of responsibility, functions and required actions for each employee involved in the payment cycle are set by the respective written policy. The organization has one accountant that performs cashier duties. The accountant does not have authority to sign checks and approve payments but he reconciles bank accounts and records transactions. The organization uses special software for bank payments ("Client-bank" system software). This system requires at least two electronic signatures (first one - from accountant and second one - from Executive Director) to perform a disbursement. Therefore all payments can be fulfilled only with dual signature application.

All purchases are made according to the budget previously approved by management. The responsible manager (or tender committee) chooses a supplier (according to the procurement policy). An accountant prepares payment documents, reconciles bank accounts, records financial transactions. An Executive director approves and signs payment documents, and controls bank reconciliations.

2.8 Accounting Cycle - Segregation of Duties

The organization has a well-documented delegation of authority system appropriate to its size. The organization uses duty regulations for this objective that are signed by the responsible officer. Different persons are responsible for different parts of an accounting cycle, an accountant - maintains financial records; Executive Director, Supervisory board and Revision committee - perform control functions. The organization has an appropriate financial management system, that is formalised in the policy "Regulation on the financial management system of UFPAA". According to the above regulation all invoices are approved by the Executive Director prior to disbursement of funds. But in fact, for the last several weeks this requirement is not met for the reason that Executive director temporarily performs accountant functions as it is noted in para 2.13.

2.9 Financial Records Management

UFPAA has an adequate filing and records management system. The organization safeguards its important documents including financial records in the office and in the archive. The server of organization also is located in the archive. The organization saves backups of important documents in separate hard drives. The organization store copies of important documentation in two separate places (office and archive). Such approach enables to ensure financial and operational continuity of the organisation's activity.

2.10 Sources of Funding

Organization has accounting policy and chart of accounts that allows to track all sources of funding. UFPAA has budgeting and reporting system where all sources of funding can be tracked and analyzed at least once a month.

Executive board staff has sufficient accounting and finance qualifications and appropriate background for cost accounting and fund accounting.

UFPAA main sources of funding are membership fee (approx. 42% of all incomes for 2014) and non-repayable financial aid from individuals and entities(approx. 58% of all incomes for

2014). Incomes from publishing professional books, organizing seminars and trainings are accounted for in UFPAA affiliate - "Scientific Methodology Centre of UFPAA".

Organization does not have sufficient funds to finance all its activities to the full extent. Lack of funds leads to minimizing operational budgets. At the moment due to the lack of funding, organization can not hire a book keeper, office manager, deputy of Executive director.

Management is aware of importance to expand UFPAA activities which would allow diversifying sources of funding. As it is noted in UFPAA's Strategic Plan for 2014-2016 an intensification of fundraising and project activities can help to diversify sources of financing and gain additional finance for organization promotion and its development.

To promote itself UFPAA holds international and local conferences, seminars and trainings.

Organization's representatives actively work on voluntary basis in the working groups organized jointly with wide range of state bodies (State Fiscal Service, Cabinet of Ministry of Ukraine, Audit Chamber of Ukraine, Supreme Council of Ukraine, etc.

Organization has its own web site (<http://www.ufpaa.org/>) and Facebook page (<https://www.facebook.com/pages/Федерація-професійних-бухгалтерів-та-аудиторів-України/174904215906774?fref=ts>). It helps to broaden a number of channels of communications with stakeholders and to announce of UFPAA events on a timely basis.

2.11 Financial Reporting

The organization prepares financial statements according to the Ukrainian National Accounting Standards (NAS) and in compliance with respective Ukrainian legislation. Financial statements are being prepared on the quarterly basis - for the 1st quarter, for the half year, for the nine months period and for the year. Executive director approves financial statements and it is submitted to the State Fiscal Service and other official institutions according to the requirements of Ukrainian legislation. These financial statements are intended to meet information needs of wide circle of stakeholders: official state bodies, UFPAA members, members of Council and Supervisory Board, etc. Such reports meet the needs of the Organization. Management reviews the financial statements and makes corrective actions when it is necessary.

2.12 Audit and Review of Financial Statements

The organization has the Revision Committee that reviews financial statements and offers adjustments (if appropriate) to the management. The management takes corrective actions. The Financial statements are subject to the financial audit / review by a third party on an annual basis. The organization had an audit of their financial statements for 2013, and review for 2014. An audit / review was not performed in 2012. The organization received Qualified Opinions in the past two years. The organization has not received a Deficiency or Significant Deficiency in its internal control system. The organization does not have the policies in place for implementing corrective actions on audit findings and recommendations.

