



INTERNAL AUDIT DIVISION

REPORT 2019/113

**Audit of the financial reporting
process and related systems in the
United Nations Joint Staff Pension
Fund**

**The systems supporting the financial
reporting process need to be fully integrated
to enhance efficiency in accounting for the
Fund's financial transactions**

**27 November 2019
Assignment No. AS2019/800/01**

Audit of the financial reporting process and related systems in the United Nations Joint Staff Pension Fund

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of the financial reporting process and related systems in the United Nations Joint Staff Pension Fund (UNJSPF). The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the financial reporting process and related systems in UNJSPF. The audit covered the period from January 2015 to June 2019 and included a review of risk areas relating to: (a) systems supporting financial reporting process; (b) the financial reporting process in the UNJSPF Secretariat and the Office of Investment Management (OIM); (c) change and configuration management; and (d) information and communications technology (ICT) security.

The audit showed that systems supporting the financial reporting process need to be fully integrated and optimally utilized to enhance efficiency in accounting for the Fund's financial transactions.

OIOS made eight recommendations to the UNJSPF Secretariat and one recommendation to OIM. To address issues identified in the audit, the UNJSPF Secretariat needed to:

- Review the current accounting process for benefit liabilities and explore alternatives to support the introduction of an automated process in lieu of the current manual process to the extent feasible;
- Document detailed requirements for the system reports that enable reconciliation between the pension administration system and the accounting system, and specify the related project deliverables, cost and timelines;
- Strengthen controls over the compilation of financial statements to ensure that current and historical financial records are protected from unauthorized access;
- Strengthen its review process for monitoring of benefit liabilities and resolve the system issue relating to disbursed benefit cases in “incomplete” status;
- Establish a policy to lock the accounting periods which have been closed and prescribe the procedure to reopen them when required;
- Identify the type of changes to the configuration of the accounting system that require authorization; and establish a process to maintain master data in the accounting system, and approve and record them in the change management system;
- Involve business users in upgrading the database of the accounting system and conduct tests before system go-live to ensure that the application, its interfaces, and batches work as expected; and

OIM needed to standardize the process for reversing entries in the accounting system to ensure that they are recorded consistently in the same posting period.

The UNJSPF Secretariat and OIM accepted the recommendations and have initiated action to implement them.

CONTENTS

	<i>Page</i>
I. BACKGROUND	1-2
II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY	2
III. AUDIT RESULTS	3-13
A. Systems supporting the financial reporting process	3-6
B. Financial reporting process in the UNJSPF Secretariat	6-7
C. Financial reporting process in the Office of Investment Management	7-9
D. Change and configuration management	9-10
E. ICT security	10-13
IV. ACKNOWLEDGEMENT	13
ANNEX I Status of audit recommendations	
APPENDIX I Management response	

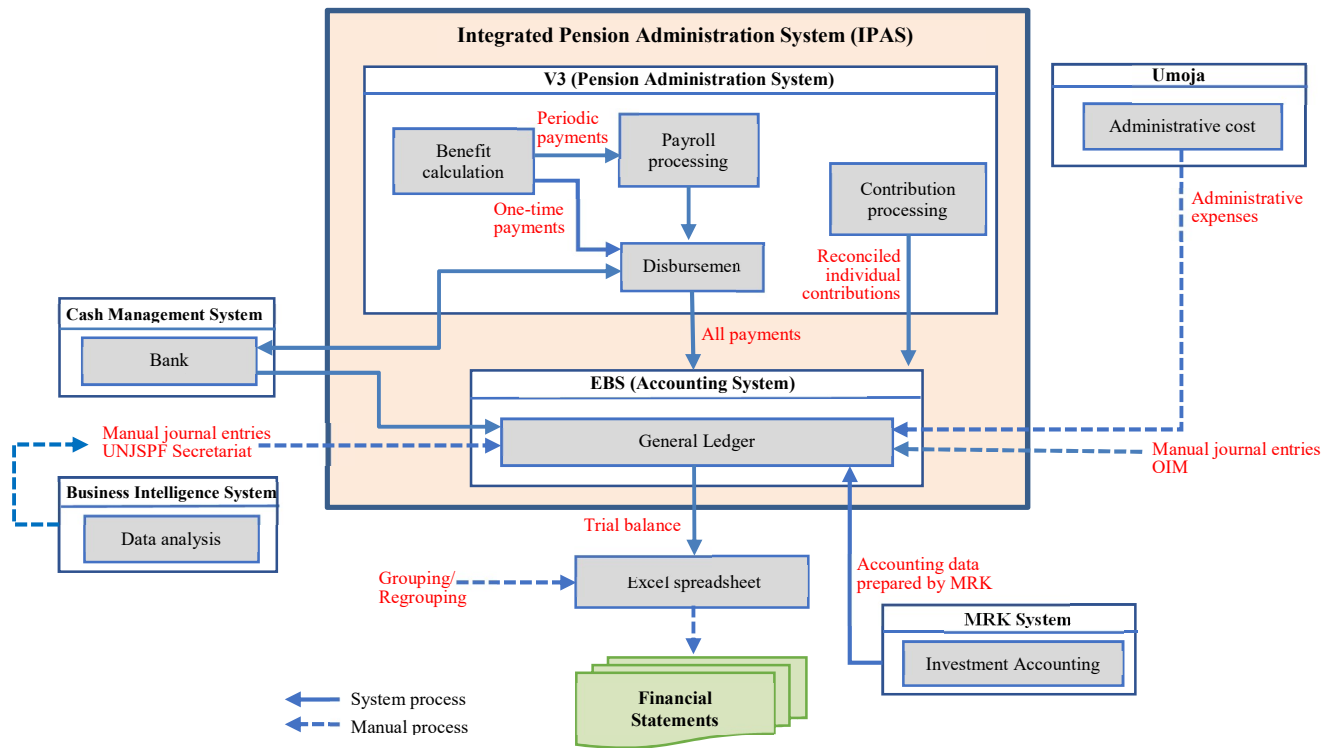
Audit of the financial reporting process and related systems in the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the financial reporting process and related systems in the United Nations Joint Staff Pension Fund (UNJSPF).
2. UNJSPF was established in 1948 by the General Assembly to provide retirement, death, disability and related benefits for the staff of the United Nations and 23 other member organizations.
3. The Chief Executive Officer (CEO) of the Fund administers the pension benefits under the authority of the United Nations Joint Staff Pension Board and certifies for payment all benefits properly payable under the Fund's Regulations. The investments of the Fund are managed by the Representative of Secretary-General (RSG) for the investment of the assets of the Fund who has a fiduciary responsibility to manage the investments in the best interests of participants and beneficiaries. The RSG heads the Office of Investment Management (OIM) which manages the Fund's investments on a day-to-day basis.
4. UNJSPF adopted the International Public Sector Accounting Standards (IPSAS) in 2012 and it has since used the standards to prepare its financial statements. The adoption of IPSAS was part of the reform in the United Nations system which entailed a transition to full accrual accounting. For the presentation of financial statements, the Fund follows the International Accounting Standard (IAS) 26 ("Accounting and Reporting Retirement Benefit Plans") under the International Financial Reporting Standards (IFRS) and presents the "Statement of Net Assets Available for Benefits" and the "Statement of Changes in Net Assets Available for Benefit". In addition, UNJSPF presents the "Statement of Cash Flows" on a voluntary basis.
5. The Accounts Section in the Financial Service of the Fund is primarily responsible for preparing the financial statements under the supervision of the Chief Financial Officer (CFO). The Pension Entitlements Section is responsible for maintaining records of pension contributions and benefits in the pension administration system. The Budget Unit which was previously part of the Executive Office but currently in the Financial Service is responsible for recording administrative expenses for both the Fund Secretariat and OIM in the accounting system.
6. OIM had outsourced the recordkeeping of investment and related activities to an external Master Record Keeper (MRK) who also serves as the global custodian of the Fund's assets. Therefore, the financial reporting of OIM is principally a process of reviewing and reconciling the information provided by the MRK and uploading it into the accounting system. The Finance and Accounting team of the Operations Section is primarily responsible for the accounting process under the supervision of the Chief of the Operations Section who has dual reporting lines to the CFO for matters relating to financial reporting and to the Chief Operating Officer (who oversees the Operations and Information Systems Group) for all other matters.
7. UNJSPF launched the Integrated Pension Administration System (IPAS) in 2015 to automate business processes and improve the operational efficiency and effectiveness of the Fund. IPAS consists of a pension administration system (known as "V3") and an accounting system (known as "e-Business Suite" or "EBS"). UNJSPF compiles its financial statements in an Excel spreadsheet using the data extracted from EBS. The use of EBS was limited to General Ledger functionality in which data was fed by various systems – contributions and benefit disbursements from V3, administrative costs from Umoja (which is the enterprise resource planning system of the United Nations), investment accounting data from the MRK,

