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INTEROFFICE MEMORANDUM

MEMORANDUM INTERIEUR

OFFICE OF INTERNAL OVERSIGHT SERVICES · BUREAU DES SERVICES DE CONTRÔLE INTERNE  
INTERNAL AUDIT DIVISION · DIVISION DE L'AUDIT INTERNE

TO: Ms. Angela Kane, Under-Secretary-General,  
A: Department of Management

DATE: 28 October 2011

REFERENCE: IAD: 11- 00652

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

*Fatou*

SUBJECT: **Assignment No. AH2011/511/01 – Audit of arrangements for global banking and investment management in OPPBA**  
OBJET: **management in OPPBA**

**Overall results relating to arrangements for global banking and investment management in OPPBA were satisfactory**

1. Attached please find the final report on the above-mentioned audit.
2. The audit identified a number of opportunities for improvement (see Annex). While OIOS will not report on the implementation of these opportunities, we encourage you to implement them to improve the efficiency and effectiveness of your operations. OIOS will review their implementation as part of future audits.
3. Please note that under General Assembly resolution 59/272, a Member State may request that the final report be made available. Also note that pursuant to General Assembly resolution 64/263, OIOS has included the complete management response as an appendix to the present report.
4. We wish to express our appreciation to the Management and staff of OPPBA for the assistance and cooperation extended to the auditors during the assignment.

cc: Ms. María Eugenia Casar, Assistant Secretary-General, Controller, OPPBA  
Mr. Carlos Perrone, Treasurer, OPPBA  
Mr. Zachary Ikiara, Chief, Oversight Support Unit, Department of Management  
Mr. Swatantra Goolsarran, Executive Secretary, UN Board of Auditors  
Mr. Rohan Wijeratne, UN Board of Auditors  
Ms. Susanne Frueh, Executive Secretary, Joint Inspection Unit  
Mr. Moses Bamuwanye, Executive Secretary, IAAC  
Mr. Byung-Kun Min, Special Assistant to the USG-OIOS  
Ms. Amy Wong, Programme Officer, Internal Audit Division, OIOS

