



INTERNAL AUDIT DIVISION

REPORT 2014/134

Audit of financial and administrative functions in the United Nations Truce Supervision Organization

Overall results relating to the effectiveness of financial and administrative functions in the United Nations Truce Supervision Organization were initially assessed as partially satisfactory. Implementation of two important recommendations remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

15 December 2014
Assignment No. AP2014/674/01

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AUDIT REPORT

Audit of financial and administrative functions in the United Nations Truce Supervision Organization

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of financial and administrative functions in the United Nations Truce Supervision Organization (UNTSO).
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 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 it had 15 authorized posts. The Human Resources Section was responsible for recruitment and administering staff entitlements and allowances.
4. The UNTSO budget for the biennium 2012-2013 was \$70 million and remained the same for the biennium 2014-2015. UNTSO had 105 international staff, 161 national staff and 153 United Nations military observers.
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 **effectiveness of financial and administrative functions in UNTSO**.
7. This audit was included in the 2014 risk-based work plan of OIOS because of the financial and operational risks relating to UNTSO financial and administrative functions
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 functions; (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 May and June 2014. The audit covered the period from 1 January 2013 to 30 April 2014, and reviewed financial and budgetary activities as well as recruitment and administration of staff entitlements and allowances.
11. OIOS 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 UNTSO governance, risk management and control processes examined were initially assessed as **partially satisfactory**¹ in providing reasonable assurance regarding the **effectiveness of financial and administrative functions in UNTSO**. OIOS made two recommendations to address the issues identified. UNTSO administered mission subsistence allowance, education grant travel, home leave, rental subsidy and relocation grant in accordance with the required procedures. The Mission also took adequate and prompt actions to correct minor exceptions identified in the administration of assignment grants. UNTSO had also resolved most of its difficulties in processing and reporting certain financial transactions with the introduction of Umoja. However, UNTSO needed to discontinue its involvement in the management of the Post Exchange duty-free shop and settle long outstanding accounts receivable.

13. The initial overall rating was based on the assessment of key control presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of two 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
Effectiveness of financial and administrative functions in UNTSO	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Initial difficulties in executing key financial procedures in Umoja were resolved

14. As of 1 March 2014, UNTSO was required to establish user roles and access as part of Umoja implementation to ensure that separate certifying and approving functions, as designated by the United Nations Controller, were in place. Further, the United Nations Financial Regulations and Rules required UNTSO to reconcile all financial transactions with the information submitted by banks and to conduct monthly closing and reporting of accounts.

15. A review of all UNTSO user roles assigned in Umoja indicated that certifying officers, alternate certifying officers, approving officers and bank signatories were set up in the system as designated by the Controller. After the implementation of Umoja in March 2014, UNTSO experienced difficulties in executing key financial functions in Umoja including bank reconciliations, closure of monthly accounts and generation of accounts receivable and payable ageing schedules. However, at the end of September

¹ 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.

2014, the Mission had resolved most of these difficulties. For example, UNTSO provided evidence of the proper month-end closure of accounts at the end of September 2014. Also, bank reconciliations were prepared manually as a compensating control until the full implementation of the bank reconciliation functionality in Umoja. In addition, UNTSO had established a mechanism for monitoring additional problems being encountered to ensure that they were systematically addressed. Thus, OIOS is not making a recommendation.

The Mission operated the Post Exchange contrary to regulations

16. The Field Financial Procedures Guidelines provided that activities of the Post Exchange were not the responsibility of the management of field missions and that any profits generated should not be treated as income, but such funds to be used for staff welfare activities. In 2013, the Post Exchange generated gross sales of \$1.2 million and contributed \$43,000 to the Staff Welfare/Post Exchange Committee.

