



## INTERNAL AUDIT DIVISION

### REPORT 2014/042

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Audit of the management of United Nations Assistance Mission for Iraq accounts receivable and payable by the Kuwait Joint Support Office

Overall results relating to the effective management of United Nations Assistance Mission for Iraq accounts receivable and payable by the Kuwait Joint Support Office were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

9 June 2014  
Assignment No. AP2013/812/03

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# AUDIT REPORT

## **Audit of the management of United Nations Assistance Mission for Iraq accounts receivable and payable by the Kuwait Joint Support Office**

### **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of United Nations Assistance Mission for Iraq (UNAMI) accounts receivable and payable by the Kuwait Joint Support Office (KJSO).
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. Since the end of 2012, the Accounts and Vendor Units of the Finance Section of KJSO were responsible for the management of UNAMI accounts receivable and payable in accordance with United Nations Financial Regulations and Rules, the Field Finance Procedure Guidelines and Staff Rules. Accounts receivable and payable included amounts due either from or to staff members, individual contractors, vendors and other United Nations entities. The KJSO Finance Section was headed by a Chief at the P-4 level and was supported by 36 staff. It was responsible for finance activities of both UNAMI and the United Nations Assistance Mission in Afghanistan. As at 30 June 2013, KJSO managed for UNAMI accounts receivable totaling \$6.8 million and accounts payable totaling \$2 million.
4. Comments provided by the Department of Field Support are incorporated in italics.

### **II. OBJECTIVE AND SCOPE**

5. The audit was conducted to assess the adequacy and effectiveness of KJSO governance, risk management and control processes in providing reasonable assurance regarding the **effective management of UNAMI accounts receivable and payable by KJSO**.
6. The audit was included in the OIOS 2013 risk-based work plan because of the financial and operational risks relating to the potential lack of reliable and accurate accounts receivable and payable opening balances for the adoption of International Public Sector Accounting Standards (IPSAS).
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide the management of accounts receivable and payable; (b) are complied with; and (c) ensure the reliability and integrity of financial and operational information.
8. The key control was assessed for the control objectives shown in Table 1.
9. OIOS conducted the audit from June to September 2013. The audit covered the period from 1 January 2012 to 30 June 2013, and reviewed the: (a) accuracy of accounts receivable and payable balances; (b) monitoring of accounts receivable and payable; and (c) implementation of the financial year-end closing instructions issued by the Department of Management.

10. 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

11. The KJSO governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of UNAMI accounts receivable and payable by KJSO**. OIOS made three recommendations to address the issues identified. The KJSO was taking action to clear accounts receivable and payable balances to ensure the accuracy of opening balances for the implementation of IPSAS. Accounts receivable and payable balances were adequately supported by relevant documents relating to balances due either from or to United Nations entities, staff members, vendors and implementing partners. However, there was need for KJSO to: (a) ensure completeness of accounts receivable from United Nations entities and recover outstanding balances in a timely basis; (b) ensure regular reviews of unliquidated obligation balances; and (c) reconcile and update the leave records of staff members.

12. 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 three important recommendations remains in progress.

**Table 1: Assessment of key control**

Business objective	Key control	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of UNAMI accounts receivable and payable by KJSO	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### Regulatory framework

Action was being taken to formalize services provided

13. As of 30 June 2013, UNAMI accounts receivable and payable balances totaled \$6.8 million and \$2 million, respectively. A review of supporting documents indicated that outstanding balances were adequately supported. However, certain services, including those for medical, fuel and security that UNAMI provided on a ‘pay as you use basis’ to other United Nations entities, were not accounted for. UNAMI did not charge and record the cost of these goods and services in its books of account because it had not formalized arrangements with the various entities. KJSO, with the assistance of UNAMI, was in the process of identifying and reviewing all ‘pay as you use’ and other informal arrangements to formalize the procedures for cost recovery. As UNAMI and KJSO were taking action to address this issue, OIOS did not make a recommendation in this regard.

