



INTERNAL AUDIT DIVISION

REPORT 2014/072

Audit of the preparedness of the United Nations Framework Convention on Climate Change to comply with the International Public Sector Accounting Standards on property, plant and equipment

Overall results relating to the preparedness of the Convention to comply with the Standards were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

31 July 2014

Assignment No. AA2013/241/02

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AUDIT REPORT

Audit of the preparedness of the United Nations Framework Convention on Climate Change to comply with the International Public Sector Accounting Standards on property, plant and equipment

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the preparedness of the United Nations Framework Convention on Climate Change (UNFCCC) to comply with the International Public Sector Accounting Standards (IPSAS) on property, plant and equipment (PPE).
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. UNFCCC was established on 21 March 1994 for the stabilization of greenhouse concentration in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. The UNFCCC Secretariat supports the Convention and its Kyoto Protocol through various activities including substantive and organizational support to meetings of the Parties.
4. The General Assembly, in its resolution 60/283 of 17 August 2006, approved the adoption of IPSAS for the preparation and presentation of the financial statements of United Nations organizations. Although the financial statements of UNFCCC are not presented to the General Assembly, by virtue of the decision made by the Conference of the Parties (COP) on 7 April 1995, UNFCCC was institutionally linked with the United Nations. The continued institutional linkage arrangement was further affirmed by the COP in December 2005. Consequently, UNFCCC decided in October 2008 to adopt IPSAS. UNFCCC will be presenting its first IPSAS compliant financial statements for the period 1 January to 31 December 2014.
5. The Financial Resources Management Unit (FRMU) was leading and coordinating the implementation of IPSAS at UNFCCC while the Administrative Services and the Information Technology Services (ITS) carried out asset management activities. The Information Technology Management and Monitoring Team (ITS Asset Team), which comprised two General Service staff, was responsible for managing the full life cycle of all information technology assets (hardware, software and licenses). The ITS Asset Team reported to the Manager of Information Technology Management and Monitoring. The Procurement and General Services Unit (PGSU) Asset Team under Administrative Services was comprised of three General Service staff who reported to the Chief of PGSU. The PGSU Asset Team managed inventories and non-expendable assets other than those managed by ITS. The PGSU Asset Team's functions included initiating procurement, maintenance, replacement, disposal, recording and management of assets.
6. Both PGSU and ITS Asset Teams were responsible for the conduct of yearly inventory count and verification of assets. The annual inventory reports submitted by PGSU and ITS Asset Teams to FRMU formed the basis for reporting of non-expendable assets in the UNFCCC financial statements based on the United Nations System Accounting Standards (UNSAS).

7. The implementation of IPSAS required the preparation of opening balances, including PPE items, from the existing asset management systems. Table 1 provides the details of non-expendable assets as reported in the UNFCCC financial statements for the biennium ended 31 December 2013.

Table 1: UNFCCC non-expendable assets as at 31 December 2013 (amounts in \$)

Particulars	Balance as at 1 January 2012	Purchases during biennium 2012-2013	Disposals during biennium 2012-2013	Other adjustments ¹	Net increase or (decrease)	Balance as at 31 December 2013
ICT² Assets						
Hardware	5,554,523	2,527,741	(1,712,361)	(12,020)	803,360	6,357,883
Software	3,270,611	1,220,222			1,220,222	4,490,833
Sub-total	8,825,134	3,747,963	(1,712,361)	(12,020)	2,023,582	10,848,716
Non-ICT Assets						
Category A ³	195,481		(18,480)		(18,480)	177,001
Category B ⁴	58,766	934			934	59,700
Category C ⁵	915,470	497,809			497,809	1,413,279
Sub-total	1,169,717	498,743	(18,480)		480,263	1,649,980
Grand Total	9,994,851	4,246,706	(1,730,841)	(12,020)	2,503,845	12,498,696

Notes:

1: The amount in the "other adjustments" column relates to expendable assets which were erroneously classified as non-expendable assets in the 2012 asset registers.

2: ICT stands for Information and Communications Technology.

3: Category A denotes property or equipment valued at \$1,500 or more per unit at the time of purchase and having a service life of at least five years (e.g. kitchen equipment, major equipment and vehicles).

4: Category B denotes assets categorized as special items (costing \$500 or more per unit at the time of purchase and with a serviceable life of three years or more) which are property considered to be of an attractive nature and easily removable from the premises because of their size.

