



Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

### **AUDIT REPORT 2013/087**

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**Audit of the preparedness of the United Nations Office at Vienna and its client organizations to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory**

**Overall results relating to the preparedness to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory were initially assessed as partially satisfactory. Implementation of three important recommendations remains in progress.**

**FINAL OVERALL RATING: PARTIALLY SATISFACTORY**

**7 November 2013**

**Assignment No. AE2013/321/01**

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# **AUDIT REPORT**

## **Audit of the preparedness of the United Nations Office at Vienna and its client organizations to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory**

### **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the preparedness of the United Nations Office at Vienna (UNOV) and its client organizations to comply with the International Public Sector Accounting Standards (IPSAS) on property, plant and equipment 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 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. According to ST/SGB/2004/5 on the Organization of UNOV, UNOV is mandated to provide its client organizations with a wide array of administrative services including financial services and property management services. UNOV, jointly with its main client organizations, notably the United Nations Office on Drugs and Crime (UNODC), the United Nations Interregional Crime and Justice Research Institute (UNICRI), the United Nations Office for Outer Space Affairs (OOSA), and the United Nations Register of Damage Caused by the Construction of the Wall in the Occupied Palestinian Territory (UNRoD), had established a local IPSAS implementation team. However, the responsibility for producing reliable IPSAS related information rests with the Financial Resources Management Service (FRMS) of UNOV. The General Support Section of UNOV is responsible for managing the Vienna-based property for the client organizations of UNOV, and the client organizations manage the property in their field offices, as applicable, themselves.

5. The implementation of IPSAS at the United Nations requires the preparation of opening balances of reportable assets (i.e., real estate, property, plant and equipment, inventory and intangibles) 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 property, plant and equipment and inventory, UNOV will be 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 real estate and non-expendable property as at 31 December 2012 without any capitalization rate threshold. For purposes of recognition under IPSAS, the individual asset value threshold has since been established at \$20,000. OOSA and UNRoD asset balances were recorded and included in the UNOV asset balance.

Table 1

**Real estate and non-expendable (reportable) property assets as at 31 December 2012**

Organization	Real Estate *	Non-expendable property (without capitalization rate threshold)	
		Value (US\$) Vienna/Turin	Value (US\$) Field offices
UNOV**	93,712,488	19,747,819	
UNODC	0	2,910,350	22,814,144
UNICRI	0	537,034	89,797

Source: Based on data provided by UNOV Financial Resources Management Service as at 31 December 2012.

Note: \* Real estate value is based on the UNOV share of the Vienna International Centre.

Note: \*\* Includes OOSA and UNRoD.

6. Comments provided by UNOV and UNODC are incorporated in *italics*.

## II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of the governance, risk management and control processes of UNOV and its client organizations in providing reasonable assurance regarding the **preparedness to comply with IPSAS on property, plant and equipment and inventory**.

8. The audit was included in the 2013 internal audit work plan in view of the significant risk that UNOV and its client organizations may be unable to implement IPSAS if they do not adequately prepare themselves to generate accurate and reliable opening balances of property, plant and equipment and inventory by 1 January 2014.

9. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the preparation of IPSAS-compliant opening balances of assets at UNOV and its client organizations; (ii) are implemented consistently; and (iii) ensure the reliability and integrity of financial and operational information.

10. The key control was assessed for the control objectives shown in Table 2.

11. OIOS conducted this audit from June to July 2013. The audit covered the period from 1 January 2012 to 31 May 2013.

12. 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

13. The governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding the **preparedness of UNOV and its client organizations to comply with IPSAS on property, plant and equipment and inventory**. OIOS made four recommendations to address the issues identified in the audit. UNOV and its client organizations had carried out physical verifications of assets. UNOV and UNODC, which were the organizations with

the largest number and value of assets, had established and followed the procedures for the write-off of not found, impaired and obsolete assets. However, there was a need to perform additional work to ensure the validity of asset records at UNODC offices in the field. The identification of construction-in-progress assets was also not yet completed. In addition, the ongoing data cleansing and reconciliation process in relation to the physical verification of assets at the Vienna International Centre needed to be supported by a lessons learned exercise to identify the challenges thus far encountered in ensuring accurate and reliable opening balances for property, plant and equipment and inventory.

14. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as the implementation of three important recommendations remains in progress.

Table 2  
Assessment of key controls

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 to comply with IPSAS on property, plant and equipment and inventory	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

### A. Regulatory framework

#### Need to perform additional work to ensure the validity of asset records at UNODC field offices

15. UNOV was required to certify the accuracy and completeness of the financial statements and records relating to property, plant and equipment and inventory, including those of its client organizations. However, UNOV could not directly verify the physical existence and status of assets at the client organizations' field offices due to resource constraints and the geographical dispersion of those offices. Therefore, the accuracy and completeness of records maintained by the field offices was dependent on the effectiveness of the validation and re-verification processes of the main UNODC, OOSA and UNRoD offices in Vienna and the UNICRI office in Turin. UNODC, OOSA, UNRoD and UNICRI had all sent emails to their field offices with instructions and/or guidance on the performance of physical inventory, data capture and data cleansing for IPSAS compliance, as well as templates for asset balance reporting. They also had annual physical verifications carried out by their field office staff. The field offices subsequently sent the non-expendable property reports through their main offices to UNOV FRMS in Vienna. OOSA, UNRoD and UNICRI did not conduct any independent spot checks in their field offices in the last financial year due to lack of human and financial resources. However, although the accuracy of data from their field offices could not be ensured, the risk of materially inaccurate financial information on assets in IPSAS compliant accounts was low due to the low value of non-expendable assets in these offices.

16. UNOV FRMS performed sample testing of assets for selected UNODC field offices. This consisted of a review of controls related to asset management as well as re-verification of assets at selected field office locations. Spot checks were performed at 25 locations. Overall, UNOV FRMS did not receive sufficient documentation from the field offices for many of the selected samples or did not receive the requested documentation in a timely manner to complete the testing. As a result, it had decided to perform a monthly review of the overall data and instructed the UNODC field offices to take the necessary corrective actions. In addition, UNOV planned to request another full physical verification to be undertaken in all UNODC field offices, which would be followed by comprehensive asset data reconciliation and cleansing exercise. Instructions and timelines in this regard were due to be issued shortly. There was a need for UNODC senior management to highlight the critical importance of this exercise to the field representatives, as it would be taking place very close to the deadline for preparation of IPSAS opening balances. Additionally, UNOV FRMS needed to identify systemic areas of risk due to incomplete and incorrect asset records and perform additional spot checks in selected UNODC field locations that were considered to be high risk.

**(1) The United Nations Office on Drugs and Crime should ensure that its field representatives fully comply with the instructions and timelines related to the physical verification and reconciliation of asset registers in field offices.**

*UNODC accepted recommendation 1 and stated that all field office representatives have confirmed their understanding and acknowledged receipt of the guidelines and instructions for the physical verification and reconciliation for 2013. The exercise is under review and is expected to conclude by the end of October 2013. Recommendation 1 remains open pending receipt of evidence of the completion of the physical verification and reconciliation of asset registers in UNODC field offices.*

**(2) The United Nations Office at Vienna should undertake a risk assessment on the management of assets in the United Nations Office on Drugs and Crime field offices to enable it to determine the human and financial resources needed to perform a sample re-verification of the validity of asset records at high risk locations.**

*UNOV accepted recommendation 2 and stated that the result of the physical verification referred to under recommendation 1 above is currently under review on a sample basis. The expected date of completion of the risk assessment is November 2013. Recommendation 2 remains open pending receipt of evidence of the completion of the sample re-verification of assets in UNODC field offices performed by UNOV on the basis of a risk assessment.*

The identification of construction-in-progress assets was not completed

17. UNODC had projects with external parties in the field. UNOV FRMS had developed a draft Framework on the Engagement of External Parties that would also clarify the recognition and recording of assets associated with external parties. The framework was intended to, *inter alia*, define external parties and their relationship with UNODC, which in turn would facilitate the proper treatment of assets in each particular case. At the time of the audit, the only notable assets related to projects with external parties were constructions-in-progress, which were to be transferred to beneficiary entities after their completion. These assets were not yet included in the asset register but UNOV FRMS was reviewing and discussing with the Controller's Office in New York the methodology for recording these assets, based on their stage of completion. UNOV FRMS maintained a database of UNODC projects but had not yet completed the process of reviewing the project documents to identify all the existing construction-in-progress assets which should be recorded in the asset register.

