



## **INTERNAL AUDIT DIVISION**

### **AUDIT REPORT 2013/120**

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#### **Audit of the preparedness of the Office of the United Nations Special Coordinator for the Middle East Peace Process for the implementation of International Public Sector Accounting Standards**

**Overall results relating to preparedness of UNSCO for the implementation of International Public Sector Accounting Standards were initially assessed as partially satisfactory. Implementation of one important recommendation remains in progress**

**FINAL OVERALL RATING: PARTIALLY SATISFACTORY**

**9 December 2013  
Assignment No. AP2013/678/01**

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# AUDIT REPORT

## Audit of the preparedness of the Office of the United Nations Special Coordinator for the Middle East Peace Process for the implementation of International Public Sector Accounting Standards

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the preparedness of the Office of the United Nations Special Coordinator for the Middle East Peace Process (UNSCO) 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 of 17 August 2006, approved the adoption of IPSAS by the United Nations as part of the system-wide effort to move to more robust, internationally recognized financial statements.
4. UNSCO was established in March 1994 to represent the Secretary-General in discussions with the parties and the international community in all matters related to United Nations support to the peace process in the region. It also coordinates the work of the United Nations system for an adequate response to the needs of the Palestinian people. UNSCO approved budget for the biennium 2012-2013 was \$16.7 million. UNSCO, located in Jerusalem, Gaza and Ramallah, had 65 personnel comprising 34 international and 31 national staff. The first set of IPSAS-compliant financial statements for UNSCO is scheduled to be issued for the year ending 31 December 2014.
5. Comments provided by UNSCO are incorporated in italics.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNSCO governance, risk management and control processes in providing reasonable assurance regarding the **preparedness of UNSCO for the implementation of IPSAS**.
7. The audit was included in the 2013 OIOS risk-based work plan because of financial reporting risks related to the potential lack of reliable opening balances for the adoption of IPSAS.
8. 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 UNSCO IPSAS preparedness 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 September 2013. The audit covered the period from 1 January to 31 July 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 UNSCO governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **preparedness of UNSCO for the implementation of IPSAS**.

13. OIOS made two recommendations to address issues identified in the audit. UNSCO established an IPSAS implementation team, which was functioning effectively. UNSCO also provided adequate training to staff, and had implemented adequate an effective controls over monitoring and clearing accounts payable and receivable and unliquidated obligations. Subsequent to the audit, UNSCO completed its physical verification of plant, equipment and inventory. However, UNSCO still needed to resolve the registration status of its vehicles to facilitate their write-off.

14. 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 one important recommendation 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
UNSCO preparedness for IPSAS implementation	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### Regulatory framework

The Mission was making good progress in its preparation for IPSAS implementation

15. UNSCO established an IPSAS implementation team, which was functioning effectively and had been adequately supported by the Department of Field Support. UNSCO also ensured that all relevant staff completed the required training programmes and were adequately prepared to implement IPSAS-related tasks. Further, UNSCO developed and issued seven IPSAS-compliant standard operating procedures and was in the process of finalizing its standard operating procedures on receiving and inspection. OIOS found these actions to be satisfactory.

### The real estate register was complete and accurate

16. OIOS physically verified all eight real estate assets in the UNSCO register and confirmed the accuracy and completeness of the related records. Also, UNSCO had compiled data to facilitate the valuation of self-constructed real estate assets and was submitting its real estate asset register to DFS on a quarterly basis as required.

### Vehicle registration and write-off

17. Twenty-six of 50 UNSCO vehicles were not registered with the host government, as they had been deployed prior to the Government's mandatory requirement for United Nations vehicles to be registered. UNSCO identified four of these vehicles for write-off; however, due to the Government regulation prohibiting sales, scrapping and movement of unregistered vehicles, the vehicles, which had a current value of \$24,650, could not be sold and thus removed from Galileo. UNSCO had repeatedly sought assistance from the host country's Ministry of Foreign Affairs to have the vehicles registered, but had been unsuccessful. UNSCO could encounter similar problems with the remaining 22 unregistered vehicles if this issue was not addressed.

18. UNSCO had also completed write-off procedures for four registered vehicles and planned to dispose of them through commercial sales. UNSCO needed to expedite the process of selling these vehicles and update the relevant records for IPSAS preparedness.

**(1) UNSCO should expedite its vehicle write-offs and disposals and clean up the related Mission records in preparation for the implementation of IPSAS; and take necessary actions, with assistance from Headquarters, to resolve the status of the 26 unregistered vehicles.**

*UNSCO accepted recommendation 1 and stated that four vehicles were written-off and this would be reflected in Galileo. UNSCO was continuing its efforts to follow up with the Ministry of Foreign Affairs in coordination with the United Nations Truce Supervision Organization and further action would be taken based on the Ministry's response on the issue of unregistered vehicles. Recommendation 1 remains open pending receipt of evidence that the issue of the unregistered vehicles has been resolved.*

### Controls over physical verification of assets needed improvement

19. According to the standard operating procedures on the monitoring of key performance indicators for property management issued by the Department of Field Support, self-accounting units were required to perform 100 per cent physical verification of inventory in stock and record the results in Galileo. UNSCO had 331 items of inventory valued at \$163,520.