17. A review of the Post Exchange activities during the audit period indicated that staff members of the Finance and Budget Section were managing a liability account in Umoja totaling \$87,500 on behalf of the Post Exchange. Also, two UNTSO staff were assigned to the responsibilities for managing the six Post Exchange personnel, procuring goods for the Post Exchange and inventory control. This resulted as UNTSO had incorrectly interpreted the Field Financial Procedures Guidelines when developing the terms of reference of Post Exchange operations. This impacted on time available for UNTSO staff to perform their assigned functions.

(1) UNTSO should revise the Post Exchange terms of reference and discontinue assigning staff to manage these activities.

UNTSO accepted recommendation 1 and stated that it was re-evaluating Post Exchange operations and developing scope of work in preparation for outsourcing. Recommendation 1 remains open pending receipt of evidence indicating that Post Exchange operations are outsourced.

Long outstanding accounts receivable needed to be settled

18. The Field Financial Procedures Guidelines required UNTSO to conduct monthly reviews of the validity of accounts receivable and payable and ensure that balances were settled in a timely manner.

19. As of February 2014, financial records showed that UNTSO had \$0.6 million and \$1.3 million in accounts payable and receivable, respectively. A review of \$93,000 (16 per cent) of accounts payable indicated that balances were properly supported and there were no long outstanding items. However, a review of \$96,000 (7.4 per cent) of accounts receivable indicated that \$33,000 was outstanding for over 12 months. This amount represented value added tax that had not been reimbursed by the host government. UNTSO was paying value added tax on services paid on behalf of the United Nations Interim Force in Lebanon (UNIFIL). UNTSO was paying value added tax as the applicable clause in a Letter of Understanding between UNIFIL and UNTSO stated that UNTSO should assist UNIFIL in paying its vendors in the host country and charge value added tax to the accounts receivable of UNTSO.

20. In addition, UNTSO had an accounts receivable balance of \$83,000 relating to inter-office billings receivable from other field missions as of 30 May 2014: \$71,000 due from the United Nations African Union Mission in Darfur and \$12,000 from the United Nations Organisation Stabilisation Mission in the Democratic Republic of the Congo. The amounts, which were mainly for travel costs, were properly supported but were outstanding for more than 14 months. This resulted as UNTSO did not adequately follow up with the two missions.

(2) UNTSO should: (a) revise the Letter of Understanding with UNIFIL to ensure that purchases executed on their behalf were reimbursed in full including value added taxes paid to the government; and (b) properly follow up with respective missions to collect long outstanding inter-office receivables.

UNTSO accepted recommendation 2 and stated that: (a) an update of the Letter of Understanding with UNIFIL was next scheduled in 2016 when the revision concerning reimbursement of value added taxes would be incorporated; and (b) the Mission escalated the issue of long outstanding receivables to the Directors/ Chiefs of Mission Support of the respective missions and \$71,000 had been collected, the remaining balance would be settled by the end of December 2014. Recommendation 2 remains open pending receipt of a copy of the amended Letter of Understanding indicating full reimbursement of value added tax for all purchases executed by UNTSO on behalf of UNIFIL.

Controls over payments of invoices were adequate

21. The Field Financial Procedures Guidelines required payments to be certified by the relevant certifying officer and self-accounting units and approved by the Finance and Budget Section, and supporting documents to be matched with corresponding purchase orders prior to the approval of payments. A review of 21 invoice payments totalling \$1.2 million (or 25 per cent) of the \$4.8 million made from 1 December 2013 to 28 February 2014 indicated that payments were made in accordance with required procedures. OIOS concluded that UNTSO had implemented satisfactory controls over the payment of invoices.

Controls over administration of entitlements were generally satisfactory

22. OIOS used the United Nations Staff Regulations and Rules and applicable administrative instructions and information circulars governing each of the seven entitlements and allowances to assess controls over their administration. The table below shows the audit tests conducted and results on entitlements and allowances paid during the audit period.

