



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/089

Audit of the Regional Service Centre in Entebbe's preparedness for the implementation of International Public Sector Accounting Standards

Overall results relating to the effective management of the Regional Service Centre in Entebbe's preparedness for the implementation of International Public Sector Accounting Standards were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

**8 November 2013
Assignment No. AP2013/616/01**

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AUDIT REPORT

Audit of the Regional Service Centre in Entebbe's preparedness for the implementation of International Public Sector Accounting Standards

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the Regional Service Centre in Entebbe's (RSCE) preparedness for the implementation of International Public Sector Accounting Standards (IPSAS).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations and rules.
3. The General Assembly, in its resolution 60/283, approved the adoption of IPSAS by the United Nations as part of the system-wide effort to move to more robust, internationally recognized financial reporting. The first set of IPSAS-compliant financial statements for peacekeeping operations to be issued is for the period ending 30 June 2014.
4. The RSCE is a vehicle for the implementation of the United Nations Global Field Support Strategy, which provides shared services including a number of administrative and financial support functions previously performed by the following missions in East Africa:
 - United Nations Integrated Peacebuilding Office in the Central African Republic (BINUCA);
 - United Nations Office in Burundi (BNUB);
 - United Nations Organization Stabilization Mission in the Democratic Republic of Congo (MONUSCO);
 - African Union-United Nations Hybrid Operation in Darfur (UNAMID);
 - United Nations Interim Security Force for Abyei (UNISFA);
 - United Nations Mission in the Republic of South Sudan (UNMISS); and
 - United Nations Support Office for the African Union Mission in Somalia (UNSOA).
5. The RSCE did not have any assets, and it used assets of the missions it supported. The following main services provided by the RSCE were expected to be impacted by the implementation of IPSAS: (a) the preparation of trial balances and financial information; (b) processing of financial transactions; and (c) the maintenance of staff entitlements records, including education grant, annual leave, rest and recuperation, and home leave.
6. Comments provided by RSCE are incorporated in italics.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of RSCE governance, risk management and control processes in providing reasonable assurance regarding the **effective management of the RSCE's preparedness for IPSAS implementation**.
- 8.

9. The audit was included in the 2013 OIOS risk-based work plan because the implementation of IPSAS is a significant undertaking with substantial financial reporting and reputational risks.

10. The key controls tested for the audit were: (a) regulatory framework; (b) joint and coordinated oversight; and (c) training and development plans. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Regulatory framework** - controls that provide reasonable assurance that policies and procedures: (i) exist to guide the IPSAS implementation activities; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational reporting.

(b) **Joint and coordinated oversight** - controls that provide reasonable assurance that a joint, coordinated oversight mechanism exists for the implementation of IPSAS.

(c) **Training and development plans** - controls that provide reasonable assurance that training and development plans for IPSAS implementation exist to ensure that staff skills and competencies are upgraded/updated in accordance with the demands of their jobs.

11. The key controls were assessed for the control objectives shown in Table 1.

12. OIOS conducted this audit from February to May 2013. The audit covered the period from 1 July 2010 to 30 April 2013.

13. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

14. The RSCE governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of the RSCE's preparedness for IPSAS implementation**. OIOS made two recommendations to address issues identified. The RSCE had established a team to steer its IPSAS preparedness plans and activities. It had also established and effectively implemented IPSAS training plans to ensure that staff were trained to perform their IPSAS-related tasks. However, RSCE IPSAS implementation activities were behind schedule. For example, due to the lack of adequate resources and the large amount of unfinished tasks inherited from missions, the RSCE did not meet the 15 July 2013 deadline for the cleansing of accounts receivable and accounts payable. BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS had not updated leave records for periods up to three years before transferring the functions to the RSCE. Therefore, RSCE needed to first update the leave records before preparing the opening balances.

15. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two important recommendations remains in progress

Table 1: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of the RSCE's preparedness for IPSAS implementation	(a) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Joint and coordinated oversight	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(c) Training and development plans	Satisfactory	Satisfactory	Satisfactory	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

The establishment of accrued leave, accounts payable and accounts receivable opening balances needed to be expedited

16. The Department of Management required missions to complete establishing the opening balances for accrued staff benefits, accounts payable and receivable by 15 July 2013. The RSCE was responsible for performing these tasks on behalf of BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS.

