



INTERNAL AUDIT DIVISION

AUDIT REPORT

UNJSPF financial reporting process

Overall accountability for financial reporting needs to be formalized and clarified in the context of the bifurcated structure of UNJSPF, and control issues regarding segregation of duties and access and change controls need to be addressed

4 February 2010
Assignment No. AS2009/800/02

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. Bernard Cochemé, Chief Executive Officer
A: United Nations Joint Staff Pension Fund

DATE: 4 February 2010

Mr. Warren Sach, Representative of the Secretary
General for Investments, United Nations Joint Staff
Pension Fund

REFERENCE: IAD: 10- 00049

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



SUBJECT: **Assignment No. AS2009/800/02 - Audit of the UNJSPF Financial Reporting Process**
OBJET:

1. I am pleased to present the report on the above-mentioned audit.
2. Based on your comments, we are pleased to inform you that we will close recommendations 9 and 10 in the OIOS recommendations database as indicated in Annex 1. 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. Your response indicated that you did not accept recommendation 12. In OIOS' opinion however, this recommendation seeks to address an issue of compliance with UN Financial Regulations and Rules - a significant risk area. We are therefore reiterating it and requesting that you reconsider your initial response based on the additional information provided in the report.
4. Please note that OIOS will report on the progress made to implement its recommendations, particularly those designated as high risk (i.e., recommendations 7, 8 and 10), in its annual report to the General Assembly and semi-annual report to the Secretary-General.

cc: Ms. Suzanne Bishopric, Director, Investment Management Service, UNJSPF
Ms. Jaana Sareva, Secretary to the UNJSPB Audit Committee
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit
Mr. Moses Bamuwamye, Chief, Oversight Support Unit, Department of Management
Mr. Byung-Kun Min, Special Assistant to USG, OIOS
Mr. William Petersen, Chief, New York Audit Service, 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 the UNJSPF Financial Reporting Process

OIOS conducted an audit of the financial reporting process at the United Nations Joint Staff Pension Fund (UNJSPF or the Fund). The overall objectives of the audit were to: assess the adequacy and effectiveness of internal controls over the financial reporting process; determine the appropriateness of the financial accounting and reporting policies and procedures; determine compliance with relevant rules and regulations governing financial accounting in the Investment Management Division (IMD) and the Fund's Secretariat; and assess progress made by the UNJSPF in adopting an internationally accepted financial accounting and reporting framework. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

OIOS found that the financial reporting process was not formalized and that duties and responsibilities for financial accounting and reporting were not clearly delineated. There was a lack of documentation of the policies and procedures related to financial accounting and reporting, insufficient segregation of the financial reporting and accounting functions, as well as a lack of segregation of duties within the Lawson accounting system. In addition, there was no formal system access authorization policy for Lawson, which increases the risk that users could access data and functionalities of the system that are beyond their authorized levels.

OIOS concluded that in order to achieve overall improvement in the financial reporting process, UNJSPF management needs to:

- Document the accounting policies for major components of the financial statements and major transactions of the Fund;
- Document detailed procedures for the preparation of financial statements along with the checklist of all required disclosures/footnotes to the financial statements;
- Develop a formal process to document, and retain evidence of, supervisory approval for granting system access, coupled with an exit procedure to remove access for transferring or separating staff;
- Develop procedures for periodic review of the trial balance and general ledger and assign this function to an individual who does not process or approve accounting entries; and
- Prepare a detailed plan for implementing the international accounting standards outlining the major components, processes, milestones and responsible staff members.

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I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the financial reporting process at the United Nations Joint Staff Pension Fund (UNJSPF or the Fund). The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

2. The Fund was established in 1949 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and the other 23 organizations admitted to membership in the Fund. UNJSPF is a special inter-agency body, administered and managed by the Chief Executive Officer (CEO) of the Fund, who in turn is directly responsible to the United Nations Joint Staff Pension Board (UNJSPB) and ultimately to the United Nations General Assembly. The Fund has benefit processing and administration offices in New York and Geneva. The management and administration of investments of the Fund is the fiduciary responsibility of the Secretary-General of the United Nations. This responsibility has been delegated to the Under-Secretary-General for Management, as the Representative of the Secretary-General (RSG) for the Investments of the UNJSPF. The Representative is assisted by the Investment Management Division (IMD), which manages the Fund's portfolio on a day-to-day basis.

