



TO: Mr. Getachew Engida, Chairperson
A: The Audit Committee
of the United Nations Joint Staff Pension Board

DATE: 19 November 2007
REFERENCE: OUSG 07- 805

THROUGH:
S/C DE:

FROM: Inga-Britt Ahlenius, Under-Secretary-General
DE: for Internal Oversight Services

A handwritten signature in black ink, appearing to read 'Inga-Britt Ahlenius'.

SUBJECT: **Report on Internal Audit 2007 Programme of Work for the**
OBJET: **United Nations Joint Staff Pension Fund (UNJSPF) Operations**
as at 31 October 2007

1. I am pleased to provide the subject report for your consideration at the United Nations Joint Staff Pension Board Audit Committee Meeting in November 2007. The report provides an update on the status of the 2007–2009 Work Plan as at 31 October 2007.
2. OIOS again looks forward to discussing internal audit activities with the Committee.
3. Thank you for your continuing cooperation.

copy to:

Chairman, United Nations Joint Staff Pension Board
Mr. Warren Sach, Representative of the Secretary-General for Investments
Mr. Bernard Cochemé, Chief Executive Officer, UNJSPF Secretariat
Ms. Suzanne Bishopric, OIC, Investment Management Service
Mr. Swatantra Goolsarran, Executive Secretary, Board of Auditors
Mr. Dagfinn Knutsen, Director, Internal Audit Division, OIOS

Report on the Internal Audit 2007 Programme of Work for the United Nations Joint Staff Pension Fund (UNJSPF) Operations as at 31 October 2007

I. INTRODUCTION

1. In 1996, the United Nations Joint Staff Pension Board, with the concurrence of the General Assembly and its Advisory Committee on Administrative and Budgetary Questions (ACABQ), established OIOS as the internal auditors of UNJSPF. OIOS has since carried out audits of the United Nations Joint Staff Pension Fund (UNJSPF or the Fund) in accordance with the International Standards for the Professional Practice of Internal Auditing (the Standards). This report provides an updated status of the 2007 Internal Audit Work Plan as at 31 October 2007.

II. INTERNAL AUDIT CHARTER

2. OIOS took note of the comments of the Pension Board and the Audit Committee as captured in the Board's Report for the 54th Session held in July 2007 in respect to the following issues that were raised in our previous report¹:

- a. **GA resolution (59/272) for OIOS to provide reports to member states and the implications for the UNJSPF.** *The Committee affirmed that audit reports should pass through the established review process, including the review by management, the Audit Committee and the Pension Board, before being considered final and available for release. OIOS notes that under its reporting practices, once the comments of the Fund on the draft have been received, a final report is issued. OIOS wishes to advise the Committee that in order to comply with the General Assembly's resolution 59/272, it is obligated to provide copies of any final report to member states upon request, and will alert management and the Pension Board of any such request.*
- b. **Establishment of Audit Committee – Terms of Reference relating to internal audit.** *The Committee indicated that it is not part of line management, but that it would review OIOS reports and comment on the status of implementation of recommendations. OIOS takes note of the role of the Audit Committee in this regard, and will forward copies of final reports and updates on the Status of Recommendations to the Committee for its review.*
- c. **Internal audit charter as established by the UNJSPF – the issue of independence.** *The Committee concluded that the Board should keep internal audit arrangements, including possible amendments to the UNJSPF Internal Audit Charter, under further review. It deferred its recommendations on the issue over the interpretation of the Institute of Internal Auditors (IIA) Standards until it received input from the Board of Auditors (BOA) and expert members of the Audit Committee. The Board concluded that the internal audit function assists the*

¹ The comments of the United Nations Joint Staff Pension Board and Audit Committee are shown in italics.

