

**UNITED NATIONS DEVELOPMENT PROGRAMME**  
**Office of Audit and Investigations**



*Empowered lives.  
Resilient nations.*

**AUDIT**

**OF**

**UNDP ASSET MANAGEMENT**

**Report No. 1560**  
**Issue Date: 27 January 2016**

---

## Table of Contents

<b>Executive Summary</b>	<b>i</b>
<b>I. About the asset management system</b>	<b>1</b>
<b>II. Audit results</b>	<b>1</b>
<b>A. Governance</b>	<b>2</b>
1. Roles and responsibilities and oversight	2
<b>B. Policies and procedures</b>	<b>3</b>
1. Compliance with International Public Sector Accounting Standards	3
<b>Definitions of audit terms - ratings and priorities</b>	<b>6</b>

## Report on the Audit of UNDP Asset Management Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted an audit of UNDP asset management from 28 October to 16 November 2015. The audit aimed to assess the adequacy and effectiveness of the governance, risk management and control processes relating to the following areas and sub-areas:

- Governance
  - Roles and responsibilities
  - Oversight
- Policies and procedures
  - 'UNDP Programme and Operations Policies and Procedures'
  - Compliance with International Standards for the Professional Practice of Internal Auditing (IPSAS)
  - IT tools
  - Support & training

The audit covered the asset management activities above for the period from 1 January 2014 to 16 October 2015. This was the first audit of asset management at the corporate level.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

### Overall audit rating

OAI assessed UNDP asset management policies and procedures as **satisfactory**, which means "Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity." The audit did not perform any tests of asset management practices at individual UNDP business units.

**Key recommendations:** Total = 3, high priority = 0

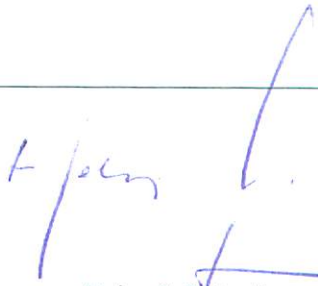
The three recommendations aim to ensure the following: (a) reliability and integrity of financial and operational information (Recommendations 2, 3); and (b) effectiveness and efficiency of operations (Recommendation 1).

The audit did not result in any high (critical) priority recommendations. There are three medium (important) priority recommendations, which means "Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP." These recommendations include actions from the Bureau for Management Services to clarify the oversight role of the Regional Bureaux for assets and also clarify issues regarding depreciation and disposal in relation to the asset management policy. The recommendations also included action by the Regional Bureau for Africa to follow up on recurrent issues regarding asset capitalizations.

### Management comments and action plan

The Director of the Bureau for Management Services and the Director of the Regional Bureau for Africa accepted all of the recommendations and are in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

A handwritten signature in blue ink is positioned above the printed name. The signature is stylized, appearing to read 'H. Østtveiten'.

Helge S. Østtveiten  
Director  
Office of Audit and Investigations

## I. About the asset management system

UNDP defines asset management as the “process of safeguarding, maintaining, managing and accounting for Property, Plant and Equipment, Finance Leases and Intangibles used and controlled by UNDP.” The value of Property, Plant and Equipment for the financial year ending 31 December 2014 was \$116 million.

Asset management activities are primarily performed by UNDP Country Offices and Headquarters units, with support from the Global Shared Services Centre in Kuala Lumpur as well as the Bureau for Management Services, and the General Operations Unit in New York, formerly part of the Administrative Services Division.

The scope of this audit was to follow up on corporate issues identified in Country Office audits as well as to review the asset management governance, policies, procedures and tools available to UNDP business units.

