



## **INTERNAL AUDIT DIVISION**

### **AUDIT REPORT 2013/082**

---

**Audit of the preparedness of the United Nations Office at Nairobi, 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 Standards on property, plant and equipment and inventory were initially assessed as partially satisfactory. Implementation of four important recommendations remains in progress.**

**FINAL OVERALL RATING: PARTIALLY SATISFACTORY**

**30 September 2013**

**Assignment No. AA2012/211/02**

## CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	2
III. AUDIT RESULTS	2
A. Regulatory framework	3
IV. ACKNOWLEDGEMENT	8
ANNEX I      Status of audit recommendations	
APPENDIX I   Management response	

# **AUDIT REPORT**

## **Audit of the preparedness of the United Nations Office at Nairobi, 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 Nairobi (UNON), and its client organizations, to comply with the International Public Sector Accounting Standards (IPSAS) on property, plant and equipment and inventory. The client organizations of UNON were the United Nations Environment Programme (UNEP) and the United Nations Human Settlement Programme (UN-Habitat).

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 2014 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 (PPE) and inventory.

4. Implementation of IPSAS requires the preparation of opening balances of reportable assets (i.e. PPE, inventories and intangibles) as at 31 December 2013. An important prerequisite to the preparation of opening balances is the verification of existing assets through physical counts. In preparing the opening balances of PPE and inventory, UNON built upon existing records of items classified as expendable and non-expendable property under the current accounting standards -- the United Nations System Accounting Standards (UNSAS). Under UNSAS, UNON was not required to keep detailed records of real estate and so began to compile registers of these assets in 2012 to prepare for implementation of IPSAS.

5. In terms of ST/SGB/2009/3 on the organization of UNON, UNON is mandated to provide a wide array of administrative services, including financial and property management services, to UNEP and UN-Habitat. UNON was the custodian of all PPE records under UNSAS at Nairobi and the field offices of UNEP and UN-Habitat, as well as the UNEP administered Multilateral Environmental Agreements (MEAs). For purposes of recognition under IPSAS, individual asset value thresholds were established at \$20,000 for UNON while UNEP and UN-Habitat each had a threshold of \$5,000. Table 1 shows the quantities and acquisition cost of plant and equipment reportable under IPSAS as at 31 December 2012 for UNON, UNEP and UN-Habitat, which were \$12.7 million, \$2.1 million and \$8 million, respectively.

**Table 1: Plant and equipment reportable under IPSAS as at 31 December 2012**

Entity	Items at Nairobi	Acquisition cost (\$ million)	Items at field offices	Acquisition cost (\$ million)	Total cost (\$ million)
UNON	220	12.7			<b>12.7</b>
UNEP	42	0.4	139	1.7	<b>2.1</b>
UN-Habitat	20	0.3	356	7.7	<b>8.0</b>

Source: Based on data provided by the UNON Property Management Unit as at 31 December 2012.

6. Comments provided by UNON, UNEP and UN-Habitat are incorporated in italics.

## II. OBJECTIVE AND SCOPE

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

8. The audit was included in the 2012 internal audit work plan in view of the significant risk that UNON, and its client organizations, may be unable to implement IPSAS if they do not adequately prepare themselves to generate accurate opening balances of PPE 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 the regulatory framework as controls that provide reasonable assurance that policies and procedures: (i) exist to guide the preparation of IPSAS-compliant opening balances of assets; (ii) are implemented effectively; 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 the audit from 1 January 2013 to 13 May 2013 in Nairobi. The audit covered the period from 1 January 2012 to April 2013 and included a sample of plant and equipment with an acquisition cost of \$9 million, representing 66 per cent of the total reportable assets of UNON, UNEP and UN-Habitat as of 31 December 2012.

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 **partially satisfactory** in providing reasonable assurance regarding **the preparedness of UNON and its client organizations to comply with IPSAS on PPE and inventory.** OIOS made five recommendations to address the issues identified in the audit.

14. UNON had established an IPSAS Support Team, which was a joint local team for implementing IPSAS in collaboration with UNEP and UN-Habitat, with clear terms of reference. UNON, UNEP and UN-Habitat generally complied with the United Nations IPSAS policy framework and the guidance

developed by United Nations Headquarters. UNON identified all elements of property that were subject to reporting under IPSAS. However, regulatory framework was rated as partially satisfactory because UNON had not yet started the componentization of property at Nairobi, which could result in the use of transitional provisions that allow for a grace period of five years to complete the exercise. UNEP and UN-Habitat needed to complete the identification, counting and valuing of inventories such as publications and construction related work-in-progress, and test and refine their validation processes for assets held at field offices as well as UNEP administered MEAs.

