



## **INTERNAL AUDIT DIVISION**

### **REPORT 2013/124**

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**Audit of the preparedness of the International Trade Centre to comply with the International Public Sector Accounting Standards on property, plant, equipment and inventory**

**Overall results relating to the preparedness of the International Trade Centre to comply with the Standards on property, plant, equipment and inventory were initially assessed as satisfactory.**

**FINAL OVERALL RATING: SATISFACTORY**

**16 December 2013**

**Assignment No. AE2013/350/02**

# CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	2
III. AUDIT RESULTS	2-5
A. Regulatory framework	3-5
IV. ACKNOWLEDGEMENT	5
APPENDIX I Management response	

# AUDIT REPORT

## Audit of the preparedness of the International Trade Centre to comply with the International Public Sector Accounting Standards on property, plant, equipment and inventory

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the preparedness of the International Trade Centre (ITC) to comply with the International Public Sector Accounting Standards (IPSAS) on property, plant and 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 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 the United Nations Secretariat is scheduled for the fiscal year from 1 January to 31 December 2014. The Department of Management has issued a policy framework for IPSAS that establishes the categories and thresholds for existing assets that will be reportable as property, plant and equipment and inventory.

4. ITC had established an IPSAS implementation team consisting of Chief level staff from the following units: Financial Management, Information Technology, Human Resources, Central Support Services, Office of the Executive Director and Division of Market Development. However, the responsibility for producing reliable IPSAS related information rested with the Office of Financial Management. The Central Support Services (CSS), one of the sections in the Division of Programme Support, was responsible for managing all property at ITC, while the Publications Unit of the Communications and Events Section was responsible for managing the publications inventory.

5. The implementation of IPSAS at the United Nations requires the preparation of opening balances of reportable assets (i.e., real estate, PPE and inventory) as at 1 January 2014. An important prerequisite to the preparation of opening balances is the verification of existing assets through physical counts. In preparing opening balances of PPE and inventory, ITC had been able to build upon existing records of items classified under the present United Nations System Accounting Standards as non-expendable property and expendable property. Table 1 shows the status of non-expendable and expendable property at ITC as at 31 December 2012 without any capitalization threshold.

Table 1  
**Non-expendable and expendable property at ITC as at 31 December 2012**

	US\$ - Geneva	US\$ - Field offices
<b>Non-expendable property</b>	2,953,465	266,037
<b>Expendable property</b>	1,521,489	-

Source: Based on data provided by ITC CSS.

## II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of ITC governance, risk management and control processes in providing reasonable assurance regarding the **preparedness of ITC to comply with IPSAS on PPE and inventory**.
7. The audit was added to the 2013 internal audit work plan for ITC due to the risk that ITC may be unable to properly implement IPSAS if it does not adequately prepare itself to generate accurate and reliable opening balances of PPE and inventory by 1 January 2014.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as a control that provides reasonable assurance that policies and procedures: (i) exist to guide the preparation of IPSAS-compliant opening balances of assets; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
9. The key control was assessed for the control objectives shown in Table 2.
10. OIOS conducted this audit from September to October 2013. The audit covered the period from 1 January 2012 to 30 June 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. ITC governance, risk management and control processes examined were assessed as **satisfactory** in providing reasonable assurance regarding the **preparedness of ITC to comply with IPSAS on PPE and inventory**. ITC had established and followed procedures for the physical verification and write-off of assets. Procedures were also established to determine the IPSAS opening balance for publications inventory. In addition, ITC had developed a work plan with specific timeframes for the IPSAS implementation activities, including in respect of PPE and inventory, and reported monthly on the progress of these activities to the United Nations IPSAS team in New York.
13. The initial overall rating was based on the assessment of key control presented in Table 2 below. The final overall rating is **satisfactory**.