3. UNJSPF currently uses the United Nations System Accounting Standards (UNSAS) for financial statement preparation. UNJSPF also adheres to the United Nations Financial Regulations and Rules in the administration of the Fund's management and operations to the extent they are applicable and relevant to the activities of the Fund, and the UNJSPF Regulations, Rules and Pension Adjustment System, which govern the Fund's operations. The Lawson accounting system is used for maintaining the accounting records and generating financial reports.

4. Within the UNJSPF Secretariat, the Accounts Unit of the Financial Services Section (FSS) bears the responsibility for maintaining the accounting records for the preparation of the annual financial statements. IMD is responsible for the maintenance of accounts that pertain to investments. IMD engages a bank as a master record keeper (MRK) to maintain detailed records of investment transactions and balances.

5. The main tasks of the Accounts Unit include the maintenance and monthly closing of the general ledger, accounting for monthly contribution income from the member organizations and posting entries for administrative expenditures and bank charges. The Payments Unit is responsible for processing monthly benefit payments and miscellaneous payments. Daily payments (withdrawal settlements, lump-sums) are accounted for by the Pension Entitlements and Client Services Section in the pension administration system called PENSYS and are transferred to Lawson via an interface. The Executive Office calculates administrative expenses using data from the United Nations Integrated Management Information System (IMIS) and forwards the figures to the Accounts Unit for data entry. The MRK submits the general ledger feed and other required reports for accounting to UNJSPF on a monthly basis. The general

ledger feed from the MRK is uploaded monthly to the Lawson system via an automated interface. IMD is responsible for ensuring the integrity and validity of the general ledger accounts pertaining to investments. The reconciliation of the general ledger accounts is done by the above offices based on their areas of responsibility in the accounting process.

6. Comments made by UNJSPF are shown in *italics*.

II. AUDIT OBJECTIVES

7. The overall objectives of the audit were to:
- (a) Assess the adequacy and effectiveness of internal controls over the financial reporting process;
 - (b) Determine the appropriateness of the financial accounting and reporting policies and procedures;
 - (c) Determine compliance with relevant rules and regulations governing financial accounting in IMD and the Fund's Secretariat; and
 - (d) Assess progress made by UNJSPF in adopting an internationally accepted financial accounting and reporting framework.

III. AUDIT SCOPE AND METHODOLOGY

8. The audit covered the financial reporting process and systems at the Fund's Secretariat and IMD, focusing on the following:
- (a) Process overview, including policies and procedures pertaining to the preparation and presentation of UNJSPF financial statements;
 - (b) Timeliness of the general ledger reconciliations and closing of books;
 - (c) The processing of journal entries including manual and closing entries;
 - (d) The information systems involved in generating the financial statements; and
 - (e) The internal controls surrounding financial accounting systems including those designed to prevent and detect errors and fraudulent financial reporting.

9. The methodology included a review of the organization's structure, roles, policies, procedures, processes, documentation, systems and practices with respect to the Fund's financial reporting process. The audit also included

interviews with key staff and substantive testing of the financial statements for the years ended 31 December 2007 and 2008.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Internal controls over financial reporting

Overall accountability for financial reporting

10. OIOS noted that the financial reporting process was not formalized and that the duties and responsibilities for the financial accounting and reporting process were not clearly outlined. Responsibilities are currently divided between the Chief of FSS for participant contribution income and benefit entitlement expenditures, the Chief of Operations of IMD for all investment related activities and the Executive Officer of the Fund for administrative expenses. Within the context of the bifurcated structure of the Fund, the overall responsibility for attesting to the underlying completeness, accuracy and validity of the accounting data is not clearly assigned. OIOS noted that the financial statements are jointly signed off by the Representative of the Secretary-General, attesting to the validity of the amounts in the financial statements pertaining to the investments of the Fund, and the Chief Executive Officer of UNJSPF, attesting to the validity of the amounts in the financial statements pertaining to the contribution income, benefit payments and administrative expenses. However, in the view of OIOS, this splitting of responsibility for attesting is not sufficiently disclosed in the financial statements and may not be evident to the users.

11. Further, the current segmented approach results in a situation where responsibilities are shared but the accounting functions are in effect processed in parallel and the resultant output consolidated for presentation to the Pension Board, the Audit Committee and the Board of Auditors (BOA). The Audit Committee of the Pension Board had also commented upon the structure of responsibilities and functions involved in the preparation of the financial statements of the Fund. In particular, it has questioned the wisdom of not having an individual specifically mandated to have overall responsibility for the preparation of the Fund's financial statements.