# FINAL AUDIT REPORT

## Audit of Arrangements for Global Banking and Investment Management in OPPBA

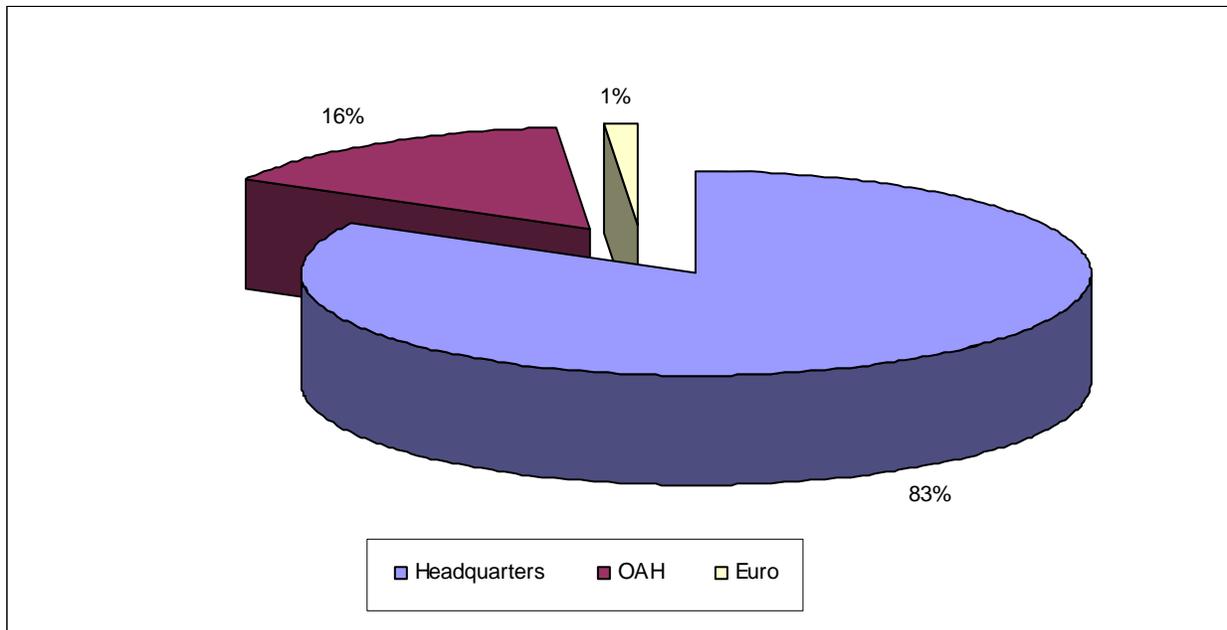
### BACKGROUND

Global banking arrangements and United Nations' investment pools are managed centrally by Treasury, which is part of the Office of Programme Planning, Budget and Accounts (OPPBA) in the Department of Management (DM). Treasury consists of the Office of the Treasurer and four operating sections including the Global Banking Operations and Investments Sections. The functions of the Treasury as defined in Secretary-General's Bulletin ST/SGB/2003/16 include: (a) increasing the earnings potential of funds under management; (b) enhancing control mechanisms that protect the payment systems, bank account balances and investments of the Organization; and (c) ensuring that cash concentration benefits are achieved.

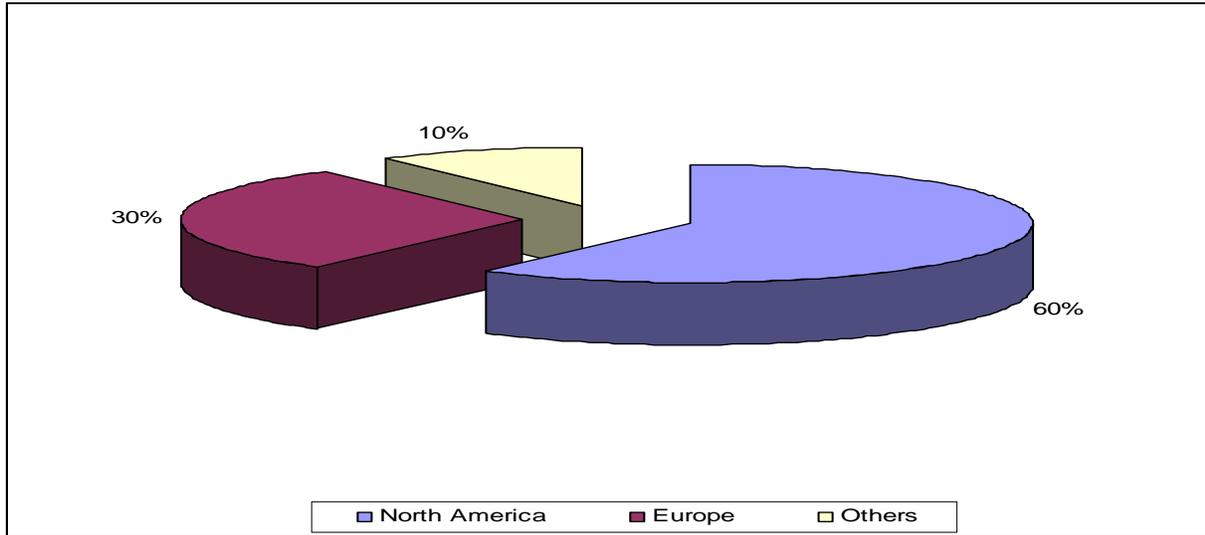
The Global Banking Operations Section is responsible for establishing banking operations and implementing banking services globally, with particular emphasis on the unique banking requirements in peacekeeping and special political missions. The Section currently manages banking relationships with approximately 120 financial institutions and banks.

The Investments Section is responsible for managing the investment pools, which amounted to \$10.2 billion as at 31 December 2010. There are three separate investment pools, namely the United States dollar denominated investments in the UN Headquarters Investment Pool, and the United States dollar and Euro denominated investments in the UN Offices Away from Headquarters (OAH) and Euro Investment Pools. The United Nations' investment management objective is to earn a competitive market rate of return on each investment pool while preserving capital and ensuring sufficient liquidity to meet operating cash requirements. The breakdown and regional spread of the investment pools are shown in Figures 1 and 2 respectively below.