Audits of Country Offices and of directly implemented projects raised a high number of asset management – related issues, as seen in the table below (for audit reports issued from 1 January 2014 up to 20 August 2015). The majority of the issues had to do with managing and recording offices’ assets as well as with incorrect capitalization. An analysis of Country Office and project audit reports showed the following key finding categories and number of occurrences:

**Table 1: Key asset management audit findings, by category (reports issued January 2014-August 2015)**

Issue Category	Total cases
Discrepancies between assets register and Atlas module	23
Inadequate documentation/incomplete information provided to GSSC	17
Assets tagged incorrectly	16
Incorrect asset capitalization/recognition	9
Lost/missing assets	9
Inadequate practice in disposing/transferring fixed assets	8
Inadequate controls/arrangements for safeguarding assets	8
Assets register does not capture the required asset information	7
Inadequate write-off procedures for long-outstanding cases	6
Physical verification of assets not carried out	4
Inadequate segregation of duties	3
Cut-off issues	3

## II. Audit results

Satisfactory performance was noted in the following areas:

- (a) Compliance with IPSAS. Compliance with IPSAS was assessed as adequate.
- (b) Support and training. Support and training provided to Country Offices and asset focal points was readily available.

OAI made three recommendations ranked medium (important) priority.

**Medium priority recommendations**, arranged according to significance:

- (a) The Bureau for Management Services should update asset management policies to include clear roles for the Regional Bureaux in relation to asset management (Recommendation 1).
- (b) The Bureau for Management Services should develop further the asset management policies (Recommendation 2).
- (c) The Regional Bureau for Africa should follow up with Country Offices in Africa on recurring asset management issues (Recommendation 3).

The detailed assessment is presented below, per audit area:

## A. Governance

### 1. Roles and responsibilities and oversight

#### Issue 1 Limited oversight by Regional Bureaux

The 'UNDP Accountability Framework' (section C, paragraph 17) sets out the monitoring requirements for the organization, including the accountability of the Directors of the Regional Bureaux to the Administrator regarding "monitoring the performance of the respective country offices and taking steps to address recurring programmatic and operational issues."

The role of the Regional Bureaux in relation to asset management was limited and not consistent across the regions. Different Regional Bureaux had different mechanisms, information technology tools and resources for monitoring asset management in their regions. Additionally, the asset management section in the 'UNDP Programme and Operations Policies and Procedures' did not set out a role for the Regional Bureaux or Regional Hubs under the 'Roles and Responsibilities' sections.

The Bureau for Management Services indicated that each Regional Bureau can develop internal processes and procedures to support them in the implementation of their oversight roles. However, limited or inconsistent management oversight by Regional Bureaux may result in weaknesses in Country Offices' asset management activities not being identified or not identified on a timely basis in order for appropriate remedial action to be taken. This may result in financial losses for the organization.

<b>Priority</b>	Medium (Important)
<b>Recommendation 1:</b>	
The Bureau for Management Services should update the asset management section of the 'UNDP Programme and Operations Policies and Procedures' to include clear roles and responsibilities for the Regional Bureaux in relation to asset management, with the aim of strengthening oversight over asset management.	
<b>Management action plan:</b>	
The Bureau for Management Services will provide recommendations in the Procedures.	
<b>Estimated completion date:</b> December 2016	

## B. Policies and procedures

### 1. Compliance with International Public Sector Accounting Standards

#### Issue 2      Unclear or inadequate asset management policies

Clear, complete and up-to-date guidance concerning asset management in the 'UNDP Programme and Operations Policies and Procedures' helps to ensure consistency in how UNDP manages assets, and helps to ensure compliance with IPSAS.

The review of asset management policies highlighted the following weaknesses:

(a) Unclear policies:

The 'UNDP Programme and Operations Policies and Procedures' section on depreciation indicates that "depreciation will start the month of acquisition." On the other hand, it also indicates that depreciation should start when the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended), which is in line with IPSAS requirements.

The Bureau for Management Services indicated that the differences in the wording of the depreciation calculation process did not affect the actual depreciation calculations in Atlas (enterprise resource planning system of UNDP), as the calculations were coded into and automatically processed in the asset management module in Atlas.

(b) Limited guidance on specific areas:

The 'UNDP Programme and Operations Policies and Procedures' lacked adequate guidance on the disposal of irreparable/unsold assets, regarding potential impact on the environment.

