



Office of Internal Oversight Services

INTERNAL AUDIT DIVISION

AUDIT REPORT

Common services in UNAMA
AP2010/630/07

Controls need strengthening in recording of
assets and cost-sharing

26 May 2011
Assignment No. AP2010/630/07

United Nations  Nations Unies

INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

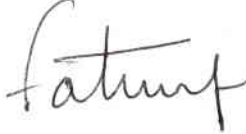
OFFICE OF INTERNAL OVERSIGHT SERVICES - BUREAU DES SERVICES DE CONTRÔLE INTERNE
INTERNAL AUDIT DIVISION - DIVISION DE L'AUDIT INTERNE

TO: Mr. Staffan de Mistura
A: Special Representative of the Secretary- General
United Nations Assistance Mission in Afghanistan

DATE: 26 May 2011

REFERENCE: IAD: 11- 00416

FROM: Fatoumata Ndiaye, Director
DE: Internal Audit Division, OIOS



SUBJECT: **Assignment No. AP2010/630/07 - Audit of common services in UNAMA**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. In order for us to close the remaining recommendations, we request that you provide us with the additional information as discussed in the text of the report and also summarized in Annex 1.
3. Please note that OIOS will report on the progress made to implement its recommendations in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Stephani Scheer, Chief of Mission Support, UNAMA
Mr. Peter Schmitz, Chief of Staff, UNAMA
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Seth Adza, Chief, Audit Response Team, Department of Field Support
Mr. Mario Baez, Chief Policy and Oversight Coordination Service, DM
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS
Ms. Eleanor T. Burns, Chief, Peacekeeping Audit Service, OIOS
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

INTERNAL AUDIT DIVISION

FUNCTION

“The Office shall, in accordance with the relevant provisions of the Financial Regulations and Rules of the United Nations examine, review and appraise the use of financial resources of the United Nations in order to guarantee the implementation of programmes and legislative mandates, ascertain compliance of programme managers with the financial and administrative regulations and rules, as well as with the approved recommendations of external oversight bodies, undertake management audits, reviews and surveys to improve the structure of the Organization and its responsiveness to the requirements of programmes and legislative mandates, and monitor the effectiveness of the systems of internal control of the Organization” (General Assembly Resolution 48/218 B).

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EXECUTIVE SUMMARY

Audit of common services in UNAMA

The Office of Internal Oversight Services (OIOS) conducted an audit of common services in the United Nations Assistance Mission in Afghanistan (UNAMA). The overall objective of the audit was to assess the adequacy and effectiveness of internal controls over the delivery of common services to UNAMA for the United Nations Operation Centre in Afghanistan (UNOCA). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

Mechanisms were in place for managing common services received by the co-tenants of UNOCA. However, there were opportunities for improvement:

- The Memorandum of Understanding (MoU) signed by the co-tenants did not adequately safeguard their interests as there was no provision on the methodology to absorb or re-allocate costs when one or more of the co-tenants left the complex.
- There was no historical data on the cost and ownership of structures within the UNOCA complex although it was thought to have been funded and constructed by UNAMA when the complex was established in 2004. In the absence of such documents, problems may arise when IPSAS is implemented, and it becomes difficult for UNAMA to claim ownership of structures in the event of the liquidation of the Mission.
- The UNOCA Management Group did not establish a performance measurement system to monitor and evaluate the services provided.

OIOS made eight recommendations to address the issues identified in the audit and to improve internal controls over the provision of common services to the UNOCA. UNAMA is working with UNOCA management to implement the recommendations.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of common services in the United Nations Assistance Mission in Afghanistan (UNAMA). The audit was requested by UNAMA. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.
2. UNAMA and six United Nations agencies, funds and programmes are co-tenants and occupants of United Nations Operation Centre in Afghanistan (UNOCA). These include the United Nations Development Programme (UNDP), the United Nations International Children Emergency Fund (UNICEF), the United Nations Population Fund (UNFPA), the United Nations Office of Project Services (UNOPS), the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) and the World Health Organization (WHO).
3. Common services such as security, helipad construction and maintenance, garbage collection, water delivery and rental of UNOCA premises, are shared in accordance with a Memorandum of Understanding (MoU) signed by the co-tenants in 2004.
4. The UNOCA Management Group, comprised of representatives of co-tenants, is responsible for overseeing the management of the UNOCA including developing, monitoring and evaluating common services. UNOPS is the lead agency of UNOCA Management Group since January 2009. UNAMA occupies 53 per cent of UNOCA, and is responsible for the largest cost-share of the common services.
5. The UNOCA Common Services is responsible for the day-to-day management of the complex including the recruitment of staff, procurement of goods and services, and payment of vendors. The UNOCA Common Services has four authorized posts: a Facility Manager, an Administrative/Finance Officer, an Administrative Assistant and a Site Supervisor. The budget of UNOCA Common Services was \$2.3 million and \$2.9 million in 2009 and 2010, respectively and is funded from contributions from co-tenants.
6. Comments made by UNAMA are shown in *italics*.

