



## INTERNAL AUDIT DIVISION

### REPORT 2014/046

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Audit of the preparedness of the International Criminal Tribunal for Rwanda to comply with the International Public Sector Accounting Standards on property, plant and equipment

Overall results relating to the preparedness of the International Criminal Tribunal for Rwanda to comply with the 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

9 June 2014

Assignment No. AA2013/260/03

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# AUDIT REPORT

## **Audit of the preparedness of the International Criminal Tribunal for Rwanda 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 International Criminal Tribunal for Rwanda (ICTR or the Tribunal) 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. 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 Department of Management launched the implementation of IPSAS activities at the individual office level in August 2011 and, through the Headquarters IPSAS Team, issued a policy framework, corporate guidance, and instructions on how the Secretariat should apply the standards. The framework and guidance were aimed at presenting relevant information, including PPE, in a comprehensive and consistent way across the organizations of the United Nations system. The implementation of IPSAS required the preparation: of opening balances, including PPE items, as at 1 January 2014; and the first set of IPSAS-compliant financial statements of the Organization for the financial year ending 31 December 2014. As at 31 December 2013, ICTR had 2,475 non-expendable property (NEP) items, which cost \$12 million.
4. Comments provided by ICTR are incorporated in *italics*.

### **II. OBJECTIVE AND SCOPE**

5. The audit was conducted to assess the adequacy and effectiveness of ICTR governance, risk management and control processes in providing reasonable assurance regarding **the preparedness of ICTR to comply with IPSAS on PPE**.
6. The audit was included in the 2013 internal audit work plan due to the risk that ICTR may be unable to properly implement IPSAS if it does not adequately prepare itself to generate accurate and reliable opening balances of PPE as at 1 January 2014.
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the preparation of IPSAS-compliant opening balances of PPE; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.
8. The key control was assessed for the control objectives shown in Table 1.

9. OIOS conducted the audit from 20 September 2013 to 31 January 2014. The audit covered the period from 1 January 2012 to 31 December 2013. The audit reviewed the local IPSAS Support Team activities, relevant standard operating procedures (SOP), conversion and value adjustments for the targeted NEP to IPSAS compliant assets, transition asset register, and reporting of completed activities in the Project Management Tool (PMT). Inventory was not included in the audit scope, as ICTR only held non-financial inventory which, as per the United Nations Corporate Guidance on Inventories, are materials and supplies consumed internally for the organization’s own use and expensed on acquisition.

10. 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

11. The ICTR governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding **the preparedness of ICTR to comply with IPSAS on PPE**. OIOS made six recommendations to address issues identified in this audit.

12. ICTR was preparing to establish IPSAS-compliant opening balances, including PPE line items in the financial statements. As at 31 January 2014, ICTR was in the process of preparing opening balances. During the course of this audit, ICTR restructured the local IPSAS Support Team, updated its terms of reference and supporting work plans, and updated the locally maintained SOP. However, there was a need to take additional steps to convert NEP data in the current asset management systems into IPSAS-compliant quantities and values for PPE opening balances. These steps included value adjustments and the deployment of a local IPSAS-compliant fixed assets register.

13. The initial overall rating was based on the assessment of the key control 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
<b>Preparedness of ICTR to comply with IPSAS on PPE</b>	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## **Regulatory framework**

### The Support Team at the Tribunal had been strengthened

14. At the commencement of the audit, ICTR had not fully implemented the structure proposed by the Headquarters IPSAS Team for the local IPSAS Support Team. The role of IPSAS Coordinator, who was expected to have adequate authority to effectively enable the implementation of IPSAS at ICTR, had been assigned to a Section Chief at P-5 level, which was not optimal considering that the IPSAS Coordinator had to ensure effective engagement and cooperation by other sections. There was no evidence that the IPSAS Support Team met on a regular basis. The locally issued SOP had not been updated, and progress reports on implementation of IPSAS were not accurate.

15. However, during the audit, ICTR took steps to address these shortcomings by: holding an IPSAS retreat; reorganising the local IPSAS Support Team and assigning the role of IPSAS Coordinator to the Chief Administrative Officer; scheduling weekly monitoring meetings; updating the locally maintained SOP; and supporting work plans. In view of the measures implemented by ICTR, no recommendation was made.

