



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/115

Audit of accounts receivable and payable in the United Nations Interim Force in Lebanon

Overall results relating to the effective management of accounts receivable and payable in the United Nations Interim Force in Lebanon were initially assessed as partially satisfactory. Implementation of one important recommendation remains in progress

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

9 December 2013

Assignment No. AP2013/672/04

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-4
A. Regulatory framework	2-4
IV. ACKNOWLEDGEMENT	4
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

AUDIT REPORT

Audit of accounts receivable and payable in the United Nations Interim Force in Lebanon

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of accounts receivable and payable in the United Nations Interim Force in Lebanon (UNIFIL).
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 UNIFIL Accounts Unit, within the Finance Section, was responsible for the review and analysis of accounts receivable and payable. Accounts receivable and payable in UNIFIL included balances due either from or to: staff members; military officers; vendors; governments; and other United Nations entities. The Finance Section was headed by a Chief Finance Officer at the P-5 level and had 26 international and national staff members. As at 31 March 2013, UNIFIL had accounts receivable totaling \$6.1 million and accounts payable totaling \$936,000.
4. Comments provided by UNIFIL are incorporated in italics.

II. OBJECTIVE AND SCOPE

5. The audit was conducted to assess the adequacy and effectiveness of UNIFIL governance, risk management and control processes in providing reasonable assurance regarding the **effective management of accounts receivable and payable in UNIFIL**.
6. The audit was included in the 2013 OIOS risk-based work plan because of the financial and operational risks relating to the potential lack of reliable and accurate accounts receivable and payable opening balances for the adoption of International Public Sector Accounting Standards (IPSAS).
7. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this control as the one that provides reasonable assurance that policies and procedures: (a) exist to guide the management of accounts receivable and payable in UNIFIL; (b) are complied with and implemented consistently; and (c) ensure the reliability and integrity of financial and operational information.
8. The key control was assessed for the control objectives shown in Table 1 below.
9. OIOS conducted the audit from April to June 2013. The audit covered outstanding balances as at 31 March 2013 and reviewed the: (a) accuracy of accounts receivable and payable balances; (b) monitoring of accounts receivable and payable through ageing, collection and reporting; and (c) implementation of year-end closing instructions issued by the Department of Management.
10. 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

11. The UNIFIL governance, risk management and control processes examined were initially assessed as **partially satisfactory** in providing reasonable assurance regarding the **effective management of accounts receivable and payable in UNIFIL**. OIOS made one recommendation to address the identified issue. UNIFIL effectively reviewed and cleaned up six of its nine receivable accounts to ensure accurate opening balances in preparation for the adoption of IPSAS. However, work was still necessary to clear accounts receivable from the host country and troop-contributing countries. Also, additional guidance was needed to ensure that recreational leave allowances paid to a military contingent unit were properly accounted for. UNIFIL adequately managed its accounts payable and unliquidated obligations and accurately accrued staff benefits in preparation for IPSAS.

12. The initial overall rating was based on the assessment of the key control presented in Table 1. The final overall rating is **partially satisfactory** as implementation of the one important recommendation 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
Management of accounts receivable and payable in UNIFIL	Regulatory framework	Partially satisfactory	Satisfactory	Partially satisfactory	Satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

Monitoring of long outstanding receivables needed to improve

13. The Field Finance Procedure Guidelines required prompt collection and settlement of accounts receivable balances through regular follow-up for recovery from entities and individuals. Further, the year-end closing instructions issued by the Department of Management on 29 April 2013 required missions to undertake rigorous follow-up and cleansing of long outstanding accounts receivable balances to ensure the preparation of accurate IPSAS opening balances as of 1 July 2013. These instructions also required peacekeeping missions to submit a request to the Controller to write-off accounts receivable that were deemed irrecoverable.

14. In January 2013, UNIFIL launched clean-up activities for outstanding accounts receivable. As at 31 March 2013, UNIFIL had \$6.1 million in accounts receivable from other United Nations offices, vendors, staff members, the Government of Lebanon and troop-contributing countries. Balances were properly recorded and adequately supported.

15. As at 31 March 2013, UNIFIL had \$2.4 million in accounts receivable that had been outstanding for more than six months, of which \$2.3 million (96 per cent) represented value-added tax refunds and rent due from the Government of Lebanon. However, as the Finance Section did not follow up regularly, the Government of Lebanon had not remitted value-added tax refunds to the Mission from June 2011 to May 2013. In June 2013, the Government refunded UNIFIL for outstanding value-added tax receivables; but total rent receivables of \$1.1 million remained unsettled at the time of the audit.

16. UNIFIL followed up on accounts receivable from troop-contributing countries on a quarterly basis and balances were generally settled within a six-month period. However, a balance of \$44,255 had been outstanding since 2008, which was subsequently submitted to the Controller for write-off. As at 30 June 2013, the outstanding amount was pending resolution.

17. To avoid an accumulation of accounts receivable, UNIFIL needed to implement a mechanism to regularly review and clear receivable accounts.

