



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/043

Audit of asset disposals in the
United Nations Integrated Mission in
Timor-Leste

Overall results relating to the effective management of the disposal of assets during the drawdown and liquidation period in UNMIT were partially satisfactory. Implementation of one important recommendation remains in progress

FINAL OVERALL RATING: PARTIALLY
SATISFACTORY

20 May 2013
Assignment No. AP2013/682/01

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-5
Regulatory framework	2-5
IV. ACKNOWLEDGEMENT	5
ANNEX I Status of audit recommendations	
APPENDIX 1 Management response	

AUDIT REPORT

Audit of asset disposals in the United Nations Integrated Mission in Timor-Leste

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of asset disposals in the United Nations Integrated Mission in Timor-Leste (UNMIT).
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 mandate of UNMIT was established by the Security Council in its resolution 1704 (2006). The most recent extension of the mandate was authorized by the Security Council in its resolution 2037 (2012), by which the Council extended the mandate until 31 December 2012. On 1 January 2013, the Mission commenced its administrative liquidation including the process of the disposition of its assets.
4. During the drawdown period, a preliminary asset disposal plan (PADP) was prepared, which reported that UNMIT had 7,959 items of non-expendable property (assets) with an approximate acquisition value of \$45 million and a depreciated value of \$16.2 million. The PADP grouped assets into five categories, as follows:

Table 1 - Preliminary asset disposal plan per group, as of 21 December 2012

Group (summary description)	# of items	Acquisition value \$	Depreciated value \$
Group I - deployed to other peacekeeping operations or placed in reserve	2,044	14,100,224	5,851,666
Group II - deployed to other United Nations activities funded from assessed contributions	144	800,079	289,098
Group III - sold to UN agencies or international organizations at depreciated value	200	1,900,521	753,028
Group IV - disposed of commercially	3,954	24,926,024	7,943,949
Group V - installed in country and cannot easily be dismantled and therefore, contributed free of charge to the host government	1,593	3,502,535	1,403,695
Not categorized	24	24	17
TOTAL	7,959	45,229,407	16,241,453

5. Comments provided by UNMIT are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of UNMIT governance, risk management and control processes in providing reasonable assurance regarding the **effective management of the disposal of assets during the drawdown and liquidation period in UNMIT.**

7. The audit was included in the OIOS 2013 risk-based work plan because of the importance of ensuring that the Mission’s assets are properly dealt with during the drawdown and liquidation period.

8. The key control tested for the audit was regulatory framework. For the purpose of this audit, OIOS defined this key control as the one that provides reasonable assurance that policies and procedures exist to: (i) guide the appropriate disposal of assets during draw-down and liquidation; (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 January to March 2013. The audit covered the period from 1 October 2012 to 15 March 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 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

12. The UNMIT governance, risk management and control processes examined were **partially satisfactory** in providing reasonable assurance regarding the **effective management of the disposal of assets during the drawdown and liquidation period in UNMIT**. OIOS made two recommendations to address issues identified. UNMIT developed a PADP, which was approved by the Logistics Support Division of the Department of Field Support (DFS) in December 2012, and made good progress in implementing it. However, there was insufficient documentation to support assets gifted to the Government of the Democratic Republic of Timor-Leste (GDRTL) and those provided to other missions. This impacted on the ability of UNMIT to up-date its records in Galileo.

13. 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 one important recommendation 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
Effective management of the disposal of assets during the drawdown and liquidation in UNMIT	Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

Regulatory framework

Adequate action was taken to plan for the disposal of assets

14. UNMIT started to prepare the PADP in August 2012 and submitted it to DFS through Galileo for approval. The process of finalizing the PADP was done in coordination with DFS and after discussions with GDRTL and UN agencies. The PADP was approved by DFS on 21 December 2012.

15. The authority to approve further amendments to the PADP was delegated to the United Nations Global Service Centre (UNGSC) in Brindisi. There were delays in receiving approval of amendments, and there was insufficient documentation supporting the amendments made. For example, as of 1 March 2013:

- The initial grouping of 647 assets in the PADP had been changed in Galileo; however, there was no documentation on file showing that the changes proposed to the PADP groupings had been approved; and
- Prior to receiving approval from UNGSC, UNMIT initiated the disposal of 162 items.

