



INTERNAL AUDIT DIVISION

REPORT 2023/047

Audit of budget formulation and monitoring in the Office of Investment Management of the United Nations Joint Staff Pension Fund

There is need to strengthen some aspects of budget formulation and monitoring, including delegation of authority for redeployment of funds and incurring commitments

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Assignment No. AS2023-801-02

Audit of budget formulation and monitoring in the Office of Investment Management of the United Nations Joint Staff Pension Fund

EXECUTIVE SUMMARY

The Office of Internal Oversight Services (OIOS) conducted an audit of budget formulation and monitoring in the Office of Investment Management (OIM) of 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 in ensuring effective budget formulation and monitoring in OIM. The audit covered the period from 1 January 2020 to 31 March 2023 and included a review of: (i) budget formulation; and (ii) budget implementation and monitoring.

The audit indicated the need for OIM to strengthen the processes relating to budget formulation and monitoring.

OIOS made four recommendations. To address the issues identified in the audit, OIM needed to:

- Issue an updated budget guidance memorandum for every budget period and also organize orientation meetings annually for budget owners;
- Improve the quality of budget owners' requests for the funding of new projects by ensuring that they provide, at a minimum, a project summary with key objectives, broad scope, and the project's linkage to its strategic priorities;
- Establish mechanisms to ensure that redeployments of funds are approved by an authorized official; and
- Establish the authorized limits for incurring commitments towards administrative expenditures and designate the staff to whom such authority is delegated.

OIM accepted the recommendations and has initiated action to implement them. Actions required to close the recommendations are indicated in Annex I.

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Audit of budget formulation and monitoring in the Office of Investment Management of the United Nations Joint Staff Pension Fund

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of budget formulation and monitoring in the Office of Investment Management (OIM) of the United Nations Joint Staff Pension Fund (UNJSPF).

2. UNJSPF was established in 1949 by a resolution of the General Assembly to provide retirement, death, disability and related benefits for staff upon cessation of their service with the United Nations and other international organizations admitted to the membership of the Fund. The investments of the Fund are managed by the Representative of the Secretary-General for the investment of the assets of the Fund (RSG) under the authority of the Secretary-General.

3. In accordance with Article 15 of the Regulations of UNJSPF and the relevant Financial Rules, the RSG submits OIM's proposed budget for the following budget period to the Pension Board for review and endorsement. The General Assembly approves the budget after endorsement by the Pension Board and review by the Advisory Committee on Administrative and Budgetary Questions. Table 1 shows OIM's approved budget for the years 2021, 2022 and 2023.

Table 1: OIM's approved budget for 2021, 2022 and 2023

(Thousands of United States Dollars)

Budget class	2021	2022	2023
Posts	18,738	22,427	24,817
Other staff costs	3,159	2,934	1,479
Hospitality	3	2	3
Consultants	183	184	336
Travel of representatives	188	88	122
Travel of staff	469	205	219
Contractual services	19,348	23,422	24,742
General operating expenses	4,526	4,666	4,844
Supplies and materials	31	13	11
Furniture and equipment	161	110	77
Total	46,806	54,051	56,650

4. The actual expenditures for 2021 and 2022 were \$39 million and 47 million, respectively. Table 2 shows the approved staffing resources for OIM by category for the years 2021, 2022 and 2023.

Table 2: Approved staffing resources by category for 2021, 2022 and 2023

Category	2021	2022	2023
Professional and higher	75	102	115
General Service and related	33	35	35
General Temporary Assistance (GTA) positions	17	15	7
Total	125	152	157

5. A Senior Programme Officer (assisted by an Administrative Assistant) was responsible for budget formulation and monitoring in OIM.

6. Comments provided by OIM are incorporated in italics.

II. AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

7. The objective of the audit was to assess the adequacy and effectiveness of governance, risk management and control processes in ensuring effective budget formulation and monitoring in OIM.

8. This audit was included in the 2023 OIOS risk-based work plan for OIM due to the risk that potential weaknesses in budget formulation and monitoring may have an adverse impact on OIM's operations.