### Controls over monitoring and reporting of the status of implementation were being strengthened

16. The Headquarters IPSAS Team developed the PMT as the standard IPSAS implementation log sheet to capture the status of IPSAS implementation activities and monitor the progress made. ICTR used the tool to report progress made on a monthly basis. A review of the monthly PMT reports submitted by ICTR to the Headquarters IPSAS Team for the period from July to September 2013 indicated that the monthly PMT reports did not always reflect the correct status of IPSAS implementation in ICTR. For example:

- ICTR reported the review of correctness of NEP data fields (which were vital for determining IPSAS-compliant opening balances) as completed on 31 August 2013. The target completion date set by the Headquarters IPSAS Team in the PMT log sheet for this activity was 31 July 2012. OIOS review of this activity indicated that it was not fully completed.
- The review of the IPSAS policy framework, to ensure that the policies were workable for ICTR, was reported as completed on 31 July 2012. The target completion date set by the Headquarters IPSAS Team in the PMT log sheet for this activity was 31 July 2012. However, there was no documented evidence of any policy gap reviews such as minutes of meetings or decisions reached and/or implemented in relation to the IPSAS policy framework.
- As part of pre-implementation tasks, ICTR was required to maintain a comprehensive listing of all leased and sub-leased buildings and offices where it was a tenant, sub-tenant or in a sharing arrangement, irrespective of whether the lease was a finance lease, operating lease, or under a donated right-to-use arrangement. The procedure required ICTR to collect specified minimum levels of data (such as descriptive lease information, contractual details and future lease commitments), and update them on a regular basis. For example, ICTR was required to calculate the total minimum future lease payments (future lease commitments) to be made for the time periods of: no later than one year; one year to five years; later than five years; and overall total of minimum future lease payments to be made. ICTR explained that copies of all the lease agreements were submitted to the Headquarters IPSAS Team, and that the related online template was completed in July 2012. However, the required details of leases with the necessary updates and supporting documents were not available for OIOS review. Notwithstanding, ICTR reported

the status of this activity as completed on 9 November 2012. The target completion date in the PMT log sheet for this activity was 31 October 2012.

17. Inadequate review of the monthly PMT reports submitted by ICTR to the Headquarters IPSAS Team led to PMT reports that did not always reflect the correct status of IPSAS implementation activities in ICTR.

**(1) ICTR should ensure that the IPSAS Coordinator reviews the status of IPSAS implementation activities, as reported in the Project Management Tool, for accuracy before submission to the Headquarters IPSAS Team.**

*ICTR accepted recommendation 1 and stated that it has put procedures in place to ensure completeness and accuracy of PMT reports. The coordinator reviews PMT reports and evidence in the form of email was submitted to OIOS for verification. This is an on-going process with review meetings being conducted on a monthly basis. Based on the actions taken by ICTR, recommendation 1 has been closed.*

**(2) ICTR should prepare and maintain the minimum level of data required for leases, update it on a regular basis and maintain the required supporting documents.**

*ICTR accepted recommendation 2 and stated that it has established the list of data on ICTR leases and this list is being reviewed periodically. ICTR provided the most recently updated version of data on leases. Based on actions taken by ICTR, recommendation 2 has been closed.*

#### Value adjustments for the targeted non-expendable property needed to be completed

18. The Organization's policy on IPSAS states that, to support IPSAS-compliant opening balances for PPE items, NEP records residing in the current asset management systems are subject to a value adjustment process based on the payments for the goods and associated services incurred to bring the items to the location and condition intended by management. In addition, a comprehensive file of documents should be maintained to support the data captured in the local fixed-asset register and the file should be readily available for oversight bodies.

19. ICTR compiled a list of 256 items with a total IPSAS start value of \$1 million as prospective PPE. The list also included NEP items whose values fell below the IPSAS fixed asset threshold of \$5,000 but may have qualified as PPE if the inclusion of other directly attributable and associated costs increased their values to above the threshold.