Fund's CEO and that its mandate is to monitor and enhance the internal control environment and the effectiveness of the organization. Nevertheless, internal auditors should maintain professional independence while executing their duties and exercise professional judgment when, in their opinion, a situation warrants immediate and direct reporting to the Audit Committee and to the CEO. OIOS reiterates its position, as presented in the draft report on the Audit of the UNJSPF Governance Mechanism, that there are possible risks if management were to have undue influence in determining the terms of reference, scope and timing of audits, as this could reduce the level of assurance given to the Board on achievement of the objectives.

- d. **Audit Committee to review the competencies of OIOS audit resources – July 2006 Board decision.** *At the July 2007 meeting, the Board noted Participants' Representatives opinion that it would appear more appropriate to discontinue using the service of OIOS and, subsequently, reallocate the relevant budget for the establishment of an audit unit that would be attached to the Fund Secretariat. OIOS remains committed to conducting value added audits, maintaining positive working relationships between the OIOS auditors and the Fund's management, and assisting the Audit Committee in its efforts to improve the capacity of the internal audit function.*

III. AUDIT RESOURCES

3. As reported previously, the internal audit work plan for 2006 was primarily based on the risk assessment conducted by Pricewaterhouse Coopers (PwC) in 2005 as updated by OIOS in 2006 for the 2007 audit work planning process. The 2007 audit work plan is based on OIOS' reassessment of risks which resulted in adjusting the list of audits suggested by PwC by adding audits of Procurement, IT Security, and the efficiency and effectiveness of services to beneficiaries. The audit work plan anticipated an increase in the available audit staff resources for the entire year. However, delays in the recruitment of additional audit staff, as well as the engagement of a consultant for one audit, have resulted in the need to revise the planned completion of several assignments, and the deferment of other audits planned for 2007. These revisions to the audit work plan are discussed in further detail in Section IV below. In the view of OIOS, once recruitment of the additional staff complement is finalized in January 2008, and provided that the requested consulting and contractual services/training resources are approved by the Board, OIOS will be able to achieve broader audit coverage of the Fund's operations during the next biennium.

4. Following the recommendations of the External Quality Assurance Review (QAR) of the Internal Audit Division, OIOS has taken actions to further strengthen the management and staff of its internal audit activity for the UNJSPF. OIOS notes in this regard that all professional staff dedicated to pension fund audits is certified in different audit disciplines, an expressed desire of the Pension Fund, and collectively, they possess the necessary competencies to effectively audit the Pension Fund. OIOS will continue to identify and participate in audit-related and pension fund specific trainings, and will be participating in training in IPSAS prior to its implementation by the Fund. OIOS also continues to enhance the professionalism of the internal audit staff dedicated to audits of the Pension Fund as demonstrated by its membership in the Association of Public Pension Fund Auditors (APPFA) and the Institute of Internal Auditors (IIA), and

attendance of the Pension Fund auditors to professional development conferences hosted by these organizations.

IV. STATUS OF THE 2007 PROGRAMME OF WORK

5. During the period January to October 2007, OIOS undertook seven audits, five in areas ranked as high risk and two in medium risk areas. Of the eleven audit assignments planned for 2007, two have been completed, three are at the reporting stage, two are in fieldwork, two are in the planning stage and two have not yet started, as detailed in the Annex. The two audits currently at fieldwork stage are the audits of Certificates of Entitlement and Data Security. OIOS had begun planning the audits of benefit payments and actuarial services but these audits will be deferred for reasons cited below.

6. A number of factors have contributed to the need to make adjustments to the work plan. In particular, four of the audits planned for 2007 are likely to be deferred to 2008 due to the following reasons:

- a. Delays in finalizing the recruitment of the P3- and P-4, and the associated learning curve of the new auditors;
- b. The Procurement Service (PS) has been unsuccessful in the first round of bidding for a qualified actuarial firm to assist OIOS in conducting the actuarial audit. OIOS, together with PS, will be reassessing the scope of work and evaluation criteria in the context of the responses received from the vendors, and plan to conduct a second bidding exercise in the first quarter of 2008;
- c. Given the heavy volume of activities during the 4th quarter, including the current audit by the Board of Auditors, the Fund has requested for OIOS to defer two audits, namely the audit of benefit payments and the audit of new entrants, restoration and validation process.