9. OIOS conducted this audit from May to July 2023. The audit covered the period from 1 January 2020 to 31 March 2023. Based on an activity-level risk assessment, the audit covered risk areas in: (i) budget formulation; and (ii) budget implementation and monitoring.

10. The audit methodology included: (a) interviews with key personnel; (b) analytical review of data; (c) review of relevant documentation; and (d) review of transactions on a sample basis.

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

III. AUDIT RESULTS

A. Budget formulation

Budget proposals were aligned with strategic objectives

12. Regulation 5.2 of the 'Regulations and Rules governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of implementation, and the Methods of Evaluation' emphasize that the programme proposals set out in the budget shall aim at achieving the objectives established in the strategic framework.

13. OIM's mandate is to contribute towards the long-term financial sustainability of UNJSPF by optimally managing the Fund's assets so that it can fully discharge its obligations to current and future beneficiaries. The primary objective of the Fund is to earn an annualized real rate of return of 3.5 per cent (net of inflation) over a period of 15 years or longer.

14. To achieve its long-term objective, OIM had developed an annual strategy for the review period (2021 to 2023). OIM's strategic priorities as reflected in the budget proposals included: (i) strategic asset allocation and benchmarking; (ii) diversification of portfolios; and (iii) culture transformation programme. Based on a review of the budget proposals, planned results and performance measures, OIOS concluded that OIM's budgets for 2021, 2022 and 2023 were aligned with its strategic objectives.

Discussions relating to budget planning assumptions could be documented

15. The budget guidelines from Controller's Office require OIM to reflect on the external factors that may influence its programme plan and budget. This included consideration of all the opportunities or threats external to the Organization that may impact the operational environment of OIM.

16. OIM's budget proposals for 2021, 2022 and 2023 were based on the planning assumptions that: (a) all stakeholders will be supportive of OIM's efforts and extend their full cooperation; (b) there will be no significant shortfall in funding for implementing its mandate as established by the General Assembly; (c) the financial markets (such as public equities, private markets, global fixed income and foreign exchange) will move in the right direction of the long-term assumptions; and (d) the procurement and legal process for requested services/products are completed within the expected timeframe. Apart from these, certain other external market-related factors were considered, such as: (i) negative impact of COVID-19 on the economy and financial markets; (ii) volatility of global markets, currency markets and fluctuations in interest rates; (iii) credit risk from sovereign countries and risk of them defaulting in loans; (iv) operating in inflationary/deflationary environments simultaneously in various geographies; (v) cyber-attacks; and (vi) supply chain disruptions.

17. OIM indicated that the above budget assumptions were based on discussions during the senior management meetings, Investments Committee meetings and other internal discussions. However, these deliberations leading to the development of planning assumptions were not documented. *OIM stated that it will standardize the process by creating a clear and succinct record of budget planning discussions.* In view of the action proposed to be taken by OIM, OIOS did not make a recommendation on this aspect.

Coordination with the Pension Administration was satisfactory

18. Considering that a consolidated budget for UNJSPF is submitted to the Pension Board and the General Assembly, coordination between the Pension Administration and OIM is essential during budget formulation.

19. The budget formulation process started one year prior to the budget year. OIM's budget team regularly coordinated with the budget team in the Pension Administration by participating in joint meetings to discuss various aspects relating to budget planning, formulation, execution and monitoring. Weekly meetings were held to track the progress made.

20. The Fund submitted its consolidated budget to the Pension Board's Budget Committee 45 days prior to the Pension Board's session in July, thereby providing adequate time for review. OIOS concluded that coordination between OIM and Pension Administration on budget formulation was satisfactory.

Need to organize budget preparation orientation meetings

21. OIM has grown in size with an increase in the number of posts from 108 to 150 over the last three years. OIM, in coordination with the Pension Administration, had developed timelines for the budget formulation process as shown in Table 3 which were communicated to the concerned staff.