bank transactions from the cash management system, and journal entries prepared manually, as illustrated in Chart 1.

Chart 1: Information flows among the systems for production of financial statements



8. Comments provided by UNJSPF are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

9. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes over the financial reporting process and related systems in UNJSPF.

10. This audit was included in the 2019 risk-based work plan of OIOS due to the risks associated with the financial reporting process and related systems.

11. OIOS conducted this audit from May to September 2019. The audit covered the period from January 2015 to June 2019. Based on an activity-level risk assessment, the audit covered risk areas which included: (a) systems supporting financial reporting process; (b) financial reporting process in the UNJSPF Secretariat and OIM; (c) change and configuration management; and (d) information and communications technology (ICT) security. The audit scope did not include review of controls over the financial reporting process of the MRK.

12. The audit methodology included: (a) interviews with key personnel; (b) review of relevant documentation; (c) analytical review of data; (d) sample testing of transactions using random sampling; and (e) tests of ICT security.

13. The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing.

III. AUDIT RESULTS

A. Systems supporting the financial reporting process

System limitations causing constraints to the financial reporting process needed to be addressed

14. UNJSPF envisioned IPAS as “a programme of change to modernize the Fund’s operations by introducing new systems and improve working practices.” The objective of IPAS was to re-engineer processes that are more consistent and standard, and better supported by technology, and increase the ability of work to pass through the operation with little, if any, manual intervention and reduce the number of hand-offs.

15. However, the financial reporting process of UNJSPF required a high level of manual intervention due to the following reasons.

(a) Unimplemented functionalities

16. According to the contract with the IPAS vendor, the expected deliverables for EBS included implementation of Chart of Accounts, Currency Accounts, Accounts Receivable, Accounts Payable, Bank Reconciliation and Financial Reporting functions. However, when IPAS went live in August 2015, there were at least 10 unimplemented requirements related to the accounting system which have remained undelivered, resulting in lack of the related functionalities. These included:

- A consolidated view of the open payables in the Accounts Payable module and open receivables in the Accounts Receivable module for the main member and associated members;
- Reconciliation reports to ensure that all monthly payroll entries are properly recorded in the Accounts Payable module;
- Accounts payable and accounts receivable reconciliation report showing the payments made to the beneficiary and dependents and survivors;
- A final report that can be customized into the financial statement without manual manipulation of any figures;
- A report that matches the employer remittances and alerts the user of mismatches with the entries made based on monthly contribution reports; and
- Audit trail on all transactions.

17. The Fund made changes to the original requirements for EBS after the contract was signed because it came to conclusion that V3 had similar functionalities that would meet the requirements of the Accounts Payable and Accounts Receivable modules. While removing the requirements relating to these modules from the contract, the Fund had also left other critical requirements unimplemented. Acceptance testing for the two systems (V3 and EBS) was not thorough to verify that each deliverable was implemented based on the requirements in the contract. Despite the unimplemented functionalities, the acceptance certificate was signed, and payments were made to the vendor in full.