15. 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 implementation of four important recommendations remains in progress.

**Table 2: Assessment of key controls**

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Preparedness of UNON and its client organizations to comply with IPSAS on PPE and inventory	Regulatory framework	Partially satisfactory	Partially Satisfactory	Partially satisfactory	Partially satisfactory
<b>FINAL OVERALL RATING: PARTIALLY SATISFACTORY</b>					

## A. Regulatory framework

### Inter-organizational arrangements for IPSAS implementation at UNON, UNEP and UN-Habitat

Inter-organizational arrangements among UNON, UNEP and UN-Habitat for IPSAS implementation were adequate

16. Under the United Nations Secretariat’s arrangements for IPSAS implementation, each individual entity was responsible for establishing its own project team and dedicating sufficient resources to ensure successful implementation. On 4 August 2011, the Department of Management issued guidance, including a proposed IPSAS implementation structure.

17. UNON, UNEP and UN-Habitat established an IPSAS Support Team, which was a joint local team comprising staff from the three organizations. The IPSAS Support Team was composed of 14 sub-focus groups under the leadership of UNON. The team had clear terms of reference which specified the authority, responsibilities, and accountability within the team and included staff with knowledge of operational areas relevant to IPSAS implementation. Specific roles and responsibilities were clearly defined, and the parties responsible for action plans were clearly designated.

18. The IPSAS Support Team supported IPSAS implementation activities relating to UNON (Volume I of the financial statements) and led the IPSAS implementation activities for UNEP (Addendum 6 of the financial statements) and UN-Habitat (Addendum 8). Responsibility for preparing accurate and reliable financial information relating to IPSAS implementation rested with the managers of each organization. OIOS was of the view that the governance structure was generally adequate, considering the resource constraints.

### **Issues pertaining to UNON**

#### Need to speed up the componentization of property at Nairobi

19. According to IPSAS 17 on PPE, assets that comprise significant components with different useful lives have to be depreciated separately. Therefore, property needed to be broken down into components such as roofing, interior and services, and sub-components such as plumbing, fire protection and foundations. UNON identified all real estate property (land and buildings) in Nairobi and liaised with UNEP and UN-Habitat to assess the existence of property at field offices that were reportable under IPSAS. Both UNEP and UN-Habitat surveyed their field offices for owned property and financial leases (as per IPSAS 13) and determined that there were none that fell under these categories.

20. UNON compiled and submitted property-related records to United Nations Headquarters through the Real Estate Staging Database. In 2012, real estate was provisionally valued, using the replacement value method, at \$140 million for land and \$106 million for 31 buildings, including the New Office Facility.

21. The land for the United Nations premises in Nairobi was donated by the Government of Kenya on 8 June 1992 for use by UNEP, UN-Habitat and other offices of the United Nations, specialized agencies, and the International Atomic Energy Agency. The agreement between the United Nations and the Government of Kenya provides that the land would revert to the Government upon the cessation of use by the United Nations, in which case the United Nations would receive a fair compensation for the buildings from the Government. Should the Government not compensate for the buildings, the United Nations could sell the land to a third party, subject to approval of the purchaser by the Government. Table 3 shows the UNON real estate holding as at 31 December 2012.

**Table 3: Real estate at UNON as at 31 December 2012**

<b>IPSAS Asset Sub-Class</b>	<b>No.</b>	<b>Value (amount in \$ million)</b>	<b>Valuation methodology</b>	<b>Acquisition method</b>	<b>Comment</b>
Land	140 acres	140	Other	Donated	Donated by the Government of Kenya. Estimated area of 140 acres @ Kshs 80 million (\$1 million) per acre
Building	31 Buildings	106	Replacement	Constructed	Includes the New Office Facility estimated at \$25 million.

22. UNON management expressed operational concerns with the short timeline available for the componentization of property under IPSAS. A professional quantity surveyor had only been appointed in April 2013 for a term of 8 months to value land and buildings. The time constraint may result in using the IPSAS transitional provisions, which allow for a grace period of five years to complete the exercise.

