



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/092

Audit of the United Nations Global Service Centre's preparedness for the implementation of International Public Sector Accounting Standards for property, plant, equipment and inventory

Overall results relating to the United Nations Global Service Centre's preparedness for the implementation of IPSAS for property, plant, equipment and inventory were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

**18 November 2013
Assignment No. AP2013/610/01**

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AUDIT REPORT

Audit of the United Nations Global Service Centre's preparedness for the implementation of International Public Sector Accounting Standards for property, plant, equipment and inventory

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Global Service Centre's (UNGSC) preparedness for the implementation of International Public Sector Accounting Standards (IPSAS) for property, plant, equipment (PPE) and inventory.
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. Subsequently, the Department of Management (DM) issued the United Nations Policy Framework for IPSAS. The first IPSAS-compliant financial statements for peacekeeping operations are expected to be issued for the period ending 30 June 2014.
4. As at end of May 2013, the UNGSC had assets valued at approximately \$200 million including: (a) 6,906 items of plant and equipment valued at \$74.2 million, and 8,842 lines of inventory items valued at \$6.8 million, for UNGSC operations; (b) 6,989 items of plant and equipment valued at \$80.9 million, and 1,686 lines of inventory items valued at \$13.8 million, for strategic deployment stock; (c) 763 items of plant and equipment valued at \$8.9 million, and 5,156 lines of inventory items valued at \$14.7 million, for the United Nations reserve; and (d) 14 items of in-transit plant and equipment valued at \$91,000. The UNGSC also had about 559 real estate items, which were not valued at the time of the audit.
5. Comments provided by DFS and DM are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNGSC' governance, risk management and control processes in providing reasonable assurance regarding **UNGSC preparedness for the implementation of IPSAS for PPE and inventory**.
7. The audit was included in the OIOS 2013 risk-based work plan because of substantial financial reporting and reputational risks associated with the implementation of IPSAS in the United Nations.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this control as one that provides reasonable assurance that policies and procedures: (a) exist to guide the IPSAS implementation activities; (b) are implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 1.

10. OIOS conducted this audit in April and May 2013. The audit covered the period from 1 July 2012 to 31 March 2013.

11. 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

12. The UNGSC governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding **UNGSC preparedness for the implementation of IPSAS for PPE and inventory**. OIOS made three recommendations to address the issues identified. Although some IPSAS pre-implementation activities were delayed, UNGSC had made progress in establishing IPSAS-compliant opening balances for PPE and inventory. Subsequent to the audit, UNGSC had completed its physical verification of PPE and inventory. However, there was a need to: (a) finalize procedures for recording and reporting strategic deployment stocks and the United Nations reserve; and (b) establish a mechanism for the replenishment of obsolete strategic deployment stocks and maintenance of the required composition.

13. The initial overall rating was based on the assessment of the key control 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
Preparedness of the UNGSC for the implementation of IPSAS for PPE and inventory	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory

A. Regulatory framework

Physical verification of assets needed to be expedited

- (a) Real estate assets were not physically verified

14. The Department of Field Support (DFS) had issued instructions that required the UNGSC to verify its real estate holdings as of 31 March 2012 and to submit its register and quarterly reports on the physical verification of the real estate. While UNGSC had completed and submitted its real estate register and quarterly real estate reports to DFS, these were prepared using various documents including maps and UNGSC agreements with the host countries; however, UNGSC had not physically verified its real estate assets. As a result, the register was not accurate and therefore not reliable. For example, a review of a sample of 25 of the 53 right-to-use assets and self-constructed buildings indicated: (a) differences between the actual measurements of 12 buildings and the measurements recorded in the register; (b) a

water-well that was incorrectly classified under right-to-use buildings instead of infrastructure assets as per the real estate catalogue; and (c) a building that was incorrectly recorded as a right-to-use asset although that building had been returned to the host country. Also, 61 out of 341 infrastructure assets reviewed were not easily verified because UNGSC had not uniquely marked or labeled them. At the time of the audit, the UNGSC had also not completed the determination of the fair value of donated right-to-use assets.

(b) Plant and equipment had been accounted for

15. UNGSC was conducting annual physical verifications of plant and equipment. As at 31 May 2013, the UNGSC had verified 14,231 assets valued at \$153 million or 97 per cent of its 14,672 plant and equipment valued at \$164 million. OIOS observed that the UNGSC conducted the physical verifications in accordance with established procedures.