20. However, the process followed to adjust the value of targeted NEP items was incomplete and required a comprehensive review to ensure that NEP records accurately reflected the value of property and equipment to avoid the omission of prospective PPE items in the IPSAS fixed assets register. The list did not reflect all cost elements as required. For example, in January 2010, ICTR procured a large security and safety equipment worth \$1.25 million, including delivery and installation costs, from a single vendor. This equipment included a video surveillance system, which had two "under vehicle surveillance" (UVS) items each costing \$51,444. ICTR recognised the value of each UVS item in the local fixed assets register, but a portion of directly attributable costs of \$102,700 for the freight, design, engineering and installation of the video surveillance system charged by the vendor was not allocated to the UVS items. Besides, there was no evidence to assure that: (a) cost elements identified in purchase orders were checked against their respective payments reflected in the financial system to reconcile the figures and ensure that cost adjustments were recognised; and (b) a comprehensive file of documents was maintained to support the data captured in the local fixed-asset register as required by IPSAS guidance.

21. The list of 256 prospective PPE items did not include any post-receipt costs, although certain PPE items such as temporary buildings and servers were predisposed to post-receipt costs. As these costs were generally not captured in any information system, standard post-receipt costs by asset type needed to be researched, calculated and applied in lieu of exact costs.

22. Values for PPE opening balances may have been incomplete and inaccurate due to ICTR inability to identify all cost elements, adjust the value of prospective PPE items within the local fixed assets register and maintain a comprehensive file of documents to support the data captured in the local fixed-asset register.

**(3) ICTR should complete the review of all Non-Expendable Property records in the current asset management system and ensure that records accurately reflect adjusted asset values with all cost elements, including directly attributable and post-receipt costs where applicable, in order to support IPSAS-compliant opening balances.**

*ICTR accepted recommendation 3 and stated that it is under implementation. A thorough review process has been undertaken of all NEP records and the results are being analysed for weaknesses, errors or omissions to ensure the most complete and accurate position possible with available resources. Recommendation 3 remains open pending evidence of updated NEP records in the asset management system.*

**(4) ICTR should ensure that the process followed to obtain cost elements for the targeted Non-Expendable Property is documented to maintain adequate supporting information for review and future reference purposes.**

*ICTR accepted recommendation 4 and stated that a revised SOP document has been developed since January 2014. This elaborates on the processes followed in order to obtain the cost elements. Recommendation 4 remains open pending receipt of evidence showing that the process for obtaining targeted NEP cost elements is appropriately implemented.*

#### Deployment of local fixed assets register compliant with the Standards was in progress

23. The Headquarters IPSAS Team provided detailed instructions and a standard template for local offices to develop and deploy local fixed assets registers to support IPSAS-compliant opening balances. Such fixed assets registers were required to capture, among others, additional fixed assets and procurement information that was not supported by the Galileo system.

24. The local fixed assets register for ICTR was still incomplete as at 31 January 2014. ICTR was required to incorporate minimum additional fixed asset data elements such as impairment review details and major upgrades. A review of repairs and maintenance work carried out by the Transport Unit from 1 January 2012 to 31 October 2013 indicated that capital expenditures had been recorded as repairs and expensed. For instance, four new engines each costing \$5,804 were installed in ICTR vehicles, classified as repairs, and expensed instead of being included in the fixed assets register as upgrades or assets.

25. The ICTR local fixed assets register was also required to include specified procurement information including classification of International Commercial Terms (Incoterms) for delivery of goods into either delivered duty unpaid or free carrier (FCA) to respectively delineate the vendor's and the Organization's responsibility for the costs incurred to bring PPE to the location intended by management. NEP subject to FCA delivery terms, where ownership of the goods transferred to the United Nations at the point of handover of the goods to the shipping agent, required further research to identify and match

the purchase orders for supply of goods to the related delivery of goods on FCA to capture the correct date of transfer of ownership of the assets to the United Nations. There was no effective mechanism in place to capture the date of transfer of ownership of assets in transit to ensure completeness of assets in line with Incoterms for asset recognition which hampered efforts to determine the complete values of PPE in ICTR.