7. In keeping with OIOS' strategy of conducting horizontal audits aimed at optimizing the use of the available resources and achieving broader audit coverage OIOS has done several horizontal audits across the across the UNJSPF Secretariat, IMS and the Geneva Office. These included audits of Cash Management, the UNJSPF Governance Mechanism, Financial Accounting and Reconciliation, Procurement and IT Security.

8. Co-ordination with the Board of Auditors (BOA): OIOS has held several meetings with the BOA as part of their planning exercise for auditing the Fund. In this regard, OIOS also provided documentation in the form of audit reports, audit plans and programmes, aimed at ensuring broader audit coverage of risk areas and reducing duplication. A focal point was also designated within the Pension Fund Audit Section to facilitate the co-ordination process.

9. OIOS continued its participation in the Quarterly Senior Management (QSM) and IT Executive meetings, which allow the auditors to keep abreast of developments within the Fund's operations; OIOS also reports on the status of the work plan at the QSM. OIOS has also

provided the Fund with advisory services when requested. During this period, OIOS rendered advice requested by the Fund on processing payroll payments for former UNESCO staff members through UNESCO/SEPU (see paragraphs 22-24).

10. During the 4th quarter, the Internal Audit Division has been developing its 2008-2010 work plan. OIOS will therefore be engaging the management of the Fund in the upcoming planning exercise, particularly with regard to any newly identified high risk areas and special requests for audit. The plan will include assignments that are to be carried over from 2007 for completion during the first quarter of 2008. The next comprehensive risk assessment will be conducted in 2008 based on the planned three-year cycle and will serve as the basis for the 2009 – 2011 work plan. OIOS will present the proposed 2008-2010 work plan at the January 2008 Senior Management Meeting and report on it at the next meeting of the Audit Committee.

11. OIOS again looks forward to continued positive interaction with the Audit Committee, which will further enhance the internal audit process.

V. AUDIT RESULTS

12. The following were the main audit issues emanating from the two audits for which final reports were issued during the reporting period July – October 2007, the full reports of which are provided for your perusal.

A. Cash Management Operations (AS2006/800/01)

13. Within the UNJSPF Secretariat, banking agreements and contracts were generally found to be in the best interest of the Pension Fund except for some noted areas such as the contract with the main banking service provider, JP Morgan Chase (JPMC). This contract did not include a requirement for a SAS 70 Report, i.e., an external audit report on the internal controls of the bank, or in lieu of that report, a Right to Audit clause. In another case, the banking relationship with Standard Charter Bank was not governed by a duly executed contract.

14. Written procedures were insufficient or incomplete as they did not adequately cover all functions and responsibilities of the staff. Furthermore, the segregation of duties in the Foreign Exchange process was inadequate and was primarily a result of insufficient staff resources, which management intends to address in the 2008-09 budget cycle.

15. The maximization of income earned was not part of the overall strategic cash management policy. Excessive cash balances were held in the UNJSPF operating bank accounts that could have been invested in other instruments at higher interest rates. The opportunity cost of unearned interest income for one quarter was approximately \$167,000. Also, excessive bank fees were being charged by JPMC for routine transactions, and there was insufficient documentary evidence to provide an audit trail for monitoring of bank charges and interest income. Despite the Fund's efforts, disputes over fees charged by JPMC had not been resolved two-and-half years into a three-year contract.

16. Cash flow projections needed further improvement in both UNJSPF Secretariat and IMS. The methodology used by the Secretariat to forecast cash balances had led to excessive balances in the operating accounts and resulted in lower than optimal interest income. The projection method used by IMS did not match the Fund's total assets with its total liabilities, in order to provide a more global and longer term view of the Fund's liquidity position.