(c) Verification and recording of inventory needed improvement

16. DFS instructed field missions, including UNGSC to conduct 100 per cent counts of inventory by 1 December 2012 in preparation for the implementation of IPSAS. The UNGSC reported that it had verified 22 per cent of its 24,268 inventory items as at 5 April 2013; however, there was no evidence to support this report. For example, the Central Warehouse and Distribution, and the Property Management, Sections of UNGSC could not provide evidence of their test counts of inventory. Also other UNGSC units that reported in Galileo that they had physically verified their inventory were unable to provide evidence of such verifications. Inventory records were also not accurate and not reliable. For example, audit results indicated that: (a) 15, out of 313, line items valued at \$109,000 were not at the locations indicated in Galileo; and (b) due to the lack of adequate details, such as exact location and other identifiers in Galileo, UNGSC was unable to locate other items selected for verification, which were valued at \$135,000.

17. The delays by UNGSC in completing the physical verification of real estate assets and inventory were primarily due to lack of adequate and effective oversight of the related activities. For example, the multi-functional IPSAS support team established by the UNGSC had not regularly met and timely disseminated to concerned UNGSC staff the directives and standard operating procedures promulgated by DFS to guide the preparation of IPSAS. At the time of the audit, the team had commenced meeting regularly.

(1) The United Nations Global Service Centre should prioritize and allocate sufficient resources to the completion of the physical verification of real estate assets and inventory, obtain the fair values of donated right-to-use assets, and update the relevant records.

UNGSC accepted recommendation 1 and stated that it had completed the verification of real estate and inventory, established the fair values of self-constructed and right-to-use real estate and completed updating the records accordingly. Based on the action taken by UNGSC, recommendation 1 has been closed.

Corporate guidance was required for recording strategic deployment stocks and United Nations reserve assets

18. DM and DFS had not promulgated policy on the accounting for strategic deployment stocks and the United Nations reserve assets held by UNGSC including: (a) how these should be classified, recognized and valued; (b) the treatment and replenishment of obsolete strategic deployment stocks and

reserves; and (c) the recording and reporting on the cost of refurbishment and maintenance of fully depreciated reserve assets.

(2) The Department of Management, in coordination with the Department of Field Support, should develop and issue policies and procedures on the recording and reporting of strategic deployment stocks and the United Nations reserve assets.

DM accepted recommendation 2 and stated that it had developed and issued policy level guidance on the IPSAS-compliant treatment of strategic deployment stocks and the United Nations reserves. DM was also working with DFS to operationalize these policies by preparing detailed procedures for recording and reporting of strategic deployment stocks and the United Nations reserve. Recommendation 2 remains open pending receipt of evidence that procedures had been developed for the recording and reporting of strategic deployment stocks and the United Nations reserve.

(3) The United Nations Global Service Centre should establish a mechanism for the replenishment of obsolete strategic deployment stocks and maintenance of the required composition.

UNGSC accepted recommendation 3 and stated that it would work on a mechanism to effectively rotate strategic deployment stocks. Once policies on the treatment and replenishment of strategic deployment stocks and reserves were established, UNGSC would develop a mechanism for dealing with obsolete strategic deployment stocks. Recommendation 3 remains open pending receipt of evidence that a mechanism had been developed for the replenishment of obsolete strategic development stocks.

IV. ACKNOWLEDGEMENT

19. OIOS wishes to express its appreciation to the Management and staff of DFS and DM 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 United Nations Global Service Centre's preparedness for the implementation of International Public Sector Accounting Standards for property, plant, equipment and inventory

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The United Nations Global Service Centre should prioritize and allocate sufficient resources to the completion of the physical verification of real estate assets and inventory, obtain the fair values of donated right-to-use assets, and update the relevant records.	Important	C	Action taken.	Implemented
2	The Department of Management, in coordination with the Department of Field Support, should develop and issue policies and procedures on the recording and reporting of strategic deployment stocks and the United Nations reserve assets.	Important	O	Receipt of evidence that procedures had been developed for the recording and reporting of strategic deployment stocks and the United Nations reserve.	31 December 2013
3	The United Nations Global Service Centre should establish a mechanism for the replenishment of obsolete strategic deployment stocks and maintenance of the required composition.	Important	O	Receipt of evidence that a mechanism had been developed for the replenishment of obsolete strategic development stocks.	30 June 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 UNGSC and DM.

