



Office of Internal Oversight Services

## **INTERNAL AUDIT DIVISION**

### **REPORT 2014/008**

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**Audit of the preparedness of the United Nations University to comply with the International Public Sector Accounting Standards on property, plant, equipment and inventory**

**Overall results relating to the preparedness of the United Nations University to comply with the Standards on property, plant, equipment and inventory were initially assessed as satisfactory.**

**FINAL OVERALL RATING: SATISFACTORY**

**25 March 2014**

**Assignment No. AE2013/376/02**

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# **AUDIT REPORT**

## **Audit of the preparedness of the United Nations University to comply with the International Public Sector Accounting Standards on property, plant, equipment and inventory**

### **I. BACKGROUND**

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the preparedness of the United Nations University (UNU) to comply with the International Public Sector Accounting Standards (IPSAS) on property, plant and equipment (PPE) 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 PPE and inventory.

4. UNU had established an IPSAS implementation team consisting of key staff from the following units: Budget and Finance Services, Information Technology Services, Human Resources Services, Procurement and Travel Services and Programme Support Unit. The overall management of the IPSAS implementation project and the responsibility for producing reliable IPSAS relevant information rested with the Finance Department in the Office of the Director of Administration. The Facilities Management Unit, Office of the Director of Administration, was responsible for managing all property assets for UNU. The UNU Press, Office of the Rector, was responsible for managing the inventory.

5. The implementation of IPSAS at the United Nations requires the preparation of opening balances of reportable assets (i.e., real estate, PPE and inventory) 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 for PPE and inventory, UNU had been able to build upon its existing records of items classified under the present United Nations System Accounting Standards (UNSAS) as non-expendable property and expendable property (inventory). UNU did not own any real estate asset as all the office space that it occupied at its headquarters in Tokyo and its 14 institutes and programmes was leased (inclusive of donated right-to-use arrangements provided by the host government). UNU had procedures in place to classify these leases. Table 1 shows the status of non-expendable property and expendable property (inventory) at UNU as at 31 December 2012 without any capitalization threshold.

Table 1

**Non-expendable and expendable property at UNU as at 31 December 2012**

	Headquarters (US\$)	Institutes & Programmes (US\$)
<b>Non-expendable property</b>	3,078,405	5,092,103
<b>Expendable property (inventory)*</b>	211,171	-

Source: Data provided by UNU Finance Department

\* The inventory is held at the UNU headquarters in Tokyo and in a warehouse located in the United States

**II. OBJECTIVE AND SCOPE**

6. The audit was conducted to assess the adequacy and effectiveness of UNU governance, risk management and control processes in providing reasonable assurance regarding the **preparedness of UNU to comply with IPSAS on PPE and inventory**.

7. The audit was included in the 2013 internal audit work plan for UNU, due to the risk that UNU may be unable to properly implement IPSAS if it does not adequately prepare itself to generate accurate and reliable opening balances of PPE and inventory by 1 January 2014.

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

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

10. OIOS conducted this audit from November to December 2013. The audit covered the period from 1 January 2012 to 30 November 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 control 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 UNU governance, risk management and control processes examined were assessed as **satisfactory** in providing reasonable assurance regarding the **preparedness of UNU to comply with IPSAS on PPE and inventory**. UNU had established and followed procedures for the physical verification, reconciliation and write-off of assets and inventory. UNU had also developed a work plan with specific timeframes for the IPSAS implementation activities, including in respect of PPE and inventory, and reported monthly the progress of these activities to the United Nations IPSAS team at the Headquarters in New York

13. The initial overall rating was based on the assessment of key control presented in Table 2 below. The final overall rating is **satisfactory**.

