



## INTERNAL AUDIT DIVISION

# REPORT 2014/118

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Audit of financial and administrative functions in the United Nations Peacekeeping Force in Cyprus

Overall results relating to the effectiveness of the financial and administrative functions at the United Nations Peacekeeping Force in Cyprus were initially assessed as partially satisfactory. Management has satisfactorily implemented the audit recommendation

FINAL OVERALL RATING: SATISFACTORY

4 December 2014  
Assignment No. AP2014/654/01

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# AUDIT REPORT

## Audit of financial and administrative functions in the United Nations Peacekeeping Force in Cyprus

### I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of financial and administrative functions in the United Nations Peacekeeping Force in Cyprus.
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 UNFICYP Finance and Budget Section was responsible for financial and budgetary activities in the Mission. The Section was headed by a Chief at the P-4 level and had 10 authorized posts. The Human Resources Management Section was responsible for recruitment and administration of staff entitlements and allowances. The Section was headed by a Chief at the P-4 level and had three authorized posts.
4. UNFICYP had 1,075 authorized personnel including 860 military personnel, 69 United Nations police officers, 38 international civilian staff and 108 national civilian staff. The UNFICYP budgets for fiscal years 2012/13 and 2013/14 were \$54.2 million and \$55.4 million respectively.
5. Comments provided by UNFICYP are incorporated in italics.

### II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNFICYP governance, risk management and control processes in providing reasonable assurance regarding the **effectiveness of financial and administrative functions in UNFICYP**.
7. This audit was included in the 2014 OIOS risk-based work plan due to the financial and operational risks related to financial and administrative activities.
8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide financial and administrative 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 the audit in May and June 2014. The audit covered the period from 1 July 2012 to 31 March 2014, and reviewed financial and budgetary activities as well as recruitment and administration of staff entitlements and allowances.

11. 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 and analytical reviews, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

### III. AUDIT RESULTS

12. The UNFICYP governance, risk management and control processes examined were initially assessed as **partially satisfactory**<sup>1</sup> in providing reasonable assurance regarding the **effectiveness of financial and administrative functions in UNFICYP**. OIOS made one recommendation to address an issue identified in the audit. Controls over financial and administrative activities, including payment of entitlements, were in place and working as intended. However, UNFICYP needed to limit the hiring of individual contractors to nine months in accordance with applicable instructions and procedures.

13. The initial overall rating was based on the assessment of the key control presented in Table 1 below. The final overall rating is **satisfactory**<sup>2</sup> as management has satisfactorily implemented the audit recommendation.

**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
Effectiveness of financial and administrative functions in UNFICYP	Regulatory Framework	Satisfactory	Satisfactory	Satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: SATISFACTORY</b>					

### Regulatory framework

#### The Mission set up user roles as required and fulfilled financial reporting requirements in Umoja

14. UNFICYP was required, as part of Umoja implementation, to set up appropriate user roles and access arrangements to ensure that separate certifying and approving functions as designated by the United Nations Controller were in place. The Accounts Division of the Office of Programme Planning, Budget and Accounts in the Department of Management required UNFICYP to submit its trial balance 10 working days after the end of the month after completing bank reconciliations and verifying account balances. A review of all UNFICYP user roles assigned in Umoja indicated that certifying officers, alternate certifying officers, approving officers and bank signatories were set up as designated by the

<sup>1</sup> A rating of “**partially satisfactory**” means that important (but not critical or pervasive) deficiencies exist in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

<sup>2</sup> A rating of “**satisfactory**” means that governance, risk management, and control processes are adequately designed and operating effectively to provide reasonable assurance regarding the achievement of control and/or business objectives under review.

Controller. Further, a review of month-end activities from January to April 2014 indicated that UNFICYP executed monthly closing procedures and financial reporting requirements as instructed by the Accounts Division. OIOS concluded that controls over user access and roles in Umoja, and financial reporting were adequate and working as intended.

Adequate controls were in place over budget redeployments

15. The United Nations Controller required missions to monitor the use of budgetary resources as allotted. The Controller delegated to the UNFICYP Chief of Mission Support the authority to redeploy funds between classes of expenditures within a group, but approval from the Controller was required for redeployment of funds between groups. A review of all nine budget redeployments during the audit period indicated that they were properly authorized. OIOS concluded that controls over budget redeployments were adequate and working as intended.

Controls over financial accounts and invoice payments were adequate

16. The Field Finance Procedure Guidelines and applicable administrative instructions and information circulars governing financial and administrative activities provided guidance on the management of: petty cash, accounts payable and receivable, payment of invoices, direct expenditures, liberty charges and reimbursements for contingent-owned equipment. OIOS used these guidelines and instructions to review controls over the administration of relevant financial and administrative activities. OIOS concluded that controls over management of the above financial and administrative activities were adequate and working effectively.

There was a need to discontinue the practice of repeatedly hiring individual contractors

17. The Administrative Instruction on Consultants and Individual Contractors required that an individual contractor be hired for a period of 6 months only, or in special circumstances, this could be extended to 9 months in any period of 12 consecutive months. The Instructions also prohibited individual contractors from performing functions of regular and continuing staff.