17. At the time of the audit, the RSCE had not completed establishing the opening balances for accrued staff benefits, accounts payable and accounts receivable. The RCSE had initiated the cleansing of the accounts receivable and accounts payable for UNMISS, which was the only mission that provided RSCE with the required posts. UNISFA and MONUSCO had initiated the review and cleansing of their respective accounts payable and accounts receivable. UNSOA had not transferred its functions to the RSCE and was therefore cleansing its accounts. UNAMID had not carried out a similar review of its accounts receivable and accounts payable, and had not provided the RSCE with the required documents. There were no significant accounts receivable and accounts payable for BNUB and BINUCA. Therefore, the RSCE deferred the cleansing exercises for these two missions. The RSCE had also initiated the cleansing of leave records for all missions.

18. Delays in completing these exercises were attributed to the lack of adequate resources and the poor quality of leave records inherited by the RSCE from MONUSCO, UNAMID and UNMISS. As indicated above, only UNMISS transferred the required finance staff to RSCE and therefore, it did not have any resources to allocate to the establishment of staff benefits opening balances. However, for MONUSCO, UNAMID, and UNMISS, the RSCE needed to validate and update the records for about 3,000 staff for up to three years before establishing the balances and these three missions had not provided the RSCE with any resources to complete these tasks.

(1) RSCE should identify additional resources to: (a) update leave records related to BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS' international staff; and (b) complete data cleansing exercise related to accounts receivable and payable for BINUCA, BNUB, MONUSCO, UNAMID, UNISFA and UNMISS.

RSCE accepted recommendation 1 and stated that it had established a dedicated team to up-date international staff attendance records in Integrated Management Information System (IMIS) in the second quarter of 2014. DFS also stated that the backlog in up-dating leave records was caused by delays in redeployment of staff files to Entebbe and the multiplicity of systems used by the Organization to process leave records (IMIS, Field Support Suit and Matrix). Nonetheless, RSCE took measures to address the situation, by bringing on-board additional staff from missions. Recommendation 1 remains open pending receipt of evidence that: (a) the leave records for BINUCA, BNUB, MONUSCO, UNAMID, UNISFA and UNMISS international staff have been updated; and (b) the data cleansing exercise related to accounts receivable and payable for BINUCA, BNUB, MONUSCO, UNAMID, UNISFA and UNMISS has been completed.

B. Joint and coordinated oversight

Guidelines on accounting for jointly owned assets were insufficient

19. IPSAS requires the recognition, tracking, accounting and financial reporting of capital assets including real estate, self-constructed assets, vehicles, prefabricated buildings, satellite communication systems, generators, and network equipment.

20. RSCE had in its possession real estate assets (under construction) and equipment valued at \$3 million that were jointly-owned and/or belonged to BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, UNMISS and UNSOA. Due to the lack of adequate guidance, it was not clear how and where these assets should be accounted for. While real estate assets in the possession of RSCE had been apportioned to the missions according to the proportion of each mission's contribution and recorded in the respective missions' real estate registers, other jointly-owned information technology equipment such as blade servers, computers, etc., were recorded in MONUSCO's assets register. As a result, there was no visibility over the jointly-owned assets used by the RSCE.

(2) RSCE, in coordination with DFS, should implement measures that enable the Centre to effectively manage assets in a manner that ensures complete and accurate data.

RSCE accepted recommendation 2 and stated that it was working with DFS to find a common solution to manage assets. Recommendation 2 remains open pending receipt of evidence that adequate measures have been implemented to enable RSCE to effectively manage assets that ensures complete and accurate IPSAS compliant balances.

C. Training and development plans

IPSAS training mechanisms were in place

21. The RSCE had established adequate IPSAS training mechanisms to ensure that all RSCE staff would be trained on IPSAS. An IPSAS training plan existed and it was being implemented. Records of staff trained and to be trained were also in place. IPSAS training modules were mapped for each section and a compliance rate of 90 per cent was set. Section Chiefs monitored the adherence to the compliance level. The RSCE was on target, as far as training milestones set by the DFS IPSAS Team. The RSCE had

also identified gaps in training, and a plan had been developed to ensure that these gaps were addressed. OIOS concluded that adequate controls were in place and working effectively.

IV. ACKNOWLEDGEMENT

22. OIOS wishes to express its appreciation to the Management and staff of RSCE for the assistance and cooperation extended to the auditors during this assignment.