Reconciliation of the General Ledger was not compliant with UN Financial Regulation and Rule 104.11 and best practices that require timely reconciliation. According to the Fund's management, this was attributable to the Fund's inability to close the general ledger due to delays in the Accounts Payable module. The audit revealed a substantial difference (approximately \$63 million) between JPMC Euro account balance and the balance for the same account on the General Ledger. Management was unaware of this difference as the bank reconciliation for June 2006 had not been done at the time of the audit.

17. OIOS issued 26 recommendations to IMS, of which nine were deemed to be critical. A total of 23 recommendations were accepted, thirteen of which are in the process of being implemented and one completed.

B. Custodian and Master Record Keeper (MRK) (AS2006/801/01)

18. Although having implemented the audit recommendation of OIOS to consolidate the custodial arrangements, with reported savings of about \$5.6 million for the biennium 2006/07, IMS had not revised its policies and procedures to reflect the new custodial arrangements implemented one year ago.

19. The lack of a systematic and centralized change request process for signing-off on customizations to management performance reports and the absence of an internal project plan contributed to errors in mapping and classifying of the accounts. This, in turn, caused several iterations of and delays in completing custom management performance reports, and compounded the reconciliation and reporting problems. Furthermore, the long procurement process (about 20 months) for the new custodian precluded IMS and Northern Trust from finalizing the required mapping for timely completion of the custom management performance reports. The three-month delay in completing monthly reconciliations resulted in the late discovery of significant errors and omissions. The lack of automation of the trade settlement process had precluded IMS from the benefits of real-time trade settlement.

20. IMS did not have a model for analyzing risks or a formal monitoring mechanism for reviewing the Northern Trust's external audit reports on internal controls (SAS 70 Report) and assessing compliance with the terms and conditions of the contract. During the due diligence exercise carried out on-site at Northern Trust, the audit identified several areas for the Bank to enhance its process of daily checks and balances, including the review of the adequacy of insurance coverage, which were being acted upon. Furthermore, the collaborative efforts of the Bank and IMS had not yielded much success in the collection of the delinquent tax claims of about \$8.9 million.

21. OIOS issued 17 recommendations to IMS, 12 of which were considered critical. IMS accepted 16 recommendations, twelve of which were in the process of implementation.

C. UNJSPF Payroll Processing – Payments through UNESCO/SEPU (AS2007/803/01)

22. At the request of the Fund management, OIOS reviewed and provided advice on the issue of third party payments. OIOS determined that sample statements provided by banks of UNESCO, with a breakdown of each individual entitlement as in the sample reviewed, would be considered an adequate proof of payment for audit purposes. At that time, the Fund did not receive any statements from either JP Morgan Chase (JPMC) or Société Générale (SG).

23. During the limited review, however, OIOS also noted weaknesses in this aspect of the Fund's payroll process related to beneficiary payments through UNESCO/SPU, identifying the following risks: (i) there was no written agreement between UNESCO/SEPU and UNJSPF and no indication of whether the institution was regulated by the government and was adequately insured; (ii) insufficient internal controls at the institution, particularly relating to co-mingling of the bulk deposits from the Fund with its own; and (iii) the remote risks that the Fund could be faced with hidden liabilities such as tax requirements on behalf of the beneficiaries in the absence of sufficient information otherwise.

Status of Internal Audit/OIOS Work Plan 2007

(For UNJSPF Audit Committee Meeting - November 2007)