5: Category C denotes assets categorized as group inventory items (e.g. furniture and modular workstations) with a serviceable life of five years or more, irrespective of value.

8. Comments provided by UNFCCC are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

9. The audit of was conducted to assess the adequacy and effectiveness of UNFCCC governance, risk management and control processes in providing reasonable assurance regarding the **preparedness of UNFCCC to comply with IPSAS on PPE**.

10. The audit was included in the 2013 work plan in view of the risk that UNFCCC may be unable to comply with IPSAS requirements involving the identification of all reportable assets and preparing accurate opening balances for its financial statements.

11. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined the regulatory framework as controls that provide reasonable assurance that policies and procedures exist to: (a) guide UNFCCC managers to prepare adequately for achieving compliance with IPSAS requirements; (b) ensure consistent implementation of IPSAS policies; and (c) ensure the reliability and integrity of financial and operational information.

12. The key control was assessed for the control objectives shown in Table 2.

13. OIOS conducted this audit from 2 April to 26 May 2014. The audit covered the period from 1 January 2013 to 26 May 2014.

14. 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

15. UNFCCC governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **preparedness of UNFCCC to comply with IPSAS on PPE**. OIOS made four recommendations to address the issues identified in the audit. UNFCCC needed to develop local guidelines and procedures to ensure consistent application of IPSAS policies on PPE. There were weaknesses in accounting and control mechanisms for asset management, including physical inventory and reconciliation of discrepancies. UNFCCC had initiated steps to address these by creating the post of Fixed Asset Accountant but the job description for this post needed to be refined to ensure segregation of duties between asset management and accounting functions. UNFCCC completed the reconciliation of the physical inventory count with UNSAS-based asset register as at 31 December 2013 and has initiated the necessary steps to implement the other three audit recommendations.

16. The initial overall rating was based on the assessment of the key control presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of three important recommendations remains in progress.

Table 2: 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
Preparedness of UNFCCC to comply with IPSAS on PPE	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Need to develop local guidelines and procedures for asset accounting, control and reporting under IPSAS

17. The Department of Management, through the Headquarters IPSAS Team, issued the United Nations (UN) IPSAS policy framework establishing policies and providing corporate guidance on the adoption and application of IPSAS. The UN IPSAS policy framework required Offices away from Headquarters to develop and issue local guidelines and procedures on accounting and management of property under their custody in accordance with UN IPSAS policy framework and corporate guidance on PPE.

18. As at May 2014, UNFCCC was yet to develop and adopt local guidelines and procedures to: (a) guide the preparation of IPSAS-compliant balances of assets and ensure that asset management practices were in line with IPSAS policies; and (b) ensure consistent application of IPSAS policies. These are further explained as follows:

- a. Roles and responsibilities of key players involved in implementing IPSAS and in managing assets at UNFCCC were not clearly defined. For example, the roles and responsibilities of asset management teams and the proposed Fixed Asset Accountant needed to be clearly defined to ensure segregation of asset management and accounting functions.
- b. The UNFCCC IPSAS policy on PPE defined PPE as tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one reporting period. The policy established \$5,000 as the asset capitalization threshold while assets valued below the threshold would be expensed. The \$5,000 threshold will also be applied to the fair value of assets donated to UNFCCC. At the time of audit in May 2014, the asset management teams of PGSU and ITS were each developing standard operating procedures (SOP) on management of assets under their respective custody. However, the draft SOP was not aligned with IPSAS policies on PPE as adopted by UNFCCC. For example, the draft SOP still categorized tangible assets as non-expendable and expendable based on UNSAS and administrative instruction ST/AI/2003/5 on Property Management and Inventory Control at Headquarters. Further, the UNFCCC IPSAS policy for PPE established different useful lives for various categories of assets. Contrary to the adopted IPSAS policies, the draft SOP categorized non-expendable assets into: (a) property or equipment valued at \$1,500 or more per unit of purchase and having a serviceable life of at least 5 years; (b) special items, costing \$500 or more per unit at the time of purchase and with a serviceable life of three years or more; and (c) group inventory items with a serviceable life of five years or more, irrespective of value. The lack of alignment between the draft SOP and the IPSAS policies could result in misclassification of assets, inaccurate operational and financial information and non-compliance with IPSAS.
- c. UNFCCC relied on the administrative instruction ST/AI/2003/5 to guide its staff during the annual inventory count and reconciliation process. This was because UNFCCC had not yet developed operational procedures following the adoption of IPSAS policies. UNFCCC also did not fully comply with ST/AI/2003/5. For example, comprehensive physical inventory counts were not regularly conducted prior to 2013 as required because local guidelines and procedures were not established. UNFCCC therefore needed to develop guidelines with key performance indicators and milestones as well as procedures for conducting comprehensive physical inventory counts including reconciliation with asset registers to ensure that asset holdings were accurately established.
- d. UNFCCC also needed to develop guidelines for the Procurement Section to report to FRMU the assets purchased that were still in transit during closure of accounts to ensure completeness of reported assets.

