

United Nations  Nations Unies
INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: Mr. Gurpur Kumar, Deputy Director
A: Internal Audit Division, OIOS

DATE: 2 December 2011

REFERENCE:

THROUGH:

S/C DE:

FROM: Warren Sach, Representative of the
DE: Secretary-General for Investments of the
UNJSPF

SUBJECT: **Assignment no. AS2011/801/01 - Audit of governance and**
OBJET: **oversight over the investments of the UNJSPF**

1. Reference is made to your memorandum dated 27 October 2011 (received by IMD on 18 November) providing the report on the abovementioned audit. I wish to thank you for the recommendations made to the governance and oversight of the UNJSPF and for the constructive discussions with the Investment Management Division (IMD) Staff.

2. I am pleased to provide IMD's comments on the findings and recommendations as requested. It is noted that several of the audit recommendations are aligned with actions currently underway or planned, such as:

(a) The in-progress activity specific to the restatement of the IMD relationship with the United Nations Library and the University Endowment Funds. It should be noted that these relationships are formalized.

(b) The implementation of RiskMetrics, an internationally recognized portfolio risk and performance analytics system.

(c) The continuing, high priority activity specific to the Memorandum of Understanding regarding ICT services between IMD and IMSS.

3. Within the draft audit report, IMD would like to comment on Paragraph no. 52 which was not a formal recommendation found in Annex 1 (attached). With the concurrence of the Investments Committee, and the support of the Procurement Division and the Office of Legal Affairs, IMD has streamlined the advisory arrangements and efforts are underway to design the monitoring systems for the new asset classes. The attached Investments Committee November 2011 presentation speaks to this effort.

4. Specific to the timing of IMD's response in contrast to the requested 10 November date. IMD reiterates the request that all audit correspondence (other than that deemed confidential by OIOS) be copied to

Mr. Ajit Singh, Deputy Director for Risk and Compliance and to Mr. Daniel Willey, IMD Compliance Officer as well as the IMD Director, Suzanne Bishopric (sbishopric@unims.org). Given frequent travel commitments and work related responsibilities, this should ensure that IMD is able to respond in an appropriate and timely manner.

5. IMD remains committed in its efforts to maintain and improve its due diligence and controls and appreciates and values the interaction with OIOS.

cc:

AUDIT RECOMMENDATIONS
Audit of governance and oversight over the investments of the UNJSPF

Para. no.	Recommendation	Critical/ ¹ important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments ³
43.	The Representative of the Secretary-General should ensure that investment management and/or advisory services provided by IMD to the United Nations Library Fund and the United Nations University Endowment Fund are formalized and agreed to by the Pension Board bearing in mind the regulations of the Fund.	Important	Yes, as regards formalization	Philippe David	December 2012	IMD has been addressing these matters, which are in progress. IMD well recognizes that these longstanding G.A. mandates should be formalized with the Pension Board. It is a finding that has been noted in other OIOS and BOA audits.
53.	The Representative of the Secretary-General should ensure that adequate governance controls and a risk budget are in place to manage the induced risks when implementing the planned strategy of investing in new asset classes.	Important	Yes	Warren Sach, Suzanne Bishopric, Ajit Singh	Ongoing	As regards Governance Controls, in respect to new asset classes the Investments Committee continues to be informed of allocations made to Alternative Investments. Following an RFP and multiyear process, IMD is completing the implementation of the RiskMetrics risk and performance analytics system. This critical system and related activity i.e., existing mechanisms including the ALM study, provide governance and risk controls such that there is a system in place to effectively manage the risks as described in the recommendation. This includes providing

¹ Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ Please indicate feasibility and realistic timelines for implementation of the recommendation.