Considering the action taken by UNON management in hiring a quantity surveyor to facilitate the componentization process, no recommendation was made.

Classification, description, condition and location of assets in the database on plant and equipment at Nairobi were generally satisfactory

23. Plant and equipment records as at 31 December 2012 were compiled based on the results of a full physical count in Nairobi carried out by the UNON Property Management Unit for UNON, UNEP and UN-Habitat between October 2011 and February 2012. Subsequent acquisitions and disposals were recorded in real time for Nairobi and with a six to nine month delay for assets acquired by field offices. In March 2013, UNON finalized the records for plant and equipment as at 31 December 2012.

24. OIOS reviewed 162 assets located in Nairobi with an acquisition cost of \$9 million (representing 66 per cent of the total acquisition cost recorded as at December 2012) and checked the related data for completeness, accuracy and existence through verification of records against physical assets and vice-versa.

25. OIOS also verified the accuracy of recorded information on classification, description, condition and location for a sample of 20 items with a total acquisition cost of \$859,677 (ten from UNON and five each from UNEP and UN-Habitat respectively), representing six per cent of the total value of all UNON, UNEP and UN-Habitat plant and equipment as at 31 December 2012. The items and their respective values were matched with the related purchase orders, invoices, and receiving and inspection reports. No anomalies were noted, and the records were found to be accurate.

UNON had identified and counted its reportable inventory

26. UNON, in collaboration with the Headquarters IPSAS Team, had identified inventories held by the UNON print shop as reportable under IPSAS. Stores of construction materials and office supplies were mainly meant for internal consumption and were therefore classified as operational and not reportable under IPSAS 13, pending a final opinion of the Board of Auditors. Many items in the stores had recorded no movement for several years and needed to be disposed of. By December 2012, an exercise was undertaken to identify and clear non-moving stock, dating back as far as 1996. For the print shop this exercise resulted in the production of a schedule with 83 categories of assets held in stock as at 31 December 2012 and reportable under inventory for a total acquisition cost of \$293,238. Since the actions taken by UNON in this regard were generally adequate, no recommendation was made.

**Issues pertaining to UNEP and UN-Habitat**

Periodic verification of assets at field offices was required

27. UNON was the custodian of all PPE records under UNSAS at Nairobi and at the field offices of UNEP and UN-Habitat. UNON also performed yearly physical verification of assets in Nairobi. Every six months, UNEP and UN-Habitat sent to UNON data on asset holdings in their respective field offices, which included regional offices, field project offices and liaison offices around the world.

28. UNON was required to certify the accuracy and completeness of the financial statements and records relating to PPE and inventory including those for UNEP and UN-Habitat. However, UNON could not directly verify the physical existence and status of assets at field offices due to their geographical dispersion and related resource constraints. Therefore, the accuracy and completeness of records maintained by UNON for UNEP and UN-Habitat field offices were dependent on the effectiveness of the validation and verification processes of UNEP and UN-Habitat.

29. In 2009, the UNON Property Management Unit (PMU) deployed an asset management software application named Hardcat. Hardcat was used for activities such as purchasing, bar-coding, depreciation, stock control and reporting. Data for assets maintained at UNON were input directly while those relating to field offices of UNEP and UN-Habitat were collected and validated by the respective organizations and then communicated to the UNON PMU for input in the Hardcat application. Discussions were underway to provide access rights to some field offices for data entry directly into Hardcat.

30. UNEP and UN-Habitat had each nominated a Property Management Officer as Asset Focal Point responsible for providing valid and reliable financial data to UNON. Every six months, these Asset Focal Points collected and validated information on assets held at their respective field offices as well as UNEP administered MEAs. The Asset Focal Points in each office certified and reconciled the records with the data in Hardcat in collaboration with UNON, to ensure accuracy of new acquisitions and disposals.

31. In addition, UN-Habitat identified programme managers and Heads of Offices as Asset Focal Points responsible to maintain and provide financial data relevant for PPE and inventories, and to certify all their submissions with a clear statement of accountability. As of 31 March 2013, UN-Habitat reported that it had compiled all its assets held at field offices and had overall improved its controls, which included the drafting of IPSAS implementation procedures that defined the responsibilities of the Property Management Officer and Asset Focal Points at various field offices.