2.13 Financial Management Personnel

According to the organization chart and written policies there are envisaged two positions for core financial staff - Chief accountant and bookkeeper. Due to low volume of UFPAA's activity and absence of significant operations, functions of Chief accountant are being temporarily fulfilled by the Executive director. Executive director who is temporarily responsible for accounting in organization has appropriate level of professional qualification (higher education in management), understands financial accounting standards, principles and

practices as well as principles and techniques needed to prepare operational budgets and variance analysis.

Financial and accounting staff has adequate understanding of cash-flow management. Preparation of cash flow projections/statements is not envisaged by existing regulations on financial management of the organization. Taking into consideration actual volume of UFPAA activity there is not necessity to prepare such reporting at the moment, but it could be useful when external significant financing will be granted to the organization.

Since UFPAA does not have projects financed by donors it was not possible to check capabilities of financial and accounting staff to monitor project budgets.

Organization has adequate financial management system for its size. All basic controls are in place Accounting cycle and bank payments are computerized.

To strengthen financial management system and related controls we recommend to consider the following improvements:

- 1) to formalise in policies the reconciliation process of bank accounts. Appoint responsible persons for the preparation, review and approval of monthly reconciliations. Auditors recommend to sign the bank statements. This will enable to understand who and when prepared and approved reconciliation;
- 2) since "1C" accounting system - is a standard solution for financial accounting there are some gaps in functionalities connected with budget control, project reporting and management reporting. Therefore we recommend to enhance existing software in order to provide necessary accounting functions in non-profit organization.
- 3) to consider a possibility to adopt International Financial Reporting Standards (IFRSs) and to start prepare UFPAA annual financial statements in full accordance with IFRSs;
- 4) to set procedures of implementation of audit findings in organization's policy;
- 5) it is recommended to involve UFPAA's experts in accounting for assistance in accounting and preparation of financial statements, untill Cheif Accountant is hired

3. Procurement Systems

3.1 Procurement Policies, Procedures and Practice

The Organization has documented procurement policies and procedures.

In accordance with procurement policies the procurement is based on the following principles:

- avoiding unfair competition;
- the best value for money;
- openness and transparency;
- equality and non-discrimination;
- other principles.

The organization considers at least three companies for the procurement.

There are few criteria for the winner:

- adequate price;
- delivery;
- supplier reputation;

- other criteria.

Organization procurement policies generally correspond to the local procurement practices in Ukraine.

It was not possible to verify application of Procurement policies and procedures in practice due to the low level of UFPAA's activity for the last years.

3.2 Compliance with Policies and Procedures - Reasonableness of Price

The Organization's procurement policies contain competitive procedures.

Competitive procedures should be used when the cost of goods and services exceeds 15 000 UAH.

Conducting competitive procedures suggests a creation of the Tender Committee. The Tender Committee consists at least of three members. Its decisions must be documented in the minutes which signed by all members.

During the period from January 2014 to May 2015 there were not any competitive procedures due to the lack of procurements above 15 000 UAH. As a result there was not possibility to check documentation for tender procedures.

3.3 Procurement and Sub-awards

The organization has requirements to avoid potential conflicts of interest. These requirements are incorporated to the Personnel Management Policy.

According to the policy to avoid a potential conflicts of interest all employees have to stick the following provisions:

- It is prohibited to use UFPAA's property for non-work purposes;
- Employees may not disclose confidential information without prior approval;
- Employee may not have another job if such job negatively affects the duties performed with UFPAA;
- Employees should avoid situations where they may obtain profit or direct or indirect benefit from a UFPAA's contract;
- Employees may not solicit or accept gifts, services or other consideration in connection with performing duties to UFPAA.

In view of the lack of donor funding and project activities the Organization does not have any sub-awards management policies.

Although the Organization has basic procurement policies and requirements to avoid conflicts of interest among its employees we recommend:

- to formalise procedure when the cost of procurement exceeds 15 000 UAH, but competitive procedures were not conducted;
- to implement the Code of Ethics which will cover risks of potential conflicts of interest not only among UFPAA's employees but among other representatives of UFPAA as well (members of Council, Chairmen of Committees, etc.)

4. Human Resources System

4.1 Overall HR Policies and Procedures

The Organization has well-documented HR policies. Most significant are listed below:

- Personnel management policy;
- Regulation on Procedure of Employee Recruitment and Dismissal;
- Model Labor Agreements (with the Executive Director, Project Manager, Accountant of the Project);
- hiring procedure;
- dismissal procedure, etc.

The HR policies contain the system and structure of salary, terms and periodicity of payment of salary, and other aspects related to salary.

