



INTERNAL AUDIT DIVISION

REPORT 2013/130

Audit of the preparedness of the United Nations Truce Supervision Organization for the implementation of International Public Sector Accounting Standards

Overall results relating to the preparedness of the United Nations Truce Supervision Organization for the implementation of International Public Sector Accounting Standards were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

**18 December 2013
Assignment No. AP2013/674/02**

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AUDIT REPORT

Audit of the preparedness of the United Nations Truce Supervision Organization for the implementation of International Public Sector Accounting Standards

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Truce Supervision Organization's (UNTSO) preparedness 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. The UNTSO budget for the biennium 2012-2013 was \$70 million and had 228 personnel comprising 95 international and 133 national staff. UNTSO, headquartered in Jerusalem, deployed its observer groups to Naqoura, Tiberias, Damascus and Golan and maintained liaison offices in Beirut, Ismailia and Amman. The first set of IPSAS-compliant financial statements for UNTSO is scheduled to be issued for the year ending 31 December 2014.
5. Comments provided by UNTSO are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNTSO governance, risk management and control processes in providing reasonable assurance regarding the **preparedness of UNTSO 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 one that provides reasonable assurance that policies and procedures: (a) exist to guide UNTSO 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 and October 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 UNTSO governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **preparedness of UNTSO for the implementation of IPSAS**. OIOS made three recommendations to address the issues identified. UNTSO established an IPSAS implementation team, which was functioning effectively. UNTSO also provided adequate training to staff, and its controls over monitoring and clearing accounts payable and receivable, and unliquidated obligations were in place and working as intended. However, UNTSO needed to complete its physical verification of plant, equipment and inventory and ensure that real estate items were properly accounted for.

13. 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 three important recommendations 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
Preparedness of UNTSO for the implementation of IPSAS	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

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

14. UNTSO established an IPSAS implementation team, which was functioning effectively, and had been adequately supported by the Department of Field Support (DFS). UNTSO also ensured that all relevant staff completed the required training programmes and were adequately prepared to implement IPSAS-related tasks.

Standard operating procedures needed to be further developed and finalized

15. As part of the preparation for IPSAS, UNTSO developed four IPSAS standard operating procedures. However, these were still in draft form and the review and revision of an additional four required standard operating procedures had not been initiated. UNTSO was not able to complete the revision of IPSAS procedures as it had not adequately planned and allocated sufficient resources to the exercise. The procedures were necessary to ensure that staff had guidance to refer to when IPSAS was implemented.

(1) UNTSO should allocate sufficient resources to revise and finalize the required IPSAS standard operating procedures.

UNTSO accepted recommendation 1 and stated that standard operating procedures would be finalized in December 2013. Recommendation 1 remains open pending receipt of a copy of the finalized standard operating procedures.

Guidance needed on the treatment of certain real estate holdings

16. DFS instructed missions to carry out a comprehensive inventory of real estate holdings under their control and to submit quarterly reports.

17. UNTSO had completed and submitted quarterly real estate registers to DFS. However, a review of 11 of the 20 (or 55 per cent) of the real estate items included in the UNTSO register indicated that UNTSO did not have documentation to support: (a) the right-to-use three of its buildings, including its Mission headquarters; (b) land used in Jerusalem, which was “no-man’s land” according to international law; and (c) parcels of land in Golan, located in the occupied territory. A legal review was necessary to support the recording of these real estate assets in the financial statements of the United Nations.

(2) UNTSO should seek guidance from the Department of Field Support on the recording of real estate for which the legal ownership was not known, and for those where a formal agreement of occupancy was not available.

UNTSO accepted recommendation 2 and stated it had sought guidance from DFS and engaged an appraiser to assess and value UNTSO headquarters compound. Recommendation 2 remains open pending receipt of evidence that UNTSO real estate assets have been properly accounted for in the financial statements.

Controls over physical verification of assets needed improvement

(a) Physical verification of plant and equipment needed to be completed

18. The Property Management Unit was responsible for conducting physical verification of plant and equipment. As of July 2013, UNTSO had recorded 1,634 items of plant and equipment valued at \$12.9 million and the Property Management Unit had verified 1,134 out of the 1,657 items (or 68 per cent) as of 31 July 2013.

19. A review of 444 items of plant and equipment, with a value totaling \$4.3 million, identified 49 errors and omissions in Galileo regarding where items were located, and 19 items which had not been bar-coded or had been bar-coded and were not recorded in Galileo. These errors and omissions resulted as the Property Management Unit had not physically verified and validated all of the Mission’s plant and equipment.

(b) Action was being taken to dispose of assets to be written off

20. UNTSO had 143 items, with a depreciated value of \$409,395, which needed to be written off and disposed of. UNTSO had already developed a disposal plan to complete the disposal process before the end of 2013. OIOS was satisfied with the action taken.

(c) Controls over physical verification and recording of inventory needed improvement

21. According to DFS standard operating procedures on monitoring of key performance indicators for property management, self-accounting units were required to perform 100 per cent physical verification of inventory and record the results in Galileo. As of 31 July 2013, UNTSO had physically verified 77 per cent of the 5,632 items it had in inventory valued at \$1.8 million.