**(5) ICTR should develop and implement a mechanism to capture all capital expenditures and the costs of major upgrades, and include the related assets in the Tribunal's fixed assets register.**

*ICTR accepted recommendation 5 and stated that it is under implementation. A mechanism has been developed and results are currently under review to ensure data accuracy and consistency in line with IPSAS requirements. Final sign off will take place by 30 June 2014. The mechanism includes development of a register in February 2014 in Excel sheet by Receipt and Inspection (R&I) Unit that is being used to capture all the relevant information during the R&I process. Further, Self-Accounting Units and Finance are required to notify the Property and Inventory Control Unit of any upgrades or impairment to the assets following their usage. This enables the updating of the R&I register. Recommendation 5 remains open pending receipt of evidence showing that the process to capture the cost of major upgrades has been implemented.*

**(6) ICTR should put an effective mechanism in place to capture, in accordance with the Organization's policies for asset recognition, the date of transfer of ownership of assets to the United Nations to ensure the completeness of asset records.**

*ICTR accepted recommendation 6 and stated that it has been implemented. A register (in the form of Excel sheet) has been introduced in R&I Unit and this captures all costs and initial associated costs. Based on the action taken by ICTR, recommendation 6 has been closed.*

#### **IV. ACKNOWLEDGEMENT**

26. OIOS wishes to express its appreciation to the Management and staff of ICTR 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 International Criminal Tribunal for Rwanda to comply with the International Public Sector Accounting Standards on property, plant and equipment

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	ICTR should ensure that the IPSAS Coordinator reviews the status of IPSAS implementation activities, as reported in the Project Management Tool, for accuracy before submission to the Headquarters IPSAS Team.	Important	C	Action completed.	Implemented
2	ICTR should prepare and maintain the minimum level of data required for leases, update it on a regular basis and maintain the required supporting documents.	Important	C	Action completed.	Implemented
3	ICTR should complete the review of all Non-Expendable Property records in the current asset management system and ensure that records accurately reflect adjusted asset values with all cost elements, including directly attributable and post-receipt costs where applicable, in order to support IPSAS-compliant opening balances.	Important	O	Evidence of updated NEP records in the asset management system.	30 June 2014
4	ICTR should ensure that the process followed to obtain cost elements for the targeted Non-Expendable Property is documented to maintain adequate supporting information for review and future reference purposes.	Important	O	Receipt of evidence showing that the process for obtaining targeted NEP cost elements is appropriately implemented.	31 January 2014
5	ICTR should develop and implement a mechanism to capture all capital expenditures and cost of major upgrades and include the related assets in the fixed assets register.	Important	O	Receipt of evidence showing that the process to capture the cost of major upgrades has been implemented.	30 June 2014

<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 ICTR in response to recommendations.

## STATUS OF AUDIT RECOMMENDATIONS

**Audit of the preparedness of the International Criminal Tribunal for Rwanda to comply with the International Public Sector Accounting Standards on property, plant and equipment**

<b>Recom. no.</b>	<b>Recommendation</b>	<b>Critical<sup>1</sup>/ Important<sup>2</sup></b>	<b>C/ O<sup>3</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date<sup>4</sup></b>
6	ICTR should put an effective mechanism in place to capture, in accordance with the Organization's policies for asset recognition, the date of transfer of ownership to the United Nations to ensure the completeness of asset records.	Important	C	Action completed.	Implemented

# **APPENDIX I**

## **Management Response**




**International Criminal Tribunal for Rwanda  
Tribunal Pénal International pour le Rwanda**

Arusha International Conference Centre  
P.O. Box 6016, Arusha, Tanzania  
Tel: +255 27 2050104, 2050106, 2050110-12, 2050116, 2050118 or +1 212 963 2850  
Fax: +255 27 2050103 / 2050109 or +1 212 963 2848

**INTEROFFICE MEMORANDUM — MEMORANDUM INTERIEUR**

To: Mr. Gurpur Kumar, Deputy Director      Date: 16 May 2014  
A: Internal Audit Division  
Office of Internal Oversight Services      Ref: ICTR/ADMIN/05/14/31

From: Ms. Sarah M. Kilemi, Chief,   
De: Division of Administrative Support Services

Subject: **Draft Report on an audit of the preparedness for the International Criminal**  
Objet: **Tribunal for Rwanda to comply with the International Public Section Accounting**  
**Standards on property, plant and equipment (Assignment No. AA2013/260/03)**

1. We would like to inform you that we have reviewed the above-mentioned report and are pleased to forward to you our comments. In short we have accepted all the recommendations. You will notice that four are fully implemented. The remaining two are under implementation and we have set the implementation target dates.
2. We are attaching herewith the appendix that is fully completed.