16. UNMIT advised that during the liquidation period, reviewing of assets and determining their disposition was a continuous and fluid process. UNGSC was approving changes to the Plan directly in Galileo and this was later supported by hard copy documentation. As UNMIT had subsequently collected the necessary documents to support the approvals made to the originally approved PADP, no recommendation was made.

Assets were deployed to field missions that did not fully meet the established criteria

17. In identifying Group I assets, there was a need to consider whether assets were suitable for re-use in another mission, and whether it was cost-effective to redeploy them. Other considerations included ensuring that assets had at least 12 months life-expectancy, an individual net book value of more than \$3,000, and were in good or fair condition.

18. In early March 2013, of the 2,044 items listed in Group I there were 600 items with a depreciated value of \$1.3 million that had a recorded life-expectancy of less than 12 months, of which 229 items' life-expectancy had already expired. There were also 492 items with a total depreciated value of \$387,144, that all had a value of less than \$3,000 each. Nonetheless, OIOS verified that these deployments were supported by requests from receiving missions. Also, although some assets had exceeded or were about to exceed their life-expectancy, receiving missions were of the view that it was cost-effective to transport the assets to their missions, as they were in a sufficiently good condition to be used effectively. Taking this into consideration, OIOS did not make a recommendation.

Donations to the host government were in line with the Liquidation Manual

19. As of early March 2013, under Group V, UNMIT had earmarked 1,745 items for donation to the GDRTL with an acquisition cost of \$4.51 million (depreciated value of \$1.75 million), an increase from the initial PADP, as shown in Table 1. These items were included in the donation package to support the post-conflict operations of the GDRTL, which was in line with the procedures of the DFS Liquidation Manual, and was consistent with an instruction from DFS that donations after the end of a mission's mandate were governed by Financial Regulation 5.14 (e). These items had been included in the report of the Secretary-General, dated 27 March 2013, to the General Assembly.

Gift of assets was not completed prior to the end of the Mission's mandate

20. As instructed by DFS and pursuant to Financial Rule 105.22, certain assets would be gifted to GDRTL during the drawdown period and were therefore not included in the PADP. UNMIT planned to gift 1,538 assets with a total acquisition cost of \$10.5 million (depreciated value \$3.5 million). However, all assets had not been gifted by 31 December 2012. Nonetheless, as the approval process of the Headquarters Property Survey Board (HPSB) was initiated prior to the end of the mandate, UNMIT continued to gift these assets during the liquidation period, and where necessary adjusted the PADP.

21. However, due to incomplete records available and/or differences between the list of assets gifted or to be gifted and those recorded as such in Galileo, OIOS was not able to identify the actual number of assets gifted to GDRTL, and was not able to reconcile the number with the official list of items approved by the HPSB.

(1) UNMIT should implement a mechanism to ensure that there is an accurate and complete list of items that were gifted to the Government of the Democratic Republic of Timor-Leste.

UNMIT accepted recommendation 1 and stated that all items had now been gifted and were documented on Certificates of Temporary Possession, or other handover and hand back documentation. A full and complete list of items would be attached to the final liquidation report. Based on the action taken by UNMIT, recommendation 1 has been closed.

The implementation of the preliminary asset disposal plan was proceeding as planned

22. By mid-March 2013, 355 items with an acquisition cost of \$1.66 million had been disposed of with the relevant information archived in Galileo. While the status of the remaining 7,604 items, with an acquisition cost of \$43.7 million, were still recorded as in progress, considerable work had been done in the disposal of these assets, including: 54 per cent had been written off or were pending the write off process; 15 per cent had been shipped out of the mission; and a further 11 per cent had been transferred to the Movement Control Section for shipment. The remaining 20 per cent were in use or in unit stock.

23. Adequate delegation of authority including that of the Local Property Survey Board was in place to dispose of assets, and procedures were being complied with.

There was inadequate follow-up on the receipt of assets by receiving missions

24. A review of five of 33 shipments of assets sent to other missions, or to the Strategic Deployment Stocks in Brindisi from October 2012 to February 2013, showed that all packing lists, bills of lading, insurance coverage, and correspondence with receiving missions were generally in place. However, there was no systematic follow-up with receiving missions to confirm the receipt of shipments. As copies of receiving and inspection reports from receiving missions were a prerequisite for electronically transferring assets in Galileo, four of the five shipments reviewed still recorded these assets as in-transit.