19. The lack of local guidelines and procedures on management and accounting of assets could: (a) impact the accuracy of PPE in the UNFCCC financial statements as the information may be incomplete or inaccurate; and (b) result in UNFCCC not consistently applying the IPSAS policies on PPE.

(1) UNFCCC should develop and adopt local guidelines and procedures in line with IPSAS policies to guide staff in managing and reporting of assets.

UNFCCC accepted recommendation 1 and stated that the first drafts were shared with OIOS during the field audit already, and relevant observations will be considered in the final version. Recommendation 1 remains open pending receipt of the operational guidelines and procedures adopted by UNFCCC to guide staff in managing and reporting of assets in accordance with IPSAS policies.

Development of local guidelines and procedures needed to be included in the implementation plan

20. In October 2008, UNFCCC decided to prepare and present the first IPSAS-compliant financial statements for the year ended 31 December 2014. To accelerate the IPSAS implementation process, UNFCCC reconstituted its IPSAS project board in January 2013 and prepared an IPSAS implementation plan which showed the various planned activities and the related milestones. However, the planned activities were focused only on the development of accounting policies that UNFCCC adopted and on the preparation of asset registers for the opening balances. Development of local guidelines and procedures to guide staff in implementing IPSAS was not included in the IPSAS implementation plan. Consequently, staff continued to use UNSAS guidelines for managing assets and preparing operational and financial information. To monitor the development and adoption of local guidelines and procedures, it is essential that this important activity is included in the IPSAS implementation plan.

(2) UNFCCC should include the development of local guidelines and procedures with clear milestones in the IPSAS implementation plan, for monitoring IPSAS implementation.

UNFCCC accepted recommendation 2 and stated that FRMU will update the plan to include these policies as a milestone to be completed by 31 October 2014. Recommendation 2 remains open pending receipt of an updated IPSAS implementation plan, which includes clear milestones for development of local guidelines and procedures.

Need for segregation of property management and accounting functions

21. As stated before, the PGSU and ITS Asset Teams were responsible for managing assets and custodianship of asset records. Both were also responsible for conducting the annual physical verification of assets under their custodianship. There were no separate personnel responsible for property control functions. The current arrangements could adversely impact the integrity and reliability of reported assets in the financial statements, as there was no segregation of responsibilities between asset management and accounting functions. The non-expendable assets reported in the UNFCCC financial statements under UNSAS were based on the reports submitted by the PGSU and ITS Asset Teams to FRMU. The Chief of FRMU indicated that UNFCCC was in the process of creating a Fixed Asset Accountant post, which will be responsible for: (a) creating and monitoring a system of control, procedures and forms for recording fixed assets and inventories; and (b) conducting impairment reviews and periodic physical inventory verifications, among others. However, the proposed job description did not clearly segregate the asset management and accounting functions vis-à-vis the functions of the Asset Teams. There was a need for UNFCCC to review the job description of the Fixed Asset Accountant and rationalize the functions of the Asset Teams to achieve segregation of duties.

(3) UNFCCC should ensure timely creation of the post of Fixed Asset Accountant with an appropriately defined job description and rationalize the functions of the Asset Teams to ensure clear segregation of duties between property management and accounting

functions.

UNFCCC accepted recommendation 3 and stated that the post description has been submitted to the Human Resources Section for classification prior to advertisement in May 2014. Recommendation 3 remains open pending receipt of evidence of: (a) creation of the post of Fixed Asset Accountant with a clear job description; and (b) rationalized functions of the Asset Teams to segregate duties relating to property management and accounting.