II. AUDIT OBJECTIVES

7. The main objective of the audit was to assess the adequacy and effectiveness of internal controls over the delivery of common services to UNAMA for the UNOCA.
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III. AUDIT SCOPE AND METHODOLOGY

8. The audit covered the period from 1 January 2009 to 31 December 2010 and reviewed the services provided to UNAMA under the MoU signed by the Mission with other United Nations agencies, funds and programmes. It also reviewed the procedures for monitoring and evaluating services provided and associated costs.

9. The audit methodology included interviews and discussions with staff involved in the process, review of records and documents, and inspection of facilities, buildings, accommodation and the cafeteria. The common services provided and the structure and mechanism for overseeing them were reviewed to assess compliance with the Operational Guidelines for the Implementation of Common Services and the MoU.

IV. AUDIT RESULTS

A. Guiding principles and governance

10. The Operational Guidelines stipulate that the United Nations Country Team should have overall responsibility for the coordination and oversight of common services arrangements and the Operations Management Team, as the focal point for all inter-agency operational arrangements, should be responsible to develop, implement, monitor and evaluate agreed common services activities.

11. For UNOCA, the responsibilities of the Operations Management Team were performed by the UNOCA Management Group. However, no United Nations Country Team management and coordination committee was established to make decisions and provide guidance. During the course of the audit, an Executive Committee was established composed of members of heads of entities occupying the UNOCA complex in order to provide direction and guidance related to the implementation of common services. Terms of reference on the working of the committee were still to be developed.

Recommendation 1

(1) The UNAMA Management in cooperation with the UNOCA Management Group should coordinate with the newly established UNOCA Executive Committee in adapting and implementing the United Nations Operational Guidelines for the implementation of common services including developing the terms of reference.

12. *The UNAMA Management accepted recommendation 1 and stated that the UNOCA Executive and Management Group is now established. A meeting will take place to discuss suitability and implementation (in full or part) of common services Operational Guidelines including development of the terms of reference. A working group may be established to develop location specific*

guidelines. Recommendation 1 remains open pending receipt of a copy of the UNOCA operational guidelines.

Exit clause for Memorandum of Understanding

13. The UNOCA occupants signed a MoU in 2004 on the cost sharing of common services. However, the MoU did not contain provisions to govern the withdrawal of one or more co-tenants from the UNOCA complex. Such a clause should include: (a) the need for an early withdrawal notice from the departing entity; and (b) the methodology for the reallocation of fixed costs of common services between the remaining tenants. In the absence of such a provision, UNAMA, the largest occupant of the UNOCA complex, may be compelled to absorb costs that were previously contributed by the withdrawn tenant. The absence of proper safeguards to the interests of the entities signing the MoU may be attributed to the lack of legal review of the MoU.

Recommendation 2

(2) The UNAMA Management, in consultation with the co-tenants of the UNOCA, should ensure that a legal review of the Memorandum of Understanding (MoU) on the cost sharing of common services is conducted and that the MoU contains a provision on how to handle the withdrawal of one or more co-tenants from the UNOCA.

14. *The UNAMA Management accepted recommendation 2 and stated that a draft for the amendment of the MoU is under process to include a clause on withdrawal and cost sharing based on staff numbers and common areas.* Recommendation 2 remains open pending receipt of a copy of the revised MoU, which had undergone a legal review to ensure the interests of UNAMA are properly safeguarded.

B. Adequacy of services provided

Lack of adequate and effective monitoring of the delivery of common services

15. The UNOCA Management Group is responsible for overseeing the management of UNOCA including developing, monitoring and evaluating agreed common services. In order to do this, the Operational Guidelines stipulate that there should be on-going performance indicators in place to measure the efficacy and success of common services arrangements.

16. The UNOCA Management Group held monthly meetings to discuss operational and financial issues; however, there was no performance management review to assess the effectiveness and efficacy of common services activities. The UNOCA Management Group did not establish a performance measurement system including key performance indicators such as co-tenants satisfaction, achievement of established targets, etc.

Recommendation 3

(3) The UNAMA Management should ensure that the UNOCA Management Group establish a performance management system to monitor and evaluate common services provided.