The Organization has an organizational chart, written job descriptions and personnel file for every employee.

The job descriptions are developed for the following positions: Executive Director, Deputy Executive Director, Chief accountant, Accountant, Secretary.

The relationships with employees formalized by the order and labor contract.

The organization does not have any benefits/compensation plan.

The employees know their roles and responsibilities and delegations of authority.

The HR policies contains bonus guidelines (Performance Bonus, Year-End Bonus).

Mentioned bonus guidelines contains the conditions, calculation of bonus, terms and periodicity of payment of bonus, and other aspects related to bonus.

4.2 Staff Time Management

The organization has a documented staff time management system, that allows to capture, allocate and report staff time, activities and costs.

Financial staff maintains timesheets appropriately, which enables to accurately reflect actual time worked. All timesheets are being signed by the preparer and approved by the Executive Director.

Upon results of selective testing of payroll it is found that payment of salaries corresponds to the information documented in the timesheets.

It was not possible to check corresponding project implementation documentation (for example, project's timesheets) due to absence of project activity from January 2014 to May 2015.

4.3 Payroll System

The Organization withholds payroll taxes on behalf of several tax agencies .

Payroll taxes include the following:

- personal income tax;
- social contribution;
- military duty.

Upon results of selective testing of payroll it is found that:

- the payroll taxes withheld and remitted according to local regulations.
- the payroll ledger reconciled to the General ledger.

The staff list for 2015 contains five positions and sets salaries for them. The salaries are approved by the management.

The orders for the staff are formed and folded properly.

4.4 Travel Policies and Procedures

The Organization has documented travel policies.

The travel policies contain requirements for mandatory documents and travel regulations. The Organization enforces travel policies.

An advance report and other source documents are supporting money spent.

Organization has a quite structured Human Resources Policies and Procedures. All basic internal controls connected with payroll operations and HR management are implemented properly.

5. Project Performance Management

5.1 Project Management Capacity

UFPAA has developed and approved specific regulations on project activity management.

Regulations establish main components of project management:

- Project planning;
- Project monitoring;
- Budgeting of the project;
- Responsibility of project team;
- Evaluation of the project

Regulations describe principles of project activity planning, set structure, periodicity and requirements for project reporting, methods of monitoring the project implementation. These regulations set principles of project budgeting, criteria of evaluation the project results, allocate duties among key members of the project team.

Organization has successful experience in implementation of a number of projects during 2000 - 2004. These projects were financed by the World Bank, International Foundation "Renaissance", U.S. Embassy in Ukraine. Projects were connected with increasing the competences of representatives of non-profit organizations in the accounting, holding a conference regarding educational standards of IFAC and development of entrepreneurial skills in the provision of accounting services.

Organization does not have an internal project monitoring group or other similar subdivision due to absence of projects funded by international or local donors since 2004.

At present all activity is fulfilled within the Committees. According to the Regulations, Committees must report to the Council on their activities annually.

For the development of the projects and receiving funding UFPAA has involved highly qualified experts in the field of accounting and auditing, who has considerable experience in the preparation and implementation of the projects. With them UFPAA plans to intensify project activities and receive project funding.

Although organization has previous successful experience in projects' implementation and

generally adequate internal regulations on project activity management it is crucially important to start actively exploit existing capacity for projects development and attract financing from donors. Realization of projects that are externally funded will contribute to a dynamic development of the entire organization and a successful accomplishment of UFPAA mission. In the course of projects' implementation and interaction with donors it will be possible to evaluate reliably efficiency of the project management procedures.

6. Organizational Sustainability

6.1 Cash Flow Management

Preparation of cash flow budgets other than operational budget is not envisaged by existing regulations on financial management of the organization. In light of current volume of UFPAA's activity and existing financial management system the preparation of cash flow budget does not provide for any useful information for management and is impractical.

Organization consistently makes payments to creditors and employees on timely basis.

UFPAA has material past due accounts in total amount 118 thousand UAH (or approx. 6 000 USD). Management of Organization expects to settle this amount without cash outflows.

6.2 Absorptive Capacity

UFPAA since its foundation in 1996 has accumulated a large experience in the introduction of professional standards in the field of accounting and auditing, the development of technical skills for professional accountants.

UFPAA is the only Ukrainian Organization that is a member of the International Federation of Accountants (IFAC). This partnership provides UFPAA with an opportunity to translate into Ukrainian language a Code of Ethics, the IFRS's and educational materials related to the adaptation of global best practices in accounting and auditing to the professional and business environment.