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
<b>Preparedness of ITC to comply with IPSAS on PPE and inventory</b>	Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
<b>FINAL OVERALL RATING: SATISFACTORY</b>					

### **A. Regulatory framework**

Procedures were established and followed to ensure the validity of asset records at ITC headquarters and field offices through physical verification

14. ITC conducted its last annual physical verification of assets at its headquarters in Geneva between October and November 2012. The asset register was maintained in Excel format on a shared drive with access to only three staff in CSS. OIOS verified the existence of a sample of sixty assets as per the asset register. All selected assets were located, identified and found in good working condition. OIOS also reviewed the classification of the assets as included in the asset register and determined that it was in accordance with IPSAS requirements. ITC was planning to carry out its next annual physical verification of assets by the end of 2013.

15. Regarding assets in its field offices, ITC had sent emails to all field offices with instructions and guidance on the performance of physical verification, data capture and data cleansing for IPSAS compliance. The field offices completed physical counts using reports generated by CSS from the asset register. Once completed, the reports were certified by the responsible chiefs at the field offices. Although the value of the non-expendable property in field offices was low, ITC ensured the accuracy of the data through verification of relevant ownership documentation, as well as review of technical review reports related to vehicles that represented the main non-expendable property in these offices. As a result of the subsequent write-off of some of the field assets, only seven assets totaling \$125,335 met the IPSAS capitalization threshold. Of these seven assets, ITC obtained supporting documentation for five assets amounting to \$111,518 or 89 per cent of the total value. For the remaining two assets valued at \$13,817 or 11 per cent of the total value, ITC obtained certification of their existence and working status through communication with the respective certifying officers in the field. OIOS concluded that these procedures for ensuring the validity of asset records in the field were satisfactory.

The identification of project assets was completed

16. ITC maintained a database of the projects it had with external parties throughout the world. All project assets were recorded and clearly identified in the asset register regardless of their value. In addition, ITC was in the process of amending its policy with regard to the recording of project assets. Under this new policy, project assets with implementing partners whose value was over \$5,000 would be tracked but not capitalized until they were transferred to the beneficiary and removed from ITC records. ITC planned to consult the Board of Auditors and the IPSAS team at United Nations Headquarters in New York on this policy before its finalization. Only three project assets totaling \$48,531 met the \$5,000

threshold for capitalization in IPSAS-compliant financial statements. Although the threshold was not yet final, OIOS concluded that this did not have an impact on the ability of ITC to ensure an accurate and reliable IPSAS opening balance for the project assets that ITC had with its external parties because the required information was easily available in its records.

#### Procedures were established to determine the IPSAS opening balance for publications inventory

17. The Publications Unit was responsible for the validity of publications inventory data. The last physical verification of publications was conducted in December 2012, as a result of which 187 publications were included in the publications database for a total value of \$1,521,489. However, most of the publications were distributed for free and were also available for download on the ITC public website at no cost. Therefore, ITC considered that those publications did not carry any value for IPSAS reporting purposes. Only the publications that were not available for download on the website, consisting of older ones released prior to 2009, were considered as “available for sale” for the time being. The sales figures of ITC publications were \$40,184 and \$23,765 in 2011 and 2012 respectively.

18. The Publications Unit planned to carry out its next annual physical inventory verification by 17 January 2014, along with an exercise in December 2013 to assess, with the publication owners, whether further items should be eliminated from the inventory, based on pre-defined criteria. In this regard, ITC had prepared an action plan and updated the physical count procedures. It had also requested the Board of Auditors’ comments on a draft policy it had developed on the implications of IPSAS on publications. In this policy, ITC had proposed that publications dated prior to 2010, for IPSAS valuation purposes, would be marked down to zero. This would mean, given that all the post-2010 publications were already available on the ITC website at no cost, that ITC would have an IPSAS opening balance of zero for publications inventory as a whole. However, regardless of the valuation methodology, OIOS concluded that ITC was in a position to calculate the IPSAS opening balance for publications inventory immediately after the completion of the January 2014 physical count, or even earlier if required.