Table 3: Timelines for the budget formulation process

Activity	Action by	Complete by latest
Issuance of budget guidance	RSG	Third week of January
Budget preparation orientation meeting for senior management and team heads	Senior Programme Officer	Last week of January

Submission and review of action plans and one to one discussion with RSG	Section Heads (D-1) with respective Team Heads	Second week of February to last week of February
Submission of proposed budget requirements <ul style="list-style-type: none"> • Resource requirements narratives • Resource requirements excel template • Post form 	Team Heads	First week of March
Circulation of draft budget for initial review by RSG	Senior Programme Officer	End of March
Submission of final draft of the budget to RSG	Senior Programme Officer	Mid-April
Submission of final budget incorporating RSG comments to the Chief Financial Officer	RSG	First week of May
Submission of budget to the Pension Board	RSG	Last week of May

22. OIM had generally complied with the timelines for budget formulation, but it did not convene the planned budget preparation orientation meeting which was to be conducted by the end of January. There was no evidence that the meeting was organized by involving section heads and team heads to provide guidance, especially to new staff who were responsible for budget preparation. Further, OIM had developed a detailed budget guidance memorandum in 2021 but no such memorandum was issued in 2022 and 2023. OIM stated that since the budget owners were aware of the process, the memorandum was not issued. Although OIM’s budget focal points worked in coordination with section and team heads to assist them in budget preparation, it is a good practice to issue updated guidance and hold orientation meetings before preparation of the budget for each year, as is being done regularly in the United Nations Secretariat.

(1) OIM should issue an updated budget guidance memorandum for every budget period and also organize orientation meetings annually for budget owners.

OIM accepted recommendation 1 and stated that it will formalize the issuance of budget guidance and the organization of orientation meetings for budget owners. The guidance will be shared annually to remind budget owners of the budget process.

Need to provide justification for projects included in the budget

23. OIM’s approved budget for contractual services was \$19 million and \$23 million for 2021 and 2022, respectively, which accounted 41 per cent and 43 per cent of its total budget. OIM had proposed 13 new projects for 2021 and 15 for 2022 under contractual services. However, 8 out of 13 (61 per cent) projects for 2021 and 8 out of 15 (53 per cent) projects for 2022 had not started (see Table 4 below).

Table 4: Status of new projects requested in the budget

Year	Number of projects proposed in the budget	Amount (\$)	Number of projects not started	Amount (\$)	Percentage of projects not started	Number of projects continued to the next year
2021	13	2,091,352	8	524,781	61	2
2022	15	2,211,442	8	815,592	53	4

24. Out of the projects which were not started, two projects in 2021 and four projects in 2022 were also proposed in the subsequent year's budget. As a result of projects that had not started, OIM utilized 84 per

cent of the approved budget for contractual services in 2021 and 83 per cent in 2022. OIM stated that the underutilization was because some of the planned projects were deprioritized.

25. OIOS' review indicated that OIM had requested resources for new projects without detailed justification and timelines for completion. OIM stated that for purposes of budget formulation, a simple request and approval from the section head/budget owner was deemed sufficient, and that a detailed project plan and business case were prepared after the budget was approved by the General Assembly. OIOS noted that the generic budget formulation templates do not require budget owners to provide justification for new projects. While it is appropriate to prepare the business case and detailed project plan after the related budget proposals have been approved by the governing bodies, OIOS is of the view that at the budget formulation stage, OIM managers need to, at a minimum, provide a project summary with key objectives, broad scope, and the project's linkage to its strategic priorities to serve as a basis for the governing bodies to review/consider the budget requests. Doing so could also increase the chances of such requests being approved by the governing bodies.

(2) OIM should improve the quality of budget owners' requests for the funding of new projects by ensuring that they provide, at a minimum, a project summary with key objectives, broad scope, and the project's linkage to its strategic priorities.

OIM accepted recommendation 2.

B. Budget implementation and monitoring

Need to ensure that redeployments are approved by an authorized official

26. The United Nations Finance and Budget Manual requires that all redeployments of funds are justified, and relevant records of such redeployments are maintained to ensure that they are adequately reported in the performance reports submitted to the General Assembly. There were eight redeployments of funds in OIM during the audit period, as shown in Table 5 below.