According to the "Strategy on application of IFRS's in Ukraine", adopted by the Cabinet Ministers of Ukraine it is set that UFPAA conducts translation of IFRS's from English into Ukrainian language.

Management of organization devotes significant time to the strategic planning of UFPAA's activity, where organizational development constitutes a part of such planning.

The organization has developed Strategic plan of UFPAA's activity for 2014-2016 which is being implemented. This Plan defines specific tasks and actions which are expected will contribute to sustainable development of UFPAA. Brief description of Organization's core activities according to the Strategic plan of UFPAA - see para 1.3 "Organizational Structure".

UFPAA Council analyses on a quarterly basis the targets set and evaluate achieved results.

Observations and results obtained by BDO in the course of survey for given criterion testify that:

- organization has high reputation in professional community both in Ukraine and among foreign partners that makes it possible to attract qualified specialists if necessary;
- there is a sufficient capacity for the development of new projects and directions of activities;
- quality growth is an element of the strategic planning which is conducted by UFPAA management on the constant basis;

- the organization demonstrates adequate discipline in managing its cash and payables in a responsible manner.

FINAL CROSS-CHECK

Final cross-check presented below covers a three-year period (2012 to 2014). These calculations were performed based on consolidated financial statements. These financial statements include financial results of UFPAA and its affiliated company “Scientific Methodological Center of UFPAA”.

Title of ratio	Formulae of ratio	Values of ratios as of			Comments
		31.12.2014	31.12.2013	31.12.2012	
Current ratio (CR)	Current Assets/Current Liabilities	0.642	0.646	0.717	All calculated ratios for 3 years are less than 1, it means that organization ability to pay back its short-term liabilities with its short-term assets is low
Acid Test Ratio (ATR)	(Cash+Accounts Receivable+ Short Term Investments) / Current Liabilities	0.094	0.096	0.070	According to results of calculation organization demonstrates very low ability to cover its immediate liabilities without receiving additional revenue or selling off inventory
Monthly Defensive Interval (DIR)	Current Assets (cash+marketable securities+receivables)/(Annual Operating Expenses/12)	0.940	0.660	0.232	Although calculations show positive trend for 3 years, analysis demonstrates that organization can operate on its current liquid assets without having to rely on additional revenue less than 1 month
Working Capital Turnover (WCTR)	Cost of Sales/Net Working Capital	-3.344	-4.923	-12.830	The calculated ratio is negative. It indicates insufficient amount of working capital. Note - Total Annual Expenses amount was used instead of Cost of Sales amount.

Results of calculation of prudential ratios give all grounds to consider that financial condition of Organization is poor, nevertheless there is some positive dynamic in ratios values for analyzed period. UFPAA ability to pay back its immediate liabilities is quite low (only 9.4% of all current liabilities can be paid without sales of other source of financing) and Organization can operate using its current assets for less than 1 month. Working capital value remains negative for all analyzed periods.

III Conclusion and recommendations

In this survey our main objective was to determine whether UFPAA has sufficient financial management capacity to manage USAID funds in accordance with USAID and U.S. Government policies.

During survey auditors have analyzed and investigated UFPAA activities into the following areas:

1. Legal Structure
2. Financial Management and Internal Control Systems
3. Procurement Systems
4. Human Resources Systems
5. Project Performance Management
6. Organization Sustainability

Below we provide our summarized results.

Organization activity fully complies with current Ukrainian legislation. UFPAA management has implemented well-structured approach in governance and endeavour to use best practices in governing of a non-profit organization. UFPAA fully meets all USAID requirements of “local organization”.

Organization has adequate accounting/bookkeeping system in place which is based on local accounting software package “1C” and a “client-bank” program with electronic signature application. Financial management activities and internal controls such as: segregation of duties, documentation, authorization and approvals are adequately detailed in existing written policies. Organization has adequate budgeting system and respective experience in variance analysis on results of operating activity.

There are adequate procurement policies in place. Organization has basic requirements to avoid potential conflicts of interest that cover risks connected only with staff. Due to the absence sub-awards activities, the Organization does not have sub-award management policies.

The Organization has got a documented staff time management system, that allows to capture, allocate and report staff time, activities and costs reliably. All basic internal controls connected with payroll operations and HR management are implemented properly.

Organization has certain successful experience in implementation of the projects funded by the donors. Project management activities and respective procedures are adequately described in written regulations, but for the last 12 years all activities had been held within UFPAA’s Committees without donor funding. Thus, it is difficult reliably check an implementation and effectiveness of controls and procedures connected with projects’ activities which are funding by external parties (donors) For this reason Organization staff does not have current experience and written policies regarding sub-granting activity with using donor’s funding.