CC Bongani Majola, Registrar, ICTR  
Ms. Agness Chilinda, Chief, Nairobi Audit Section, IAD, OIOS  
Ms. Anna Halasan, Professional Practices Section, IAD, OIS  
Mr. Jerry Mhuri, Audit Focal Point, ICTR

Attachments (1)

## Management Response

## Audit of the preparedness of the International Criminal Tribunal for Rwanda to comply with the International Public Sector Accounting Standards on property, plant and equipment

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	ICTR should ensure that the IPSAS Coordinator reviews the status of IPSAS implementation activities, as reported in the Project Management Tool, for correctness before submission to the Headquarters IPSAS Team.	Important	Yes	The Chief of the Division of Administrative Support Services	March 2014	<b>Implemented</b>  The ICTR has already put procedures in place to ensure completeness and accuracy of PMT reports. The Coordinator reviews PMT reports and evidence in the form email was submitted to the Auditor for verification. This is an ongoing process with review meetings being conducted on a monthly basis <b>The recommendation is therefore closed</b>
2	ICTR should prepare and maintain the minimum level of data required for leases, update it on a regular basis and maintain the required supporting documents.	Important	Yes	The Procurement Officer	March 2014	<b>Implemented</b>  The ICTR has already established the list of data on ICTR leases and this list is being reviewed periodically.  <b>The recommendation has been closed.</b>
3	ICTR should complete the review of all Non-Expendable Property records in the current asset management system and	Important	Yes	The Chief of Finance	30 June 2014	<b>Under implementation.</b> A thorough review process has been undertaken of all NEP records and the

<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.



## Management Response

## Audit of the preparedness of the International Criminal Tribunal for Rwanda to comply with the International Public Sector Accounting Standards on property, plant and equipment

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	ensure that records accurately reflect adjusted asset values with all cost elements, including directly attributable and post-receipt costs where applicable, in order to support IPSAS-compliant opening balances.					results are being analysed for weaknesses, errors or omissions to ensure the most complete and accurate position possible with available resources.
4	ICTR should ensure that the process followed to obtain cost elements for the targeted Non-Expendable Property is documented to maintain adequate supporting information for review and future reference purposes.	Important	Yes	The assets managers/ Chief of Procurement/ Chief of Finance	January 2014	<b>Implemented.</b> A revised Standard Operating Procedure document has been developed since January 2014. This elaborates on the processes followed in order to obtain the cost elements.
5	ICTR should develop and implement a mechanism to capture all capital expenditures and cost of major upgrades and include the related assets in the fixed assets register.	Important	Yes	The Chief of Finance	30 June 2014	<b>Under implementation</b> A mechanism has been developed and results are currently under review to ensure data accuracy and consistency in line with IPSAS requirements. Final sign off to take place by 30 June 2014. Mechanism includes development of register in February, 2014 in excel sheet by Receipt and Inspection Unit that is being used to capture all the relevant information during the R & I process. Further, Self Accounting Units (SAUs) and Finance are required to notify the Property and Inventory Control Unit (PCIU) of any upgrades or impairment to the assets following their usage. This enables the updating of the R&I register.
6	ICTR should put an effective mechanism in place to capture the date of transfer of	Important	Yes	The Assets Managers	March 2014	<b>Implemented</b>

## Management Response

**Audit of the preparedness of the International Criminal Tribunal for Rwanda to comply with the International Public Sector Accounting Standards on property, plant and equipment**

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	ownership of assets to the United Nations, in terms of the Organization's policies for asset recognition, to ensure the completeness of asset records.					A Register ( in form of excel sheet) has been introduced in R&I Unit and this captures all costs and initial associated costs.