**Figure 1: Breakdown of the investment pools as at 31 December 2010**



**Figure 2: Spread of investments by region**



## **OBJECTIVE AND SCOPE**

This audit was conducted to assess the adequacy and effectiveness OPPBA's governance, risk management and control processes relating to global banking arrangements and investment management. The key controls tested during the audit were: (a) risk management and strategic planning; (b) performance monitoring; (c) oversight; and (d) regulatory framework. The audit covered the period 1 January 2009 to 31 March 2011.

## **AUDIT RESULTS**

Overall, OPPBA's risk management and control processes examined were **satisfactory** to provide reasonable assurance that the global banking operations and investment activities were adequately and effectively managed. Central management of banking relationships was effective in ensuring that banking services were delivered to all offices and peacekeeping missions, even in crisis situations. The investment pool was managed with the advice of the Investment Committee, which met regularly during the period, and in compliance with the risk mitigation strategies in the United Nations Investment Management Guidelines. The investment portfolio consistently out-performed the target rates of return, and the other investment objectives of preservation of capital and ensuring sufficient liquidity to meet operational requirements were also met. Regulations and procedures were generally adequate to govern operations. Opportunities for improvement in the areas of risk management, performance monitoring, and the regulatory framework were brought to the attention of the management.

## **ACKNOWLEDGEMENT**

OIOS wishes to express its appreciation to the Management and staff of OPPBA for the assistance and cooperation extended to the auditors during this assignment.

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ANNEX 1 Opportunities for improvement

## I. INTRODUCTION

1. The Office of Internal Oversight Services (OIOS) conducted an audit of arrangements for global banking and investment management in the Office of Programme Planning, Budget and Accounts (OPPBA). Comments made by OPPBA are shown in *italics*.

## II. AUDIT OBJECTIVE

2. This audit was conducted to assess the adequacy and effectiveness OPPBA's governance, risk management and control processes relating to global banking arrangements and investment management. The following controls were identified as key in mitigating the risks and, for the purpose of this audit, OIOS defined these key controls as follows:

(a) Risk management and strategic planning – those controls that are designed to provide reasonable assurance that the risks relating to banking operations and management of the Organization's investments are identified and assessed, and that action is taken to mitigate or anticipate risks.

(b) Performance monitoring – those controls that are designed to provide reasonable assurance that appropriate metrics are established and monitored to derive the desired level of returns from investments. This key control includes setting benchmarks, measuring performance daily and reporting actual returns against benchmarks to the Investment Committee semi-annually.

(c) Oversight – those controls that are designed to provide reasonable assurance that appropriate structures are in place to direct, manage and monitor banking operations and investment activities. This key control includes the functioning of the Investment Committee and the central management of banking relationships by the Global Banking Operations Section.

(d) Regulatory framework – those controls that are designed to provide reasonable assurance that banking operations and the Organization's investments are managed efficiently and effectively. This key control includes the Financial Regulations and Rules (FRR), finance manual, investment management guidelines, and procedures for acquiring banking services.

## III. AUDIT SCOPE AND METHODOLOGY

3. OIOS conducted this audit from January to June 2011 and covered global banking and investment management activities for the period from 1 January 2009 to 31 March 2011.

4. To gain a general understanding of the current practices, processes and activities of Treasury as it relates to global banking and investment management, OIOS interviewed OPPBA staff and reviewed relevant documents including policies, guidelines and procedures and banking agreements. OIOS also interviewed selected finance officers in peacekeeping missions. The audit team conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected four key controls in mitigating the associated risks.

5. Through interviews, reviews and tests of controls, OIOS assessed the existence and adequacy of written policies and procedures, and also whether they were implemented consistently.

## IV. OVERALL ASSESSMENT

6. In OIOS' opinion, OPPBA's governance, risk management and control processes examined were **satisfactory** to provide reasonable assurance that the global banking operations and investment activities were adequately and effectively managed. Banking operations were managed centrally and, with a functioning Investment Committee providing oversight on investments, together with comprehensive investment management guidelines, OPPBA had implemented an effective risk management system for investments. The performance monitoring control was adequate in setting and monitoring benchmarks for the investments. The regulatory framework was generally adequate to govern operations.