12. The current structure could potentially fail to ensure a comprehensive and consistent approach regarding the preparation and disclosure of information in the financial statements of the Fund. The Audit Committee has recommended that a Chief Finance Officer (CFO) function be considered in order to ensure uniformity of approach and to ensure responsibility for the production of the Fund's financial statements is clearly assigned. Further, the BOA was also of the opinion that accountability for the financial reporting process is unclear.

Recommendation 1

(1) The UNJSPF Management should formalize the financial reporting process, clearly delineating managerial

responsibilities for preparing and attesting to the financial statements.

13. *The UNJSPF Management accepted recommendation 1 and stated that the position of the CFO has been requested by the Fund as part of the 2010-2011 biennium budget. The governing bodies have approved this post as of December 2009. The responsibilities of this post as envisioned would include overall responsibility for the financial reporting process. The Audit Committee has advised that the CEO of the Fund and the RSG discuss the specific responsibilities of this post. Recommendation 1 remains open pending receipt of the UNJSPF policy outlining the financial reporting process and procedures as well as the finalized description of duties and responsibilities of the CFO position.*

Financial reporting functions

14. The financial statements are compiled by the Accounts Unit of FSS, which is also responsible for certain accounting functions. The different sections and units use different sources and systems for the accounting data they provide: the Fund's PENSYS system and Lawson for FSS, the Global Custodian records for IMD and IMIS for the administrative expenses (except for bank charges for benefit payments, which are paid directly to the bank and then incorporated as part of administrative expenses as an accounting adjustment). Industry practices generally provide for segregation of the financial reporting function from the processing of accounting transactions. However, the CFO position requested by management and approved by the Board will not alone be sufficient to provide for adequate segregation of duties across the full span of financial reporting activities. Additionally, the planned adoption of the international accounting standards will require increased efforts from the financial services team of the Fund.

Recommendation 2

(2) The UNJSPF Management should ensure that the duties for the financial statement preparation and reconciliation functions are segregated from the operational responsibilities for generating the accounting records.

15. *The UNJSPF Management accepted recommendation 2, stating that the Fund requested additional staff for the financial area, particularly for financial reporting and analysis, to allow for additional segregation of duties and for the proper implementation of the International Public Sector Accounting Standards (IPSAS). This request was denied by the Board. However, it should be noted that the Accounts Unit of the FSS area is responsible for generating a limited number of accounting records. Presently the majority of the accounting records of the Fund are generated by activities of the Payments and Cashiers Units of FSS. Recommendation 2 remains open pending receipt of the UNJSPF policy outlining the financial reporting process and procedures.*

Need for a formal accounting policy

16. At the time of the audit, the Fund did not have a formally documented accounting policy. The accounting policy comprises the specific principles, bases, conventions, rules and practices applied by the Fund in order to reflect the effects of transactions and other events through recognizing, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes impacting stakeholders. Although the audit has not observed any inconsistencies in the application of the accounting policy from one reporting period to another, OIOS is of the view that the Fund should institutionalize the accounting policy to mitigate key person risk and ensure ongoing consistency in the accounting treatment of major transactions. Further, a documented accounting policy would assist management in ensuring that: (a) the Fund adopts the accounting policies most appropriate to its particular circumstances for the purpose of giving a true and fair view for all material items; (b) the accounting policies adopted are reviewed regularly to ensure that they remain appropriate, and are changed when a new policy becomes more appropriate to the entity's particular circumstances; and (c) sufficient information is disclosed in the financial statements to enable users to understand the accounting policies adopted and how they have been applied.

Recommendation 3

(3) The UNJSPF Management should document the accounting policies for major components of the financial statements and major transactions of the Fund to ensure consistency in their accounting treatment.

17. *The UNJSPF Management accepted recommendation 3 and stated that this documentation will be completed as part of the process for the implementation of IPSAS.* While it is recognized that the implementation of new accounting standards may address this issue, OIOS is of the view that documenting the accounting policies is a stand-alone project and should not be suspended until the full implementation of the new standards. Existing policies for all major components of the financial statements and major transactions of the Fund should be documented as soon as possible. Recommendation 3 remains open pending receipt of the UNJSPF accounting policies.

Need for documented procedures for financial statement preparation and a disclosure checklist

18. OIOS observed that the Fund did not have a comprehensive and documented financial reporting process which encompasses all the "reporting" sections. The Chief of the Accounts Unit prepares the year-end closing schedule with a brief description of activities and dates by section, and communicates this information to all responsible units in the financial reporting process. However, there are no documented controls, process steps and procedures for the validation of the amounts and transactions underlying the financial statements. Further, the Fund does not have a documented disclosure checklist detailing all required disclosures/footnotes to the financial statements.

