



ORGANISATION DE L'AVIATION  
CIVILE INTERNATIONALE

INTERNATIONAL CIVIL  
AVIATION ORGANIZATION

# **Audit Report on Accuracy of General Ledger Accounts**

**CA/2020/02**

**Office of Internal Oversight**

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## EXECUTIVE SUMMARY

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1. As part of its annual work plan for 2020 (C-WP/14945), the Office of Internal Oversight (OIO) carried out a continuous audit on accuracy of General Ledger (GL) accounts. The objectives of the audit were to assess whether there were adequate controls over the management of master data in GL and recording of correct classification of transactions in Unit4 ERP system. The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing<sup>1</sup>.
2. Audit results indicated that internal controls around master data governance and classification of transactions were generally adequate. However, some inconsistencies in the cost centre master data and mapping between product codes and product groups were noted. Some exceptions in misclassifications<sup>2</sup> (1.67% of the total population) were also noted.
3. Regular updates of General Ledger master data and reviews of classifications will ensure accuracy of GL data and reporting on expense accounts.
4. Based on the results of the audit, OIO has given an overall audit rating of 'Effective'. Annex to this report provides further information on the definition of audit terms used in OIO's internal audit reports.
5. Management actions relating to review of master data and exceptions found in misclassifications will be followed up to continually assess the design and effectiveness of key internal controls in recording financial transactions.
6. OIO wishes to thank management and staff for their assistance and excellent cooperation during the audit.

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<sup>1</sup> IIA Standard 1321

<sup>2</sup> in respect of expenditure booked between January 2019 and September 2020 in Unit4 ERP

## RESULTS OF THE AUDIT

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### Background

7. For procurement of goods and services and for hiring consultants, authorized users enter details of requisitions in Unit4 ERP which include description of item(s) being ordered, supplier name, product code / product group<sup>3</sup>, cost centre against which the expense is being charged, work order code<sup>4</sup>, and cost and currency of purchase.
8. The requisition data provide following General Ledger information in respect of each product line:
  - Expense account, which is mapped to product group master and identified on the basis of product group / product code;
  - Cost centre against which the expense is to be charged, and
  - Work order code.
9. The integrity of the information in ICAO's General Ledger is dependent on error free and updated master data (e.g. cost centre master, product group, product master, etc.) and preventing misclassifications of transactions resulting from erroneous identification of expense accounts.

### Audit Objectives and Scope

10. The objectives of the continuous audit were to assess whether there are adequate and effective controls over the management of master data in GL and recording of correct classification of transactions in Unit4 ERP system.
11. The scope of continuous audit was limited to analysis of GL master data and classification of expenses. Utilizing a data analytics tool, detailed tests were performed to determine the adequacy and effectiveness of key controls applied between January 2019 and September 2020.

### I. Review of master data

12. The active records in cost centre master database were analysed. Some instances of duplicate cost centres were found:
  - The three cost centres namely 4081: SEA<sup>5</sup>, 4082: POD<sup>6</sup> and 4083: RCP<sup>7</sup> were active records in cost centre database. Since January 2019, three out of 57 HR related expenses (5.2%) were recorded under cost centre for SEA and no entries existed under POD and RCP. Most of the expenditure (54 transactions) for these three entities were booked under a combined cost centre (Human Resources: 4080). A consistent approach should be adopted. Either the entire expenditure related to Human Resources should be booked under 4080 or under respective cost centres for SEA, POD and RCP.

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<sup>3</sup> A product group combines many product codes and have a one to many relationship with product master.

<sup>4</sup> Work order code indicates the strategic objective to which the cost is charged.

<sup>5</sup> Staff Employment and Administration

<sup>6</sup> Policy Organization and Staff Development

<sup>7</sup> Recruitment, Classification and Post Management

- While 459 transactions related to ICT were booked under cost centre 4070:ICT, 91 transactions (16.5%) of a similar nature and related to ICT were booked under another cost centre defined as 4074 (Information Management Section). Only one cost centre should have been used.
  - An active cost centre, 4113: Document, Planning and Management Section (DPM) existed apart from 4091: Documents Management and Outsourcing. Only one cost centre should remain active.
  - Some active cost centres<sup>8</sup> were not in use which should be closed.
13. Regular updates of cost centre master data in Unit4 ERP by FIN will enhance accuracy of master data and integrity of information in expense related General Ledger Accounts.
14. The Product master and product group master were also analyzed. The product master file falls under the responsibility of PRO and is maintained in the procurement system. There were 652 active records in ERP's product master which were categorized under 73 different product groups. A test check showed that grouping of products was incorrect in 20 cases out of 652 (3%) e.g. e Recruitment system and IT security consultancy services were grouped under "IT hardware – Maintenance" and consequently linked to a wrong expense account meant for IT hardware maintenance. This resulted into few misclassifications of related expenses. Details of these cases were shared with FIN and PRO. Both units agreed to jointly work together for an effective way of maintaining the mapping between product codes and product group codes up-to-date.

## II. Misclassifications

15. The expenditure data from January 2019 to September 2020 was analysed to check for accuracy. It was observed that there were 53 procurement related transactions out of 3158 (1.67%) with potential misclassifications in either expense account or product group/product code. These transactions involve an expenditure of CAD 2.28 million out of CAD 47.20 million (4.8 %) booked under expense heads related to procurement. Details of these cases were shared with FIN and discussed during closing meeting.
16. The misclassifications were mainly in expense accounts related to "Outsourcing", "IT software purchases" and "periodicals, books and subscriptions". While it is the responsibility of certifying officers to use the correct expense accounts, FIN needs to monitor the expense data and advise the units, as appropriate. Misclassifications in the expense accounts can adversely impact correct reporting of expenditure under different expense accounts.
17. OIO suggests that Finance Branch in cooperation with other ICAO units, take remedial action to rectify the misclassification errors, as appropriate.

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<sup>8</sup> 4178: Business Support Section, 4175: Procurement Support Unit (Technical), 4176: Procurement Contracts Unit, 4179: Project Development Unit

## ANNEX 1: DEFINITION OF AUDIT TERMS

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### Audit Ratings

In providing an overall assessment of the results of the audit, OIO uses the following standardized audit rating definitions:

Audit Assessment	Definition
Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses or areas for improvement were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Several key control weaknesses were noted and/or several areas of strategic/high importance were identified where significant improvements can be made to increase efficiency and effectiveness.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

Internal control is defined as a process effected by senior management and staff, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance objectives. Whilst internal control provides reasonable (but not absolute) assurance of achieving organizational objectives, limitations may result from:

- suitability of objectives established as a precondition to internal control;
- reality that human judgment in decision making can be faulty and subject to bias;
- breakdowns can occur because of human failures such as simple errors;
- ability of management to override internal control;
- ability of management, other staff, and/or third parties to circumvent controls through collusion; and
- external events beyond the organization's control.