(b) System limitations to support automation in recognition of benefit liabilities

18. The contract with the IPAS vendor required that “the accounting system must adhere to IPSAS and to IAS 26 under IFRS,” both of which are based on accrual accounting. However, EBS did not support the recording of benefit liabilities on an accrual-basis. The interface was designed in such a way that the data was transferred from V3 to EBS at the stage of releasing benefit cases for payment. As such, the system only recognized liabilities for benefit cases which had been released for payment, but not others such as

cases pending receipt of payment instructions. Benefit liabilities for those cases were estimated outside the system and the aggregate amounts by benefit type were manually entered in EBS during the year-end closing.

19. The practice followed by the Fund showed that EBS was being used for cash-based accounting rather than accrual-based accounting, which was contrary to the original expectation that the system should be suited for IPSAS-compliant financial reporting. OIOS recognizes that due to their nature, some liabilities can only be estimated. However, in the interest of promoting efficiency, the Fund needs to explore a solution to realize the benefits originally envisaged from the implementation of IPAS by automating the current manual process in the recognition of benefit liabilities to the extent feasible.

(1) The UNJSPF Secretariat should review the current accounting process for benefit liabilities and explore alternatives to support the introduction of an automated process in lieu of the current manual process to the extent feasible.

The UNJSPF Secretariat accepted recommendation 1 and stated that it will identify alternatives to further automate the current accounting process for benefit liabilities. As part of these actions, a JIRA [an issue tracking and management tool] was created to add the established benefits not in payment, setup with a “Not Established Payment Stream”, onto the payroll when the normal retirement age is reached. This will bring several enhancements to the accounting process for benefit liabilities. Recommendation 1 remains open pending receipt of evidence showing that the accounting process for benefit liabilities has been automated along the lines explained.

(c) System limitations in keeping the record of individual contributions up-to-date

20. The financial information in the systems must be accurate and current. The Fund performed reconciliation of individual contributions once a year and collectively and retroactively recorded the total contributions received and receivable from the member organizations at the entity level. Due to the annual reconciliation process, there was always a time lag in recognizing individual contributions in V3. Although individual contributions did not have a direct impact on the financial statements since accounting entries were made at the entity level, it is important to maintain the record of contributions current in the individual accounts to match the aggregated figures in the financial statements.

21. The lack of monthly reconciliation of individual contributions, as well as the high level of discrepancies, had been areas of concern identified by the Board of Auditors in the past. To address these issues, UNJSPF had been working since 2012 to implement a pension interface programme to establish a common data interface between the systems of member organizations and the Fund. However, the project was yet to be implemented. In a previous audit (Report No. 2019/038), OIOS had recommended that the Fund establish schedules in collaboration with member organizations for implementing the pending interface projects and roll out of the monthly contributions project (which was piloted in one member organization) to other member organizations. If successfully implemented, these initiatives should not only improve the quality of financial data but also strengthen internal controls by significantly reducing the need for manual intervention.

(d) Incomplete integration between V3 and EBS

22. The Fund expected that the V3 system and EBS would be fully integrated to improve the business processes. However, the integration was incomplete, and it became necessary to perform reconciliations between the two systems to ensure that they were synchronized. Due to the lack of exception reports in both systems, reconciliations were performed manually.

23. To automate the reconciliation process, the Fund launched a project to develop reconciliation reports in the business intelligence (BI) system by engaging a United Nations agency. However, there was no formal project document or agreement defining the time, cost and deliverables of the project. At the time of the audit, the agency had developed some reconciliation reports using the high-level requirements provided by the Fund's functional expert. However, the Fund had neither assigned a project manager nor documented the project plans and deliverables. Also, the Fund did not have clear understanding of the project cost, and it had appropriated funds from another project for this purpose.

(2) The UNJSPF Secretariat should: (i) document detailed requirements for the system reports that enable reconciliation between the pension administration system and the accounting system; and (ii) specify the related project deliverables, cost and timelines.

The UNJSPF Secretariat accepted recommendation 2 and stated that it is discussing possible solutions with the United Nations agency and is developing EBS Business Intelligence portal functional report requirements to strengthen the reconciliation between the pension administration system and the accounting system. These requirements are being constantly refined as the project progresses. The timeline and cost will be updated in coordination with the Information Management Systems Service. Recommendation 2 remains open pending receipt of documentation detailing the requirements for the system reports and specific project deliverables, cost and timelines.

Controls over compilation of financial statements needed to be strengthened

24. To ensure the integrity of financial information, financial data should be adequately protected by restricting the access to the accounting system, requiring approval for changes to accounts, and maintaining the trail of actions pertaining to such changes.

25. EBS had the capability to produce all three financial reports that are the main component of the Fund's financial statements. However, the Fund never used the system to produce financial statements after IPAS go-live. Instead, it exported the trial balance from EBS into an Excel spreadsheet and manually prepared the financial statements. Prior to IPAS implementation, the Fund generated financial statements directly from the General Ledger in the legacy system. Table 1 shows a comparison between the legacy and EBS.

Table 1: Comparison of the legacy accounting system and EBS

Characteristics/Functionality	Legacy system (before 2015)	EBS (After 2015)
Type of application	Standalone	Web-based
Has a module for:		
General Ledger	Yes	Yes
Cash Management	Yes	Yes
Accounts Receivable	Yes	No
Accounts Payable	Yes	No
Produces the statement of:		
Net Assets Available for Benefits	Yes	Yes (Not in use)
Changes in Net Assets Available for Benefits	Yes	Yes (Not in use)
Cash Flow	No	Yes* (Not in use)
Produces footnotes:	No	Yes* (Not in use)
Availability of audit trails	Yes	No

Source: IPAS contract

* With limitations

26. The Fund considered the Excel spreadsheet to be a more effective tool for compiling financial statements than EBS because of its capability to meet changing presentation requirements, produce

footnotes, and perform analytical reviews of financial statements. Despite the benefits, the process with the Excel spreadsheet did not fully compensate the lack of system controls over the compilation of financial statements. For example, the Excel spreadsheet was stored on the shared drive and was accessible by many staff. The file was not restricted, and it did not provide any protection from unauthorized changes.

