OIOS

Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

REPORT 2014/074

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

Overall results relating to the preparedness of the United Nations Headquarters to comply with International Public Sector Accounting Standards on property, plant and equipment were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

12 August 2014
Assignment No. AH2013/513/03

CONTENTS

AUDIT REPORT

Audit of the preparedness of the United Nations Headquarters 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 Headquarters (UNHQ) to comply with the International Public Sector Accounting Standards (IPSAS) on property, plant and equipment (PP&E).

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 for the preparation and presentation of the Organization's financial statements. The first set of IPSAS-compliant financial statements for peacekeeping operations was expected to be produced for the year ending 30 June 2014. For other United Nations Secretariat operations, IPSAS-compliant financial statements were expected for the year ending 31 December 2014. The Department of Management developed a policy framework for IPSAS that established the categories and thresholds for existing assets that were reportable as PP&E.

4.   For Volumes I and II of the financial statements, the threshold for recognizing plant and equipment was set at $20,000 per unit except for the five commodity groups for which the lower threshold of $5,000 per unit was applicable: vehicles, prefabricated buildings, satellite communication systems, generators and network equipment. For self-constructed assets, improvement of leasehold buildings and major upgrades to land and buildings, the threshold was set at $100,000. A fair value approach, Depreciated Replacement Cost, was adopted to value real estate assets.

5.   As the process owner for property management, the Office of Central Support Services (OCSS), in collaboration with all stakeholders, developed a system and guidance materials on methodologies and processes to identify, verify, classify and value PP&E that met IPSAS recognition thresholds. In this capacity, OCSS was also responsible to validate the valuation of real estate performed by Offices away from Headquarters (OAHs) and regional commissions. The departments and offices, as custodians of the assets, were required to ascertain the existence of the IPSAS assets under their responsibility and validate the historical cost and other pertinent information with supporting documentation. On 28 February 2014, OCSS submitted to Accounts Division, Office of Programme Planning, Budget and Accounts (OPPBA), the consolidated IPSAS opening balances for equipment for United Nations Headquarters, on the basis of departmental opening balances signed-off by the heads of departments. Thirteen items of furniture donated through the Capital Master Plan were added to the opening balances and submitted on 14 March 2014. Table 1 provides the consolidated submissions:

Table 1: IPSAS opening balances for equipment as at 1 January 2014 (in US$)

Asset class	Number of items	Historic cost	Accumulated depreciation	Net book value
Communication and Information Technology equipment	1,121	53,041,310	(27,659,175)	25,382,135
Vehicles	55	3,036,252	(1,329,061)	1,707,190
Machinery and equipment	27	1,061,165	(700,661)	360,504
Furniture and fixtures	17	550,106	(94,224)	455,882
TOTAL	**1,220**	**57,688,833**	**(29,783,121)**	**27,905,711**

6.   At the time of the audit, OCSS was still in the process of finalizing the valuation of real estate at UNHQ and validating the valuation of real estate at OAHs and regional commissions.

7.   Comments provided by the Department of Management (DM) are incorporated in *italics.*

II.   OBJECTIVE AND SCOPE

8.   The audit was conducted to assess the adequacy and effectiveness of OCSS governance, risk management and control processes in providing reasonable assurance regarding the **preparedness of UNHQ to comply with IPSAS on PP&E.**

9.   The audit was included in the 2013 OIOS risk-based work plan due to the risk that opening balances for PP&E may not be accurate.

10.   The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as a control that provides reasonable assurance that adequate policies and procedures: (i) exist to guide the preparation of IPSAS-compliant opening balances and ongoing accounting for PP&E following IPSAS implementation; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

11.   The key control was assessed for the control objectives shown in Table 2. One control objective (shown in Table 2 as "Not assessed") was not relevant to the scope defined for this audit.

12.   OIOS conducted this audit from February to April 2014. The audit covered activities at UNHQ between 1 July 2013 and 31 March 2014 relating to the identification, verification, classification and valuation of PP&E that met the established IPSAS recognition thresholds.