## V. AUDIT RESULTS

### A. Risk management and strategic planning

7. Treasury manages the risks relating to global banking operations and investment management through the central management of banking relationships, identification of risks that threaten the achievement of investment objectives, and adoption of measures to reduce these risks. Strategies developed to mitigate investment risks include diversifying the investment portfolio, setting the maximum maturity period and currencies of investments as well as criteria to determine the credit worthiness of custodians and issuers of investment securities. The Investment Committee reviews economic and financial market events and guides the investment strategy based on market conditions. There were however, opportunities for improving the risk management processes.

#### Risk management process for global banking operations needs is not formalized

8. The Global Banking Operations Section does not conduct a formal assessment of the risks that could impact on the implementation of banking services. There have been three recent crisis situations, which required prompt attention of the Global Banking Operations Section. These are the earthquake in Haiti, the closure of foreign banks in Cote d'Ivoire and the change in government policy in Sudan limiting withdrawals of US dollars. While the Section coordinated the handling of these situations promptly and effectively, together with other departments like the Department of Safety and Security (DSS), Department of Field Support (DFS) and other sections of OPPBA, the responses were reactive. Banking services at any location may be disrupted and the likelihood of this risk needs to be addressed at each location, and strategies developed in collaboration with Treasury and other relevant departments and offices to mitigate this risk. These strategies could be part of emergency preparedness and business continuity plans that are currently being developed throughout the Secretariat and peacekeeping missions. Treasury explained that the agreement with the major provider of banking services to peacekeeping missions provided a framework for alternative banking services in the event of disruptions to banking operations or "a force majeure" in the main area of operations. However, there was no evidence that this risk mitigation control had been systematically applied as part of a comprehensive risk management process in all locations. In addition, the approved Business Continuity Plan for New York Headquarters does not include any mitigation strategies for banking operations.

9. A major aspect of managing banking relationships requires the travel of the Chief of the Global Banking Operations Section to missions to meet with local banks and structure appropriate banking arrangements. The Chief of the Section is also responsible to coordinate with other units of OPPBA, DSS, Department of Peacekeeping Operations and DFS as necessary. However, there is no other equally capable/trained alternate designated, in the event of him being unavailable. OPPBA could take steps to rectify this situation.

10. **OPPBA might benefit from strengthening the risk management framework for banking operations to ensure that the risk of disruption of banking services is assessed for all locations and appropriate mitigating strategies developed.** *OPPBA stated that the Organization maintains bank accounts in 88 countries. In many peacekeeping missions, there is no banking infrastructure in place and banking operations need to be established specifically to meet the Organization's unique requirements. OPPBA is actively engaged in ensuring the required banking services are delivered in an efficient, secure and cost effective manner. Contingency plans are in place for the large peacekeeping missions to provide assistance from neighbouring countries in cases of force majeure, however, these plans can vary depending on the cause of the disruption. OPPBA works closely with DFS and the peacekeeping missions to identify and deliver solutions whenever there is a disruption to the banking operations.*

#### Procedures to ensure compliance with investment limits could be further strengthened

11. The investment management guidelines require funds to be invested according to predefined criteria and limits. While no departures from the stated limits were noted, there was no evidence that compliance with laid down investment limits was checked before investment deals were concluded. Limit reports exist, which show the status of investments against various criteria, but there was no evidence that these were actively reviewed prior to placing investments to ensure compliance with specified limits. An officer had been informally designated as a compliance officer with responsibility to ensure that none of the limits was exceeded, but this role was not formalized in the staff member's job description neither was there any evidence that the control function had been performed. OIOS was informed that plans are underway to purchase a new system, which would incorporate compliance checks and automatically reject investments that exceeded the limits.

### **B. Performance monitoring**

12. Performance monitoring indicators include benchmarks of rates of return to be earned by the investment pools. Treasury reports on the performance of investment returns against the benchmarks at each meeting of the Investment Committee as well as on the actual profile of the investment portfolio against the parameters in the investment management guidelines.