27. Also, the spreadsheet did not support a structured approval process with audit trail when the presentation of financial statements was changed by regrouping the accounts from one way to another. Regrouping in the spreadsheet was formula-driven and could be easily manipulated if one gained the access to the file. On the other hand, in EBS, regrouping of accounts would require changing the master data by submitting a request to the change management system. It would also require reopening of the prior period with approval, thereby providing a trail of the actions executed in the system.

28. While the Excel spreadsheet afforded flexibility, it lacked the critical controls that would otherwise be available in EBS such as access control, period lock and audit trail. Without adequate control over financial data, there is a risk that their integrity might be compromised.

(3) The UNJSPF Secretariat should strengthen controls over the compilation of financial statements to ensure that current and historical financial records are protected from unauthorized access.

The UNJSPF Secretariat accepted recommendation 3 and stated that it will document the procedures on the preparation of the financial statements from the General Ledger by the end of 2019, including the measures to secure the trial balance-grouping Excel spreadsheets. Recommendation 3 remains open pending receipt of evidence showing that the security measures to protect current and historical financial records have been implemented.

B. Financial reporting process in the UNJSPF Secretariat

Manual process for accruing benefit liabilities needed to be strengthened

29. As previously explained, the lack of system capability to account for accrual of benefit liabilities required manual analysis and calculations outside the systems to make adjustment entries. Considering the complexity of the analysis and the risks inherent within the manual process, there must be an effective review process to prevent possible human error.

30. The Fund relied on a staff member in Financial Service to perform the manual process for adjusting its benefit liabilities. The post encumbered by this staff member was located independently from other sections of the Financial Service with a direct reporting line to the CFO. The Chief of Accounts Section was given the authority to approve adjustment entries, but he did not have supervisory responsibility for overseeing the process of preparing the entries. Therefore, there was no second layer of review after the staff member prepared the adjustment entries. Neither the Chief of Accounts Section nor his team was provided the supporting documents for them to review and assure the accuracy of calculations. Also, the Fund Secretariat did not maintain the supporting documents for manual entries in a central repository.

31. Reliance on one individual posed the risk (i.e., key person risk) that unless adequately mitigated, this individual's departure could disrupt the Fund's accounting operations. Further, the manual process did not fully compensate for the lack of system functionalities. For instance, OIOS observed that there were instances where payments disbursed to beneficiaries remained "incomplete" in the system. This issue was recurring since 2015 but the underlying cause was yet to be addressed. The Fund manually adjusted these cases in the accounting system. These conditions indicate that the Fund needs to strengthen its review

process for monitoring of benefit liabilities and resolve the issue concerning disbursed cases shown to be in “incomplete” status.

(4) The UNJSPF Secretariat should strengthen its review process for monitoring of benefit liabilities and resolve the system issue relating to disbursed benefit cases in “incomplete” status.

The UNJSPF Secretariat accepted recommendation 4 and stated that to address recommendation 1, the Fund will further automate the accounting process for benefit liabilities. In addition, the Fund will complete the development of the EBS Business Intelligence Portal which will include individual reports to replace the current manual effort of the remaining benefit liabilities. Journal entries will be made based on these reports. Recommendation 4 remains open pending receipt of evidence showing that the UNJSPF Secretariat has strengthened the review process for monitoring of benefit liabilities and resolved the system issue relating to disbursed benefit cases.

Action was being taken for automated reconciliation of all bank accounts

32. Bank reconciliation is an essential internal control to identify any errors or irregularities in cash accounts. The Fund Secretariat used three major banks which managed its 24 bank accounts. The process required the Fund’s Accounting Assistant to perform the bank reconciliation, for review and approval by the Accountant.

33. The Fund had implemented interfaces with two of the three banks through the cash management system, which enabled automated reconciliation of 21 accounts. For the third bank, the Fund stated that the interface would be implemented by the end of 2019.

C. Financial reporting process in OIM

The reconciliation process was operating as intended

34. OIM had outsourced the recordkeeping of investment and related activities to an external MRK. One of the objectives of using an external MRK was to establish additional controls over financial reporting by placing the recordkeeping function independent from the investment management functions of OIM. Since the tasks relating to financial reporting were performed predominantly by the MRK, OIOS’ review focused on the process in OIM to reconcile data and reports produced by the MRK. Due to the limited involvement of OIM in the preparation of financial statements, only two individuals in OIM were given the rights to remotely access EBS to book journal entries and approve them. A third individual was given access to serve as a backup.

35. The MRK used IFRS for financial reporting of the Fund’s investments since there was no significant difference in accounting treatment between IFRS and IPSAS during the period covered by the audit. However, if the situation were to change, the MRK is required by the service level agreement with OIM to advise OIM of changes that are not in accordance with the accounting policy and framework followed by the Fund (i.e., IPSAS) and determine alternative means to comply with it.

36. Under the service level agreement, the MRK provided an audited General Ledger with all supporting documents for OIM to feed into EBS. Given the reviews and reconciliations performed by the MRK, there was a certain level of assurance on the accuracy of the information that was provided to OIM. Nonetheless, OIM’s operating procedure required that it should confirm the accuracy of the MRK’s reporting through the daily, weekly and/or monthly reviews while ensuring that such activities do not

duplicate the role of the MRK. Due to regular reconciliation activities, discrepancies in accounts were mostly detected during such reviews rather than during the year-end closing.

37. In addition to periodic reconciliation activities, OIM performed an annual process to review certain accounts for the purpose of preparing the financial statements. For private investments, whose valuation comes with a time lag, there was a process to reconcile the market values reported by the MRK with the statements directly obtained from the respective fund managers and update the values in the financial statements by making an adjustment entry that was reversed in the subsequent accounting year. OIM also reviewed the amounts accrued for dividend income and interest income, class action proceeds, income on private investments, and withholding tax which were computed by the MRK.