UFPAA has a great reputation in professional circles that makes possible to involve highly qualified experts for wide range of projects/activities. Core element of organizational capacity development is strategic planning within the Organization. UFPAA management has developed a well-structured strategic plan of UFPAA’s activities for 2014-2016, where on the basis of organization's mission, values and principles was designed a detailed action plan. There are indicators, time frames and responsible units set for each activity/action in plan.

All this evidences that development of main aspects of organizational capacity is being fulfilled on the regular (systematic) basis, effective monitoring tools are in place, management takes corrective actions if necessary.

Some of examples of the 2014-2016 Strategic Plan activities, which were already performed by the Organization in 2014-2015 include:

- Delegating 5 UFPAA's members to advisory council of the State Fiscal Service, 3 members to the Methodology Council and Expert Council of the Ministry of Finance of Ukraine;
- Recommendations to the Ministry of Finance on amendment of the Law of Ukraine "On Accounting and Financial Reporting";
- Conducting 10 regional seminars on IFRS jointly of the National Securities and Stock Market Commission in 2014;
- Jointly with Eastern Partnership Centre STAREP, the World Bank and Ministry of Finance conducting international forum on 17 December 2014 "Accounting community of Ukraine facing European challenges";
- Conducting national annual accounting conference in 2014 on IFRS;
- Translating from English and publication of the Accountant's Code of Ethics.

It should be noted additionally that for the last 12 years Organization did not have any donor funding. During this time Organization was fulfilling its activity using internal financial resources (membership fees) and some amount of non-repayable financial aid, provided by the entities and individuals (including funds of UFPAA affiliate training centre

For this reason Organization did not apply procedures and practices connected with:

- project management (preparation of project reporting, project budgeting, allocation of salaries for project stuff, procurements for projects purposes, etc.);
- subgranting activity;
- tender procedures.

Therefore, we were not able to observe implementation of respective written policies and application of procedures in practice, especially from donor restriction prospective (for example, "Allowable and Unallowable cost", "Direct and Indirect Cost", etc.).

Taking into consideration actual results of the survey, BDO has made the following conclusion:

The Overall Score for Organization has "**Adequate**" level (3.25 from 4.00).

Thus, financial and management capacity of UFPAA to manage USAID funds, to implement new projects is moderate.

IV ACTIONS REQUESTED

In order to improve system of internal controls in Organization and to comply the NUPAS requirements our recommendations were summarized and presented in the table below.

No.	Criterion	Actions
1	Legal Structure	<ul style="list-style-type: none"> • To revise UFPAA's constituent documents and to change current status of the Organization from "all-Ukrainian" to "Ukrainian" public organization; • To adopt the Code of Ethics as soon as possible to ensure that ethical issues such as potential conflicts of interest are properly addressed; • To consider a possibility to establish a Legal Committee, in addition to existing Committees, to be composed of members having both accounting and legal background. The Legal Committee may be given the task of legal support to UFPAA's day-to-day activity.
2	Financial Management and Internal Control Systems	<ul style="list-style-type: none"> • To formalise in detail the reconciliation process of bank accounts in policies. Appoint responsible persons for the preparation, review and approval of monthly reconciliations. It is recommended to sign the bank statements. This will enable to understand who and when prepared and approved reconciliation; • To enhance existing accounting software in order to provide necessary accounting functions in non-profit organization (budget control, project reporting and management reporting); • To consider a possibility to adopt International Financial Reporting Standards (IFRSs) and to start prepare UFPAA annual financial statements in full accordance with IFRS; • To set procedures of implementation of audit findings in organization's policy; • It is recommended to involve UFPAA's experts in accounting for assistance in accounting and preparation of financial statements, until Chief Accountant is hired.-
3	Procurement Systems	<ul style="list-style-type: none"> • To formalise a detailed procedure for exclusion when the cost of procurement exceeds 15 000 UAH, but competitive procedures were not conducted.
5	Project Performance Management	<ul style="list-style-type: none"> • Although Organization has previous successful experience in projects' implementation and generally adequate internal regulations on project activity management it is crucially important to start actively exploit existing capacity for projects development and attract financing from donors. Realization of projects that are externally funded will contribute to a dynamic development of the entire Organization and a successful accomplishment of UFPAA mission. In the course of projects' implementation and interaction with donors it will be possible to evaluate reliably efficiency of the project management procedures.
6	Organization Sustainability	

Appendix 1 - NUPAS Report Table

Name of Organization: NGO Ukrainian Federation of Professional Accountants and Auditors (UFPAA)