**(3) The United Nations Office at Vienna should develop and implement an action plan with a specific timetable to perform the necessary steps for the identification and valuation of the United Nations Office on Drugs and Crime construction-in-progress assets in the field.**

*UNOV accepted recommendation 3 and stated that the process and accounting treatment are currently under consideration. The action plan is expected to be implemented in November 2013. Recommendation 3 remains open pending receipt of evidence of the completion of the identification and valuation of the UNODC construction-in-progress assets in the field.*

The ongoing data cleansing and reconciliation process in relation to the physical verification of Vienna-based assets needed to be supported by a lessons learned exercise

18. The UNOV General Support Section performed a physical inventory, reconciliation and tagging exercise at the Vienna International Centre from November 2012 to January 2013. However, in the subsequent data cleansing process a large number of discrepancies were identified. This affected the classification of assets into IPSAS asset categories and delayed the reconciliation of data in the asset registers against the results of the physical verification. As a result, the UNOV General Support Section prepared an action plan with a timetable to complete the reconciliation and to update its database and scheduled another full-scale physical verification to be undertaken prior to 31 October 2013. OIOS associated the inaccurate and incomplete physical verification with insufficient communication and coordination during planning and execution of the exercise between UNOV General Support Section and the different client organizations/departments, in particular the Information Technology Service of UNOV. During the physical verification, the UNOV General Support Section staff members were not able to verify numerous information technology related assets due to lack of information in the asset register on their exact location. The challenges that were encountered during the physical verification needed to be taken into account as lessons learned to support the ongoing data cleansing and reconciliation process.

**(4) The United Nations Office at Vienna should use the lessons learned from the first physical verification of assets conducted at the Vienna International Centre to revise, as necessary, and implement its action plan for ensuring accurate and reliable opening balances of property, plant and equipment and inventory.**

*UNOV accepted recommendation 4 and stated that discussions of lessons learned were held with key clients, e.g. Safety and Security Services and Information Technology Service. The action plan has been revised and the physical asset inventory verification exercise for 2013 commenced on 3 October 2013. Based on the action taken by UNOV, recommendation 4 has been closed.*

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

19. UNOV and UNODC, the two entities with the largest number and value of assets, had common procedures for the sale and disposal of assets. Based on OIOS' review, the write-off requests of not found, impaired and obsolete assets, including those at the field offices, were duly submitted to the Property Survey Board in Vienna for review, in accordance with established procedures. The average number of days taken from receiving a request for write-off to approving the requests by the Property Survey Board was 28 and 59 days in 2012 and 2013, respectively. The increase in the time taken for approving the write-offs in 2013 was due to the increase in the number of submissions as a result of the data cleansing exercise following the physical verifications undertaken in field offices. At the time of the audit, there were 49 cases pending review by the Property Survey Board, which OIOS regarded as a manageable number to be cleared by the end of the year.

The definition of inventory was not yet clarified but this was not considered to be a concern for UNOV

20. UNOV maintained and recorded its inventory items in line with the definition of inventory in the United Nations policy framework for IPSAS. They consisted only of consumable items, materials or supplies that were consumed or distributed within UNOV and its client organizations and were not directly associated with items for sale or distribution. However, the Board of Auditors, which used the definition in IPSAS 12, believed that materials or supplies to be consumed or distributed in the rendering of services should be included for reporting in the IPSAS-compliant financial statements. Although the final definition of inventory was still not clarified, it was unlikely to have an impact on UNOV's ability to ensure reliable and accurate opening balances for inventory because the relevant information was easily available in its records.

UNOV maintained a database of its heritage assets

21. With regard to the heritage assets at UNOV, a database for the management of donated artworks was established and maintained. The database did not disclose the values of the artworks but the United Nations IPSAS Policy Framework also did not require the disclosure of the value of heritage assets.