#### Monitoring of long outstanding accounts receivable was inadequate

14. The Field Finance Procedure Guidelines required prompt collection and settlement of accounts receivable balances through regular follow-up for recovery from entities and individuals. Further, the closing instructions issued by the Department of Management on 29 April 2013 required missions to undertake rigorous follow-up and cleansing of long outstanding accounts receivable balances to ensure the accuracy of opening balances as of 1 July 2013 (for UNAMI, a special political mission, the effective date was 1 January 2014.). These instructions also required missions to seek approval from the Controller for the write-off of accounts that were deemed irrecoverable.

15. UNAMI and subsequently KJSO had not implemented adequate procedures to monitor and recover long outstanding receivables in a timely manner. Therefore, \$509,000 of total accounts receivable as at 30 June 2013 had been outstanding for over one year. This balance represented amounts due from vendors and other United Nations agencies.

**(1) The Kuwait Joint Support Office should review long outstanding accounts receivable and take action to recover balances and develop an adequate process for continuously following up long outstanding receivables.**

*KJSO accepted recommendation 1 and stated that adequate follow-up and monitoring of outstanding balances had been put in place. KJSO would continue to work closely with UNAMI to recover outstanding balances. Recommendation 1 remains open pending receipt of evidence that long outstanding accounts receivable balances have been recovered or written off as appropriate.*

#### Actions to settle accounts payable were adequate

16. The IPSAS Opening Balance Plan and closing instructions issued by the Department of Management required peacekeeping missions to clean up accounts payable following review of old outstanding accounts. As at 30 June 2013, UNAMI had \$2 million in accounts payable, of which \$1.9 million (95 per cent) represented amounts owed to vendors. A review of accounts payable balances totaling \$933,000 indicated that balances due to vendors were generally made on a timely basis, and in accordance with contract terms, and these mainly related to contract retentions for ongoing long-term engineering projects. OIOS was satisfied with the Mission's ongoing efforts to settle accounts payable.

#### Administrative charges for services provide to non-secretariat entities were appropriately recovered

17. The Field Finance Procedure Guidelines required that an administrative charge of 14 per cent be added to the cost of services provided to United Nations agencies, funds and programmes and included in the amount billed. UNAMI was providing services to United Nations agencies, funds and programmes. A review of billings for 10 United Nations entities in Iraq and Kuwait indicated that UNAMI through KJSO correctly billed these entities for services provided and included the administrative charge of 14 per cent. OIOS was satisfied that UNAMI and KJSO adequately handled administrative charges for services provided to non-secretariat entities.

#### Unliquidated obligations were not regularly reviewed and reconciled

18. The IPSAS Opening Balance Plan and closing instructions issued by the Department of Management required peacekeeping missions to review unliquidated obligations on a regular basis up until 30 June 2013, and reconcile related balances in the procurement and financial systems. All obligations were to be supported by appropriate obligating documents.

19. As at 30 June 2013, UNAMI had unliquidated obligations totaling \$20 million. A review of these outstanding balances identified \$348,000 in obligations that were no longer valid and should have been cancelled. This resulted as certifying officers did not conduct regular reviews and reconciliations to ensure that obligations that were no longer required were promptly released.

**(2) The Kuwait Joint Support Office should strengthen procedures for reviewing unliquidated obligations by ensuring that certifying officers review on a monthly basis outstanding obligation reports and confirm in a timely manner all obligations that are no longer required.**

*KJSO accepted recommendation 2 and stated that outstanding obligations were reviewed and updated on a monthly basis based on feedback received from cost centers and with an assumption that no response from a cost center meant that all its outstanding obligations were valid. Recommendation 2 remains open pending receipt of evidence that all certifying officers are reviewing and reconciling unliquidated obligations on a monthly basis.*

There were inconsistencies in staff leave records

20. The instructions issued by the Department of Management required peacekeeping missions to calculate accrued liabilities for unused annual leave days of national staff, update attendance data for international staff and accrue liabilities for other staff benefits earned as at 30 June 2013. UNAMI being a special political mission was required to complete the process by 31 December 2013.

21. KJSO was regularly updating leave records of staff members in the electronic Field Support Suite database which was also used to update the Integrated Management Information System. A review of leave records of 32 international and 19 national staff indicated discrepancies between leave days recorded in the Field Support Suite and the Integrated Management Information System. There were also inconsistencies between the leave records maintained in the systems and staff members' monthly attendance reports. This resulted as KJSO did not reconcile the information in the Field Support Suite, Integrated Management Information System and monthly attendance reports to ensure the accurate calculation of accrued liabilities.