#	Assignment	Assignment No.	OIOS 2006 Risk Assessment	Risk Category	Budgeted Days	Status	Expected Date of Final Report ²	STATUS	ACTION
1	Audit of Cash Management Operations of UNJSPF Secretariat and Investment Management Service	AS2006/800/01	High	Financial	40	Completed	31 July 07	Final report was issued on 9 July 2007.	None required
2	Audit of UNJSPF Governance Mechanism	AS2006/800/02	High	Governance	20	Reporting	August 07	Final report is in progress, having requested and received (in October) a copy of the Board' Report of meeting held in July 2007.	Proposed issuance date for final report is November 2007.
3	Audit of Custodians and Master Record Keeper (MRK)	AS2006/801/01	Medium	Financial	100	Completed	15 July 07	Final report was issued on 19 October 2007, having received the response from IMS on 10 September, after a five week extension. Exit Conference was held on 24 May 2007 and draft report was issued on 10 July 2007.	None required
4	Audit of Financial Accounting and Reconciliations: (i) IMS (ii) Secretariat	AS2006/801/02	(i) Medium (ii) High	Financial	75	Reporting	September 07	Draft report is in progress. Field work was done during the period June - September 2007. Exit Conference was held on 19 October 2007.	Proposed issuance date for draft report is December 2007.
5	Assessment of Fund's actuarial methodologies	AS2007/800/01	High	Strategic	50	Planning	September 07	Procurement process (started in April 2007) is in progress - RFP was issued on 21 September 2007. The Bid Opening was held on 15 October but no proposal was received.	Preparing for a second bidding exercise. Audit has to be deferred to 2008.
6	Audit of (i) physical and (ii) data security	AS2007/800/02	(i) Low (ii) High	Information resources	75	Fieldwork	September 07	Revised start date is 1 November 2007. Secured a consultant to assist the IAD team with this audit, pending the conclusion of the recruitment process for the P4/IT Auditor. Notification sent 19 September 2007.	Proposed issuance date for draft report is December 2007.

2 As presented to the Committee in July 2007.

Status of Internal Audit/OIOS Work Plan 2007

(For UNJSPF Audit Committee Meeting - November 2007)

#	Assignment	Assignment No.	OIOS 2006 Risk Assessment	Risk Category	Budgeted Days	Status	Expected Date of Final Report ²	STATUS	ACTION
1	Audit of Cash Management Operations of UNJSPF Secretariat and Investment Management Service	AS2006/800/01	High	Financial	40	Completed	July-07	Final report was issued on 9 July 2007.	None required
2	Audit of UNJSPF Governance Mechanism	AS2006/800/02	High	Governance	20	Reporting	August-07	Final report is in progress, having requested and received (in October) a copy of the Board' Report of meeting held in July 2007.	Proposed issuance date for final report is November 2007.
3	Audit of Custodians and Master Record Keeper (MRK)	AS2006/801/01	Medium	Financial	100	Completed	July-07	Final report was issued on 19 October 2007, having received the response from IMS on 10 September, after a five week extension. Exit Conference was held on 24 May 2007 and draft report was issued on 10 July 2007.	None required
4	Audit of Financial Accounting and Reconciliations: (i) IMS (ii) Secretariat	AS2006/801/02	(i) Medium (ii) High	Financial	75	Reporting	September-07	Draft report is in progress. Field work was done during the period June - September 2007. Exit Conference was held on 19 October 2007.	Proposed issuance date for draft report is December 2007.
5	Assessment of Fund's actuarial methodologies	AS2007/800/01	High	Strategic	50	Planning	September-07	Procurement process (started in April 2007) is in progress - RFP was issued on 21 September 2007. The Bid Opening was held on 15 October but no proposal was received.	Preparing for a second bidding exercise. Audit has to be deferred to 2008.
6	Audit of (i) physical and (ii) data security	AS2007/800/02	(i) Low (ii) High	Information resources	75	Fieldwork	September-07	Revised start date is 1 November 2007. Secured a consultant to assist the IAD team with this audit, pending the conclusion of the recruitment process for the P4/IT Auditor. Notification sent 19 September 2007.	Proposed issuance date for draft report is December 2007.

² As presented to the Committee in July 2007.