Table 5: Redeployment of funds in OIM

No.	Year	From			To			Amount (\$)	Justification
		Fund Centre	Centre Group	Budget Class	Fund Centre	Centre Group	Budget Class		
1	2021	12101	ORSG	Travel of RSG	12101	ORSG	Other staff cost	120,000	To cover After-Service Health Insurance (ASHI) expenses.
2	2021	12101	ORSG	Travel of staff	12101	ORSG	Other staff cost	100,000	To cover ASHI expenses.
3	2021	12122	ITC	Contractual Services	12122	ITC	Consultant experts	66,000	To cover consultant expenses.
4	2021	12122	ITC	Travel of staff	12105	Equities	Travel of staff	200,000	To cover travel expenses in Equities.
5	2021	12122	ITC	Contractual Services	12105	Equities	Contractual Services	500,000	Redeployment from ITC contractual service to Equities.
6	2022	12105	Equities	Posts	12106	Operations	Posts	100,000	To cover entitlements.
7	2022	12122	ITC	Contractual Services	12113	Admin Expenses	Contractual Services	1,000,000	To cover shared costs.
8	2022	12122	ITC	Contractual Services	12114	OIOS	Travel of staff	130,000	To cover projected shortfall in OIOS.
Total								2,216,000	

27. OIOS' review indicated that out of total of eight redeployments, three were within the same fund centre and the remaining five (three in 2021 and two in 2022) involved movement of funds among different fund centres. For those redeployments between different fund centres amounting to \$1.8 million, there was no evidence to show that the concerned budget owners were consulted before the redeployment. Nevertheless, all the redeployments were appropriately reported in the performance reports.

28. Under the delegation of authority, the RSG has the authority to approve redeployment of funds. However, the Chief of the Programme Administration Section, in the capacity of certifying officer, approved the redeployment of funds without a sub-delegation from the RSG. There was no evidence to show that the RSG's approvals were obtained before the redeployment of funds. OIM stated that the RSG was consulted before the redeployment, but there was no evidence of his approval.

(3) OIM should establish mechanisms to ensure that redeployments of funds are approved by an authorized official.

OIM accepted recommendation 3 and stated that a memo has been created to address the recommendation.

Need to establish authorization limits for approving administrative expenditures

29. The United Nations Financial Regulations and Rules require all commitments to be approved by the appropriate authority. Financial Rule 105.6 states that the Head of Entity has the delegated authority to appoint approving officers to approve administrative expenditures.

30. OIOS' review of 40 sample administrative expenditure commitments amounting to \$8.1 million for 2021 and 2022 indicated that 15 commitments amounting to \$2.4 million were approved by the respective section heads, whereas they had no sub-delegation from the RSG to approve the expenditures.

31. It is not practically possible (nor operationally efficient) for the RSG to approve all commitments for administrative expenditures. It is essential that OIM establishes limits for incurring commitments and delegates the approving authority for such commitments to the concerned section heads, as appropriate.

(4) OIM should establish the authorized limits for incurring commitments towards administrative expenditures and designate the staff to whom such authority is delegated.

OIM accepted recommendation 4 and stated that a memo has been created to address the recommendation.

Internal controls over administrative expenditures were generally satisfactory

32. The United Nations Financial Regulations and Rules require all payments to be duly certified and approved by the designated officials based on supporting documents, and to maintain all the required documents in Umoja for audit trail purposes.

33. OIOS' review of payments pertaining to 40 commitments for administrative expenditures indicated the following:

(a) Payments amounting to \$1.2 million for three purchase orders were recorded in a different fund centre than the one approved in Form F.1 which is used for internal approval. OIM stated that a new fund centre was created, and the expenditure was charged to the correct fund centre. The fund centre was created

in Umoja in January 2023, but the information was communicated to staff in May 2023, causing a discrepancy in the fund centres.