APPENDIX I

Management Response

Department of Management's Response

United Nations

INTEROFFICE MEMORANDUM




Nations Unies

MEMORANDUM INTERIEUR

TO: Ms. Eleanor Burns, Chief
A: Peacekeeping Audit Service, Internal Audit Division
Office of Internal Oversight Services

DATE: 30 October 2013

THROUGH: Christian Saunders, Director
S/C DE: Office of the Under-Secretary-General for Management

FROM:  Mario Baez, Chief
DE: Policy and Oversight Coordination Service
Office of the Under-Secretary-General for Management

SUBJECT: **Draft report on an audit of the United Nations Global Service Centre's preparedness for the implementation of International Public Sector Accounting Standards for property, plant, equipment and inventory (Assignment No. AP2013/610/01)**
OBJET: **Draft report on an audit of the United Nations Global Service Centre's preparedness for the implementation of International Public Sector Accounting Standards for property, plant, equipment and inventory (Assignment No. AP2013/610/01)**

1. In response to your memorandum dated 16 October 2013 on the above subject, we are pleased to provide the comments to recommendation 2 from the Department of Management in the attached Appendix 1.
2. Thank you for giving us the opportunity to provide comments.

13-02727
31 Oct 2013

Management Response

Audit of the United Nations Global Service Centre's preparedness for the implementation of International Public Sector Accounting Standards for property, plant, equipment and inventory (Assignment No. AP2013/610/01)

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The United Nations Global Service Centre should prioritize and allocate sufficient resources to the completion of the physical verification of real estate assets and inventory, obtain the fair values of donated right-to-use assets, and update the relevant records.	Important				
2	The Department of Management, in coordination with the Department of Field Support, should develop and issue policies and procedures on the recording and reporting of strategic deployment stocks and the United Nations reserve assets.	Important		Director, Accounts Division	31 December 2013	The development of the recommended policies and procedures is already part of the documented plan to produce a new Regulatory Framework to support IPSAS compliance; policy level guidance on the IPSAS-compliant treatment of strategic deployment stocks and the United Nations reserves has already been developed and issued; OPPBA, in conjunction with DFS and Umoja, is in the process of operationalizing the policies by preparing detailed procedures for recording and reporting of strategic deployment stocks and the United Nations reserve.

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.

Rec. no.	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
3	The United Nations Global Service Centre should establish a mechanism for the replenishment of obsolete strategic deployment stocks and maintenance of the required composition.	Important				

Department of Field Support's Response

CONFIDENTIAL

Routine

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

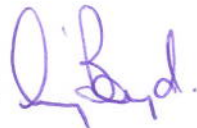
DATE: OCT 30 2013

REFERENCE: 2013-UNHQ-021071.01

THROUGH:

S/C DE:

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



SUBJECT: **AP2013/610/01- Audit of the United Nations Global Service Centre's
OBJET: preparedness for the implementation of IPSAS for property, plant,
equipment and inventory**

1. I refer to your memorandum dated 16 October 2013 regarding the above-mentioned audit. Please find attached our comments on the recommendations and issues contained in the report. In formulating our response, we have conferred with the respective officials in DFS and UNGSC 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 the United Nations Global Service Centre's preparedness for the implementation of International Public Sector Accounting Standards for property, plant, equipment and inventory

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The United Nations Global Service Centre should prioritize and allocate sufficient resources to the completion of the physical verification of real estate assets and inventory, obtain the fair values of donated right-to-use assets, and update the relevant records.	Important	Yes	N/A	Implemented	The recommendation has been implemented. The United Nations Global Service Centre (UNGSC) has complied with IPSAS requirements and completed the physical verification of real estate assets and inventory, both in Brindisi and Valencia. In addition, the fair values of donated right-to-use assets, as well as self-constructed assets, have been obtained and the relevant records updated accordingly. Copies of the real estate register containing details of assets verified by UNGSC and an extract from Galileo showing the status of verification of property, plant, equipment and inventory as of 30 June 2013 were provided to OIOS under a separate cover.
2	The Department of Management, in coordination with the Department of Field Support, should develop and issue policies and procedures on the recording and reporting of strategic deployment stocks and the United Nations reserve assets.	Important	Yes	N/A	N/A	DFS will provide any support that may be required by the Department of Management.
3	The United Nations Global Service Centre should establish a mechanism for the replenishment of obsolete strategic deployment stocks and maintenance of the required composition.	Important	Yes	Director, UNGSC	Second quarter of 2014	UNGSC comments are reflected in the draft report. The Centre 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.