38. OIOS' sample review of the reconciliation exercises relating to private investments, tax receivables and capital changes due to corporate actions did not indicate any irregularities.

The process for reversing of adjustment entries needed to be standardized

39. A reversal entry is a journal entry that is recorded to cancel the adjustment entry booked in the immediately preceding period. It is mainly intended to simplify the accounting practice of a current period by avoiding duplicate booking of an expense or a revenue which has already accrued in the prior period. For entities whose accounting year ends on 31 December such as UNJSPF, it is customary to make adjustment entries at the end of the year (31 December) and corresponding reversal entries at the beginning of the following year (1 January).

40. OIM's standard procedures required the recording of reversal entries in the subsequent year, but it did not specify which period of the year. This led to inconsistent practices in reversing entries. For example, adjustment entries for 2015 and 2018 were reversed in January of the following year while those for 2016 and 2017 were reversed in December. Since the Fund presented annual financial statements, the timing of posting reversal entries did not have any impact on them. However, specifying a posting period for reversal entries would enable consistency and reduce the possibility of failure to post them.

41. Additionally, the posting date of some adjustment entries was about a year after the date of the original journal entries. These retroactive entries were possible because the Fund did not lock the accounting periods. EBS also allowed staff in the Accounts Section with 'super user' access to reopen prior periods without submitting a request through the change management system. A policy for closing prior accounting periods and reopening them when required would enable the Fund to maintain the integrity of financial data pertaining to the prior period(s).

(5) The UNJSPF Secretariat should establish a policy to lock the accounting periods which have been closed and prescribe the procedure to reopen them when required.

The UNJSPF Secretariat accepted recommendation 5 and stated that it will document the General Ledger period re-opening and permanent closing procedures by the end of 2019. Recommendation 5 remains open pending receipt of a policy to lock the accounting periods which have been closed and the procedure to reopen them.

(6) The Office of Investment Management should standardize the process for reversing entries in the accounting system to ensure that they are recorded consistently in the same posting period.

OIM accepted recommendation 6 and stated that it has updated its Procedures Manual with the following additional sentence in Section 7.4: "Ensure that manual adjustments of prior year are

consistently reversed in posting period 12 of subsequent year.” Recommendation 6 remains open pending receipt of the updated Procedures Manual.

D. Change and configuration management

Changes related to application configuration needed to be properly managed

42. According to the Information Systems Audit and Control Association, change management is the process that ensures that all changes relating to business processes, applications and infrastructure are processed in a controlled manner. Since changes to application configuration modify the way the application works, it is important that critical changes that may impact the business process are identified and approved by the appropriate level of authority.

43. The Fund had established a change management process for changes to infrastructure and source code. However, the Fund did not consider controlling the changes to the application configuration that can be made by application users through the user interface. For example, ‘Journal Approval Workflow’ is a system configuration that can be modified through the user interface by some of the application users. Since this type of change may impact the integrity of the financial statements, they must go through the change management process. Also, such changes should be approved at the appropriate level of authority and the privilege to make the changes should be assigned to those with the appropriate roles. At the time of audit, the Fund had not assigned the authority to approve critical changes or the responsibility to make such changes. Moreover, there was no audit trail of the changes made in the system, which increased the risk that unauthorized changes to application configuration could go undetected and may not be suitably addressed.

44. Failure to identify critical changes in the application configuration may adversely impact the business processes. Inability to institute an audit trail to monitor such changes may result in unauthorized changes in financial data, fraudulent activities, and erroneous reporting.

(a) Lack of master data governance

45. Master data is the data that provides context and structure for business transactions (such as Chart of Accounts, General Ledger, bank accounts, and cost centres). Master data management comprises a set of processes, policies, standards and tools that consistently defines and manages the master data of an organization. Best practices require that the master data should be current, always available and accurate. All changes to the master data should be secure and traceable.

46. The Fund had not established procedures to govern the master data fed into the accounting system. Changes to master data were made by the staff in the Accounts Section with ‘super user’ roles. Additionally, regular review of bank accounts in the system was not undertaken. No start and end dates were defined for the 24 bank accounts in the bank account set up in the system. At least one bank account should have been end-dated in the system since it was already closed.

(b) Segregation needed for changes to the database

47. Best practice requires that the roles of reviewing and requesting changes, implementing the change, and migrating them to the production environment should be segregated. The process was well established for code changes at the application layer.

(7) The UNJSPF Secretariat should: (i) identify the type of changes to the configuration of the accounting system that require authorization; and (ii) establish a process to maintain master data in the accounting system and approve and record them in the change management system.

The UNJSPF Secretariat accepted recommendation 7 and stated that it will prospectively review and document the changes in the accounting system application and the master data for their processes and authorizations. Recommendation 7 remains open pending receipt of evidence showing the type of changes to the configuration that require authorization, and a process to maintain master data in the accounting system and approve and record them in the change management system.

System upgrades needed to incorporate business requirements

48. The change and release management policy of the Fund Secretariat requires that changes with the potential to have a major impact on services shall be managed using project management practices. A remediation plan is required for all changes.

49. At the time of audit, the Fund indicated that it was in the process of upgrading EBS to new hardware and the new version of the database and application software. However, in September 2019, the Fund stated that the current upgrade would not include an application software upgrade. Therefore, it will be a routine process of upgrading the version of the standard hardware, operating system and database. The Fund assumed that this process would not involve any business risks. OIOS is of the view that an upgrade of the operating system and database could result in deficiencies in the existing system if every functionality in the application, its interfaces and batch processes are not properly tested by the business users.

(8) The UNJSPF Secretariat should involve business users in upgrading the database of the accounting system and conduct tests before system go-live to ensure that the application, its interfaces, and batches work as expected.

The UNJSPF Secretariat accepted recommendation 8 and stated that the recommended action is part of the established process. The database upgrade is a back-end service and business users will be involved in the pre- and post-check of the system operation. The database version upgrade is certified by the manufacturer to operate on the specific version of EBS in use. Recommendation 8 remains open pending receipt of the test results and sign-off from business users confirming that the application, interfaces and batches have been tested and are working as expected.