Recommendation 4

(4) The UNJSPF Management should document the detailed procedures for the preparation of financial statements along with a checklist of all required disclosures/footnotes to the financial statements.

19. *The UNJSPF Management accepted recommendation 4 and stated that this documentation will be completed as part of the process for the implementation of IPSAS.* While it is understood that the implementation of IPSAS will provide a new framework for the financial statement presentation, OIOS is of the view that the Fund needs to document its current procedures for the preparation of the financial statements as well as the checklist of the disclosures and footnotes that accompany the current financial statements, and should not be suspending this exercise until the full implementation of IPSAS. Recommendation 4 remains open pending receipt of the detailed procedures for the financial statement preparation and the disclosure checklist.

Presentation of financial statements

20. OIOS noted that the Audit Committee of the Pension Board had recommended that the financial statements of the Fund be presented in a more industry standard format to provide the necessary information to the readers in both commentary and footnotes. OIOS noted that during the June 2009 meeting, the Accounting Working Group, comprised of representatives from IMD and FSS, agreed to review the proposed new format of the financial statements. At the time of the audit, UNJSPF management was re-visiting the format of the financial statements, in particular, schedules 2 and 3 of the financial statements, in consideration of their adoption for the 2009 biennial financial statements.

21. Further, OIOS took note of the comments made by the BOA relating to the financial statement presentation, i.e., that the current appearance of the statements could be improved and aligned with common industry practices for entities reporting under IPSAS and the International Financial Reporting Standards (IFRS). There is a need to make a number of presentational adjustments, for example, the amounts for all line items, including sub-totals and grand totals for each year need to be shown under one column on the balance sheet, and the references to footnote disclosures could be shown in a more user-friendly format.

Recommendation 5

(5) The UNJSPF Management should implement necessary presentational adjustments to the financial statement format based on the practices of public and private organizations which have adopted international accounting standards.

22. *The UNJSPF Management accepted recommendation 5 and stated that the Fund will be preparing revised schedules 2 and 3 of the current financial statement format to provide more transparent and meaningful information for the investments of the Fund. The implementation of international accounting standards by the Fund will revise the overall presentation of the Fund's financial statements. Recommendation 5 remains open pending receipt of the revised format of the UNJSPF financial statements.*

System access authorization

23. The logical access control of the Lawson system is based on defined access profiles and user groups. However, a formal access policy for the Lawson system was not in place to provide historical evidence of management approval for access privileges granted. In addition, there was no review procedure to ensure that user access to applications remains appropriate and in line with their current job descriptions. The lack of the above procedures and controls increases the risk that users could access data and system functionalities that are beyond their authorized level. This condition exposes UNJSPF to the risk of users making deliberate or inadvertent unauthorized changes to data.

Recommendation 6

(6) The UNJSPF Management should develop a formal process to document, and retain evidence of, supervisory approval for granting system access coupled with an exit procedure to remove access for transferring or separating staff.

24. *The UNJSPF Management accepted recommendation 6 and stated that FSS is working closely with the Fund's Security Officer in order to establish information security-related policy and procedure documentation on separation, which includes removing Lawson access upon leaving the Fund. Recommendation 6 remains open pending receipt of the approved IT security-related policy and procedure.*

Segregation of duties in the Lawson system

25. OIOS observed that the access control design and implementation in Lawson did not provide sufficient segregation of duties commensurate with the level of risks present. For example, the following conditions were noted:

(a) Currently, the system does not enforce segregation of tasks related to the creation and release of the same journal entry, i.e., the same person can both create and release an entry. Six finance staff members who had access rights to originate journal entries also had rights to release the entries, which are subsequently posted automatically;

(b) The Accounts Payable sub-module allows an individual to change an existing vendor file as well as to enter the invoice data, which causes a payment. Twenty-one staff members had the access rights to

enter an invoice and at the same time also had the rights to change vendor details;

(c) Staff performing bank reconciliations can make accounting entries to the general ledger accounts, including bank records.

26. Further, there were no detective controls designed specifically around the control weaknesses described above. In order for internal controls to be effective, it is important that control functions are segregated from accounting functions.

Recommendation 7

(7) The UNJSPF Management should review the 2004 security design for all Lawson functions and strengthen segregation of duties/internal controls with consideration of preventative and detective control procedures to approve and validate transactions and balances.