							a clear view of the described risks including asset allocation with specificity. IMD's governance controls are continually evolving.
57.	The Representative of the Secretary-General, in consultation with the Investments Committee, should report to the Pension Board on how the Fund's risk tolerance has been defined and set, and how IMD manages investment risks in order to stay within the Fund's overall risk tolerance.	Important	Yes		Suzanne Bishopric, Ajit Singh	July 2012	Following the full implementation of RiskMetrics and in consultation with the Investments Committee, the RSG provide detailed information to the Pension Board in its next meeting.
71.	The Representative of the Secretary-General and the Chief Executive Officer should meet regularly as per the agreed upon principles for the coordinated management of the Fund and maintain minutes of such meetings.	Important	Yes		Warren Sach	March 2012	The RSG have/will hold quarterly meetings, the next of which will take place in January 2012 and will keep mutually agreed minutes.
75.	The Representative of the Secretary-General should exercise the authority for human resources management as the Department Head of IMD, in line with the Secretary-General's responsibility and managerial accountability for the Fund's investments.	Important	Yes		Warren Sach		IMD concurs with this recommendation.
78.	The Representative of the Secretary-General should ensure that the information dissemination policy within the Risk Manual specify that information on investment management activities and investment performance be reviewed by IMD before being distributed or presented to the public.	Important	Yes		Ajit Singh	Immediate	IMD welcomes this observation.
82.	The Representative of the Secretary-General should ensure compliance with the Memorandum of Understanding signed in 2007 for the provision of ICT services between IMD and IMSS and ensure consolidation as recommended by the Board.	Important	Yes		Warren Sach	Immediate	The MOU has been in effect since 2007 and arrangements for continuity are underway for the period after its expiration on 31 December 2011.

OPPORTUNITIES FOR IMPROVEMENT

Audit of governance and oversight over the investments of the UNJSPPF

Para. no.	Opportunity	Client comments
30.	The Representative of the Secretary-General could consider elaborating the terms of reference for the Representative of the Secretary-General for the investments of the UNJSPPF.	The GA has determined the terms of reference responsible for the Investments of the Pension Fund under the regulations thereof. The opportunity to elaborate is duly noted.
48.	IMD could benefit from updating the Compliance Policy and Procedures Manual to incorporate the provisions of the new mandatory leave policy and the enhancements to the personal securities trading policy and the gift and hospitality policy.	Agreed. IMD will update the Compliance Policy and Procedures Manual as recommended.

**Assignment No. AS2011/801/01 – Audit of governance and oversight over the
investments of the UNJSPF
Comments of the UNJSPF Secretariat on the Draft Audit Report
10 November 2011**

General comments

The audit report of governance and oversight over the investments of the UNJSPF points out interesting recommendations and areas for improvement. However, corporate governance is a technical field with significant implications for the Fund's operations and performance, where further study should be conducted by experts. There is increasing evidence to support a link between superior investment performance and strong governance. The Pension Board and management are aware that its governance arrangement should be a top priority. We therefore consider that OIOS should use this opportunity to recommend to the Board to retain the services of expert consultants to conduct a review and analysis of the governance and oversight practices applied to the investments of the UNJSPF.

Comments on specific paragraphs:

Paragraph 22:

This paragraph relates to the role of the Pension Board and indicates that “reporting to the Board on investment matters is a note by the CEO” and concludes that an adequate forum exists whereby information related to the investments of the Fund is provided to the Pension Board. We would like you to clarify the connotation of and basis for this sentence.

However, the report omits the Board's request to receive through the CEO weekly and monthly investment information. This request followed IMD's decision taken in early 2011, to stop providing such information. Daily investment information to the CEO has not yet resumed.

Paragraph 30:

Given the critical role that the Representative of the Secretary-General for the investments of the UNJSPF has for the Fund's performance and results, we consider that OIOS should recommend and not treat as an opportunity for improvement Paragraph 30 which states that *“The Representative of the Secretary-General could consider elaborating the terms of reference for the Representative of the Secretary-General for the investments of the UNJSPF”*.

Paragraph 43:

OIOS recommends that the Representative of the Secretary-General should ensure that investment management and/or advisory services by IMD to the United Nations Library Fund and the United Nations University Endowment Fund are formalized and agreed to by the Pension Board bearing in mind the Regulations of the UNJSPF.