UNOV had only one real estate asset that met IPSAS requirements

22. UNOV maintained its own database for recording all property occupied by UNODC in the field. This included leased property. However, the only real estate asset to be reported by UNOV in its IPSAS-compliant financial statements was its share of the Vienna International Centre, which was jointly shared by the International Atomic Energy Agency (IAEA), the United Nations Industrial Development Organization (UNIDO), the Comprehensive Nuclear Test-Ban Treaty Organization (CTBTO), and UNOV. UNOV received a memo annually from the Director of Financial Services Branch of UNIDO regarding the cost sharing ratios for business management services related to the Vienna International Centre. The cost sharing ratios were prepared based on a previously agreed upon methodology. The ratios were 22.67 per cent and 22.66 per cent in 2012 and 2011, respectively. IAEA, an early adopter of IPSAS, had performed an external valuation of the Vienna International Centre, which UNOV was planning to adopt for its own IPSAS purposes.

#### **IV. ACKNOWLEDGEMENT**

23. OIOS wishes to express its appreciation to the Management and staff of UNOV and its client organizations 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 United Nations Office at Vienna and its client organizations to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory**

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	The United Nations Office on Drugs and Crime should ensure that its field representatives fully comply with the instructions and timelines related to the physical verification and reconciliation of asset registers in field offices.	Important	O	Submission to OIOS of evidence of the completion of the physical verification and reconciliation of asset registers in UNODC field offices.	31 October 2013
2	The United Nations Office at Vienna should undertake a risk assessment on the management of assets in the United Nations Office on Drugs and Crime field offices to enable it to determine the human and financial resources needed to perform a sample re-verification of the validity of asset records at high risk locations.	Important	O	Submission to OIOS of evidence of the completion of the sample re-verification of assets in UNODC field offices performed by UNOV on the basis of a risk assessment.	30 November 2013
3	The United Nations Office at Vienna should develop and implement an action plan with a specific timetable to perform the necessary steps for the identification and valuation of the United Nations Office on Drugs and Crime construction-in-progress assets in the field.	Important	O	Submission to OIOS of evidence of the completion of the identification and valuation of the UNODC construction-in-progress assets in the field.	30 November 2013
4	The United Nations Office at Vienna should use the lessons learned from the first physical verification of assets conducted at the Vienna International Centre to revise, as necessary, and implement its action plan for ensuring accurate and reliable opening balances of property, plant and equipment and inventory.	Important	C	Action completed.	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 UNOV/UNODC in response to recommendations.

# **APPENDIX I**

## **Management Response**

## MANAGEMENT RESPONSE

**Audit of the preparedness of the United Nations Office at Vienna and its client organizations to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory**

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The United Nations Office on Drugs and Crime should ensure that its field representatives fully comply with the instructions and timelines related to the physical verification and reconciliation of asset registers in field offices.	Important	Yes	Chief, Financial Resources Management Service	October 2013	All FO representatives have confirmed their understanding and acknowledged receipt of the guidelines and instruction for the physical verification and reconciliation for 2013. The exercise is under review and the completion of the exercise is expected to conclude by the end of October 2013.
2	The United Nations Office at Vienna should undertake a risk assessment on the management of assets in the United Nations Office on Drugs and Crime field offices to enable it to determine the human and financial resources needed to perform a sample re-verification of the validity of asset records at high risk locations.	Important	Yes	Chief, Financial Resources Management Service	November 2013	The result of the physical verification referred on recommendation 1 above is currently under review on a sample basis. The expected date of completion of the risk assessment is November 2013.
3	The United Nations Office at Vienna should develop and implement an action plan with a specific timetable to perform the necessary steps for the identification and valuation of the United Nations Office on Drugs and Crime construction-in-progress assets in the field.	Important	Yes	Chief, Financial Resources Management Service	November 2013	The process and accounting treatment is currently under consideration. The action plan is expected to be implemented in November 2013.
4	The United Nations Office at Vienna should use the lessons learned from the	Important	Yes	Chief, General Support	September 2013	The recommendation has been implemented. Discussion of lessons

<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 United Nations Office at Vienna and its client organizations to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory**

Rec. no.	Recommendation	Critical <sup>1</sup> / Important <sup>2</sup>	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
	first physical verification of assets conducted at the Vienna International Centre to revise, as necessary, and implement its action plan for ensuring accurate and reliable opening balances of property, plant and equipment and inventory.			Section		learned were held with key clients, e.g. Safety and Security Services and Information Technology Service. The action plan has been revised and the physical asset inventory verification exercise for 2013 commenced on 3 October 2013.