22. A review of a sample of 766 items of inventory, valued at \$106,920 (14 per cent of the total number of items and 6 per cent of the total value), indicated that the OIOS physical count of 238 items did not match the quantity recorded in Galileo. Also, transport equipment valued at \$26,686, which was still listed as inventory in Galileo, was damaged and stored in a container for old and discarded assets. Moreover, stocks of medical items stored at clinics were not recorded in Galileo.

(3) UNTSO should conduct a complete physical verification of plant, equipment and inventory, including medical stocks, and ensure that discrepancies are reconciled and Galileo records are updated accordingly.

UNTSO accepted recommendation 3 and stated that the physical verification of plant, property, and equipment was complete except for locations in Syria which were inaccessible. As agreed with DFS, items in these locations would be written off and if later recovered, UNTSO would request a roll-back of their status in Galileo. Recommendation 3 remains open pending receipt of evidence of the results of the physical verification of plant, equipment and inventory.

Accounts receivable and payable, unliquidated obligations and accrual of staff entitlements were adequately managed

23. The IPSAS Opening Balance Plan and 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.

24. As at 31 July 2013, UNTSO had balances of \$673,000 and \$130,000 in accounts receivable and payable respectively. A review of all related transactions indicated that these balances were adequately supported and accurately recorded. As of 30 September 2013, UNTSO had an unliquidated obligation balance of \$18,554. A review of all related transactions showed that they were monitored and adequately supported.

25. 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

26. OIOS wishes to express its appreciation to the Management and staff of UNTSO 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 Truce Supervision Organization's preparedness for the implementation of International Public Sector Accounting Standards

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNTSO should allocate sufficient resources to revise and finalize the required IPSAS standard operating procedures.	Important	O	Receipt of a copy of the finalized standard operating procedures.	17 December 2013
2	UNTSO should seek guidance from the Department of Field Support on the recording of real estate for which the legal ownership was not known, and for those where a formal agreement of occupancy was not available.	Important	O	Receipt of evidence that UNTSO real estate assets have been properly accounted for in the financial statements.	31 December 2013
3	UNTSO should conduct a complete physical verification of plant, equipment and inventory, including medical stocks, and ensure that discrepancies are reconciled and Galileo records are updated accordingly.	Important	O	Receipt of evidence of the results of the physical verification of plant, equipment and inventory.	31 December 2013

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 UNTSO in response to recommendations.

APPENDIX I

Management Response

UNITED NATIONS



NATIONS UNIES

TRUCE SUPERVISION ORGANIZATION

INTEROFFICE MEMORANDUM

Government House
Jerusalem

12 December 2013

To: Ms. Eleanor T. Burns, Chief
Peacekeeping Audit Service
Internal Audit Division, OIOS

From: Major General Michael Finn
Chief of Staff and Head of Mission
UNTSO

A handwritten signature in blue ink that reads "Michael Finn".

Subject: Detailed audit results of IPSAS Preparedness in UNTSO (Assignment No. AP2013/674/02)

1. I refer to your memorandum IAD: MO131106 of 12 November 2013 regarding the recent audit of IPSAS preparedness in UNTSO.
2. Please find attached our responses to OIOS recommendations as listed in Annex I, along with supporting documentation regarding recommendation 3.
3. In addition, please accept our apologies for our delayed submission; with implementation fast approaching, the delay was unfortunately unavoidable in order to confirm the availability of a suitable valuer for our Headquarters compound, as well as to confer with HQ/PMU in order to properly account for assets beyond our physical reach in Syria due to the prevailing security situation.
4. Best regards.

cc: Mr. E. Nicolas, Audit Focal Point, UNTSO
Ms. Anna Halasan, Professional Practices Section, Internal Audit Division, OIOS

Management Response

Audit of the United Nations Truce Supervision Organization's preparedness for the implementation of International Public Sector Accounting Standards

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNTSO should allocate sufficient resources to revise and finalize all of the required IPSAS standard operating procedures.	Important	Yes	Senior Administrative Officer/IPSAS Focal Point	17 December 2013	Following consultation and advice from Field Implementation Team, Standard Operating Procedures will be finalized and submitted to United Nations Headquarters by 17 December.
2	UNTSO should seek guidance from the Department of Field Support on the recording of real estate for which the legal ownership was not known, and for those where a formal agreement of occupancy was not available.	Important	Yes	Senior Administrative Officer/IPSAS Focal Point	31 December 2013	We have sought guidance from Headquarters as well as sister missions. In accordance with this guidance, and for the purposes of the exercise only, the mission has engaged an appraiser to assess and value our Headquarters compound
3	UNTSO should conduct a complete physical verification of plant, equipment and inventory, including medical stocks, and ensure that discrepancies are reconciled and Galileo records are updated accordingly.	Important	Yes, with reservation as noted	Senior Administrative Officer/IPSAS Focal Point	31 December 2013	Physical verification of plant, property, and equipment is complete except for locations in Syria which are impacted by the ongoing security situation. As per agreement with Headquarters Property Management Unit, items in these locations will be written off; should the security situation improve and the items be recovered at a later date, we will request a roll-back of their status in Galileo.

⁵ 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.

⁶ 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.