We consider that OIOS should mention the fact that:

1. The Pension Fund is paying the salary and benefits for the individuals providing advisory services to the Endowment Fund and the Library Fund. Under these circumstances, we believe that OIOS should also comment on whether the Pension Fund should seek compensation for the services provided to the Endowment Fund and the Library Fund.
2. The Representative of the Secretary-General is in a conflict of interest situation as he is using his delegated authority on IMD, a UNJSPF Division, to provide investment management services to entities external to the Pension Fund. As noted by the auditors in paragraph 26, "the Representative of the Secretary-General for the investments of the UNJSPF has been appointed by the Secretary-General to act on his/her behalf in all matters relating to the investments of the assets of the UNJSPF". This sentence clarifies accurately the mandate, limited in scope, given to the Representative of the Secretary-General by the United Nations Secretary-General.
3. There are many risks involved in the activity of providing investment advice/services to third parties.

Paragraph 57:

We consider that setting the risk tolerance for the Fund falls under the responsibility, and accountability, of the Fund's governing body e.g. Pension Board, and cannot be delegated to the investment managers. In fact, asset management should be driven by a Board defined risk tolerance policy. Within this framework the asset managers would then report to the Board on their strategic allocation strategy.

Paragraphs 70 - 71:

We consider that the recommendation that the Representative of the Secretary-General and Chief Executive Officer should meet regularly as per the agreed upon principles for the coordinated management of the Fund is not necessary, since the coordination meetings are being held.

In case OIOS maintains this recommendation, we recommend that paragraph 70 should not only note that since the date the Memorandum of Understanding between the Pension Fund Secretariat and IMD was signed (19 June 2009) to October 2011, only six of the eight quarterly coordination meetings planned between the CEO and the RSG were held,

but also include a comment regarding the fact that the CEO has been available for all the meetings.

In addition, we consider that it should be noted in paragraph 70 that OIOS only received the minutes that the CEO was responsible for drafting.

Paragraph 75:

Contrary to the comments at paragraphs 72 to 74 the Fund currently complies with paragraph 8 of the Memorandum of understanding with respect to the United Nations personnel procedures applicable to the UN Joint Staff Pension Fund, that states:

"Recommendations for the appointments and promotions of the other staff of the Investment Management Service shall be made by the designated representative of the Secretary-General consistent with the provisions of paragraph 11 of JSPB/48/R.18/Add 1., which would take into account the fiduciary responsibility of the Secretary-General for the investments of the Fund, as set out in the Regulations of the Fund."

and also complies with paragraph 10 of JSPB/48/R.18/Add.1 that states:

"The Fund's Regulations make the separate areas of responsibility of the Secretary-General and of the Secretary of the board quite clear: the Secretary-General is the trustee for the investments of the Fund's assets, while the Secretary acts under the authority of the Board in the discharge of the latter's responsibility for administrative supervision of the Fund as a whole."

Indeed, it is clear that the MOU between the Fund and OHRM was drafted taking into account the Secretary's responsibility for "administrative supervision of the Fund as a whole".

Paragraph 78:

With regards to the presentation of information on the Fund's investment performance, we need to make several comments:

We first need to clarify that investment information should not be presented in isolation of the financial situation of the Fund as it is an integral part of the Fund's financial statements.

The Fund should strive to follow the best practices on investment information dissemination, which would allow all stakeholders to be informed of investment activities. The investment results presented by IMD on the Fund website are still very minimal and IMD should expect to receive comments on information that is publicly available.

The funding status is a role of the Chief Executive Officer when presenting the Fund's financial statements or the Fund's operations and in that respect the practice is to use public information (information that has been distributed by IMD or posted on the Fund website) to communicate this information to outsiders.

Since IMD posts information on the Fund website and provides the CEO with information that he distributes to Board members on a weekly and monthly basis, it is impractical and inappropriate to think that the RSG could control information once it has already disseminated on the website and to the UNSPCs.

Based on the previous comments, we agree that controls exist for the accuracy of the data that is made public and suggest that this paragraph should read as follows:

"The RSG should ensure that the information dissemination policy within the Risk Manual specifies that information on investment management activities and investment performance, that has not previously been distributed by IMD or posted on their website, will be reviewed by IMD before being distributed or presented to the public."

Paragraph 79:

Point (ii) ***"The Memorandum of Understanding (MOU) signed in 2007 for the provision of ICT services between IMD and IMSS;"*** needs to be corrected since the Memorandum of Understanding for the provision of Information and Communication Technology Services was signed 5 March 2009.

We would also suggest to add as an additional point (v) ***"and the IT Consolidation Working Group Meeting Minutes agreed on March 2009"***.