27. *The UNJSPF Management accepted recommendation 7 and stated that the Fund will look into the possibility of modifying Lawson functions so the same user cannot create and release an entry. Also, the Fund will further strengthen the control in accounts payable to block Lawson users from modifying invoices. For bank reconciliations, the Fund's request for additional financial staff to allow for additional segregation of duties was denied by the Board. However, it should be noted that the Accounts Unit of the FSS area is responsible for generating a limited number of accounting records. Further, additional staffing resources will be requested for 2012-2013 budget years.* Recommendation 7 remains open pending receipt of the revised security design for Lawson addressing the overall segregation of duties issue and implementation of detective control procedures to mitigate any remaining weaknesses relating to segregation of duties.

Financial reporting change control

28. Lawson has a Report Writer tool (RW100) to generate the Fund's financial statements and other customized reports. All report parameters are entered and customized by the end-user. The Lawson standard report generation application access controls are effective if used properly and if access is restricted to authorized users. OIOS observed that the Accounts Chief had the authority to change the "programming" (i.e., report parameters) of the Report Writer without the benefit of a change control process to authorize the revisions. Furthermore, the logical access control in Lawson for this function has not been sufficiently restricted, as over 30 FSS users are authorized to access the configuration of reports generated by the Lawson Report Writer. This access enables them to alter the parameters of the production financial reports without authorization or immediate detection. This condition exposes UNJSPF to the risks of deliberate or inadvertent unauthorized changes to the financial reports without management awareness.

Recommendation 8

(8) The UNJSPF Management should implement access and change controls such that any/all changes to the production financial reporting tool in Lawson are subject to a formal change and production implementation programme. This would require a policy whereby changes instituted in the parameters of the report writer that affect the generation of the financial statements (and other production reporting) would be subject to testing, review and approval prior to implementation.

29. *The UNJSPF Management accepted recommendation 8 and stated that FSS will work closely with the Information Management Systems Service staff to establish the proper policy to ensure that any changes instituted in the parameters of the report writer will be subject to proper procedures before implementation. Recommendation 8 remains open pending receipt of the approved policy on financial reporting change control.*

Auto-reversal in Lawson

30. Investment related accounts were programmed with an auto-reversal feature whereby the Lawson system reverses accrual entries in the month following the month of accrual. However, the accruals made for the month of December are reversed in the same month due to the existence of an additional period dedicated for accounts closing. Therefore, UNJSPF makes end of the year adjustments to correct certain IMD journal entries that have been posted in the last month of the reporting period as a result of the above. In 2007, this adjustment involved over 900 transactions with a total amount of about \$272 million. To correct these adjustments, UNJSPF has created a procedure that requires manual data manipulation in the Lawson system that is not subject to verification and approval. This condition exposes UNJSPF to the risk of incorrectly recorded data in the journal entries.

Recommendation 9

(9) The UNJSPF Management should implement an automated process for posting year-end adjustments, ensuring that all journal entries are correctly recorded and approved.

31. *The UNJSPF Management accepted recommendation 9 and stated that the Period 12 auto-reversal entry has been provided. Documentation of the procedure and the communication with the IMD accounting staff has been completed. Based on the action taken by the UNJSPF Management, recommendation 9 has been closed.*

Reconciliation of investment accounts

32. OIOS reviewed IMD's verification and reconciliation processes, as described in section six of the Operations Section Manual. The internal controls implemented through the current processes provide reasonable assurance that investment transactions, holdings, income, tax receivables and realized gains/losses are accurately recorded in the financial accounts and reported in the financial statements. However, it takes approximately one month to manually verify and reconcile the General Ledger Feed and management reports maintained by the MRK against other independent sources of information, including the records maintained in the internal Abacus system and market information systems such as Bloomberg. IMD envisaged automating the verification and reconciliation processes to improve efficiency and reduce the workload of the Operations Section through the implementation of new systems, including an automated reconciliation system.

33. According to the Request for Proposal (RFP) issued for sourcing the reconciliation system, it will provide the ability to reconcile timely the order management system with the global MRK, with the Custodian and with the IMD back-office system. In addition, the system should enable IMD to efficiently reconcile the investment general ledger with the investment holdings and bank accounts. It should assist IMD to streamline back-office processes for identification, assessment, control, and resolution of exceptions which should be identified early in the lifecycle and resolved immediately in order to reduce exposure and operational risks. The timeframe for accomplishment of the project is 2010.