#### Procedures were established and followed for the write-off of not found, impaired and obsolete assets

19. The write-off requests of not found, impaired and obsolete assets, including those at field offices, were duly submitted to the ITC Property Survey Board in Geneva for review, in accordance with established procedures. The average time taken from receiving a request for write-off to approving the requests by the Property Survey Board in 2013 was 46 days. Substantial data cleansing exercises had also been conducted in 2011 and 2012 where write-offs amounted to \$1,622,764 and \$1,312,103, respectively. At the time of the audit, there were four cases pending review by the Property Survey Board, which OIOS regarded as a manageable number that was likely to be cleared by the end of the year. OIOS therefore concluded that the procedures established for the write-off of not found, impaired and obsolete assets had operated satisfactorily during the period under review.

#### ITC did not have real estate assets

20. In 2013, ITC had field offices in Fiji, Cote d’Ivoire, Mexico, Tajikistan and Kyrgyzstan. All property occupied by ITC in Geneva and at the field offices was leased. These leases were considered short-term operating leases. ITC therefore did not have any real estate assets to report in IPSAS-compliant financial statements.

#### The progress of IPSAS implementation was closely monitored

21. The Office of Financial Management had established a detailed work plan for the IPSAS project. The work plan contained the activities to be performed, the start and finish dates of the activities, and the

person or team responsible for the activities. In addition, ITC had adopted a Project Management Tool to provide a log of activities, timelines and risks relevant to IPSAS implementation. The Project Management Tool was developed based on the template provided by the IPSAS team at United Nations Headquarters in February 2012. The Financial Management Advisor, as the ITC IPSAS Project Manager in Geneva, was responsible for monitoring and monthly reporting of the activities to the IPSAS team at Headquarters. The monthly reports were submitted to Headquarters in a timely manner and contained sufficiently detailed information on the implementation of activities, including in relation to PPE and inventory.

#### **IV. ACKNOWLEDGEMENT**

22. OIOS wishes to express its appreciation to the Management and staff of ITC for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* David Kanja  
Assistant Secretary-General for Internal Oversight Services

# **APPENDIX I**

## **Management Response**





## MEMORANDUM

TO-A: Mr. Gurpur Kumar  
Deputy Director  
Internal Audit Division  
Office of Internal Oversight Services  
(OIOS)

REF: IAD: 13-00647

THROUGH-VIA: GENEVA-GENÈVE:

FROM-DE: Eva K. Murray *Eva K. Murray*  
Director  
Division of Programme Support  
International Trade Centre (ITC)

DATE: 6 December 2013

SUBJECT-OBJET: **Assignment No. AE2013/350/02 – Audit of the preparedness of the International Trade Centre to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory**

1. Reference is made to your memorandum of 3 December 2013 addressed to Ms. Arancha González, the International Trade Centre's (ITC) Executive Director, concerning the draft report of the above-mentioned audit
2. Having analysed the findings of the draft audit report we are pleased that you have taken into consideration our comments of 12 November 2013 provided to your detailed audit results of 30 October 2013.
3. We note that the overall results relating to the preparedness of the ITC to comply with the Standards on property, plant and equipment and inventory were satisfactory.
4. I am pleased to inform you that ITC has no further comments on the results of this audit.
5. I wish to thank the Internal Audit Division (IAD) of the Office of Internal Oversight Services for its efforts and contribution to assist ITC in achieving a satisfactory rating.

cc: Ms. Arancha González, Executive Director, ITC  
Mr. Ashish Shah, Acting Deputy Executive Director, ITC  
Mr. Kok Cheng Tan, Chief, Financial Management, ITC  
Ms. Sophie Hecht de Alwis, Chief, Central Support Services, ITC  
Ms. Natalie Domeisen, Publication Manager, ITC  
Ms. Anna Halasan, Professional Practices Section, IAD, OIOS  
Mr. Mika Tapio, Chief, European Audit Section, IAD, OIOS