32. As at May 2013, UNEP had collected and validated the asset records as at 31 December 2012 for most of its field offices and MEAs except for two field offices. UNEP was also planning to conduct physical verification of some assets in selected locations to assess the effectiveness of its validation process. An additional challenge for UNEP consisted of having part of its assets held at field offices administered by other entities of the United Nations Secretariat. For example, plant and equipment held by the UNEP Division of Technology, Industry and Economics in Geneva were managed by the United Nations Office at Geneva. To avoid double counting and ensure uniformity in the management of records, UNEP in collaboration with UNON, was in the process of issuing new barcodes and consolidating all records in Hardcat.

33. As at 31 December 2012, records in Hardcat provisionally stated the reportable acquisition cost of plant and equipment for field offices at \$1.7 million and \$7.7 million for UNEP and UN-Habitat, respectively. However, UNEP and UN-Habitat had major challenges in collecting and validating records relating to plant and equipment held at field offices due to lack of human and financial resources. Neither UNEP nor UN-Habitat was able to test the effectiveness of their validation procedures through independent sample counts and physical verifications at field offices to ensure the accuracy of data.

**(1) The Executive Director of UNEP should expedite the collection and validation of asset records at the remaining field offices.**

*UNEP accepted recommendation 1 and stated that it has already started to implement it. In preparation for transition to IPSAS, UNEP tasked the inventory focal points in field offices to carry out physical verification of assets under the supervision of their respective Administrative Officers, twice a year. The next report as at 30 June 2013 will be consolidated by end of July 2013. In view of the imminent transition to IPSAS, UNEP will carry out a special validation exercise as at 30 September 2013, with the support of a team from Nairobi HQ to cover all major out posted duty stations where UNEP operates. Recommendation 1 remains open pending receipt of documentary evidence of the collection and validation exercise.*

**(2) The Executive Director of UNEP should allocate resources for periodic sample verification of the validity of asset records for plant and equipment provided by field offices and UNEP administered Multilateral Environmental Agreements.**

*UNEP accepted recommendation 2 and stated that it has designated a Property Management Focal point, who is a member of the Nairobi Joint Property Management Team, as responsible for ensuring that periodic sample verification of asset records is carried out for all field offices and UNEP administered Multilateral funds, in accordance with established policy by the Property Management Group. Based on the action taken by UNEP, recommendation 2 has been closed.*

**(3) The Executive Director of UN-Habitat should allocate resources for periodic sample verification of the validity of asset records for plant and equipment provided by field offices.**

*UN-Habitat accepted recommendation 3 and stated that at the end of August 2013, UN-Habitat completed a physical inventory of its asset items worldwide and is currently in the process of starting a sample verification based on value and risk of IPSAS related asset items. Recommendation 3 remains open pending receipt of documentary evidence that resources have been allocated for periodic verification of the validity of field offices' asset records.*

Need to determine the opening balances for publications and construction work-in-progress

34. As at May 2013, UNEP, UN-Habitat and UNON, in collaboration with the Headquarters IPSAS Team, identified two categories of inventories as reportable under IPSAS. These were: (i) publications held for sale, which was applicable to both UNEP and UN-Habitat; and (ii) work-in-progress for construction over which, even if outsourced to implementing partners, UN-Habitat retained control.

35. UNEP and UN-Habitat had not yet devised a system to count, classify, and track their publications in preparation for IPSAS implementation. Sale of publications for both organizations was not intended to generate revenue, and the sales proceeds represented a partial recovery of the cost of producing their major flagship publications. The publications were held at Nairobi, field offices, Secretariats of MEAs, and in a commercial warehouse in Europe for storage and distribution. Most of these publications were either old or held for free distribution. In 2012 the total income from sales amounted to \$5,000 and \$29,000 for UNEP and UN-Habitat, respectively. However, UNEP and UN-Habitat were taking advantage of the IPSAS requirements to revise their publication policy and rationalize the volume of publications and distribution channels.

36. With regard to construction activities undertaken by implementing partners through cooperation agreements with UN-Habitat, UN-Habitat had maintained a centralized database of all cooperation agreements prior to 2012 but had since decentralized the authorization of cooperation agreements to its regional offices. The identification and valuation of all construction activities carried out under cooperation agreements had only started recently due to the lack of adequate systems. UN-Habitat needed to complete this process to ensure the preparation of IPSAS compliant opening balances.