13. The Global Banking Operations Section conducted a survey of chief finance officers in peacekeeping missions, Offices Away from Headquarters (OAHs) and Regional Commissions in 2009 to assess their satisfaction with the quality of services received from banks and the level of support provided by the Treasury. The results showed a satisfaction rate of over 90 per cent. OIOS' interviews with selected chief finance officers during the audit corroborated the results.

#### No formal mechanism to determine the level of cash requirements

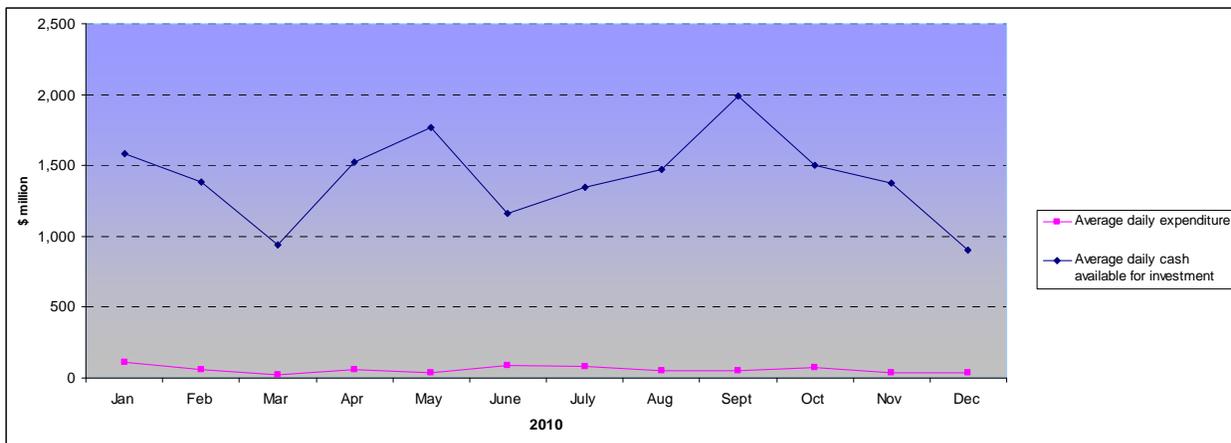
14. As per the investment management guidelines, the investment management objective is to earn a competitive market rate of return on each investment pool while preserving capital and ensuring sufficient liquidity to meet operating cash requirements. Funds not needed immediately for day-to-day operations are to be invested with those issuers and in financial instruments that meet the criteria set forth in the investment guidelines.

15. During 2009 and 2010, the investment portfolio consistently out-performed the target rates of return, and their profile (diversification by issuer, credit rating of issuer, investment horizon, etc.) complied with the parameters given in the investment guidelines. OIOS reviewed a sample of performance reports and assessed that they had been satisfactorily compiled. However, there was no formal mechanism to determine the level of liquidity that closely approximates the amount of funds

needed for day-to-day operations. The Cashier’s Section forecasts cash needs bi-weekly and informs the Investments Section, which uses this information in estimating the amount of cash that could be invested. However, the absence of criteria for establishing minimum cash requirements results in inability to determine whether the cash balances being held as available for investment (i.e. outside the investment portfolio and invested nightly) are at an optimal level.

16. A random sample of 31 daily cash reports during 2010 showed that an average amount of \$1,504 million was held during 2010 in the Headquarters pool as cash available for investment daily. An extract from the Integrated Management Information System (IMIS), on the other hand, showed that the average daily disbursement for 2010 was \$58 million, with the highest disbursement for one day being \$607 million, leaving cash balances of at least \$897 million available for investment. A comparison of daily cash balances and expenditure levels is shown in Figure 1.

**Figure 1: Analysis of average daily cash holding and expenditure by month in 2010**



17. Treasury explained that the reason for holding cash balances at the current levels was due to the uncertainty of cash inflows in the form of contributions from Member States. Treasury also stressed that the funds were invested overnight at competitive rates. However, OIOS is of the view that establishing cash liquidity targets based on experience and determining more accurately the amount and time period of funds not required immediately for operations, would enhance the information available for making investment decisions.