18. UNFICYP employed seven individual contractors during the audit period. A review of procedures for engaging and paying individual contractors indicated that two of them were hired for 49 and 29 months, respectively without any breaks. UNFICYP initially engaged two persons for nine months as individual contractors and at the end of this period transferred them onto a temporary appointment contract for three months against a vacant post. At the end of three months, they were rehired as individual contractors. UNFICYP continued to employ these persons under this ad hoc arrangement. This arrangement was in place as UNFICYP had not adequately reviewed its staffing requirements and requested posts for functions of a continuing nature. This resulted in non-compliance with required administrative instructions.

**(1) UNFICYP should review its staffing requirements and, if justified, include a request for additional resources in the next budget proposal and discontinue hiring individual contractors to perform functions of a continuing nature.**

*UNFICYP accepted recommendation 1 and stated that it took immediate action to separate all individual contractors exceeding nine months of service as of 1 September 2014 in accordance with applicable provisions. Based on the action taken by UNFICYP, recommendation 1 has been closed.*

Payment of entitlements to uniformed and civilian personnel was satisfactory

19. OIOS used the United Nations Staff Regulations and Rules, the Field Finance Procedure Guidelines, applicable administrative instructions and information circulars governing entitlements and allowances for uniformed and civilian personnel to assess controls over their administration. Table 2 shows the results of audit tests conducted on the entitlements and allowances during the audit period.

**Table 2: Results of audit tests of entitlements and allowances paid during the audit period  
(all amounts expressed in \$'000)**

<i>Category</i>	<i>Population</i>		<i>Sample Tested</i>		<i>Conclusion</i>
	<i>Cases</i>	<i>Amount</i>	<i>Cases</i>	<i>Amount</i>	
Mission subsistence allowance	-	\$8,800	-	\$2,400	Satisfactory
Daily allowance	-	636	-	163	Satisfactory
Recreation leave allowance	-	118	-	76	Satisfactory
Travel expenses for uniformed personnel	110	324	44	127	Satisfactory
Home leave travel	18	110	11	84	Satisfactory
Education grant travel	8	12	8	12	Satisfactory
Assignment grant	5	78	5	78	Satisfactory
Relocation grant	14	137	10	90	Satisfactory
Language allowance	7	15	7	15	Satisfactory
Rental subsidies	6	28	6	28	Satisfactory
<b>Total</b>	<b>168</b>	<b>\$10,258</b>	<b>91</b>	<b>\$3,073</b>	

20. OIOS concluded that controls over the administration of entitlements and allowances paid to uniformed and civilian personnel were adequate and working effectively.

#### **IV. ACKNOWLEDGEMENT**

21. OIOS wishes to express its appreciation to the Management and staff of UNFICYP 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 financial and administrative functions in the United Nations Peacekeeping Force in Cyprus

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	UNFICYP should review its staffing requirements and, if justified, include a request for additional resources in the next budget proposal and discontinue hiring individual contractors to perform functions of a continuing nature.	Important	C	Action taken	Implemented

<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 UNFICYP in response to the recommendation.

# **APPENDIX I**

## **Management Response**



UNITED NATIONS PEACEKEEPING FORCE IN CYPRUS  
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OFFICE OF THE HEAD OF MISSION

TO: Ms. Eleanor T. Burns, Director  
A: Internal Audit Division  
Office of Internal Oversight Services  
New York

DATE: 20 November 2014

REFERENCE: OSRSG-Audit-2014-06

FROM: Lynn Hastings, Senior Advisor  
DE: UNFICYP

SUBJECT: **Draft report on an audit of financial and administrative functions in the**  
OBJET: **United Nations Peacekeeping Force in Cyprus (Assignment No. AP2014/654/01)**

1. Reference is made to your memorandum IAD:MO141004 of 31 October 2014 on the subject matter.
2. On behalf of Ms. Lisa Buttenheim, SRSG and Head of Mission of UNFICYP, please find attached UNFICYP's comments to the audit recommendation relating to the hiring of individual contractors in the Mission.
3. Please do not hesitate to contact us, should you require any additional information on this matter.
4. Thank you and best regards.

Enclosure:  
OIOS Audit Recommendations – UNFICYP Comments

cc. Ms. Lisa Buttenheim, SRSG and Head of Mission, UNFICYP  
Mr. Paul Aghadjanian, Chief of Mission Support, UNFICYP  
Ms. Maria Wilkins, Audit Focal Point

## Management Response

## Audit of financial and administrative functions in the United Nations Peacekeeping Force in Cyprus

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client Comments
1	UNFICYP should review its staffing requirements and, if justified, include a request for additional resources in the next budget proposal to perform functions of a continuing nature.	Important	Yes	Chief of Mission Support/Chief of Human Resources Management Section	1 September 2014	Recommendation implemented on 1 September 2014  In accordance with the audit recommendation, and in compliance with the provisions of ST/AI/2013/4, and the provisions made by United Nations Field Personnel Division/Department of Field Support, United Nations Headquarter-New York fax reference 2013-UNHQ-004843 dated 25 March 2014, UNFICYP took immediate action by separating all individual contractors (skilled labor) who have exceeded nine months of service. As of 1 September 2014, the Mission is in compliance with the audit recommendation.

<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.