Proposed Activity/Amount: -

Survey Conducted by: BDO LLC

No.	Criterion	Average score
1	Legal Structure	3.60
2	Financial Management and Internal Control Systems	3.31
3	Procurement Systems	3.17
4	Human Resources Systems	3.48
5	Project Performance Management	2.75
6	Organization Sustainability	3.18
	Overall Score	3.25

1. Legal Structure

Risk Areas Reviewed	Observations and Findings	Score
1.1 Local Organization Definition	UFPAA is considered a local organization. It is registered and operating under Ukrainian law as a public organization. For tax purposes, it is a non-profit organization.	4.00
1.2 Legal Requirements	The Organization is legally registered with all necessary state authorities. The Organization does not need a license to operate. Under its charter, the Organization has the status of an all-Ukrainian public organization. This status needs to be changed insofar as the UFPAA no longer maintains the necessary percentage of territorial divisions throughout Ukraine.	3.50
1.3 Organizational Structure	UFPAA was established on 4 September 1996. The organization's principal mission is uniting efforts of accountants and auditors to facilitate the reform and development of accounting and audit in Ukraine on basis of International standards (IFRSs and ISAs). The Organization's constituent documents support this mission.	4.00
1.4 Governance	The governance structure includes the Assembly, the Council headed by the President, Supervisory Board, Executive Board headed by the Executive Director and the Audit Committee. The governance bodies have been appointed and they operate. Basic conflict of interest checks are in place: the members of one governing body cannot be member of another governing body. However, the UFPAA should adopt the Code of Ethics to set the ethical requirements applicable to all UFPAA's members and members of the governing bodies.	3.50
1.5 Control Environment	UFPAA's Assembly adopted internal regulations setting out in detail the activities of its governing bodies. However, such regulations do not impose	3.00

Risk Areas Reviewed	Observations and Findings	Score
	strong fiduciary duties on elected members of UFPAA’s governing bodies. It is recommended that such issues are dealt in the Code of Ethics. It is also recommended to create a Legal Committee within the structure of UFPAA’s committees, to closely deal with the day-to-day legal issues, including those relating to improving the control environment .	

2. Financial Management and Internal Control Systems

Risk Areas Reviewed	Observations and Findings	Score
2.1 Banking Relationship and Accounts	The Organization has bank accounts in a registered banking institution and the accounts are adequate for its goals. Bank accounts were opened by the Organizations, they are “free and clear” of personal funds of board members, officers or employees. Reconciliations banks accounts are made by an accountant on a regular basis at least monthly. Bank reconciliations are reviewed by an Executive director, but there is no evidence of review performed. The Organization maintains banking financial records using the accountning program “1C” Accounting” that is sufficient for internal and external audit trail purposes. The responsible officer discusses outstanding items with the management at the day such items appear.	3.50
2.2 Accounting/Bookkeeping system	Financial accounting is maintained by the Organisation in accordance with the Ukrainian National Accounting Standards (NAS). The Organization has a reliable double entry accounting system. Accounting data is recorded automatically using accounting software “1C” Accounting”. Generally, this system meets the organisation`s needs at all significant aspects. But being a standard solution for financial accounting it has some gaps in functionalities connected with budget control, project reporting and management reporting. It is recommended to enhance this software. Financial transactions are entered into the accounting system on a daily basis by an accountant. The accounting system has the function to automatically reconcile subsidiary ledgers to the main ledger. The Organization keeps its supporting documentation for accounting records (journal vouchers, payment vouchers, receipts, invoices, other applicable documents) in the office and in the archive.	3.60
2.3 Chart of Accounts, General Ledger and Financial Statements	The Organization has an approved chart of accounts as a part of the accounting policy that generally corresponds with General Ledger but not all accounts that are used are included into this chart. The general ledger numbering system follows statutory Ukrainian requirements in all material aspects. Material financial transactions are consistently recorded according to the accounting standards, principles and practices. The Organization prepares its trail balances from the General ledger. Financial Statements are prepared in accordance with the National Accounting Standards.	3.50