**(4) The Executive Director of UNEP should expedite a full count and classification of UNEP publications as inventory and ensure that its publication policies are aligned with IPSAS requirements.**

*UNEP accepted recommendation 4 and stated that it will undertake a full count of publications as*

*inventory and identify operating and financial categories of inventory. UNEP will also take steps to get rid of all impaired inventory (i.e. obsolete publications) to ensure any future write-offs are not included on the face of the financial statements. UNEP shall continue with the cost-capture exercise currently being undertaken for all new (2013) publications. UNEP also plans to move towards electronic or 'cloud-publishing' (or similar) to reduce production of hard copies of publications in future. Recommendation 4 remains open pending receipt of evidence of a full count and classification exercise and the alignment of publication policies to IPSAS requirements.*

**(5) The Executive Director of UN-Habitat should undertake a full count and classification of UN-Habitat's construction related work-in-progress and publications as inventory in accordance with IPSAS requirements.**

*UN-Habitat accepted recommendation 5 and stated that it has now started a review of its systems and practices and is in the process of designing new procedures to track and record publications and construction work-in-progress under its control but in the custody of its implementing partners. Recommendation 5 remains open pending receipt of evidence that a full count and classification of inventories has been completed.*

#### **IV. ACKNOWLEDGEMENT**

37. OIOS wishes to express its appreciation to the Management and staff of UNON, UNEP and UN-Habitat 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 Nairobi, and its client organizations, to comply with the International Public Sector Accounting Standards on property, plant and equipment and inventory**

<b>Recom. no.</b>	<b>Recommendation</b>	<b>Critical<sup>1</sup>/ Important<sup>2</sup></b>	<b>C/O<sup>3</sup></b>	<b>Actions needed to close recommendation</b>	<b>Implementation date<sup>4</sup></b>
1	The Executive Director of UNEP should expedite the collection and validation of asset records at the remaining field offices.	Important	O	Receipt of evidence of the collection and validation exercise.	31 December 2013
2	The Executive Director of UNEP should allocate resources for periodic sample verification of the validity of asset records for plant and equipment provided by field offices and UNEP administered Multilateral Environmental Agreements.	Important	C	Action completed.	Implemented
3	The Executive Director of UN-Habitat should allocate resources for periodic sample verification of the validity of asset records for plant and equipment provided by field offices.	Important	O	Receipt of evidence that resources have been allocated for periodic verification.	31 December 2013
4	The Executive Director of UNEP should expedite a full count and classification of UNEP publications as inventory and ensure that its publication policies are aligned with IPSAS requirements.	Important	O	Receipt of evidence of a full count and classification exercise and the alignment of publication policies to IPSAS requirements.	31 December 2013
5	The Executive Director of UN-Habitat should undertake a full count and classification of UN-Habitat's construction related work-in-progress and publications as inventory in accordance with IPSAS requirements.	Important	O	Receipt of evidence that a full count and classification of inventories have been completed.	31 December 2013

<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 UNEP and UN-Habitat in response to recommendations.

# **APPENDIX I**

## **Management Response**

**United Nations Office at Nairobi's Response**

United Nations  Nations Unies

INTEROFFICE MEMORANDUM      MÉMORANDUM INTÉRIEUR  
UNITED NATIONS OFFICE AT NAIROBI

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

DATE: 23 September, 2013

FROM: Chris Kirkcaldy, Director a.i.,  
DE: Division of Administrative Services

SUBJECT: OIOS IAD Assignment no. AA2012/211/02 - Audit  
OBJET: of the preparedness of UNON, and its client  
organisations, to comply with IPSAS - draft  
report response

With reference to your memorandum requesting our comments on the draft report on subject audit, as communicated to IAD Nairobi Section, none of the recommendation were addressed to UNON. However, UNON has consulted with our client organisations, UNEP and UN-Habitat, and assisted them in drafting their responses.

May we take this opportunity to express our gratitude for the professional manner in which the audit was conducted.