18. **OPPBA could develop formal mechanisms to determine cash requirements to meet day-to-day operations without compromising liquidity.** *OPPBA stated that Treasury manages the cash requirements of the Organization in an optimal manner to meet day-to day operations without compromising liquidity. Since the financial markets are dynamic, move rapidly and are affected by changes in economic fundamentals, fiscal policy and global events, maintaining sufficient cash on hand is an important investment strategy. OPPBA actively positions its investments portfolio with the goal of outperforming the benchmark, which it has done consistently. Mechanisms currently in place provide the ability to change tactical strategy quickly to take advantage of opportunities available for short periods of time.*

### C. Oversight

19. The Assistant Secretary-General (ASG), Controller has been delegated authority to make investment decisions. He is advised by the Investment Committee, which was reconstituted in 2009. The Investment Committee comprises seven senior officials, with the ASG, Controller as the Chairperson. The ASG, Controller, through the Treasurer, is responsible for planning and calling meetings as well as setting the agenda and finalizing the minutes of meetings. The Committee is required to meet at least twice a year. At each meeting, Treasury makes a presentation on the performance of the investment pools, investment strategies and tactics, economic and market conditions and any issues that have implications for investments. The Investment Committee met three times in 2009 and four times in 2010. There was a quorum at each meeting and the Committee deliberated on the materials presented and made recommendations on the investment strategy for the upcoming period. The Investment Committee was therefore an effective oversight mechanism for the management of investments.

### D. Regulatory framework

No documented criteria for determining with which banks the United Nations enters into banking agreements

20. Banking agreements have been established with 5 banks (holding the bulk of UN funds) out of the approximately 120 banking institutions in which the Organization maintains bank accounts. These agreements serve to ensure that the privileges and immunities of the Organization are specifically recognized by the banks and to formally document the services to be provided and preferential terms (rates or other operational benefits) based on the size of the accounts. The agreements also provide the banks with recourse in the form of arbitration in the event of disputes. There were however, no criteria for determining with which banks the Organization needs to enter into agreements and procedures to ensure that the benefits afforded by such agreements are obtained in their absence. While the current standard account opening letters to banks include paragraphs on the privileges and immunities of the United Nations and tax exemption, legal enforcement of such agreements would be more clearly settled with formal agreements in place and with the Office of Legal Affairs involved in the review of the terms and conditions of contracts. In addition, a written contract would help both parties avoid any misunderstanding that may arise in the absence of a written contract.

21. **OPPBA could develop criteria for identifying with which banks the Organization is required to enter into banking agreements.** *OPPBA stated that the Organization maintains bank accounts with over 100 financial institutions in 88 countries. Approximately 90 per cent of the funds of Organization are currently covered by banking agreements.*

Inadequate criteria and sources for checking staff eligibility for appointment as bank signatories

22. Aside from the FRR, which precludes approving officers from functioning as bank signatories, OPPBA does not have any criteria to guide the selection of staff members to act as bank signatories. Under the current procedures for screening proposed bank signatories, OPPBA inquires from the Investigations Division of OIOS whether there has been any case against the staff member, whose nomination is rejected if there is a pending case or there has been a substantiated case of misconduct in a completed case. The Investigations Division of OIOS should not be the only source used to determine the eligibility of a staff member to act as a bank signatory. Personnel files maintained by the Office of Human Resources Management (OHRM) and DFS, which hold the official outcome of investigations conducted by various investigation authorities, should be referred to for this purpose.

23. OAHs have been delegated authority to designate bank signatories but Headquarters did not have records showing that the staff members selected were screened in accordance with the procedures adopted by the Global Banking Operations Section. There were also no procedures to periodically review current bank signatories to determine whether they should continue serving in this capacity.

24. OPPBA needs to determine clear eligibility criteria and screening procedures for nominating bank signatories, including conduct that would disqualify a nominee. These should be applied by chief administrative officers and other officials before proposing nominees to the Global Banking Operations Section.