NGO UKRAINIAN FEDERATION OF PROFESSIONAL ACCOUNTANTS AND AUDITORS
NUPAS REPORT

Risk Areas Reviewed	Observations and Findings	Score
2.4 Variance Analysis (Budget to Actual Costs)	Organization has appropriate written instructions on financial management which regulates budgeting process and variance analysis. Budget reporting and variance analysis is performed monthly and quarterly. It is not possible to observe implementation of variance analysis for project activity since Organization does not have donor financing for the last years. Nevertheless there is approved regulations on project activity management in place. These regulations define reporting process for the project's activity where variance analysis is a component of such reporting.	3.50
2.5 Allowable and Unallowable Cost	The Organization finance personnel have a clear understanding of what costs are allowable, allocable and reasonable. Payments are authorized by Executive director and recorded by an accountant. Responsible employee makes special signs on paid invoices that makes possible to avoid duplicate payments, but such practice is not formalised in policies. The Organization has got an approved policy that defines which costs relate to unallowable. This policy is obligatory for finance and program staff.	3.60
2.6 Direct and Indirect Costs	The Organization's accountants have a clear understanding of direct costs, indirect costs and cost allocation principles. Also finance/accounting staff of the Organization understand the concept of "cost objectives" in relation to intermediate and final cost objectives. The Organization has an adequate capacity to accumulate direct and indirect costs by project. Due to absence of donor financing for the last years it was not possible to check capabilities of accounting staff in accumulating and allocating direct and indirect costs by projects.	3.60
2.7 Payments - Segregation of Duties	The Organization has a written policy that describes a payment process. Approved policies and procedures are generally followed. The accountant does not have authority to sign checks and approve payments but he reconciles bank accounts and records transactions. There are different employees responsible for purchase cycle. All purchases are made according to budget approved by management before. Different persons are responsible for making payments in Organization. The Organization uses special software for bank payments ("Client-Bank" system software).	3.50
2.8 Accounting Cycle	The Organization has a well-documented delegation of authority system appropriate to its size. The Organization uses duty regulations for this objective that are signed by the responsible officer. Different individuals are responsible for different parts of an accounting cycle transaction, an accountant - maintaining financial records; Executive director, supervisory board and revision commission - controlling functions. All invoices are approved by the Executive director prior to disbursement of funds. But in fact, for the last several weeks this requirement is not met for the reason that Executive director temporarily performs accountant functions as it is noted in para 2.13.	3.00
2.9 Financial Records Management	UFPAA has an adequate filing and records management system. The Organization safeguards its important documents including financial records in the office and in the archive. The server of Organization also is	3.50

NGO UKRAINIAN FEDERATION OF PROFESSIONAL ACCOUNTANTS AND AUDITORS
NUPAS REPORT

Risk Areas Reviewed	Observations and Findings	Score
	located in the archive. The Organization saves backups of important documents in separate hard drives. The Organization store copies of important documentation in two separate places (office and archive). Such approach enables to ensure financial and operational continuity of the organisation's activity.	
2.10 Sources of Funding	The Organization has accounting policy and chart of accounts that allows to track all sources of funding. Organization's staff has sufficient accounting and finance qualifications and appropriate experience for cost accounting and fund accounting. The Organization does not have sufficient funds to finance all its activities to the full extent. Lack of funds leads to minimizing operational budgets. At the moment due to the lack of funding, Organization can not hire book keeper, office manager, deputy Executive Director. To promote itself UFPAA holds international and local conferences, seminars and round tables. The Organization has its own web site and Facebook page. It helps to broaden a number of channels of communications with stakeholders and to announce of UFPAA events on a timely basis.	2.60
2.11 Financial Reporting	The Organization prepares financial statements according to the Ukrainian National Accounting Standards (NAS) and in compliance with respective Ukrainian legislation. Financial statements are being prepared on the quarterly basis - for the 1st quarter, for the half year, for the nine monthes period and for the year. These financial statements meet the needs of the Organization. Management reviews the financial statements and makes corrective actions when it is necessary.	3.50
2.12 Audit and Review of Financial Statements	The Organization has the Revision Committee that reviews financial statements and offers adjustments (if appropriate) to the management. The management takes corrective actions. The Financial statements are subject to the financial audit / review by a third party on an annual basis. The Organization had an audit of their financial statements for 2013, and review for 2014. An audit / review was not performed in 2012. The Organization received Qualified Opinions in the past two years. The Organization has not received a Deficiency or Significant Deficiency in its internal control system. The Organization does not have the policies in place for implementing corrective actions on audit findings and recommendations.	3.00
2.13 Financial Management Personnel	According to the Organization chart and written policies there are envisaged two positions for core financial staff - Chief accountant and bookkeeper. Due to low volume of UFPAA's activity and absence of significant operations, functions of Chief accountant are being temporarily fulfilled by the Executive Director. Executive Director who is temporarily responsible for accounting in Organization has appropriate level of professional qualification (higher education in management), understands financial accounting standards, principles and practices as well as principles and techniques needed to prepare operational budgets and variance analysis. Financial and accounting staff has adequate understanding of cash-flow management. Since UFPAA does not have	2.60

Risk Areas Reviewed	Observations and Findings	Score
	projects financed by donors it was not possible to check capabilities of financial and accounting staff to monitor project budgets.	