E. ICT security

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

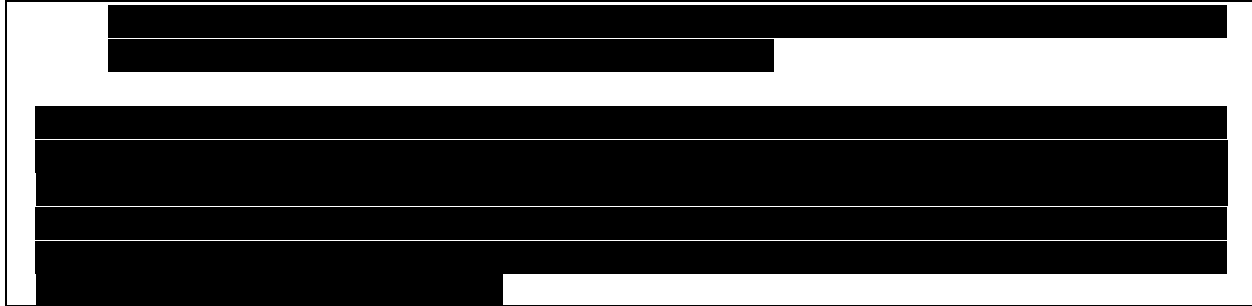
[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]

[Redacted text block]



IV. ACKNOWLEDGEMENT

53. OIOS wishes to express its appreciation to the management and staff of UNJSPF for the assistance and cooperation extended to the auditors during this assignment.

(Signed) Eleanor T. Burns
Director, Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of the financial reporting process and related systems in United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	The UNJSPF Secretariat should review the current accounting process for benefit liabilities and explore alternatives to support the introduction of an automated process in lieu of the current manual process to the extent feasible.	Important	O	Receipt of evidence showing that the accounting process for benefit liabilities has been automated along the lines explained in the report.	31 December 2020
2	The UNJSPF Secretariat should: (i) document detailed requirements for the system reports that enable reconciliation between the pension administration system and the accounting system; and (ii) specify the related project deliverables, cost and timelines.	Important	O	Receipt of documentation detailing the requirements for the system reports and specific project deliverables, cost and timelines.	31 December 2020
3	The UNJSPF Secretariat should strengthen controls over the compilation of financial statements to ensure that current and historical financial records are protected from unauthorized access.	Important	O	Receipt of evidence showing that the security measures to protect current and historical financial records have been implemented.	30 June 2020
4	The UNJSPF Secretariat should strengthen its review process for monitoring of benefit liabilities and resolve the system issue relating to disbursed benefit cases in “incomplete” status.	Important	O	Receipt of evidence showing that the UNJSPF Secretariat has strengthened the review process for monitoring of benefit liabilities and resolved the system issue relating to disbursed benefit cases.	31 December 2020
5	The UNJSPF Secretariat should establish a policy to lock the accounting periods which have been closed and prescribe the procedure to reopen them when required.	Important	O	Receipt of a policy to lock the accounting periods which have been closed and the procedure to reopen them.	30 June 2020
6	The Office of Investment Management should standardize the process for reversing entries in the	Important	O	Receipt of the updated Procedures Manual.	31 December 2020

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by the UNJSPF Secretariat and OIM in response to recommendations.

STATUS OF AUDIT RECOMMENDATIONS

Audit of the financial reporting process and related systems in United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	accounting system to ensure that they are recorded consistently in the same posting period.				
7	The UNJSPF Secretariat should: (i) identify the type of changes to the configuration of the accounting system that require authorization; and (ii) establish a process to maintain master data in the accounting system and approve and record them in the change management system.	Important	O	Receipt of evidence showing the type of changes to the configuration that require authorization, and a process to maintain master data in the accounting system and approve and record them in the change management system.	30 June 2020
8	The UNJSPF Secretariat should involve business users in upgrading the database of the accounting system and conduct tests before system go-live to ensure that the application, its interfaces, and batches work as expected.	Important	O	Receipt of the test results and sign-off from business users confirming that the application, interfaces and batches have been tested and working as expected.	30 June 2020
9	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

APPENDIX I

Management Response

UNITED NATIONS



NATIONS UNIES

UNITED NATIONS JOINT STAFF PENSION FUND
CAISSE COMMUNE DES PENSIONS DU PERSONNEL DES NATIONS UNIES

NEW YORK (Headquarters)
P.O. Box 5036, UNITED NATIONS, N.Y., N.Y. 10017
Tel: (212) 963 -6931; Fax: (212) 963 -3146
E-mail: UNJSPF@UN.ORG
Cable: UNATIONS NEWYORK
Web: <http://www.unjspf.org>

OFFICE AT GENEVA
c/o PALAIS DES NATIONS
CH - 1211, Geneva 10
Tel: +41 (0) 22 928 8800; Fax: +41 (0) 22 928 9099
E-mail: UNJSPF.GVA@UNJSPF.ORG
Web: <http://www.unjspf.org>

MEMORANDUM

Ref:

New York, 21 November 2019

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

From / De : Janice Dunn Lee, Acting Chief
Executive Officer, United Nations
Joint Staff Pension Fund

Subject / **UNJSPF response to draft report audit of the financial reporting process**
Objet: **and related systems in the UNJSPF (Assignment No. AS2019/800/01)**

1. Reference is made to your memorandum dated 7 November 2019, in which you submitted for the Fund's review and comments, the draft report on the above-mentioned audit.
2. As requested, the Fund's comments to the audit recommendations are included in **Annex I**. Clarifications to the observations contained in the audit results are presented in **Annex II**.
3. The Fund would like to thank OIOS auditors for a detailed analysis and recommendations to strengthen the financial reporting process.