Table 2  
**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 UNU to comply with IPSAS on PPE and inventory</b>	Regulatory framework	Satisfactory	Satisfactory	Satisfactory	Satisfactory
<b>FINAL OVERALL RATING: SATISFACTORY</b>					

### **Regulatory framework**

Procedures were established and followed to ensure the validity of asset records

14. The UNU asset register was maintained using the asset management module in the Atlas enterprise resource planning system and was monitored by the Finance Department. UNU conducted its last annual physical verification of assets at its headquarters in Tokyo and all its institutes and programmes in August 2012. The asset lists related to the physical verification were certified by the designated asset managers at each location. This certification process provided feedback on the physical counts and on items that were not found. OIOS compared the data per the count sheets at ten locations and traced the assets valued \$5,000 and above to the asset register. All assets selected from the count sheets were duly found in the asset register. The Finance Department further obtained certification of the existence and working status of all assets considered PPE in IPSAS-compliant accounts through communication with the respective asset managers. OIOS concluded that the procedures established for ensuring the validity of asset records had operated satisfactorily.

Procedures were established and followed to ensure the validity of inventory records

15. The inventory at UNU consisted mostly of publications, DVDs and souvenirs. They were classified as items held for sale or external distribution. The inventory was held at the UNU headquarters and on consignment in a warehouse in the United States. Regarding the inventory on consignment, the UNU inventory custodian provided a monthly list from the warehouse distribution services manager to the Finance Department. UNU conducted its last annual physical verification of inventory at its headquarters in December 2012. The final report on the physical inventory was reviewed and consolidated by the Finance Department. OIOS concluded that the procedures established for ensuring the validity of inventory records had operated satisfactorily.

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

16. The write-off requests of not found, impaired and obsolete assets, including those at the institutes and programmes, were duly submitted to the UNU Property Survey Board for review, in accordance with established procedures. The average number of days taken from receiving a request for write-off to approving the request by the PSB was 46 in 2013. PSB meetings were held quarterly. At the time of the audit, there were only two cases (valued at \$4,271 and \$3,839, respectively) pending review by the PSB.

OIOS therefore concluded that the procedures established for the write-off of not found, impaired and obsolete assets had operated satisfactorily.

The progress of IPSAS implementation was closely monitored

17. The Finance Department had established a detailed work plan for the IPSAS project. The work plan contained the activities to be performed, the start and finish dates of the activities, and the person or team responsible for the activities. UNU used the work plan to provide a log of activities, timelines and risks relevant to IPSAS implementation. The Chief Finance Officer, as the UNU IPSAS Project Manager, was responsible for the monitoring and monthly reporting of the activities to the IPSAS team at the United Nations Headquarters in New York. The monthly reports were submitted to Headquarters in a timely manner and contained sufficiently detailed information on the implementation of activities related to PPE and inventory.

#### **IV. ACKNOWLEDGEMENT**

18. OIOS wishes to express its appreciation to the Management and staff of UNU for the assistance and cooperation extended to the auditors during this assignment.

*(Signed)* David Kanja  
Assistant Secretary-General for Internal Oversight Services

# **APPENDIX I**

## **Management Response**



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TO: Gurpur Kumar  
A: Deputy Director, Internal Audit  
Division, OIOS

DATE: 12 March 2014

REFERENCE: IAD-14-00132

THROUGH:

S/C DE:

FROM: Dr. David M. Malone  
DE: Rector, UNU

SUBJECT: **Draft report on an audit of the preparedness of the United Nations University to comply with the International Public Sector Accounting Standards on property, plant, equipment and inventory (Assignment No. AE2013/376/02)**

1. Thank you for the draft audit report dated 24 February 2014 on the above subject.
2. We agree with the content of the report and have no further comments.
3. We would like to thank the auditors for the effective and professional audit. The positive feedback is much appreciated and serves as an important assurance that the UNU is on the right track towards the preparation of the first set of IPSAS compliant financial statements for the 2014 year end.

Cc :

Mr. Max Bond, Executive Officer, UNU  
Dr. Francois d'Artagnan, Director of Administration, UNU  
Ms. Su Ching Ng, Chief Finance Officer, UNU  
Ms. Anna Halasan, Professional Practices Section,  
Internal Audit Division, OIOS