20. UNSCO had plans and timetables to ensure a complete physical inventory within the required timelines. However, these were not adequately followed and sufficient resources were not assigned to ensure that self-accounting units completed 100 per cent physical verification of inventory, and updated Galileo. An OIOS review of a sample of 76 items of inventory highlighted four items whose physical count did not match the quantity in Galileo, and 19 items that were listed twice in Galileo.

21. Additionally, UNSCO contingency inventory stocks in Gaza and Ramallah were still reflected as "in stock" in the central warehouse. Two of five such items in Gaza were already issued but were still recorded in Galileo as 'in stock.'

**(2) UNSCO should revise its IPSAS implementation plan to ensure that a complete physical verification of its inventory is conducted and Galileo is up-dated accordingly.**

*UNSCO accepted recommendation 2 and stated that physical verification was completed and items updated in Galileo. Based on the action taken by UNSCO, recommendation 2 has been closed.*

Records for accounts receivable and payables, unliquidated obligations and accrued liabilities for staff entitlements were adequately managed

22. The IPSAS Opening Balance Plan as well as the closing instructions from the Accounts Division, Department of Management required peacekeeping missions to: (a) clean up accounts receivable and payable; (b) review unliquidated obligations to ensure their validity and accuracy; and (c) update balances of unused annual leave and records relating to other staff benefits such as home leave travel, travel allowances and education grant.

23. As at 31 July 2013, UNSCO had a balance of \$182,493 and \$2,534 in accounts receivable and payable, respectively. A review of all related transactions indicated that these balances were adequately supported and accurately recorded. As of 31 August 2013, UNSCO had an unliquidated obligations balance of \$271,297. A review of all related transactions showed that they were monitored and adequately supported.

24. Leave balances and other staff benefits such as home leave travel and education grant were correctly updated in the Field Support Suite and in the Integrated Management Information System.

#### **IV. ACKNOWLEDGEMENT**

25. OIOS wishes to express its appreciation to the Management and staff of UNSCO 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 preparedness of the Office of the United Nations Special Coordinator for the Middle East Peace Process for the implementation of International Public Sector Accounting Standards**

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	UNSCO should: (a) expedite write-off and disposal procedures to clean up Mission records for the implementation of IPSAS and; (b) take necessary actions, with assistance from Headquarters, if necessary to resolve the status of the 26 unregistered vehicles.	Important	O	Receipt of evidence that the issue of the unregistered vehicles has been resolved.	June 2014
2	UNSCO should revise its plan and ensure that a complete physical verification of its inventory is conducted and Galileo is up-dated accordingly.	Important	C	Action taken	Implemented

<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 UNSCO in response to recommendations.

# **APPENDIX I**

## **Management Response**



United Nations




Nations Unies

The Office of the United Nations Special Coordinator for the Middle East Peace Process  
(UNSCO)

**OUTGOING FACSIMILE**

**Date 02 December 2013**

**Reference: 2013-UNSCO-MS-0116**

<b>TO:</b> Ms. Eleanor T. Burns, Chief Peacekeeping Audit Service Internal Audit Division OIOS	<b>FROM:</b> Francisca Kwasa <i>AK</i> Chief of Mission Support UNSCO, Jerusalem
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<b>SUBJECT: Response to draft report on an audit of IPSAS preparedness in the Office of the United Nations Special Coordinator for the Middle East Peace Process (assignment No. AP2013/678/01)</b>	
<b>Total number of transmitted pages including this page: 1</b>	
<ol style="list-style-type: none"><li>1. Reference is made to your memo of 18 November 2013.</li><li>2. Attached please find UNSCO's response to the detailed audit results with attachments under Annex I.</li><li>3. Best regards.</li></ol> <p>Distribution: SC, COS, CMS, BO, SAUs</p>	
<b>Drafted by:</b> Maha B-Jarallah, Audit Focal Point 	<b>Reviewed by:</b> CMS

## Management Response

**Audit of the preparedness of the Office of the United Nations Special Coordinator for the Middle East Peace Process for the implementation of International Public Sector Accounting Standards**

Rec. no.	Recommendation	Critical <sup>5</sup> / Important <sup>6</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNSCO should expedite write-off and disposal procedures to clean up Mission records for the implementation of IPSAS and take necessary actions, with assistance from Headquarters, if necessary to resolve the status of the 26 unregistered vehicles.	Important	Yes	Chief Mission Support	Done	UNSCO has 26 unregistered vehicles out of which 22 are in use and four are already written off and are pending disposal. For the IPSAS opening balances purposes once Chief Mission Support approval is granted, and items are written off in Galileo, they will be derecognized, and will not be included in the opening balances. Hence from IPSAS perspective this recommendation should be closed.
				Chief Mission Support	June 2014	To address the issue of registration, UNSCO is continuing its efforts to follow up with Ministry of Foreign Affairs in coordination with United Nations Truce Supervision Office. Further action will be taken based on Ministry of Foreign Affairs response.
2	UNSCO should revise its plan and ensure that a complete physical verification of its inventory is conducted and Galileo is updated accordingly.	Important	Yes	Chief Mission Support /Self-accounting units	Done	100% Physical verification is completed and updated in Galileo. This recommendation should be closed.

<sup>5</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>6</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.