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

14.   The audit team reviewed relevant policies, procedures, system manuals, training materials and memoranda issued by OCSS relating to the implementation of IPSAS on PP&E. Key personnel involved in the process of preparing IPSAS opening balances and developing policy framework were interviewed. Samples were tested to determine the accuracy of opening balances established for equipment. The audit team performed a three-way reconciliation of the opening balances submitted by departments and offices, the final asset register of IPSAS equipment and the results of the physical verification of the IPSAS assets

performed by OCSS and followed up on discrepancies identified. The audit team also reviewed the OCSS strategy for validating valuation of real estate performed by UNHQ, OAHs and regional commissions and its action plans for accounting for PP&E from 1 January 2014 onwards (Day 2 accounting).

15.   The audit scope did not include the appropriateness of the accounting policies adopted by the United Nations as this had been covered by the Board of Auditors. OIOS performed separate audits of the information technology systems to support IPSAS implementation and the management of the IPSAS implementation project.

III.   AUDIT RESULTS

16.   The OCSS governance, risk management and control processes examined were **partially satisfactory[1]** in providing reasonable assurance regarding the **preparedness of UNHQ to comply with IPSAS on PP&E**. OIOS made three recommendations to address issues identified in this audit. OCSS, in collaboration with other departments, needed to correct the inaccuracies in the opening balances identified during this audit and select an information technology system for Day 2 accounting for PP&E before the Enterprise Resource Planning System, Umoja, goes live at UNHQ (currently planned for 1 June 2015 at the date of this report).

17.   The initial overall rating was based on the assessment of 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 UNHQ to comply with IPSAS on PP&E	Regulatory framework	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

<u>OCSS planned and coordinated activities to determine opening balances for IPSAS assets</u>

18.   In 2012, OCSS created a Property Management Unit to establish a property management framework in support of the IPSAS and Umoja implementation and developed a detailed work plan to guide and control the process. OCSS developed a web-based Asset Management Information System (AMIS) in 2013, which interfaced with Procure Plus, the system that held the asset register for equipment, to facilitate the identification of IPSAS assets and to validate/correct the data records. User manual and training materials were drafted for AMIS.

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[1] Partially satisfactory overall ratings apply to audit results concluding that important but not critical deficiencies exist in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control or business objectives under review.

19.   Per OCSS request, the departments and offices at UNHQ appointed primary focal points at management level to be in charge of preparing IPSAS opening balances for equipment under their respective responsibility. Technical Focal Points or Property Records Custodians (PRCs) were also appointed to validate and correct data records for the assets identified as meeting the IPSAS thresholds. OIOS noted that the focal points were duly trained by OCSS. Through memorandums and training, OCSS emphasized the custodian departments' responsibilities in property management and accounting as outlined in the administrative instructions and delegation of authority on property management. To independently ascertain the existence of the preliminary IPSAS assets identified in the system, OCSS conducted a physical verification exercise beginning in November 2013, assisted by a Contractor.

20.   Overall, OCSS developed and executed a systematic approach to determine opening balances for IPSAS assets. There was, however, a slight delay in delivering the real estate opening balances for IPSAS and some inaccuracies noted in the opening balances for equipment. These are discussed later on in the present report.

<u>Accuracy of data for IPSAS assets was not consistently established by custodian departments as required by OCSS</u>

21.   According to the AMIS User Manual and training materials, data fields such as purchase order number, entry on duty date and unit cost were to be validated against related purchase orders or invoices for completeness and accuracy. Actual associated costs such as freight, duty, insurance and installation costs were to be searched for and recorded as part of the historic costs of assets and supporting documentation attached in AMIS. The data validation process, if duly carried out, would also entail physical verification of the assets by the departments themselves.

22.   In order to assess the effectiveness of the data validation process and the reliability of the data records in the final IPSAS asset register, the audit team selected 49 samples of equipment from three offices/departments with significant number and value of IPSAS equipment: Office of Information and Communication Technology (OICT), Department of Peacekeeping Operations (DPKO) and Department of Field Operations (DFS)[2] and Department of Public Information (DPI). The historic costs of these samples amounted to $5.8 million in total.