CC: Ms Sahle-Work Zewde  
Ms Anna Halasan  
Ms Agness Chilinda

# **United Nations Environment Programme's Response**

## MANAGEMENT RESPONSE

**Audit of the preparedness of the United Nations Office at Nairobi, 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 Executive Director of UNEP should expedite the collection and validation of asset records at the remaining field offices.	Important	YES	Chief, Budget & Finance	31 December 2013	UNEP has already started to implement this recommendation. In preparation for transition to IPSAS, UNEP tasked the inventory focal points in OAHs to carry out physical verification of assets under the supervision of their respective FMOs or Administrative Officers. This exercise is carried out twice a year; as at 31 December and 30 June. The last physical verification was carried out as at 31 December 2012. The next report as at 30 June 2013 will be consolidated by end of July 2013. In view of the imminent transition to IPSAS, UNEP will carry out a special validation exercise as at 30 September 2013, with the support of a team from Nairobi HQ to cover all major out posted duty stations where UNEP operates.
2	The Executive Director of UNEP should allocate resources for periodic sample	Important	YES	Director, Office	Implemented	UNEP has designated a Property Management Focal point, who is a

<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.

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Critical<sup>1</sup>/ Important<sup>2</sup></b>	<b>Accepted? (Yes/No)</b>	<b>Title of responsible individual</b>	<b>Implementation date</b>	<b>Client comments</b>
	verification of the validity of asset records for plant and equipment provided by field offices and UNEP administered Multilateral Environmental Agreements.			of Operations		member of the Nairobi Joint Property Management Team. He is responsible for ensuring that period sample verification of assets records is carried out for all field offices and UNEP administered Multilateral funds in accordance with established policy by the Property Management Group. The verification will be carried out as stated in 1 above.
3	The Executive Director of UN-Habitat should allocate resources for periodic sample verification of the validity of asset records for plant and equipment provided by field offices.	Important				
4	The Executive Director of UNEP should expedite a full count and classification of UNEP publications as inventory and ensure that its publication policies are aligned with IPSAS requirements.	Important	YES	Director, Division of Communication &Public Information  And Chief, Budget & Finance	31 December 2013	UNEP will undertake a full count of publications as inventory and identify operating and financial categories of inventory. UNEP will also take steps to get rid of all impaired inventory (i.e. obsolete publications) to ensure any future write-offs are not included on the face of the financial statements. UNEP shall continue with the cost-capture exercise currently being undertaken for all new (2013) publications. UNEP also plans to move towards electronic or 'cloud-publishing' (or similar) to reduce production of hard copies of publications in future.
5	The Executive Director of UN-Habitat should undertake a full count and classification of UN-Habitat's construction related work-in-progress and publications as inventory in accordance with IPSAS requirements.	Important				

# **United Nations Human Settlements Programme's Response**

**MEMORANDUM**

To: Mr. Gurpur Kumar, Deputy Director  
Internal Audit Division, OIOS Reference:

From: Dr. Joan Clos  
Under-Secretary-General and  
Executive Director of UN-Habitat Date: 9 September 2013

Subject: **Assignment No. AA2012/211/02 – Audit of the preparedness of the United Nations entities in Nairobi to comply with the International Public Sector Accounting Standards on property, plant and equipment**

I refer to your Draft Report on the above mentioned audit dated 21 August 2013 addressed to me and requesting comments.

I am pleased to present in attached Appendix I an action plan with target dates and the title of the individual responsible for implementation of each recommendation. We take this opportunity to thank the Office of Internal Oversight services (OIOS) for the services it provided to UN-Habitat on the above-mentioned audit.

## AUDIT RECOMMENDATIONS

**Audit of the preparedness of the United Nations Office at Nairobi, 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 Executive Director of UNEP should expedite the collection and validation of asset records at the remaining field offices.	Important				
2	The Executive Director of UNEP should allocate resources for periodic sample verification of the validity of asset records for plant and equipment provided by field offices and UNEP administered Multilateral Environmental Agreements.	Important				
3	The Executive Director of UN-Habitat should allocate resources for periodic sample verification of the validity of asset records for plant and equipment provided by field offices.	Important	Yes	Methods and Oversight Officer	31 December 2013	At end of August 2013, UN-Habitat completed a physical inventory of its asset items worldwide and is currently in the process to start a sample verification based on value and risk of IPSAS related asset items.
4	The Executive Director of UNEP should expedite a full count and classification of UNEP publications as inventory and ensure that its publication policies are aligned with IPSAS requirements.	Important				
5	The Executive Director of UN-Habitat should undertake a full count and classification of UN-Habitat's construction related work-in-progress and publications as inventory in accordance with IPSAS requirements.	Important	Yes	Methods and Oversight Officer	31 December 2013	UN-Habitat has now started a review of its systems and practices and is in the process of designing for implementation new procedures to track and record publication and construction work-in-progress under its control but in the custody of its implementing partners.

<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.