(b) For 10 payments amounting to \$19,400 towards training of OIM staff, completion certificates had not been uploaded in Umoja. Although the Business Services Support Unit could subsequently provide training completion certificates to support seven payments, OIM needs to ensure that relevant supporting documentation is uploaded in Umoja.

34. *OIM stated that an approval matrix showing the procedures and the various steps has been updated, and consultations are scheduled with the Business Support Services Unit to address the evidence of expenditure from staff.* In view of the action being taken by OIM, OIOS did not make a recommendation on this aspect.

Tools such as dashboards could be used to improve budget monitoring

35. OIM's overall budget utilization was 85 per cent for 2021 and 86 per cent for 2022. The Programme Administration Section centrally monitored budget utilization across various sections in OIM. In addition, certain sections had developed tools to monitor their budgets. For example, the Information Systems Section used spreadsheets to track the utilization of their budget. Similarly, in 2022, the Legal Section started monitoring invoices relating to contractual services. Other sections relied on the Programme Administration Section to provide information on budget utilization as and when needed. OIM stated that the Programme Administration Section tracked the expenditure on a weekly basis and reported to senior management if there was any over expenditure in any of the budget classes. However, this information was not shared with individual section heads at regular intervals to keep them informed of their section's utilization of the budget. *OIM stated that a dashboard was created and will be shared for more visibility.*

IV. ACKNOWLEDGEMENT

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

Internal Audit Division
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of budget formulation and monitoring in the Office of Investment Management of the 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	OIM should issue an updated budget guidance memorandum for every budget period and also organize orientation meetings annually for budget owners.	Important	O	Receipt of evidence of action taken to issue the budget guidance memorandum annually and to organize orientation meetings for budget owners.	31 March 2024
2	OIM should improve the quality of budget owners' requests for the funding of new projects by ensuring that they provide, at a minimum, a project summary with key objectives, broad scope, and the project's linkage to its strategic priorities.	Important	O	Receipt of evidence of action taken to improve the quality of budget owner's requests for funding of new projects.	31 March 2024
3	OIM should establish mechanisms to ensure that redeployments of funds are approved by an authorized official.	Important	O	Receipt of evidence that redeployments of funds are being approved by an authorized official.	31 December 2023
4	OIM should establish the authorized limits for incurring commitments towards administrative expenditures and designate the staff to whom such authority is delegated.	Important	O	Receipt of evidence that commitments are being incurred towards administrative expenditures within authorized limits by staff to whom the authority has been delegated.	31 December 2023

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.

³ Please note the value C denotes closed recommendations whereas O refers to open recommendations.

⁴ Date provided by OIM in response to recommendations.

APPENDIX I

Management Response

Management Response

Audit of budget formulation and monitoring in the Office of Investment Management of the 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	OIM should issue an updated budget guidance memorandum for every budget period and also organize orientation meetings annually for budget owners.	Important	Yes	COO	1Q 2024	OIM will formalize both the issuance of budget guidance and the organization of orientation meetings for budget owners and the guidance will be shared annually. This recommendation will be implemented in January 2024
2	OIM should improve the quality of budget owners' requests for the funding of new projects by ensuring that they provide, at a minimum, a project summary with key objectives, broad scope, and the project's linkage to its strategic priorities.	Important	Yes	COO	1Q2024	OIM has used PRINCE to design business case template to capture more detailed the justification for new projects to enhance efficiency. Please refer to Annex (iii) - Annex (iii) Initiative Document Template
3	OIM should establish mechanisms to ensure that redeployments of funds are approved by an authorized official.	Important	Yes	COO	4Q 2023	A memo has been created to address recommendations 3 & 4.
4	OIM should establish the authorized limits for incurring commitments towards administrative expenditures and designate the staff to whom such authority is delegated.	Important	Yes	COO	4Q 2023	A memo has been created to address recommendations 3 & 4.

¹ Critical recommendations address those risk issues that require immediate management attention. Failure to take action could have a critical or significant adverse impact on the Organization.

² Important recommendations address those risk issues that require timely management attention. Failure to take action could have a high or moderate adverse impact on the Organization.