(2) UNMIT should follow-up with receiving missions for intermission transfers and ensure that goods were received in good order and that Galileo is updated in a timely manner.

UNMIT accepted recommendation 2 and stated that UNMIT was unable to control the time necessary for shipping, customs clearance and the receiving and inspection process by receiving missions; but continued to monitor the process until 30 April 2013. UNMIT had

included in the Final Liquidation Report a request to the Field Budget and Finance Division, DFS to follow-up with receiving missions to ensure that Galileo was up-dated accordingly. Recommendation 2 remains open pending receipt of evidence that assets transferred to other field missions have been duly recorded in their Galileo database.

Action was taken to deal with differences identified in expendables and expired medicines

25. UNMIT had been conducting physical checks of expendables for which 100 per cent was recorded as physically verified during 2011/12 and 77 per cent in 2012/13. Discrepancies were not dealt with in a timely manner when identified, and the shelf-life of drugs and medicines had not been tracked. However, during the liquidation period, action was being taken with differences between physical counts and Galileo being written off. Also, the expiry date of drugs and medicines were checked, and usable items were handed over to the World Health Organization.

IV. ACKNOWLEDGEMENT

26. OIOS wishes to express its appreciation to the Management and staff of UNMIT 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 asset disposals in UNMIT

Recom. no.	Recommendation	Critical ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	UNMIT should implement a mechanism to ensure that there is an accurate and complete list of items that were gifted to the Government of the Democratic Republic of Timor-Leste.	Important	C	Action taken	Implemented
2	UNMIT should follow-up with receiving missions for intermission transfers and ensure that goods were received in good order and that Galileo is updated in a timely manner.	Important	O	Receipt of evidence that assets transferred to other field missions have been duly recorded in their Galileo database.	31 December 2013

1 Critical recommendations address significant and/or pervasive deficiency or weakness 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 UNMIT



UNMIT

United Nations Integrated Mission in Timor-Leste

INTEROFFICE MEMORANDUM

Postal Address: O brigado Barracks, Caicoli, UNMIT Headquarters, Dili, Timor-Leste

TO: Ms. Eleanor T. Burns
Peacekeeping Audit Services
Internal Audit Division, OIOS

DATE: 5 May 2013

FROM: Clark Toes
Chief of Mission Support
UNMIT

SUBJECT: Assignment No. AP2013/682/01 - Audit of asset disposal in UNMIT

REFERENCE

1. We have received your memorandum dated 30 April 2013 transmitting the draft report on the disposal of assets at UNMIT, and inviting our comments.
2. We have used the templates that you provided, and attach our comments.
3. Thank you for the cooperation of your staff at UNMIT, and the professional manner in which they conducted this audit.
4. As you may know, the liquidation of UNMIT concluded on 30 April 2013, and our records of outstanding issues (such as this audit) will be sent to our Field Budget and Finance Division in New York. Therefore, please address any further correspondence regarding this audit to that office.

AUDIT RECOMMENDATIONS
Audit of asset disposal in UNMIT

Rec. no.	Recommendation	Critical/ ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	UNMIT should implement a mechanism to ensure that there is an accurate and complete list of items that were gifted to the Government of the Democratic Republic of Timor-Leste.	Important	Yes	Chief of Property Control Inventory Unit	30 April 2013	All items that have been gifted already are documented on Certificates of Temporary Possession, or other handover and handback documentation. A full and complete list such items will be attached to our Final Liquidation Report.
2	UNMIT should follow-up with receiving missions for intermission transfers and ensure that goods were received in good order and that Galileo is updated in a timely manner.	Important	Yes	Field Budget and Finance Division in New York	Continuing beyond 30 April 2013	We agree. But we can not control the time necessary for shipping, customs clearance, and finally R&I by the receiving mission, but we continued to monitor these processes up until 30 April. In our Final Liquidation Report, we ask the Liquidation group in our New York Field Budget and Finance Division to follow up with the receiving missions. It would be useful if a field was added to Galileo to document the receipt of such faxes.

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.