Reconciliation of non-investment general ledger accounts

34. OIOS noted that bank reconciliations were performed at the end of each month as prescribed by UN Financial Rule 104.11. However, 45 of the 72 bank reconciliations sampled for review by OIOS were prepared and reviewed by the same person in the Accounts Unit. This practice is not aligned with good internal control principles and would not provide timely detection of errors. OIOS also observed that the year-end preparation of contribution income and receivables from member organizations was not reviewed or approved by a person independent of the preparation prior to posting.

35. Further, OIOS noted that although the individuals responsible for the reconciliations identified reconciling differences, these items were not recorded in the relevant period. For investment accounts, the reconciling items are usually recorded at year-end closing, however, on a month to month basis the financial accounting records are not adjusted. OIOS also observed that reconciling differences requiring adjustment in the general ledger (i.e., not outstanding/open items) were not corrected prior to the year-end closing.

Recommendation 10

(10) The UNJSPF Management should ensure that account reconciliations and significant transactions are reviewed and approved by individuals other than the person(s) preparing the reconciliations. The UNJSPF management should also develop an appropriate accounting treatment for unidentified adjustments resulting from the bank reconciliation.

36. *The UNJSPF Management accepted recommendation 10 and stated that the procedures have been implemented with regard to bank reconciliations in order to ensure that at least two layers of staff are involved in performing bank reconciliations. Regarding reconciling differences requiring adjustment to the general ledger accounts, reconciling items are usually recorded in the month after discovery and are not held until year-end.* Based on the action taken by the UNJSPF Management, recommendation 10 has been closed.

Periodic analytical reviews of the accounts

37. Good accounting practice suggests that management remain proactive by conducting analytical reviews of the interim financial records and information. The interim monitoring and analysis of the trial balance and the general ledger accounts should be assigned to an individual who does not process, authorize or release transactions in order to ensure adequate segregation of duties. The results of such analysis should be timely communicated to the chiefs of respective units. This would enable the Accounts Unit to highlight potential problems in a timely manner, prior to the end of the financial reporting period, and take appropriate remedial actions.

38. OIOS noted a lack of documentation to evidence the periodic monitoring of the interim financial information of the Fund. For example, the financial information such as the general ledger accounts and the trial balance were not regularly reviewed and analyzed by FSS management. According to FSS, the Chief of Accounts Unit reviews the trial balance line by line for inconsistencies or obvious errors on a monthly basis. However, this review was not documented and therefore, OIOS could not assess its robustness.

Recommendation 11

(11) The UNJSPF Management should develop procedures for performing and documenting the periodic review of the trial balance and general ledger accounts and assign this function to an individual who does not process or approve accounting entries.

39. *The UNJSPF Management accepted recommendation 11 and stated that procedures will be developed to ensure that periodic reviews of the trial balance and general ledger will be performed by the Chief of FSS.* Recommendation 11 remains open pending receipt of the approved procedures.

B. Compliance with relevant regulations and rules governing financial accounting

United Nations accounting standards and financial regulations and rules

40. In accordance with the practice established since the inception of the Fund, as adopted by the Board and approved by the General Assembly, the financial statements of the Fund are prepared on the basis of UNSAS. Also, the Fund uses the United Nations Financial Regulations and Rules in the administration of the Fund's management and operations, to the fullest extent possible.

41. OIOS tested compliance with the applicable UN financial regulations and rules for financial accounting and reporting purposes and concluded that, during the period under audit, the Fund has complied with the following rules:

- (a) Rule 106.3 (accrual basis of accounting);
- (b) Rule 104.11 (reconciliation of bank accounts);
- (c) Rule 104.13 (accounting for investments);
- (d) Regulation 6.3 (currency of accounting records); and
- (e) Regulation 4.18 (accounting for investment income).

42. However, OIOS noted that UN Financial Regulation 6.5 on financial statements requires that the accounts for a financial period be prepared not later than 31 March following the end of the financial period. OIOS observed that the deadline established by the financial regulation was not met by the Fund and there was no evidence of an approved deviation from the regulation. The financial statements of UNJSPF for the years ended 31 December 2007 and 2008 were finalized on 21 April 2008 and 12 May 2009, respectively.

Recommendation 12

(12) The UNJSPF Management should develop an action plan to ensure that the financial statements of the Fund are prepared no later than 31 March following the end of the financial period, as required by UN Financial Regulation 6.5, or secure a deviation from the regulation from the UN Controller.