17. *The UNAMA Management accepted recommendation 3 and stated that the implementation of a formal performance management system will be discussed at a next or subsequent UNOCA Management Group meeting. A working group may be established to develop a system.* Recommendation 3 remains open pending confirmation of the development and implementation of a performance management system.

UNAMA's use of the common services agreement for repairs

18. UNAMA did not take full advantage of available common services arrangements. Instead of requesting maintenance work to be undertaken and funded through the UNOCA Common Services, UNAMA independently carried out the work.

19. OIOS' review of UNAMA work orders for repairs and maintenance during the period from 1 January 2009 to 31 December 2010 noted that there were work orders pertaining to UNOCA gates and perimeters which were to the benefit of all occupants. Therefore, this maintenance should have been done through the UNOCA Common Services and funded under the common services agreement. In general, compared to the other co-tenants, the level of maintenance requested by UNAMA through the UNOCA Common Services was low at about 21 per cent of the total cost, whereas it occupied 53 per cent of the UNOCA complex.

Recommendation 4

(4) The UNAMA Management should implement mechanisms for vetting work orders for common maintenance work against the UNOCA Common Services Memorandum of Understanding to ensure repairs benefiting all co-tenants are charged to and funded under the UNOCA Common Services Unit.

20. *The UNAMA Management accepted recommendation 4 and stated that action is being taken to address this. A materials-in and -out register per work order has been established and is being tested.* Recommendation 4 remains open pending confirmation that there is an adequate process in place for ensuring work orders relating to common repairs are appropriately charged to the Common Services Unit.

C. Managing resources

21. To improve the management of budgets, performance targets and subsequent reports on their achievement should be prepared and presented to the UNOCA Management Group in order for them to carry out their responsibilities of monitoring and evaluating common services. Budget performance reports were not prepared since the establishment of the UNOCA Common Services in 2004, as there had been no requirement for them to do this. Budgets were prepared and presented and approved by the UNOCA Management Group on a quarterly basis.

Recommendation 5

(5) The UNAMA Management, through its representative on the UNOCA Management Group, should ensure that the UNOCA Common Services prepares budget performance reports to determine the extent to which expected targets are achieved and that common services are delivered in a cost-effective manner.

22. *The UNAMA Management accepted recommendation 5 and stated that the UNOCA Common Services was requested to provide performance reports covering the period 1 January to 31 December 2010 by the end of May 2011. Also, the UNAMA Chief Budget Officer will review these reports prior to presentation to the Executive Committee and Chairperson of UMG. Recommendation 5 remains open pending receipt of copies of the performance reports for the year ending 31 December 2010.*

Management of expendable and non-expendable property

23. There was a lack of clarity on the ownership of structures within the UNOCA complex, as there were no supporting documents to confirm this and the cost initially incurred. For example, a large building occupied by UNOPS was thought to have been constructed by UNAMA in 2004, as well as the main road within the UNOCA complex. However, there were no records available for audit review on the entity that funded the project and who had ownership of the building. Therefore, it was difficult to establish its costs and legal ownership. UNAMA informed OIOS that at this stage, the possibility of securing documentation on historical costs and ownership of the buildings was not feasible due to the turnover in staff and the time that had passed. However, UNAMA Information Management Unit will provide guidance to UNOCA Common Services on proper records management to ensure the proper archiving of records for the future.

24. Since the inception of the UNOCA Common Services, various expendable and non-expendable assets have been acquired, including office equipment (e.g. computers, printers, photocopiers and scanners), furniture and fixtures (e.g. computer tables, chairs and conference tables), carpentry workshop and a building. However, the UNOCA Common Services did not maintain an inventory list or other documentation on its non-expendable property. No

procedures were established to manage these assets, which should include maintaining records of assets and conducting periodic physical inventories.

Recommendation 6

(6) The UNAMA Management, through its representative in the UNOCA Management Group, should ensure that the UNOCA Common Services establish and implement appropriate procedures for property management, preferably in line with procedures followed by UNAMA.

25. *The UNAMA Management accepted recommendation 6 and stated that UNOCA Common Services staff members were instructed to establish an inventory in and out register as per work order. The following were also established for oversight purposes: (a) receiving and inspection report; (b) job order/request form; and (c) issue voucher. Also, all stocks requested by Self-accounting Units will be reviewed and approved by a certifying officer. The UNAMA Chief Property Management will also conduct spot checks once a month. The new process is being tested.* Recommendation 6 remains open pending receipt of evidence that procedures for both managing expendable and non-expendable property are developed and implemented.

Lack of independent financial recording system

26. The UNOCA Common Services financial transactions were processed through UNAMA financial system (Sun System) and a UNOCA Common Services staff member was assigned as a bookkeeper in the UNAMA Finance Section to record UNOCA Common Services transactions. OIOS noted that the UNAMA Finance Section included the financial statements for the UNOCA Common Services in its Monthly Accounts report whereas they should be independent and separate from UNAMA's accounts.