(1) UNIFIL should develop procedures to follow up on and collect outstanding accounts receivable on a regular basis.

UNIFIL accepted recommendation 1 and stated that it was requesting assistance from Headquarters to use the dunning functionality of the new Umoja system to identify overdue items and generate follow-up letters. In the interim, UNIFIL would continue to manually follow up on outstanding balances. Recommendation 1 remains open pending receipt of evidence that UNIFIL has implemented procedures for regularly following up on outstanding accounts receivable balances.

Guidance needed to accurately account for recreational leave allowances paid to a military contingent unit

18. The Field Finance Procedure Guidelines stated that members of military contingents deployed for more than six months were entitled to recreation leave allowances of up to 15 days, taken during each six month period. If contingent members were repatriated before completion of the six-month period, no recreation leave allowance was payable and the allowance could not be prorated for a fraction of the six month period.

19. In May 2012, UNIFIL paid recreational leave allowances totaling \$20,633 to a military contingent unit. However, at the request of the Department of Peacekeeping Operations, the contingent unit left the Mission before completing their six-month tour of duty. Due to inadequate guidance on the treatment of recreational leave allowances in cases where the repatriation was at the request of the Department of Peacekeeping Operations, UNIFIL was uncertain how to account for the \$20,633 that had been disbursed. As UNIFIL was continuing to seek guidance from the Department of Field Support on how to properly account for these allowances, no recommendation was made.

Accounts payable, unliquidated obligations and accrued liabilities for staff entitlements were adequately managed

20. The IPSAS Opening Balance Plan and closing instructions issued by the Department of Management required peacekeeping missions to: (a) clean up payable accounts; (b) review unliquidated obligations on a weekly basis until 30 June 2013; (c) calculate accrued liabilities for unused annual leave days of national staff, and update attendance data for international staff; (d) and accrue liabilities for other staff benefits earned as of 30 June 2013.

21. UNIFIL effectively cleaned up and settled its accounts payable and had \$936,491 outstanding as at 31 March 2013, a reduction of \$6.5 million (or 87 per cent) compared to the \$7.4 million balance as at 30 June 2012. A review of all payable accounts outstanding for more than 12 months indicated that balances were fully justified and clean-up activities were effective.

22. Unliquidated obligations were also adequately managed. The Finance and Procurement sections reviewed and updated balances on a weekly basis and maintained adequate supporting documentation. UNIFIL calculated accrued liabilities for national staff and updated balances of international staff members' annual leave days and other staff benefits for accrual. A review of leave records for 69 of 339 (or 20 per cent) international staff members indicated that leave balances and other entitlement records were up-to-date.

IV. ACKNOWLEDGEMENT

23. OIOS wishes to express its appreciation to the Management and staff of UNIFIL 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 accounts receivable and payable in the United Nations Interim Forces in Lebanon

Recom. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNIFIL should develop procedures to follow up on and collect outstanding receivables on a regular basis.	Important	O	Receipt of evidence of procedures implemented to regularly follow up on outstanding accounts receivable balances.	31 July 2014

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 UNIFIL in response to recommendations.

APPENDIX I

Management Response



Inter Office Memorandum

19 November 2013

To: Ms. Eleanor T. Burns
Chief Peacekeeping Audit Service
Internal Audit Division, OIOS

From: Girish Sinha
Director of Mission Support
UNIFIL

Subject: **Draft report on an audit of accounts receivable and payable in the United Nations Interim Force in Lebanon (Assignment No. AP2013/672/04)**

1. We refer to your memorandum on the audit of accounts receivable and payable, reference no. IAD: 13-MO131102 dated 6 November 2013. Please find attached UNIFIL response to the recommendation contained in the subject draft audit report.

2. In following the usual procedure, copies of supporting documents will only be provided to the MERAO based at UNIFIL HQ and will not be transmitted to you with this Mission response.

Best regards.

Cc: Mr. Effendi Syukur, Chief Compliance Unit, UNIFIL
Ms. Anna Halasan, Professional Practices Section, Internal Audit Division, OIOS

APPENDIX I

MANAGEMENT RESPONSE

Audit of accounts receivable and payable in the United Nations Interim Forces in Lebanon

Rec. no.	Recommendation	Critical ⁵ / Important ⁶	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNIFIL should develop procedures to follow up on and collect outstanding receivables on a regular basis.	Important	Yes	Chief Finance Budget Management Section	31 July 2014	<p>UNIFIL requested Umoja Solution Architect Team at United Nations Headquarters for a user aid to allow dunning through Umoja, which will help to implement procedures to dun on a monthly basis. UNIFIL was advised that it is not yet a part of Umoja design to execute dunning on staff and that only dunning to Member States has been configured</p> <p>UNIFIL will continue to follow up with United Nations Headquarters for Umoja dunning solution.</p> <p>In the interim, UNIFIL Finance and Budget Management Section will continue to dun manually.</p>

⁵ 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.

⁶ 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.