Need to speed up reconciliation of the results of physical inventory count

22. The implementation of IPSAS required the preparation of opening balances for PPE as at 1 January 2014. As part of this process, UNFCCC contracted the services of a vendor to conduct a comprehensive physical count of its assets from 20 to 29 January 2014. The vendor used the comprehensive asset registers prepared under UNSAS as at 31 December 2013 to conduct the physical inventory verification exercise.

23. The PGSU and ITS Asset Teams were required to reconcile the results of the physical inventory with the comprehensive asset registers as at 31 December 2013. As at May 2014, however, the results of the reconciliation were not yet ready. This was because UNFCCC changed the asset management and inventory system used for ICT assets following the completion of the physical inventory count, which affected the reconciliation process. The new system was installed in April 2014 and data migration was still in progress as at May 2014. Delays in reconciliation of the results of physical inventory verification against the asset registers as at 31 December 2013 could adversely impact the timely preparation of the IPSAS opening balances on PPE, an IPSAS-compliant asset register, and data cleansing.

(4) UNFCCC should complete the reconciliation of the results of the physical inventory count with UNSAS-based asset registers as at 31 December 2013 to facilitate the preparation of IPSAS-based asset registers and opening balances for property, plant and equipment.

UNFCCC accepted recommendation 4 and stated that this recommendation has been implemented. Proof of reconciliation was submitted to the Resident Auditor on 16 July 2014. Based on the action taken by UNFCCC, recommendation 4 has been closed.

IV. ACKNOWLEDGEMENT

24. OIOS wishes to express its appreciation to the Management and staff of UNFCCC 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 United Nations Framework Convention on Climate Change to comply with the International Public Sector Accounting Standards on property, plant and equipment

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNFCCC should develop and adopt local guidelines and procedures in line with IPSAS policies to guide staff in managing and reporting of assets.	Important	O	Receipt of the operational guidelines and procedures adopted by UNFCCC to guide staff in managing and reporting of assets in accordance with IPSAS policies.	31 January 2015
2	UNFCCC should include the development of local guidelines and procedures with clear milestones in the IPSAS implementation plan, for monitoring IPSAS implementation.	Important	O	Receipt of the updated IPSAS implementation plan, which includes clear milestones for development of local guidelines and procedures.	31 October 2014
3	UNFCCC should ensure timely creation of the post of Fixed Asset Accountant with an appropriately defined job description and rationalize the functions of the Asset Teams to ensure clear segregation of duties between property management and accounting functions.	Important	O	Receipt of evidence showing: (a) the creation of the post of Fixed Asset Accountant with a clear job description; and (b) rationalized functions of the Asset Teams procedures to segregate duties on property management and accounting.	31 January 2015
4	UNFCCC should complete the reconciliation of the results of the physical inventory count with UNSAS-based asset registers as at 31 December 2013 to facilitate the preparation of IPSAS-based asset registers and opening balances for property, plant and equipment.	Important	C	Action completed.	Implemented

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 UNFCCC in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of the preparedness of the United Nations Framework Convention on Climate Change to comply with the International Public Sector Accounting Standards on property, plant and equipment

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNFCCC should develop and adopt local guidelines and procedures in line with IPSAS policies to guide staff in managing and reporting of assets	Important	yes	ITS Manager & Chief, PGSU	31 January 2015 & 31 October 2014	30/07/2014: First drafts were shared with OIOS during the field audit already, and relevant observations will be considered in the final version.
2	UNFCCC should include the development of local guidelines and procedures with clear milestones in the IPSAS implementation plan, for monitoring IPSAS implementation.	Important	yes	Chief, FRMU	31 October 2014	30/07/2014: FRMU will update the plan to include these policies as a milestone to be completed by 31 October 2014
3	UNFCCC should ensure timely creation of the post of Fixed Asset Accountant with an appropriately defined job description and rationalize the functions of the Asset Teams to ensure clear segregation of duties between property management and accounting functions.	Important	yes	Chief FRMU	31 January 2015	30/07/2014: Post description has been submitted to HR for classification prior to advertisement in May 2014.
4	UNFCCC should complete the reconciliation of the results of the physical inventory count with UNSAS-based asset registers as at 31 December 2013 to facilitate the preparation of IPSAS-based asset registers and opening balances for property, plant and equipment.	Important	yes	ITS/PGSU	Implemented in June 2014	30/07/2014: This recommendation has been implemented. Proof of reconciliation was submitted to resident auditor on 16 July 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.