Recommendation 7

(7) The UNAMA Management in collaboration with the UNOCA Management Group should ensure that a separate recording and reporting system be established for the UNOCA Common Services financial transactions.

27. *The UNAMA Management accepted recommendation 7 and stated that all transactions are recorded on the Sun System as a separate account.* Based on the assurances provided by Management, recommendation 7 has been closed.

Lack of effective cash forecasting mechanisms

28. According to the United Nations Financial Regulations and Rules, cash remittances shall not exceed the amount required to bring the cash balance up to the level necessary to meet the entity's estimated cash requirements for the next two and a half months.

29. OIOS reviewed remittance transactions of UNOCA Common Services and found that for the period of 1 January to 30 April 2010, UNOCA Common Services received an average of \$185,044 per month, while for the month of May 2010 it sharply decreased to \$17,431 and for the subsequent month it significantly increased to \$658,494 which represented 31 per cent of total remittances for the year. Improved performance reporting, as recommended above will assist in improving cash management.

Recommendation 8

(8) The UNAMA Management in collaboration with the UNOCA Management Group should ensure that appropriate procedures for forecasting cash requirements and the preparation of remittance requests are established.

30. *The UNAMA Management accepted recommendation 8 and stated that the process will be reviewed to ensure more effective forecasting of cash requirements.* Recommendation 8 remains open pending receipt of evidence of the procedures in place to improve cash management.

V. ACKNOWLEDGEMENT

31. We wish to express our appreciation to the Management and staff of UNAMA for the assistance and cooperation extended to the auditors during this assignment.

STATUS OF AUDIT RECOMMENDATIONS

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
1	The UNAMA Management in cooperation with the UNOCA Management Group should coordinate with the newly established UNOCA Executive Committee in adapting and implementing the United Nations Operational Guidelines for the implementation of common services including developing the terms of reference.	Governance	Medium	O	Receipt of a copy of the UNOCA operational guidelines.	31 July 2011
2	The UNAMA Management, in consultation with the co-tenants of the UNOCA, should ensure that a legal review of the Memorandum of Understanding (MoU) on the cost sharing of common services is conducted and that the MoU contains a provision on how to handle the withdrawal of one or more co-tenants from the UNOCA.	Financial	Medium	O	Receipt of a copy of the revised MoU, which had undergone a legal review to ensure the interests of UNAMA are properly safeguarded.	30 June 2011
3	The UNAMA Management should ensure that the UNOCA Management Group establish a performance management system to monitor and evaluate common services provided.	Governance	Medium	O	Confirmation of the development and implementation of a performance management system.	31 July 2011
4	The UNAMA Management should implement mechanisms for vetting work orders for common maintenance work against the UNOCA Common Services Memorandum of Understanding to ensure repairs benefiting all co-tenants are charged to and funded under the UNOCA Common Services Unit.	Operational	Medium	O	Confirmation that there is an adequate process in place for ensuring work orders relating to common repairs are appropriately charged to the Common Services.	30 June 2011
5	The UNAMA Management, through its	Operational	Medium	O	Receipt of copies of the performance	31/05/2011

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	representative on the UNOCA Management Group, should ensure that the UNOCA Common Services prepares budget performance reports to determine the extent to which expected targets are achieved and that common services are delivered in a cost-effective manner.				reports for the year ending 31 December 2010.	
6	The UNAMA Management, through its representative in the UNOCA Management Group, should ensure that the UNOCA Common Services establish and implement appropriate procedures for property management, preferably in line with procedures followed by UNAMA.	Financial	Medium	O	Receipt of evidence that procedures for both managing expendable and non-expendable property are developed and implemented.	30 June 2011
7	The UNAMA Management in collaboration with the UNOCA Management Group should ensure that a separate recording and reporting system be established for the UNOCA common services financial transactions.	Financial	Medium	C	Action taken.	Implemented.
8	The UNAMA Management in collaboration with the UNOCA Management Group should ensure that appropriate procedures for forecasting cash requirements and the preparation of remittance requests are established.	Financial	Medium	O	Receipt of evidence of the procedures in place to improve cash management.	31 July 2010

1. C = closed, O = open

2. Date provided by UNAMA in response to recommendations.

ANNEX 2

*Use this page if the orientation of Annex 2 is portrait. If the orientation is landscape, insert a section break at the end of Annex 1 and continue on the new page. (On the **Insert** menu, point to **Break**, select **Next page** under **Section break types**.) Leave the page blank if not required; do not delete it.*