25. **OPPBA could develop procedures for selecting and maintaining bank signatories to strengthen the process and ensure consistency.** *OPPBA stated that it will consult with OHRM and DFS, in addition to the Investigations Division of OIOS, to check if a staff member being recommended as a bank signatory has an ongoing/concluded investigation case against her/him and determine her/his eligibility accordingly. OPPBA will also establish clear eligibility criteria, for all other duty stations to follow and there will be a periodic review of bank signatories conducted.*

#### Bank account opening procedures were not consistently applied

26. The Controller approved procedures for acquiring banking services. However, 7 of the 36 new bank accounts opened in 2010 were not opened in accordance with these procedures. There was therefore no assurance that the banks selected had been evaluated and screened as required by the procedures. Treasury explained that these were temporary bank accounts expected to be open for the duration of a specific need e.g. conferences or relocation of staff, and indeed five of the accounts had been closed at the time of the audit. However, the approved procedures did not provide for any deviations in the case of temporary bank accounts and the actions that would be required should the accounts be needed for longer periods than originally anticipated at the time of opening.

27. **OPPBA could enhance the guidelines for opening bank accounts by amending the procedures to cover guidance on temporary bank accounts.** *OPPBA stated that it opens temporary bank accounts primarily for conferences and for a short duration. In the majority of cases, the bank accounts are opened with a bank that has a branch within the conference venue or with a bank with which the Organization has an existing relationship.*

**ANNEX I**  
**OPPORTUNITIES FOR IMPROVEMENT**  
**Audit of Arrangements for Global Banking and Investment Management in OPPBA**

Para. no.	Opportunity for improvement	Client's comments
10	OPPBA might benefit from strengthening the risk management framework for banking operations to ensure that the risk of disruption of banking services is assessed for all locations and appropriate mitigating strategies developed.	<p><i>The Organization maintains bank accounts in 88 countries. In many peacekeeping missions, there is no banking infrastructure in place and banking operations need to be established specifically to meet the Organizations unique requirements. OPPBA is actively engaged in ensuring the required banking services are delivered in an efficient, secure and cost effective manner.</i></p> <p><i>Contingency plans are in place for the large peacekeeping missions to provide assistance from neighboring countries in cases of force majeure, however, these plans can vary depending on the cause of the disruption. OPPBA works closely with DFS and the peacekeeping missions to provide assistance from neighbouring countries in cases of force majeure, however, these plans can vary depending on the cause of the disruption. OPPBA works closely with DFS and the peacekeeping missions to identify and deliver solutions whenever there is a disruption to the banking operations.</i></p>
18	OPPBA could develop formal mechanisms to determine cash requirements to meet day-to-day operations without compromising liquidity.	<p><i>Treasury manages the cash requirements of the Organization to meet day-to-day operations in an optimal manner without compromising liquidity.</i></p> <p><i>Since the financial markets are dynamic, move rapidly and are affected by changes in economic fundamentals, fiscal policy and global events, maintaining sufficient cash on hand is an important investment strategy. OPPBA investment goal is to outperform the benchmark while protecting the assets of the Organization against loss of principal. OPPBA actively positions its investments portfolio with the goal of outperforming the benchmark, which it has done consistently. Mechanisms currently in place provide the ability to change tactical strategy quickly to take advantage of opportunities available for short periods of time.</i></p>
21	OPPBA could develop criteria for identifying with which banks the Organization is required to enter into banking agreements.	<p><i>The Organization maintains bank accounts with over 100 financial institutions in 88 countries. Approximately 90% of the funds of the organization are currently covered by banking agreements.</i></p>
25	OPPBA could develop procedures for selecting and maintaining bank signatories to strengthen the process and ensure consistency.	<p><i>OPPBA will consult with OHRM and DFS, in addition to the investigations Division of OIOS, to check if a staff member being recommended as a bank signatory has an ongoing/concluded investigation case against her/him and</i></p>

## AUDIT RESULTS

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<b>Para. no.</b>	<b>Opportunity for improvement</b>	<b>Client's comments</b>
		<i>determine her/his eligibility accordingly. OPPBA will also establish clear eligibility criteria, for all other duty stations to follow and there will be a periodic review of bank signatories conducted.</i>
27	OPPBA could enhance the guidelines for opening bank accounts by amending the procedures to cover guidance on temporary bank accounts.	<i>OPPBA opens temporary bank accounts primarily for conferences and for a short duration. In the majority of cases, the bank accounts are opened with a bank that has a branch within the conference venue or with a bank with which the Organization has an existing relationship.</i>