43. *The UNJSPF Management did not accept recommendation 12, stating that as the Fund is dependant on the MRK for the accurate reporting of the investments of the Fund and on the member organizations for annual pension contributions reporting, additional time is required beyond 31 March for the completion of the annual financial statements process. Further, the 31 March completion date for financial statements should apply to all UN entities that are part of the consolidated United Nations Financial Statements. The Fund is not part of the UN consolidated statements. It is OIOS' understanding that the Fund complies with the Financial Regulations and Rules of the UN except in cases where the regulations and rules do not apply to the nature of the Fund's operations, and that in these cases alternate rules or regulations would be*

documented in the financial regulations and rules of the Fund. The audit did not find any evidence documenting the Fund's knowledge of this timing requirement and defining alternate regulations or rules applicable to the Fund. OIOS therefore reiterates recommendation 12 and requests that Management reconsider its position. Recommendation 12 remains open pending receipt of either documented alternative regulation/rule or formal approval of this deviation from the Controller.

C. Adoption of an internationally accepted financial accounting and reporting framework

International accounting standards implementation plan

44. In May 2006, the General Assembly approved the adoption of IPSAS, as part of a UN system-wide initiative. It was deemed that the adoption of international standards would be a vital component of the United Nations drive to excel as a modern, progressive Organization that attains and remains up to date with best management practices and would improve the quality of the United Nations financial reporting system. The Assembly also approved the resources requested by the Secretary-General to begin the implementation of the standards. For this purpose, a system-wide IPSAS Implementation Project Team was created.

45. The Pension Fund has been participating with this Team and has also begun the review of the particular application of either IPSAS or IFRS to the Fund's operations and context. The UN has further assessed the complexity of the task and the required changes to its information systems and has delayed the implementation of IPSAS to 2012. The Fund reported to the Board in July 2009 that it is currently developing a comprehensive project plan for the adoption of the new accounting standards and has estimated that due to the amount of work involved, additional specialized staff would be required to adequately carry out this important initiative.

46. OIOS noted that UNJSPF did not have an approved implementation plan for adopting international accounting standards. The draft plan developed by UNJSPF was presented to the Audit Committee in 2008, but needed enhancements to include details on key processes, milestones and dedicated resources for transitioning to an internationally accepted financial accounting and reporting framework. OIOS further observed that the Fund had reported to the Board (JSPB/56/R.12/Add/1) that the adoption of the new standards for the reporting period beginning in 2012 should be the goal for implementation. The transition to a new set of accounting standards is a long and complex process. Without a defined action plan outlining key milestones and processes, potential major impediments, and resource requirements, it would be challenging to ensure a successful implementation of the new financial accounting and reporting framework.

47. One key element in adopting a new set of internationally accepted accounting and financial reporting standards is the evaluation of the adequacy of the organization's available resources. In the 2009 report to the Board on the

Adoption of Accounting Standards, the Fund stated that “computer resources, as presently in place, will provide the needed information for the financial statements”. However, OIOS observed that the Fund did not have evidence of a detailed assessment of its IT systems’ capacity to provide the functionalities needed to comply with international accounting standards.

48. Further, the adoption of an internationally accepted financial accounting and reporting framework will lead to more rigorous standards of disclosure, which, in turn, will require increased efforts from the financial services team of the Fund. Therefore, having sufficient number of qualified finance staff knowledgeable of the international accounting standards and good financial reporting practices is important for the successful implementation of and subsequent compliance with international accounting standards. OIOS noted that the Accounts Unit of FSS has three Professional and 13 General Service staff members. Overall, among the Accounts Unit staff, there are three staff that hold professional accounting certifications (CPA). OIOS also observed that the request for additional posts (one P-4 and one P-5) related to the adoption of the new accounting standards was not approved by the Board.

49. Further, there was no evidence that the Fund analyzed the training needs for staff performing financial accounting and reporting functions in the context of the adoption of international accounting standards.

Recommendation 13

(13) The UNJSPF Management should prepare a detailed plan for the implementation of international financial accounting and reporting standards, outlining the major components, processes, milestones and responsible staff members.