23.   It was noted that while OICT and DPI validated their data against the purchase orders they could find, as well as other sources such as the Integrated Management Information System and the Internet, and filed supporting documentation for some items, DPKO/DFS checked the data against another database that was not generally used for property management. As a result, DPKO/DFS did not add associated costs for any item or upload documentation to AMIS to substantiate the cost of items in the IPSAS opening balance. Furthermore, the sample testing detected specific errors that suggested that the data validation process was not effective. For example, OICT included in the final IPSAS asset register duplicate items as well as equipment that had been decommissioned in early 2012. DPI included warranty costs as part of associated costs of equipment contrary to the guidance that had been given by OCSS. As a result, the opening balance of items in the sample checked was overstated by $2.3 million. These errors indicated that all assets may not have been physically inspected by the custodian departments during the process, as required by OCSS. In the case of OICT, this was partly because the PRCs were not authorized internally to access all the storage areas. Additionally, management of the custodian departments did not adequately review the work of PRCs despite signing off the opening balances for the assets under their responsibility. Quality check by OCSS was limited to a review of the changes proposed by the PRCs in AMIS.

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[2] DPKO and DFS shared the same executive office and PRCs and hence they were treated as one entity in this report.

24.   The responsible PRCs were promptly notified of the specific errors and they took actions to address them. However, the corrections were yet to be reflected in the final IPSAS asset register.

(1) OCSS, in support of custodian departments, should perform quality assurance procedures to ensure the accuracy of opening balances of IPSAS assets submitted to OPPBA. *OCCS accepted recommendation 1 and stated that it would develop a set of quality assurance measures to ensure the accuracy of opening balances. As custodian departments had the delegation of authority to submit opening balances for their offices and departments, the final responsibility for accurate opening balance submissions lay with custodian departments.* Recommendation 1 remains open pending submission of evidence that appropriate actions have been taken to ensure the accuracy of the opening balances of IPSAS assets.

Opening balances were submitted to OPPBA without completely resolving items not found and updating the asset register

25.   The IPSAS Policy Framework required that PP&E be physically verified on an annual basis. A draft Standard Operating Procedures (SOP) was developed to guide and control the physical verification process. The SOP required that physical verification results be reconciled against records in the asset database and discrepancies resolved.

26.   Due to delays in preparatory work by custodian departments, the independent physical verification process of IPSAS equipment was rolled into the comprehensive biennial physical verification of all non-expendable property and only commenced in November 2013. According to the results provided by the Contractor to OCSS on 28 January 2014 on IPSAS equipment, 133 items were not found, including items the Contractor could not access. There were another 35 items for which possible matches were identified but were yet to be confirmed. To resolve these discrepancies, OCSS requested the custodian departments to confirm the existence of these assets.

27.   Based on confirmation by the custodian departments of the existence of some items previously not found and the sign-off of opening balances by heads of departments, OCSS submitted the opening balances for equipment at UNHQ to Accounts Division, OPPBA on 28 February 2014. However, as of 31 March 2014, the resolution of all the discrepancies identified by the Contractor was still ongoing. OICT, which had the majority of the IPSAS assets, indicated to OIOS that 34 items were either not found or had been de-commissioned, while a total of another 44 items were yet to be confirmed by OICT and other departments, amounting to $1.5 million in total.

28.   In addition to the questionable existence of some of the assets included in the IPSAS opening balance, asset data records were not fully updated in Procure Plus and AMIS to reflect the most recent physical verification results. For instance, as at the end of March 2014, the last inspection date for 202 items was still prior to July 2013 and the location of 21 items was shown as Madison Avenue offices, which had been vacated by the United Nations departments by November 2013.

(2) OCSS, in collaboration with the custodian departments, should resolve the discrepancies discovered during the physical verification process and make the necessary adjustments to the IPSAS asset register and opening balances. *OCSS accepted recommendation 2 and stated that it would work with OICT to address the remaining discrepancies between the physical verification and the asset register. OCSS reiterated that the final responsibility to reconcile and submit accurate opening balances lay with custodian departments, in this case with OICT.* Recommendation 2 remains open pending submission of

evidence of the action taken to resolve the discrepancies discovered during the physical verification process and to adjust the IPSAS asset register and opening balances accordingly.