cc.: Mr. K. Soll, Chief Financial Officer
Mr. D. Dell'Accio, Chief Information Officer
Ms. J. Sareva, Chief Risk Management and Legal Services Section
Ms. K. Manosalvas, Risk Officer, Audit Focal Point

Annex I

Comments to recommendations contained in draft report of OIOS audit of financial reporting process and related systems

Rec. no.	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNJSPF Secretariat should review the current accounting process for benefit liabilities and explore alternatives to support the introduction of an automated process in lieu of the current manual process to the extent feasible.	Important	Yes	Financial Services	4Q2020	To address the recommendation, the Fund will identify alternatives to further automate the current accounting process for benefit liabilities. As part of these actions, a JIRA was created to add the established benefits not in payment, setup with a "Not Established Payment Stream", onto the payroll when the Normal Retirement Age (NRA) is reached. This will bring several enhancements to the accounting process for benefit liabilities.
2	The UNJSPF Secretariat should: (i) document detailed requirements for the system reports that enable reconciliation between the pension administration system and the accounting system; and (ii) specify the related project deliverables, cost and timelines.	Important	Yes	Financial Services	4Q2020	The Fund is discussing possible solutions with UNICC and is developing EBS Business Intelligence portal functional report requirements to strengthen the reconciliation between IPAS and the accounting system. These requirements are being constantly refined as the project progresses. The timeline and cost will be updated in coordination with IMSS.
3	The UNJSPF Secretariat should strengthen controls over the compilation of financial statements to ensure that current and historical financial records are protected from unauthorized access.	Important	Yes	Financial Services / Accounts Section	2Q2020	The Fund will document the procedures on the preparation of the financial statements from the general ledger by the end of 2019, including the measures to secure the TB-grouping Excel spreadsheets.
4	The UNJSPF Secretariat should strengthen its review process for monitoring of benefit liabilities and resolve the system issue relating to disbursed benefit cases in "incomplete" status.	Important	Yes	Financial Services	4Q2021	To address recommendation 1, the Fund will further automate the accounting process for benefit liabilities. In addition, the Fund will complete the development of the EBS Business Intelligence Portal which will include individual reports to replace the current manual effort of the remaining benefit liabilities. Journal entries will be made based on these reports.
5	The UNJSPF Secretariat should establish a policy to lock the accounting periods which have been closed and prescribe the procedure to reopen them when required.	Important	Yes	Financial Services / Accounts Section	2Q2020	The Fund will document the GL period re-opening and permanent closing procedures by the end of 2019.

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Annex I

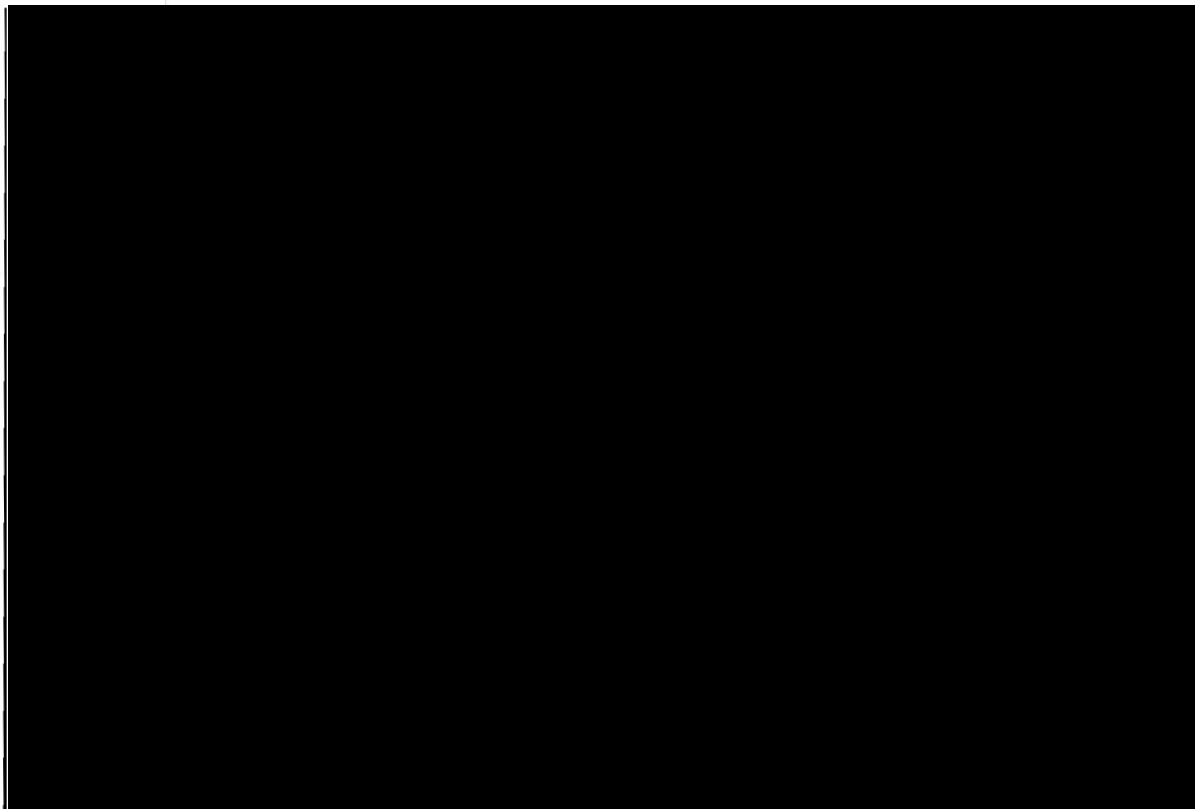
Comments to recommendations contained in draft report of OIOS audit of financial reporting process and related systems