(Signed) David Kanja
Assistant Secretary-General for Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the Regional Service Centre in Entebbe's preparedness for the implementation of the International Public Sector Accounting Standards

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	RSCE should identify additional resources to: (a) update leave records related to BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS' international staff; and (b) complete data cleansing exercise related to accounts receivable and payable for BINUCA, BNUB, MONUSCO, UNAMID, UNISFA and UNMISS.	Important	O	Receipt of evidence indicating that: (a) the leave records for BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS' international staff have been updated; and (b) the data cleansing exercise related to accounts receivable and payable for BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS has been completed	30 June 2014
2	RSCE, in coordination with DFS, should implement measures that enable the Centre to effectively manage assets in a manner that ensures complete and accurate data.	Important	O	Receipt of evidence that adequate measures have been Implemented to enable RSCE to effectively manage assets in a manner that ensures complete and accurate IPSAS compliant balances	31 March 2014

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by RSCE and DFS in response to recommendations.

APPENDIX I

Management Response



CONFIDENTIAL

Routine

TO: Ms. Eleanor Burns, Chief
A: Peacekeeping Audit Service,
Internal Audit Division, OIOS

DATE: OCT 18 2013

REFERENCE: 2013-UNHQ-020152.01

THROUGH:
S/C DE:

FROM: Anthony Banbury, Assistant Secretary-General
D/S Department of Field Support

A handwritten signature in black ink, appearing to read 'Anthony Banbury', written over the printed name.

SUBJECT: **AP2013/616/01 - Draft report on the audit of the RSCE's preparedness
OBJET: for the implementation of IPSAS**

1. I refer to your memorandum dated 1 October 2013, regarding the above-mentioned audit. We note that OIOS has substantially taken into account the comments of DFS provided on 23 August 2013. The Department is providing additional comments on the findings and recommendations in the draft report in Appendices I and II. In formulating our response, we have conferred with the respective officials in DFS and RSCE and their comments, where appropriate, have been incorporated in this reply.

2. Thank you for the opportunity to comment on the draft report. We stand ready to provide any further information that may be required.

cc: Ms. Anna Halasan

APPENDIX 1

AP2013/616/01- Draft report on the audit of the Regional Service Centre in Entebbe's preparedness for the implementation of IPSAS

Regulatory framework

Paragraph 15

1. RSCE wishes to clarify that the deadline of 15 July 2013 established by the Accounts Division for cleansing of data on unliquidated obligations (ULOs) was met. The closing instructions from the Accounts Division only required ULOs to be adequately documented and grouped into three categories, and this exercise was duly completed by the missions on schedule. It should further be noted that the provision for accrued employee benefits was completed by 17 July 2013. ✓
2. Based on the above explanation, we request that the reference to ULOs and accrued employee benefits should be deleted from paragraph 15 of the report.

Paragraphs 18 – 20

3. The second sentence of paragraph 18 suggests that UNMISS was the only Mission that had transferred the requested number of staff to RSCE, while the second sentence of paragraph 19 states that "...only MONUSCO had transferred the required finance staff to RSCE..." DFS requests that this inconsistency be amended in the final report.
4. In paragraphs 19 and 20, rest and recuperation leave is included among the list of benefits that require provision. However, according to the memorandum issued by the Accounts Division, the provision only applied to missions where there are no scheduled United Nations flights, and therefore no action is required for MONUSCO, UNMISS, UNAMID and UNISFA. A copy of the memorandum providing guidance on liabilities for accrual of staff benefits, including rest and recuperation, was submitted to OIOS under a separate cover.
5. Further to our earlier comments in paragraph 20 of the report, DFS would like to add that the backlog in updating leave records for RSCE client missions was caused by delays in redeployment of staff files to Entebbe and the multiplicity of systems used by the Organization to process leave records (IMIS, FSS and Matrix). Nonetheless, RSCE took measures to address the situation, by bringing on-board additional staff from missions.
6. Based on our explanation, we request that paragraphs 18 to 20 be amended accordingly.

Management Response

Audit of the Regional Service Centre in Entebbe's preparedness for the implementation of the IPSAS

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	RSCE should identify additional resources to: (a) update leave records related to BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS' international staff; (b) establish the amounts of accrued liabilities related to home leave, family visit, rest and recuperation travel and education grant travel for the international staff of BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS; and (c) complete data cleansing exercise related to accounts receivable and payable for BINUCA, BNUB, MONUSCO, UNAMID, UNISFA, and UNMISS.	Important	Yes	Officer-in-Charge, RSCE	Second quarter of 2014	RSCE comments are reflected in the draft report. RSCE does not have any further comments.
2	RSCE, in coordination with DFS, should implement measures that enable the Centre to effectively manage assets in a manner that ensures complete and accurate data.	Important	Yes	Officer-in-Charge, Admin and Operations, RSCE	First quarter of 2014	RSCE comments are reflected in the draft report. RSCE does not have any further comments.

¹ Critical recommendations address significant and/or pervasive deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.