29. OIOS reviewed the causes of the delays in resolving the discrepancies from the physical verification exercise and noted that the property management process still had some of the shortcomings that were identified in the last audit of non-expendable property at Headquarters (AH2011/513/03). These included: (i) failure to keep the asset register up-to-date, especially information on the location of items; (ii) inclusion in the database of items already marked as "not found" and "dispose" from previous counts; (iii) insufficient attention to the physical inventory process by the custodian departments, as indicated by the frequent changes to the schedule due to unavailability of the PRCs and some locations and assets not accessible by the Contractor; and (iv) inadequate oversight of the property management process by departments and offices despite reiteration of their responsibilities by OCSS and implementation of measures such as requiring heads of departments to sign-off the opening balances.

30. OIOS noted during this audit some management initiatives which, if fully implemented, should reduce the workload and difficulty of future physical verification exercises and improve their efficiency and effectiveness such as: (i) the implementation of IPSAS and Umoja, which would significantly narrow the scope of the physical verification process because of the revised thresholds for asset recognition and improve the tracking of assets throughout their life cycles; (ii) development of a fixed asset management and accounting policy framework, which was underway at OCSS, which would further clarify relevant procedures, for instance, what should be barcoded and inventoried and the process of write-off/disposal of assets; and (iii) hiring of fixed asset management officers by OCSS and major custodian departments, for whom generic job profiles were developed and endorsed by OHRM, which would improve the overall capacity of property management and accounting at UNHQ.

31. As such, OIOS did not make a further recommendation on the physical verification process but would perform relevant reviews to ensure that management initiatives are followed through to achieve the expected improvements in overall property management.

An information system needed to be identified for IPSAS accounting and reporting for PP&E for 2014 (Day 2 accounting)

32. The deployment of AMIS to validate records facilitated the preparation of IPSAS opening balances for plant and equipment. As the Procure Plus system did not have the functionalities required to support accounting for IPSAS assets and AMIS was frozen upon the submission of the opening balances to OPPBA, OCSS had planned that Umoja would serve as the system for maintaining the asset register. However, DM communicated on 2 April 2014 that the full deployment of Umoja at UNHQ was postponed to 1 June 2015, while the real estate management functionality would be available by November 2014. Therefore, in the interim, UNHQ needed to identify a system for recording and processing ongoing PP&E activities to ensure continued compliance with IPSAS, and develop and issue guidance accordingly.

(3) **OCSS should identify an information technology system and provide instructions to the departments and offices at Headquarters to record and process accounting transactions for property, plant and equipment under IPSAS before Umoja is deployed in 2015.**
OCSS accepted recommendation 3 and stated that it would provide such support to all offices and departments. OCSS was in the process of finalizing the tools that would be used to support IPSAS accounting. An instruction to Departments would be issued by the end of the third quarter of 2014. Recommendation 3 remains open pending submission of the instruction by OCSS to departments on the tools that would be used to support IPSAS accounting prior to the deployment of Umoja in 2015.

<u>Validation strategy for valuation of real estate was developed and implemented</u>

33.   OCSS developed a real estate catalogue and componentization templates as well as guidance on the application of the Depreciated Replacement Cost methodology and shared them with OAHs and regional commissions. To provide additional assurance that the Depreciated Replacement Cost methodology was correctly and consistently applied, OCSS developed and implemented a strategy to validate the valuation of real estate by UNHQ, OAHs and regional commissions.

34.   A consultant company was contracted to assist the valuation of real estate at UNHQ. Three OAHs and four regional commissions conducted their own valuation based on the guidance provided. Some of them also engaged external professional assistance. As most of the real estate assets at UNHQ had been renovated during the recent Capital Master Plan Project, the renovation costs were used as proxies of replacement cost. OCSS submitted to OPPBA the opening balance valuation for real estate at UNHQ on 29 April 2014.