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

<i>Category</i>	<i>Number of cases</i>		<i>Conclusion</i>
	<i>Population</i>	<i>Samples tested</i>	
Mission subsistence allowance	159	47	Satisfactory
Language allowance	27	13	Satisfactory
Rental subsidies	7	7	Satisfactory
Home leave	44	15	Satisfactory
Education grant travel	68	10	Satisfactory
Relocation grant	23	4	Satisfactory
Assignment grant	78	23	With minor exceptions
Total	406	119	

23. OIOS concluded that controls over the administration of entitlements and allowances were adequate and working effectively. Minor exceptions were identified in the administration of assignment grant, where overpayments totaling \$ 1,800 were made in two of the 23 cases reviewed. As UNTSO had initiated the recovery of overpayments, OIOS is not making a recommendation.

IV. ACKNOWLEDGEMENT

24. 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 financial and administrative functions in the United Nations Truce Supervision Organization

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1.	UNTSO should revise the Post Exchange terms of reference and discontinue assigning staff to manage these activities.	Important	O	Receipt of evidence indicating that Post Exchange operations were outsourced.	30 June 2015
2.	UNTSO should (a) revise the Letter of Understanding with UNIFIL to ensure that purchases executed on their behalf were reimbursed in full including value-added taxes paid to the government; and (b) properly follow up with respective missions to collect long outstanding inter-office receivables.	Important	O	Receipt of a copy of the amended Letter of Understanding indicating full reimbursement of value added tax for all purchases executed by UNTSO on behalf of UNIFIL.	30 June 2016

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

2 December 2014

To: Ms. Eleanor T. Burns, Director
Internal Audit Division, OIOS

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

Subject: Audit of Financial and Administrative Functions in the United Nations Truce
Supervision Organization (Assignment No. AP2014/674/01)

1. I refer to your correspondence MO141003 of 31 October 2014 regarding the above-referenced audit assignment.
2. We have reviewed the draft OIOS report and accept the recommendations contained therein. Please find attached our reply and proposed course of action with respect to the recommendations.
3. Best regards.

cc: Mr. Edwin Nicolas, A/Deputy Chief Mission Support
Ms. Cynthia Avena-Castillo, Professional Practices Section,
Internal Audit Division, OIOS

Management Response

Audit of financial and administrative functions in the United Nations Truce Supervision Organization

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNTSO should revise the Post Exchange terms of reference and discontinue assigning staff to manage these activities.	Important	Yes	Deputy Chief Mission Support	30 June 2015	UNTSO is in the process of establishing a working group to reevaluate Post Exchange operations and develop a Scope of Work in preparation for eventual outsourcing of the Post Exchange. In the interim, the Post Exchange has established a separate account with a local bank and UNTSO no longer handles Post Exchange funds; also in the interim, and with the repeated inability to identify a suitable manager, staff continue to fill this function on a voluntary basis. We anticipate that this will continue until the conclusion of the outsourcing exercise.

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.

Management Response

Audit of financial and administrative functions in the United Nations Truce Supervision Organization

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
2	UNTSO should (a) revise the Letter of Understanding with UNIFIL to ensure that purchases executed on their behalf were reimbursed in full including value-added taxes paid to the government; and (b) properly follow up with respective missions to collect long outstanding inter-office receivables.	Important	Yes	Chief Finance and Budget Officer	Para (a): 30 June 2016; however, we can provide draft language to be included in the amended Letter of Understanding before this date in order to resolve this recommendation. Para (b): 31 December 2014	With respect to our Letter of Understanding with UNIFIL, the Letter of Understanding was most recently amended in July 2014 and is next scheduled for review in 2016. The recommendation to amend the Letter of Understanding in the context of the Value Added Tax with UNIFIL will be addressed and incorporated in the upcoming amendment. With respect to inter-office receivables, the case was escalated to the Director of Mission Support/ Chief of Mission Support level of both missions in October 2014 and later referred to the Regional Service Center Entebbe, which handles the financial transactions of both missions. The balance due from UNAMID has been fully settled in November, while MONUSCO's balance is partially cleared; we continue to pursue the issue and expect that the balance will be settled by 31 December 2014.