Rec. no.	Recommendation	Critical¹/ Important²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
7	The UNJSPF Secretariat should: (i) identify the type of changes to the configuration of the accounting system that require authorization; and (ii) establish a process to maintain master data in the accounting system, and approve and record them in the change management system.	Important	Yes	Financial Services / IMSS	2Q2020	The Fund will prospectively review and document the changes in the accounting system application and the master data for their processes and the authorizations.
8	The UNJSPF Secretariat should involve business users in upgrading the database of the accounting system and conduct tests before system go-live to ensure that the application, its interfaces, and batches work as expected.	Important	Yes	IMSS / EOS	2Q2020	The recommended action is part of the established process. As previously discussed with OIOS auditors, the database upgrade is a back-end service and business users will be involved in the pre and post check of the system operation. The database version upgrade is certified by the manufacturer Oracle to operate on the specific version of EBS in use.
9						

Annex II

Comments and clarifications to the observations contained in the draft report of the audit of the financial reporting process and related systems in the UNJSPF

1. Chart 1: The Fund respectfully requests the chart be revised to properly reflect bank transactions to General Ledger with a dotted line since these are 'manual'. Also, the Fund notes that the "Regrouping" to Excel Spreadsheet seems to be related to restatements of prior year financial statements, which are an exceptional occurrence, not to be generalized. In addition, the "V3" white box includes an element of "Contribution recording" but omits remittances of contributions. The latter could be reflected as "Contribution recording/remittances".
2. Paragraph 25: Table 1 compares the functionalities of Lawson and Oracle EBS with regard to ledgers and financial statement compilation. The Fund reiterates that tools for cash flow statements were not available in the legacy system, therefore, OIOS note indicating that cash flow statement functionality was available in the Legacy System 'with limitations' is inaccurate.
3. Paragraphs 26 to 29: The Fund notes that trial balance regroupings are unrelated to the Fund's underlying accounting systems.



UNITED NATIONS

INTEROFFICE MEMORANDUM



NATIONS UNIES

MEMORANDUM INTERIEUR

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

DATE: November 21, 2019

REFERENCE: OIM

THROUGH:
S/C DE:

Sudhir Rajkumar
Representative of the Secretary General
for the Investments of the Assets of UNJSPF

A handwritten signature in blue ink, appearing to read "Sudhir Rajkumar".

From
S/C DE:

Enzo Iaderosa, Chief of Operations
Office of Investment Management, UNJSPF

A handwritten signature in blue ink, appearing to read "Enzo Iaderosa".

SUBJECT:
OBJECT:

The Office of Investment Management (OIM) response to the Office of Internal Oversight Services related to Assignment No. AS2019/800/01

1. OIM acknowledges receipt of the draft report of the audit of the financial reporting process and related systems in the United Nations Joint Staff Pension Fund (Assignment No. AS019/800/01)
2. OIM would like to take this opportunity to thank the Office of Internal Oversight Services and staff for their comprehensive effort including the on-going collaboration during the thorough review and analysis, and the detailed findings, observations and recommendations.
3. OIM has attached the completed form provided (Annex I - Audit recommendations) including detailed responses and comments to the recommendation related to OIM (recommendation #8).

cc: Herman Brill, Director
Karl-Ludwig Soll
Isabela Perle Munch
William Wilkinson
Urvesh Thakkar
Kathalina Manosalvas

Management Response

Audit of the financial reporting process and related systems in United Nations Joint Staff Pension Fund

Rec. no.	Recommendation	Critical ¹ / Important ²	Accepted? (Yes/No)	Title of responsible individual	Implementation date	Client comments
1	The UNJSPF Secretariat should review the current accounting process for benefit liabilities and explore alternatives to support the introduction of an automated process in lieu of the current manual process to the extent feasible.	Important				
2	The UNJSPF Secretariat should: (i) document detailed requirements for the system reports that enable reconciliation between the pension administration system and the accounting system; and (ii) specify the related project deliverables, cost and timelines.	Important				
3	The UNJSPF Secretariat should strengthen controls over the compilation of financial statements to ensure that current and historical financial records are protected from unauthorized access.	Important				
4	The UNJSPF Secretariat should strengthen its review process for monitoring of benefit liabilities and resolve the system issue relating to disbursed benefit cases in "incomplete" status.	Important				
5	The UNJSPF Secretariat should establish a policy to lock the accounting periods which have been closed and prescribe the procedure to reopen them when required.	Important				

¹ Critical recommendations address critical and/or pervasive deficiencies in governance, risk management or control processes, such that reasonable assurance cannot be provided with regard to the achievement of control and/or business objectives under review.

² Important recommendations address important (but not critical or pervasive) deficiencies in governance, risk management or control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

Management Response**Audit of the financial reporting process and related systems in United Nations Joint Staff Pension Fund****Other observations in Section C of the report:**

- Para 35: Following additional fact to be added: “As at 31 December 2018; there are no differences between IFRS and IPSAS that are relevant to the measurement of investment assets.

Rationale for the sentence is to clarify that there is no change in measurement of investment assets and remove potential misunderstanding of the term “no significant difference” in paragraph 35.

- Para 37: The Fund suggest adding following sentence after “in subsequent accounting year”. The year-end entry in Oracle EBS is required to account for net asset value statements received from fund managers subsequent to MRK year-end cut-off date but before the Fund’s year-end cut-off date”.

Rationale for the sentence is to clarify and add support for paragraph 39 for need to record year-end cut off entries and reverse in subsequent accounting period. As explained during the meeting year-end manual entries are necessary due to separate cut-off date for MRK and the Fund rather than to simplify accounting practice as explained in paragraph 39.

- Para 40: Delete the words “and reduce the possibility of failure to post them”

As discussed, please see below the extract and screenshot of updated Section 7.4 of OIM’s Procedures manual and implementation of recommendation. We are not sharing the entire manual because we generally have one updated version per year around first quarter of every year.

Management Response

Audit of the financial reporting process and related systems in United Nations Joint Staff Pension Fund

7.4 Annual review of General Ledger feed

4. Following posting of the general ledger feed into Oracle, coordinate within OIM staff to ensure that any manual adjustments for the withholding tax provision and for real assets and alternative investments are made directly into Oracle. Ensure that manual adjustments of prior year are consistently reversed in posting period 12 of subsequent year.