35.   An internal specialist in OCSS was closely involved in validating the opening balances of real estate assets at UNHQ, OAHs and the regional commissions. OCSS provided documentation to demonstrate that the validation process would cover at least 85 per cent of the real estate portfolio by value at each of the entities. The final validation report for UNHQ and OAHs was submitted on 9 July 2014; it concluded that the Depreciated Replacement Cost methodology had been correctly and consistently applied. OIOS reviewed the validation documentation for one building each for three entities. Overall, the validation process was rigorous and thorough.

IV.   ACKNOWLEDGEMENT

36.   OIOS wishes to express its appreciation to the Management and staff of the Department of Management 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 Headquarters to comply with the International Public Sector Accounting Standards on property, plant and equipment

Recom. no.	Recommendation	Critical[3]/ Important[4]	C/ O[5]	Actions needed to close recommendation	Implementation date[6]
1	OCSS, in support of custodian departments, should perform quality assurance procedures to ensure the accuracy of opening balances of IPSAS assets submitted to OPPBA.	Important	O	Submission of evidence that appropriate actions have been taken to ensure the accuracy of the opening balances of IPSAS assets.	31 January 2015
2	OCSS, in collaboration with the custodian departments, should resolve the discrepancies discovered during the physical verification process and make the necessary adjustments to the IPSAS asset register and opening balances.	Important	O	Submission of evidence of the action taken to resolve the discrepancies discovered during the physical verification process and to adjust the IPSAS asset register and opening balances accordingly.	31 January 2015
3	OCSS should identify an information technology system and provide instructions to the departments and offices at Headquarters to record and process accounting transactions for property, plant and equipment under IPSAS before Umoja is deployed in 2015.	Important	O	Submission of the instruction by OCSS to departments on the tools that will be used to support IPSAS accounting prior to the deployment of Umoja in 2015.	30 October 2014

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[3] 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.

[4] 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.

[5] C = closed, O = open

[6] Dates provided by DM in response to recommendations.

APPENDIX I

Management Response

TO: A:	Ms. Carmen Vierula, Chief New York Audit Service, Internal Audit Division Office of Internal Oversight Services	DATE: 4 August 2014

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

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

Can Durant for

SUBJECT: **Draft report on an audit of the preparedness of the United Nations Headquarters**
OBJET: **to comply with the International Public Sector Accounting Standards on property, plant and equipment (Assignment No. AH2013/513/03)**

1.   In response to your memorandum dated 17 July 2014 on the above subject, we are pleased to provide the comments of the Department of Management to the recommendations in the draft report in Appendix I below.

2.   Thank you for providing us with the opportunity to comment on the draft report.

Management Response

Audit of the preparedness of the United Nations Headquarters 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	OCSS, in support of custodian departments, should perform quality assurance procedures to ensure the accuracy of opening balances of IPSAS assets submitted to OPPBA.	Important	Yes	Chief, Facilities Management Service	31 January 2015	OCSS will develop a set of quality assurance measures to ensure the accuracy of opening balances. As custodian departments have the delegation of authority to submit opening balances for their offices and departments, the final responsibility for accurate opening balance submissions lies with custodian departments.
2	OCSS, in collaboration with the custodian departments, should resolve the discrepancies discovered during the physical verification process and make the necessary adjustments to the IPSAS asset register and opening balances.	Important	Yes	Chief, Facilities Management Service	31 January 2015	OCSS will work with OICT to address the remaining discrepancies between the physical verification and the asset register. OCSS reiterates that the final responsibility to reconcile and submit accurate opening balances lies with custodian departments, in this case, with OICT.
3	OCSS should identify an information technology system and provide instructions to the departments and offices at Headquarters to record and process accounting transactions for property, plant and equipment under IPSAS before Umoja is deployed in 2015.	Important	Yes	Chief, Facilities Management Service	30 October 2014	OCSS will provide such support to all offices and departments. OCSS is in the process of finalizing the tools that will be used to support IPSAS accounting. An instruction to Departments will be issued by the end of the third quarter of 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.