Status of Internal Audit/OIOS Work Plan 2007

(For UNJSPF Audit Committee Meeting - November 2007)

#	Assignment	Assignment No.	OIOS 2006 Risk Assessment	Risk Category	Budgeted Days	Status	Expected Date of Final Report	STATUS	ACTION
7	Audit of Certificate of entitlement process	AS2007/800/03	Medium	Operational	60	Fieldwork	October 2007	Notification letter was sent out on 12 September 2007. Entry Conference was held on 4 October 2007.	Proposed issuance date for draft report is December 2007.
8	Audit of efficiency and effectiveness of services to beneficiaries	AS2007/800/05	Medium	Operational	75	Not yet started	December 2007		To be deferred to 2008 and discussed with the Audit Committee.
9	Audit of Procurement management	AS2007/800/06	High	Compliance	75	Reporting	December 2007	Exit Conference held with the Fund on 13 September; a separate exit conference was held with Procurement Service on 5 October 2007. Follow-up meetings were held with the Fund, PS and HCC.	Proposed issuance date for draft report is November 2007.
10	Audit of new entrant, restoration and validation benefits processing	AS2007/800/07	Medium	Operational	100	Not yet started	December 2007	Revised start date is December 2007	To be deferred to 2008 at the request of the Fund.
11	Audit of benefits payments: off cycle, lump sum, withdrawal settlements	AS2007/800/08	Medium	Financial	60	Planning	November 2007	Revised start date is November 2007	To be deferred to 2008 at the request of the Fund.
12	Payroll Processing - Payments through UNESCO	AS2007/803/01	Medium	Financial	10	Completed	July-07	Added at 3rd quarter due to special advisory request sent in by UNJSPF CEO to Deputy Director of IAD.	None required
13	Internal Audit Annual report (2006-2007) to the Board		N/A		20	Ongoing	May-07	An update as at April 2007 was submitted to the Audit Committee in May 2007.	A report as at 31 October 2007 will be presented at the November meeting.
14	Recommendation Review		N/A		20			Status of Recommendations (SARs) to be reassessed as at 31 December 2007, as part of the OIOS annual review, and reviewed at the January 2008 Review Committee.	To be presented at the next Audit Committee meeting.

**Status of UNJSPF Recommendations Issued by Organizational Units
Recommendations issued over the 2006/07 Biennium
As at 31 October 2007**

UNJSPF Secretariat		Number of Recommendations						Number of critical recommendations			
No.	Assignment Number	Total Issued	Not started	In progress	Completed	Accepted	Not Accepted	Total	Not started	In progress	Completed
1	AS2005/800/01 Lawson Accounting System	20	0	13	16	24	5	44	0	9	5
2	AS2006/800/04 Business Continuity and Disaster Recovery Planning	19	0	9	10	18	1	31	0	4	5
3	AS2006/800/01 Cash Management	20	9	12	1	19	3	31	4	4	0
	Sub-total	59	9	34	27	61	9	91	4	17	10

UNJSPF IMS		Number of Recommendations						Number of critical recommendations			
No.	Assignment Number	Total Issued	Not started	In progress	Completed	Accepted	Not Accepted	Total	Not started	In progress	Completed
	AS2005/800/01 Lawson Accounting System	1	0	0	1	1	0	1	0	0	1
4	AS2005/801/02 Brokerage and Investment Advisory	3	0	2	6	8	0	4	0	1	3
	AS2006/800/04 Business Continuity and Disaster Recovery Planning	7	0	2	5	7	0	0	0	0	0
	AS2006/800/01 Cash Management	4	2	1	1	4	0	1	1	0	0
5	AS2006/801/01 Custodian and Master Record Keeping Operation	17	3	12	2	16	1	13	8	4	0
	Sub-total	22	5	17	15	26	1	48	9	5	4
	TOTAL UNJSPF SECRETARIAT AND IMS	107	14	51	42	87	10	69	13	22	14

		2006		2006 - 2007	
Ratios to Total Recommendations		UNJSPF Secretariat and IMS	Secretariat	Secretariat	IMS
Percentage of critical recommendations to total recommendations:		39.8%	47.2%	44.9%	48.6%
Percentage of accepted recommendations to total recommendations:		93.0%	92.0%	87.1%	97.3%