The Bureau for Management Services explained that the Property, Plant and Equipment section of the 'UNDP Programme and Operations Policies and Procedures' provides detailed explanations for the available methods of asset disposal. Where applicable, business units have their own procedures in place that factor in locally tailored instructions on the green disposal of obsolete assets. However, the audit noted that the 'UNDP Programme and Operations Policies and Procedures' could further strengthen their requirements regarding asset disposals, by taking into account environmental factors.

Outdated and insufficient guidance may result in inconsistencies in asset management across the organization and may lead to potential misstatements of financial reporting associated with the depreciation and net book value of assets.

<b>Priority</b>	Medium (Important)
<b>Recommendation 2:</b>  The Bureau for Management Services should develop further the asset management policies by: <ul style="list-style-type: none"> <li>(a) removing any conflicting information and guidance in the 'UNDP Programme and Operations Policies and Procedures' regarding when depreciation should start for new items; and</li> <li>(b) providing additional clarification in the asset management section of the 'UNDP Programme and Operations Policies and Procedures' regarding disposal of irreparable/unsold assets, taking into account the environmental impact of any disposals.</li> </ul>	
<b>Management action plan:</b>  The Bureau for Management Services will update the respective procedures to ensure consistency in the wording within the section and provide more guidance to offices on asset disposals.	
<b>Estimated completion date:</b> December 2016	

### **Issue 3**      Incorrect capitalization of assets by Country Offices

The 'UNDP Programme and Operations Policies and Procedures' stipulate that assets "used and controlled by UNDP" should be recorded in Atlas, which has been configured to ensure that the correct account is automatically chosen, provided that asset purchases are based on a requisition using the UNDP asset catalogue and a purchase order. Additionally, directly attributable costs of bringing assets to the location and required condition for their intended use should be included in the overall cost when capitalizing assets. Where assets are not capitalized correctly, or are not capitalized at all during their purchase by a UNDP unit, the Global Shared Services Centre in Malaysia should then make the accounting entry on behalf of the unit to help ensure that all assets are correctly recorded as capital assets ('add-ons') and correctly depreciated in line with UNDP policies.

The 2014 consolidated report issued by the Bureau for Management Services General Operations Unit (formerly the Administrative Services Division) disclosed that \$4 million worth of add-ons and \$6 million worth of exclusions were manually recorded during 2014. The add-ons were generally related to assets belonging to directly implemented projects and common services, while exclusions mostly related to nationally implemented projects. The majority of cases (51 percent of all add-ons amounting to \$1,746,000 and 54 percent of all exclusions amounting to \$3,133,000) related to Country Offices and projects in Africa.

This situation resulted in additional resources being required at the regional and headquarters levels to properly capitalize Country Office assets and apply corrections to the depreciation calculations and the value of assets in UNDP's financial statements.

Incorrect capitalization and inadequate recording of assets in Atlas could lead to assets being lost or misappropriated, and the total value of assets being understated.



<b>Priority</b>	Medium (Important)
<b>Recommendation 3:</b>  The Regional Bureau for Africa should follow up with Country Offices with a high number and frequency of recurring issues in relation to asset recording and capitalization and agree on action plans to address key asset management weaknesses in those Country Offices.	
<b>Management action plan:</b>  The Regional Bureau for Africa will follow up with Country Offices on recurring asset management issues, using the corporate information and monitoring systems when they are available to the Regional Bureau.	
<b>Estimated completion date:</b> December 2016	

## Definitions of audit terms - ratings and priorities

### A. AUDIT RATINGS

- **Satisfactory** Internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
- **Partially Satisfactory** Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity.
- **Unsatisfactory** Internal controls, governance and risk management processes were either not established or not functioning well. The issues were such that the achievement of the overall objectives of the audited entity could be seriously compromised.

### B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** Action is required to ensure that UNDP is not exposed to risks that are considered moderate. Failure to take action could contribute to negative consequences for UNDP.
- **Low** Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.