3. Procurement Systems

Risk Areas Reviewed	Observations and Findings	Score
3.1 Procurement Policies, Procedures and Practices	The Organization has complete and well documented procurement policies. The Organization's procurement policies are known and understood by trained staff and are consistently adhered to. The Organization's procurement policies and procedures reviewed and updated as necessary. The last time procurement policies were reviewed in 2014. It was not possible to verify application of Procurement policies and procedures in practice due to the low level of UFPAA's activity for the last years.	3.50
3.2 Compliance with Policies and Procedures - Reasonableness of Price	The Organization's procurement policies contains competitive procedures. The Executive director is responsible for purchases. In case of conducting competitive procedures the responsible is the tender committee. The Executive director and tender committee are responsible for procurement policy compliance. During the period from January 2014 to May 2015 there were not any competitive procedures. As a result there was not possibility to check documentation for tender procedures It is recommended to formalise procedure when the cost of procurement exceeds 15 000 UAH, but competitive procedures were not conducted	3.00
3.3 Procurement and Sub-awards	The Organization has written guidelines to avoid potential conflicts of interest. The Organization conducts periodic "ethics" training for its employees. Due to absence of donor funding and project activities the Organization does not have any sub-awards management policies Employees and management have a clear understanding of guidelines to avoid potential conflicts of interest. Although the Organization has basic requirements to avoid conflicts of interest among its employees it is recommended to implement the Code of Ethics which will cover risks of potential conflicts of interest not only among UFPAA's employees but among other representatives of UFPAA as well (members of Council, Chairmen of Committees, etc.)	3.00

4. Human Resources Systems

Risk Areas Reviewed	Observations and Findings	Score
4.1 Overall HR Policies and Procedures	The Organization has well-documented HR policies. The Organization maintains individual personnel files with original records of employment, rates and authorized deductions for every employee. The Organization has an organizational chart. All employees have written job descriptions. The Organization does not have any benefits/compensation plan. The employees know their roles and responsibilities and delegations of authority.	3.50
4.2 Staff Time Management	The Organization has a well-documented staff time management system. The employees maintain timesheets to reflect actual time worked. The timesheets signed and approved by supervisor. Payment of salaries	3.00

Risk Areas Reviewed	Observations and Findings	Score
	corresponds to the information documented in the timesheets reports. It was not possible to check corresponding project implementation documentation (for example, project's timesheets), due to absence of project activity from January 2014 to May 2015.	
4.3 Payroll System	The payroll taxes withheld and remitted according to local regulations. The payroll ledger reconciled to the General ledger at least once a month. The staff list for 2015 contains five positions and salaries for them. Therefore it is impractical to develop policies on compensation for the different types and levels of employees. The salaries are approved by the management.	3.70
4.4 Travel Policies and Procedures	The Organization has got a well-documented travel policies. An advance report and other source documents are supporting evidence of money spent. The Organization enforces travel policies properly.	3.70

5. Project Performance Management

Risk Areas Reviewed	Observations and Findings	Score
5.1 Technical Evaluation Criteria	It is not used in this survey.	-
5.2 Project Management Capacity	UFPAA has developed and approved specific regulations on project activity management. Organization has successful experience of implementation a number of projects during 2000 - 2004. The Organization does not have an internal project monitoring group or other similar subdivision due to absence of projects funded by international or local donors last years. At present all activity in UFPAA is being fulfilled within the Committees. For the development of the projects and receiving funding UFPAA has involved highly qualified experts in the field of accounting and auditing, that have considerable experience in the preparation and implementation of the projects. With them UFPAA plans to intensify project activities and receive project funding.	3.00

6. Organizational Sustainability

Risk Areas Reviewed	Observations and Findings	Score
6.1 Cash Flow Management	Organization consistently makes payments to creditors and employees on timely basis. UFPAA has material past due accounts in total amount 118 thousand UAH. Management of the Organization expects to settle this amount without cash outflows.	2.75
6.2 Absorptive Capacity	Management of the Organization devotes significant time to the strategic planning of UFPAA's activity, where organizational development constitutes a part of such planning. In the Organization was developed Strategic plan of UFPAA's activity for 2014-2016 which is being implemented. This Plan defines specific tasks and actions which are expected will contribute to sustainable development of the Organization. UFPAA Council analyses on a quarterly basis the targets set and evaluate achieved results.	3.60