**(3) The Kuwait Joint Support Office should reconcile leave records in the Field Support Suite, Integrated Management Information System and monthly attendance reports to ensure accurate calculation of accrued liabilities.**

*KJSO accepted recommendation 3 and stated that it had carried out time and attendance data reconciliation in preparation for the launch of Umoja and for IPSAS implementation. The reconciliation process would be continued until the implementation of IPSAS and the Employee Self Service Module for time and attendance in Umoja. Recommendation 3 remains open pending receipt of evidence that time and attendance data in the Field Support Suite, Integrated Management Information System, and systems have been reconciled with manual records for all staff members indicating management's acceptance of residual risks.*

#### **IV. ACKNOWLEDGEMENT**

22. OIOS wishes to express its appreciation to the Management and staff of UNAMI and KJSO 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 management of United Nations Assistance Mission for Iraq accounts receivable and payable by the Kuwait Joint Support Office

Recom. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	C/ O <sup>3</sup>	Actions needed to close recommendation	Implementation date <sup>4</sup>
1	The Kuwait Joint Support Office should review long outstanding accounts receivable and take action to recover balances and develop an adequate process for continuously following up long outstanding receivables.	Important	O	Receipt of evidence that long outstanding accounts receivable balances have been recovered or written off as appropriate	31 December 2014
2	The Kuwait Joint Support Office should strengthen procedures for reviewing unliquidated obligations by ensuring that certifying officers review on a monthly basis outstanding obligation reports and confirm in a timely manner all obligations that are no longer required.	Important	O	Receipt of evidence that all certifying officers are reviewing and reconciling unliquidated obligations on a monthly basis	31 December 2014
3	The Kuwait Joint Support Office should reconcile leave records in the Field Support Suite, Integrated Management Information System and monthly attendance reports to ensure accurate calculation of accrued liabilities.	Important	O	Receipt of evidence that time and attendance data in the Field Support Suite, Integrated Management Information System, and systems have been reconciled with manual records for all staff members indicating management's acceptance of residual risks	31 December 2014

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> C = closed, O = open

<sup>4</sup> Date provided by 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: 15 May 2014

THROUGH:  
S/C DE:

REFERENCE: UNHQ-AR-BOI-Memo-2-  
2014-908

FROM: Anthony Banbury, Assistant Secretary-General  
DE: Department of Field Support

SUBJECT: **AP2013/812/03 - Audit of accounts receivable and payable in the**  
OBJET: **United Nations Mission in Iraq**

1. I refer to your memorandum dated 1 May 2014 regarding the above-mentioned audit. Please find attached our comments on the recommendations contained in the report. In formulating our response, we have conferred with the respective officials in UNAMI 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

## MANAGEMENT RESPONSE

## Audit of accounts receivable and payable in the United Nations Mission in Iraq

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The Kuwait Joint Support Office should review long outstanding accounts receivable and take action to recover balances and develop an adequate process for continuously following up long outstanding receivables.	Important	Yes	KJSO / Chief Finance Officer (CFO)	Fourth quarter of 2014	The Kuwait Joint Support Office (KJSO) comments are reflected in the draft report. KJSO does not have any further comments.
2	The Kuwait Joint Support Office should strengthen procedures for reviewing unliquidated obligations by ensuring that certifying officers review on a monthly basis outstanding obligation reports and confirm in a timely manner all obligations that are no longer required.	Important	Yes	KJSO/CFO	Fourth quarter of 2014	The Kuwait Joint Support Office (KJSO) comments are reflected in the draft report. KJSO does not have any further comments.
3	The Kuwait Joint Support Office should reconcile leave records in the Field Support Suite, Integrated Management Information System and monthly attendance reports to ensure accurate calculation of accrued liabilities.	Important	Yes	KJSO / Human Resources Management	Fourth quarter of 2014	The Kuwait Joint Support Office (KJSO) comments are reflected in the draft report. KJSO does not have any further comments.

<sup>1</sup> 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.

<sup>2</sup> 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.