50. *The UNJSPF Management accepted recommendation 13 and stated that the Audit Committee of the Pension Board decided in November 2009 to recommend to the Board of the Pension Fund that IPSAS, and IAS 26 be adopted by the Fund. Detailed implementation plans and other reports will be prepared in conjunction with the implementation of these standards. Consultancy funds have been approved for this effort. Recommendation 13 remains open pending submission to OIOS of a detailed plan for the implementation of international financial accounting and reporting standards, outlining the major components, processes, milestones and responsible staff members.*

V. ACKNOWLEDGEMENT

51. We wish to express our appreciation to the Management and staff of UNJSPF 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 UNJSPF Management should formalize the financial reporting process, clearly delineating managerial responsibilities for preparing and attesting to the financial statements.	Financial	Medium	O	Submission to OIOS of the UNJSPF policy outlining the financial reporting process and procedures as well as finalized description of duties and responsibilities of the CFO position.	12/02/2010
2	The UNJSPF Management should ensure that the duties for the financial statement preparation and reconciliation functions are segregated from the operational responsibilities for generating the accounting records.	Financial	Medium	O	Submission to OIOS of the UNJSPF policy outlining the financial reporting process and procedures.	31/12/2012
3	The UNJSPF Management should document the accounting policies for major components of the financial statements and major transactions of the Fund to ensure consistency in their accounting treatment.	Financial	Medium	O	Submission to OIOS of the documented UNJSPF accounting policy.	31/12/2011
4	The UNJSPF Management should document the detailed procedures for the preparation of financial statements along with a checklist of all required disclosures/footnotes to the financial statements.	Financial	Medium	O	Submission to OIOS of the detailed procedures for the financial statement preparation and the disclosure checklist.	31/12/2011
5	The UNJSPF Management should implement necessary presentational adjustments to the financial statement format based on the practices of public and private organizations, which have adopted international accounting standards.	Financial	Low	O	Submission to OIOS of the revised format of the UNJSPF financial statements.	30/04/2010
6	The UNJSPF Management should develop a formal process to document, and retain evidence of, supervisory approval for granting system access coupled with an exit procedure to remove access for	Financial	Medium	O	Submission to OIOS of the approved IT security-related policy and procedure.	31/12/2010

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	transferring or separating staff.					
7	The UNJSPF Management should review the 2004 security design for all Lawson functions and strengthen segregation of duties/internal controls with consideration of preventative and detective control procedures to approve and validate transactions and balances.	Financial	High	O	Submission to OIOS of the revised security design for Lawson addressing the segregation of duties issues and implementation of detective control procedures to mitigate any remaining segregation of duties weaknesses.	31/12/2010
8	The UNJSPF Management should implement access and change controls such that any/all changes to the production financial reporting tool in Lawson are subject to a formal change and production implementation programme. This would require a policy whereby changes instituted in the parameters of the report writer that affect the generation of the financial statements (and other production reporting) would be subject to testing, review and approval prior to implementation.	Financial	High	O	Submission to OIOS of the policy on financial reporting change control.	31/12/2010
9	The UNJSPF Management should implement an automated process for posting year-end adjustments, ensuring that all journal entries are correctly recorded and approved.	Financial	Medium	C	Action completed	Implemented
10	The UNJSPF Management should ensure that account reconciliations and significant transactions are reviewed and approved by individuals other than the person(s) preparing the reconciliations. The UNJSPF management should also develop an appropriate accounting treatment for unidentified adjustments resulting from the bank reconciliation.	Financial	High	C	Action completed	Implemented
11	The UNJSPF Management should develop procedures for performing and documenting the periodic review of the	Financial	Medium	O	Submission to OIOS of the documented procedures for performing and documenting the periodic review of the	31/12/2010

Recom. no.	Recommendation	Risk category	Risk rating	C/O ¹	Actions needed to close recommendation	Implementation date ²
	trial balance and general ledger accounts and assign this function to an individual who does not process or approve accounting entries.				trial balance and general ledger accounts.	
12	The UNJSPF Management should develop an action plan to ensure that the financial statements of the Fund are prepared no later than 31 March following the end of the financial period as required by UN Financial Regulation 6.5, or secure a deviation from the regulation from the UN Controller.	Financial	Medium	O	Submission to OIOS of: (1) a documented alternative regulation/rule establishing a deadline for preparation of the financial statements; or (2) formal approval of deviation from the Controller.	Not provided
13	The UNJSPF Management should prepare a detailed plan for the implementation of international financial accounting and reporting standards outlining the major components, processes, milestones and responsible staff members.	Financial	Medium	O	Submission to OIOS of the detailed plan for the implementation of international financial accounting and reporting standards outlining the major components, processes, milestones and responsible staff members.	31/12/2011

¹ C = closed, O = open

² Date provided by UNJSPF in response to recommendations.